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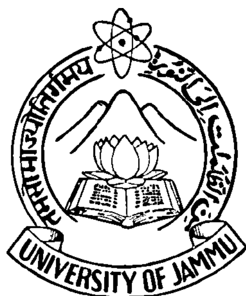

SELF LEARNING MATERIAL
For
M.A. ECONOMICS

Course No. ECO-409 | **Lesson-1 to 14**
Semester - IV | **Unit-I to IV**

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M.A. ECONOMICS

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DETAILED SYLLABUS

Course No: ECO-469 **Title: Indian Industry**

Credits: 6 **Maximum Marks : 100**

a) External Examination : 80

b) Internal Assessment : 20

Duration of External Examination: 3:00 hrs

INDIAN INDUSTRY

Syllabus for the Examination to be held in May 2020 to May 2022

Preamble: In the 21st Century of Global Era, all round economic development is imperative which is impossible without a sound and sustainable Industrial Development. In this backdrop the Present course is designed to make students aware of the industrial Policy, the challenges & opportunities faced by the industry.

UNIT-I: Industrial policy during Pre &Post Reform period

Industrial policy of 1948. 1956, 1977, 1980 of India and changes in it till 1990's Pattern of industrial development before 1990. Industrial policy of 1991, Pattern of industrial development after 1991. Impact of Industrial Policy on Development of India, New Competition Act in replacement of MRTP Act. New Manufacturing Policy. Make in India, Start Up India, Stand Up India.

UNIT-II: Industrial Finance

The Need for finance, types of finance, sources of finance, choice of finding. Role nature, volume & types of Institutional finance-Industrial Development Bank of India. Industrial Finance Corporation of India. State Financial Corporation, Industrial Credit & Investment Corporation of India. Financial Statement-Balance Sheet, Profit & Loss Statement. Assessing the Financial Soundness of a firm through Ratio—Analysis.

UNIT- III: Industrial Labour

Employment dimensions of Indian Industry, Industrial Relations, Meaning, Objectives & Evolution of Industrial Relations during Post-Reform period. Social Measures in India and its critical review. Wages & problem of Bonus in India, Industrial legislations. Economics Reforms & Labour Laws. Skill and Development in the unorganised (informal) Sector. Skill Developments for Marginalized an Vulunberable Groups.

UNIT- IV: Current Problems of Selected Industries

Iron Steel Industry, Automobile Industry, Pharmaceuticals industry in India, Information technology Industry in India. Industrial sickness, Government Policy with regard to Industrial sickness in India, industrial policy for development of small scale industry after 1991, problems of Small Scale industry, Industrial policy of Jammu & Kashmir of 2016. Growth & Development of Industrial sector in Jammu & Kashmir State.

Note for Paper Setting :

There shall be two types of questions in each Unit - four short answer type (each of 250 words) and two medium answer type (each of 500 words). The candidate will have to attempt two short answer type questions and one medium answer type question from each Unit. Each short answer type question shall carry 4 marks and each medium answer type question carries 12 marks.

BASIC READING LIST

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Websites:

Ministry of Skill Development and Entrepreneurship.

Ministry of Human Resource Development.

Ministry of Labour & Employment.

Ministry of Micro, Small & medium Enterprises.

M.A. ECONOMICS SEMESTER - IV

TABLE OF CONTENTS

	Title	P.No.
UNIT I	**INDUSTRIAL POLICY DURING PRE AND POST REFORM PERIOD**	1-136
	Lesson 1	1
	Lesson 2	35
	Lesson 3	82
	Lesson 4	104
UNIT 2	**INDUSTRIAL FINANCE**	137-207
	Lesson 5	207
	Lesson 6	152
	Lesson 7	186
UNIT 3	**INDUSTRIAL LABOUR**	208-327
	Lesson 8	208
	Lesson 9	236
	Lesson 10	273
	Lesson 11	302
UNIT 4	**CURRENT PROBLEMS OF SELECTED INDUSTRIES**	328-421
	Lesson 12	328
	Lesson 13	359
	Lesson 14	398

UNIT-1: INDUSTRIAL POLICY DURING PRE AND POST REFORM PERIOD

M.A. Economics | **Lesson-1**
Course No. 409 | **Unit-1**

STRUCTURE:

1.1 Introduction

1.2 Objective

1.3 Industrial policy of 1948

1.3.1 IDRA

1.4 Industrial policy of 1956

1.4.1 MRTP

1.4.2 FERA

1.5 Industrial policy of 1977

1.6 Industrial policy of 1980

1.7 Let Us Sum Up

1.1 INTRODUCTION

Industrial development of a country is guided and fostered by the industrial Policy. In the present lesson we will discuss the Industrial policies right from 1948 to 1991 in India.

1.2 OBJECTIVES

The objective of this lesson is very wide and comprehensive. In this lesson a possible attempt has been made to appraise the students with industrial policy resolutions in India as Industrial policy would reflect the pattern and direction of industrial development. We will discuss the Industry Policy of 1948, 1956, 1977 and 1980.

Meaning

By 'Industrial Policy' is meant all those objectives, principles, rules, regulation and procedures, Philosophy of industrial development which control the industrial undertaking in acountry& determine its industrial structure.

1.3 INDUSTRIAL POLICY RESLOUTION, 1948

After having attained independence , the govt. of India declared its first industrial policy on 6th April 1948. The industrial policy 1948 was presented in the parliament by the then Industry Minister Dr.Shyama Prasad Mukherjee.

The essentials of government policy in the sphere of industrial development have been stated in the Industrial Policy Resolution of April 6, 1948. The IPR contemplated a mixed economy, broadly demarcating the respective spheres of the private and the public sectors. The industrial policy Resolution of 1948 was the first definite statement of the Government of India's industrial policy contemplated a mixed economy for the Country in which both public sector and private sector would play an important and effective role in the industrial sphere.

Key features

1. **Classification of Industries**: For the purpose of demarcation of industrial field between the public and private sectors, industries were divided into four categories as follows :

   a. **State Monopolies**: The resolution declared that there should be state monopoly in the case of atomic energy and the ownership and management of railway transport and manufacture of arms and ammunitions.

b. **Basic Industries** : In six industries, coal, iron and steel, aircraft manufacture, ship building, communication equipment and mineral oils, all the new undertakings would be state responsibility except to the extent that it regards the cooperation of private enterprises necessary.

c. **Regulated Industries**:Central control and regulation was envisaged for 18 specified industries of national importance such as automobiles, tractors, salt, prime movers, electrical engineering, heavy machinery, machine tools, air and sea transport and minerals which require considerable investment or high degree of technical skill. The central government could take over any industry vital for national interest.

d. **PrivateIndustries** : The residual of industrial field was left open to the private enterprise, individual as well as cooperative. The state would intervene whenever the progress of any industry under private enterprise was found to be unsatisfactory.

2. **Role of Cottage and Small Industries** : It assigned a very important role to these industries in the national economy , as they offer scope for individual, village and cooperative enterprises and for decentralization of industries.

3. **Reward for Labour Management Relations** : It laid emphasis upon a policy of social justice, fair wages, increasing participation of labour in industrial affairs as a basis for harmonious relations between labour and management.

4. **Role of Foreign Capital** : The role of foreign capital in industrial development of the economy was recognized but the need of regulating and controlling it according to the needs of the domestic economy was deemed essential. Therefore, it was stated that in those industries where foreign investment was to be done, Indians should have a major say in the ownership and management. The government, however, gave the following assurances to foreign investors :

(a) there will be no discrimination between foreign and Indian undertakings in the application of general industrial policy;

(b) reasonable facilities will be given for the remittance of profits and repatriation of capital, consistent with foreign exchange position of the country and

(c) in the event of nationalization a fair and equitable compensation will be paid.

Drawbacks

The main thrust of the 1948 IPR was to lay the foundation of a mixed economy in which both private and public enterprises have to work to accelerate the pace of industrial development. Indian capitalist were satisfied with the IPR of 1948, since the role assigned to the public sector in that policy was, on the whole, acceptable to them. However there were certain weaknesses and loopholes in the 1948 policy and it was subject to number of criticisms.

1. **Absence of Co-ordination** : There was lack of co-ordination between the centre and the states in regard to nationalization of industry. In a number of cases certain industries were nationalized earlier than was reasonably expected in terms of industrial policy.

2. **Absence of Priorities** : There was misdirected enthusiasm about the nationalization of industry without adequate resources and systematic priorities. This retarded the progress of industry.

3. **Management of State Enterprises** : An ambitious programme of setting up of new industries was contemplated in public sector without looking to their proper working and efficient administration. The persons trained for civil services were usually found unfit for business administration. The training programmes was also not co-ordinated with the actual requirements of the country.

4. **Defective Controls** : A vacillating policy of controls was followed resulting in great hardships to the common man on account of black marketing and corruption.

5. **Absence of enthusiasm in the private sector** : There was lack of enthusiasm and initiative in the private sector since the field of its activities was narrowed down by industrial policy declaration. This hindered capital formation in the country. There was an all round feeling of uncertainty in the minds of industrialists.

Setting a ten year limit to the consideration of nationalization in certain industries was thought to prove somewhat of a disincentive and acted certainly against further expansion of existing undertaking in that category.

The IPR, 1948, laid the foundations for the progressively increasing participation of the state in the industrial activity. The IPR 1948 appears to lack both vision and perspective. The resolution does not make any attempt to raise the internal funds but recognized the role of foreign capital, making the country dependent on others. It was too concerned with soothing the fears of industries reeling under threats of nationalization and offering industrial labour a recognition of its rights as a partner in industry.

Conclusion

It was obvious that the Resolution of 1948 tried to give a definite direction to the process of industrialization in India, but it was rather a tentative policy formulated and announced to clarify the state's industrial policy in the prevailing uncertain condition, which did not receive the expected support as it suffered from certain inherent limitations. The concept or bogey, of nationalization enshrined in the resolutions discouraged the investors to new industries creating lack of enthusiasm and Promotion.

The period set for nationalization of private sector units after ten years created confusion and pessimism in the investing public. Most of key and basic industries that were hitherto in the private sector were transferred to Government sector and as, such the result of the policy was one of lack of enthusiasm and diffidence. "Dr V.K.R.V Rao very rightly pointed out that this policy could not satisfy any one among capitalists, investors, industrial labourers and the common people".

CHECK YOUR PROGRESS

Q.1 How industries were classified in industrial policy OF 1948.

Q.2 What are the drawbacks of industrial policy 1948.

1.3.1 IDRA (Industries Development and Regulation Act) 1951

This Act provided the legislative framework for implementation of the industrial policy of the government, the framework for the licensing and regulation of industrial investment and related questions such as pricing and distribution controls in the country. The provisions of the act embraces the whole of India and all industrial undertakings manufacturing articles corning under first schedule were brought under the umbrella.

Objectives of IDRA 1951

i. The regulation of Industrial Investment and production according to plan priorities and targets.

ii. To ensure the establishment of new industrial capacities according to national priorities, balanced regional development etc.

In the initial stages 37 industries were brought under the purview of the Act which was later extended to include 70 industries. Industries operating with the aid of power and without the aid of power employing 50 or more workers and 100 or more workers respectively were brought under the purview of the Act. The Act was enshrined with 31 sections.

The Important provision of the Act were:

1. All the existing industrial undertakings in the scheduled industries were required to be registered whether they came under the private or the public sector.
2. No new industrial unit could be established or any substantial expansion of the existing plants be made without prior procurement of a licence from the Central Government.

3. The government could order an investigation in respect of any scheduled industrial, or undertaking, if the working of a particular industrial unit was not satisfactory say, there was under utilization of capacity, there was market deterioration in quality or could of production and price were excessive.

4. lf the government felt that a particular industry was not being run satisfactory. It could issue directions for carrying out reforms. If these directions were not headed to the government could take over the management and control of that unit in its hands.

5. A Central Advisory Council was established in order to advise the government on matters concerning the development and regulation of the scheduled industries.

The **Central Advisory Council** was set up in 1952 and the licensing Committee for the scrutiny of applications for new units and expansion of capacity in the scheduled industries was constituted. In 1956 it was decided that the Act would be applicable to enterprises employing 50 or more workers without the aid of power or employing 100 or more workers without the aid of power. It was one of the saddest fact that in the beginning of Industrial Development Act 1951, the small scale industries were neglected and maximum packages were provided to large scale industries. However, the IDRA exempted units employing less than 50 workers with power, and less than 100 workers without power from registration. This, exempted sector was known as Small Scale sector. It was stated that fixed capital investment in this sector should not exceed to Rs.5 lakh. But in 1966, the small scale enterprises were defined as undertakings with a fixed capital investment of less than Rs. 7.5 lakhs. With this, the investment limit in this sector raised year after year from 7.5 to 10 in 1975, in 1980 (10 to 20 lakhs), in 1985 (20 to 35 lakhs) and up to 1990, it raised from 35 lakhs to Rs. 60 lakhs. In this way the Act extended the role and contribution of small scale industries in the industrial sector of the country. With the passage of time, more diversified and intensive measures were taken for its growth.

One of the important change that took place in IDRA in 1960 was the

exemption limit for fixed investment was raised from Rs.5 lakh to 10 lakhs and stated that the industrial units employing less than 100 workers and having fixed assets of less than Rs. 10 lakhs were not required to obtain any licence whatsoever. This exemption limit was raised to Rs. 25 lakhs in 1963 and to Rs. 1 crore in 1970. Again the exemption limit was raised to 3 crores in 1978 and later (in 1984) it was raised to 5 crores.The government announced a major package of industrial delicensing during the year 1988-89. In this package it was stated that, if the projects are located in backward areas with investment in fixed assets of more than Rs. 50 crore and if the projects are located in non-backward areas with investment in fixed assets of more than 15 crores, industrial licences were required.

Thus, the Industries Regulation and Development Act of 1951 (IDRA) had set a mile-stone in the direction of promoting and regulating the industrial structure of the country. The government recognized it as a positive instrument for achieving planned industrialization; the business community has looked upon, it as a stumbling block in the way of rapid industrial growth. On the whole it was felt that the Industries development and Regulation Act of 1951 had not served its purpose fully.

"Professor Hazari reviewed the working of industrial licensing and observed that : the large and medium business groups enjoyed a higher ratio of approval in licensing applications as compared to others. They followed the practice of multi applications for the same product and for wide variety of products. The impact of licensing on the pace and pattern of growth has been uneven and unrelated to priorities. For the purpose of sanctioning licences, first come first served basis was adopted. This procedure helped the big industrial houses to fore close capacity because they were in a better position to collect information relating to the timing of application and thus made themselves to stand first in the queue. Industrial licensing did not bring about balanced regional development. The most disappointing feature was the absence of follow up action once the licenses were issued. The authorities concerned were not even aware of the total investment and foreign exchange commitments of licenses issued.

Thus, industrial licensing instead of an instrument of industrial development became an impediment”[2]

Following, the Hazari Report in parliament the Government of India appointed another committee in July 1967, known as Industrial Licensing Policy inquiring Committee to inquire into the working of the licensing system under the chairmanship of Mr. SubimalDutt. Dutt Committee found that the four industrially, advanced statesviz, Maharashtra, West Bengal, Gujarat and Tamil Nadu were able to acquire 62 percent of the total issued licenses. Obviously, the licensing system was unable to help the industrially backward areas or states.

One of the saddest features of licensing was foreign collaboration even in non-essential consumer goods like ball pen, loud speakers, toilet soap, sewing thread, refrigerators etc. “One of the most strange picture of Licensing policy was about 73 large industrial houses received 44 percent of financial assistance from financing institutions and 20 larger houses received 17 percent of financial assistance where as public sector companies received only 9 percent during the period 1955 to 1966. Even the public sector investment institutions like the LIC and Unit Trust of India did not provide any assistance to the public sector But to the large industrial Sector”. Thus from above it is clear that the Industrial Licensing system failed to achieve the objective of planned economic development as well as of preventing concentration of economic power. It proved a negative instrument which helped the large house in achieving their ends and means in a number of ways. As the policy failed to channelize the industrial sector in a desired manner and operated in accordance with plan priorities it was reviewed and modified by official bodies from time to time with a view to streamline and simplify it.

CHECK YOUR PROGRESS

Q.1 What were the provisions of IDRA ?

Q.2 What is the need of IDRA?

Q.3 What are the objectives of IDRA?

1.4 INDUSTRIAL POLICY RESOLUTION 1956

After the adoption of the Industrial policy Resolution of 1948, a number of development had taken place in the Country. The era of economic planning had commenced in the Country by 1950 and the first five year plan (1951-1952 to 1955-56) had been completed with a fair amount of success. In the light of socialistic pattern of society as the goal for the Country, A more definite and clear cut industrial policy, based on the 1948 resolution, was announced in 1956 on the eve of the launching of the Second five years plan (1956-61). The industrial policy resolution of 1956 called by, some as the economic constitution of India. The Industrial Policy Resolution of 1956 was meant to give a concrete shape to the mixed economy model and the socialist pattern of society ideology, Growth with stability and social justice became the principal goal of the economic development

Objective of the policy : The objectives to be achieved under the industrial policy 1956 were :

(i) Acceleration of the rate of economic growth and the speeding up of industrialization, and the development of heavy industries and machine making industries;

(ii) The expansion of the public sector;

(iii) The building up of a large and growing cooperative sector ;

(iv) An increase in the opportunities for gainful employment and the improvement of living standards and working conditions of the people;

(v) Prevention of private monopolies and concentration of economic power in different fields in the hands of small number of individuals;

(vi) The reduction of existing disparities in income and wealth; and

(vii) Assumption by the state of a progressively predominant and direct responsibility for setting up new industrial undertakings for developing transport facilities and for undertaking state trading on an increasing scale.

Basic Features of the Policy : The important features of the Industrial Policy Resolution, 1956, can be catalogued as follows :-

1. **Division of the Industrial Sector** : As against four categories in the 1948 Resolution, the 1956 Resolution divided industries into the following categories :-

   (a) **Exclusive Responsibility of the State**: The first category consisted of those industries the future development of which was the exclusive responsibility of the state. Schedule A of the Resolution included the following 17 industries

   (1) Arms and Ammunition and allied items of defense equipment, (2) Atomic energy ; (3) Iron and Steel ; (4) Heavy Casting and forgings of Iron and Steel; (5) Heavy Plant and machinery required for iron and steel production for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government, (6) Heavy electrical plants including large hydraulic and steam turbines, (7) Coal and Lignite, (8) Mineral oils, (9) Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, (10) Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram, (11) Minerals specified in the schedule to the Atomic Energy (Control of production and use) order 1950, (12) Aircrafts, (13) Air Transport, (14) Railway Transport, (15) Ship Building, (16) Telephones and Telephone Cables, Telegraphs and wireless apparatus, and (17) Generation and distribution of electricity.

   b) **Progressively state owned** : In this category twelve industries listed in schedule-B append to the Resolution were included :

   (1) all other minerals except minor minerals as defined in section 3 of the minerals concession Rules, 1949, (2) Aluminium and other non-ferrous metals not included in Schedule –A, (3) Machine-tools, (4) Ferro alloys and tool steels, (5) Basic and intermediate products, required by chemical industries such as the manufacture of drugs, dye stuffs and plastics, (6) Antibiotics and other essential drugs, (7) Fertilizers,(8) Synthetic Rubber,

(9) Carbonization of Coal, (10) Chemical pulp, (11) Road Transport, (12) Sea Transport. In these industries state would increasingly establish new units and increase its participation but would not deny the private opportunities to set up units or expand existing units.

c) **Industries left for private sector** : All industries not included in Schedule A and B were included in the third category. These industries were left open to the private sector. Their development was to depend upon the initiative and enterprise of the private sector, though even here the state could start any industry in which it was interested. However, the main role of the state in this category was to give favourable atmosphere and facilities to private sector to develop itself.

It was laid down in the resolution that the state would facilitate and encourage the development of these industries in the private sector in accordance with the programmes formulated in successive Five Year Plans by ensuring the development of transport, power and other services and by appropriate fiscal and other measures.

d) **Sectoral inter-dependence** : The Government had taken wide powers to undertake any type of industrial production. A great deal of dovetailing between industries in the private and the public sector was considered to be the result of this policy. Private owned units were also permitted to produce an item falling within Schedule –A, for meeting their own requirements or as by-products, for instance, generation of power for local needs and small scale mining. Further, heavy industries in the public sector were also provided the right of obtaining some of their requirements of lighter components from the private sector and in turn the private sector was also given the right of meeting its needs from the public sector. The resolution contemplates to apply the same principle to the **relationship** between large scale and small scale industries.

It was also laid down in the Resolution, that the Government will grant financial assistance to the private sector specially when the amount involved would be substantial. The industrial undertakings in the private

sector had the necessity to fit into the framework of the social and economic policies of the state and will subject to control and regulation of the sate in terms of industries (Development and Regulation) Act and other relevant legislation. In case these existed in the same industry both privately and publicly owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them.

2. **Role of Cottage and Small Scale Industries** : The role of cottage and small scale industries was approved by the resolution in the development of the national economy since they were expected to provide large scale employment, ensure a more equitable distribution of the national income and facilitate an effective mobilization of the resources of capital and skill which might otherwise remain unutilized. The resolution approved the policy of supporting these industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. It further envisaged, that the state policy should be to ensure that the decentralized sector acquires sufficient vitality to be self-supporting and its development is integrated with that of the large scale industry. It required the state to concentrate on measures designed to improve the competitive strength of the small-scale producers, by improving and modernizing the technique of production.

3. **Industrial Peace** : It was stated in the resolution that the maintenance of industrial peace was one of the prime requisites of industrial progress. It was stressed that in a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. There should be joint consultation and workers should be associated progressively in management. The public sector enterprises were expected to give a lead in this by setting an example. The IPR, 1956, also intended to provide adequate amenities and incentives to workers and to improve their living and working conditions and to raise their standard of efficiency.

4. **Reduction in Regional Disparities** : In order that industrialisation may benefit the country as a whole, it is necessary that disparities in levels of

industrial development between different regions should be progressively narrowed down, and for this purpose the IPR laid down that state should provide the required facilities to those areas which were lagging behind industrially, and for providing opportunities for employment; only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire economy attain higher standard of efficiency.

5. **Technical and Managerial Personnel** : Taking into account the rapidly growing needs and large demands on the country's resources of technical and managerial personnel, the resolution emphasised the need for establishing proper managerial and technical cadres. Steps were also contemplated to meet shortage at supervisory levels, to organize apprenticeship schemes of training on a large scale and to extend training facilities in business management.

Critical evaluation

Keeping in view its features the IPR of 1956, was more explicit and clear and carried a greater amount of flexibility as compared with the 1948 policy, it was welcomed by all and sundry. Despite its emphasis on the creation of infrastructure for development, increased financial and other assistance etc. it did not evoke a favourable response from private sector. The private industrialists accepted the importance of public sector and the logic of mixed economy but were apprehensive about the relatively greater role of public sector. They wanted the expansion of the public sector only to the limit, where it could help the private sector and not beyond.

Apparently, there seemed to be nothing wrong in IPR, 1956. It is ideologically desirable, theoretically sound and practically feasible. But the Indian experience in regard to the performance of public sector towards the achievement of economic progress, elimination of economic inequalities and mass unemployment or bettering the economic condition of the peoples appears to be very disappointing, in spite of the fact that industrial structure of the country has become more diversified, certain undesirable developments have taken place

due to adherence to the present industrial Policy. The most significant contribution made by industrial policy resolution was to be seen in the new thrust of industrial investment in the economy as a whole and rapid industrial development that has taken place in diverse field. As a result of this there has been a significant development of industrial sector in the country.

The overall industrial development in the economy suffered because of the slowing down of the process of capital formation in public sector. Inspite of the fact that public sector was absorbing an increasing quantum of the resources available in the economy, it was not in a position to release surpluses or investment and it had an adverse effect on investment in private sector.

Further the policy and goals have not been strictly adhered to and deviations from the prescribed norms were not uncommon. The basic concept of socialism and the underlying goals were glossed over. Licenses were issued to private sector units in areas which were exclusively reserved for state ownership and control or where further expansion was intended to be in the public sector viz., coal oil, fertilizers, chemical engineering etc. Proposals for setting up state-owned steel mills were held back for years (in the earlier stages) in preference to the expansion of private sector units.

In regard to dispersal of industry, the policy has not been really effective. All states have not adopted a positive and helpful approach in the early years of planned development to foster and develop industry in their respective areas. Because of delay of the State Finance and DevelopmentCorporation in providing infrastructural facilities, the Central government restricted the entry of large industry to encourage small scale units in the countryside.

Licensing tools used by the Government in pursuance of resolution created imbalances and enormous delays, encouraged wrong estimates and even corruption. Licensing did not strictly adhere to plan targets, in certain industries more licences were issued than justified by the targets and in some other licensing lagged behind targets. The major drawback of the licensing system has been that the administrative machinery has not really been geared to operational tasks of industrial programming or to review the programmes in accordance with the

changing economic situation. In the absence of proper phasing of licensing, there were sudden pressures on the financial institutions for rupee funds and foreign exchange resources.

The government failed to establish a suitable machinery for public sector planning and execution. As such there was lack of co-ordination between various ministries and the planning commission often resulting in administrative conflicts. Consequently, the rate of growth of industrial output has often fallen short of planned targets.

