CHAPTER-1
INTRODUCTION

Introduction
The pre-independence era in India witnessed the introduction of many institutions of the market economy into what has always been an agrarian culture. The East India Company annexed Indian territories in 1757 in the aftermath of the Battle of Plassey. In 1857, Queen Victoria took over the reins of Indian territories, which accounted for 60 percent of the land area, the princely states excluded. By 1858, the colonial rulers had put down roots. This also marked the beginning of the profound changes which the British administrators (the Viceroy and Governor-Generals) initiated to foster economic, social and general development of Indian society. Measures were launched for the proper working of the market process, the creation of institutions and infrastructures. "These included uniform weights and measures, contract law, uniform currency system, the railways, the telegraphs, and a powerful state committed to defending private property rights." By initiating measures for the smooth functioning of the market process, the British rule fostered commercialisation and introduced the factory system of production, considered to be the two important facets of a modern economy. Not surprising, considering that British economists, from Adam Smith to David Ricardo to John Stuart Mill to Alfred Marshall have all championed the cause of free market mechanism. The British rule introduced commercialisation by integrating the market within India and integrating India globally into the international markets. (Railways, telegraphs and

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1 The Economic History of India (1857-1947), Tirthankar Roy, Oxford University
shipping played a very important role). The change in agricultural output pattern to cash crops led to an increase in acreage and partly in yield.

**Character and Structure of the Economy of India**

Indian economy has made great strides in the years since independence. In 1947, the country was poor and shattered by the violence and economic and physical disruption involved in the partition from Pakistan. The economy had stagnated since the late nineteenth century and industrial development had been restrained to preserve the area as a market for British manufacturers. In fiscal 1950, agriculture, forestry, and fishing accounted for 58.9 percent of the gross domestic product and for a much larger proportion of employment. Manufacturing, which was dominated by the jute and cotton textile industries, accounted for only 10.3 percent of GDP at that time.

India's new leaders sought to use the power of the state to direct economic growth and reduce widespread poverty. The public sector came to dominate heavy industry, transportation, and telecommunications. The private sector produced most consumer goods but was controlled directly by a variety of government regulations and financial institutions that provided major financing for large private-sector projects. Government emphasized self-sufficiency rather than foreign trade and imposed strict controls on imports and exports. In the 1950s, there was steady economic growth, but results in the 1960s and 1970s were less encouraging.

Beginning in the late 1970s, successive Indian governments sought to reduce state control of the economy. Progress toward that goal was slow but steady, and many analysts attributed the stronger growth of the 1980s to those efforts. In the late
1980s, however, India relied on foreign borrowing to finance development plans to a greater extent than before. As a result, when the price of oil rose sharply in August 1990, the nation faced a balance of payments crisis. The need for emergency loans led the government to make a greater commitment to economic liberalization than it had up to this time. In the early 1990s, India's post-independence development pattern of strong centralized planning, regulation and control of private enterprise, state ownership of many large units of production, trade protectionism, and strict limits on foreign capital was increasingly questioned not only by policy makers but also by most of the intelligentsia.

As India moved into the mid-1990s, the economic outlook was mixed. Most analysts believed that economic liberalization would continue, although there was disagreement about the speed and scale of the measures that would be implemented. It seemed likely that India would come close to or equal the relatively impressive rate of economic growth attained in the 1980s, but that the poorest sections of the population might not benefit.

**Status in the Last Year of the Old Economy**

In 1990-91, the last year of the old economy, agriculture contributed 24 percent and sophisticated manufactures 21.8 per cent of exports, with light manufacturing's share having gone up to 54.2 per cent\(^2\). By 1999-2000, the share of agriculture had declined to 17 per cent and sophisticated manufactures had gone up to 29.8 per cent. Light manufacturing remained at 54.2 per cent. What is more important, very little of the change was contributed by foreign and joint ventures. Their contribution to

\(^2\) *The Hindu*, Mar 27, 2002
exports is not identified separately in official statistics, but is known to be very small.

Private versus Public Ownership – the Global Experience

Economists have generally held the view that private ownership of the means of production would be better in terms of economic efficiency than public ownership and public management. Public ownership owed its origin to the phenomenon of widespread marked failure in industries in which competition is impossible or undesirable, or where major externalities exist.

Following the Second World War, the British Labour Government launched widespread social reform programme, namely, free health scheme under the National Health Service, universal unemployment insurance and free education and also proceeded with nationalisation of core industries such as coal mines, iron and steel, electricity and gas, ports and shipbuilding. This set the stage for public sector enterprises. Not to be outdone, the French Government outlined a new economic programme which provided for three distinct sectors _ private sector, controlled sector and the nationalised sector. Here, public utilities communications, airlines, automobiles and banks were either nationalised or maintained under majority State ownership and control. By the early Fifties, policymakers believed that governments needed to intervene in various spheres of economic life.

The primary reasons for State intervention in developing countries, namely, market failure and equity-cum-income distribution considerations were soon supplemented by many others, such as lack of private entrepreneurship, managerial cadre, regional imbalance in industrial development, national security, and employment generation.
Social Objectives

A common feature in almost all developing and many developed nations was that government's involvement in the economy was equated to ownership and control of the means of production and distribution, Thus, nations that eventually developed large public sectors refused to consider the possibility that social welfare objectives could be just as well achieved by private ownership coupled with appropriate regulation and tax measures. It was then believed that State ownership would result in enhanced efficiency of these enterprises which would outperform those run by profit seeking private entrepreneurs.

The Fallout

By the Eighties, however, public sector enterprises were performing considerably worse than private enterprises, except where, as a result of deliberate government policy, they were monopolies, or where entry restrictions, high tariffs and quotas existed. The quality and quantity of output and sales revenues of most public sector companies were found to be consistently below targets, unit fixed as well as variable costs were often much higher than those in comparable private companies, and the quantum of budget support and various price subsidies needed to finance such enterprises began to rise alarmingly.

Soft budgets exacerbated the inherent inefficiencies of public sector companies. These problems became all the more serious because poorly performing public sector companies sucked out resources that were urgently needed for meeting more fundamental economic and social wants.
The fiscal and financial problems of many countries after the second oil shock of 1979 forced governments to refocus on their public sector enterprises (PSEs). They were forced to address the following issues: Could PSEs be reformed and made more accountable to market discipline without dilution of state ownership?; whether ownership per se was a critical factor in relatively poor performance?; was there something intrinsic in government ownership that created poor incentives for managers and workers, reduced the efficacy of monitoring and altered the rules of governance resulting in lower corporate value? The first question led to attempts to maintain the public sector with greater autonomy, less ministerial interference and more weightage being given to profitability and management by objectives through the memorandum of understanding.

In less than a decade, it became amply clear that experiments with government ownership and greater autonomy was at best a halfway house. PSEs did not have the incentive structure to differentiate between rents that are necessary to promote efficiency and those which merely reward unproductive rent-seeking activities.

The Turnabout

In trying to promote the former and limit the latter, these companies merely succeeded in creating a milieu for static and dynamic inefficiencies. Thus, France, which is well-known for its statism, has been forced to resort to privatisation of its public enterprises. Similarly, Italy, known for its preference to State ownership, is also gradually coming to realise that privatisation of the public enterprises would be a better bet. So is the case with Germany, another believer in the efficiency of the
State. China too, has now embarked on massive privatisation of its public enterprises.

The second issue, whether State ownership is critical to efficiency has resulted in disinvestments, privatisation and dismantling of large segments of the public sector. This is particularly true of the U.K., Mexico, Chile, Argentina, Poland, the Czech Republic and others.

The Indian Scenario

The era that saw the emergence of the PSUs was vastly different. The economy was agrarian. Capital was scarce, financial markets were undeveloped and entrepreneurs and visionaries were moulded by the Gandhian philosophy, which put service to society before oneself.

Public sector undertakings in India were set up with a plethora of objectives mostly guided by the principles of socialism which had gained prominence among the policy-makers (till the early 1990's) in the country. Profitability was never given much importance in the running of public sector enterprises though that too was one of the several objectives. Rather, their existence was justified on grounds of meeting social and equity aims and the national interest.

The public sector to an extent helped build strong economic foundations and a diversified industrial base. There is no denying the fact that PSUs have contributed to India's rapid industrialisation, especially during the early days after Independence. PSUs have spread their wings into almost every area of economic activity and have, in time, become a heterogeneous conglomerate of both basic and consumer goods.
production units and service enterprises that includes trading and marketing services.

At the same time, it is also true that many of the public sector units would have performed far better had they been allowed to invest with maximum autonomy, were freed from bureaucratic control, and made accountable.

Of the total 240 Central PSUs, more than a 100 are incurring losses. According to the government's own admission some of the main reasons for their poor performance is outdated technology, old plants and machinery, severe competition, financial crunch, higher input costs and surplus manpower. According to the Public Enterprises Survey, the losses of loss-making PSUs have increased from Rs 9,305.32 crore in 1998-99 to Rs 10,059.66 crore in 1999-2000. As many as 68 CPSUs have defaulted in the payment of wages, salaries and statutory dues. The government had to refinance most of these companies to keep them afloat. Between 1998 and 2000, financial restructuring support to enterprises like SAIL and HMT and other potentially viable units amounted to more than Rs 13,000 crore.

The government's total investment in 240 PSUs as of March 30, 2000, is Rs 252,554 crore. Of this, the Central government's share, through equity and loans, is Rs 111,058 crore. At the commencement of the 1st Five-Year Plan in 1951, there were only five PSUs and the government's total investment was just Rs 29 crore. In terms of percentage, it was during the first decade of the Five-Year plans that investments in PSUs rose by leaps and bounds. However, being on the lower side this did not hold much water. The most impressive jump in investments in PSUs came in the 1980's with the investments in PSUs galloping from Rs 15,534 crore to Rs 99,329 crore, an increase of 450 per cent. It was during this period that many public sector
units, mainly in the telecom sector, were established. Most of these government investments came from borrowed funds. It resorted to heavy borrowings, especially in the 1970's and 1980's, to fund many of these PSUs. This is partly the reason why the government is on the verge of a debt trap.

Times are changing and so is the mindset of the policy-makers. The government seems to have finally realised its priorities. The construction of roads and highways is more important than manufacturing cars. Building seaports and airports should take precedence over carrying ships or flying planes. The government's heavy investments in the public sector in the early stages of economic evolution stemmed from the fear that the PSUs would lose their relevance. Today, the Indian private sector is mature enough and most of them have the ability to tap international markets to raise funds. Since the 1990's the government has been making concerted efforts to sell most of the PSUs through the process of divestment. Till March 2001, the government had divested its stake in more than 40 Central public sector units to the extent of about 2 per cent to 100 per cent. The average divestment in these undertakings has been around 16 per cent.

In future, PSUs may restrict their areas of operation to certain fields that will largely be guided by strategic reasons or public utility. The concept of public sector undertaking may not lose its relevance even in a market-oriented economy but its prominence could well diminish in the coming years.
The New Economy

The post 1990-91 phase has been characterised by radical changes in the country's economy. In line with the global trend, the services sector in India is growing rapidly. In 2000-01 the share of services in the country's GDP was 54.2%, up from the 51.5% recorded in 1998-99. And, all indications are that this growth will get accelerated not only because of burgeoning of services within India, but also because of their increasing export. The software industry, entertainment industry, tourism industry, health services, educational services, consultancy services, repairs and maintenance services in respect of ships, power installations, transport equipment, medical equipment, etc, pre-publishing services, financial and banking services, etc, have contributed significantly to this trend. Within the services sector, the share of trade, hotels and restaurants increased from 12.52 per cent in 1990-91 to 15.68 per cent in 1998-99. Services sector is to grow at 7.1 per cent in 2002-03 from 6.8 per cent in 2001-02. It is to be noted that barring a few exceptions, the people behind the said industries and service providers are small and medium scale entrepreneurs. Thus, the recognition of the contribution made by the small and medium scale entrepreneurs to this trend has been long overdue. As a signatory to the General Agreement on Trade in Services, India is actively engaged in seeking full opportunities for free movement of "natural persons" on a temporary basis as non-residents across borders to enable it to supply services globally. Needless to say, another glorious opportunity for small and medium scale entrepreneurs to contribute to the country's prosperity is round the corner. The contribution made by small

3 Federation of Indian Export Organisations (FIEO)
4The Economic Survey, 2002-03, Government of India
scale industries to the radical transformation in the fortunes of the economy cannot be overlooked.

As per the revised estimates, the growth of real GDP from the services sector rose to 6.2 per cent in 2001-02, up from 5.0 per cent during 2000-01 but well below that of 9.4 per cent during 1999-2000. The share of services was estimated to be 54.1 per cent of GDP in 2001-02 as against 53.7 per cent in 2000-01. Sectors like 'financing, insurance, real estate and business services' and 'trade, hotels, restaurants, transport, storage and communication' were the major contributors to growth in 2001-02. However, the services sector has been facing a deceleration of growth in recent years in comparison with the annual average growth of 7.7 per cent attained during the period 1997-2002.

