CHAPTER VI

GOVERNMENT POLICY TOWARDS SMALL SCALE AND COTTAGE INDUSTRIES

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6.1- INTRODUCTION

Small scale and cottage industrial sector has emerged as an engine of growth in several developing and developed economies of the world. In India also they have emerged as a vibrant and dynamic sector of Indian economy by virtue of their significant contribution to GDP, industrial production and export. However, the most vital contribution of this sector is headed for employment generation which is next to agriculture.¹

The recent experience shows that while employment in agricultural sector has been declining, large industries are also facing jobless growth. In such a situation, the major responsibility to create employment opportunities lies with the unorganized sector including small scale and cottage industries. In increasing industrial production, diversifying the base of industrial production as well as increasing employment opportunities, small scale industries have been playing a prominent role in India. No one can deny that cottage and small scale industries are the driving force behind economic development across the globe. This sector is widely accredited with generating the highest rates of revenue and employment in virtually all economies. The small scale and cottage industrial sector have found their economic rationale in Mahalanobis model of economic development, which was the basis for India’s second and subsequent Five Year Plans. The major thrust of all economic policies being pursued in India today is to

eliminate poverty, generate adequate employment opportunities and to ensure the utilization of physical and human resources to the best of their potential. Given the scope of generating tremendous employment opportunities, promoting entrepreneurial abilities and adding to the National Product, the SSI sector continue to be the most important economic proposition for a labour surplus economy like India. The rate of employment creation in this sector is the fastest and is able to provide employment across the length and breadth of the country.

While the promotion of small scale industries has been one of the major objectives of economic planning in India, the policies and strategies have undergone change from time to time. The six Industrial Policy Resolutions and eleven Five Year Plans supported a continuous flow of incentives, both protective and promotional in nature; as an element of development strategy to meet socio-economic objectives like employment generation, removal of poverty and regional disparities, optimum utilization of local resources, etc\(^2\). A comprehensive package of programmes and policy measures has been formulated by the government to accelerate the growth and productivity of small scale sector. The support packages includes a variety of promotional and protective measures like industrial estates programme, ancillaryisation programme, product reservation policy, programme of technology upgradation and modernization and financial support measures, etc. The policy of the Government of India towards the small scale sector has been guided by the consideration that SSIs are hampered in their growth

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by imperfections in factor markets especially in capital markets. Therefore, special support policies are needed for this sector. Amongst developing countries, India was the first to display special concern for small scale and cottage industrial sector, before it become fashionable do so.

6.2- GOVERNMENT INITIATIVES ON THE EVE OF INDEPENDENCE

The role of small scale industries including village and cottage industries, in the Indian economy has been a specific focus of the Government of India since independence. It has directed so many policy prescriptions, created a wide network of support agencies to nurture the SSI sector. The strong emphasis towards the promotion and growth of village, cottage and small scale industries given by successive governments in India stems up from the independence movement. The pre British India was famous for its artistic industries like marble work, stone carving, brass, copper and bell metal wares. It was well-known for its handlooms and handicrafts.

“At a time when west of Europe, the birth place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for high artistic skills of her craftsmen. And even at a much later period, when the merchant adventures from the West made their first appearance in India, the industrial development of this country was, at any rate, not inferior to that of the more advanced European nations”. The colonial rule caused a de-industrialization of the country, and that the manufacturing

products in Britain and other parts of the industrialized word led to a decline in traditional Indian handicrafts and artisan products.

The call of ‘swadeshi’ and the boycott of imported goods were synonymous with a desire to promote cottage and small scale industries\(^6\). The rationale for state encouragement to village and small industries was greatly influenced by Mahatma Gandhi’s appeal to revive village based industries and crafts, and by his identifying ‘khadi’ as the symbol of Indian nationalism. Broadly, the interest in small scale and cottage industries got new dimensions on account of ‘swadeshi movement’ and the patronage given to ‘Charkha’ by Mahatma Gandhi.\(^7\)

In December’ 1947 the congress government convened the Industries Conference which devoted considerable attention to the problems of revival and development of cottage and small industries. This conference put forward three broad policy measures:

(i) Establishment of national level organizations to coordinate policies, development programmes and promotional measures for the sector;

(ii) Initiate a regime of preferential treatment of small scale firms with regard to factor inputs; and

(iii) Establishment of certain institutes and agencies like Cooperative Banks and marketing organizations to serve the needs of small scale and cottage industries.

\(^6\) Bala, N. opcit, p.17.

These recommendations were accepted by the government and incorporated as a part of the Industrial Policy Resolution of 1948.

6.3- INDUSTRIAL POLICY RESOLUTIONS AND SMALL SCALE AND COTTAGE INDUSTRIES

The growth of small scale industrial sector has been regarded as one of the most significant features of planned economic development. Keeping in view the importance of small scale and cottage industries, Government of India framed a policy package consisting of both promotional and protective instruments for fostering the growth of small scale and cottage industries, soon after independence. Government’s attitude and intention towards industries in general and SSIs in particular are reflected in Industrial policy Resolutions.