In this policy there was a provision to adopt an integrated policy for the growth and development of large, cottage and small scale industries. The expansion of cottage and small scale industries was to be done by adopting the policy of reservation of certain goods for the production by these units, concession in certain taxes and providing direct grants. There was a provision to increase the competitive power of these industries through modernization and adoption of improved production techniques by the Government. The policy proposed reduction in regional imbalances through provision of infrastructure facilities (transport, power etc) in relatively backward areas of the country. Only by securing a balanced and coordinator development, of the industrial and the agriculture economy in each region, can the entire Country attain higher standards of living. The 1956 Resolution stressed the participation of labour in management and stressed and improvement in their working Conditions for increasing the working capacity of labour forces was emphasized. Public sector enterprises were expected to work as a guide in the progress of Iabours. In this policy there was a provision to develop financial institutions and economic infrastructural facilities such as, the development of transport and power sector financing and other incentives for the development of the private sector. Among special industries where both private and public type of entrepreneurship was operative, there was a provision for the Government to deal properly and non-discriminately with the private sector. The role of foreign capital and enterprise was recognized.

This policy was even not free from criticism through it had widespread appreciation for its socio—economic objectives. In respect of this policy it was

pointed out that the expansion of public sector was unnecessarily emphasized. The Resolution stated clearly the inherent right of the state to acquire any industrial undertaking, expressed doubts in the ability of the private sector, by itself, to bring about fast economic development. The private sector was guaranteed enough opportunities for development. In fact, later development should that advantage was taken of several loopholes and licenses were obtained and private industrial units came to be set up in those industries which in fact to be the domain of the public sector. There is no doubt that the industrial policy resolution of 1956 has had a great and along lasting impact and influence both favourable and unfavorable on India's industrial expansion and its structure. However policy enjoyed its supremacy for more than 20 years.

CHECK YOUR PROGRESS

Q.1 What were the objectives of industrial policy 1956 ?

Q.2 What were the features of industrial policy 1956 ?

1.4.1 MRTP (Monopolies And Restrictive Trade Practices Act 1969)

Under the Industrial Policy resolution, 1948 the government accepted the concept of mixed economy for India with clearly defined roles for both public and private sectors. One important aspect of the development of the private sector since independence has been the spectacular rise of a few large enterprises in the country. These large enterprises operated under conditions of virtual monopoly and oligopoly. Taking advantage of the absence of foreign competition and sheltered market, they influenced government policies to their own advantage and secured favourable foreign collaboration agreements. They try to dominate the market with their pricing policies thereby leading to concentration of economic power. Thus, with a view to increase the productivity, to meet the challenges of competitive market at the national and international level to check the concentration of economic power the MRTP Act was enacted (in 1969).

This was another piece of legal framework regulating industrial activities in India. The main aim of MRTP Act was to discourage and eliminate the concentrations of economic power.

The objectives of the MRTP Act were:-

a) To ensure the functioning of the economic system does not result in the concentration of economic power to the common detriment;

b) To control such monopolistic and restrictive trade practices as were injurious to the public welfare. The MRTP Act Covers the whole of India except the state of Jammu and Kashmir. The Act contains the following provisions, which describes its scope –Under the Act, a three man MRTP commission was set up. The Commission was empowered to inquire into any restrictive trade practice and monopolistic practices; the Commission was having an advisory status. In relation to restrictive trade practices it had power of enforcement. The act applies to:-

i. An undertaking which together with its interring connected undertakings owned assets worth more than Rs 100 crore (prior to 1985, the limit was Rs. 20 crores).

ii. A dominant undertaking, whose value of assets was not less than 3 crores (in 1970), This limit was Rs. 1 Crore).

iii. And an undertaking which either on its own or along with inter connected undertakings supplies at least one third (after 1985 it became one fourth) of any goods or services with in India as a whole or substantial part thereof. The Act defines a Monopolistic undertaking as any dominant undertaking which by itself or together with not more than two other independent undertakings, supplies or distributes or otherwise Controls not less than one-half of the total goods or services. The Act stated that large business houses and dominant undertakings must seek government's permission for substantial expansion, for starting a new undertaking, amalgamation, merger, takeover and appointment of directors under certain circumstances. Control over and prohibition of monopolistic and restrictive trade practices were found to be prejudicial to public interest. The Act made a distinction between monopolistic practice and restrictive trade practices.

> "Monopolistic trade practices refers to the, dominant firm practices whereby, they are able to control the market by regulating prices or output or eliminating competition. These practices raise the costs, prices or profits unreasonably lower quality or unduly restrict competition and are deemed to be prejudicial to public interest". The term 'restrictive practice implies" practices other than those pursued by monopolists which obstruct the free play of competitive forces or impede the free flow, of capital or resources into the stream of production or of the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer".

The MRTP Act provided certain guidelines regarding the judgment of public interest. These includes

a) Production, distribution and supply by most efficient and economic means,

b) ensuring that efficiency is progressively increased,

c) encouraging new enterprises as a countervailing force and;

d) a reduction in inter –regional disparities.

Keeping in view the objectives and guidelines of MRTP, the Act did not fully take account of then and certain loopholes and limitations prevailed, So far its implementation was concerned, though the Government of India adopted it to reduce the concentration of economic power but it did not act effectively. The Sachar Committee was appointed in 1977 to review the working of the MRTP Act and made recommendations for streamlining it. The Government introduced the first amendment to the MRTP in November 1982 and the second amendment in August 1981. The first amendment was introduced to meet the urgent need to step up export earnings and to encourage exports and remove re constraints in achieving high productivity and output. In 1982s amendment, two important changes were introduced –firstly, substantial revision of the definition of the concept of dominant undertaking. The other one was empowering the government to grant outright exemption to certain proposals for substantial expansion and establishment of new units from the application of MRTP Act. Another amendment

of the MRTP Act was introduced in 1984, which based on the recommendations made by Sachar Committee. The main thrust of the amendment was to clarify certain definitions so as to include certain categories which were hitherto left uncovered. The Amendment 1984 has clarify interconnected undertakings, under the existing provision in the MRTP Act, not less than l/3rd control over voting power or positions of the Board was required for establishing inter connection. The Amendment 1984 had reduced this proportion to 25 percent. The Amendment of 1984 made the definition of undertaking exhaustive to widen the scope of MRTP Act. "The earlier definition of undertakings" covered enterprises engaged in production sale, distribution or control of goods etc. The revised definition of undertaking covers enterprises engaged of proposed to be engaged in the production, storage, supply, distribution, acquisition or control of articles or goods or the provisions of any services, either directly or through one or more of its units or divisions whether located at the same place or at different places. Besides this, a body corporate which was engaged only in the business of acquiring underwriting or dealing with shares, debentures or other securities of any other body corporate shall be deemed to be an undertaking. Thus, the definition of undertaking became more comprehensive one. To reduce the effectiveness of the MRTP Act, the government considerable liberalized the operations of the MRTP Act under various pretensions from time to time. The result was that the large business houses had been given green signal to enter a number of industrial fields which were formerly closed for them. The MRTP Act itself provided the two significant exemptions:

a) Expansion in production or in the value of assets up to 25 percent was not be subject to the MRTP clearance.

b) Expansion of a large house in so far as it relates to production of the same, or similar types of goods already, being manufactured by it was outside the purview of the MRTP Act. A number of relaxations were also announced from time to time like –the 1973 industrial policy statement opened up a large number of industries to the large houses. These included not only the core industries but also industries which had direct linkages

with the core industries and industries with a long term export potential initially there were 19 industries and gradually their number rose to 35. The government identified some industries which were specially important from export angle. These industries were allowed percent automatic growth per annum up to a limit of 25 percent in a plan' period. In 1980 this facility was extended to other industries including production, higher export generation, adoption of modern technology etc. large houses did not require separate approval under the MRTP Act for such automatic growth.

Even after so many relaxation, proper guidelines and good objective, the Act could not applied in a strict and vigorous manner. By the end of the March 1990, 1,854 undertakings were registered under the MRTP Act of where 1,787 belonged to large industrial houses and the remaining 67 were dominant undertakings. The MRTP Commission which was set up in 1970 to enquire into Monopoly power and restrictive trade function practices activities could not operate effectively the role of the MRTP Commission was an advisory only, commission had not given the mandatory powers to pass final orders. The Sachar committee trades a number of recommendations to strengthen the commission's position like, it recommended to give full judicial powers to commission. But these recommendations were turned down by the government though there was a provision in the Amendment Act, 1984 that the commission without waiting for a reference by the government can staff an inquiry into unfair practices, on its own. The motive of the MRTP Act was adopted with reducing the concentration of economic power but it failed to worked out effectively and strongly.

CHECK YOUR PROGRESS

Q.1 Why MRTP act was introduced?

Q.2 What type of firms comes under purview of MRTP?

Q.3 What are the provisions of the MRTP ACT?

1.4.2 FERA : (Foreign Exchange Regulation Act 1973)

The Foreign Exchange Regulation Act 1973 –often described as the economic canvas of the country has its origin in the FERA (Foreign Exchange

Regulation Act 1947 and came into force on January 1, 1947. The FER A, 1947, was the outcome of various ordinances promulgated during the Second World War and those immediately thereafter regulating foreign exchange transactions. The term foreign exchange includes foreign currency, deposit and balances payable in foreign currency and foreign securities.

The preamble to the FERA, 1973 defines its scope and purpose. It is an Act to consolidate and amend the law regulating certain payments. Dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interest of the Industrial development of the country. The Act empowers the RBI (Reserve Bank of India) and the Central Government to see the foreign exchange earned by exports or otherwise is properly accounted for and realized;

To control acquisition and holding of foreign exchange in any form and making of payments in foreign exchange;

To make rules and issues notifications for this purpose; and

To give directions to banks, travel agents and others.

The FERA 1973 had various provisions –

a) All non-banking foreign branches and subsidiaries with foreign equity exceeding 40 percent had to obtain permission to establish new undertakings;

b) The permission of the Reserve Bank of India had to obtain for carrying on or continuing in the country any activity of a trading, purchasing of shares in existing companies or to acquire wholly or partly any other company.

The Act empowered the Reserve Bank to authorize any person to deal in foreign exchange. No person, other than the one authorized by, the RBI can deal in foreign exchange. All export earning in foreign exchange have to deposit with the RBI. The Act also prevented over invoicing of imports, and remittances of founds in India through unofficial channels. The Act empowered the RBI to enforce

restriction on assets held by non-resident such assets cannot be transferred assigned, pledged charged or dealt with in any manner that so ever except in accordance with the permission granted by the Reserve Bank of India. The Act provided that no person in India can hold or transfer any immovable property situated outside India, except with the permission of the RBI. The employment of foreigners in India gave rise to foreign exchange liability and caused a drain on the foreign exchange of the country. Thus, restrictions on employment of the foreigners were imposed under the Act. The Act was passed with high optimistic expectations but substantial delays in implementing it made it subject of criticism.

India's heavy dependence on MNCs for bulk drugs came in the way of compliance of FERA regulations. Under section 29 of this Act MNC's were directly operated in India has tried to build up the R and D base in the Country effectively and none has tried to expand export markets substantially. Large companies were issued directions for dilution, but they did not carry out the directions. The government then itself exempted a number of units.

Thus, though in the wake of acute shortage of foreign exchange in the country, the Government of India had enacted the Foreign Exchange Regulation Act (FERA) but it was not in tune with the economic reforms.

Conclusion:

At the time of independence the structure of Indian Industrial development was limited. For the first time, in industrial policy, of 1948 philosophy to be adopted the industrial development was explained explicitly. The importance of public sector for the formation of economic infrastructure was accepted and the significance of equal distribution of income was specified. This policy was continued for eight years but treated as tentative policy, when it was announced there was no determined objective before the country. It affected adversely the spirit of investment of investors as in the policy, unnecessary threat for nationalization was implied. The policy had also lowered down the participation of private sector in the key and basic industries by transferring these industries to public sector. Overall it could not satisfy anyone nor the lower class neither the upper one. In the Industrial Policy of 1956 the main objectives were to

increase the rate of economic growth and accelerate the rate of industrialization, so that objectives of establishment of socialistic pattern of society can be attained. In fact, the policy gave unnecessary emphasized on the expansion of public sector. As we know that in this policy, Government of India started to issue licenses for the expansion of industrial sector, balanced regional development and prevention of the concentration of economic power. But in practice the objective of socialistic patter of society remain a slogan and centralization of economic power was encouraged and large industrial houses ultimately enjoyed this policy. In the Industrial policy of 1973 high priority industries were identified and big industrial houses and foreign companies were invited for investment. Foreign technology and foreign capital were given importance but other objectives like balanced regional development of small scale industries etc. were ignored, the Industrial Policy of 1977 was opposite to 1973 as it gave maximum attention on the expansion and development of, Cottage and Small Scale Industries. The policy limited the expansion of large industries by denying them funds from the Government Financial institutions. This policy was not implemented more effectively because Janata Government was short lived. The industrial policy of 1980 was different from earlier policies as it provided new life to the private sector. There was the pledge to improve the efficiency of public sector, to remove artificial division between small and large scale industries and to make small scale industries as a complementary to large scale industries. This policy reaffirmed its faith in MRTP and FERA. But in this policy speed was not realized in the development of backward areas. It was more in the path of capital intensive development. The 1985 Industrial policy brought out various important changes in the industrial sector and economy of the country. It raised the investment limits for the small scale industries and provided financial helps for growth and introduced the concept of Broad Banding which enabled the manufacturers to produce a range of products. Re-endorsement facility was given to those industries which improve their capacity utilization and facility of deliciensing was also provided to them. In a way it opened up a new era of liberalization. But the policy opened the items strictly reserved for small scale units to large scale industries which badly affected the small units. The policy of 1990 announced various measures

for small scale and agro based industrial but like previous policies it was also failed to safeguard the interests of small and agro based industries.

Though various rules & regulations were framed from time to time to implement the Industrial Policies Resolutions but due to certain loopholes, the industries policies and legal frame work were not conductive for improving the performance of the industrial sector.

Since independence Indian industry was comfortably settled behind the high protective walls of and quantitative restrictions on imports for a longer time and was in no mood for opening up to competition from imports. Industrial sector in India remained as public Liberalization, a process 'opening up' of the economy with a view to integrate the Indian economy with the world economy. Under the policy government encouraged all the industries whether small, medium or large, belonged to the public, private are co-operative sector to grow and improve on their past performance. In pursuit of the objectives and aims Government had taken series of initiatives in respect of the policies related to the areas like Industrial licensing, foreign capital, foreign technology, public sector, Monopolistic restrictive trade practice, registration schemes, small scale industries, labour problems etc.

CHECK YOUR PROGRESS

Q.1 What is FERA ? mention its objectives.

1.5 INDUSTRIAL POLICY 1977

On 23rd of December 1977, the Janta Government came into power & put forwardIndustrial Policy of 1977. The Industrial Policy of 1977 called for greater decentralization & amuch bigger thrust was given to Small Scale & cottage industries so as to create more employment opportunities.

The new policy of 1977 during the fifth five year plan was a mere extension of the IPR, 1956 and its main thrust was to encourage small scale and cottage industries as against the large scale industries. To stimulate production during the last three years of the plan, the revised fifth plan envisaged several steps. 21 industries were delicensed. 29 selected industries were permitted to utilize their

installed capacity without limit. 15 engineering industries were allowed the facility of automatic growth of capacity at 5 percent per annum or upto a ceiling of 25 percent in a plan period in physical terms. By a process of delicensing and the facility of automatic growth of capacity, the fifth plan removed the restrictions on the private sector, monopolistic undertakings and foreign concerns seeking investment in India.

Objectives

The Janata Party, which came to power in 1977 declared an Industrial Policy statement embodying proposals directed towards removing distortions of the past so that the genuine aspirations of the people can be met within a time bound programme of economic development. This policy laid special stress on the promotion of cottage and small scale industries.

The main elements of the new policy were:

1. The Janata Government classified small scale industries into, cottage and household industries which provide self-employment on a wide scale.,
2. Tiny industry was defined as industrial unit whose investment in machinery and equipment was uptoRs 1 lakh and were situated in towns with a population of less than 50,000
3. Small scale industries comprises industrial units with investment in fixed capital up toRs l0 lakhs and in case of ancillaries up to Rs 15 lakhs.
4. Government also suggested some measures to stimulate the development of small scale and cottage industries like, the reservation of products for small scale industry were raised from 180 to 807 by May 1978.
5. In each district, a District Industries Centre (DlC) was to be set up to provide all services and support required by the small scale and village industries. A special wing of the IDBI was created to look after the credit needs of small and cottage industries.
6. It proposed revamping of khadi and village industries commission, to enlarge its area of operation.

7. Areas for Large –Scale Sector :Since large industrial houses were expanding their business activities with the help of fund from public sector financial institutions. It was decided that they would have to depend on their own internally generated resources for financing new projects or expansion of the existing ones, to ensure that no unit of business group acquired a dominant or monopolistic position in the market. Even in case of capital intensive fields,where these large industrial houses were dominant, preferences would begiven to medium entrepreneurs & the public sector corporations sothat further concentration of economic power might be restricted.

8. Expanding the role of public sector.- The role of public sector was also expanded by specifying that the public sector has to produce not only strategic and basic nature goods but also essential consumer goods.

Approach towards foreign capital

Industrial Policy Stated that in areas where foreign technologicalknow how is not needed ,existing collaborations will not be renewed. The policy stated further that as arule ,majority interest& ownership and effective control should remain in Indianhands , though the government may make exceptions in highly export-oriented cases the govt. may consider even afully owned foreign company.

Approach towards sick units:

The IPS of 1977 suggested a selective approach on the issue of take over of the management of sick units. The government will take quick &effective steps for rehabilitation & reconstruction of the units & to ensure professional management of such sick units on a continuing basis.

Conclusion

The policy resolution of 1977 was more or less an extension of 1956 policy statement having a thrust on removal of distortions. The thrust on removal of the policy was the promotion of small scale industries, for which number of measures were suggested by the Janata Government. All these measures were already listed in the Industrial policy of 1956. The only radical thing which the

policy of 1977 did was to expand the list of 180 items listed earlier to 807 items. The Janata's Industrial Policy, failed to improve a ban on multinationals or large scale industries to produce ordinary items tike bread, biscuits, toffees, footwear, leather products etc, which should have legitimately reserved for the small sector. As the policy, resolution denied the large scale industries for funds from the public sector financial institution and asked them to depend upon their own internally generated resources it retarded their progress and growth. Thus, the policy resolution was lacking dynamism in many respects.

CHECK YOUR PROGRESS

Q.1 What are the features of industrial policy 1977.

1.6 INDUSTRIAL POLICY 1980

The Congress (l) Government announced its industrial policy in July 1980. The industrial policy resolution of 1956 was the basis for thepolicy statement of 1980s. it believed that government is committed to rapid industrial development with aview to benefit the common man with increasing availability of goods on fair prices.

Objectives of the policy:

1. Optimum utilization of installed capacity
2. To maximize industrial production & achieve higher productivity
3. To generate higher employment opportunities
4. To reduce regional imbalances
5. To promote agro-based industries
6. To bring about rapid development of export oriented & import substitution industries in the country.

Key features of industrial policy 1980

1. **Redefining the small Units:** To encourage the development of small units, the government revised the definition of small units.

(a) Tiny units- limit of investment raised from Rs 1 lakh to Rs 2 lakhs

(b) Small industries- limit of investment raised from Rs 10 lakhs to Rs 20 lakhs; and

(c) Ancillaries- limit of investment raised from Rs 15 lakhs to Rs 25 lakhs.

2. Revitalization of PSUs:

The 1980 industrial policy recognized the various deficiencies such as financial losses, wastage of real resources in public sector enterprises in the country & recommended various corrective measures to improve their efficiency & to restore the faith of public in India's public sector industries.priority was given for making the loss making PSUs into viable units through restructuring of the system,providing dynamic &competitive management.

Public sector units were revitalized by strengthening their management cadres in the fields such as 1.Finance2. Marketing operations 3. information systems.4. providing dynamic management & competitive management. The statement accepted that there has been an erosion of faith in the public sector in recent years due to its mounting losses, delays in construction works, faulty controls etc. For this purpose, Government decided to launch a drive to revive the efficiency of public sector undertakings.

3. Development of Small Scale& village industries:

Keeping in view the rise in the prices of both capital goods & plants & to encourage the development of small scale industries, Government decided, to raise the investment limit in the case of tiny units from Rs 1 lakh to Rs 2 lakhs, for small scale industries from Rs 10 lakhs to 20 lakhs and for ancillaries from Rs 15 lakhs to Rs 25 lakhs.

4. Development of industries in backward areas

By providing updated technology & incentives in specific industries In industrially backward regions the nucleus plants were to be established

so that in those regions subsidiary, and cottage and small scale industries could be developed substantially.

5. **Regularization of Excess capacity**:

In many large scale units, the installed capacities exceeds the licensed capacities. The policy proposed to regularize such excess capacity on a selective basis in the case of industries of national importance and those producing mass consumption good. It also extended the facility of automatic expansion @25% in 5 yrs. In excess of the licensed capacity in basic industries.

The facility of automatic expansion was also extended by the policy of 1980 to other industries specified in the first schedule of the 1951 IDR Act. (non-ferrous metals, paper, drugs, fertilizers, cement, transport equipment etc.).

6. **Industrial Sickness:**

The policy showed concern for the increasing industrial sickness and proposed to devise an early warning system to identify incipient sickness. It was proposed to grant income-tax concessions more liberally in cases of voluntary mergers of sick and healthy units to encourage the revival of sick units. Government was to take over sick public units only in cases, where public welfare demanded.

In order to coop with sickness IPS of 1980 proposed to grant income tax & other concessions in case of voluntary mergers of a sick unit with a healthy industrial unit. The government asked the state governments , financial institutions , trade unions cooperate effectively to bring about revival of sick industrial units.

7. **Export –oriented industries**:

Export oriented units were given special facilities in view of B.O.P Problem before the country.

8. Induction of advanced technology:

Government permitted the Induction of advanced technology to increase the scale, international competitiveness, modernization, to improve the quality of goods to reduce their cost & prices. Industries with well established R&D department were permitted to import advanced technology for research & development.

9. Modernization:

Package included aspects such as appropriate location ,optimum use of energy ,adoption of right kind technology ,scale of production to improve efficiency & run down the cost.

10. Preservation of ecological balance :

The policy stated that it would not allow setting up industrial projects in metropolitan areas which are already congested.

Conclusion

The results of this policy were not praise worthy. The speed was not realized in the development of backward classes. The industries were not set up at propel place so that backward regions could benefit. The move to regularize installed productive capacity in excess of licensed capacity in the case of several industries as well as provision in regard to automatic expansion in future meant additional production of some essential goods at minimum possible cost. But this measure also meant that those industrial units which had illegally, exceeded the limit of licensed capacity benefited while those units which strictly adhered to the licensed limit were in a sense the losers.

Much focus in this industrial policy was given to growth considerations. The licensing policy helped large &capital intensive businesses. The role of small scale units was somewhat blurred & defocused by the Congress Government.To sum up, the industrial Policy (1980) was guided merely by considerations of growth. The policy concentrated more on large scale Industries and capital intensive path of development.

Overall there was inefficiency & financial losses, wastage of real resources in the operations of the PSUs.A number of reasons were responsible for these & infrastructure was one of the most important.

1.7 LET US SUM UP

At the time of independence the structure of Indian Industrial development was limited. For the first time, in industrial policy, of 1948 philosophy to be adopted the industrial development was explained explicitly. The importance of public sector for the formation of economic infrastructure was accepted and the significance of equal distribution of income was specified. This policy was continued for eight years but treated as tentative policy, when it was announced there was no determined objective before the country. It affected adversely the spirit of investment of investors as in the policy, unnecessary threat for nationalization was implied. The policy had also lowered down the participation of private sector in the key and basic industries by transferring these industries to public sector. Overall it could not satisfy anyone nor the lower class neither the upper one. In the Industrial Policy of 1956 the main objectives were to increase the rate of economic growth and accelerate the rate of industrialization, so that objectives of establishment of socialistic pattern of society can be attained. In fact, the policy gave unnecessary emphasized on the expansion of public sector. As we know that in this policy, Government of India started to issue licenses for the expansion of industrial sector, balanced regional development and prevention of the concentration of economic power. But in practice the objective of socialistic patter of society remain a slogan and centralization of economic power was encouraged and large industrial houses ultimately enjoyed this policy. In the Industrial policy of 1973 high priority industries were identified and big industrial houses and foreign companies were invited for investment. Foreign technology and foreign capital were given importance but other objectives like balanced regional development of small scale industries etc. were ignored, the Industrial Policy of 1977 was opposite to 1973 as it gave maximum attention on the expansion and development of, Cottage and Small Scale Industries. The policy limited the expansion of large industries by denying them funds from the

Government Financial institutions. This policy was not implemented more effectively because Janata Government was short lived. The industrial policy of 1980 was different from earlier policies as it provided new life to the private sector. There was the pledge to improve the efficiency of public sector, to remove artificial division between small and large scale industries and to make small scale industries as a complementary to large scale industries. This policy reaffirmed its faith in MRTP and FERA. But in this policy speed was not realized in the development of backward areas. It was more in the path of capital intensive development. The 1985 Industrial policy brought out various important changes in the industrial sector and economy of the country. It raised the investment limits for the small scale industries and provided financial helps for growth and introduced the concept of Broad Banding which enabled the manufacturers to produce a range of products. Re-endorsement facility was given to those industries which improve their capacity utilization and facility of delicensing was also provided to them. In a way it opened up a new era of liberalization. But the policy opened the items strictly reserved for small scale units to large scale industries which badly affected the small units. The policy of 1990 announced various measures for small scale and agro based industrial but like previous policies it was also failed to safeguard the interests of small and agro based industries.