Public Sector Enterprises

The Indian industrial scenario has witnessed a plethora of changes since the late 80’s. Earlier, the process of industrialisation started in India with the introduction of the Industrial Regulation Act, 1956. At that time due to lack of domestic savings no entrepreneur ventured into industrialisation. Hence government on its own started a large number of public sector enterprises, concentrating on the core manufacturing and infrastructure sectors. Government supported these public sector units in all possible ways including budgetary support. This support extended to working capital also and hence efficiency was not accorded priority. The advent of public sector enterprises in India gave rise to many ancillary units in the private sector and the process of industrialisation started in the country, albeit on a modest scale.

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5 Annual Report, 2001-02, Reserve Bank of India
purchasing power of the household sector was slowly gaining momentum and its needs became apparent. As a result, manufacturing industries came into being to cater to these needs.

Private Sector Enterprises

In view of the inadequacy of the public sector units, some entrepreneurs ventured into large industrial manufacturing enterprises covering heavy engineering, construction equipment, machinery, materials, infrastructure, etc. These industries made their presence felt in the industrial scenario of the country. They provided employment opportunities and offered growth and development to its employees.

India’s Small-scale Industries

Beginning with the Industrial Policy Resolution of 1956, small-scale industries were visualised as a panacea for the country’s problem, especially, the generation of employment for a very large workforce. S.S.I sector makes a significant contribution to output or the GDP of this country. We may note that right from the beginning small-scale industries have contributed more than one-third of the country’s GDP, accounted for a larger portion of organised employment and also contributed nearly 35 to 40% of India’s exports.

The growth of the S.S.I sector has exceeded the growth of the manufacturing sector. While the manufacturing sector registered a growth rate of 9% in 1991, it declined to 6.7% in the middle of the 1990s and further declined to 5.3% in 2001. Corresponding to this, the real growth of the S.S.I sector was 9.1% in 1991 and it

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6 The Economic Survey, 2002-03, Government of India
reached 11.4% by the middle of the 1990s and decelerated to 8.1% in 2001. Thus the S.S.I sector’s growth has been much higher than that of the manufacturing sector even in a declining phase and has contributed in a big way to the overall industrial growth. Needless to add that such a growth of the S.S.I sector has impacted positively on the GDP growth of this country. Small-scale industries account for Rs 60,000 crore exports annually.

Small-scale industries have emerged in spite of their travails over five decades as a highly vibrant and dynamic sector of the Indian economy. Now, they account for nearly 95% of the industrial units, 40% of the value added in manufacturing, 80% of manufacturing employment and about 35% of exports. The sector has provided employment to early 186 lakh persons in contrast with employment of about 80 lakh generated by the large-scale industry.

Notwithstanding the threat of globalisation, small-scale industries have more than fulfilled the targets set for exports. It is a matter of pride that they have even exceeded the target set for them. Obviously this country has to sustain the small-scale sector if it were to maintain the higher tempo of industrialisation and if the country sets a growth rate of 11% for the industrial sector aiming at a GDP growth of 8%, small-scale industries will have to grow at more than 12%. This can provide greater impetus to employment generation and also for reducing regional disparities which are now causing considerable social tension.

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Labour and capital productivity are partial measures of efficiency. We should note that labour productivity in the large-scale sector increased from Rs 41,532 in 1991 to Rs 70,557 in 1998, nearly doubling. The small scale sector showed an improvement in its productivity from Rs 12,721 in 1991 to Rs 22,014 in 1998, almost double. In the matter of capital productivity, small-scale industries registered Rs 0.62 in 1991, Rs 0.69 in 1994 but declined to Rs 0.59 in 1997. The large-scale sector, more or less showed the same trend, its capital productivity declining from Rs 0.30 to Rs 0.29 during 1991-97.

However, the capital productivity was higher in small – scale sector in comparison with large-scale sector, while in labour productivity, the S.S.I sector was lower than that of the large-scale sector. Small –scale sector has both higher output-capital ratio and labour-capital ratio. On an average, small-scale unit requires about Rs 25,000 per unit of employment whereas the large-scale unit needs Rs 3 lakh for providing employment to one person.

The total number of small-scale industrial units rose from 24 lakhs in 1994 to 34 lakhs in 2001 in India as a whole. In Karnataka, their number seems to have risen from about 94,000 in 1994 to about 2, 69,000 in 2001. Cumulative investment in Karnataka’s S.S.I sector reached Rs. 5,300 crores by Mar 2001. Employment in small-scale industries in Karnataka rose to nearly 16, 00,000 persons by 2001. The employment generated has been one of the highest in districts like Bangalore.

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(Urban), Belgaum and Dharwad. The lowest seems to be in the districts of Gadag, Koppal and Bagalkot.  

India's Service Sector  

In line with the global trend, the services sector in India is growing rapidly. In 2000-01 the share of services in the country's GDP was 54.2%, up from the 51.5% recorded in 1998-99. And, all indications are that this growth will get accelerated not only because of burgeoning of services within India, but also because of their increasing export.

India's high capabilities in information technology or IT and its booming IT software exports which now account for 2% of the GDP, are well-known. In addition, there is the most popular segment of its services sector, the entertainment industry, particularly films and TV, which happen to be among the fastest growing in the world. Indian films are popular across West Asia, Afghanistan, Central Asia, and the CIS and in South East Asia. They are now penetrating the Western world, thanks both to the uniqueness of the entertainment offered by them which transcends cultural barriers, and also the Indian global diaspora.

India's health services (manned by highly qualified and experienced personnel), super-speciality hospitals specializing in both modern and traditional Indian medical systems (like Ayurveda, Unani, Siddha and nature-cure) supported by state-of-the-

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11 Federation of Indian Export Organisations (FIEO)
art equipment, are attracting patients from across the world, and constitute a significant segment of India's services sector.

**Education** is another field which is not only a huge segment of the services sector within the country, but also a foreign exchange earner by way of NRIs and foreign students enrolled in major medical, technological and other institutions in India, and also export of manpower even to the western world. In fact, the demand for teachers from India has begun growing in the United States and England in recent times.

By virtue of having the second largest scientific and technical manpower in the world, India has been providing varied consultancy and other services globally. There is still immense scope for India to undertake project and management consultancy, repair and maintenance work (on ships, power installations, transport equipment, medical equipment, etc.) pre-publishing services, and R&D in various disciplines, and interested parties from across the world are welcome to tap these and other capabilities available in abundance in the country.

Indians have already made a mark as suppliers of varied services in West Asia, and are available to other parts of the world as consultants, medical specialists, health workers, financial and banking experts, educationists, and a host of other services segments.

As a subcontinent with varied geographical, climatic, ethnic, cultural, religious and social strands intertwined, India is a one-stop destination for any tourist desiring a kaleidoscopic experience of life in its entirety. And, the **tourism industry** in the
country is well equipped, and also growing fast to offer tourists with diverse interests and means, all the services needed to make their visit memorable.

India is a signatory to the General Agreement on Trade in Services, and is actively engaged in seeking full opportunities for free movement of "natural persons" on a temporary basis as non-residents across borders to enable it to supply services globally.

The following are the comments generally advanced in respect of the rapid strides made by the country in the service sector:

- The service sector now accounts for more than half of India's GDP: 51.16 per cent in 1998-99\textsuperscript{12}. This sector has gained at the expense of both the \textit{agricultural} and \textit{industrial} sectors through the 1990s. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy (in the developed economies, the industrial and service sectors contribute a major share in GDP while agriculture accounts for a relatively lower share).

- The service sector's share has grown from 43.69 per cent in 1990-91 to 51.16 per cent in 1998-99. In contrast, the industrial sector's share in GDP has declined from 25.38 per cent to 22.01 per cent in 1990-91 and 1998-99 respectively. The agricultural sector's share has fallen from 30.93 per cent to 26.83 per cent in the respective years.

\textsuperscript{12} Federation of Indian Export Organisations (FIEO)
• Some economists caution that if the service sector bypasses the industrial sector, economic growth can be distorted. They say that service sector growth must be supported by proportionate growth of the industrial sector, otherwise the service sector growth will not be sustainable. It is true that, in India, the service sector's contribution in GDP has sharply risen and that of industry has fallen (as shown above). But, it is equally true that the industrial sector too has grown, and grown quite impressively through the 1990s (except in 1998-99). Three times between 1993-94 and 1998-99, industry surpassed the growth rate of GDP. Thus, the service sector has grown at a higher rate than industry which too has grown more or less in tandem. The rise of the service sector therefore does not distort the economy.

• Within the services sector, the share of trade, hotels and restaurants increased from 12.52 per cent in 1990-91 to 15.68 per cent in 1998-99. The share of transport, storage and communications has grown from 5.26 per cent to 7.61 per cent in the years under reference. The share of construction has remained nearly the same during the period while that of financing, insurance, real estate and business services has risen from 10.22 per cent to 11.44 per cent\textsuperscript{13}.

• The fact that the service sector now accounts for more than half the GDP probably marks a watershed in the evolution of the Indian economy.

\textsuperscript{13} Federation of Indian Export Organisations (FIEO)
Planning in India

On the other hand, planning in India has focused on growth and social justice. The experience of Indian planning so far seems to belie the theory that growth process promotes employment opportunities. The capital-oriented approach has not been able to make India self-reliant or achieve elimination of poverty or decrease unemployment and inequalities to any significant measure.

It was hoped that special employment and income generation measures would serve the purpose. Poverty was never deemed remediable through systematic reduction of both unemployment and non-employment. Scarce resources should have been utilised for asset creation leading to a continuous creation of employment opportunities and reduction of poverty in a systematic manner. Instead, scarce resources were diverted for creation of employment opportunities or poverty relief or welfare measures on an ad hoc basis.

It is evident during the most part of the last five decades that Indian Planning has not succeeded in achieving growth with social justice. A relevant long-term production pattern to achieve consumption egalitarianism through choice of appropriate techniques, income and wage policies and employment and manpower planning was conspicuous for the most part, by its absence. These aspects of development strategies were treated in isolation and not considered as a part of the total production and investment planning.

Ultimately, it dawned on us that it is the availability of capital, which is crucial to most of the developing countries including India. The availability of capital, even if from outside, will enable the developing countries to raise their overall level of
investment. This in turn will lead them to increase the pace of development. It is this area of foreign capital, which has assumed importance. But the question before the developing countries is what type of capital is available and if so, with what strings attached.

**Approach to Planning**

A serious defect in India's approach to planning has been that it is essentially ad hoc in nature. Although priorities were defined in tangible physical units, such definitions were influenced by the availability of financial resources. Consequently, it resulted in excessive reliance on the banking system for achieving socially desirable goals. In the process, the need to combine physical resources with human resources in an optimum manner was forgotten.

The move towards liberalised economic policies in the recent past originated from the element of competition. It led to promotion of sectors concerning consumer durables and luxury items used by people belonging to the upper strata of society. Sometimes, it also resulted in the import of repetitive technology and increased external debts.

It is therefore imperative to consider an alternative to planning. The alternative should make it possible to take the fruits of planning to the target groups. It should help design the institutional framework and the instruments necessary for achieving the goals.

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14 Kumar, Nagesh, *Direct Foreign Investment and Export Promotion: Policies and Experiences in Asia*, Seiji Naya et al, *Foreign Investment and Export-Orientation: The Case of India*, Honolulu, Hawai
It is often assumed that the fruits of development will percolate to the weakest sections of the population rather automatically. Obviously, this has not taken place in India. It is an established fact that in India the poverty ratio has no relation to the per capita income. While the per capita income is rising, albeit slowly, poverty ratio has more or less remained constant.

The Industrial Policy Resolution

The Industrial Policy Resolution tabled before the Indian Parliament in 1949 adopted a mixed economic pattern of planning for India. It categorised the industries into four groups, which were subsequently reduced to three in the Industrial Policy of 1956, namely 'basic and heavy' industries, the core sector of the economy in the public or state sector, the private sector and the joint sector.

The basic idea was to inculcate a value system based on Indian thinking or Gandhian philosophy towards the uplift of the downtrodden and the moderation of the upper echelons of society towards achieving a socialistic pattern of society through a democratic parliamentary system.

Mrs. Indira Gandhi in the preface to the fourth five-year Plan\textsuperscript{15} on July 18, 1970 wrote: "Planning is the vital instrument we have adopted to realise the social objectives enshrined in our Constitution". The Constitution of India enunciated "The State shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of national life". (Art. 38)

\textsuperscript{15} Fourth Five-Year Plan, 1969-1974, Government of India.
The phrase 'socialist pattern of society' essentially means that the basic criterion for determining lines of advance must not be private profit, but social gain. The pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increase in national income and employment but also in greater equality in incomes and wealth. The benefits of economic development must accrue more and more to the relatively less privileged classes of society and there should be progressive reduction in concentration of incomes, wealth and economic power.

**Impact of Industrial Revolution on Indian Business**

Before the advent of the industrial revolution, most of the business activities used to be family-oriented and were confined to a small geographical area. As for the community itself, most members came under the banner of a single society, retaining the identity of their work. Agricultural and social behaviours changed with the advent of industrial revolution. Our society was guided by financial orientation. Mass production and mass distribution became the philosophy of business. This philosophy helped the business to satisfy the needs of the consumers at an affordable cost by catering to the demand of the latter for all manufactured goods. Today, we live in a technology-driven society. Our day begins with the use of technology-based products. Right from the morning, we use technology-driven products; we move in state-of-the-art technology-driven vehicles and manufacture market-oriented products. In the process, organisations have become the common factor of economic units.
It is against this backdrop that the government of India came up with its path-breaking statement on industrial policy which is reproduced in the following paragraphs.