(a) Industrial Policy Resolution of 1948

The Industrial Policy Resolution (IPR) of 1948 marked the beginning of “organised direction” for industrial development in India. The strategy of industrial planning aimed at diversifying the industrial base mainly through the development of basic, intermediate and capital goods industries. Nevertheless, it laid much emphasis on the indispensable role of small scale and cottage industrial sector for employment generation in the economic development of the country.8

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The IPR of 1948 stated that “Cottage and small scale industries have a very important role in the national economy. Offering as they do scope for individual, village or cooperative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of the local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements”. The IPR of 1948 reflected the emergence of a dualistic approach in government policy i.e. emphasis on both traditional and modern small scale sector. This approach has continued to form the basis of industrial policy towards the small scale sector ever since. The industrial Development and Regulation Act, 1951 which was promulgated in order to provide the organizational support to IPR of 1948 provide scope for a coordinated development of cottage and small scale industries within the general framework of large scale development programmes.

(b) **Industrial Policy Resolution of 1956**

In 1955, Planning Commission setup a Committee on village and small scale industries popularly known as Karve Committee. The Committee recommended some important measures like:

(i) Reservation of certain items only for village and small scale industries;

(ii) Restriction of capacity expansion of large industry;

(iii) Management of supply of raw materials; and

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(iv) A scheme of concessions and benefits to small producers.

Small scale sector was seen as the major vehicle for expanding consumer goods output to meet an expected growing demand due to increased investment in public sector projects during the first Five Year Plan. The IPR of 1956 advocated the policy of protection as recommended by Karve Committee to improve economic viability and competitive strength of small scale industries and stated that “The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self supporting and its development is integrated with that of large-scale industry. They State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved so and modernised the pace of transformation being regulated so as to avoid as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification, and the availability of power at prices, which the workers can afford, will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives. Such cooperatives should be encouraged in every way and the State should give constant attention to
the development of cottage and village and small scale industry”. The focus of the IPR was to continue the policy support to cottage, village and small industries by differential taxation or direct-subsidies in the form of financial assistance to improve and modernize the techniques of production and competitive strength of SSIs. To achieve these 128 items were exclusively reserved for production in SSIs, and 166 items were reserved for exclusive purchase by government from this sector.

(c) Industrial Policy Resolution of 1977

The IPR of 1977 was announced on 23\textsuperscript{rd} December when Janata Party Government took initiatives for the development of small scale sector and asserted that “The main thrust of the new Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced…..” The important features of the IPR were:

(i) 504 items were reserved for exclusive production in the small-scale industries.

(ii) The concept of District Industries Centres (DICs) was introduced so that in each district a single agency could meet all the requirements of SSIs under one roof.

(iii) Technological upgradation was emphasized in traditional sector.


Special marketing arrangements through the provision of services, such as, product standardization, quality control, market survey, were laid down.

(d) Industrial Policy Resolution of 1980

The Industrial Policy of 1980 marked a significant milestone in the policy of development of small scale industries in India. The IPR sought to harmonize the growth in small scale industries with the large and medium scale industries. Industrially backward districts were identified for faster growth of existing network of SSIs. Following measures were specified in the policy:

(i) Investment limit was raised for tiny, small, and ancillary units to Rs. 2 lakh, Rs. 20 lakh, and Rs. 25 lakh respectively.

(ii) “Nucleus plants” in each industrially backward district replaced the “district industries centers.” These were to concentrate on assembling the products of SSIs and to produce inputs needed by large number of small units.

(iii) Reservation of items and marketing support for small industries was to continue.

(iv) Availability of credit to growing SSI units was continued.

(v) Buffer stocks of critical inputs were to continue.

(vi) Agricultural base was to strengthen by providing preferential treatment to agro based industries.

(vii) An early warning system was to establish to avoid sickness and take appropriate remedial measures.
(e) **Industrial Policy Resolution of 1990**

The Industrial Policy Resolution of 1990 emphasized on the need of modernization and technology upgradation to meet the twin objectives of employment generation and dispersal of industry in rural areas, and to enhance the contribution of small scale industries to exports. Main features of this Resolution are:

(i) It raised the investment ceiling in plant and machinery for small scale industries to Rs. 60 lakh and correspondingly, for ancillary units to Rs. 75 lakh.

(ii) It created central investment subsidy for this sector in rural and backward areas. Assistance was also granted to women entrepreneurs for widening the entrepreneurial base.

(iii) Reservation of items to be produced by SSIs was increased to 836.

(iv) Small Industries Development Bank of India was established to ensure adequate flow of credit to SSIs.

(v) Stress was reiterated to upgrade technology to improve competitiveness.