Though various rules & regulations were framed from time to time to implement the Industrial Policies Resolutions but due to certain loopholes, the industries policies and legal frame work were not conductive for improving the performance of the industrial sector.

Since independence Indian industry was comfortably settled behind the high protective walls of and quantitative restrictions on imports for a longer time and was in no mood for opening up to competition from imports. Industrial sector in India remained as public Liberalization, a process ‘opening up’ of the economy with a view to integrate the Indian economy with the world economy. Under the policy government encouraged all the industries whether small, medium or large, belonged to the public, private are co-operative sector to grow and improve on their past performance. In pursuit of the objectives and aims Government had taken series of initiatives in respect of the policies related to the areas like

Industrial licensing, foreign capital, foreign technology, public sector, Monopolistic restrictive trade practice, registration schemes, small scale industries, labour problems etc.

EXAMINATION ORIENTED QUESTIONS

Q.1 Critically explain the industrial policy of 1948.

Q.2 What are the features of industrial policy resolution 1977.

Q.3 Discuss the industrial policy of 1980.

UNIT-1: INDUSTRIAL POLICY DURING PRE AND POST REFORM PERIOD

M.A. Economics — **Lesson-2**
Course No. 409 — **Unit-1**

STRUCTURE:

2.1 Introduction

2.2 Objective

2.3 Pattern of Industrial development before 1990

2.4 Industrial policy of 1991

2.5 Pattern of industrial development after 1991

2.6 Let Us Sum Up

2.1 INTRODUCTION

In this lesson, we propose a thorough analysis of industrial development pattern before 1990 and after 1990 -91 and its impact upon different aspects of Indian economy.

2.2 OBJECTIVE

The approach of this lesson is to make the student aware about the industrial development pattern before 1990 and after 1990-91 so that they can easily understand its impact on various aspects like corporate sector, collaboration and foreign investment.

2.3 PATTERN OF INDUSTRIAL DEVELOPMENT BEFORE 1990

On the eve of first plan the industrial development in India was confined largely to the consumer goods sector, the important industries being cotton textile, sugar, salt, soap ,leather goods and paper. Thus the industrial sector exhibited the features of an underdeveloped economy.

Industries manufacturing intermediate products like coal, cement, steel, non-ferrous metals, power, chemicals etc. Where also established but their production was small as productive capacity was considerably below the requirements. As far as capital goods sector is concerned , only small beginning had been made . on the whole, while consumer goods industries were well established , producer goods industries lagged behind.

The First Plan did not envisage any large-scale programmes of industrialisation. Accordingly, only 55 crore out of the total expenditure of 1,960 crore in the First Plan (a mere 2.8 per cent) was spent on 'industry and minerals. 'l The Plan made an attempt to give a practical shape to the concept of mixed economy by providing for the development of both, the public sector and private sector, in a complementary manner.

The Second Plan accorded top priority to programmes of industrialisation as would be clear from the fact that the expenditure on industry and minerals was hiked to 938 crore under this plan which was 20.1 per cent of the total expenditure of 4,672 crore. Based on Mahalanobis Model, the Second Plan set out the task of establishing basic and capital goods industries on a large scale so that a strong base for industrial development in the future could be built. The strategy was spelt out in the Plan in the following words: "If industrialisation is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development. This calls for substantial expansion in iron and steel, non-ferrous metals, coal, cement, heavy chemicals and other industries of basic importance..." Accordingly, such industries were given top priority in the industrial sector. Three steel plants of one million tonnes ingot capacity each were set up in the public sector at

Bhilai, Rourkela and Durgapur besides the expansion and modernisation programmes undertaken in the private sector. Third Five Year Plan also pressed forward with the establishment of basic capital and producer goods industries with special emphasis on machine building programme - so that the growth of the economy in the subsequent plans could become self-sustaining. As a result, programmes for expansion and diversification of capacity of the heavy engineering and machine building industries, castings and forgings, alloys tool and special steels, iron and steel and ferro-alloys, and steps to increase the output of fertilisers and petroleum products were undertaken. Expenditure on industry in the Third Plan was 1,726 crore which was 20.1 per cent of the total expenditure of 8,577 crore under the Plan.

The Second and Third Plans placed great emphasis on building up the capital goods industries and basic industries. As a result, the industrial structure built up over these plans was heavily biased in favour of these industries. Most of these industries were set up in the public sector with the result that the size of the public sector also grew rapidly. The growth of the consumer goods industries was mostly left to the private sector. This structure of industrial development was promoted and nurtured in the Fourth and Fifth Plans also with minor changes here and there. Out of the total expenditure of 15,779 crore in the Fourth Plan, industry received 2,864 crore (i.e., 18.2 per cent of the total). The expenditure on industry was hiked to 22.8 per cent (8,989 crore out of the total of 39,426 crore) in the Fifth Plan.

In a review of industrial development over the thirty years of planning, the Sixth Plan noted that industrial production had increased by about 5 times during this period. More important than this quantitative increase in output was the fact that the industrial structure had been widely diversified covering broadly the entire range of consumer, intermediate and capital goods. Expenditure on the industrial sector in the Sixth Plan was 15,002 crore which was 13.7 per cent of the total expenditure of 1,09,292 crore in the Plan. The period of the Sixth Plan saw wide range changes in the industrial policy of the government. The industrial and trade policies were substantially liberalised. As a result, industrial production

started picking up but it also created certain distortions in the economy as the import-intensive sector of consumer durables and the group of chemicals, petrochemicals and allied industries marched much ahead of other sectors and groups of industries.

Industrial development during the pre reform can be divided into the following distinct phases:

(i) Phase I which covered the period of the first three plans (i.e., the period 1951 to 1965) laid the basis for industrial development in the future by building up a strong industrial structure;

(ii) Phase II which covered the period 1965 to roughly 1980 was marked by industrial deceleration and structural retrogression;

(iii) Phase III which covered the period of 1980s (1980-81 to 1990-91) was marked by industrial recovery

1. First Phase (1951-65): Strong Industrial Base:

The main features of the Indian Industrial sector on the eve of the Independence were:

1. There were majority of consumer goods industries vis-à-vis producer goods/capital goods industries resulting in lopsided industrial development. The ratio of consumer goods industries to producer good/capital goods industry was 62:38 during the early 1950s.
2. The Industrial sector was extremely underdeveloped with very weak infrastructure.
3. The lack of government support to the industrial sector was considered as an important cause of underdevelopment.
4. The structure and concentration of ownership of the industries were in few hands.
5. Technical and Managerial skills were in short supply.

As a result of these shortcomings, the national leadership reached on a

consensus that economic sovereignty and economic independence lay in the rapid industrialisation including the development of Industrial Infrastructure.

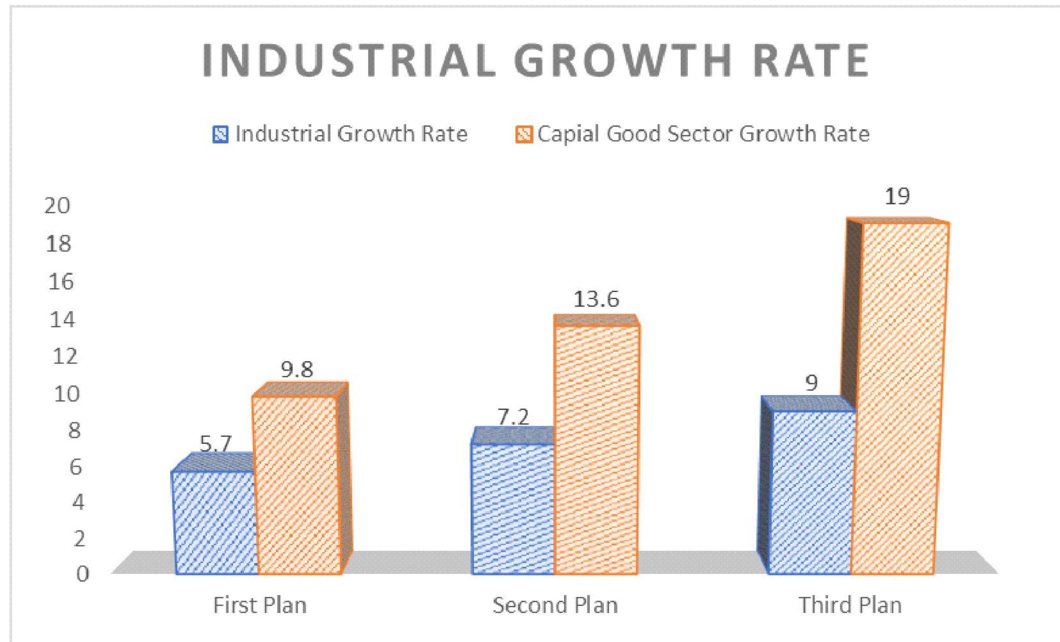
Phase I laid the basis for industrial development in the future. The Second Plan, based on Mahalanobis model, emphasised the development of capital goods industries and basic industries. Accordingly, huge investments were made in industries like iron and steel, heavy engineering, and machine building industries. The same pattern of investment was continued in the Third Plan as well. As a result, there occurred a noticeable acceleration in the compound (annual) growth rate of industrial production over the first three Plan periods upto 1965 from 5.7 per cent in the First Plan to 7.2 per cent in the Second Plan and further to 9.0 per cent in the Third Plan. What is significant from the point of view of long-run industrial development is the fact that the rate of growth of capital goods industries shot up considerably from 9.8 per cent per annum in the First Plan to 13.1 per cent per annum in the Second Plan and further to 19.6 per cent per annum in the Third Plan. Another important group of industries from the point of view of industrial development is 'basic industries'. The rate of growth of this group also registered a significant increase from 4.7 per cent per annum in the First Plan to 12.1 per cent per annum in the Second Plan and stood at 10.4 per cent per annum in the Third Plan. This shows that a strong base for industrial development was laid during the first three plan periods. The credit for this undoubtedly goes to the massive expansion of investment that took place in the public sector

The first phase of industrial growth consists of the first three plan periods which had build a strong industrial base in India. During this phase, huge investments were made in major industries like iron and steel, heavy engineering and machine building industries. The annual compound growth rate of industrial production during the first three plan periods moved between 5.7 per cent to 9.0 percent.

The First Three-Five Year Plans are important because their aim was to build a strong Industrial base in India. This first phase of Industrial development in India laid the foundation for strong Industrial Phase.

The capital goods industries had registered its annual average compound

growth rate between 9.8 per cent to 19.6 per cent during this period. Again the annual rate of growth of basic industries moved between 4.7 per cent to 12.1 per cent over the same period. Thus, a strong industrial base was laid during the first phase covering the first three plan periods.



2. Second Phase (1965-80): Deceleration and Retrogression:

The second phase of industrial growth covers the period of three Ad-hoc Annual Plans, Fourth Plan and Fifth Plan.

The period 1965 to 1976 was marked by a sharp deceleration in industrial growth. The rate of growth fell steeply from 9.0 per cent per annum during the Third Plan to a mere 4.1 per cent per annum during the period 1965 to 1976. It is also important to point out that even this meagre rate of industrial growth does not express the true situation as there was a sharp increase of 10.6 per cent in industrial production in the year 1976-77. If this year is left out, then the rate of industrial growth over the eleven-year period 1965 to 1976 declines further to a meagre 3.7 per cent per annum. In a similar way, the rate of growth of 6.1 per

cent per annum during the Fifth Plan owes considerably to the 10.6 per cent increase recorded in the year 1976-77. If this year is left out, the rate of industrial growth for the remaining four years comes down considerably, as is clear from Table, the last year of Phase II, i.e., 1979-80, recorded a negative rate of growth of industrial production of -1.6 per cent over the preceding year,

In addition to the phenomenon of deceleration in industrial growth during the period 1965 to 1980, the phenomenon of structural retrogression that plagued the industrial sector during this period. From the point of view of long-run industrial development, the most important group of industries is the group of capital goods industries. This group registered a consistent and considerable increase from 9.8 per cent per annum in the First Plan to 13.1 per cent in the Second Plan and further to a phenomenal 19.6 per cent per annum in the Third Plan. However, in the next eleven years (1965 to 1976), the capital goods sector grew at an annual rate of only 2.6 per cent. If we consider the Fifth Plan period, the rate of growth of capital goods industries goes upto 5.7 per cent per annum but, as would be clear from Table , even this is substantially lower than the rates of growth recorded in the first three plans. The same story is found in the case of basic industries. In fact, as shown by S.L. Shetty, in the case of many industries of crucial importance, the growth between 1965-66 and 1976-77 was almost insignificant compared with the average from the previous five-year period.

Decline in the growth rate of capital goods industries and basic industries in the period after the Third Plan clearly represents the phenomenon of structural retrogression. Shetty also points out a second aspect of this structural retrogression. He shows that where growth has been moderately high, a majority of the industries belonged either directly or indirectly to elite-oriented consumption goods sector. This is illustrated by the disproportionately large increases in the output of man-made fibres, beverages, perfumes and cosmetics, commercial, office and household equipment, watches and clocks, and fine varieties of cloth.

The industrial sector faced a structural retrogression during the second phase. The capital goods industries registered its annual average growth rate of

only 2.6 per cent during the second phase Fifth Plan recorded the annual growth rate of 5.7 per cent which was far below as compared to that of first three five year plans. For, basic industries, the annual growth rate during the second phase was far below as compared to that of Third Plan. Thus basic industries were engaged in the production of ferrous metal groups, construction materials, mechanical engineering industries etc

Annual Compound Growth Rates in Index Numbers of Industrial Production, 1951 to 1980

Use- based or Functional classification	1951-55	1955-60	1960-65	1965-76	1974-79	1979-80
Basic goods	4.7	12.1	10.4	6.5	8.4	-0.5
Capital goods	9.8	13.1	19.6	2.6	5.7	-2.3
Intermediate goods	7.8	6.3	6.9	3.0	4.3	1.9
Consumer goods	4.8	4.4	4.9	3.4	5.5	-4.4
a) durables	___	___	___	6.2	6.8	5.6
b) non durables	___	___	___	2.8	5.4	-6.1
General index	5.7	7.2	9.0	4.1	6.1	-1.6

Causes of Deceleration and Retrogression.

Several explanations were offered for the phenomenon of deceleration and retrogression in the industrial sector during Phase II. The government expressed the view that exogenous factors such as the wars of 1965 and 1971; drought conditions in some years; infrastructural constraints and bottlenecks; and the oil crisis of 1973 were responsible for slowdown of growth. K.N. Raj argued that low growth in the agricultural sector accounted for the slowdown of industrial growth by restricting the supply of raw materials on the one hand and by constraining the demand for industrial goods on the other hand. T.N. Srinivasan and N.S.S. Narayana argued that there was a considerable slackening of real investment in Phase II particularly in the public sector and this brought down the rate of growth in the industrial sector. A slightly different but more plausible

version of the 'slackening of real investment argument was presented by P. Patnaik and S.K rao according to whom there was a decline in public investment and this was followed by a decline in private investment as well due to the loss of stimulus' for investment. The essence of this argument is that a fall in public investment leads to a fall in private investment as well. Some economists like Deepak Nayyar, K.N. Raj and C. Rangarajan pointed to the relationship between income distribution, the demand factor and industrial growth. These economists pointed out that the market for industrial goods in the country is limited to the top 10 per cent of the population due to extreme inequalities of income and wealth. Once the demand for this section of the population gets saturated, there is no further expansion in demand. This limits the demand for consumption goods limiting, in turn, the demand for machinery and capital goods in subsequent stages. Some economists like Jagdish Bhagwati, Padma Desai, T.N. Srinivasan and Isher Judge Ahluwalia, blamed the wrong industrial policies, complex bureaucratic system of licensing, irrational and inefficient system of controls etc. for industrial deceleration.

The annual compound growth rate in industrial production declined from 9.0 per cent during the Third Plan to only 4,1 per cent covering the period of 1965 to 1976. In 1976-77, the annual rate of growth of industrial output was 6.1 per cent. In 1979-80, a negative annual growth rate of (—) 1.6 per cent was recorded in respect of industrial outputs as the index of industrial production in this year (Base 1970 = 100) has declined to 148.2 as compared to 150.7 in 1978-79.

The causes of deceleration and structural retrogression during the second phase are can be summed up as-

(a) The wars of 1962, 1965 and 1971. During this period investment was made into unproductive uses. Successive droughts of 1965-67 and 1971-73, and oil crisis of 1973 was also responsible for supply constraints.

(b) Considerable slackening of real investment;

(c) Unequal distribution of income in favour of the rich followed by stagnation in demand for consumer goods;

(d) Unsatisfactory performance of the agricultural sector;

(e) Policy constraints and bureaucratic obstacles on industrial growth;

(f) Conflicts in the dominant coalition between proprietary classes, capitalist class and the class representing rich agricultural farmers.

3. **Third Phase:** Industrial Recovery in Eighties (1981 to 1991):

The third phase of industrial growth covers the period of eighties consisting of both Sixth and Seventh Plan. This period of eighties experienced industrial recovery. During the period 1981-85, the average annual rate of growth of industrial production was accelerated to 7.0 per cent which further increased to 8.6 per cent during 1985-90. In 1990-91 also, the annual rate of industrial growth was registered at 9.0 per cent.

The period of 1980s can broadly be termed as a period of industrial recovery. This is clearly brought out by a study of the revised Index of Industrial Production (base 1980-81), the rate of industrial growth was 6.4 per cent per annum during 1981-85, 8.5 per cent per annum during the Seventh Plan and 8.3 per cent in 1990-91. As noted by Vijay L. Kelkar and Rajiv Kumar, "This is a marked upturn from growth rates of around 4 per cent achieved during the latter half of 1960s and the 1970s. This performance is also an improvement upon the growth rates achieved during the First and Second Plan periods..."

Similar trends of industrial recovery in 1980s are noted by some other economists as well. In her study spanning the period 1959-60 to 1985-86, Isher Judge Ahluwalia notes that the period 1980-81 to 1985-86 (ie., the first half of the 1980s) was "marked by significant acceleration in the growth of value added in the manufacturing sector and all its use-based sectors". The value added in the manufacturing sector grew at the rate of 7.5 per cent per annum in the first half of 1980s as against only 4.7 to 5 per cent per annum in the period 1966-67 to 1979-80. According to Ahluwalia, a very important aspect of the growth revival during the first half of the 1980s was that it was not associated with an acceleration in the growth of factor inputs but was, rather, based on better productivity performance. Thus, total factor productivity which registered a

negative and negligible growth of 0.2 to 0.3 per cent per annum in the period 1966-67 to 1979-80 showed a marked improvement in the first half of the 1980s when it registered a growth of 3.4 per cent per annum.

The growth rate for consumer durable goods increased to 16.9 percent in 1985-89. In 1981-90, there was a set back as the segment recorded only 1.7 per cent growth rate and then the same rate again shot up to 14.8 per cent in 1990-91.

The basic goods industries maintained the annual average growth rate of 8.8 and 8.9 per cent during 1980-85 and 1985-89 respectively. But gradually declined to 5.4 per cent and 3.8 per cent in 1989-90 and 1990-91 respectively. The capital goods industries recorded 6.3 per cent annual rate of growth during 1980-85 which experienced increase in its growth rate of 13.0 per cent in 1985-89 and then significantly 24.0 percent in 1989-90. The growth rate of capital goods was 17.4 per cent in 1990-91.

Thus during this third phase, there is a clear shift in the pattern of industrialisation in the country. Looking at the growth of different product group in the manufacturing sector, chemicals, petrochemicals and allied industries recorded a faster rate as compared to others. During this period, the production of chemicals and chemical product industries, expanded at an annual average rate of 11.19 per cent as compared to that of only 5.47 per cent in machine building sector.

Moreover, during this period, iron and steel, basic metal and alloys and metal products recorded only 5.15 percent 4.94 per cent and 3.95 per cent. It shows a clear shift in the growth pattern of the industrial sector during eighties (Third Phase) as compared to two earlier phases.

Rate of growth of Industrial Production (Use-based) During phase III (base 1980-81)

(Per cent per annum)

use based or functional classification	1981-85	1985-90	1990-91
Basic goods	8.7	7.4	3.8
capital goods	6.2	14.8	17.4
Intermediate goods	6.0	6.4	6.1
Consumer goods	5.1	7.3	10.4
(a) Durables	14.3	11.6	14.8
(b) non-durables	**3.8**	6.4	9.4
General index	6.4	8.5	8.3

Causes of Industrial Recovery.

The main causes of industrial recovery during 1980s are generally listed as follows:

1. New industrial policy and liberal fiscal regime

According to some economists, one of the main causes of industrial recovery during the 1980s was the liberalisation of industrial and trade policies by the government. According to Ahluwalia, "The most important changes have related to reducing the domestic barriers to entry and expansion to inject a measure of competition in domestic industry, simplifying the procedures and providing easier access to better technology and intermediate material imports as well as more flexibility in the use of installed capacity with a view to enabling easier supply responses to changing demand conditions." These factors operating from the supply side were helped by the pursuit of what may be termed as a 'liberal fiscal regime. The important features of liberal fiscal regime were: (i)

maintenance of high budgetary deficits year after year; (ii) resort to massive borrowing often at high interest rates, and (iii) the encouragement of dissaving. All these aspects of liberal fiscal regime helped to expand the demand for manufactured goods in the economy.

The above discussion shows that while liberal fiscal regime helped in generating demand for manufactured goods, liberal industrial and trade policies ensured that an adequate 'supply response' was forthcoming.

2. Contribution of the agricultural sector.

According to some economists, increased prosperity of large farmers in certain regions of the country helped in creating additional demand for industrial goods. According to R. Thamarajakashi, the rural sector's demand for non-agricultural consumer products rose considerably from 35 per cent in 1967-68 to 47 per cent in 1983. Not only this. There was a spurt in demand for a certain range of manufactured goods due to increase in the use of manufactured inputs per unit of cultivated area (or output). As shown by Thamarajakashi, the percentage of purchased inputs to total inputs (taken as a proxy for demand for industrial inputs in agricultural production) roughly doubled from 16.4 per cent in 1970-71 to 35.6 per cent in 1983-84.

3. Growth of service sector.

According to Dalip S. Swamy, there was a significant increase in government expenditure on all services in the 1980s. The consumption pattern of the service class is less food-intensive and more oriented towards durable consumer goods. Therefore, the consumption pattern of effective demand in 1980s changed in favour of consumer durable goods. As a result, argues Swamy, consumer durables were pushed to the "forefront of growth." Fast growth of the consumer durable goods sector pushed up the rate of industrial growth.

4. The infrastructure factor.

There was a marked resurgence in infrastructure investment in 1980s. As against only 4.2 per cent per annum increase in infrastructure investment during 1965-66 to 1975-76, the increase was as high as 9.7 per cent per annum during

1979-80 to 1984-85. Infrastructure investment rose further by 16.0 per cent in 1985-86 and 18.3 per cent in 1986-87. According to Ahluwalia, this revival of investment in the infrastructure sectors in the 1980s was also accompanied with a discernible improvement on the efficiency front.

Review of pre 1991 industrial policy

The actual operation of the industrial policy (particularly the industrial licensing policy) has been a subject of much debate and criticism. Several studies on the implementation of the licensing policies and the functioning of the industrial approval system pointed out a number of flaws and deficiencies. Reports of the various Committees and Commissions appointed by the government itself (Monopolies Enquiry Commission in April 1964, Dr. R.K. Hazari in 1965 and Dutt Committee in 1967) pointed out that the licensing policy had failed to achieve its objectives. In many cases, the results were just the opposite of what the government had planned. The main points of criticism have been as follows:

1. **Licensing and underutilisation of capacity**. Licensing was supposed to ensure creation of capacities according to plan priorities and targets. However, no clear priorities for private sector were laid down in plans and therefore the private sector chose those industries which appeared more profitable. In many cases, these industries happened to be luxury industries and frequently they also satisfied the technical curiosity of the DGTD (Directorate General of Technical Development) and were, therefore, granted licenses in defiance of the needs of essential industries producing commodities for mass consumption.

   The grant of a licence to an enterprise was no guarantee that the production capacity permitted would actually be installed. The government had the right to take away a licence only several years later. Because of this fact, capacity created, in some cases, was less than allowed. Many industries (especially those belonging to the large monopoly houses) indulged in such practices to restrict output and raise prices. Since the government had no guarantee that the licensed capacity would actually be installed within the stipulated time, it adopted the practice of granting licences for

capacities far in excess of the plan targets, from the end of the Second Plan. In those cases where actual implementation was larger than expected (as, for example, in the case of paper industry, cement industry and ceramic production)

A sizeable unutilised capacity appeared. In some cases, overlicensing of an industry deterred the licencees from implementing their full licensed capacities for fear of excessive capacity creation in the industry. As a consequence of this, industries overlicensed in the Third Plan were marked by underfulfillment of capacity.

2. **Licensing and concentration of economic power**. As noted by Aurobindo Ghosh, in India: "It is industrial licensing which limits the areas of private investment and also determines entry into specific industries. The total volume of licensable private investment is normally (though not always) fixed in relation to the total Plan target of private investment in industry. This generally holds true of licensing in particular industries also, i.e., in correspondence with Plan targets of capacity in specific industries. In such a situation, oligopolistic rivalry proceeds principally through competition for investment opportunities at the stage of entry into the industry itself"".! This explains the behaviour of the large industrial houses in India who sought "preemption of investment opportunities" through acquiring as much industrial licences as possible thereby ensuring an increasing share of new capacities created on the one hand, and on the other hand keeping out potential rivals.