GOVERNMENT OF INDIA

Ministry of Industry

Statement on Industrial Policy\textsuperscript{16}

New Delhi, July 24, 1991

Policy Objectives

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, progressive 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

\textsuperscript{16} Department of Industrial Policy & Promotion, Government of India
concerns, and represents a renewed initiative 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-based 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 policies created a climate for rapid industrial growth in the country. Thus on the eve of the Seventh Five Year Plan, a broad-based 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 strengths 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 larger 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. Workers' participation in management will be promoted. Workers' cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes will be launched.
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 weaknesses 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 sector 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. Industrial Licensing.
   B. Foreign Investment
   C. Foreign Technology Agreements.
   D. Public Sector Policy
   E. MRTP Act.

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 reserved for development in public sector, 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 enterprise 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 ensuring that over-riding 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 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 investments 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 up to 51% foreign equity in such industries. There shall be no bottlenecks 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 Agreement

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 agreement 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 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 and 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 sector 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 key 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, over-manning, 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 re-generate 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 take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of central public enterprises. 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 understanding. 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 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 high 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 house to obtain prior approval of Central Government for expansion, establishment of new undertakings, 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 repealed. 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. 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.

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

   Or

   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 for 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 locations.

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 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 (De-licensed 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 up to 51 percent foreign equity in high priority industries. There shall be no bottlenecks of any kind in 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 programmes 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 up to a lump sum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to total payment 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) systems 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 on 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 initiative investigations suo moto or on complaints received from individual consumers 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.

PROPOSED LIST OF INDUSTRIES 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 if iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
6. Mining of copper, lead, zinc, tin, molybdenum and wolfram.
8. Railway transport.

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

1. Coal and Lignite.
2. Petroleum (other than crude) and its distillation products.
3. Distillation and brewing of alcoholic drinks.
4. Sugar.
5. Animal fats and oils.
6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
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 fur skins.
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 (VCRs, colour TVs, C.D. Players, Tape Recorders).
18. White Goods (Domestic Refrigerators, Domestic Dishwashing machines, Programmable Domestic Washing Machines, Microwave ovens, Air conditioners).

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.
Liberalisation of the Economy

But the government decided to liberalise our economy in the year 1991 following the steep fall in its forex reserve holdings – the reserves held by the government could barely meet its 14-day import requirements. The whole industrial policy had to be revamped in order to make it investor-friendly since investment was what the country needed badly at that point of time, no matter where it came from. This logically led to globalisation of the Indian economy. In the following paragraphs, all aspects of the revamped industrial policy is explained.

Policy

1. Industrial Policy

The Government's liberalisation and economic reforms programme aims at rapid and substantial economic growth, and integration with the global economy in a harmonised manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment.

Industrial Licensing

1.1 All industrial undertakings are exempt from obtaining an industrial licence to manufacture, except for (i) industries reserved for the Public Sector, (ii) industries retained under compulsory licensing, (iii) items of manufacture reserved for the small scale sector and (iv) if the proposal attracts locational restriction.[For procedure to obtain Industrial Licence refer to Para 7.2].

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Industrial Entrepreneurs Memorandum

1.2 Industrial undertakings exempt from obtaining an industrial license are required to file an Industrial Entrepreneur Memoranda (IEM) in Part ‘A’ (as per prescribed format) with the Secretariat of Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Government of India, and obtain an acknowledgement. No further approval is required.

Immediately after commencement of commercial production, Part B of the IEM has to be filled in the prescribed format. The facility for amendment of existing IEMs has also been introduced. [For procedure to file IEM refer to Para 7.1].

Locational Policy

Industrial undertakings are free to select the location of a project. In the case of cities with population of more than a million (as per the 1991 census), however, the proposed location should be at least 25 KM away from the Standard Urban Area limits of that city unless, it is to be located in an area designated as an "industrial area" before the 25th July, 1991. Electronics, Computer software and Printing (and any other industry which may be notified in future as "non polluting industry") are exempt from such locational restriction.

Relaxation in the aforesaid locational restriction is possible if an industrial license is obtained as per the notified procedure.

1.3 The location of industrial units is further regulated by the local zoning and land use regulations as also the environmental regulations. Hence, even if the requirement of the locational policy stated in paragraph 1.3 is fulfilled, if the
local zoning and land use regulations of a State Government, or the regulations of the Ministry of Environment do not permit setting up of an industry at a location, the entrepreneur would be required to abide by that decision.

Policy Relating to Small Scale Undertakings

1.5 An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs 10 million. The Small Scale units can get registered with the Directorate of Industries/District Industries Centre in the State Government concerned. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from locational restrictions cited in paragraph 1.3 above. However, a small scale unit is not permitted more than 24 per cent equity in its paid up capital from any industrial undertaking either foreign or domestic.

1.6 Manufacture of items reserved for the small scale sector can also be taken up by non-small scale units, if they apply for and obtain an industrial license. In such cases, it is mandatory for the non-small scale unit to undertake minimum export obligation of 50 per cent. This will not apply to non-small scale EOUs that are engaged in the manufacture of items reserved for the SSI sector, as they already have a minimum export obligation of 66 per cent of their production. In addition, if the equity holding from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 10 million, the unit loses its small scale status. An IEM is required to be filed in such a case for de-licensed industries, and an industrial license is to be obtained in the case of items of manufacture covered under compulsory licensing.
1.7 A small scale unit manufacturing small scale reserved item(s), on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth, needs to apply for and obtain a Carryon- Business (COB) License. No export obligation is fixed on the capacity for which the COB license is granted. However, if the unit expands its capacity for the small scale reserved item(s) further, it needs to apply for and obtain a separate industrial license. (For procedure to obtain COB licence, refer to Para 7.2(d)).

1.8 It is possible that a chemical or a by-product recoverable through pollution control measures is reserved for the small scale sector. With a view to adopting pollution control measures, Government have decided that an application needs to be made for grant of an industrial licence for such reserved items which would be considered for approval without necessarily imposing the mandatory export obligation.

Environmental Clearances

1.9 Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be obtained from the Ministry of Environment, Government of India. This list includes industries like petrochemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilisers, dyes, paper etc. However if investment is 1.10 less than Rs. 500 million, such clearance is not necessary, unless it is for pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining
projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries. Further, any item reserved for the small scale sector with investment of less than Rs 10 million is also exempt from obtaining environmental clearance from the Central Government under the Notification. Powers have been delegated to the State Governments for grant of environmental clearance for certain categories of thermal power plants. Setting up industries in certain locations considered ecologically fragile (e.g. Aravalli Range, coastal areas, Doon valley, Dahanu, etc.) are guided by separate guidelines issued by the Ministry of Environment of the Government of India. [For procedure to obtain environmental clearance, refer to Para 21.1].

2. Foreign Direct Investment

Government wishes to facilitate foreign direct investment (FDI) and investment from Non-Resident Indians (NRIs) including Overseas Corporate Bodies (OCBs) that are predominantly owned by them, to complement and supplement domestic investment. Investment and returns are freely repatriable, except where the approval is subject to specific conditions such as lock -in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified sectoral policy. The condition of dividend balancing that was applicable to FDI in 22 specified consumer goods, industries stands withdrawn for dividends declared after 14th July 2000, the date on which Press Note No. 7 of 2000 series was issued.

2.1 Foreign direct investment is freely allowed in all sectors including the services sector, except where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the
Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB), chaired by the Secretary, Department of Industrial Policy and Promotion (Ministry of Commerce & Industry) with the Union Finance Secretary, Commerce Secretary, and other key Secretaries of the Government as its members.

**Automatic Route**

(a) **New Ventures**

2.2 All items/activities for FDI/NRI/OCB investment up to 100% fall under the Automatic Route except those covered under (i) to (iv) of Para 2.9. Whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route, he or she may do so. Investment in public sector units as also for EOU/EPZ/EHTP/STP units would also qualify for the Automatic Route. Investment under the Automatic Route shall continue to be governed by the notified sectoral policy and equity caps and RBI will ensure compliance of the same. The National Industrial Classification (NIC) 1987 shall remain applicable for description of activities and classification for all matters relating to FDI/NRI/OCB investment:

Areas/sectors/activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notified by Government. Any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

(b) **Existing Companies**
2.3 Besides new companies, automatic route for FDI/NRI/OCB investment is also available to the existing companies to induct foreign equity. For existing companies with an expansion programme, the additional requirement are that (i) the increase in equity level must result from the expansion of the equity base of the existing company without acquisition of existing shares by NRI/OCB/foreign investors, (ii) the money to be remitted should be in the sector(s) under the automatic route. Otherwise the proposal would need Government approval through the FIPB. For this, the proposal must be supported by a Board Resolution of the existing Indian company.

For existing companies without an expansion programme, the additional requirements for eligibility for automatic route are (i) that they are engaged in the industries under automatic route (including additional activities covered under the automatic route regardless of whether the original activities were undertaken with Government approval or by accessing the automatic route), (ii) the increase in equity level must be from expansion of the equity base and (iii) the foreign equity must be in foreign currency.

The earlier requirement that shares allotted on preferential basis shall not be transferable in any manner for a period of 5 years from the date of their allotment has now been modified to the extent that not more than 20 per cent of the entire contribution brought in by promoter cumulatively in public or preferential issue shall be locked in.
The automatic route for FDI and/or technology collaboration would not be available to those who have or had any previous joint venture or technology transfer/trade mark agreement in the same or allied field in India.

Equity participation by international financial institutions such as ADB, IFC, CDC, DEG, etc. in domestic companies is permitted through automatic route subject to SEBI/RBI regulations and sector specific caps on FDI.

In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from RBI. Investors are required to notify the Regional Office concerned of the RBI on receipt of inward remittances within 30 days of such receipt and file the required documentation within 30 days of issue of shares to Foreign Investors. This facility is available to NRI/OCB investment also.

**Government Approval**

For the following categories, Government approval for FDI through the FIPB shall be necessary:-

All proposals that require an Industrial Licence which includes (i) the item requiring an Industrial Licence under the Industries (Development and Regulation) Act, 1951. (ii) foreign investment being more than 24% in the equity capital of units manufacturing items reserved for small scale industries; and (iii) all items which require an Industrial Licence in terms of the locational policy notified by Government under the New Industrial Policy of 1991.
All proposals in which the foreign collaborator has a previous venture/tie-up in India. The modalities prescribed in Press Note No. 18 dated 14.12.98 of 1998 series shall apply in such cases.

All proposals relating to acquisition of shares in an existing Indian company in favour of a foreign/NRI/OCB investor.

All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route. Areas/Sectors/Activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notified by Government.

Henceforth any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to notify the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required document with the Regional Offices concerned of the RBI within 30 days after issue of shares to the foreign investors.
For greater transparency in the approval process, Government have announced guidelines for consideration of FDI proposals by the FIPB.

**Issue and Valuation of Shares in case of Existing Companies**

On receipt of the approval (either through the automatic route, or by Government) an existing company needs to propose allotment of preferential allocation of the required amount of equity to the foreign investor by a special resolution. The company can make the issue at market prices of the shares either at (a) the average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date, or (b) the average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the relevant date. The stock exchange referred to is the one at which the highest trading volume in respect of the share of the company has been recorded during the preceding six months prior to the relevant date. The relevant date is the date thirty days prior to the date on which the meeting of the General Body of the shareholders is convened. Other relevant guidelines of Securities and Exchange Board of India (SEBI)/RBI, including SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 wherever applicable, would need to be followed.

To facilitate focussed attention and effective implementation of the policies of the government aimed at strengthening the small-scale industries and agro and rural industries, a dedicated ministry was created on 14th Oct 1999, as explained in the following paragraphs.
Plan Weariness

In the concluding decade of the Twentieth century, the economies of the world - be it the Chinese type or the democratic type has shown signs of 'plan weariness'. Planned economies, it is claimed, are incapable of bringing about the necessary structural changes of the right magnitude at the right time. Hayek regarded planning as the 'Road to Serfdom' giving justification for the market economic system. “After 6-7 decades we have reached the same place we started from - from planning to reforms in favour of privatisation and market system, from State ownership to liberalisation; from regulation to deregulation and decontrol. This is the sweep of time. We are heading towards a 'new-mix' of the mixed economic pattern tilting more in favour of private than public”.

In India, disenchantment surfaced from the poor performance of the public or State sector. The growth of the GDP during the 30 years of planning from 1950 to 1980 was of the order of 3.4% per annum as against the targeted 5%. The per capita GDP rose only by 1 to 1.2 % per year. During the first 10 years of planning, viz., 1950-51 to 1960-61, GDP increased at an annual rate of 3.94% and the performance of the economy began to decline thereafter. During 1960-61 to 1970-71, the rate of growth of GDP came down to 3.74%. In the subsequent ten-year period, 1970-71 to 1980-81, the rate of growth of GDP was only 3.17%. In the Nehru Mahalanobis strategy of planning adopted since 1956, the public sector was awarded the place of commanding heights of the economy, which was to lead the economic future of the country.
However, soon it was realised that excessive investment in public sector and heavy
dependence on it was not bearing fruit. There is no denying the fact that in the
initial stages, the public sector provided infrastructure and inputs for the
development and building up of the economic base in the country but its
performance was far from satisfactory. The role of public sector in generating and
mobilising resources was poor and the economy began to feel the pinch in the form
of inflation resulting from lagging supply conditions. The foreign exchange crisis
arose out the non-performance of the export sector. The country had to face
resource crunch and balance of payment crisis. Public sector enterprises, which
were the commanding heights of the economy, turned out to be a burden on the
nation due to recurring losses. Soon they became the white elephants of the
economy.