(vi) Special emphasis was laid on training of women and youth under Entrepreneurial Development Programme.

(vii) Activities of Kadhi and Village Industries Commission and Khadi and Village Industries Board were to expand.

(f) **Industrial Policy Resolution of 1991**
On July’ 24, 1991 the Government lunched ‘Structural Adjustment Programme’ which has resulted in a $180^0$ change in the policies governing the different aspects of Indian economy. In order to impart more vitality and growth to small scale sector, the Government of India announced a separate policy statement for small, tiny and village enterprises. The basic thrust of this resolution was to simplify regulations and procedures by delicensing, deregulating, and decontrolling. Its incredible features are:

(i) SSIs were exempted from licensing for all articles of manufacture.

(ii) The investment limit for tiny enterprises was raised to Rs. 5 lakh irrespective of location.

(iii) Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs.

(iv) Factoring services were to launch to solve the problem of delayed payments to SSIs.

(v) Priority was accorded to small and tiny units in allocation of indigenous and raw materials.

(vi) Market promotion of products was emphasized through co-operatives, public institutions and other marketing agencies and corporations.

On the whole, the Industrial Policy Resolution of 1991 outlined developmental, deregulatory and de-bureaucratic measures and underscored the need to shift from subsidized and cheap credit to a system which would ensure adequate flow of credit on timely and normative basis to the small scale industrial sector.
6.4- RECENT POLICY MEASURES FOR SMALL SCALE AND COTTAGE INDUSTRIES

(a) Comprehensive Policy Package for small scale and tiny sector, 2000

The Government of India announced a comprehensive policy package for the development and promotion of small scale and tiny sector which aims to improve the competitiveness of the sector. The main focus of the policy package was:

(i) The exemption for excise duty limit raised from Rs.50 lakh to Rs. 1 crore.

(ii) The limit of investment was increased in industry related service and business enterprises from Rs. 5 lakh to Rs. 10 lakh.

(iii) The coverage of ongoing Integrated Infrastructure Development (IID) was enhanced to cover all areas in the country with 50 percent reservation for rural areas and 50 percent earmarking of plots for tiny sector.

(iv) The family income eligibility limit of Rs. 24000 was enhanced to Rs. 40000 per annum under the Prime Minister Rozgar Yojana (PMRY).

(v) The scheme of granting Rs. 75000 to each small scale enterprise for obtaining ISO 9000 certification was continued till the end of 10th plan.

(b) Industrial Policy Packages for small scale industries, 2001-02
This policy emphasizes the following:

(i) The investment limit was enhanced from Rs. 1 crore to Rs. 5 crore for units in hosiery and hand tool sub sectors.
(ii) The corpus fund set up under the Credit Guarantee Fund Scheme was increased from Rs. 125 crore to Rs. 200 crore.
(iii) Credit Guarantee cover was provided against an aggregate credit of Rs. 23 crore till December 2001.
(iv) Fourteen items were de-reserved in June 2001 related to leather goods, shoes and toys.
(v) Market Development Assistant Scheme was launched exclusively for SSI sector.
(vi) Four UNIDO assisted projects were commissioned during the year under the Cluster Development Programme.

(c) **Policy Package for small and medium enterprises, 2005-06**

During the year 2005-06 the Government announced a policy package for small and medium enterprises. The main features of this policy package were:

(i) The Ministry of Small Scale Industries has identified 180 items for dereservation.
(ii) Small and Medium Enterprises were recognized in the services sector, and were treated at par with SSIs in the manufacturing sector.
(iii) Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters in the small scale sector.
(iv) Emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in nine sectors including khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.

(d) **Enactment of Micro, Small and Medium Enterprises Development Act, 2006**

In May’ 2006, the President has amended the Government of India (Allocation of Business) Rules, 1961; Ministry of Agro and Rural Industries and Ministry of Small Scale Industries have been merged into a single Ministry, namely, “Ministry of Micro, Small and Medium Enterprises.” Consequently the Micro, Small and Medium enterprises Development (MSMED) Act was enacted, which provides the first ever legal framework for recognition of the concept ‘enterprises’ against ‘industries’ and integrating the three tiers of these enterprises viz. micro, small and medium and clearly fixed the investment limits for both manufacturing and service enterprises. It also provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises. The Act also makes provisions for establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises, progressive credit policies and practices, preference in Government procurements to products and services.

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of the micro and small enterprises, more effective mechanism for mitigating the problems of delayed payments and simplification of the process of closure of business by all three categories of enterprises.