3. **Discretionary powers of licensing authorities**. Martinussen has pointed out that because of the considerable discretionary powers vested in the regulatory agencies, the whole system tended to promote corruption, rent-seeking and discrimination based on personalistic relationships. In this context, Martinussenemphasises two features of the formal bureaucratic institutions functioning in India: First, "although separated from the rest of society by effective socialisation processes and specific rules which govern their behaviour, government officials often remain loyal to outside

social networks. They are inclined in general to favour members of their own social network. Second, “the individual government official at higher levels of the hierarchy is vested with considerable discretionary powers in his discharging of administrative functions. This has increased the scope for outside influence and for discrimination based on personalistic relationships.

Because of the loyalty to outside social networks and personalistic relationships, a strong nexus between high government officials and managers of large industrial houses emerged in this country. As a result, the actual functioning of the industrial approval system in India favoured large industrial houses.

4. **Licensing and regional imbalances**. One of the avowed objectives of industrial licensing policy was the reduction in regional inequalities and imbalances. However, the actual operation of this policy has accomplished just the opposite it tended to increase regional inequalities. As noted by the Dutt Committee, the four industrially advanced States of Maharashtra, Gujarat, West Bengal and Tamil Nadu benefited the most from the operation of this policy. For example, in the decade 1955-65, these four industrially advanced States accounted for 59.3 per cent of the applications and 62.42 per cent of the licences approved. On the other hand, the poor States of Bihar, Orissa, Uttar Pradesh and Madhya Pradesh received only 15.5 per cent of total licences approved. These trends continued in later years also. For instance, during the thirteen year period 1979 to 1992, the four industrially advanced States of Maharashtra, Gujarat, Tamil Nadu and West Bengal received 46.4per cent of total licences issued whereas the combined share of Bihar, Orissa, Madhya Pradesh and Uttar Pradesh was only 16.2 per cent.

5. **Delays in processing of applications**. Two developments added significantly to the burden on both the regulatory authorities and the private entrepreneurs. On the one hand, the coverage and degree of detail of the regulations was increased significantly (for instance, an amendment to

the IDR Act in 1953 made it compulsory for companies to obtain a licence for the production of any "new article while in 1956 industrial activity and products were defined in much greater detail, thus adding to the number of permissions required), while on the other hand, industrial growth and diversification increased the scarcity of resources allocated administratively. The outcome was increasing delays in the processing of applications. Moreover, the Licensing Committee worked in a very haphazard and ad hoc manner and there were no definite criteria adopted for acceptance or rejection of applications. This lack of explicit economic criteria was accompanied by the generally poor quality of techno-economic examinations conducted by the Directorate General of Technical Development (DGTD) which also took an unnecessarily long time for disposing of cases and submitting its recommendations to the Licensing Committee. All these factors impeded industrial growth.

2.4 INDUSTRIAL POLICY OF 1991

Keeping in view the need of the our growing economy and the loopholes of the previous policies the industrial policy resolution of 1990 was presented to parliament by the then industrial minister Shri Ajit Singh on May 1990.

The policy of 1990 announced various measures for the promotion of small scale and agro based industries. It increased the investment ceiling for small scale units from Rs 35 lakhs to 60 lakhs, for ancillary, units from Rs.45 lakhs to 75 lakhs and tor tiny units from Rs 2 lakhs to 5 lakhs. The investment ceiling of small scale units was further raised to Rs 75 lakhs, when they export 30 percent or more of their output by the third year of establishment. To ensure adequate and timely flow of credit for the small scale industries, a new apex bank known as small industrial development bank of India (SIDBI) was established. Policy also reduced various bureaucratic controls and other procedural requirement for the establishment of new small scale units. In order to assist the large number of artisans engaged in the rural and cottage industries the activities of the KVIC (Khadi Village Industries Commission) and KVI boards (Khadi Village Industries boards) had expended. Timely credit facilities and better technology for enhanced

production were provided to them. To make the industry more competitive internationally, government took some important decisions like, deliciensing all new units up to an investment of Rs 25 Corers in non backward area and Rs 75 crores in centrally notified backward areas. The entrepreneurs were entitled to import capital goods up to the value of 30 percent of the total value of plant and machinery required for the unit. Import of raw materials and components, were allowed up to a landed value of 30 percent of the last year total value of annual production. Foreign collaborations were permitted (without any clearance from the government) on a condition that total royalty payment does not exceed five percent on domestic sales and eight percent on exports. In order to attract effective inflow, of technology, investment up to 40 percent of equity on as allowed on an automatic basis. 100 percent export oriented units (EOUS), and units to be set up in export processing zones (EPZs) were deliciensedupto Rs 75 crores investment in the policy. One of the most important feature of this policy, was location policy and environmental clearances for locating the unit.

Through the policy had opened the doors of the Indian economy to multinationals for maximum growth and progress in the international market But the policy was not dealt with any of the basic problem like industrial sickness public sector maladies and nonessential consumer goods. By raising the investment ceiling from the Rs 35 to 60 lakhs in small scale units the government had actually opened the reserved items for big industrialists. The policy has ignored the small sector industries and plants whose machinery does not exceed Rs 5 lakhs. In short the promotion of small scale and agro based industries remained an empty slogan as the policy was failed to safeguard the small scale sector against the encroachment by the large scale.

Since 1950, the Problem of economic development has been the subject of considerable thought and discussion among economists. Before independence, India had only the rudiments of an industrial structure dominated by consumer goods industries.

Features of New Industrial Policy:-

With a view to bring revolutionary changes in the industrial scene of the

country, Central Government announced the new Industrial Policy on July 24, 1991. Following were unique features of the policy.

Diluted the Role of Public Sector:-

The industrial policy 1991 provides a new approach to public sector enterprises. The public sector had given indirect role in industrial development and participation of private sector was encouraged. Public sector had shown a very low rate of return on the capital invested. This had inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result was that, many of the public enterprises had become a burden rather than being an asset to the government. It was time therefore that the government adopt a new approach to public sector (enterprises). The must be restructured and given a new lease life. In this regard the new industrial policy had taken some major decisions pertaining to the public sector, in order to improve its performance and more it more growth oriented and technically dynamic.

a) Portfolio of Public sector investments was reviewed with a view, to focus the public sector on strategic, hi-tech and essential infrastructure bases. Whereas some reservation for the public sector was being retained, there would be no bar for area of exclusively to be opened up to the private sector selectively. Similarly the public sector was allowed to enter in areas not reserved for it.

b) Public enterprises which were chronically sick which were unlikely to be turned around, 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 scheme was also created to protect the interest of worker's likely to be affected by such rehabilitation packages.

c) In order to raise resources and encourage wider public participation, a part of the governments share holding in the public sector was offered to mutual Funds, financial institutions, general public and workers.

d) There was a greater thrust on performance improvement through the MoU

(Memorandum of understanding) system through which managements would be granted greater autonomy and would be held accountable. Technical expertise on the part of the government was upgraded to make MoU negotiations and its implementation more effective.

The major step for dilution of the role of public sector was reduction of the number of industries reserved for public sectors from 17 to 8, reduced again to 6 than became and now it is only 3, i.e atomic energy, minerals specified in the schedule to the atomic energy 1953, and rail transport and introduction of the selective competition in the reserved areas. Policy for the sick public sector enterprises remained to be same as that for the private sector. Thus, the policy made a substantial contribution for the improvement and advancement of the public sector and laid down various changes.

Privatization of Public Sector:- The Governments strategy towards the public sector, continues to encompass a judicious mix of strengthening strategic units and non-strategic units through gradual disinvestments or strategic sale and devising liable rehabilitation strategy for weak units.

The main elements of the government policy towards public Sector undertakings (PSUs) are -

a) Bring down Government equity in all non- strategic PSUs to 26 percent lower, if necessary;

b) Restructuring and revive potentially, viable PSUs,

c) Fully protect the interest of workers; and

d) Close down PSU's which cannot be revived.

Abolition of industrial Licensing Policy:-

The government reformulated its industrial policy. In a major move to liberalize the economy, the new Industrial policy abolished industrial licensing for all projects excepts for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and over roiling environmental

reasons and items of elitist consumption. Industries reserved for the small scale sector continued to be so reserved. There were only 15 industries for which licenses were continue to be required. These were Coal & lignite, petroleum, sugar, cigarettes, hazardous chemicals, drugs pharmaceuticals, paper and newsprint, plywood and other wood based products, entertainment electronics, animal fats and oils, tanned or dressed furs skins, electronics aerospace and defense equipment, and industrial explosives. Originally the number of industries were 18 but in April 1993, three industries-motor cars, with goods and raw hides and skins and leather were exempted from licensing. As of now licensing is compulsory for only % industries. There are cigarette, alcohol, hazardous, chemical, electronics aerospace and defense equipment and industrial explosive.

In projects where imported capital goods were required, automatic clearance was given –In cases where foreign exchange availability was ensured through foreign equity; or if the cost, insurance and freight (CIF) value of important Capital goods required was less than 25 percent of total value (net of taxes) of plant and equipment, upto a maximum value of Rs. 2 crore. In view of the current difficult foreign exchange situation, this scheme came into force from April 1992.

Areas where security and strategic concerns predominate, was continued to be reserved far the public sector. In locations other than cities of more than I million populations required no industrial approvals from the central government except for industries subject to compulsory licensing. In respect of cities with population greater than I million industries other than those of a non-polluting nature such as electronics, computer soft and printing must be located outside 25 kms of the periphery, except in prior designated industrial areas.

A flexible location policy was adopted in respect of such cities (with population greater than I million) which required Industrial regeneration. Zoning and land use regulation and environmental legislation was continued to regulate industrial locations. Appropriate incentives and the design of investment was used to formulate the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities. Existing units were provided a new broad

banding facility to enable them to produce any article without additional investment. The exception form licensing was applied to all substantial expansion of existing units.

Abolition of Registration:- All existing registration schemes such as delicensed Registration, exempted industries registration and DGTD (Directorate General of Technical Development) registration were sought to be abolished. Entrepreneurs hence forth only be required to file an information memorandum on new projects and substantial expansion.

Facilities to Laborers:- The policy promised social security mechanism to protect worker's interest in affected public sector enterprises. It also promised to promote worker's participation in management and proposed workers co-operation to make sick units healthy. National renewal fund was proposed to be set up for those workers who were affected by technological changes.

Foreign Investment:- Another most important feature of the industrial policy 1991 was maximum encouragement to foreign investment.. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment upto 5 l percent foreign equity in such industries.

For the promotion of exports of Indian products in world markets, the government encouraged foreign trading companies to assist Indian exporters in export activities.

a. According to the new industrial policy, approval was given for direct foreign investment upto 51 percent foreign equity in high priority industries. It was about 34 high priority industries for this purpose. However, such approval was made available if foreign equity covers the foreign exchange requirements for imported capital goods

b. While the import of components, raw materials and intermediate goods, and payments of knowhow, fees and royalties were governed by the general policy applicable to other domestic units, the payment of dividends was monitored through the Reserve Bank of India so as to ensure that

out flow an account of dividend payments are balanced by export earnings over a period of time. Other foreign equity proposals, including proposals involving 51 percent foreign equity which do not meet the criteria under (a) above, was continued to need prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.

To provide access to international markets, majority foreign equity holding up to 51 percent was allowed for trading companies primarily engaged in export activities. While the thrust was o11 export activities such trading houses should be at par with domestic trading and exports house in accordance with import export policy.

A special empowered board was constituted to negotiate with a number of large international firms and approve direct foreign investment in selected areas. This was a special program to attract substantial investment that provided access to high technology and world markets. The investment programs of such firms would be considered in totality, free from pre-determined parameters or procedure.

Foreign Technology:-The new industrial Policy had recognized the industry can scarcely be competitive with the rest of acquisition of technological capability is subject environment. With a view to injecting the desired level dynamism in Indian industry, the following policy announced:-

The new industrial policy accorded automatic approval for foreign technology agreements in high priority industries up to a lumpsum payment of Rs. 1 crore, 5 percent royalty for domestic sales and 8 percent for exports, subject to total payments of 8 percent of sales over 10 years period flow date of agreement or 7 Years form commencement of production.

The policy has created a provision for an automatic approval for technology agreements in industries other than those specified , provided no free foreign exchange was required for any payments. No permission was required for hiring of foreign technicians, for testing of indigenously developed technologies

over seas. Payment might be made from free foreign exchange according to Reserve Bank of India guidelines.

Small scale Industries:- While freedom had given to major industries to grow, industries reserved for the small scale sector was continued to be so reserved to promote industrial agro employment. Under the policy 1991, government announced a policy package for small, tiny and village industries. It raised the investment ceiling of tiny enterprises from 2 lakhs to 5 lakhs, locational restrictions on setting these enterprises were removed and their scope was enlarged to include all industry related services and business enterprises. The policy provided equity participation, not exceeding 24 percent, by other industrial undertakings, included foreign collaborations in the small scale sector with a view to encouraged modernization and technological up gradation.

MRTP Limit relaxed :-

The new, policy had given concession to companies under MRTP Act. It removed the asset limits for MRTP totally. In this way big industries were given more freedom regarding expansion of undertakings establishment of new undertakings, mergers, amalgamations etc. since the enactment of the Monopolies and restrictive trade practice Act. In 1969, all firms with assets above a certain size (100 crores since 1985) had been classified as MRTP companies. Such firms had been permitted to enter selected industries only, for expansion of existing firms, the establishment of new undertakings, mergers, amalgamations and takeovers they were required to seek government's prior approval, restrictions also existed in respect of the acquisition of and transfer of shares of these companies, these form had to seek permission from the government even for appointment of certain directors in their companies. This had begun to have a significant detritus effect on the freedom of many of the large private firms in their plans for growth and diversification. The parliament passed the MRTP Act or Amendment Bill to remove the threshold limits of assets in respect MRTP companies and dominant undertakings. This eliminated the requirement of prior approval of central government for establishment of new undertakings, merger amalgamation and takeover and appointment of directors under certain

circumstances. Policy emphasized on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously the newly empowered MRTP commission was authorized to initiate investigations suo moto or on complaints received from individual consumer or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

Necessary comprehensive amendments were made in the MRTP Act in this regard for enabling the MRTP commission to exercise punitive and compensatory powers.

All these above interconnected set of measures provided a new environment of increased competition and freedom in the operations of the Indian private sector. The aim of all these measures was to recognize the increased competence of Indian firms and to give them the necessary freedom to deal with the emerging challenges that were being thrown up by today's increasingly interdependent industrial world.

Need for new industrial policy

1. **Faulty Licensing system and under utilisation of capacity**. Licensing was supposed to ensure creation of capacities according to plan priorities and targets. However, no clear priorities for private sector were laid down in plans and therefore the private sector chose those industries which appeared more profitable

   The grant of a licence to an enterprise was no guarantee that the production capacity permitted would actually be installed. The government had the right to take away a licence only several years later. Because of this fact, capacity created, in some cases, was less than allowed. Many industries (especially those belonging to the large monopoly houses) indulged in such practices to restrict output and raise prices. Since the government had no guarantee that the licensed capacity would actually be installed within the stipulated time, it adopted the practice of granting licences for capacities far in excess of the plan targets, from the end of the Second Plan. In those cases where actual implementation was larger than expected

(as, for example, in the case of paper industry, cement industry and ceramic production)

A sizeable unutilised capacity appeared. In some cases, overlicensing of an industry deterred the licencees from implementing their full licensed capacities for fear of excessive capacity creation in the industry. As a consequence of this, industries overlicensed in the Third Plan were marked by underfulfillment of capacity.

2. **Licensing and concentration of economic power**. As noted by Aurobindo Ghosh, in India: "It is industrial licensing which limits the areas of private investment and also determines entry into specific industries. The total volume of licensable private investment is normally (though not always) fixed in relation to the total Plan target of private investment in industry. This generally holds true of licensing in particular industries also, i.e., in correspondence with Plan targets of capacity in specific industries. In such a situation, oligopolistic rivalry proceeds principally through competition for investment opportunities at the stage of entry into the industry itself"".! This explains the behaviour of the large industrial houses in India who sought "preemption of investment opportunities" through acquiring as much industrial licences as possible thereby ensuring an increasing share of new capacities created on the one hand, and on the other hand keeping out potential rivals.

3. **Discretionary powers of licensing authorities**. Martinussen has pointed out that because of the considerable discretionary powers vested in the regulatory agencies, the whole system tended to promote corruption, rent-seeking and discrimination based on personalistic relationships. In this context, Martinussenemphasises two features of the formal bureaucratic institutions functioning in India: First, "although separated from the rest of society by effective socialisation processes and specific rules which govern their behaviour, government officials often remain loyal to outside social networks. They are inclined in general to favour members of their own social network. Second, "the individual government official at higher

levels of the hierarchy is vested with considerable discretionary powers in his discharging of administrative functions. This has increased the scope for outside influence and for discrimination based on personalistic relationships.

Because of the loyalty to outside social networks and personalistic relationships, a strong nexus between high government officials and managers of large industrial houses emerged in this country. As a result, the actual functioning of the industrial approval system in India favoured large industrial houses.

4. **Licensing and regional imbalances**. One of the asserted objectives of industrial licensing policy was the reduction in regional inequalities and imbalances. However, the actual operation of this policy has accomplished just the opposite it tended to increase regional inequalities. As noted by the Dutt Committee, the four industrially advanced States of Maharashtra, Gujarat, West Bengal and Tamil Nadu benefited the most from the operation of this policy. For example, in the decade 1955-65, these four industrially advanced States accounted for 59.3 per cent of the applications and 62.42 per cent of the licences approved. On the other hand, the poor States of Bihar, Orissa, Uttar Pradesh and Madhya Pradesh received only 15.5 per cent of total licences approved. These trends continued in later years also. For instance, during the thirteen years period 1979 to 1992, the four industrially advanced States of Maharashtra, Gujarat, Tamil Nadu and West Bengal received 46.4 per cent of total licences issued whereas the combined share of Bihar, Orissa, Madhya Pradesh and Uttar Pradesh was only 16.2 per cent.

5. Delays in processing of applications in pre 1991 period was hampering the growth of industries in India

Critical Evaluation :-

The new economic and industrial policy adopted by Indian in 1991 constituted a break with the past. This policy 1991 was building on the past industrial achievements but was made to accelerate the process of making Indian

industry internationally competitive. It recognized the strength and maturity of the industry and attempts to provided the competitive stimulus for higher growth.

The policy had given freedom to industries from government and statutory controls. It deregulates the industrial economy in a substantial manner. In a sense it liberated the Indian industrial structure from suffocated and complexed maze of rules, regulations, permits and licenses which had created innumerable impediments in the way of development of all types of industries. These unnecessary rules and regulations resulted in enormous delays upsetting all costs and profit calculations and schedules and resulting in massive corruption at every stage or hurdle that was required to be crossed, thus thoroughly discouraging the class of entrepreneurs who had to function in the most depressing atmosphere. But the free and liberated environment provided by policy of 1991 made the Indian entrepreneurs to function more efficiently and brought about substantial increase in annual industrial growth-rate.

For long, Indian industries were functioning in a closed and protected domestic market with heavy import duties, export subsidies and practically shutting off competition with foreign industrial goods. The consequence of high protection was industrial inefficiency, low productivity high cost and low quality of most Indian industrial goods. The new industrial policy introduced a world of free competition wherein Indian industries would hereafter had to function, if they want to be successful. This simplified and liberalized policy, had encouraged for healthy competition among domestic industrial units. It can be achieved through increased uses of technology. Up gradation of technology in Indian industries has made industries more efficient and competitive by increased productivity, cutting down costs and lowering process and improvement in quality.

One of the most favourable aspects of the policy of 1991 was the new approach, the policy brought in respect of public sector undertakings in India. Around 58 large public sector industrial undertakings have suffered losses year after year and growth of monopoly also took place in respect of essential infrastructural facilities in these public sector units. The idea of selling their equity to mutual funds or to private parties and if necessary, close them down or auction

them was the best and most logical aspect of the policy 1991. The policy of disinvestments can be helpful in improving the rehabilitation function of sick units. This policy initiated the process of privatization of public sector also.

Opening the doors automatically to foreign investment upto 51 percent of equity in high priority industries and automatic approval for foreign technology agreements helped in upgradation of Indian industries and their competiveness in world market and pushed up India's export. Thus the entry of foreign direct investment and technology integrated the domestic economy with the world economy and helped in raising the availability of scarce in the country on the one hand, and improved the level of efficiency of production on the other hand. Abolition of the MRTP and especially of FERA (Foreign Exchange Regulation Act) was expected to brought in substantial amount of foreign capital along with latest technology. This result in rising rate of industrial growth, increasing efficiency, increasing cost-consciousness, better management, lowering the prices of industrial goods and push up India's export. Policy gave greater emphasis in controlling and regulating monopolistic, restrictive and unfair trade practice and strengthened the power of MRTP commission which helped in curb anti-competitive behaviour of firms in the monopolistic, oligopolistic and ineffectively competitive markets and thus promote healthy competition and efficiency. The policy had been streamlined with a view to increase in production by according specific attention to the working and economic freedom of the country. Under the policy every industry enjoyed freedom to diversified their activities and abled to increase in production capacity within the prescribed limits.

This it is clear from the above discussion that liberalization, privatization and globalization policies in new, industrial policy removed the rigidity of industrial controls and regulations shifted the focal point of economic philosophy of the economy new industrial policy had been a major giant step in the right directions in uplifting the industrial structure of the country and Join the galaxy of world economy.

The new industrial policy announced by the government of India on 24th July 1991 fulfilled a long-felt demand of the industry. It brought out a substantial

reduction in the number of industries required compulsory Licensing, promoted foreign investment, automatic approval of foreign technology, agreements, reformed Public sector and scrapped the asset limit for MRTP companies. The new industrial policy represented serious effect to establish a "market friendly" system which enabled India to join the international mainstream on the basis of efficiency and competitiveness. However several there were several areas which come forward for sharp criticism.

The permit and licensing system has been abolished, this laid indiscriminate rush of entrepreneurs in certain industries. The policy, of free entry and free exit might result into fierce competition in some industries, especially in some consumer goods industries. All this means wasteful competition and wastage of valuable resources.

The new industrial policy goes all out to woo foreign capital. It has been decided to provide approval for direct foreign investment upto 51 percent foreign equity in high priority industries. The government had further clarified that it permitted 100 percent foreign equity in case the entire output was exported. All this was done in the belief that the direct foreign investment was crucial to our development. However in over enthusiasm to welcome foreign capital, the fear was that we might sell our sovereignty, to multinationals.

Participation of foreign equity capital about 51 percent in any Indian industrial establishment (except some strategically, important industries) might create a number of problems. Like, foreign companies which are after maximum profit would enter into only these industries which cater to consumer needs of elite classes. This means the country's resource would be diverted into production of goods for the richer sections of the Indian country unit. The foreign collaborating companies would not be interested its entering heavy and basic industries requiring huge investment and long gestation period. Thus the governments have to take care to invite foreign capital in high priority industries.

The new industrial policy seems too confined to the liberalization of the environment for dynamic industrial development. This no doubt was important.

But no less important was the role of research and development (R&D) in making industry innovative.

CHECK YOUR PROGRESS

Q.1 Why industrial policy 1991 was introduced?

Q.2 Describe the features of industrial policy 1991.

2.5 PATTERN OF INDUSTRIAL DEVELOPMENT AFTER 1991

The year 1991 ushered a new era of economic liberalisation. India took major liberalisation decision to improve the performance of the industrial sector. This includes

1. Abolishment of the Industrial Licensing.
2. Simplification of the procedures and regulatory requirement to start a business.
3. Reduction in the sector exclusively reserved for the Public sector.
4. Disinvestment of the selected Public-sector undertakings.
5. Foreign investors were allowed to invest in the Indian firms.
6. Liberalisation of the trade and exchange rate policies.
7. Rationalisation and massive reduction in the structure of Customs Duties.
8. Reduction in the excise duties.
9. Reduction in the Income and Corporate taxes to promote Business.

For purpose of analysis, it is better to divide the postreform period into two sub-periods: (i) the period of 1990s (upto 2001-02, i.e., upto the end of Ninth Plan), and (ii) the period since 2002-03.

The latter period consists of three sub-periods: Tenth Plan (2002-03 to 2006-07), Eleventh Plan (2007-08 to 2011-12) and Twelfth Plan (2012-13 to 2016-17).

The period of the 1990s.

Important facts regarding industrial growth trends in the period of 1990s are as follows:

1. The rate of growth of industrial production in the Eighth Plan was 7.4 per cent per annum which was the same as the targeted rate of growth. Thus, the performance was satisfactory on this count.

2. The rate of growth of industrial production in the Ninth Plan was only 5.0 per cent per annum which was considerably less than the targeted rate of 8.2 per cent per annum. Thus, the performance of the industrial sector was highly unsatisfactory during the period of the second half of 1990s.

3. The industrial sector registered a dismal performance in the last year of the Ninth Plan, 2001-02, with its rate of growth being just 2.7 per cent. This is the worst performance of the industrial sector over the entire decade 1992-93 to 2001-02 excepting the year 1992-93 when the rate of industrial growth was 2.3 per cent.