There are several good reasons for investing in India, one of the largest economies in
the world. It is strategically located and provides access to the vast domestic and
South Asian market. It boasts of a large and rapidly growing consumer market of up
to 300 million people. These 300 million people constitute a huge market for
branded consumer goods. This market is estimated to be growing at 8 percent per
annum. Demand for several consumer products is growing at over 12 percent per
annum. The government of India welcomes foreign investment. Although approval
is required it is automatic in sixty categories of industries. Skilled manpower and
professional managers are available at competitive cost. India has one of the largest
manufacturing sectors in the world, spanning almost all areas of manufacturing
activities. India also can boast of one of the largest pools of scientists, engineers,
technicians and managers in the world. It has a rich base of mineral and agricultural
resources. A long history of market economy infrastructure and a sophisticated financial sector characterise the economy. The capital market is vibrant with over 9,000 listed companies with a market capitalisation of US$ 154 billion (March 1996). India also can boast of a well-developed R&D infrastructure and technical and marketing services. The policy environment provides freedom of entry, investment, location, choice of technology, production, import and export.

A well-balanced package of fiscal incentives is available. It has a sophisticated legal and accounting system. English is widely spoken and understood. Rupee is convertible on Current Account at market determined rate. Free and full repatriation of capital, technical fees, royalty and dividends, etc are possible. Foreign brand names are freely used. No income tax is levied on profits derived from export of goods. Complete exemption from customs duty on industrial inputs and corporate tax holiday for five years for 100 per cent export oriented units and units in export processing zones are the additional features. Corporate tax applicable to the foreign companies of a country, with which agreement for avoidance of double taxation exists, can be one, which is lower between the rates prevailing in any one of the two countries and the treaty rate. A long history of stable parliamentary democracy is unmatched in this part of the world.

To facilitate focussed attention and effective implementation of the policies of the government aimed at strengthening the small-scale industries and agro and rural industries, a dedicated ministry was created on 14th Oct 1999, as explained in the following paragraphs.
Ministry of Small Scale Industries & Agro and Rural Industries

Introduction

- Ministry of Small Scale Industries & Agro and Rural Industries is the Nodal Ministry for policy formulation, promotion, development and protection of small scale industries. It also monitors the implementation of these policies and ensures their effective implementation. Effective measures are being taken to augment the share of small scale industries in the total production, export and employment in the country.

- Government of India have always accorded priority to the Village and Small Industries (VSI) Sector in its Industrial Policy Resolutions and in the strategy for the industrialisation in the country. With deregulation of Indian economy, a new package of policy measures for promoting and strengthening VSI sector was announced by the Government on 6th August, 1991. These policy measures have given thrust to simplification of regulations and procedures, economic viability of SSI units, improving their competitive strength, export promotion, credit flow and development of integrated infrastructure for the sector.

- Ministry of Small Scale Industries & Agro and Rural Industries designs and implements the policies through its field organisations for promotion and growth of small and tiny enterprises, village and coir industries. The Ministry also performs the functions of policy advocacy on behalf the Small Scale Industries (SSI) sector with other Ministries/Departments.
• The implementation of policies and various programmes/schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industry Development Organisation (SIDO), statutory bodies/other organisations likely Khadi and Village Industries Commission (KVIC) & Coir Board, public Sector Undertaking - National Small Industries Corporation (NSIC) and training institutes - National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi and Indian Institute of Entrepreneurship (IIE), Guwahati.

Mission of the Ministry

• To design and implement a multi-faceted policy framework for promoting the growth of small, medium and tiny enterprises. This would include aspects such as, definition of Small/ Medium Enterprise (SME) and legislative and executive measures specially meant for small enterprises but not covered in legislations or executive measures administered by other Ministries/Department of Government of India.

• In addition to such a direct role in providing support to perform the functions of policy advocacy on behalf of SMEs with Ministries such as Finance, Commerce, Law, Labour and Environment so as to ensure due considerations for SMEs in their policies in order to enable such enterprises to play their important role in the national economy.
To formulate and implement through its field agencies schemes for providing infrastructure and support services to small enterprises in areas such as extension, entrepreneurship development, training technology development, common facilities, marketing, ancillarisation, etc. considered essential for the growth of SMEs on healthy lines.

To use all the above instruments to promote agro based and other forms of SMEs and tiny micro and artisan enterprises.

To design and promote policies for rapidly expanding the population of advanced science based small and medium enterprises in areas such as IT, BT, Renewable Energy in both urban and rural areas.

Role and Functions

The Ministry of Small Scale Industries & Agro and Rural Industries is the Nodal Ministry for policy formulation, promotion, development and protection of small-scale industries. It also monitors the implementation of these policies. The Ministry was created on the 14th October, 1999. This puts the SSI sector in focus.

Government of India have always accorded priority to the Village and Small Industries (VSI) Sector in its Industrial Policy Resolutions and in the strategy for the industrialisation in the country. With the deregulation of the Indian economy, a new package of policy measures for promoting and strengthening the VSI sector was announced by the Government on 6th August, 1991. These policy measures have given thrust to simplification of regulations and procedures, and helped the SSI units, improve their competitive strength.
The Ministry of Small Scale Industries & Agro and Rural Industries designs and implements the policies through its field organisations for promotion and growth of small and tiny enterprises, including the coir industries. The Ministry also coordinate with other Ministries / Departments on behalf the Small Scale Industries (SSI) sector.

The implementation of policies and various programmes/schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely the Small Industry Development Organisation (SIDO). statutory bodies/other organisations likely Khadi and Village Industries Commission (KVIC) & Coir Board a Public Sector Undertaking - National Small Industries Corporation (NSIC) and three training institutes - National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi and Indian Institute of Entrepreneurship (IIE), Guwahati.

**Different Organisations**

The different organisations that come under the purview of the ministry are depicted in Figure-1.1.
Development Commissioner Small Scale Industries (DC, SSI)
The Office of the Development Commissioner (Small Scale Industries) also known as Small Industries Development Organisation (SIDO) is an attached office of the Department which assists the Ministry in formulation and implementation of policies and programmes for promotion and development of the Small Scale Sector. It inter-alia provides comprehensive range of common facilities, technology support service, marketing assistance through its network of 28 Small Industries Service Institutes, 30 Branch Institutes, 2 Extension Centres, 4 Regional Testing Centres, one Production Centre and 10 Field Testing Stations. SIDO also supervises Tool Rooms, Product and Process Development Centres and Training Institutes which are run as autonomous bodies registered as societies under the Societies Registration Act. The organisation is headed by Development Commissioner, SSI, who also acts as the ex-officio Additional Secretary to the Ministry.

Small Scale Industry Board
The SSI Board, under the chairmanship of Minister In charge and Ministry of SSI & ARI provides a forum for interaction among its members in order to facilitate co-ordination and inter-institutional linkages and to render advice to the government on various policy matters and development of the small scale sector. The term of the Small Scale Industries Board is two years.

The Board was last constituted on 26th September, 1998 with 93 members besides the Chairman.

**Khadi and Village Industries Commission (KVIC)**

The Khadi and Village Industries Commission (KVIC) is a statutory organisation established in 1957 by an Act of the Parliament. It plays a pivotal role in the strengthening of the rural economy by promoting and developing Khadi and Village Industries. The objectives of the KVIC include skill improvement, employment generation in rural areas, transfer of technology, rural industrialisation and promoting self-reliance among the people, and to build up a strong rural community base.

The functions of the KVIC are to plan, promote, organise and assist in implementation of programmes for the development of Khadi and village industries. To achieve this, it undertakes:

- Financing of eligible units and institutions.
- Training of persons employed or desirous of seeking employment in Khadi and village industries; training of personnel.
- Building the reserves of raw materials and implements and supplying them at reasonable rates.
- Taking up R&D in Khadi and village industry products.
- Encouraging the cooperative efforts among the persons engaged in Khadi and village industries.

The KVIC operates through 30 State / UT KVI Boards, 4969 registered institutions and 30,129 cooperatives, 188 departmental units and 15,441 sales outlets.

**National Small Scale Industries Corporation (NSIC)**

The National Small Industries Corporation Limited is a public sector undertaking set up by the Government of India in 1955 to promote aid and foster the growth of small scale industries in the country. NSIC helps the small scale industries through its various schemes such as hire purchase, equipment leasing, marketing - domestic as well as export, raw material assistance, single point registration, etc. Under the hire purchase, NSIC supplies both indigenous and imported machines on easy hire purchase terms to SSI units. Similarly, it also supplies both indigenous and imported raw materials by procuring them in bulk quantity at a concessional rate. Further, it enlists competent SSI units and facilitates their participation in Government purchase programmes. It conducts technical training and entrepreneurship development programmes in its various technical service centres.

In the changing scenario of economic liberalisation, NSIC has increased its training capabilities by entering into high-tech areas such as computer application, electronics, etc. It has set up Software Technology Parks for the SSI units and facilitates software export. Further NSIC provides concessional terms in its lending.
for development of rural and backward areas and also extends this facility for units
promoted by entrepreneurs from the weaker sections of the society.

Coir Board

The Coir Board is an autonomous statutory body established by an Act of the
Parliament under the Coir Industry Act, 1953 (45 of 1953) for the overall
development of the Coir Industry. The Board consists of a Chairman and 30
members representing various interests like growers of coconut, producers of husks
and coir yarn, manufacturers of coir products, dealers in coir, coir yarn, coir
products, three members of the Parliament; two from Lok Sabha and one from the
Rajya Sabha, representatives of Governments of principal coconut growing states
etc.

Major activities undertaken by the Coir Board for the development of the Coir
Industry are as follows:

- Undertaking scientific, technological and economic research and
development activities.
- Collection of statistics relating to exports and internal consumption of
  Coir and Coir products.
- Development of new products and designs.
- Publicity for promotion of exports and internal sales.
- Marketing of coir and coir products in India and abroad.
- Preventing unfair competition among producers and exporters.
- Assisting in the setting up of units for the manufacture of products.
- Promoting cooperative organisations among producers of husks, coir
  fibre, coir yarn and manufacturers of coir products.
Ensuring remunerative returns to producers and manufacturers.

The Headquarters of the Board is located at Cochin. There are three Regional Offices one each at Bangalore, Visakhapatnam and Pollachi for promoting the development of the coir industry primarily in the brown fibre sector. The Central Coir Research Institute (CCRI) at Alleppey, Kerala and the Central Institute of Coir Technology (CICT), Bangalore are engaged in research and development. The Coir Board has established 33 showrooms and Sales Depots in important cities in the country for promoting sale and consumption of coir and coir products in the domestic markets. Hindustan Coir, a pilot manufacturing unit of the Board located at Alleppey, Kerala, is manufacturing coir matting on power looms.

Evolution and Development of SSI Policy

Over the past five decades, government policies have been formulated to develop a framework for the revival and development of cottage, tiny, rural agro and small scale industries. With a view to determining the types of industrial units which needed special support, it was considered necessary to develop an appropriate classificatory definition for SSI units under the Industries (Development and Regulation) Act, 1951.
Evolution of the Official Definition of SSIs

The periodic revisions in the definition of SSI, as made by the Government of India are given below:

Table-1.1: Official Definition of SSIs

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Capital Assets not exceeding Rs 5 lakhs</td>
</tr>
<tr>
<td>1958</td>
<td>Capital investment of less than Rs 5 lakhs</td>
</tr>
<tr>
<td>1959</td>
<td>In capital investment, value of machinery to be taken at the original price paid irrespective of it being new or old</td>
</tr>
<tr>
<td>1960</td>
<td>Gross value of fixed assets up to Rs 5 lakhs</td>
</tr>
<tr>
<td>1966</td>
<td>Up to Rs 7.5 lakhs</td>
</tr>
<tr>
<td>1975</td>
<td>Up to Rs.10 lakhs</td>
</tr>
<tr>
<td>1980</td>
<td>Up to Rs.20 lakhs</td>
</tr>
<tr>
<td>1985</td>
<td>Up to Rs.35 lakhs</td>
</tr>
<tr>
<td>1991</td>
<td>Up to Rs.60 lakhs</td>
</tr>
<tr>
<td>1997</td>
<td>Up to Rs.3 crores</td>
</tr>
<tr>
<td>1998</td>
<td>Up to Rs 1 crore</td>
</tr>
</tbody>
</table>

*Source: Office Records*
Definition of units of SSI is given below:

**Small Scale Industrial Undertakings**

As per Government of India Notification dated 10 December, 1997, an industrial undertaking in whether held on ownership terms or on lease / hire-purchase basis does not exceed Rs. 3 crore was regarded as small scale industrial undertaking. The Government of India has since decided to lower the investment ceiling from Rs. 3 crore to Rs. 1 crore.