6.5- NORTH EAST INDUSTRIAL AND INVESTMENT PROMOTION POLICY (NEIIPP), 2007

In view of the continuing backwardness of the North Eastern region, the Government of India announced a new industrial policy for the NER including Sikkim. The policy known as ‘North East Industrial and Investment Promotion Policy (NEIIPP), 2007’ and aimed at encouraging investment in the industrial sector by announcing fiscal and other incentives for the purpose of overall economic growth of this region.\(^\text{13}\)

The policy with its package of incentives is designed to stimulate development of industries so that the region overcomes its continuous backwardness. The main features of the Policy are as follows:

(i) **Substantial Expansion**

Incentives on substantial expansion will be given to units affecting ‘an increase by not less than 25 percent in the value of fixed capital investment in plant and machinery for the purpose of expansion of capacity/modernization and diversification’.

(ii)  **Excise Duty Exemption**

100 percent Excise Duty exemption will be continued, on finished products made in the industrial sectors of the North Eastern Region.

(iii)  **Income Tax Exemption**

The industrial sector of the region will enjoy 100 percent Income Tax exemption under NEIIPP, 2007.

(iv)  **Capital Investment Subsidy**

Capital Investment Subsidy will be enhanced from 15 percent of the investment in plant and machinery to 30 percent and the limit for automatic approval of subsidy at this rate will be Rs.1.5 crore per unit. Such subsidy will be applicable to units in the private sector, joint sector, cooperative sector as well as the units set up by the State Governments of the North Eastern Region. For grant of Capital Investment Subsidy higher than Rs.1.5 crore but up to a maximum of Rs.30 crore, there will be an Empowered Committee chaired by Secretary, Department of Industrial Policy & Promotion with Secretaries of Department of Development of North Eastern Region (DONER), Expenditure, Representative of Planning Commission and Secretary of the concerned Ministries of the Government of India dealing with the subject matter of that industry as its members and also the
concerned Chief Secretary/Secretary (Industry) of the North Eastern State where the claiming unit is to be located.

(v) Interest Subsidy

All industrial units located anywhere in the region will be entitled to enjoy interest subsidy at 3 percent on working capital loan under NEIIPP, 2007. All new industrial units as well as the existing units on their substantial expansion will be eligible for reimbursement of 100 percent insurance premium.

Besides the policy announces separate incentives for service and other sectors of the region. It has also black listed few items as negative list like tobacco and tobacco products, plastic carry bags etc. which will not be eligible for benefits under NEIIPP, 2007. The North East Industrial Development Finance Corporation (NEDFi) will continue to act as the nodal agency for disbursal of subsidies under the new Policy.

6.6- Mizoram Government Policies Towards Small Scale and Cottage Industries

Mizoram was one of the backward district of Assam till 1972 when it became a Union Territory. In the erstwhile Assam State, the Mizo Hills District had a small Rural Industrial Unit headed by a Project Officer. On attaining UT status in 1972, the Department of
Industries was created with a Directorate headed by Director of Industries embracing Sericulture as one of its Wings. Later on, in the year 1985, the Sericulture was molded into a separate Department. ZIDCO, MKVIB, ZOHANDCO, MIFCO and ZENICS were also created as corporate bodies under the administrative control of Industries Department.

As a sequel to the signing of the Historic Memorandum of Settlement between the Government of India and the Mizo National Front in 1986, Mizoram was granted Statehood on February 20, 1987 as per Statehood Act of 1986 and Mizoram became the 23rd State of the Indian Union. On the eve of Statehood it inherited a very weak industrial base and the entire stare was notified as “No industry area” due to the absence of any large and medium industry. A few industrial units with only one industrial estate were found in the state which are of small scale and traditional in nature like handloom, carpentry, ice-plant, bakery, candle making, tailoring, bamboo works etc.

The Government of the newly created Mizoram state was committed to improve the economy of the state and thereby bring about higher quality of life and happiness to the people. Consequently, the government attached high priority to the development of industries in the state.

(a) **Industrial Policy of Mizoram, 1989**
The Industrial Policy of Mizoram State was first notified on March’15, 1989 with a view to give direction to the strategies for industrial development of the State\textsuperscript{14}. While announcing the said policy statement, the Govt. of Mizoram took full cognizance of the Industrial Policy Resolutions of the Govt. of India announced during 1948 and thereafter.

The Industrial Policy of Mizoram 1989 laid stress on reducing shifting cultivation by encouraging a shift from primary to secondary sectors by way of developing rural industries like handloom and handicraft and village and cottage industries. Priority was assigned to agro-and forest-based industries, handloom and handicraft industries, sericulture industries and electronics industries. The policy laid emphasis on balanced development of all sectors, large and medium, small scale, tiny, village and cottage industries. For rapid development of all these sectors, various kinds of supports like institutional, organizational and marketing supports, and schemes for infrastructure development and manpower development apart from initiating several state-level incentive schemes to attract prospective entrepreneurs were announced by the Government. Considering the nascent stage of development in the state the Industrial Policy of 1989 laid accent on protection of the local small scale entrepreneurs in order to safeguard the socio-cultural and ethnic identity of the indigenous enterprise of Mizoram. Therefore, setting up of industries in the small scale sector by outsider was

\textsuperscript{14}‘The Industrial Policy of Mizoram State 1989’, Directorate of Industries, Government of Mizoram, Aizawl.
not allowed. However, investment from outside was allowed in medium and large scale industries in joint and assisted sectors.