4. The post-reform period (upto the end of Ninth Plan, i.e., the year 2001-02) was marked by considerable fluctuations and thus showed a total lack of consistency in industrial growth performance. Marked upheavals in different years were noted for all sub-sectors of industry - capital goods, basic goods, intermediate goods and consumer goods.

IIP based growth rates (use-based) in pre reform Decade and post reform Decade

Use based or functional classification	1980-81 to 1991-92	Eighth plan 1992-93 to 1996-97	Ninth plan 1997-98 to 2001-02	Tenth plan 2003-03 to 2006-07	Eleventh plan 2007-08 to 2011-12 Base year 2004-05	Twelfth plan 2012-13 to 2016-17 Base year 2004-05
Basic goods	7.4	6.8	4.1	6.6	5.4	3.9
Capital goods	9.4	8.9	4.7	14.4	14.3	-3.7
Intermediate goods	4.9	8.5	5.8	6.2	4.0	2.2
Consumer goods	6.0	6.6	5.5	9.6	7.8	-0.1
Durables	10.8	13.4	10.7	8.8	15.6	-1.2
Non-durables	5.3	4.8	3.8	10.0	3.4	1.1
General Index (IIP)	7.8	7.4	5.0	8.2	6.9	1.4

Causes of Unsatisfactory Industrial Performance in 1990s.

The main causes for unsatisfactory performance of the industrial sector during the period of 1990s are as follows:

1. **Exposure to external competition**. According to the Planning Commission, the most important reason for lower growth rate during the Eighth Plan period as compared to the Seventh Plan period seems to be that "the industrial sector, which had been almost totally protected from both industrial as well as external competition during the previous four decades, was suddenly exposed to foreign competition through a significant liberalisation of imports and drastic reduction in import duties. The industry was hardly prepared for it and the slowdown was only to be expected..."

2. **Slowdown in investment.** An important reason for the slowdown of industrial growth in 1990s was the slowdown of investment. It is a known fact that capital formation in the public and private sectors provides a stimulus for industrial growth in the form of both the direct demand or purchases that such expenditures involves, and the indirect demand resulting from income generation investments. However, consequent upon

the adoption of the ‘macro-economic adjustment programme of the IMF in 1991, the Government of India was forced to cut down public expenditure drastically. Since there is a strong complementarity between public investment and private investment, a reduction in the rate of growth of real public investment had a depressing effect on private investment as well.

3. **The infrastructural constraints**. Perhaps the most important reason for unsatisfactory performance of the industrial sector the deteriorating state of infrastructure. Industrial production suffered not only on account of inadequate availability of infrastructure like power and transportation bottlenecks, inadequate handling facilities at ports etc., but also due to ‘poor quality of infrastructure like frequent and unscheduled power breakdowns, poor road conditions, unduly long handling time at ports etc. All these factors added to the real costs of manufacture and thus adversely affected the competitiveness of domestic industry.

4. **Difficulties in obtaining funds for expansion**. Orderly development of capital market is an important condition for industrial growth because in its absence, the private sector capitalists will face difficulties in raising resources for expansion. The period since 1991 has witnessed two stock market scams one in 1992 and the other in March-April 2001. These scams seriously eroded investor confidence. Subscriptions to IPOs (initial public offerings) fell drastically leading to a setback to the ‘primary market.’ Trading in stock exchanges (i.e., ‘secondary market’) also fell. Because of this, capitalists found it difficult to raise resources from the capital market for funding their expansion plans. The performance of financial institutions turned worrisome as non-performing assets (NPAs) became quite large. Thus, the flow of funds from the financial institutions to the corporate sector was also not adequate.

5. **Sluggish growth in exports**. In a number of years during 1990s, exports grew at a very low rate. This was due to increasing competition in the international market on the one hand and inability of domestic industry to

meet external competition by ensuring quality products, keeping to delivery schedule etc. on the other hand. The outbreak of the East-Asian crisis in mid-1997 compounded the problems for Indian exporters as there was a sharp depreciation in the external value of the currencies of this region. This made Indian exports uncompetitive in international markets as against the exports from countries belonging to the East-Asian region.

6. **Anomalies in tariff structure**. According to the ninth five year plan, there were anomalies in tariff structure leading to large-scale imports of second-hand machinery, basic materials and intermediate products. This adversely affected industrial growth in these sectors. In the case of fertiliser sector and refineries, while the finished capital goods enjoyed 'zero' rate of import duty, the domestic manufacturers were subject to taxes and duties and import duties on intermediates and components.

7. **Contraction in consumer demand**. There was acute contraction in consumer demand in 1990s. Three distinct explanations can be offered to explain this contraction.is First, the rural purchasing power was severely affected by lower agricultural growth and increased fluctuations in growth in the 1990s. Secondly, Indian industry was faced with depressed purchasing power not only from the rural sector but also from the urban sector. The substantial wealth erosion caused by the fall in the equities and realestate markets also hampered the average urban consumer's proclivity to spend. Finally, there were distinct signs of growing inequalities in the distribution of income, and in the face of reduced employment growth as well as deterioration in the quality of employment, purchasing power in the hands of the vast masses of urban population possibly declined.

The Period since 2002-03:

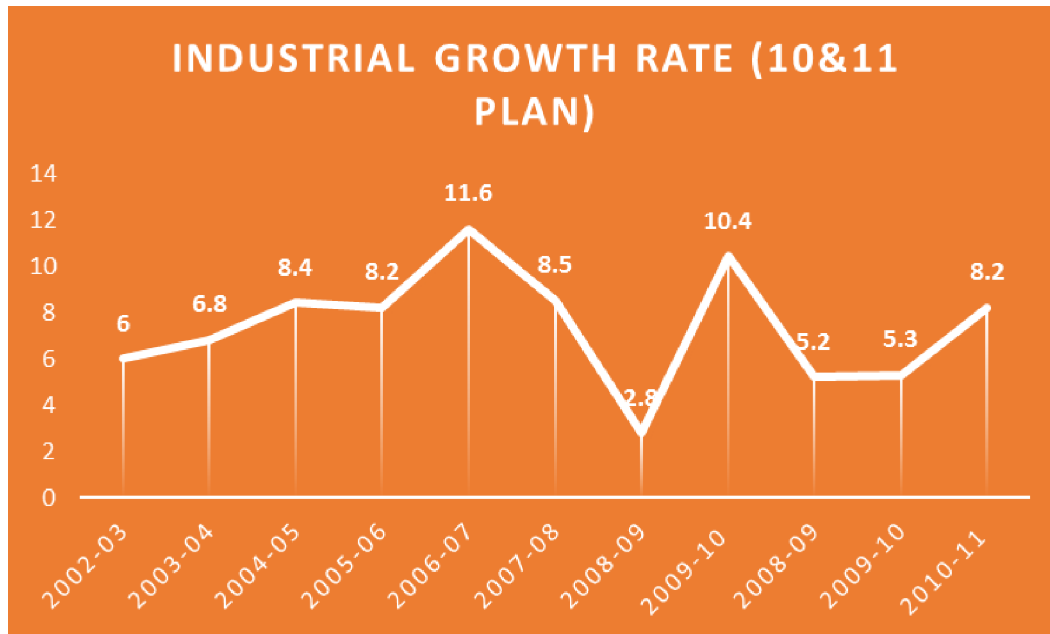
The period since the new millennium witnessed a sharp recovery and revival of the industrial sector. The tenth and eleventh plan witnessed a high growth rate of industrial production with the average rate of growth increasing to 8.2 per cent (from just 5.0 per cent in the Ninth Plan). What is significant from the

point of view of economic growth was the marked acceleration registered by the capital goods sector. The rate of growth of this sector averaged 14.4 per cent per annum over the Tenth Plan period and was as high as 18.2 per cent in the last year of the Plan, 2006-07. The continued robust expansion of the capital goods sector facilitated substantial capacity additions across a number of industries.

The average rate of growth of industrial production during the Eleventh Plan was just 6.9 per cent per annum as against the target of 10.0 per cent per annum. There were also wide fluctuations of industrial growth during different years of this Plan.

Based on an analysis of IIP growth over the period April 2006 to December 2011, Economic Survey 2011-12, arrived at the conclusion that all broad sectors of the IIP witnessed volatility in growth. IIP growth during April 2006 to December 2011 varied from - 7.2 per cent to 20.0 per cent with a mean growth of 8.3 per cent and standard deviation of 6.5. While different sectors had different volatility spectrums, capital goods and intermediates were the most volatile. In fact, volatility of the manufacturing sector was largely on account of extreme fluctuations in growth in the capital goods and intermediate goods segments. In case of capital goods, growth varied from —26.5 per cent to 65.1 per cent with a mean growth of 18 per cent and standard deviation of 23.2.16 High volatility in industrial growth (particularly in the growth of the capital goods sector and intermediate goods sector) creates industrial distortions and uncertainties and increases inflationary pressures in the economy.

The rate of growth of the industrial sector was 5 percent during the initial years of the Tenth Plan. The growth picked in the following years and reached 7% in 2003-04, 8% in 2004-05 and 11% in 2006-07. For the plan as a whole, the growth rate was 8.2 percent.



The growth in the Tenth plan was mainly driven by the manufacturing sector. The significant acceleration in the capital good sector was the significant contributor to the overall economic growth.

During the Eleventh Plan, the industrial growth witnessed a considerable degree of fluctuations. After growing at more than 8 percent, the growth collapsed to 2.8 percent in the year 2008-09. The main reason for the collapse was the Global Financial crisis that hit the World in the year 2008.

The industrial growth started recovering in the year 2009-10 and touched a high of 10 percent. The industrial growth after some setbacks again recovered in the year 2010-11 to reach 8.2 percent.

The period post-2011 till now.

The performance of the industrial sector was quite unsatisfactory during the period of the Twelfth Plan. The rate of growth of industrial production in this Plan was just 1.4 per cent per annum (in fact, it was negative at -0.1 per cent in 2013-14 and stood at just 0.7 per cent in 2016-17). The main reason for the

unsatisfactory performance of the industrial sector in the Twelfth Plan was the sharp decline in the investment activity

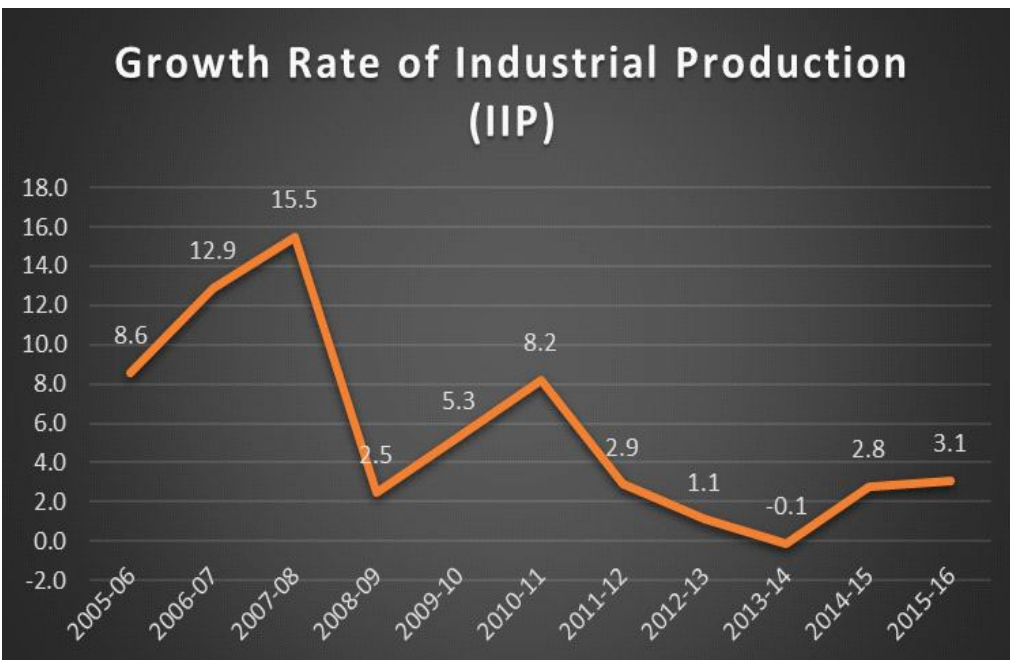
Several factors have contributed to the slowdown in investment activity. Rising costs and falling demand led to reduction in corporate profitability which in turn, adversely affected the investment decisions of firms. Also, the slow pace of mega projects implementation and a decline in the number of new projects adversely impacted the capital goods sector. The consumer durable goods also showed a marked slowdown. As noted by Economic Survey 2013-14, the consumer durable goods sector in India is constrained by a limited domestic market owing to low per capita income. Another factor has been the major supply bottlenecks faced by core industries (which provide crucial inputs to the industrial sector).

The period starting from 2011-12 saw a severe slowdown in the industrial growth and production. The slowdown during the period is due too.

1. Weak Demand for exports from the Developed Western Countries due to Global Financial Crisis.
2. The slowdown in the Domestic Demand.
3. High Interest in India maintained by the RBI, due to persistently high Inflation.
4. The slowdown in the Private Investment by the private sector due to weak returns on the investments.
5. Rising NPAs of the Public-Sector banks has led to weak credit and lending offered by them.
6. Failure of past projects of the private sector.
7. Government reluctance to increase Public investment due to the stand of maintaining a low fiscal deficit.
8. Uncertain Global Recovery.
9. European Debt Crisis.

10. The slowdown in the prices of commodities in International Commodity markets mainly due to weak Chinese growth. The weakness in the prices has hit the Indian agriculture sector where prices of the Agriculture commodities has remained low, leading to collapse of income in the rural areas.

Growth Rate of Indutrial Production (Base 2005-06)



Source: Ministry of Commerce, GOI.

The annual growth rate of IIP has been decelerating post-2011. The IIP fell from 8.2% in 2010-11 to 2.9% in 21011-12. The IIP further fell to 1.1% in 2012-13, negative 0.1 percent in 2013-14 and 2.8% in 2014-15.

New Index of Industrial Production (Base 2011-12)

The IIP has always been a key lead indicator of industrial output growth ever since its construction began on monthly basis decades ago. Accounting for the structural changes taking place within the sector, the CSO has been revising the IIP from time to time by enlarging the number of product items while excluding

a few outdated items. As such, since its adoption for the first time with 1937 as the base year, the IIP has been revised nine times with change of base years to 1946, 1951, 1956, 1960, 1970, 1980-81, 1993-94, 2004-05, and more recently to 2011-12 (in May 2017). Apart from capturing the evolving structural changes with newweighting diagrams, the objectives of revising the index are to take into account new products and capture changes in quality of products, thus representing industrial growth in current basis.

The new IIP released by CSO in May 2017 has 2011-12 as base year. As pointed out by J. Dennis Rajakumar, the shifting to a new base was long overdue as the earlier series of IIP 2004-05 had suffered from outdated product basket and weighting diagram. Moreover, with national accounts and the Wholesale Price Index (WP1) shifting to base year 2011-12, it had become necessary to shift IIP also to base year 2011-12 to better align all data. The new IIP has 839 Items and 407 item groups compared to 682 item and 399 item item groups in the old IIP(with base year 2004-05). such an increase in items and item groups can be entirely attributed to changes made in the coverage of manufacturing Sector which has additional 189 items and eight item groups in the new series. The new series has been restricted to the organised sector with its weights being calculated only as organised sector with its weights the basis of organised manufacturing unlike in the 2004-05 series which covered weights for the unorganised sector also.

Analytical Groupings.

The analytical grouping, of IIP data continue in terms of use-based classification and eight core industries. The eight core industries in the 2011-12 series continue to be the same as the 2004-05 Series namely, coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity. In the use-based classification, a new category of primary goods" has replaced the erstwhile category of "basic goods". Primary goods are said to be those which were directly obtained from natural sources and used for further processing and consumption in manufacturing and power-generating activities." This has been done because the concept of "basic goods" has apparently suffered from definition ambiguity

and overlapped with other categories such as "intermediate goods". The scope of intermediate goods has been modified to include goods used as inputs in the production of other goods. The methodology of deriving production of capital goods has been changed to account for "work in progress". The break-up of consumer goods into selfexplained durables and non-durables are reported as in the earlier series.

Annual growth rates as per IIP (%) calculated w.r.t. previous year (base 2011-12)

Use-based category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Primary goods	0.5	2.3	3.8	5.0	4.9	3.7	3.5	0.7
Capital goods	0.3	-3.7	-1.1	3.0	3.2	4.0	2.7	-13.9
Intermediate goods	5.1	4.6	6.1	1.5	3.3	2.3	0.9	9.1
Infrastructure/ construction goods	5.4	5.7	5.0	2.8	3.9	5.6	7.3	-3.6
Consumer durables	4.9	5.6	4.0	3.4	2.9	0.8	5.5	-8.7
Consumer non-durables	6.1	3.7	3.8	2.6	7.9	10.6	4.0	-0.1
General Index (IIP)	-3.3	3.3	4.0	3.3	4.6	4.4	3.8	-0.7

The economy slowed in 2017, due to shocks of "Demonetisation" in 2016 and introduction of goods and services taxes (GST) in 2017

Recent developments

The financial year 2020-21 (FY21) began amidst a global pandemic, the management ofwhich led to countries adopting unprecedented measures that brought the economy to a grindinghalt. The lockdown and the corresponding restrictions on local and global movement of people andgoods, except for essential goods and services, was an exogenous shock that posed considerablechallenges to the economy.

The rebuilding of the Indian economy is hinged onvarious reform measures aimed at addressing concerns of businesses and support to livelihoods.India implemented policies aimed at reducing transaction costs, supporting Micro Small

andMedium Enterprises (MSMEs), enhancing competition, fostering employment creation andsecuring sustenance through the Atmanirbhar Bharat Abhiyan.

A bouquet of measures equivalent to rupees 29.87 lakh crores or 15 per cent of India's GDPwere introduced as a measure of relief and support to the economy. These were subsequentlybacked by initiatives to further strengthen the economy. The details of the stimulus packagepertaining to industry and infrastructure sector is given below.

Atmanirbhar Bharat is the vision of the Govt. of India of making India a self-reliant nation. The announcementsunder the Atmanirbhar Bharat Abhiyan were made in three tranches. The key measures pertaining toindustry and infrastructure are summarized below:

Atmanirbhar Bharat 1.0

I. Relief and credit support to MSMEs to fight against COVID-19.

1. Rupees 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs: TheEmergency Credit Line Guarantee Scheme (ECLGS) has been formulated as a relief measureto the MSMEs by providing them additional funding of up to ‘ 3 lakh crores in the form of afully guaranteed emergency credit line. The borrowers with up to ‘ 25 crores outstanding and‘ 100 crores turnover are eligible. This scheme provides 100 per cent credit guarantee cover toBanks and NBFCs on principal and interest. No guarantee fee, no fresh collateral is required.
2. Rupees 20,000 crores Subordinate Debt for Stressed MSMEs: Provision made for ‘ 20,000crores subordinate debt for the MSMEs which are NPAs or are stressed. Government to supportthem with rupees 4,000 crores to Credit Guarantee Trust for Micro and Small enterprises(CGTMSE).Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to15 per cent of the existing stake in the unit subject to a maximum of ‘ 75 lakhs.
3. Rupees 50,000 crores equity infusion through MSME Fund of Funds: Government to set upa Fund of Funds with a corpus of ‘ 10,000 crores

that will provide equity funding supportfor the MSMEs. The Fund of Funds shall be operated through a mother and a few daughterfunds. It will provide equity funding for viable MSMEs. This scheme will help the MSMEsto expand its size and capacity and will also encourage them to get listed on stock exchanges.

4. New definition of MSME: Low threshold in the MSME definition have created a fearamong the MSMEs of graduating out of the benefits. Hence, the government has revised thedefinition of MSME by raising the investment limit. An additional criteria of turnover hasbeen introduced and distinction between manufacturing and service sector stands removed.

Earlier MSME Classification

Criteria: Investment in Plant & Machinery or Equipment			
Classification	**Micro**	**Small**	**Medium**
Manufacturing	Investment less than ₹ 25 lakhs	Investment greater than ₹ 25 lakhs & less than ₹ 5 crores	Investment greater than ₹ 5 crores & less than ₹ 10 crores
Service	Investment less than ₹ 10 lakhs	Investment greater than ₹ 10 lakhs less than ₹ 2 crores	Investment greater than ₹ 2 crores & less than ₹ 5 crores

Revised MSME Classification

Composite Criteria: Investment And Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing & Services	Investment less than ₹ 1 crores and Turnover less than ₹ 5 crores	Investment greater than ₹ 1 crores & less than ₹ 10 crores and Turnover greater than ₹ 5 crores & less than ₹ 50 crores	Investment greater than ₹ 10 crores & less than ₹ 20 crores and Turnover greater than ₹ 50 crores & less than ₹ 100 crores

Source: Ministry of MSME.

After the announcement of AtamNirbhar Abhiyan Package announcement (May13,2020),there were several representations that the announced revision is in not tune with market & pricing conditions & it should be further revised upwards. Keeping in mind these representations, it was decided to further increase the limit for the medium manufacturing &service units.For medium sector it will be Rs.50crore of investment&Rs.

250 crore of turnover.It has also been decided that turnover with respect to exports will not be counted in the limitsof the turnover for any category of MSMEunits whether micro, small or medium.

5. Global tenders to be disallowed upto rupees 200 crores: General Financial Rules (GFR) of theGovernment amended to disallow global tender enquiries in government procurement ofgoods and services of value of less than ' 200 crores. This is a step in support of the Make inIndia initiative and will promote MSMEs to grow.

6. Other Measures for MSMEs: e-market linkage for MSMEs to act as a replacement for trade fairsand exhibitions. The MSME receivables from the Government and the CPSEs to be released in45 days. This would help the MSMEs to solve the problems of marketing and liquidity.

7. Income Tax Refund: Income tax refunds to nearly 8.2 lakh small businesses worth Rupees 5,204crores has been issued with the objective to help the MSMEs to carry on their businessactivities without pay cuts and layoffs in these challenging times.

8. Relief of rupees 1500 crores to MUDRA- Shishu loans: GoI to provide interest subvention of2 per cent to prompt payees for a period of 12 months. Small business under MUDRA to bebenefited.

9. Ease of doing business for business including MSMEs: The Government announcedfurther enhancement of ease of doing business through the Insolvency and BankruptcyCode (IBC) related measures which include (a) raising of the minimum threshold to initiateinsolvency proceedings to ' 1 crores from ' 1 lakhs (which largely insulates the MSMEs),(b) special insolvency resolution framework for the MSMEs under Section 240A of the Code,(c) suspension of fresh initiation of insolvency proceedings for up to one year dependingupon the pandemic situation and (d) empowering the Central Government to exclude COVID19 related debt from the definition of "default" under the Code for the purpose of triggeringinsolvency proceedings.

II. Packages for Power Sector- ‘ 90,000 crores liquidity injection for DISCOMs

III. Real Estate: The extension of registration and completion date of real estate projects under RealEstate (Regulation and Development) Act (RERA). Ministry of Housing and Urban Affairs to advisStates/UTs and their regulatory authorities to the following effect:

1. Treat COVID-19 as an event of ‘Force Majeure’ under RERA.
2. Extend the registration and completion date suo-moto by 6 months for all registered projects expiring on or after 25th March 2020 without need for individual applications.
3. Regulatory Authorities may extend this for another period of up to 3 months, if needed
4. Issue fresh ‘Project Registration Certificates’ automatically with revised timelines.
5. Extend timelines for various statuary compliances under RERA concurrently.

   These measures will de-stress real estate developers and ensure completion of projects so that homebuyers are able to get delivery of their booked houses within new timelines.

IV. PublicSector Enterprise Policy for a New, Self-reliant India

- Government to announce a new coherent policy—where all sectors are open to the private sector while public sector enterprises (PSEs) will play an important role in defined areas
- List of strategic sectors requiring presence of PSEs in public interest will be notified
- In strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed

- In other sectors, PSEs will be privatized (timing to be based on feasibility etc.)
- To minimize wasteful administrative costs, number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatized/ merged/ brought under holding companies.

Atmanirbhar Bharat 2.0 (second tranche of measures) provided ‘ 25,000 crores as additional capital expenditure to the Ministry of Road Transport and Ministry of Defence Atmanirbhar Bharat 3.0 (third tranche of measures) initiatives that impact the industrial sector include:

- ‘1.46 lakh crores boost for Atmanirbhar manufacturing production-linked incentives for 10 Champion Sectors
- ‘18,000 crores additional outlay for PM Awaas Yojana (PMAY) –Urban
- Support for construction & infrastructure – relaxation of Earnest Money Deposit (EMD) & performance security on Government tenders
- ‘1.10 lakh crores platform for infra debt financing – ‘ 6000 crores equity infusion in National Investment and Infrastructure Fund (NIIF) Debt Platform, ‘ 10,200 crores additional budget outlay will be provided towards capital and industrial expenditure for domestic defence equipment, industrial incentives, industrial infrastructure, and green energy.

2.6 LET US SUM UP

India’s industrial performance has improved in certain aspects as a consequence of the new policies adopted after 1991 but it appears that the institutional legacy of the past continue to impede , sustained , diversified , industrial growth. The institutional framework may not be the reason for India’s comparatively poor performance . in this regard there is a little doubt that institutional constraint has added significantly to the difficulties.