**Ancillary Industrial Undertaking**

An industrial undertaking which is proposed to be engaged in the manufacture or production of parts, components, Sub-assemblies, tooling or intermediates, Sub-assemblies, tooling or intermediates, or the rendering of services is termed as ancillary undertaking. The ancillary undertaking has to supply or render or render or propose to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings. The investment in plant and machinery, whether held on ownership terms or on lease or on hire purchase, should not exceed Rs. 1 crore.

**Women Entrepreneurs’ Enterprises**

An SSI unit/industry related service or business enterprise managed by one or more women entrepreneurs in Proprietary concerns, or in which she / they individually or jointly have a share capital of not less than 51 per cent as Partners/Share Holders/Directors of Private Limited Company/Member of Co-operative Society is treated as women Entrepreneurs/Enterprise.
Current Requirements (w.e.f 21.12.1999)

The following requirements are to be complied with by an industrial undertaking to be graded as Small Scale Industrial undertaking w.e.f. 21.12.1999:

- An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs 10 million.

- (Subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertaking)

  Explanation: For the purpose of this note:-

  (a) "owned" shall have the meaning as derived from the definition of the expression "owner" specified in clause (1) of section 3 of the said Act;

  (b) "subsidiary" shall have the same meaning as in clause (47) of section 2, read with section 4, of the Companies Act, 1956 (1 of 1956);

  (c) the expression "controlled by any other industrial undertaking" means as under:-

  (i) where two or more industrial undertakings are set up by the same person as a proprietor, each of such industrial undertakings shall be considered to be controlled by the other industrial undertaking or undertakings,

  (ii) where two or more industrial undertakings are set up as partnership firms under the Indian Partnership Act, 1932 (1 of 1932) and one or more partners are common

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19 [http://www.smallindustryindia.com/ssiindia/definition.htm](http://www.smallindustryindia.com/ssiindia/definition.htm)
partner or partners in such firms, each such undertaking shall be considered to be controlled by other undertaking or undertakings,

(iii) where industrial undertakings are set up by companies under the Companies Act, 1956 (1 of 1956), an industrial undertaking shall be considered to be controlled by other industrial undertaking if:-

(a) the equity holding by other industrial undertaking in it exceeds twenty four percent of its total equity; or

(b) the management control of an undertaking is passed on to the other industrial undertaking by way of the Managing Director of the first mentioned undertaking being also the Managing Director or Director in the other industrial undertaking or the majority of Directors on the Board of the first mentioned undertaking being the equity holders in the other industrial undertaking in terms of the provisions of the following items (a) and (b) of sub-clause (iv);

(iv) the extent of equity participation by other industrial undertaking or undertakings in the undertaking as per sub-clause (iii) above shall be worked out as follows:-

(a) the equity participation by other industrial undertaking shall include both foreign and domestic equity;

(b) equity participation by other industrial undertaking shall mean total equity held in an industrial undertaking by other industrial undertaking or undertakings, whether small scale or otherwise, put together as well as the equity held by persons
who are Directors in any other industrial undertaking or undertakings even if the person concerned is a Director in other Industrial Undertaking or Undertakings;

(c) equity held by a person, having special technical qualification and experience, appointed as a Director in a small scale industrial undertaking, to the extent of qualification shares, if so provided in the Articles of Association, shall not be counted in computing the equity held by other industrial undertaking or undertakings even if the person concerned is a Director in other industrial undertakings or undertakings;

(v) where an industrial undertaking is a subsidiary of, or is owned or controlled by, any other industrial undertaking or undertakings in terms of sub-clauses (i); (ii); or (iii) and if the total investment in fixed assets in plant and machinery of the first mentioned industrial undertaking and the other industrial undertaking or undertakings clubbed together exceeds the limit of investment specified in paragraphs (1) or (2) of this notification as the case may be, none of these industrial undertakings shall be considered to be a small scale or ancillary industrial undertaking.

Note 2-
(a) In calculating the value of plant and machinery for the purposes of paragraphs (1) and (2) of this notification, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account.
(b) In calculating the value of plant and machinery, the following shall be excluded, namely:-

(i) the cost of equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;

(ii) the cost of installation of plant and machinery;

(iii) the cost of research and development equipment and pollution control equipment;

(iv) the cost of generation sets and extra transformer installed by the undertaking as per the regulations of the State Electricity Board;

(v) the bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;

(vi) the cost involved in procurement or installation of cables, wiring, bus bars, electrical control panels (not those mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;

(vii) the cost of gas producer plants;

(viii) transportation charges (excluding of sales tax and excise) for indigenous machinery from the place of manufacturing to the site of the factory;

(ix) charges paid for technical know how for erection of plant and machinery;

(x) cost of such storage tanks which store raw materials, finished products only and are not linked with the manufacturing process; and

(xi) cost of fire fighting equipments.

(c) In the case of imported machinery, the following shall be included in calculating the value, namely:-
(i) import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port);

(ii) the shipping charges;

(iii) customs clearance charges; and

(iv) sales tax.

Every industrial undertaking which has been issued a certificate of registration under section 10 of the said Act or a license under sections 11, 11A and 13 of the said Act by the Central Government and are covered by the provisions of paragraphs (1) and (2) above relating to the ancillary or small scale industrial undertaking, may be registered, at the discretion of the owner, as such, within a period of one hundred and eighty days from the date of publication of this notification in the Official Gazette.

Ancillary Industrial Undertakings

The following requirements are to be complied with by an industrial undertaking for being regarded as ancillary industrial undertaking: -

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its
production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million.

Tiny Enterprises

Investment limit in plant and machinery in respect of tiny enterprises is Rs 2.5 million irrespective of location of the unit.

Women Entrepreneurs

A Small Scale Industrial Unit/ Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as Partners/ Shareholders/ Directors of Private Limits Company/ Members of Cooperative Society.

Small Scale Service & Business (Industry related) Enterprises (SSSBEs)

SSSBEs industry related service/ business enterprises with investment upto Rs 500,000 in fixed assets, excluding land and building, are called Small Scale Service/ Business Enterprises (SSSBEs). This limit has been raised to Rs.1 million w.e.f. September 2000.
Small Scale (Industry-related) Service and Business Enterprises (SSSBEs)

Enterprises rendering industry-related service / business with investment up to Rs. 5 lakhs in fixed assets, excluding land and building, are called SSSBEs.

Export Oriented Units (EOUs)

An unit with an obligation to export at least 30 per cent of its annual production by the end of third year of commencement of production and having investment ceiling in fixed assets – plant and machinery–up to Rs. 3 crore is regarded as an EOU. The SSI sector in India covers a wide spectrum of industries categorized under small, tiny and cottage segments ranging from small artisans/ handcraft units to modern production units with significant investments. This sector has acquired a prominent place in the socio-economic development of the country as it not only acts as a ‘nursery’ for the development of entrepreneurial talent, but also produces a wide range of product, exceeding 7500.

The term Small Scale Industry evokes different meanings for different agencies. The Planning Commission, Government of India, views the entire Village and Small Industries (VSI) sector as a part of the SSI sector. The National Sample Survey Organization under the Central Statistical Organization (CSO), Government of India, defines the entire industry sector in terms of organized and unorganized segments, as well as in terms of industrial enterprises run by households and non-households. The Central Excise Department, on the other hand, distinguishes SSIs on the basis of the annual turnover of the units (up to a maximum limit of Rs. 3 crore). The industrial policy planners in the Small Scale industries Board define SSI on the basis of investment in plant and machinery (an upper limit of Rs. one crore).
Since independence, a series of six Industrial Policy Resolutions/Statements have been formulated by the Union Government aimed at promoting industrial growth and determining a pattern of state intervention and assistance. While the Industrial Policy Resolution, 1948, spelt out the framework of the basic and strategic industries to be established by the State, the policy of supporting Cottage, Village and Small Industries took shape in 1956, when the Government decided to initiate measures to build the competitive strength of the small village industries. The 1956 Resolution underlined/recognised the role that the SSI sector could play in providing employment opportunities, mobilising local skills and capital resources, and in the process integrating with the large industry sector.

The Industrial Policy Statement 1977 stressed on the wider dispersal of cottage and small industries into rural areas and small towns. The concept of District Industries Centres was also mooted so as to provide services to small industries under one roof.

The Industrial Policy Statement released in 1980 was important from the point of view of ancillarisation and creation of nucleus plants for the growth of the sector. The Industrial Policy 1990 laid emphasis on the steps to enhance the contribution of the SSI sector in overall exports, employment generation and dispersal of industries in rural areas.

The Industrial Policy measures announced in 1991 contained a special thrust on the promotion and strengthening of Small, Tiny and Village Industries. Under the package of measures announced, the investment limit for tiny industries was raised to Rs. 25 lakhs million and locational conditions were withdrawn. In order to boost the ancillarisation and strengthening of the capital base, equity participation by other
industrial undertakings was permitted up to a limit of 24 per cent of the shareholdings in SSIs. A new scheme of Integrated Infrastructural Development for SSIs was provided for with the participation of State Governments and Financial Institutions. A pro-active role for Non-Governmental Organisations (NGOs) and Industry/Trade Associations was mooted. In 1997, there was a major upward revision in the investment limit in Plant and Machinery for the purpose of defining SSI and Tiny Sector units. The limit was brought up to Rs. 3 crore. But now, has been brought down to Rs. One crore recently in December, 1999.

To protect the interests of SSIs and to improve their viability, measures taken by the Government, from time to time, include reservations, revision of investment ceilings in the definition, modernisation, technology upgradation and market assistance. 812 items are currently reserved for exclusive manufacture in the SSI sector. However, there is no regulation or restriction on marketing the reserved items by large industries. The reservation of products for exclusive manufacture by SSIs is reviewed regularly. The Government has also been extending preferences in respect of purchase of items manufactured by SSIs. In the recent-past-reform period, a number of new steps have been initiated by the Government with regard to foreign direct investment, establishment of growth centres, export promotion, marketing etc.

**Policy Initiatives in 1999-2000 for the Small Scale Sector**

- Announcement of a new Credit Insurance Scheme in the Budget (1999-2000) for providing adequate content to the banks to improve flow of investment credit to SSI units, particularly tiny units.
• The working capital limit for SSI units is determined by the banks on the basis of 20 per cent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.

• To increase the reach of banks to the tiny sector, lending by banks to non-banking financial companies (NBFCs) or other financial intermediaries for purposes of on-lending to the tiny sector, has been included within the definition of priority sector for bank lending.

• Exemption from excise duty, as given to SSI units, has been extended to goods bearing a brand name of another manufacturer, in the rural areas. (The cabling notification is expected).

• A National Programme for Rural Industrialisation has been launched, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialisation.

• To coordinate the latest development with regard to the World Trade Organisation (WTO), a cell has been set up in the Office of DC (SSI) to disseminate information to SSI Association and SME units, regarding recent developments, and organising WTO Sensitization and Seminars, Workshops.

• The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crore to Rs. 1 crore, on the request of the SSI Associations.

In order to ensure that credit is made available to all segments of the SSI sector, RBI has issued instructions that out of the funds normally available for the SSI sector, 40
per cent be given to units with investment in plant and machinery up to Rs. 5 lakhs. 20 per cent to units with investment between Rs. 5 lakhs and Rs. 25 lakhs and remaining 40 per cent for other units. Banks have been asked to operationalise more specialised SSI branches. The single window scheme of SIDBI is also being extended to all districts.


The SSI sector plays a vital role in industrial production, employment generation and exports. In the context of growing domestic and international competition the strategy of the Ministry has positioned itself to support small scale sector through promotional policies of credit and technology. For improving credit flow to small scale industrial units the government proposes the following:

- The requirement of providing collateral security is a bottleneck to the flow of bank credit to the very small units. RBI has recently issued instructions to dispense with the requirement of collateral security for loans up to Rs 1 lakh. the limit is being further increased for the tiny sector from Rs 1 lakh to 5 lakhs.

- The existing composite loan scheme of SIDBI and banks help small borrowers by providing working capital and term loan through a single widow .To promote credit flow to small borrowers the composite loan limit is being increased from Rs 5 lakhs to Rs 10 lakhs.

- The public sector banks are being advised to accelerate their programme of opening SSI branches to ensure that every district and SSI cluster within
districts are served by at least one specialised SSI bank branch. Further more, to improve the quality of banking services, SSI branches are being asked to obtain ISO certification.

- Following the announcement of launching the Credit Guarantee Scheme for the SSI sector, the government has decided to set apart Rs. 100 crores. This scheme is to be implemented through SIDBI and will cover loans up to Rs. 10 lakhs. The guaranteed loans will be securitised and will be tradable in the secondary debt market.

- SIDBI operates the National Equity Fund Scheme under which equity support is provided for projects up to Rs. 15 lakh.

- SIDBI is presently administering the technology development and modernisation fund scheme for assisting technology development and modernisation of SSI units. This scheme has certain concessional features including interest at prime lending rate for direct assistance and refinancing at 2% below the prime rate for indirect finance. The operation of this scheme is to be extended by another three years.