While framing the Industrial policy, the government of Mizoram has kept in mind the geographical, demographical and socio-economic realities of the state and also the pace of industrial progress of the region resulting from the various IPR of the Central Government as well as the policy announcements issued for dispersal of industries to backward areas and special category districts. To channelise the growth of industrial sector to a desired direction, the government made a common approach through various government departments, local bodies, institutions and other agencies dealing with industrial matters. The followings are the important resolutions of the Industrial Policy of Mizoram, 1989:

(i) Setting up of viable industrial projects in large and medium sectors through state-owned corporation;
(ii) Setting up of modern small scale industries at the level of private entrepreneurs by providing all necessary promotional supports with the help of incentive schemes;
(iii) Development and promotion of artisan -oriented industries like handloom and handicraft, village and tiny industries in rural areas by providing necessary supports like grant-in-aid, subsidies, raw-materials, shed, marketing and training facilities etc;
(iv) Development of infrastructure;
(v) Manpower development;
(vi) Development of electronics Industry;
(vii) Strengthening of organizational set up; and  
(viii) Exploration and development of mineral resources.

The intention of the government of Mizoram while announcing its first Industrial policy was not industrial growth per se but was rather directed towards all round development in the interest of the indigenous people of Mizoram and towards giving them gainful employment and self-employment opportunities in the industrial and allied sectors.

(b) The New Industrial Policy of Mizoram, 2000

There has been a significant progress in the growth of small scale industries in the state since the announcement of the first Industrial Policy in Mizoram in 1989. Progress made in the handloom and handicraft sector has also become noticeable.

In view of the liberalized economic policy since 1991 and the new Industrial Policy for the North Eastern Region the government of Mizoram considered the necessity to announce a new set of policy support to bring about further industrial development in the state. Accordingly, the government announced the “New Industrial Policy of Mizoram, 2000” on the wake of New Millennium on December’8, 2000 to boost the industrial and economic development of the state.15

(1) Aims and Objectives

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The main aim of this New Industrial Policy of Mizoram, 2000 was to engineer rapid growth in the state by industrialization of the state to a sustainable extent for the fulfillment of the following objectives:

(i) Enrichment of industrial growth potential lying in the sectors like agriculture, horticulture, forest and establishment of proper linkage amongst the industries based on resources available in these sectors.

(ii) Formation of suitable mechanism for attracting and growth of capital formation in Mizoram by taking full advantage of the policy changes initiated by the Central Government in respect of industry, trade and commerce from time to time.

(iii) Identifying and develop entrepreneurial and managerial skills by providing suitable training programmes at District, Sub-Division and Block levels and to create facilities for training of industrial labour on sustained basis.

(iv) Ensuring balanced sectoral and regional growth by promoting industries under all sectors.

(v) Promotion and modernization of textile industry including traditional Sericulture and Handloom and Handicraft sectors by induction of improved design, quality and technology so as to make textile industry a potential export-oriented sector.

(vi) Encouraging joint ventures between local entrepreneurs and industrialists from outside the State on selective basis, encouraging self-employment especially among technically
qualified unemployed persons of the State for generating additional employment opportunities in the State.

(vii) Making Mizoram a major center for the growth of fruit and food based industries by encouraging plantation and growth of different kind of livestocks in the State.

(viii) Making major entry in bamboo-based industries by optimum utilization of bamboo resources of Mizoram and encouraging industry based on medicinal plants.

(ix) Developing Mizoram as an attractive region for tourism.

(x) Envisaging industrial development in Mizoram by encouraging private entrepreneurship and confining the role of government to that of promotional and catalytic agent for the growth of industry, trade & commerce in the State by ensuring minimization of pollution and encouraging eco-friendly units.

(2) **Thrust Areas**

The Government identified certain thrust areas for concentrated industrial development and to encourage the growth of specific industries in these areas. Major thrust, however, was on small scale sector and local resources based industries.

(i) **Electronics and information technology**

Electronics & Information Technology is going to be the industry of the new millennium. The pollution free atmosphere in the State is congenial for development of this
sector. The State government has attached top priority to these sectors and has announced a separate policy on Information Technology.

(ii) **Bamboo-based and timber-base products**

The vast Bamboo resources of Mizoram will be optimally exploited for setting up of industry for manufacturing various bamboo-based products such as fibre-board, bamboo mat-ply, different kind of household products and high quality toothpick, chop-stick and joss-stick. This sector, therefore, will attract special attention of the Government. Plantation of high value timber and bamboo will be encouraged to sustain timber-based industries. Timber-based and bamboo-based industries will be encouraged to the limit sustainable by the Mizoram ecology and environment. To develop the bamboo based industry in the state the Government has also announced a separate policy for bamboo.