2.7 EXAMINATION ORIENTED QUESTIONS

Q.1 How the industrial policy of 1991 is different from the earlier industrial policies

Q.2 Why Industrial policy of 1991 is of great importance in economic history of India.

Q.3 Discuss in brief the features of industries before 1990.

UNIT-1: INDUSTRIAL POLICY DURING PRE AND POST REFORM PERIOD

M.A. Economics	**Lesson-3**
Course No. 409	**Unit-1**

STRUCTURE:

3.1 Introduction

3.2 Objectives

3.3 Impact of industrial policy on industrial development of India.

3.4 New competition act in replacement of MRTP act.

3.5 New manufacturing policy.

3.6 Let Us Sum Up

3.7 Examination oriented questions.

3.1 INTRODUCTION

In this chapter our focus will be on policies developed for the new and changed Indian economic scenario.

3.2 OBJECTIVES

The objective of this lesson is to gain familiarity with recent industrial policy changes and their impact on different economic aspects.

3.3 IMPACT OF INDUSTRIAL POLICY ON INDUSTRIAL DEVELOPMENT OF INDIA

Meaning

Government action to influence the ownership & structure of the industry and its performance. It takes the form of pay-ing subsidies or providing finance in other ways, or of regulation.

It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, in-centives and punishments, the tariff policy, the labour policy, government's attitude towards foreign capital, etc.

Objectives

The main objectives of the Industrial Policy of the Government in India are:

- to maintain a sustained growth in productivity;
- to enhance gainful employment;
- to achieve optimal utilisation of human resources;
- to attain international competitiveness; and
- to transform India into a major partner and player in the global arena.

Industrial policies in India have taken a shift from predominantly Socialistic pattern in 1956 to Capitalistic since 1991.

India now has a much liberalised industrial policy regime focusing on increased foreign investment and lesser regulations.

India ranked 77th on World Bank's Doing Business Report 2018. Reforms related to insolvency resolution (Bankruptcy and Insolvency Act, 2017) and the Goods and Services Taxes (GST) are impressive and will result in long-term gains for the industrial sector.

Campaigns such as Make in India and Start up India have helped to enhance the business ecosystem in the country.

However, electricity shortages and high prices, credit constraints, high unit labour costs due to labour regulations, political interference and other regulatory burdens continue to remain challenges for firm growth of the industrial sector in India.

There is a need for a new Industrial Policy to boost the manufacturing sector in the country. Government in December 2018 also felt the need to introduce a new Industrial Policy that would be a road map for all business enterprises in the country.

Effects on Indian enterprises of globalisation.

The process of globalisation India has led to ‘unequal competition between joint MNCs and dwarf Indian enterprises. Even the large Indian enterprises can’t compete with MNCs while some of them already been gobbled up by the latter.

According to baldev Raj nayar the unequal competition stems from the following reasons

1. The Indian enterprises suffer from size disadvantage.
2. The Indian corporate sector for four decades prior to 1991 operated in a protectionist environment. the quantitative restrictions and steep customs duties assured capital market. the industrial licensing policy of the government in a bid to prevent the growth of monopolies resorted to fragmentation of capacity among many producers. Thus the resources of the business houses what is spread over number of products and market instead of intensive development of select industries. The result was aninefficient and flabby industrial structure of agglomerative forms under family control. With fragmented capacities and without economies of scale largely stagnant technology dependent on the state for finance and protected market, hemmed in by the straitjacket of controls literally every aspect of the economy retail experience of real competition, and with a vested interest in an economy of scarcity and shortages which the system of control had provided.
3. The cost of capital for Indian business is much higher than MNCs. this is

due to the reason that really interest rates within the country have been much higher than those prevailing outside India.

4. Because of the immense financial strength of MNCs they are not only in a position to bear losses in line of business for considerably more time than the Indian capitalists, they have enough muscle power to force of the Indian partners from joint ventures and grab control of their companies. In fact they can just buy out any Indian form the like.

5. Indian farmers continue to suffer from handicaps developed under the earlier regime of controls. For example restructuring and downsizing of Indian companies is not easy as labour laws do not allow easy retrenchment of labour. As against this MNCs start their new enterprise with modern technology and reduced requirement of labour.

6. High multiple and cascading indirect taxes especially at the local level where they are not applicable to foreign imports, result in making Indian goods and competitive

7. In some areas the state has perceived policies that have clearly discriminated in favour of MNCs.

An account of all these reasons the process of globalisation and released in 1991 has created a new world a world in which not only there has been a inflow of substantial foreign capital but the domestic corporate sector for the first time saw itself as the target rather than the beneficiary of the heightened activities of the foreign investors. The swiftness vigour and aggressivenesswith which the foreign investor sought to penetrate and capture the domestic market has caused serious worry to the Indian corporate sector. Particularly in the case of joint ventures the MNCs have shown alarming speed in pushing over their Indian partners and gaining full control on the enterprise.

Limitations of Industrial Policies in India

Stagnation of Manufacturing Sector: Industrial policies in India have failed to push manufacturing sector whose contribution to GDP is stagnated at about 16% since 1991.

Distortions in industrial pattern owing to selective inflow of investments: In the current phase of investment following liberalisation, while substantial investments have been flowing into a few industries, there is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc.

Displacement of labour: Restructuring and modernisation of industries as a sequel to the new industrial policy led to displacement of labour.

Absence of incentives for raising efficiency: Focusing attention on internal liberalisation without adequate emphasis on trade policy reforms resulted in 'consumption-led growth' rather than 'investment' or 'export-led growth'.

Vaguely defined industrial location policy: The New Industrial Policy, while emphasised the detrimental effects of damage to the environment, failed to define a proper industrial location policy, which could ensure a pollution free development of industrial climate.

3.4 NEW COMPETITION ACT

Introduction

The Monopoly and Restrictive Trade Practice Act 1969 became obsolete in the present world of throat cutting competition. The MRTP Act prevent the expansion of the companies whose assets was 100 crore, because these companies need to take government permission to expand their business.

So there was a desperate need to shift our focus from the monopoly to the competition. Hence a new law has been enacted and published in the gazette of India on 14 January, 2003 for bringing competition in the Indian market.

Competition is the act of the sellers individually seeking to acquire the patronage of buyers in order to achieve profits or market share. The Competition Act, 2002 was enacted by the Parliament of India and replaced The Monopolies and Restrictive Trade Practices Act, 1969. It is in effect to govern Indian competition law. After its enactment The Competition Act, 2002 has been amended twice, The Competition (Amendment) Act, 2007 and The Competition

(Amendment) Act, 2009. Two of the main features of the Competition Act, 2002 is the framework it provides for the establishment of the Competition Commission, and the tools it provides to prevent anti-competitive practices and to promote positive competition in the Indian market.

Objectives of the Act

The Act seeks to provide the legal framework and tools to ensure competition policies are met and to prevent anti-competition practices and provide for the penalisation of such acts. The Act protects the free and fair competition which protects the freedom of trade, which in turn protects the interest of the consumer. The Act seeks to prevent monopolies and also to prevent unnecessary intervention by the government. The main objectives of the Competition Act, 2002 are:

- to provide the framework for the establishment of the Competition Commission
- to prevent monopolies and to promote competition in the market
- to protect the freedom of trade for the participating individuals and entities in the market
- to protect the interest of the consumer

What are Anti-Competitive agreements?

In simple words, Anti-Competitive agreements are agreements that are made by two or more companies competing in the same market to fix prices or reduce stocks etc, so as to manipulate the market favourably for them. This has the effect of the companies reducing the competition in the market which adversely affects the end consumer.

The Competition Act, 2002 defines anti-competitive agreements as such in section 3 where it states, "*No enterprise or association of enterprises or individuals or association of individuals may enter into an agreement regarding production, supply, distribution, storage, acquisition or control*

of goods or provision of services which may adversely affect the competition in the Indian market".

Such agreements are termed as AAEC agreement, which means the appreciable adverse effect on competition agreements. the Act expressly states that such an agreement shall be void.

An AAEC agreement is classified as any agreements that result in:-

- Directly affects purchase or sale prices
- Indirectly affects purchase or sale prices
- Limits production
- Limits supply
- Limits technical development
- Limits service provision in the market
- Leads to the rigging of bids
- Leads to collusive bidding

Abuse of dominant position

The abuse of dominant position is prohibited by Section 4 of the Competition Act. Abuse of dominant position is defined under the second part of the same Section. According to the act dominant position means any enterprise that enjoys the position and power in the Indian market which enables it to:

- Operate independently of competitive forces in the relevant market
- Affect its competition, consumer or the relevant market in its favour.

For example, predatory pricing is a practice that is seen to be an abuse of dominant position. In simple words when a dominant enterprise engages in AAEC acts, it is considered an abuse of dominant position. The difference between the definition of anti-competitive agreements and abuse of dominant position is that in anti-competitive agreements there have to be two or more parties and it can be between any enterprise or firm and doesn't require there to

be a dominant firm involved. In abuse of dominant position, it can be done by a single party but the party has to be in a dominant position in the relevant market.

Remedies

Remedies against AAEC agreements and abuse of dominant position are provided by the Competition Commission of India. Upon a review and enquiry into the alleged practices the Competition Commission may pass the following orders:

- Direct the discontinuance of such practices
- Impose a penalty that is less than 10% or the turnover of the preceding three financial years; in the case of a cartel the penalty shall be 10% or three times the turnover of every financial year and shall continue for the period of continuance of such practices
- Direct the modification of such an agreement or abuse so as to curtail its adverse effect upon the competition of the market
- Pass any order that it may so deem fit.

Competition commission

The Competition Commission of India is established under the Competition Act, 2002. It is a statutory body that has the power to govern and enforce the Competition Act including penalties. It was established when the need for a healthy competitive environment became necessary following liberalisation under the Vajpayee government.

The Commission is composed of a chairman and a minimum of 2 board members and a maximum of 6 board members. These members are required to have a minimum of 15 years of experience in their respective fields. Its objectives, duties and powers are enumerated in the Competition Act, 2002. Its main duty and object is to ensure that the Indian markets maintain a healthy and fair competitive environment and is granted power to ensure such an environment and penalise any acts adversely affecting its duties.

India's official anti monopoly body; the Competition Commission of India

(CCI) finally become operational from May 20, 2009. It's an independent body responsible for investigating mergers, acquisition and pricing strategy by the different companies.

Regulation of combination

The term combination has a broad definition under the ACT, it includes

- any acquisition of shares,
- voting rights,
- control of assets
- Party to merger or amalgamation of enterprises

Any person/enterprise shall not enter into a combination which is likely to have an adverse effect on the competition and such a combination will be void.

If any person/enterprise proposes to enter into a combination he shall intimate the Competition Commission of India within 30 days of:

- Approval of the proposal relating to mergers and amalgamation by the BOD of the enterprises involved in the process.
- Execution of any agreement pertaining to acquiring of control.

Business Perspective

Business Operations in India necessitates the knowledge of the various laws and regulations and also the implementation of the same. Competition in the market is a huge challenge which needs to be dealt with carefully. It is essential for the businesses to realize that although competition brings prosperity, thriving and striving shall be a continuous process.

The various matters to be kept in mind by the business houses are:

1. The markets are susceptible to formation of cartels which pose a risk of formation of monopolies. The awareness of the fact that such associations are not permitted under the Competition Act 2002 is essential.

2. When discussions are made with competitors documentation of the same should be done.
3. Any meetings wherein any matter is being discussed, which shall raise issues under the competition law shall be avoided.
4. It is advisable to avoid discussions pertaining to price and the actual cost to the company.
5. Appointment of an Ombudsman for advise on the Competition Law so as to prevent any legal issues may be done.
6. Communication aspects although seem trivial may leave an impact when it comes to abuse of dominant position issues. Any statements made shall be weighed carefully.

The Competition Act 2002 is a comprehensive law and the intent of the legislation is

To promote fair competition, catch up with the global economy, safeguard the interest of the consumers and ensure a stable market for India.

Competition (amendment) act 2007

The Competition Act is an omnibus code dealing with matters relating to the existence and regulation of competition and monopolies based on principles well established in jurisdictions such as European Commission Competition law, US Anti-Trust law etc. The Competition Act was enacted to encourage and regulate competition in India keeping in view that the Indian market should be ready to face competition from within the country as well as abroad.

The Competition Act inter alia provided for the establishment of the Competition Commission of India ("CCI"), mandated to eliminate practices adversely affecting competition, to promote and sustain competition, to protect consumers' interests and to ensure freedom of trade carried on by other participants in markets.

The CCI could not be made fully functional due to a writ petition filed before the Supreme Court against certain provisions of the Competition Act, the

Rules framed there under and the selection of the Chairperson and Member of the CCI.

To make the CCI operational, the Indian Parliament has now passed the Competition (Amendment) Bill, 2007 (the "Bill"). The Bill proposes significant amendments to the Competition Act.

The CCI, which was proposed to function as a judicial body, would now act as an expert body in an advisory capacity, to prevent and regulate anti-competitive practices.

Earlier, appeals from the orders of the CCI lay before the Supreme Court. Under the Bill, a Competition Appellate Tribunal is empowered to hear and dispose-off appeals from any order or decision of the CCI.

Whilst in other jurisdictions, parties are required to compulsorily notify the competition authorities if their combination crosses the threshold limits specified under their respective laws, India was one of the few nations, where notification of combinations was voluntary.

The Bill has now imposed an obligation on entities to mandatorily notify the CCI of combinations i.e. mergers and acquisitions etc. above certain threshold limits viz. if the combination is between entities having operations in India or abroad, and the operations of the combined entity have assets of Rs. 500 crores or a turnover of Rs. 1,500 crore in India. The CCI would be bound to render its ruling within a stipulated period of 210 days from the date of the intimation.

It is envisaged that the Bill will pave the way for a powerful competition regulator for promoting and regulating competition in markets, enhancing efficiency and maximizing consumer welfare.

Competition (amendment) act 2009

The act come into force on 14 oct. 2009, the act made following amendments in the original act.

The act provided that all the cases and investigations relating to the unfair trade practice pending, before the National commission on or before the date on

which the competition (amendment) act, 2009 receives the assent of the president, shall be transferred to the Appellate tribunal and be adjudicated by the Appellate tribunal in accordance with the provisions of the repealed act as if that act has not been repealed.

Competition (amendment) act 2020

With a view to update the Competition Act, 2002 (***Act***) and associated regulations, the Indian Government constituted the Competition Law Review Committee (***Committee***) in October 2018. The Committee submitted its report (***Report***) to the Government on 14 August 2019.

Based on the recommendations made in the Report, the MCA has introduced a draft Competition (Amendment) Bill, 2020 (***Draft Bill***) to overhaul the Act. The notification of the Government invites comments from the public on the Draft Bill until 6 March 2020.

The Draft Bill proposes certain significant amendments to the Act, including: (a) imprisonment for non-compliance with directions of the Director General (***DG***); (b) commitment and settlement procedure in non-cartel cases; (c) more expeditious combination review process; and (d) constitution of a Governing Board for non-adjudicatory functions.

Following is a snapshot of some of the key amendments proposed by the Draft Bill:

1. **Combinations (merger review):**

   a. **Statutory deadline reduced to 150 calendar days:** The statutory combination review timeline of 210 days will be reduced to 150 calendar days, with a provision of additional 30 days in case of defective form filing or additional time sought by parties to respond to the CCI queries.

   b. **Prima facie view timeline reduced from 30 to 20 calendar days:** All Phase I approvals will now take up to 20 calendar days for approval, subject to clock-stops.

   c. **Green channel invalidation deadline:** There will be a statutory deadline

of one year (from the date of consummation of the combination) to invalidate deemed approvals, including green channels. This will address the concern that green channel approvals lacked finality and indefinitely bore of the risk of being invalidated.

d. **New criteria to trigger combination filings:** The Government can now introduce new criteria (not based on turnover or value of assets) to trigger a combination filing. This will address situations where certain high-value deals could escape the CCI review due to certain high-value companies not meeting turnover/ asset - based thresholds (e.g., in the services and digital sectors).

e. **Open offers and stock exchange purchases** can be consummated without waiting for the CCI approval**.** Post consummation filing will be allowed as long as the acquirer exercises no rights in the target until the CCI approval.

2. **DG given powers to impose criminal sanctions:** A person may be imprisoned for up to six months and/ or fined up to INR 1 crore if he, without reasonable cause, fails to produce any information requested by the DG, or personally appear before the DG, or sign his deposition notes. This power to impose such criminal sanctions is proposed to be made available to the DG without a requirement to involve a Chief Metropolitan Magistrate.

3. **Introduction of settlement and commitment procedure:** Parties under investigation for abuse of dominance or entering into an anti-competitive non-horizontal agreement will now have an option to settle the case with the CCI. A settlement application will have to be made after the DG has submitted the investigation report to the CCI and before the CCI has passed the final order. An application to offer commitments can also be made by the parties before the DG completes the investigation. The order of the CCI accepting or rejecting the commitment or settlement application will not be appealable.

4. **Changes relating to anti-competitive agreements:**

   a. **Buyer cartels** will now be explicitly covered.

   b. **Companies facilitating or otherwise furthering a cartel now covered:** An enterprise will now be presumed to be part of a horizontal agreement if it actively participates in furtherance of the agreement, irrespective of whether it competes with other parties or not. With this amendment, hubs in a hub and spoke cartel can be penalised. This will also cover certain situations faced by the CCI, for example, in the pharmaceutical sector, where pharmaceutical companies acted in furtherance of a horizontal agreement among chemists and druggists.

   c. **All agreements between enterprises covered:** Section 3(4), which was earlier applicable to only vertical agreements, will now apply to all non-horizontal agreements. This will clarify that the scope of Section 3(1) is not limited to only two types of agreements, horizontal and vertical, and covers all agreements between enterprises.

   d. **Withdrawal of leniency application:** A leniency applicant will now be able to withdraw its leniency application. But, the DG and CCI will be able to use the evidence submitted in the application.

   e. **Leniency plus:** The CCI will be empowered to grant additional leniency to an enterprise if it discloses a second cartel in the first cartel proceedings where he is already a leniency applicant.

5. **Organisational Changes:**

   a. **Governing Board:** A Governing Board will be constituted with 13 members (seven CCI whole-time members, two Government representatives (one from the Ministry of Finance and another from the Ministry of Corporate Affairs) and four other part-time members to be appointed by the Central Government). The functions of the Governing Board will be non-adjudicatory and will include, making CCI regulations, entering into MOUs, promoting competition advocacy and assisting in developing a national competition policy.

b. **DG will be appointed by the CCI** and not the Central Government. This may be a step towards merging the DG office with the CCI. However, the challenge would be to protect the functional autonomy of the DG as was intended by the original legislation.

c. **CCI Panels:** For adjudication, the Chairperson will have the power to appoint panels of three whole-time members.

Concluding Remarks

Overall, the Bill has plugged the loopholes which existed under the previous regime in order to establish a robust framework. However, Bill's stance on the omission of the constitution of a separate NCLAT bench for adjudication of competition cases suggested by the CLRC must be reconsidered since it can reduce the burden of NCLAT. While the amendments have struck the right balance between the interests of the CCI and the stakeholders involved, the impact of the strict implementation of the same remains to be seen.

3.5 NATIONALMANUFACTURING POLICY.

The National Manufacturing Policy was introduced to boost the country's share of industrial production, employment; development of world-class infrastructure and investments in India's manufacturing space.

The Department of Industrial Policy and Promotion (DIPP) under the Ministry of **Commerce and Industry** notified the National Manufacturing **Policy (NMP) on November 4, 2011**. The National Manufacturing Policy aims to boost the country's share of industrial production, employment; development of world-class infrastructure and investments in India's manufacturing space. The main objective of this policy is to enhance the **share of manufacturing sector in GDP to 25% from 16% and creating 100 million jobs by 2022.**

The policy is based on the principle of industrial growth in partnership with the States. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State

Governments will be encouraged to adopt the instrumentalities provided in the policy. The Department has taken up the implementation of the policy in consultation with concerned Central Government agencies as well as the States.

The policy has been formulated after detailed consultations with the industry; subject matter experts; State Governments and the concerned Ministries/ Departments of the Government of India. The policy envisages specific interventions broadly in the areas of industrial infrastructure development; improvement of the business environment through rationalization and simplification of business regulations; development of appropriate technologies especially green technologies for sustainable development and skill development of the younger population.

Industrial infrastructure development is envisaged not only generally but also through the creation of large integrated industrial townships called National Investment and Manufacturing Zones (NIMZs) with state-of-the-art infrastructure; land use on the basis of zoning; clean and energy efficient technologies; necessary social and institutional infrastructure in order to provide a productive environment to persons transitioning from the primary to the secondary and tertiary sectors. The land for these zones will preferably be waste infertile land not suitable for cultivation; not in the vicinity of any ecologically fragile area and with reasonable access to resources.

It is envisaged to ensure compliance of labour and environmental laws while introducing procedural simplifications and rationalization so that the regulatory burden on industry is reduced. The interventions proposed are generally sector neutral, location neutral and technology neutral except the attempt to incentivize green technology for sustainable development No subsidies are proposed for individual units or areas. The basic thrust is to provide an enabling environment for tapping the potential of the private sector and the entrepreneurial skills of the younger population.

National Investment and Manufacturing Zones (NIMZs) are an important instrumentality of the Policy. These zones have been conceived as large integrated industrial townships with state-of-art-infrastructure; land use on the basis of

zoning; clean and energy efficient technology; necessary social infrastructure; skill development facilities, etc. to provide a conducive environment for manufacturing industries. So far Fourteen NIMZs have been granted in-principle approval outside the DMIC region, out of which NIMZs at Prakasam in Andhra Pradesh; Medak in Telangana and Kalinganagar, Jajpur district in Odisha have been granted final approval.

The contribution of the manufacturing sector at just over 16% of India's GDP is much below its potential and a cause of concern especially in the context of other Asian countries in similar stages of development. This also has its socio-economic manifestations and prevents India from fully leveraging the opportunities of globalization. India is a young country with over 60% of its population in the working age group. With over 220 million people estimated to join the work force in the next decade, the manufacturing sector will have to create gainful employment for at least half this number. With a view to accelerating the growth of the manufacturing sector, the manufacturing policy proposes to create an enabling environment suitable for the sector to flourish in India.

It has following aims:-

The share of manufacturing in GDP to rise by 25% in 2022

- Increase in growth of manufacturing sector to 12 to 14 percent across the medium term
- Increase in rate of employment creation in manufacturing for creation of 100 million additional jobs by 2022
- Enhanced global competitiveness of Indian manufacturing through efficient policy support
- Launch of the Make in India programme in 201 with the aim of attracting business to make investments in manufacturing sector in India

Key features

- Policy is based on principle of economic and industrial growth in partnership with states

- Central government will create the enabling policy framework providing incentives for infrastructure development on PPP basis through effective financing
- Policy aims at setting up National Investment and Manufacturing Zones using clean energy efficient technology; NIMZ are provided with land area of at least 5000 ha
- Industrial townships are proposed to be self governing and autonomous bodies under the constitution
- Infrastructure will be financed appropriately by Central government through viability gap funding while Special Purpose Vehicle will develop zone infrastructure through PPP mode
- NIMZ will be managed by SPV headed by government officials and experts including that from the environment
- Policy also aims at improving access to finance for SMEs in manufacturing sector Delhi Mumbai Industrial Corridor/DMIC
- The first phase of NIMZ is carried along the Delhi Mumbai Industrial Corridor which will be anchored in the National Manufacturing Policy
- It will utilise the dedicated railway western Freight Corridor aimed at development of futuristic industrial cities

DMIC project covers the following 6 states

- Haryana
- UP
- Rajasthan
- MP
- Gujarat
- Maharashtra

- This project accounts for 43% of the national GDP and 50% of industrial production and exports; it also comprises 40% of the total workforce.
- Job creation for 3 million persons is another benefit of this project.
- DMIC has 24 nodes covering 11 investment regions and 13 industrial areas.

Facts and Stats

- Government of Japan has announced financial support for DMIC to the tune of USD 4.5 billion during the first phase through lending from:
  - Japan International Cooperation Agency(JICA) and
  - Japan Bank for International Cooperation(JBIC).
- Master plans have been developed for the following three nodes: Tumkur(Karnataka), Krishnapatnam (Andhra Pradesh) and Ponneri (Tamil Nadu) under the Chennai-Bengaluru Industrial Corridor with the assistance of JICA
- 7 investment nodes are being developed under DMIC as NIMZ:
  - Ahmedabad-Dholera Investment Region, Gujarat
  - Shendra-Bidkin Industrial Park city near Aurangabad, Maharashtra
  - Manesar-Bawal Investment Region, Haryana
  - Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan
  - Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh
  - Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh
  - Dighi Port Industrial Area, Maharashtra.

Why India Must Revive Its Manufacturing Sector

India's unique positioning in the global marketplace as a services-led economy is in contrast to most other developing economies, including China, which took the traditional route of labour-intensive manufacturing followed up

by higher value added part-labor, part-capital intensive manufacturing. This has come back to haunt India. While the services sector – employing decently skilled English-speaking workers – has had its share of glory, it cannot provide employment to the teeming masses. The scale and nature of employment that is required to employ people with limited skills and education can only be provided by mid- and low-end manufacturing.