- The Khadi and Village Industries Commission (KVIC) has been playing a very important role as an instrument to generate large-scale employment in the rural areas with low per capita investment. Government will continue to encourage the Khadi and village industry sector so that its products can become more competitive. For identifying marketing efforts the KVIC will introduce a brand name for its products and also set up a professionally managed marketing company for domestic as well as export marketing.
Development Banking in India

The FIs comprise five all-India development banks (AIDBs), viz, Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd. (IFCI), ICICI Ltd., Small Industries Development Bank of India (SIDBI) and Industrial Investment Bank of India Ltd. (IIBI); three specialised financial institutions (SFIs) viz. Risk Capital and Technology Finance Corporation of India Ltd. (RCTC), TDICI Ltd., and Tourism Finance Corporation of India Ltd. (TFCI); three investment institutions (IIs) viz. Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC); 18 State Financial Corporations (SFCs) and 28 State Industrial Development Corporations (SIDCs). The Report also reviews the operations of National Bank for Agriculture & Rural Development (NABARD), Exim Bank of India, North Eastern Development Finance Corporation Ltd. (NEDFi) and Infrastructure Development Finance Company Ltd. (IDFC). The operations of Technical Consultancy Organisations (TCOs), commercial banks and various other institutions having a bearing on industrial growth in the country are also discussed in the Report.

Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) was established on July 1, 1964 as a wholly-owned subsidiary of the Reserve Bank of India (RBI - the Central Bank of the country) under an Act of Parliament. In view of the manifold increase in its activities and diverse responsibilities, the ownership of IDBI was transferred to Government of India (GoI) in February 1976 and it was made the principal financial institution for co-ordinating the activities of institutions engaged in financing, promotion or development of industry in the country as also for providing credit and
other facilities for the development of industry. Later, in 1995, IDBI made its first public offering of equity shares, after the IDBI Act was amended in 1994 to permit public ownership up to 49% of its issued capital. Government of India’s shareholding in IDBI today stands at around 58%.

IDBI played a pioneering role, particularly in the pre-reform era (1964-91), in catalysing broad-based industrial development in the country in keeping with its Government-ordained 'development banking' charter. IDBI’s activities were not confined merely to long-term project lending to industry; instead, these covered a host of services undertaken in pursuit of broader development goals aligned to Government of India’s varied socio-economic objectives in the realm of industry. The latter encompassed, among others, balanced industrial growth through development of identified backward areas, modernisation of specific industries, employment creation, identification and encouragement to new entrepreneurs along with support services for creating a deep and vibrant domestic capital market, including apposite institutional development.

A slew of financial sector reforms unveiled by the Government since 1992, aimed at domestic deregulation and greater global integration, posed new challenges for DFIs like IDBI in pursuit of their DFI mandate. IDBI sought to address the environmental challenges and the opportunities they represent by evolving an array of fund and fee-based services to provide an integrated solution to the entire gamut of financial and corporate advisory requirements of its clients, extending IDBI’s business platform to other geographical areas and related new business, besides undertaking innovative resource-raising initiatives in domestic and foreign markets, both wholesale and retail.
Total assistance sanctioned under all products by IDBI aggregated Rs. 28.89 billion in 2002-03. Disbursements during the same year amounted to Rs. 39.24 billion. Cumulative assistance sanctioned and disbursed by IDBI since its inception up to end-March 2003 stood at around Rs. 2250 billion (USD 48 billion) and Rs. 1700 billion (USD 36 billion) respectively.

IDBI is a fundamentally strong, consistently profit-earning and dividend-paying organisation. The Bank continues to maintain a sound capital base as represented by the Capital Adequacy Ratio (CAR), based on the calculation of risk-weighted assets, as per RBI norms. As against the RBI stipulation of 9% for Total CAR, the CAR as at end-March 2003 was 18.7%.

**Industrial Finance Corporation of India Ltd. (IFCI)**

**Genesis**

At the time of independence in 1947, India’s capital market was relatively underdeveloped. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. And commercial banks were not equipped to provide long-term industrial finance in any significant manner.

It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in the country to cater to the long-term finance needs of the industrial sector. The newly-established DFI was provided access to low-cost funds through
the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

**Liberalisation - Conversion into Company in 1993**

This arrangement continued until the early 1990s when it was recognized that there was need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this objective that the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was also changed to "IFCI Limited" with effect from October 1999.

**Focus**

IFCI has fulfilled its original mandate as a DFI by providing long-term financial support to all segments of Indian Industry. It has also been chiefly instrumental in translating the Government’s development priorities into reality. Until the establishment of ICICI in 1956 and IDBI in 1964, IFCI remained solely responsible for implementation of the government’s industrial policy initiatives. Its contribution to the modernization of Indian industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy. Some sectors that have directly benefited from IFCI's disbursals include:

- Consumer goods industry (textiles, paper, sugar);
- Service industries (hotels, hospitals);
- Basic industries (iron & steel, fertilizers, basic chemicals, cement);
• Capital & intermediate goods industries (electronics, synthetic fibers, synthetic plastics, miscellaneous chemicals); and
• Infrastructure (power generation, telecom services).

**IFCI's Economic Contribution**

IFCI's economic contribution can be measured from the following:

• Cumulatively, IFCI has sanctioned financial assistance of Rs452 billion to 4,871 projects and disbursed Rs 440 billion since inception.
• In the process, IFCI has catalysed investments worth Rs 2,585 billion in the industrial and infrastructure sectors.
• By way of illustration, IFCI's assistance has been helped create production capacities of:
  • 6.5 million spindles in the textile industry
  • 7.2 million tons per annum (tpa) of sugar production
  • 1.7 million tpa of paper and paper products
  • 18.5 million tpa of fertilizers
  • 59.3 million tpa of cement
  • 30.2 million tpa of iron and steel
  • 32.8 million tpa of petroleum refining
  • 14,953 MW of electricity
  • 22,106 hotel rooms
  • 5,544 hospital beds
  • 9 port projects, 67 telecom projects and 1 bridge project.
• The direct employment generated as a result of its financial assistance is estimated at almost 1 million persons.
• IFCI has played a pivotal role in the regional dispersal of industry -- 47% of IFCI's assistance has gone to 2,172 units located in backward areas, helping to catalyse investments worth over Rs1,206 billion.

• IFCI's contribution to the Government exchequer by way of taxes paid during the last 54 years is estimated at Rs9 billion.

• IFCI has played a key role in the development of cooperatives in the sugar and textile sectors, besides acting as a nodal agency in both sectors. 371 cooperative societies in these sectors have been assisted by IFCI.

• IFCI has promoted Technical Consultancy Organizations (TCOs), primarily in less developed states to provide necessary services to the promoters of small- and medium-sized industries in collaboration with other banks and institutions.

• IFCI has also provided assistance to self-employed youth and women entrepreneurs under its Benevolent Reserve Fund (BRF) and the Interest Differential Fund (IDF).

• IFCI has founded and developed prominent institutions like:
  - Management Development Institute (MDI) for management training and development
  - ICRA for credit assessment rating
  - Tourism Finance Corporation of India (TFCI) for promotion of the hotel and tourism industry
  - Institute of Labor Development (ILD) for rehabilitation and training of displaced and retrenched labor force
- Rashtriya Gramin Vikas Nidhi (RGVN) for promoting, supporting and developing voluntary agencies engaged in uplifting rural and urban poor in east and northeast India.

- IFCI, along with other institutions, has also promoted:
  - Stock Holding Corporation of India Ltd. (SHCIL)
  - Discount and Finance House of India Ltd. (DFHI)
  - National Stock Exchange (NSE)
  - OTCEI
  - Securities Trading Corporation of India (STCI)
  - LIC Housing Finance Ltd.
  - GIC Grih Vitta Ltd., and
  - Bio-tech Consortium Ltd. (BCL).

- IFCI has also set up Chairs in reputed educational/management institutions and universities. A major contribution of IFCI has been in the early assistance provided by it to some of today’s leading Indian entrepreneurs who may not have been able to start their enterprises or expand without the initial support from IFCI.

Small Industries Development Bank of India (SIDBI)

Origin & Objectives

Small Industries Development Bank of India (SIDBI) was established in April 1990 under an Act of Indian Parliament as the principal financial institution for:

- Promotion
- Financing
- Development of industry in the small scale sector
- Co-ordinating the functions of other institutions engaged in similar activities

SIDBI has completed 12 years of service to the small scale sector. Consequent upon, amendment in the SIDBI Act, the Bank has been delinked from SIDBI with effect from March 27, 2000. The SIDBI (Amendment) Act, 2000 has changed the provisions relating to capital structure, share holding pattern, management, business, borrowings, etc. The authorised capital of the Bank has been increased from Rs.4.5 billion To Rs.10 billion, divided into 750 million equity shares of Rs.10/- each and Rs.250 million redeemable preference shares of Rs.10/- each. The amended Act provides for divesting of 51% of the equity share capital of Rs.4.5 billion Subscribed and held by IDBI in favour of Life Insurance Corporation of India, General Insurance Corporation of India, Public Sector Banks and other Institutions owned or controlled by the Government of India. Presently, shares of the Bank are held by 36 such Institutions. While IDBI continues to be the single largest share holder of SIDBI, the State Bank of India and Life Insurance Corporation of India follow as the next two large share holders in that order.

Since its inception, SIDBI has been assisting the entire spectrum of SSI Sector including the tiny, village and cottage industries through suitable schemes tailored to meet the requirement of setting up of new projects, expansion, diversification, modernisation and rehabilitation of existing units.

**Domain of Service**

The Small Scale Industries (SSIs) sector is a vibrant and dynamic sector of the Indian economy. The sector presently occupies an important place and its contribution in terms of generation of employment, output and exports is quite
significant. For the purpose of defining an SSI unit in India, the original purchase value of the plant and machinery installed in a unit has been adopted as the sole criterion. The ceiling on investment in plant and machinery has undergone periodical change from time to time since after the introduction of this concept. For a unit to be considered as SSI unit, the current ceiling on investment in plant and machinery is Rs. 10 million (effective December 24, 1999). For a tiny unit, the said ceiling is Rs. 2.5 million. The limit in select sub-sectors, such as, knitwear, hosiery and hand-tools is Rs.50 million. The Small Scale Industries sector including tiny units, comprises the domain of SIDBI's business. Besides, the projects in the services sector with total cost upto Rs.250 million are also taken within the area of SIDBI's operations. The Bank also finances industrial infrastructure projects for the development of SSI sector.

Channels of Assistance

SIDBI's financial assistance to small scale sector have three major dimensions:

1. Indirect assistance to primary lending institutions (PLIs);
2. Direct assistance to small units; and
3. Development and Support Services

Indirect Assistance

SIDBI's Schemes of indirect assistance envisages credit to SSIs through a large network of 913 PLIs spread across the country with a branch network of over 65000. The assistance is provided by way of refinance, bills rediscounting, and resource support in the form of short term loans/Line of Credit (LoC) in lieu of refinance, etc.
Refinances

The main objective of SIDBI’s refinance schemes being enhancement of flow of credit to the SSI sector and augmenting the resources of PLIs, the Bank provides refinance to PLIs against the term loan granted by them for:

- Setting up of new SSI projects and for expansion, technology upgradation, modernisation, quality promotion, diversification by existing units and rehabilitation of sick SSI units.
- Small road transport operators, qualified professionals for self-employment, small hospitals and nursing homes, cyber cafes, marketing, industrial infrastructure and to promote hotels and tourism-related activities.

SIDBI extends Financial Support (Short Term Loans) to scheduled banks in respect of their outstanding portfolio relating to SSI sector against which no financial support has been availed of from other institutions.

Rediscounting

In order to help the machinery manufacturers in the SSI sector and to maximise their sales by offering deferred payment credit to the prospective purchaser-users, the Bank operates a Bills Rediscounting Scheme where bills arising out of sale/purchase of machinery discounted by the scheduled commercial banks are rediscounted by SIDBI. Facilities under the scheme are also extended to cover purchases of machinery by Small Scale Industries.
Direct Assistance

The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries. Direct assistance is provided under several tailor made schemes through SIDBI's 41 Regional/Branch offices spread across the country.

Assistance is provided directly for

- Setting up of new SSI units, small hotels, hospitals/nursing homes
- Technology upgradation and modernisation, expansion, diversification
- Quality Upgradation/acquiring of ISO - 9000 Series Certification
- Development of markets for SSI products
- Development infrastructure of SSI sector
- Pre-shipment and Post-shipment credit and Export Bill Finance
- Discounting of Bills of manufacturer-seller in SSI sector, selling either equipment or components
- Factoring Services.

SIDBI Offers

- Financial assistance to SSI units under Technology Development and Modernisation Fund (TDMF) Scheme
- Financial assistance to SSI units in the textile and cotton ginning and pressing sectors for taking up technology upgradation and modernisation under Technology Upgradation Fund Scheme (TUFS)
- Financial assistance to tanneries in SSI sector for taking up modernisation under the Tannery Modernisation Scheme (TMS)
• 12 per cent capital subsidy on loans advanced to SSI units engaged in select product sub-sectors for technology upgradation by scheduled commercial banks, State Financial Corporations (SFCs) and National Small Industries Corporation Ltd. (NSIC) under Credit Linked Capital Subsidy Scheme (CLCSS)

• Short term loans to State Electricity Boards to facilitate their purchases from SSIs and effect payment in time. Discounting of invoice of SSIs supplying their products to large purchaser companies in the public/private sector

• Interest subsidy in respect of certain Hotel projects under one, two and three star and heritage category, where loans are sanctioned after approval of projects from the Department of Tourism

• Support to obtain credit rating from accredited credit rating agencies.