(iii) **Food and fruit processing industries**

The climatic condition of Mizoram is favourable for cultivation and growth of various kinds of fruits. The condition is also very favourable for poultry and animal husbandry and mushroom cultivation. Government shall therefore, encourage development of these sectors so that raw-materials base for food and fruit processing Industry, mainly at the level of private entrepreneurship, is well developed. Further, the State
government will assist in establishing appropriate linkages between the growers and processors.

(iv) Textile, handloom and handicraft industry

Handloom and Handicrafts, which is a traditional industry in Mizoram, will continue to receive prime attention from the government. Modernization of this sector by induction of improved design and technology to make it an export oriented sector will be encouraged and promoted. Export oriented textiles and readymade garments industries will receive special attention of the government. Induction of power-looms will be encouraged selectively while safeguarding the interests of traditional weavers of Mizoram.

(v) Plantain fibre and hill brooms

Industry based on plantain fibre and hill brooms will be encouraged keeping in view the sustained extraction of such items from the forest of Mizoram.

(vi) Tung oil and non-edible oil extraction
With the encouragement and assistance of the State government, vast area of land has been planted with tung trees at the village level. The indigenous demand of tung oil is in laminates, paints and ink industries which is being met in India by import only. Extraction of oil from tung seeds will be considered by the government as priority industry and will be encouraged. Extraction of citronella oil, having ready market in pharmaceutical and healthcare industries will be encouraged. In addition, plantation of edible oil seeds and extraction of oil thereof will be encouraged.

(vii) Tea, rubber and coffee Industry

Entire Mizoram has been declared as non-traditional area for tea development which qualifies to receive incentives unlike traditional areas. Tea plantation is not new in Mizoram. However, scientific and commercial tea plantation will be encouraged as family oriented scheme, with encouragement for setting up of processing plants in the private sector. Coffee and rubber based industries will receive due attention from the government for their cultivation and processing. Interest of indigenous labourers will be protected while promoting tea industry.

(viii) Industry based on Mines and minerals

As the whole of the State is far-behind in development of mines and minerals, all proposals for setting up units based
on mines and mineral resources of Mizoram will receive attention and will be promoted. Units based on indigenous and imported gems and gemstone will receive special attention of the government.

(ix) Tourism industry

Mizoram with its soothing climate and exquisite natural beauty resting on the undulating hills and greenery offers good scope for developing tourism industry. Government will encourage and promote this industry.

(3) Fiscal and other Incentives

To encourage flow of capital into industrial sector, the state government announces an attractive package of fiscal and other incentives to the entrepreneurs in addition to the various types of incentives already offered by the Government of India. Further, special incentives are offered by the State to industries set up in thrust areas. Besides the various incentives like subsidies on the cost of project report, land subsidy, factory rent subsidy, manpower development subsidy, interest subsidy, power subsidy and state transport subsidy on plant and machinery announced in the Industrial Policy of 1989, the government announced the following new incentives to promote industrialization in the state.

(i) State Capital Investment Subsidy
An investment subsidy on the total investment made in plant and machinery shall be provided on a graded scale to the new industrial units. It will be available to both new units as well as to existing units carrying out expansion, diversification and modernization activities. The graded scale of subsidy varies between types of industries and ranges from 5 percent to 20 percent of the total investment in plant and machinery subject to a maximum limit of Rs. 15 lakh.

(ii) Concession on State and Central sales tax

State Sales Taxes shall be exempted for a period of 7 year from the date of commencement of actual commercial production. However, for the units set up in the thrust areas, the exemption period will be 10 years.

(iii) Price preference

Price preference will be given for the products of local units as per the provision of Mizoram Preferential Stores Purchase Rules 1994.

(iv) International Standard Organization/Bureau of Indian Standard certification

The State government shall encourage the small Industries to obtain Bureau of Indian Standard (BIS)/International Standard Organization (ISO) Certificate for their product to
enable them to compete at the State and National levels. For this purpose, the State Government shall re-imburse 100 percent of the expenditure incurred on registration fee, testing fee etc., and purchase of testing equipment subject to actuals up to the maximum limit of Rs. 50,000. This limit shall be Rs.1.00 lakh for units set up in the thrust areas.

(v) Incentives for export oriented units

An additional 5 oercent capital investment subsidy for investment on plant and machinery subject to a maximum of Rs.5.00 lakh will be made available to 100 percent EOUs. However, 2 percent of capital investment subsidy for investment of plant and machinery subject to a maximum of Rs.2.00 lakh will be make available to units of less than 100 percent export commitment.