After India liberalized in 1991, the services sector was long the fastest growing part of the economy, contributing significantly to GDP, economic growth, international trade and investment. Manufacturing contributes just 16 percent to India's GDP, compared to a 56.5 percent contribution by services. According to the Reserve Bank of India (RBI), India's ITeS/BPO exports rose 37 percent in 2012-13. While manufacturing exports continue to perform well, most of it remains in the skill-intensive sector (automotive, engineering, etc.). This does nothing for the large swathe of low-skilled workers who are either unemployed or laboring away in hazardous, inhumane conditions beyond the purview of established formal state regulations. Moreover, manufactured goods as a share of total Indian exports pales in comparison to the level in China.

The policymaking focus has now finally shifted to the manufacturing sector, with the government instituting a National Manufacturing Policy in 2011. The policy laid out plans to boost the manufacturing sector by raising its contribution to GDP to 25 percent and creating 100 million new jobs by 2025.

Even today, India's share of global manufacturing stands at little over 2 percent. China has meanwhile over the years positioned itself as the workshop of the world, accounting for 22.4 percent of global manufacturing. For India to achieve its stated goals of reviving the manufacturing sector and providing jobs to the tens of millions of unemployed youth, IT will need massive investment, including major contributions from foreign investors. What will be particularly helpful to India's job creation needs is vertical foreign direct investment (FDI), wherein production in the host economy is intended not just to serve the local (host) economy but also global exports. Such FDI is more employment intensive and also responds positively to quality infrastructure. This would also ensure

that India is seen as more than just a consumer economy, where the primary category of FDI is horizontal or market-seeking.

India owed to its bulging young population, poised to rise to 64 percent of the country's total population by 2020, A substantial share of them are low skilled workers, many having migrated from rural India to the urban centers. Jobs are not being created at a concomitant pace. Meanwhile, 40 percent of India's population are expected to be living in cities by 2030.Staying with the concerns of the workforce, reforming existing labor laws, while politically difficult, will eventually be in the interests of the populace. In non-agricultural urban India, where almost 70 percent of those employed fall beyond the "registered" manufacturing sector (i.e., the informal economy), there is an urgent need to not only formalize these professions but also encourage long-term, big ticket investments in large-scale manufacturing in order to provide meaningful employment to low-skilled workers. If India wants to avoid unemployment-spurred social mayhem, this is the approach to take.

The most urgent need is to upgrade India's physical infrastructure to encourage domestic and foreign direct investment in the manufacturing sector. This will absorb the rural labor surplus that is migrating to the cities by providing employment in labor-intensive, less technology-intensive manufacturing, regulated by humane labor laws catering to the contemporary needs of the economy.

Conclusion:

We come to the conclusion that the plan is both ambitious and impressive, intending to give mega industrial townships autonomy, incentivise public private infrastructure development and facilitate access to green technologies. It'll boost the Made-in-India label's global competitiveness. It'll also hasten factory expansion, a must for absorbing India's young workforce growing by around 20 million annually. With manufacturing wages rising in China, we can leverage the advantage of cheaper, abundant labour to attract investors.

The NIMZ are to be limited to government-acquired waste and infertile land, which seems to be logical and sensitive decision. The core idea of this

seems to skirt land-related strife and conserve ecologically sensitive areas. But, we also note that the project viability rides on logistics, there would be a requirement of fast development of the integrated infrastructure. Further, these zones will not appear overnight. We have an experience of procedural over delays and missed timelines. There should be a rule based process for expeditious development of these mega Hubs.

3.6 LET US SUM UP

Higher global demand for Indian manufacturing goods, higher purchasing power within the country, and increasing internal demand for manufactured goods are some key reasons for the improved performance of the manufacturing sector.

But of the same importance are the policies introduced and implemented by the govt.

These policies are to be reviewed, and amended wherever needed, so as to fit the prevailing economic scenario of the country.

3.7 EXAMINATION ORIENTED QUESTIONS

Q.1 What was the need to implement competition act, also mention its provisions.

Q.2 What are the objectives of National manufacturing policy.

UNIT-1: INDUSTRIAL POLICY DURING PRE AND POST REFORM PERIOD

M.A. Economics **Lesson-4**
Course No. 409 **Unit-1**

STRUCTURE:

4.1 Introduction

4.2 Objectives

4.3 Make in India

4.4 Start up India

4.5 Stand up India

4.6 Summary

4.7 Examination oriented questions

4.1 INTRODUCTION

Government of India launched series of schemes with a vision to promote India as an investment destination, to establish India as a global hub of manufacturing, design and innovation, to promote entrepreneurship among ST/ SC & Women, and to promote bank financing for start-up ventures to boost entrepreneurship and encourage start-ups with job creation.

4.2 OBJECTIVES

The objective of this lesson is to make students familiar with different

schemes launched by govt. their vision, working, relevance, progress and finally their evaluation.

4.3 MAKE IN INDIA

Make in India is a Government of India scheme launched by Prime Minister Narendra Modi in 2014 intended to boost the domestic manufacturing sector and also augment investment into the country.

The campaign aims to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure in India.

The government wants to revive the lagging manufacturing sector and spur the growth of the economy. The GOI also intends to encourage businesses from abroad into investing in the country and also manufacture here, by improving the country's 'Ease of Doing Business' index. The long-term vision is to gradually develop India into a global manufacturing hub, and also boost employment opportunities in the country.

The initiative seeks to woo domestic and foreign investors by promising a business environment conducive to them. In the PM's words, India will offer a red carpet to an investor instead of the hitherto red tape that they faced. The central government, various state governments, business chambers and overseas Indian Missions are all expected to play a key role in the successful operation of this initiative. Invest India, the country's official agency for investment promotion and facilitation, will act as the initial reference point for guiding foreign investors on all aspects of regulatory and policy issues and would also help them in obtaining regulatory clearances. The Government is closely looking to overhaul regulatory processes in order to make them simple and reduce the burden of compliance on investors.

Why Make in India?

There are multiple reasons why the government has chosen to focus on manufacturing. The key ones are discussed below:

1. For the past two decades, India's growth story seems to have been led by the services sector. This approach paid off in the short-run, and India's IT and BPO sector saw a huge leap, and India was often dubbed the 'back office of the world'. However, even though the share of the services sector in the Indian economy rose to 57% in 2013, it contributed to only 28% in the share of employment. So, the manufacturing sector needed to be augmented to boost employment. This is because the services sector currently has low absorption potential considering the demographic dividend in the country.

2. Another reason to launch the campaign is the poor condition of manufacturing in India. The share of manufacturing in the overall Indian economy is only about 15%. This is way lower than our neighbours in East Asia. There is an overall trade deficit when it comes to goods. The trade surplus in services hardly covers one-fifth of India's trade deficit in goods. The services sector alone cannot hope to answer this trade deficit. Manufacturing will have to chip in. The government is hoping to encourage businesses, both Indian and foreign to invest in manufacturing in India, which will help this sector and also generate employment in both skilled and unskilled levels.

3. To focus on manufacturing is that no other sector seems to have such a huge multiplier effect on economic growth in a country, according to various studies. The manufacturing sector has larger backward linkages and hence, growth in demand in manufacturing spurs growth in other sectors as well. This generates more jobs, investments, and innovation, and generally leads to a higher standard of living in an economy.

Make in India – Objectives

There are several targets aimed by the Make in India mission. They are:

1. Raise in manufacturing sector growth to 12-14% per year.
2. Create 100 million additional jobs in the manufacturing sector by 2022.
3. Increase in the manufacturing sector's share in the GDP to 25% by 2022.

4. Creating required skill sets among the urban poor and the rural migrants to foster inclusive growth.
5. A rise in the domestic value addition and technological depth in the manufacturing sector.
6. Having an environmentally-sustainable growth.
7. Augmenting the global competitiveness of the Indian manufacturing sector.

Make In India – Focus on 25 Sectors

The Make in India website also has listed the 25 focus sectors and also furnished all relevant details about these sectors, and related government schemes, including the FDI policies, IPR, etc. The main sectors (27 sectors) covered under this campaign are given below:

Manufacturing Sectors:

1. Aerospace and Defence
2. Automotive and Auto Components
3. Pharmaceuticals and Medical Devices
4. Bio-Technology
5. Capital Goods
6. Textile and Apparels
7. Chemicals and Petro chemicals
8. Electronics System Design and Manufacturing (ESDM)
9. Leather & Footwear
10. Food Processing
11. Gems and Jewellery
12. Shipping
13. Railways

14. Construction

15. New and Renewable Energy

Services Sectors:

16. Information Technology & Information Technology enabled Services (IT & ITeS)

17. Tourism and Hospitality Services

18. Medical Value Travel

19. Transport and Logistics Services

20. Accounting and Finance Services

21. Audio Visual Services

22. Legal Services

23. Communication Services

24. Construction and Related Engineering Services

25. Environmental Services

26. Financial Services

27. Education Services

Some of the key recent initiatives include:

1. **Ease of Doing Business**: India ranked 142 in the Ease of Doing Business Index ranking in 2014, down from 140 in 2013. The ranking is significant as it reflects the perceptions of the global business community about India's attractiveness as a place for doing business. India has improved its ranking by 79 positions in five years (2014-19). In the recent ease of doing business 2020 report, India jumped to 63rd position ,among 190 nations.

    a. To improve India's ranking, reforms are being undertaken in areas such as starting a business, obtaining construction permits, property registration, getting power supply, paying taxes, enforcing contracts, and resolving insolvency.

b. Other important reforms relate to the licensing process, time bound clearances for applications of foreign investors, automation of processes for registration with the Employees Provident Fund Organization and Employees State Insurance Corporation, reducing the number of documents for exports, adoption of best practices by states in granting clearances and ensuring compliance through peer evaluation, self-certification, etc

c. E-Biz Portal: The Government to Business (G2B) portal is being set up to serve as a one-stop shop for delivery of services to investors and to address the needs of business from inception through to the entire life cycle of the business. The process of applying for industrial licence (IL) and industrial entrepreneur memorandum (IEM) is now available to businesses on a 24x7 basis at the E-Biz website. Other services of the central government are also being integrated with the portal. d. Environmental and forest clearances: Applications for environment, coastal regulation zone (CRZ), and forest clearances can now be submitted online. The decision-making process for clearances has been decentralised. The requirement for environment clearance has been done away with for projects such as construction of industrial sheds which house plant and machinery, educational institutions and hostels.

2. **Infrastructure:** The government is seeking to improve the physical infrastructure in the country primarily through the PPP mode of investment. There has been increased investment in ports and airports. The development of dedicated freight corridors is being done and these corridors are expected to house industrial clusters and smart cities.

3. **Investment Regulations:** The government has liberalised FDI policy: a. 100% FDI under automatic route has been allowed in construction, operation and maintenance of specified rail infrastructure projects. b. FDI cap in Defence has been raised from 26% to 49%. c. The norms for FDI in the construction development sector are being eased

4. **Labour-sector reforms:** Multiple overlapping and inflexible labour laws

have been an impediment to the growth of manufacturing sector in India. The new government has initiated a set of labour reform measures such as:

a. A ShramSuvidha portal has been launched for online registration of units, filing of self-certified online return by units, computerisedlabour inspection scheme, online uploading of inspection reports within seventy-two hours and timely redressal of grievances.

b. A Universal Account Number has been launched to ensure portability of Provident Fund accounts for employees.

c. With a view to providing flexibility in working hours and increased intake of apprentices for on the job training, the Apprentices Act, 1961 has been amended. An Apprentice ProtsahanYojana has been initiated for the micro, small and medium enterprises (MSME) sector

5. **Skill Development**: It is quite true that 'Make in India' will not be possible without 'Skill India'. For the manufacturing sector to take advantage of the improved business environment and physical infrastructure, the need for having a strong human capital has been recognized by policy makers.

Make in India – Initiatives

1. For the first time, the sectors of railways, insurance, defense, and medical devices have been opened up for more Foreign Direct Investment (FDI).

2. The maximum limit in FDI in the defense sector under the automatic route has been raised from 49% to 74%. This increase in FDI was announced by Finance Minister Nirmala Sitaraman on May 16, 2020.

3. In construction and specified rail infrastructure projects, 100% FDI under the automatic route has been permitted.

4. There is an Investor Facilitation Cell that assists investors from the time of their arrival in India to their departure from the country. This was created in 2014 for giving services to investors in all phases such as the pre-investment phase, execution, and also after delivery services.

5. The government has taken steps to improve India's 'Ease of Doing Business' rank. India climbed 23 points in the Ease of Doing Business index to 77th place in 2019, becoming the highest-ranked in South Asia in this index.

6. The ShramSuvidha Portal, eBiz portal, etc. have been launched. The eBiz portal offers single-window access to eleven government services connected with starting a business in India.

7. Other permits and licenses required to start a business have also been relaxed. Reforms are being undertaken in areas like property registration, payment of taxes, getting power connection, enforcing contracts, and resolving insolvency.

8. Other reforms include licensing process, time-bound clearances for applications of foreign investors, automation of processes for registration with the Employees State Insurance Corporation and the Employees Provident Fund Organization, adoption of best practices by states in granting clearances, decreasing the number of documents for exports, and ensuring compliance through peer evaluation, self-certification, etc.

9. The government hopes to improve physical infrastructure chiefly through the PPP mode of investment. Ports and airports have seen increased investment. Dedicated freight corridors are also being developed.

The government has launched plans to create 5 industrial corridors. They are underway. These corridors are spread across the length and breadth of India, with a strategic focus on inclusive development which will augment industrialization and urbanization in a planned manner. The corridors are:

1. Delhi-Mumbai Industrial Corridor (DMIC)
2. Amritsar-Kolkata Industrial Corridor (AKIC)
3. Bengaluru-Mumbai Economic Corridor (BMEC)
4. Chennai-Bengaluru Industrial Corridor (CBIC)
5. Vizag-Chennai Industrial Corridor (VCIC)

Make in India – Schemes

Several schemes were launched to support the Make in India programme. These schemes are discussed below:

Skill India

This mission aims to skill 10 million in India annually in various sectors. Make in India to turn into a reality, there is a need to upskill the large human resource available. This is important because the percentage of formally skilled workforce in India is only 2% of the population.

Startup India

The main idea behind this programme is to build an ecosystem that fosters the growth of startups, driving sustainable economic growth, and creating large-scale employment.

Digital India

This aims to transform India into a knowledge-based and digitally empowered economy

Pradhan Mantri Jan DhanYojana (PMJDY)

The mission envisages financial inclusion to ensure access to financial services, namely banking savings & deposit accounts, remittances, credit, insurance, pension in an affordable manner.

Smart Cities

This mission aims to transform and rejuvenate Indian cities. The goal is to create 100 smart cities in India through several sub-initiatives.

AMRUT

AMRUT is the Atal Mission for Rejuvenation and Urban Transformation. It aims to build basic public amenities and make 500 cities in India more livable and inclusive.

Swachh Bharat Abhiyan

This is a mission aimed at making India more cleaner and promoting basic sanitation and hygiene..

Sagarmala

This scheme aims at developing ports and promoting port-led development in the country

International Solar Alliance (ISA)

The ISA is an alliance of 121 countries, most of them being sunshine countries, which lie either completely or partly between the Tropic of Cancer and the Tropic of Capricorn. This is India's initiative aimed at promoting research and development in solar technologies and formulating policies in that regard.

AGNII

AGNII or Accelerating Growth of New India's Innovation was launched to push the innovation ecosystem in the country by connecting people and assisting in commercializing innovations.

Make in India – Progress

There have been several milestones attributed to the Make in India scheme. Some of the prominent ones are listed below:

1. The introduction of the Goods and Services Tax (GST) has eased the tax procedural system for businesses. The GST has been a fillip to the Make in India campaign.
2. Digitization in the country has gained momentum. Taxation, company incorporation, and many other processes have been made online easing the overall process and improving efficiency. This has upped India's rank in the EoDB index.
3. The new insolvency code namely, the Insolvency and Bankruptcy Code 2016 integrated all laws and rules relating to insolvency into a single legislation. This has taken the bankruptcy code of India on par with global standards.

4. Due to schemes of financial inclusion such as the PMJDY, as of May 2019, 356 million new bank accounts were opened.

5. FDI liberalization has helped India's EoDB index to be favourable. Larger FDI inflows will create jobs, income, and investments.

6. Infrastructure and connectivity have received major push through schemes like Bharatmala and Sagarmala, as well as various railway infrastructure development schemes.

7. BharatNet – this is a telecom infrastructure provider set up by the GOI to enhance digital networks in the rural areas of the country. This is perhaps the world's largest rural broadband project.

8. India is ranked four in the world in terms of its capacity to harness power from winds and ranked number 6 in the world in harnessing solar power. Overall, India is ranked fifth in the world in installed renewable energy capacity.

9. Sector specific progress.

DEFENCE

- Indigenous defence products unveiled - Akash Surface to Air Missile System, Dhanush Artillery Gun system and Light Combat Aircraft
- The Defence Procurement Procedure (DPP) has been amended to introduce Buy Indian-IDDM (Indigenously Designed, Developed and Manufactured)
- Strategic Partnership Model introduced to encourage the participation of the private sector, in the manufacture of defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles. [20]
- The 11th edition of 'DefExpo' was organised from February 5 to 8, 2020 in Lucknow, Uttar Pradesh. [21]
- The Government of India has decided to set up two Defence Production corridors, one each in Uttar Pradesh (UP) and Tamil Nadu. [22]

- A Defence Investor Cell is also functional in the Department of Defence Production. [22]
- The maiden flight of indigenously developed Automatic Flight Control System (AFCS) integrated on LCH was conducted successfully by Hindustan Aeronautics Limited (HAL). [23]
- ARJUN MK 1A is indigenously developed by India. This a 3rd gen upgraded tank. This tank is filly designed and developed by combat vehicle research and development eshtablishment a laboratory of DRDO along 15 academic institutions. The Indian defense ministry has cleared the induction of 118 Arjun tanks in Indian army which is worth 8400 crore Indian rupees.
- Enhanced PINAKA rocket, developed by Defence Research and Development Organisation (DRDO) has been successfully flight tested from Integrated Test Range. The design and development has been carried out by Pune based DRDO laboratories.[27]
- Defence Research and Development Organisation (DRDO) achieved a major milestone with the launch of Medium Range Surface to Air Missile (MRSAM). The missile completely destroyed a high speed unmanned aerial target which was mimicking an aircraft with a direct hit.[29]
- Indian Air Force and French Air and Space Force will conduct a bilateral Air exercise, Ex Desert Knight-21 at Air Force Station Jodhpur from 20 to 24 Jan 21.
- Indigenously designed INS KAVARATI.

SPACE

- India's space program stands out as one of the most cost-effective in the world. India has earned worldwide recognition for launching lunar probes, building satellites, ferrying foreign satellites up and has even succeeded in reaching Mars.
- India has two operational launch vehicles: Geosynchronous Satellite

Launch Vehicle (GSLV) and Polar Satellite Launch Vehicle (PSLV). The number of launches undertaken by Indian Space Research Organisation (ISRO) during the last five years i.e. from 2015 to 2019 is as follows:

- o 2015: 5 launches (4 PSLV & 1 GSLV)
- o 2016: 9 launches (6 PSLV, 1 GSLV, 1 Scramjet Engine TD & 1 RLV TD)
- o 2017: 5 launches (3 PSLV & 2 GSLV)
- o 2018: 7 launches (4 PSLV & 3 GSLV)
- o 2019: 6 launches (5 PSLV & 1 GSLV)

- Till December 2019, a total of 319 foreign satellites from 33 countries have been successfully launched onboard Polar Satellite Launch Vehicles (PSLVs) by ISRO.
- On October 12, 2020, a Memorandum of Understanding (MoU) was signed between the Department Of Space (DOS) and NewSpace India Limited (NSIL). MoU will enable NSIL to transfer technologies to the industry.[14]
- Indian Space Research Organisation (ISRO) and India's space industry successfully launched PSLV-C49/EOS-01 Mission. Nine satellites, including four each from the US and Luxembourg and one from Lithuania, was also launched in the Mission.
- A total number of satellites launched till 10th February 2021 is 328 from 33 different countries and the revenue earned till date is USD 25 mn and EUROS 189 mn.

AUTOMOBILES

- The Automobile industry in India is a significant driver of macroeconomic growth and technological development.
- India is projected to be the world's third-largest automotive market in terms of volume by 2026.

- India has 4 large auto manufacturing hubs: Delhi-Gurgaon-Faridabad in the North, Mumbai-Pune-Nashik-Aurangabad in the West, Chennai-Bengaluru-Hosur in the South and Jamshedpur-Kolkata in the East.
- The Automobile industry manufactured 30.9 Mn vehicles including passenger vehicles, commercial vehicles, three-wheelers, two-wheelers and quadricycle in FY 2018-19.
- Out of 30.9 Mn vehicles manufactured in FY 2018-19, India has exported 4.6 Mn.
- The FDI equity inflow received by the Automobile Industry in FY 2019-20 is valued at USD 2.82 Bn.
- The Department of Heavy Industry has helped setup India's first Machine Tool Park (TMPT) is a world class facility that has been developedon 530 acres of land.

TEXTILE AND GARMENTS

- The Textile industry in India is one of the largest in the world with a large raw material base and manufacturing strength across the value chain.
- India became the second-largest manufacturer of Personal Protective Equipment (PPE) kits in the world.
- India is:
    - The largest producer of cotton in the world
    - The second largest exporter of cotton in the world
    - Leading consumer of cotton
    - The second largest producer of silk in the world
- India is a global leader in jute production, accounting for about 70% of estimated world production.[1]
- The total number of looms installed in jute industry was 48,322, as on 01 January 2018. The installed spindles in jute mills other than 100 % export

oriented units were 7,48,612. The maximum installed capacity in jute mills other than 100% export oriented is about 2.75 mntonnes annually.

- The Textile industry in India is one of the largest sources of employment generation in the country with more than 45 mn people employed directly in 2018-19.
- The industry contributes to 7% of industrial output in value terms, 2% of India's GDP and 12% of the country's export earnings.
- In 2018-19, 29.93 lakh bales have been imported and 42.83 lakh bales exported up to 31.01.2019.
- Under PAHCHAN initiative, 23.68 lakh artisans have been provided Identity Cards up to March 31st 2019. 50000 new artisans will be enrolled under PAHCHAN initiative. 309 Handicrafts training programmes have been proposed under HRD scheme to benefit 7600 artisans directly.
- A significant share of 12% in 2018-19 is of Textile and Clothing in India's total exports.
- India contributes 5% in global trade in Textile and Apparel.[18]
- The Cabinet Committee on Economic Affairs approved the proposal for mandatory packaging of foodgrains and sugar in jute material for the Jute Year 2020-21.
- On 19/08/2020, Jute Corporation of India and National Seeds Corporation signed MoU to provide 1000 MT of certified good quality seeds to jute farmers in the year 2021-22.

MAKE IN INDIA APPS

Digital India AtmaNirbhar innovate challenge was launched with a goal to identify the best indian apps that are already being used by citizens and have the potential to become world class apps in their respective categories. 6940 tech entrepreneurs and startups participated in the competition and the winners were declared in nine categories.

Make in India – Challenges

Even though the campaign has seen success in some quarters, there have been criticisms as well. There are also many challenges facing the country if she is to achieve the lofty targets set by the establishment. Some of the criticisms are laid out below.

1. India has about 60% of cultivable land. The thrust on manufacturing is said to affect agriculture negatively. It can even cause a permanent disruption of arable land.
2. It is also believed that the rapid industrialization (even with the thrust on "going green") can lead to a depletion of natural resources.
3. A fallout of inviting large-scale FDI is that local farmers and small entrepreneurs may not be able to face the competition from international players.
4. The campaign, with all its focus on manufacturing, can cause pollution and environmental side-effects.
5. There are serious lacunae in the physical infrastructure facilities in the country. For the campaign to be successful, it is necessary to build up the infrastructure available in the country and also reduce problems like corruption at the lowest levels. Here, India can take lessons from China, which has dramatically improved its share of global manufacturing from 2.6% in the 1990s to 24.9% in 2013. China rapidly developed its physical infrastructure like railways, roadways, power, airports, etc.

Make in India: The Downside

The strongest criticism of 'Make in India' has come from rather unexpected quarters. According to RBI Governor RaghuramRajan, an incentive-driven, export-led growth or import-substitution strategy may not work for the country in the current global scenario where developed nations are witnessing a tepid economic recovery. In such a scenario, market expansion to accommodate new players is limited or absent. The RBI Governor has warned against focusing on a particular sector such as manufacturing for encouragement just because it has

worked well for China because India, he says is different and moreover the circumstances of its development are different. He has argued that the government should focus on creating an environment where all sorts of enterprise can flourish, and leave businesses to choose what they want to do - "Instead of subsidizing inputs to specific industries because they are deemed important or labour-intensive, a strategy that has not really paid off for us over the years, let us figure out the public goods each sector needs, and strive to provide them". He said with external demand growth likely to be muted for at least the next five years, India should rather focus on producing for the internal market and a well-designed GST (goods and services tax) Bill, should be higher up on the priority list of the Government. Other critics have contended that the potential benefit from such a strategy in terms of industrial advance has been exaggerated. The integration into a global manufacturing value chain may result in a significant increase in the gross value of manufacturing production, but little in terms of increased value addition in domestic manufacturing. We can give the example of the iPhone or Barbie doll exports from China, which are huge in terms of value but value addition is low because much of the kit that is assembled is imported from abroad. China's industrial success cannot be attributed to exports alone, but also because of the growth of manufacturing driven by domestic investment. The policy has also been accused of being an "old wine in new bottle". The bid to make India another successful low-cost manufacturing base for global capital, as such, is nothing novel and successive governments at the Centre have been putting in place such policies with no sign yet of success. Probably, the only difference the new regime can make is to accelerate the pace of introduction and implementation of such measures. But even with a proactive regime success is not guaranteed. Many countries in the past have sought to become a "manufacturing hub" status and have failed miserably. In India's case, the major obstacle that springs to mind is 7 www.visionias.in ©Vision IAS the inadequate infrastructure, especially in power generation and distribution capacities, roads, ports, and transportation and communication facilities. The prospect of quickly reducing this infrastructure deficit is slim. The efforts at fiscal reform aimed to curtail government expenditures in order to reduce deficits, would further hamper the ability of the state to invest in

infrastructure. Also, private capital to build the supporting infrastructure has not been forthcoming despite the focus on PPP investments in recent times. Social activists are also worried about the implications of a manufacturing policy which would require vast tracts of land for setting up new industrial towns. There are fears of large-scale displacement and environmental deterioration and damage following this policy. Another big worry is that to emerge as a favoured low-cost manufacturing location, India would have to keep wages low and ensure labour discipline with laws that may have to be anti-labour. These concerns are not without basis and the government of the day would have to tread carefully to balance growth with concerns about labour welfare and the protection of environment.