**SIDBI's foreign currency assistance includes**

• Foreign currency loans to import equipment by existing export-oriented SSI units and new units having definite plans for entering export markets.

• Foreign currency loans to execute confirmed export orders by way of pre-shipment credit/letter of credit and post-shipment credit facilities

• Pre-shipment and Post-shipment Credit in Rupees terms to exporting SSIs for greater flexibility.

• Export bills financing in foreign currency.

**SIDBI's venture capital support includes**

• Assistance to small scale entrepreneurs using innovative indigenous technology and expertise.
• Contribution to corpus of other venture funds.

• Promotion of State level venture capital funds and a National Venture Fund for Software and IT Industry (NFSIT), dedicated to small scale units in Software/IT industry.

• SIDBI has entered into a Memorandum of Understanding (MOU) with Small Enterprise Assistance Funds of United States of America.

**Lines of credit are established by SIDBI in favour of**

• State Financial Corporations (SFCs)

• State Industrial Development Corporations (SIDCs)

• State Small Industries Development Corporations (for supplying raw material and extending marketing support to SSI units) (SSIDCs)

• Factoring Companies (to factor receivables of SSIs)

• National Small Industries Corporation Ltd. (NSIC).
Table 1.2

SIDBI’s Financial Performance (Rs. in Crs.)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Quarter ended 31.03.2003</th>
<th>Quarter ended 31.03.2002</th>
<th>Year ended 31.03.2003 (Audited)</th>
<th>Year ended 31.03.2002 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income from Operations</td>
<td>342 424</td>
<td>1,399</td>
<td>1,553</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Other Income</td>
<td>1 1</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Total Income [1+2]</td>
<td>343 425</td>
<td>1,405</td>
<td>1,559</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>(a) Establishment Expenses [Staff Cost]</td>
<td>11 8</td>
<td>37</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>(b) Other Expenses</td>
<td>20 13</td>
<td>60</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Interest Expenses</td>
<td>238 252</td>
<td>984</td>
<td>1,069</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Total Expenditure [3+4]</td>
<td>269 273</td>
<td>1,081</td>
<td>1,140</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Depreciation</td>
<td>3 2</td>
<td>9</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Profit before Tax [1+2-3-4-5]</td>
<td>71 150</td>
<td>315</td>
<td>405</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Provision for Taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Net Profit (6-7)</td>
<td>77 119</td>
<td>207</td>
<td>282</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Paid up Share Capital [comprising equity shares having face value of Rs.10/- each]</td>
<td>450 450</td>
<td>450</td>
<td>450</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Reserves(excluding Revaluation Reserves)</td>
<td>- -</td>
<td>3,625</td>
<td>3,501</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Earning Per Share (Rs.)</td>
<td>1.71 2.64</td>
<td>4.60</td>
<td>6.27</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports of SIDBI
Table-1.3
SIDBI's Profile of Shares Held

<table>
<thead>
<tr>
<th>Shareholding</th>
<th>No. of shares</th>
<th>% of shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions</td>
<td>240,000,000</td>
<td>53.34</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>60,000,000</td>
<td>13.33</td>
</tr>
<tr>
<td>PSU Banks</td>
<td>150,000,000</td>
<td>33.33</td>
</tr>
<tr>
<td>Total</td>
<td>450,000,000</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Source: Annual Reports of SIDBI*

**Small Industries Development Bank of India (SIDBI)**

SIDBI was established on April 2, 1990. The Charter establishing it, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto.

The business domain of SIDBI consists of small scale industrial units, which contribute significantly to the national economy in terms of production, employment and exports. Small scale industries are the industrial units in which the investment in plant and machinery does not exceed Rs.10 million. About 3.1 million such units, employing 17.2 million persons account for a share of 36 per cent of India's exports and 40 per cent of industrial manufacture. In addition, SIDBI's assistance flows to the transport, health care and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures.
SIDBI retained its position in the top 30 Development Banks of the World in the latest ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets.

Origin & Objectives

Small Industries Development Bank of India (SIDBI) was established in April 1990 under an Act of Indian Parliament as the principal financial institution for:

- Promotion
- Financing
- Development of industry in the small scale sector
- Co-ordinating the functions of other institutions engaged in similar activities

SIDBI has completed 12 years of service to the small scale sector. Consequent upon amendment in the SIDBI Act, the Bank has been delinked from SIDBI with effect from March 27, 2000. The SIDBI (Amendment) Act, 2000 has changed the provisions relating to capital structure, share holding pattern, management, business, borrowings, etc. The authorised capital of the Bank has been increased from Rs.4.5 billion to Rs.10 billion, divided into 750 million equity shares of Rs.10/- each and Rs.250 million redeemable preference shares of Rs.10/- each. The amended Act provides for divesting of 51% of the equity share capital of Rs.4.5 billion subscribed and held by IDBI in favour of Life Insurance Corporation of India, General Insurance Corporation of India, Public Sector Banks and other Institutions owned or controlled by the Government of India. Presently, shares of the Bank are held by 36 such Institutions. While IDBI continues to be the single largest share holder of...
SIDBI, the State Bank of India and Life Insurance Corporation of India follow as the next two large share holders in that order.

Since its inception, SIDBI has been assisting the entire spectrum of SSI Sector including the tiny, village and cottage industries through suitable schemes tailored to meet the requirement of setting up of new projects, expansion, diversification, modernisation and rehabilitation of existing units.

**Domain of Service**

The Small Scale Industries (SSIs) sector is a vibrant and dynamic sector of the Indian economy. The sector presently occupies an important place and its contribution in terms of generation of employment, output and exports is quite significant. For the purpose of defining an SSI unit in India, the original purchase value of the plant and machinery installed in a unit has been adopted as the sole criterion. The ceiling on investment in plant and machinery has undergone periodical change from time to time since after the introduction of this concept. For a unit to be considered as SSI unit, the current ceiling on investment in plant and machinery is Rs. 10 million (effective December 24, 1999). For a tiny unit, the said ceiling is Rs. 2.5 million. The limit in select sub-sectors, such as, knitwear, hosiery and hand-tools is Rs.50 million. The Small Scale Industries sector including tiny units, comprises the domain of SIDBI's business. Besides, the projects in the services sector with total cost up to Rs.250 million are also taken within the area of SIDBI's operations. The Bank also finances industrial infrastructure projects for the development of SSI sector.
Channels of Assistance

SIDBI's financial assistance to small scale sector have three major dimensions:

1. Indirect assistance to primary lending institutions (PLIs);
2. Direct assistance to small units; and
3. Development and Support Services

SIDBI's channels of assistance may be classified as follows:

- Direct Finance Schemes
- Bills Finance Schemes
- Refinance schemes
- International Finance Schemes
- Marketing Finance & Development Schemes [Marketing Schemes]
- SIDBI Foundation for Micro Credit.
- Other Schemes
- promotional & Development Activities [P & D Activities]
- Fixed Deposit / Bonds.

Some of the important schemes are explained in the following paragraphs.

Direct Finance Schemes

The following are the various direct finance schemes provided by SIDBI

1. Credit Linked Capital Subsidy (CLCSS)
2. Scheme for Development of Industrial Infrastructure for SSI Sector (IID)
3. Equipment Finance Scheme (EFS)
4. Fast Track Financing Scheme (FTFS)
5. Scheme of Integrated Infrastructural Development (IID)
6. ISO 9000 Scheme (ISO 9000)
7. Project Finance Scheme (PFS)
8. Tannery Modernisation
9. Technology Development and Modernisation Fund Scheme (TDMFS)
10. Technology Upgradation Fund Scheme for Textile Industries (TUFS)
11. Vendor Development Scheme (VDS)
12. Working Capital Term Loan (WCTL)

**Bills Finance Schemes**

The following are the various bill finance schemes provided by SIDBI:

1. Bills Rediscounting Scheme - Equipment (BRS-E)
2. Bills Rediscounting Scheme - Inland Supply Bill
3. Direct Discounting Scheme - Components (DDS-C)
4. Direct Discounting Scheme - Equipment (DDS-E)

**Refinance Schemes**

The following are the various bill refinance schemes provided by SIDBI:

1. Refinance Scheme for Acquisition of ISO Series Certification, by SSI Unit (RISO 9000)
2. Composite Loan Scheme (CLS)
3. Credit Linked Capital Subsidy Scheme for Technology Upgradation of Small Scale Industries (CLCSS)
4. For Term Loan - Non SSI
5. General Refinance Scheme (GRS)
6. Mahila Udyam Nidhi (MUN)
7. National Equity Fund Scheme (NEF)
8. Refinance Scheme for Rehabilitation of Sick Industrial Units (RSR)
9. Self Employment for Ex-Servicemen Scheme (SEMFEX)
10. Single Window Scheme (SWS)
11. Refinance for Small Road Transport Operators (SRTOs)
12. Refinance Scheme for Tannery Modernisation (RTM)
13. Refinance Scheme for Technology Development and Modernisation (RTDM)
14. Refinance Scheme for Textile Industry under Technology Upgradation Fund (RTUF)

International Finance Schemes

The following are the various international finance schemes provided by SIDBI

1. Booking of Forward Contract
2. Foreign Currency Term Loan Scheme (FCTL)
3. Line of Credit Foreign Currency (LOCFC)
4. Opening of Foreign Letters of Credit (FLC)
5. Post-Shipment Credit in Rupees
6. Pre Shipment Credit in Foreign Currency (PCFC)

Providers of Finance

Providers of finance for small-scale industries can be viewed as a two-layered structure, as the following Figure-1.2 indicates. At the apex level is the Small Industries Development Bank of India (SIDBI) and at the next level are the commercial banks, regional rural banks (RRBs) and co-operative banks.
Sickness in Small Scale Sector

Sickness in the small scale sector is a matter of great concern and debate. Sickness in the industrial sector results in locking up of resources, wastage of capital assets, loss of production and increasing unemployment. In addition, it affects the circulation of investible bank credit.

Causes of Sickness

A number of causes both internal and external, often operating in combination has been responsible for industrial sickness in the small scale sector. Some of these causes are faulty planning, management deficiencies, inefficient financial control, diversion of resources, inadequate attention to research and development, obsolete technology and machinery, poor industrial relations, inadequate demand, shortage of raw material and other inputs, power cuts, inadequacy of working capital, delay in
sanction of working capital and time gap between sanction of term loan and working capital and other infrastructural constraints.

**Measures taken by Reserve Bank of India for Rehabilitation of Sick Units**

RBI has issued detailed guidelines vide their circular dated 17th April, 1993 and 3rd July, 1993 to banks for rehabilitation of sick SSI units including detection at the incipient stage and to take remedial measures, including the broad parameters for grant of relief and concessions as the following Table reveals.
## Table-1.4
RBI Measures for Rehabilitation of Sick Units

<table>
<thead>
<tr>
<th>Service/Loan</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Working Capital</td>
<td>1.5% below the prevailing fixed/PLR, wherever applicable</td>
</tr>
<tr>
<td>Funded Interest Term Loan</td>
<td>Interest free</td>
</tr>
<tr>
<td>Working Capital Term Loan</td>
<td>1.5% below the prevailing fixed /PLR, wherever applicable.</td>
</tr>
<tr>
<td>Term Loan</td>
<td>Concession up to 2% (Not more than 3% in the case of tiny/decentralised sector units) below the document rate.</td>
</tr>
<tr>
<td>Contingency/Loan Assistance</td>
<td>Concessional rates for working capital assistance.</td>
</tr>
</tbody>
</table>

*Source: Office Records*
Magnitude of Sickness

The magnitude and nature of sickness and its growth up to 1999, as per the RBI data, is reflected in the Table given below:

Table-1.5
RBI Data on Sick Units

<table>
<thead>
<tr>
<th>Sickness in SSI Sector</th>
<th>Total sick units</th>
<th>Potentially viable</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at the end of</td>
<td>No.</td>
<td>Amount</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Rs. Crores)</td>
</tr>
<tr>
<td>1991</td>
<td>2,21,47</td>
<td>2,792.00</td>
</tr>
<tr>
<td>1992</td>
<td>2,45,57</td>
<td>3,100.67</td>
</tr>
<tr>
<td>1993</td>
<td>2,38,17</td>
<td>3,442.97</td>
</tr>
<tr>
<td>1994</td>
<td>2,56,45</td>
<td>3,680.37</td>
</tr>
</tbody>
</table>
These units include village industries as well. As at the end of 1999, there were 3,06,221 sick units wherein a sum of Rs. 4,313.48 crores was outstanding. A paltry 18,692 out of the said sick units with a meagre sum of Rs 376.96 crores locked up in them are potentially viable – nothing to rave about. The years 1993, 1996, 1997 and 1998 witnessed a fall in the number of sick units, albeit insignificant, compared to the total number of sick units. The number of potentially viable sick units registered an increase in the year 1993. This sad state of affairs will have to be put an end to sooner rather than later, in the interest of the entrepreneurs, financiers, employees and the overall economy of the country.