(4) Development of Infrastructure

Infrastructure is a pre-requisite for Industrial development. The government will take integrated approach towards improvement of general infrastructure in the State like road, power, communication and water supply. Industries department will take the responsibility of providing inbuilt infrastructure facilities to the Industries by establishing Growth Centers, Industrial Estates, Export Promotion Industrial Park, Information Technology Park, Integrated Infrastructure Development Centre, Special Economic Zone and Industrial Areas.
(5) **Training facilities**

The State government recognizes that the basic problem in the process of industrialization in the State is lack of technical, managerial and entrepreneurial skill among the people. The State government will continue its efforts to improve training infrastructure in the State and open more training centers in various disciplines to ensure supply of technical manpower to meet the requirement of local industries. The Department of Industries will organize chain of EDPs in collaboration with IDBI, SIDBI, NEDFI State PSUs and other agencies.

(6) **Research and Development facilities**

In order to achieve total quality management, it is necessary to encourage and facilitate setting up of research and development cells and division in as many units as possible. Government will consider formulating a separate set of Rules for providing 100 percent Grant for setting up R & D cell/division in industrial units.

(7) **Policy on foreign direct investment (FDI) including investment from outside the State**

Mizoram is economically backward state inhabited by a distinct ethnic group of people having their own socio-cultural and religious identity. The state government nevertheless, will encourage foreign
direct investment and from outside the State with caution and restraint so as to safeguard the socio-cultural identity of the indigenous people of Mizoram. The State government fully appreciate the policy of liberalization and globalization and the benefit being derived thereof due to in flow of capital in the industrial sector in our country, and therefore, does not like to lag behind other States to attract investment from outside but will adopt a cautious approach keeping in view the interest of the tribal population of Mizoram. FDI in fruit and Bamboo processing sector will be given higher preference.

The Government reserves the cottage, village & tiny industries for development at the level of local entrepreneurs only. However, in case of small scale industries, investment in plant and machineries anything above Rs.50 lakh will be open for investment from outside for joint venture with local entrepreneurs only in the thrust areas. Any such investment proposal should be submitted to the government in detail for consideration and clearance.

FDI and investment from outside the State in the large and medium sectors only in the thrust areas will be encouraged in joint sector with State PSUs or/and with resourceful local entrepreneurs as this can induce ancilarization and establishment of down stream industries in the State in small scale sectors, and generate employment opportunities to the local people. Any such investment proposal has to be submitted in detail to the government for consideration and clearance. For an attractive proposal which will contribute to the economy of Mizoram, the government will make
the land available to the promoters of such proposal on long-term lease basis.

(8) **Administrative support system**

The government will take all possible administrative measures to oversee implementation of the resolution taken in the present policy frame work. With a view to take an integrated approach toward industrialization in the state, the following administrative measures will be adopted:

**(i) Cabinet Committee for Investment Promotion (CCIP)**

There will be a Cabinet Committee for Investment Promotion of which the Chief Minister will be the Chairman. This Committee will be the final authority to give clearance to any proposal for Joint Venture and for investment coming from outside the State including Foreign Direct Investment (FDI). This Committee will also give direction to various Departments for proper implementation of the policy on such investments and Joint Venture proposals.

**(ii) Mizoram Investment Promotion Committee (MIPC)**

Mizoram Investment Promotion Committee will be constituted with the Chief Secretary of the State as its Chairman and the Secretary Planning, Secretary Finance, Secretary Industries and Director Industries as Members. This Committee will sit
at least once in six months to over-see implementation of the policy resolutions on investment and Joint Venture proposals and will issue direction down-stream and advice up-stream on such matters. Proposal cleared by MIPC will be placed to the CCIP for final decision. The Chairman of the Committee will have the discretion to co-opt members of Industries Association into the Committee.

(ii) Market support system

The State government will provide a strong and effective marketing support to the local industries by taking various measures including effective implementation of the State government Store Purchase Programme. The State government will consider formation of Market Promotion Council under the New Industrial Policy of Mizoram, 2000 which will function in an advisory capacity. This Council will co-ordinate and interact with the marketing agencies elsewhere to promote sales of local products inside and outside the country. One of the major area of operation of this Council will be export promotion of locally identified exportable products like garments, processed foods, handicrafts and handloom product as well as products from agro-forest based industries.

(iii) Task Force for Fast Track implementation of Industrial Projects
A standing Task Force will be constituted in the Industry Department to identify specific Industrial Projects that can be implemented by placing them on Fast Tract. Depending on the techno-economic viability of such projects, project profiles will be prepared for distribution to the interested entrepreneurs. Reputed consultants may be co-opted to the Task Force who can tender advice on technological aspects of a Project including marketing of products.

6.7- IMPACTS OF GOVERNMENT POLICIES ON SMALL SCALE AND COTTAGE INDUSTRIES IN MIZORAM

Industrial development gained its momentum in different states of the country following the various policy measures announced by the government during the post independence period in general and the recent policies in particular.

Mizoram, where the industrial sector is at infantile stage could not reap much benefit in the process of industrialization out of the economic reforms. On the eve of Statehood Mizoram inherited a very weak industrial base and the entire state was notified as “No industry area” due to the absence of any large and medium industry. Few industrial units with only one industrial estate was found in the State (Table-4.3) which are of small scale and traditional in nature like handloom, carpentry, ice-plant, bakery, candle making, tailoring, bamboo works etc.
The first step towards industrial development in the region was taken in 1972, when the Directorate of Industries was created. On attaining statehood in 1987, the government of Mizoram committed to improve the economy of the state and thereby bring about higher quality of life and happiness to the people. Consequently, the government attached high priority to the development of industries in the state. As a result of various initiatives taken by the Government and the positive approaches and packages of incentives announced in the subsequent Industrial Policies; the industrial scenario of the state has changed considerably. Significant growth in small scale industries, increase in production, and awareness amongst the local entrepreneurs to set up modern small scale industries, availability of technical manpower and improvement in basic infrastructure and agro based industries are now noticeable in the State. The number of SSI units registered has increased from 1555 units during 1989-90 to 2888 units in 2000 at an annual growth rate of 8.5 percent during the decade.

The new millennium witnessed a considerable growth of industrial activities in the state following the announcement of the New Industrial Policy of Mizoram, 2000. The number of small scale industrial units in the state has increased from 4773 units in 2001 to 5922 units in 2005 and further to 6332 units in 2007(Table:4.6).

The Government of India has liberalized the Industrial Policy in early nineties; but the fruit of such liberal policy has not yet touched the small scale and cottage industries in Mizoram. Majority of the small scale and cottage industries in Mizoram are
still based on local raw materials, indigenous skills and techniques and mainly caters local demand. Such industrial units are not facing the impact of liberalization by way of export promotion or competition in the domestic market. In the present study, an attempt has been made to know the perceived level of awareness among the entrepreneurs about the various incentives and subsidy schemes of both the state and central government. The result shows that most of the entrepreneurs are not aware of these schemes. Out of 120 sample units about 30 percent are aware of the schemes but informed that it is too cumbersome and there are so many formalities and paper works to avail these facilities.

The growth is more quantitative than qualitative and the industrial sector in the state is lagging far behind the national trend. The average employment and investment in plant and machinery has not increased considerably even after the announcement of various attractive schemes, concessions and incentives in the subsequent Industrial Policies of the state government. The average investment in plant and machinery of the sample unit is Rs.2.56 lakh which indicates the smaller size and strength of the SSI in the state.

Though there is no lack of enthusiasm amongst the local entrepreneurs to go for hi-tech investment, lack of finance and lack of locally available resources are the main bottle-necks. The government undertaken various infrastructural development programmes like establishment of Industrial Estates, Industrial Growth Centers, Integrated Infrastructure Development Center, Export Promotion Industrial Park etc to encourage and support the
creation, expansion and modernization of SSI through provision of factory accommodation, common service facilities and assistance etc. following the announcement of Industrial Policies but it is observed that such initiatives could not bear the expected result in the industrial scenario of the state. Majority (49.16%) of the SSI units in the state is still operating in rented premises, only 5 percent of the total units are operating in Industrial Estates (Table: 5.4).

There are various training Institutes in the state like ITI, Polytechnic, DICs, MKVIB, ZOHANDCO, MIFCO etc. which have trained about 2921 youths under various programmes during 2004-2006. But it seems that these trained out youths do not have much impact in the industrial scenario of the state. The present study observes that only 6 out of 120 entrepreneurs i.e. 5 percent have taken formal training. The remaining 95 percent of the entrepreneurs are managing their units without any formal training. This reflects that the various training programmes designed to promote entrepreneurship in the state could not achieve its goal to the desired level and fail to impart the required knowledge on industrial orientation and challenge to the trainees to start their own industrial unit.

The industrial sector of the poor hilly state has been a victim of lack of proper industrial planning. The bitter truth is that the state does not have any realistic industrial policy of its own. Whatever, policy statements have been made in the form of circulars, incentive packages etc. from time to time, have failed to visualizes
the socioeconomic and geopolitical imperatives and resource endowments with which the state is endowed. The policy measures were more oriented towards protection than production, general than specific and political than popular. Thus, these policies have acted as a facilitator which further have resulted in misuses of incentives, subsidies, administrative malpractices and above all failed to capitalize on local resource endowments.

The mindset of our policy makers view entrepreneurship and industrialization in the context of employment only, thus unemployables were converted into entrepreneurship through wide publicity and incentives. It is true that the policies for industrialization have been used to appease the politically disgruntled people in the state. In fact, the need of the hour is to rationalize the mind set of the policy makers to view the industrial policies in terms of economic development which would automatically create more and better employment opportunities in the state. The policies aiming at economic development of the state should be above the political interests and long term in perspectives focusing more on infrastructural development, creation of objective oriented entrepreneur-manager, strengthen administrative machinery and encourage adoption of modern technologies.