Support Agencies and Specialised Services for Small Scale Industries (SSIs)

The following are the support agencies for small-scale industries.
Other Support Agencies

As depicted in Figure-1.3, the following are the other support agencies: The State governments extend support through Directorate of Industries (DIs), District Industries Centres (DICs), State Financial Corporations (SFCs), Small Industries Development Corporations (SIDCs) and Technical Consultancy Organisations (TCOs). Additionally, there are the industry associations and non government organisations.

Figure-1.4: Other Support Agencies for S.S.Is
Providers of Specialised Support Services

In addition, in view of their importance for the growth of small-scale industries, specialised support services are provided in technology upgradation, technical training, industrial infrastructure and marketing as the following Figure-1.4 depicts.

Figure-1.5: Specialised Support Services for S.S.Is
Technology Upgradation

The following institutions are involved in imparting technology upgradation capabilities to small-scale industries:

- National Small Industries Corporation (NSIC)
- Small Industries Development Organisation (SIDO)
- Small Industries Service Institutes (SISIs)
- Regional Testing Centres (RTCs)
- Process & Product Development Centres (PPDCs)
- Technology Bureau for Small Enterprises (TBSE)

Technical Training

The following institutions are involved in imparting technical training to small-scale industries:

- Small Industries Development Organisation (SIDO)
- Small Industries Service Institutes (SISIs)
- Technical Consultancy Organisations (TCOs)
- Process & Product Development Centres (PPDCs)
- District Industries Centres (DICs)
- Regional Testing Centres (RTCs)
- Central Footwear Training Institutes (CFTIs)
- Tool Rooms

Industrial Infrastructure

The following institutions are involved in providing industrial infrastructure to small-scale industries:

- Industrial State Infrastructure Development Corporations (ISIDCs)
Marketing

The following institutions are involved in assisting the small-scale industries sell their products:

- Small Industries Development Organisation (SIDO)
- National Small Industries Corporation (NSIC)
- State Small Industrial Development Corporations (SSIDCs)
- Small Industries Service Institutes (SISIs)
### Table 1.6: Time Series data for SSIs in India

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units (millions)</th>
<th>Fixed Investment (at current prices)</th>
<th>Production (at current prices)</th>
<th>Employment (Nos. in million)</th>
<th>Export (Rs. billion)</th>
<th>Export (Rs. bn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>0.416</td>
<td>22.96</td>
<td>72.0</td>
<td>3.97</td>
<td>3.93</td>
<td></td>
</tr>
<tr>
<td>1974-75</td>
<td>0.498</td>
<td>26.97</td>
<td>92.0</td>
<td>4.04</td>
<td>5.41</td>
<td></td>
</tr>
<tr>
<td>1975-76</td>
<td>0.546</td>
<td>32.04</td>
<td>110.0</td>
<td>4.59</td>
<td>5.32</td>
<td></td>
</tr>
<tr>
<td>1976-77</td>
<td>0.592</td>
<td>35.53</td>
<td>124.0</td>
<td>4.98</td>
<td>7.66</td>
<td></td>
</tr>
<tr>
<td>1977-78</td>
<td>0.67</td>
<td>39.59</td>
<td>143.0</td>
<td>5.40</td>
<td>8.45</td>
<td></td>
</tr>
<tr>
<td>1978-79</td>
<td>0.734</td>
<td>44.31</td>
<td>157.0</td>
<td>6.38</td>
<td>10.69</td>
<td></td>
</tr>
<tr>
<td>1979-80</td>
<td>0.805</td>
<td>55.40</td>
<td>216.35</td>
<td>6.70</td>
<td>12.26</td>
<td></td>
</tr>
<tr>
<td>1980-81</td>
<td>0.874</td>
<td>58.50</td>
<td>280.6</td>
<td>7.10</td>
<td>16.43</td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>0.962</td>
<td>62.80</td>
<td>326.0</td>
<td>7.50</td>
<td>20.71</td>
<td></td>
</tr>
<tr>
<td>1982-83</td>
<td>1.059</td>
<td>68.00</td>
<td>350.0</td>
<td>7.90</td>
<td>20.45</td>
<td></td>
</tr>
<tr>
<td>1983-84</td>
<td>1.155</td>
<td>73.60</td>
<td>416.2</td>
<td>8.42</td>
<td>21.64</td>
<td></td>
</tr>
<tr>
<td>1984-85</td>
<td>1.24</td>
<td>83.80</td>
<td>505.2</td>
<td>9.00</td>
<td>25.41</td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>1.353</td>
<td>95.85</td>
<td>612.28</td>
<td>9.60</td>
<td>27.69</td>
<td></td>
</tr>
<tr>
<td>1986-87</td>
<td>1.462</td>
<td>108.81</td>
<td>722.5</td>
<td>10.14</td>
<td>36.43</td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>1.583</td>
<td>126.10</td>
<td>873.0</td>
<td>10.70</td>
<td>43.72</td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>1.712</td>
<td>152.79</td>
<td>1064.0</td>
<td>11.0</td>
<td>54.89</td>
<td></td>
</tr>
</tbody>
</table>

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20 Development Commissioner (SSI), Ministry of Small Scale Industries, Government of India
<table>
<thead>
<tr>
<th>Year</th>
<th>Rate 1</th>
<th>Rate 2</th>
<th>Rate 3</th>
<th>Rate 4</th>
<th>Rate 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>1.823</td>
<td>N.A.</td>
<td>1323.2</td>
<td>11.96</td>
<td>76.25</td>
</tr>
<tr>
<td>1990-91</td>
<td>1.948</td>
<td>N.A.</td>
<td>1553.4</td>
<td>12.53</td>
<td>96.64</td>
</tr>
<tr>
<td>1992-93</td>
<td>2.246</td>
<td>N.A.</td>
<td>2093.0</td>
<td>13.406</td>
<td>177.84</td>
</tr>
<tr>
<td>1993-94</td>
<td>2.388</td>
<td>35.376</td>
<td>2416.48</td>
<td>13.938</td>
<td>253.07</td>
</tr>
<tr>
<td>1994-95</td>
<td>2.571</td>
<td>40.799</td>
<td>2988.86</td>
<td>14.656</td>
<td>290.68</td>
</tr>
<tr>
<td>1995-96</td>
<td>2.658</td>
<td>49.620</td>
<td>3626.56</td>
<td>15.261</td>
<td>364.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>2.803</td>
<td>54.698</td>
<td>4118.58</td>
<td>16.0</td>
<td>392.48</td>
</tr>
<tr>
<td>1997-98</td>
<td>2.944</td>
<td>60.549</td>
<td>4626.41</td>
<td>16.72</td>
<td>444.42</td>
</tr>
<tr>
<td>1998-99</td>
<td>3.08</td>
<td>86.106</td>
<td>5206.5</td>
<td>17.158</td>
<td>489.79</td>
</tr>
<tr>
<td>1999-00</td>
<td>3.212</td>
<td>72.633</td>
<td>5728.87</td>
<td>17.85</td>
<td>542.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>3.312</td>
<td>79.703</td>
<td>6390.24</td>
<td>18.564</td>
<td>697.97</td>
</tr>
<tr>
<td>2001-02</td>
<td>3.442</td>
<td>84.329</td>
<td>6903.16</td>
<td>19.223</td>
<td>712.44</td>
</tr>
<tr>
<td>Projection</td>
<td>3.572</td>
<td>90.450</td>
<td>7420.21</td>
<td>19.965</td>
<td>NA</td>
</tr>
</tbody>
</table>

for 2002-03
Industries in Karnataka

The very name Karnataka is a source of inspiration. It is the sacred land of holy men; the unique land of great warriors; a glorious land which witnessed many a religion, culture, literature, education and arts. A land known for religious harmony; the first ever soil that echoed the ringing of the bell of freedom struggle. Karnataka, which was ruled by various noble dynasties, like Mourya, Shatavahana, Kadamba, Ganga, Chalukya, Hoysala, Vijayanagara, Bhamani, Mysore and Hyder Ali, the British... got the nomenclature of Vishala Mysore State on 1st November 1956 under the State Re-organization Act\textsuperscript{21}. The long cherished desire of the Kannadigas was fulfilled on 1st November 1973 when the State was renamed as Karnataka.

Presently the State of Karnataka has a landed area of 1,91,791 Square Kilometres. It is the 9th largest State in the country. It is a developing state with a population of 4,49,77,000 (with 2,29,52,000 males and 2,20,25,000 females) as per the 1991 census, having a 56% literacy rate.

Geographical Features

The geographical conditions of Karnataka are unique. The land, the climate and the natural resources have contributed much to the enrichment of the life of Kannadigas. Karnataka is situated towards west of the Indian Deccan Plateau and it lies along the seashore on one side. It is a fertile land situated in the tropical region of the Northern Hemisphere, stretching between 115 degree and 19 degree Northern Latitude and between 74 degree and 78 degree Eastern Longitude. States of Maharashtra and Goa bound the State of Karnataka in the north; it is bounded by Kerala and Tamilnadu in

\textsuperscript{21} http://www.kar.nic.in/industry/
the south, by Andhra Pradesh and Tamil Nadu in the East and by the Arabian Sea in
the West.

Climate and Rain
The climate of this State is pleasant; it is neither scorching hot nor biting cold. The
annual rainfall of Karnataka is 1,200mm.

Soil
The soil of the State is varied what with red clay and laterite soil, red soil mixed
with clay and sand, black soil or split. The range of different crops grown here, as a
result, cannot be found in any other State of the country. Out of the total area, the
land utilized for agriculture amounts to 61.9%. The percentage of cultivated area in
the State is higher compared to the whole country and the Southern States.

Rivers
Karnataka is the abode of many important rivers. Besides enriching the natural
beauty, they contribute a lot for agricultural production. Krishna, Kaveri and their
tributaries, Sharavathy, Nethravathy, Aghanashini etc, are the rivers of the State and
waterfalls like Jog, Gaganachukki, Magodu, Lalguri are the living wonders of
panoramic beauty of this State.

Flora
The abundant variety of vegetation such as sandal wood, teak, rose wood, honne.
jack, mango, mathi, nandi, white cedar, dense clumps of bamboo, coffee, tea,
coconut have enhanced the commercial resources of Karnataka.
Minerals

With mineral resources like gold, silver, iron, manganese, chromite, lime, bauxite and copper, Karnataka offers tremendous scope for intensive industrialization. This State has the unique distinction of producing gold in the country. Karnataka has acquired the top most place in exploring mineral resources, utilizing them and conducting mining operations. One could very well say that the various geographical characters are the gifts of nature. Rivers, mountains, fertile land, forest, climate are important amongst them. Karnataka is well blessed in all these aspects which contribute to the all round progress of this State.

Cultural Scene

Karnataka was home to a level of culture and civilisation from ancient days. It had established very good cultural relations with other parts of the country. Karnataka has continuously, for the past several centuries, been a region which patronised the cause of several religions. It is an exemplary place of religious harmony, despite perturbed situations seen occasionally across the country. It has been a prime seat of religious learning also. Vaishnavites, Saivites, Buddhists, Jains availed plenty of opportunities to propagate their religions since several centuries in this part of the country without hindrances.

Literary Development

Modern Kannada literature is quite abreast of any comparable regional literature in India. It has imbibed all nuances of a developing literature. It is a great pride to record here that seven stalwarts of Kannada literature. Kuvempu, Bendre, Karanth,
Masti, Gokak, Anantha Murthy and Girish Karnad have secured Bharatiya Jnanapita awards, the highest honour conferred on authors in the field of literature in India. Obviously, Karnataka looks forward to add many more such laurels to its crown in several walks of literacy, scientific social and cultural development with an assured all round progress.

The Emerging Growth Centres

To promote rapid industrialisation and to ensure decentralisation of industries, the Government has identified Growth Centres away from the already congested industrial areas. In Karnataka, three places are being developed by Karnataka Industrial Areas Development Board as Growth Centres - Hassan, Dharwad and Raichur. These centres will ensure all infrastructural facilities like power, water, telecommunication, banking, post offices residential housing, schools, hospitals etc. Industrial sites are made available for small, medium and large scale industries in these Growth Centres.

Dharwad

The twin cities of Hubli-Dharwad are located at a distance of around 430 kms from Bangalore the capital of Karnataka state. The climate is hot and wet during the summer and rainy seasons and pleasant during winter. The twin cities have a history behind them dating back to the Hoysala period. Dharwad is the administrative capital of the Dharwad district and Hubli serves as the center of commerce. Dharwad is a quiet, pleasant, and fast growing city in the northern part of Karnataka. Together with Hubli, which is a city twenty-two kilometers away, Dharwad forms a twin city.
Dharwad is known for its prestigious educational institutions. It houses the Karnataka University, which caters to graduate and research students. Karnataka College offers educational services to students just out of high school who aspire to make a career either in the arts or the sciences. S.D.M. Engineering college a more recent addition to the list of educational institutions offers education in Engineering. Hubli has an Engineering college (B.V.B College of Engineering and Technology), the Karnataka Medical College and other institutions.

Dharwad is perhaps best known for its "Pedhas", a sweet made out of milk, and is a must-buy for any tourist visiting the city. Today, Dharwad has grown beyond its borders, with industries dotting both its northern and southern boundaries. In the years ahead, it promises to become a beehive of commercial activity. The location of the city on National Highway-4 makes it equidistant from two of the most industrialised centres in the country - Bangalore, the capital of Karnataka state and Pune the second most industrialised city in Maharashtra.