Conclusion

In conclusion, we have to acknowledge the fact that advancing manufacturing growth will be essential if India wants to transform itself into a high-income economy. We cannot rely on services alone to fulfil this ambition. At the same time, we will also have to focus on skilling our youth population. The 'Make in India' programme may have the potential to transform India into a manufacturing hub but if we are to achieve that potential, the government would have to move beyond rhetoric to actual implementation of the announced policies. Many governments in the past have announced lofty policies to transform India's manufacturing but few things have changed on the ground. The National Manufacturing Policy of 2012 announced ambitious goals such as increasing manufacturing's share of GDP from 16% to 25% by 2022. It also sought to increasing manufacturing growth to 12-14% per annum over the medium term. Just three years later in 2015, most experts have already referred to the goal of increasing manufacturing's share to 25% of the GDP as out of reach as manufacturing growth has stumbled in the last few years. Finally, policy makers should also heed the words of RaghuramRajan and other critics. They should not be dogmatic about following the "jeans" model of escape from underdevelopment. Rather than blindly aping China, we should try to learn from the Chinese example and adapt the learning to the Indian and the current global context.

CHECK YOUR PROGRESS

Q.1 Why make in India scheme was launched?

Q.2 What are the objectives of make in india?

Q.3 What are 25 focus sectors.

4.4 START UP INDIA

Start-up India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Start-ups to grow through innovation and design

Startup India is a campaign that was first addressed by the PM Narendra Modi on 15th August 2015 at Red Fort, New Delhi. This campaign was introduced under the Government of India as an initiative to develop over 75 startup support hubs in the country.

Startup India scheme was launched on 16th January 2016 with an aim to promote and support the start-ups in India by providing bank finances. It was inaugurated by the former finance minister, Arun Jaitley.

Organized by the Department for promotion of industry and internal trade, the major objective of Startup India is to discard some of the restrictive States Government policies which include:

1. License Raj
2. Land Permissions
3. Foreign Investment Proposals
4. Environmental Clearances

The Startup India scheme is based majorly on three pillars which are mentioned below:

1. Providing funding support and incentives to the various start-ups of the country.
2. To provide Industry-Academia Partnership and Incubation.
3. Simplification and Handholding.

Definition:

"Start-up" has been defined to mean an entity incorporated or registered in India, with an annual **turnover not exceeding Rs.25 Cr** in any preceding financial year, and working towards innovation, development of new products, or services driven by technology or intellectual property

Key features

1. Single Window Platform:

In order to commence operations, Start-ups require registration with relevant regulatory authorities. Delays or lack of clarity in registration process may lead to delays in establishment and operations of Start-ups, thereby reducing the ability of the business to get bank loans, employ workers and generate incomes.

Government has decided to set up a mobile app and web portal for the purpose of easy registration of company and filing for compliances/obtaining information on various clearances/ approvals/ registration.

Registration for Startup India

A person must follow the below-mentioned steps that are important for the successful registration of their business under the Startup India scheme:

1. A person should incorporate their business first either as a Private Limited Company or as a Limited Liability Partnership or as a Partnership Firm along with obtaining the certificate of Incorporation, PAN, and other required compliances.
2. A person needs to log in to the official website of Startup India where he/ she has to fill all the essential details of the business in the registration form and upload the required documents.

3. A letter of recommendation, Incorporation/Registration Certificate, and a brief description of the business are some of the essential documents required for the registration purpose.
4. Since the start-ups are exempted from income tax benefits, therefore, they must be recognized by the Department of Industrial Policy and Promotion (DIPP) before availing these benefits. Also, they should be certified by the Inter-Ministerial Board (IMB) to be eligible for IPR related benefits.
5. After successful registration and verification of the documents, you will be immediately provided with a recognition number for your startup along with a certificate of recognition.

2. Fast Track Patent Approval at Lower Costs:

Intellectual Property Rights (IPR) are emerging as a strategic business tool for any business organization to enhance industrial competitiveness. Startups with limited resources and manpower, can sustain in this highly competitive world only through continuous growth and development oriented innovations; for this, it is equally crucial that they protect their IPRs.

Government to bear facilitation cost: Under this scheme, the Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Start-up may file, and the Start-ups shall bear the cost of only the statutory fees payable.

Rebate on filing of application: Start-ups shall be provided an 80% rebate in filing of patents vis-a-vis other companies. This will help them pare costs in the crucial formative years.

The patent application of Startups shall be fast-tracked for examination and disposal, so that they can realize the value of their IPRs at the earliest possible.

3. Compliance regime based on self-certification:

The objective of compliance regime based on selfcertification is to reduce the regulatory burden on start-ups. This self-certification will apply to laws like

payment of gratuity, contract labour, employees provident fund, water and air pollution acts.

4. 'Fund of Funds':

One of key challenges faced by Start-ups in India has been access to finance. Often Start-ups, due to lack of collaterals or existing cash flows, fail to justify the loans.

- In order to provide funding support to Start-ups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year).
- The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Start-ups, but shall participate in the capital of SEBI registered Venture Funds.
- The Fund of Funds shall be managed by a Board with private professionals drawn from industry bodies, academia, and successful Start-ups. It is important that this corpus is not managed by Politicians or bureaucrats, but smart, savvy fund managers who have a track record on investing.
- The Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.

5. Tax Exemptions:

- Due to their high risk nature, Start-ups are not able to attract investment in their initial stage. It is therefore important to provide suitable incentives to investors for investing in the Start-up ecosystem. With this objective, exemption shall be given to persons who have capital gains during the year, if they have invested such capital gains in the Fund of Funds recognized by the Government.
- With a view to stimulate the development of Start-ups in India and provide them a competitive platform, it is imperative that the profits of Start-up initiatives are exempted from income-tax for a period of 3 years.

Exemption from Capital Gains Tax : Currently, investments by venture

capital funds in start-ups are exempt from this law. Now, the same is being extended to investments made by incubators in start-ups

6. Launch of Atal Innovation Mission:

Atal Innovation Mission started to give an impetus to innovation and encourage the talent among the people.

The Atal Innovation Mission (AIM) shall have two core functions:

- Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs.
- Innovation promotion: to provide a platform where innovative ideas are generated.

7. Faster Exit for Startups –

Startups may be wound up within a period of 90 days from making of an application for winding up on a fast track basis, as per the recently tabled Insolvency and Bankruptcy Bill 2015, which has provisions for voluntary closure of businesses. This process will respect the concept of limited liability.

8. Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras

The Government shall set up 7 new Research Parks in institutes with an initial investment of INR 100 crore each. The Research Parks shall be modeled based on the Research Park setup at IIT Madras.

Startup India Benefits

After the launch of the Startup India scheme, a new program was launched by the government named the I-MADE program which focused on helping the Indian entrepreneurs in building 1 million mobile app start-ups. The government of India had also launched the Pradhan Mantri Mudra Yojana which aimed to provide financial supports to the entrepreneurs from low socioeconomic backgrounds through low-interest rate loans. Some of the key benefits of Startup India are as follows:

1. To reduce the patent registration fees.
2. Improvement of the Bankruptcy Code ensuring a 90-day exit window.
3. To provide freedom from mystifying inspections and capital gain tax for the first 3 years of operation.
4. To create an innovation hub under the Atal Innovation Mission.
5. Targeting 5 lakh schools along with the involvement of 10 lakh children in innovation-related programmes.
6. To develop new schemes that will provide IPR protection to startup firms.
7. To encourage entrepreneurship throughout the country.
8. To promote India as a start-up hub across the world.

Startup India – State Rankings

The result of the first Startup India state rankings was announced by the Department of Industry and Internal Trade in December 2018 based on the criteria of policy, incubation hubs, seeding innovation, scaling innovation, regulatory change, procurement, communication, North-Eastern states, and hill states.

Startup India State Rankings 2020

Ranks	States
Best performer	Gujarat (State), Andaman and Nicobar Islands(UT)
Top performers	Karnataka, Kerala
Leader	Bihar, Maharashtra, Odisha, Rajasthan, Chandigarh
Aspiring leaders	Haryana, Jharkhand, Punjab, Telangana, Uttrakhand
Emerging states	Andhra Pradesh, Assam, Chhattisgarh, Delhi, Himachal Pradesh, Madhya Pradesh, Sikkim, Tamil Nadu, Uttar Pradesh

Startup India State Rankings 2019	
Ranks	**States**
Best performer	Gujarat, Andaman and Nicobar Islands
Top performers	Karnataka, Kerala
Leader	Maharashtra, Odisha, Rajasthan, Bihar and Chandigarh
Aspiring leaders	Telangana, Uttarakhand, Haryana, Jharkhand, Punjab, Nagaland
Emerging states	Chattisgarh, Himachal Pradesh, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Uttar Pradesh Assam, Delhi, Mizoram and Sikkim

Startup India State Rankings 2018	
Ranks	**States**
Best performer	Gujarat
Top performers	Karnataka, Kerala, Odisha, and Rajasthan
Leader	Andhra Pradesh, Bihar, Chhattisgarh, Madhya Pradesh, and Telangana
Aspiring leaders	Haryana, Himachal Pradesh, Jharkhand, Uttar Pradesh, and West Bengal
Emerging states	Assam, Delhi, Goa, Jammu & Kashmir, Maharashtra, Punjab, Tamil Nadu, and Uttarakhand
Beginners	Chandigarh, Manipur, Mizoram, Nagaland, Puducherry, Sikkim, and Tripura

Conclusion

The government's new initiative for start-ups promises swift approvals for starting enterprises, easier exits, tax and fiscal incentives, faster registration

of patents and protection of intellectual property rights. It signals a possible end to the inspector raj that has sapped the energy and spirit of many young entrepreneurs in the country. Unlike India's large business groups, small entrepreneurs find it difficult to navigate the complex bureaucratic and regulatory maze. From that perspective, these supply-side reforms are welcome. But the easing of rules and creation of a conducive policy environment should not be restricted just to start-ups. It should be extended to all businesses. That will be the real test, along with getting more Indian firms domiciled overseas because of rules here to move back. Otherwise, the losers will be the government and local investors.

CHECK YOUR PROGRESS

Q.1 What is a start up ?

Q.2 What is funds of fund ?

Q.3 What are the tax exemptions under start up India ?

4.5 STAND UP INDIA

The Prime Minister of India, Mr. Narendra Modi launched the Stand Up India Scheme in April 2016, encouraging people from the scheduled caste and scheduled tribes and women across the country to become entrepreneurs by loaning them a sum of money to start a business.

The Stand Up India scheme aims at providing people belonging to the scheduled caste or scheduled tribe or women of the country a loan between Rs.10 lakhs to Rs.1 crore, based on their requirement. The aim is to promote entrepreneurship among them.

Under the scheme, 1.25 lakh bank branches would each be expected to lend money every year to at least one Dalit or tribal entrepreneur and one woman entrepreneur in their service area.

The scheme is anchored by Department of Financial Services (DFS), Ministry of Finance, Government of India.

Eligibility Criteria: Stand Up India Scheme

There are certain eligibility criteria that need to be fulfilled by the people applying for the loan:

1. The individual must be 18 years or above
2. The company must be a private limited/LLP or a partnership firm.
3. The turnover of the firm must not be more than 25 crores
4. The entrepreneur should either be a woman for a person belonging to scheduled caste or scheduled tribe category.
5. The loan will only be provided to fund greenfield projects i.e., the project must be a very first one being undertaken under the manufacturing or service sector.
6. The applicant must not a bank or any other Organisation's defaulter.
7. The company should be dealing with any commercial or innovative consumer goods. An approval of DIPP is also required for the same.

Loan details

- **Nature of Loan -** Composite loan (inclusive of term loan and working capital) between 10 lakh and up to 100 lakh.
- **Purpose of Loan** - For setting up a new enterprise in manufacturing, trading or services sector by SC/ST/Women entrepreneur.
- **Size of Loan** - Composite loan of 75% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 75% of the project cost would not apply if the borrower's contribution along with convergence support from any other schemes exceeds 25% of the project cost.
- **Interest Rate** - The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).

- **Security** - Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL) as decided by the banks.
- **Repayment** - The loan is repayable in 7 years with a maximum moratorium period of 18 months.
- **Working Capital** - For drawal of Working capital upto 10 lakh, the same may be sanctioned by way of overdraft. Rupay debit card to be issued for convenience of the borrower. Working capital limit above 10 lakh to be sanctioned by way of Cash Credit limit.
- **Margin Money** - The Scheme envisages 25% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

Key features of the Stand Up India scheme:

- The scheme is part of an initiative by the Department of Financial Services (DFS) to promote entrepreneurial projects.
- An amount ranging from Rs 10 lakhs to Rs.1 crore to be provided as a loan, inclusive of working capital for setting up a new enterprise.
- The scheme states that each bank branch needs to facilitate two entrepreneurial projects on an average. One for SC/ST and one for a woman entrepreneur.
- A RuPay debit card would be provided for the withdrawal of credit.
- Credit history of the borrower would be maintained by the bank so that the money is not used for any personal use.
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs.10,000 crore.

- Under this scheme, through NCGTC, creation of a corpus of Rs.5000 crore for credit guarantee.
- Supporting the borrowers by providing comprehensive support for pre-loan training like facilitating the loan, factoring, marketing, etc.
- A web portal has been created to assist people for online registration and support services.
- The main purpose of this scheme is to benefit the institutional credit structure by reaching out to the minority sections of the population by initiating bank loans in the non-farm sector.
- The scheme will also be an advantage for the ongoing schemes of other Departments.
- The Stand Up India scheme will be led by Small Industries Development Bank of India (SIDBI) along with the involvement of the Dalit Indian Chamber of Commerce and Industry (DICCI). Along with DICCI, there will also be involvement of other sector-specific institutions.
- The designation of Stand Up Connect Centres (SUCC) will be provided to SIDBI and National Bank of Agriculture and Rural Development
- An initial amount of Rs.10,000 crore will be allotted to the Small Industries Development Bank of India (SIDBI) to provide financial aid.
- There will be a pre-loan and an operational phase for this scheme and the system and Officials tend to help people throughout these phases.
- To help the credit system reach out to the entrepreneurs, the margin money for the composite loan will be up to 25 per cent.
- The people who apply for this scheme will be familiarised with the online platforms and other resources of e-marketing, web-entrepreneurship, factoring services and registration.

Benefits of Stand Up India Scheme

When the Government comes up with a scheme, its main aim is to benefit

the citizens and the same is the case with the Stand Up India scheme. Given below are the benefits of launching the Stand-Up India scheme:

- The basic aim of the initiative is to provide encourage and motivate new entrepreneurs so as to minimize unemployment.
- If you are an investor then Stand Up India gives you the right platform where you get professional advice, time, and knowledge about laws. Another benefit is that they would assist you in the start-up for the initial two years of your work.
- They also provide post set up aid to the consultants.
- Moreover, another benefit for entrepreneurs is that they do not have to worry much about how to pay back the amount that they have taken for the loan as they need to pay back the loan in a span of seven years, which reduces the stress of repayment for the borrowers. However, a certain amount needs to be paid back each year as per the borrower's choice.
- This scheme will help to eradicate legal, operational and other institutional obstacles for entrepreneurs as well.
- It can be a very positive boost in terms of job creation, leading to socio-economic empowerment of Dalits, tribals and women.
- It may also act as the driving force for other Government schemes like 'Skill India' and 'Make in India'.
- It will help protect the demographic dividend in India
- With access to bank accounts and technological education, it will lead to financial and social inclusion of these strata of society.

Tax Benefits/Incentives in Stand Up India

- The applicants will get 80% rebate after filing the patent application form. This can only be filled by startups and the benefits are also more for them as compared to other companies.

- There is also an inclusion of Credit Guarantee Fund and the entrepreneurs enjoy relaxation in Income tax at least for the first three years.
- There will be complete relaxation for the entrepreneurs for the Capital Gain Tax.
- Moreover, for the entities who qualify the program will further enjoy benefits like the redemption of tax on the profits earned.
- This is to ease the entities during the initial startup phase and that there is no burden of paying heavy costs for taxes.

Stand Up India Scheme: Challenges

Every scheme or program launched comes up with its set of advantages and disadvantages. The Stand Up India Scheme is also the same. The various challenges with the Stand Up India scheme are as given below:

- The education of the people about the socio-economic dimensions of Dalit entrepreneurship and women entrepreneurship has not been paid much attention. If this is not done, the Stand Up India scheme may not be very effective.
- The criteria for this scheme says that the company needs to be innovative. Judging whether a product is innovative or not is left to the discretion of the DIPP. This may lead to delays and also potentially good entrepreneurial ventures may be lost in the process
- The company is required to have a turnover of 25 crores. There are very few women-led entrepreneurs and SC/ST led firm which fit this criterion
- The self-help group's which have indeed provided some impetus to women entrepreneurs, especially in rural areas have been subject to elite capture and have been overwhelmed by locally dominant interests. The Stand Up India scheme does not make mention of any institutional measures to address these challenges
- Further, the banking sector has not yet penetrated to the hinterlands in a meaningful manner. Therefore, the challenges of lack of institutional bank

linkages, awareness among the people, digital divide and many other technical challenges can be obstacles to bank account linkages despite the success of Pradhan Mantri Jan DhanYojana. (PMJDY)

- The funding support of about 10 lakhs to 1 crore is inadequate for the manufacturing sector
- The SC/ST's and women have not been fully and meaningfully empowered in terms of tech-know how, access to skilled labour, knowledge about the sectors and so on.

The SC/ST population needs to be educated and socio-politically empowered further to reap the benefits of this scheme meaningfully. If implemented with the adequate ecosystem support, this scheme can indeed transform the socio-economic architecture of rural and urban India and realise the Gandhian directive principle of encouraging village and cottage industries could be fully and meaningfully.

CHECK YOUR PROGRESS

Q.1 What is eligibility criteria under stand up India.

Q.2 What are tax benefits under stand up India.

4.6 LET US SUM UP

Manufacturing sector has strong backward and forward linkages , it has wider scope of employment and income generation especially in the Indian context. Thrust on manufacturing is the need of hour, since we have potential to progress in this sector. India has make substantial progress after launch of these policies, as seen by ease of doing business index and global innovation index.

The most obvious impact of the Startup India programme is seen in the boost in the number of startups over the past five years. Post the launch of Startup India, 26 state governments launched their startup policies and overall 30 states have launched startup policies over the years, some predating Startup India. These policies along with the establishment of the state-sponsored incubators have been a key drivers of the startup ecosystem throughout India, particularly

in Tier 2 and Tier 3 cities. Further, 38 state-supported Atal incubation centres have been established in India since 2016.

Between 2016 and August 2020, Startup India programme says it has recognised over 34.8K startups. Among these, 8.3K startups received intellectual property rights (IPR) fee benefits, while over 2.6 Lakh people enrolled in the entrepreneurship-focused learning courses offered by upGrad and Startup India. Further, over $1 Mn worth benefits were given to 5.5K startups as part of over 150 startup innovation programmes and challenges organised by Startup India.

Among the many promises under Startup India, the government pledged to set up a fund of funds for startups, pooling together funds from various foreign institutional investors as well as alternative investment funds (AIF). Till date, over INR 3123 Cr has been committed by the government to 47 venture capital firms and INR 3476 Cr has already been invested in 323 startups from the fund of funds corpus managed by Startup India through Invest India.

Startup India also claims to have enabled global market access and knowledge for Indian startups through bilateral government collaborations with Russia, South Korea, Portugal, Japan, Netherlands, United Kingdom, Sweden, Finland, Israel, and Singapore. Also known as a Startup Bridge, these collaborations enable startups, investors, incubators, accelerators and aspiring entrepreneurs of both countries to connect with one another by providing them with resources to expand and become global entities.

India has made progress but still we have a long way to go, as far as manufacturing is concerned .

4.7 EXAMINATION ORIENTED QUESTIONS

Q.1 What is the aim and objectives of make in india scheme, also mention progress made under make in India scheme.

Q.2 Mention the progress made by India in ease of doing business index, in the context of these schemes.

UNIT-2 : INDUSTRIAL FINANCE

M.A. Economics	Lesson-5
Course No. 409	Unit-2

STRUCTURE:

5.1 Introduction

5.2 Objective

5.3 The need for finance

5.4 Type of finance

5.5 Sources of finance

5.6 Choice of funding

5.7 Let Us Sum Up

5.8 Examination oriented questions.

5.1 INTRODUCTION

Finance is the Backbone of any industrial activities. In this lesson, we will discuss the need, types and source of finance. More over the aspect like owned and external funds, choice of finding, interval vs external source are also discussed in this lesson.

5.2 OBJECTIVE

The objective of this lesson is to appraise the student about need, types and source is of the almost important for energy economic activities.

INDUSTRIAL FINANCE AND ACCOUNTING

The study of industrial finance is an important aspect of industrial economics. There are two major dimensionsof such study. One is the sources of finance and the second its effective utilization. A business firm takesdecisions on various issues of these two dimensions of financing. Such decisions will have widespreadramifications as the activities of the firm are interrelated and finance is involved in all of them. Let us take a simple example of financing expansion of a fine. The money for expansion may be raised by borrowing from the markets or byreduction of dividend payments or by curtailing expenditure on some other activities of the firm.If the fine borrows from the market it has to return the money with interest in due course of time. Arisk is involved in this. Moreover, the firm is subjected to the pressure of the creditors which may affect itsefficiency. If the money is raised by lowering dividend, the price of the firm's shares in stock market may fall.The firm, thus, loses its good will and eventually faces a difficulty in meeting its requirements of funds fromoutside. If other corporate activities are curried in order to make the money available for expansion, the firm is likely to lose its competitive position in the market which in turn, may affect its earning. In making thechoice of financing the firm will examine all such possible effects of the decisions on its position and performance. There will be similar effects of the decisions on its position and performance. There will besimilar effects of utilization side of finance on the performance of the firm. A firm having greater proportionof liquid assets in its financial structure may lose profitability. On the other hand, too much fixed assets may lead to a situation when the firm experiences shortage of working assets due to poor liquidity. Consideringall such possibilities, the firm has to maintain a proper balance in its assets, i.e. uses of funds in the light ofits objectives. How financial decisions are made for this as well as for procurement of finance is acomprehensive subject for study which is covered under Business Finance or Financial Management. Thisis an integral part of Industrial Economics, since financial behaviour of the firm cannot be studied in isolation with the other elements of the firm's behaviour in the market under different situations. Financial constraints are as important for the firm as market and technological constraints. Even in public regulation of the firm or industrial financial instruments play the

key role in practice. This chapter and the following two others will give a brief outline of the financial analysis which will be adequate to understand the financialbehaviourof the firm and its integration with the other elements of Industrial Economics. The present chapter will take up the various issues related to industrial finance and accounting for discussion while the analysis of financial statements and capital investment, etc, will be carried on in the following chapter.

5.3 THE NEED FOR FINANCE

A firm, whether it is owned by an individual proprietor or partners or shareholder, undertakes business in anticipation of future gain or return from it. For setting up in business the firm has to make advance expenditure Service. Finance is need to undertake all such activities in business. The money which the firm has commits on its business is expected is come back to the human the form of return in sue to course firm has to wait for this. a farmer ploughs and show the petrol, labour, etc, before it gets paid for its haulage service. Similarly, a manufacture has to produced goods before he can sell them. He can do so only when he has adequate finance for production of his goods. It is true that in some industries goods are sold before they are made but even in such industries the entrepreneur need finance is thus a necessary precondition for business, both for its initiation and smooth running.

The requirement for finance depends on the type of business or production and the kind of payment for which it is to be used. Large scale production with capital-intensive technology world required huge amount of money for initial investment and for operating expenses. Small scale production with relatively labour-intensive technology on the other hand may need less amount of money to start the business and to operate it. The nature of technology and the level of output to be produced are natural determinants of the requirement of finance. In some business, it takes considerably long time to set the plant and to make it operative. In business technology such length of time is called‘gestationperiod. Longer the gestation period, more will be the requirement of finance. Steel mills, refineries, ship-building, power plants, etc., are a few example of such business. A part from the gestationperiod, the length of operatingcyclic will have

considerable implications for requirement of finance. Operatingcyclic is thespeed with which the working capital completes its round. i.e. conversion of cash into inventory of raw materials and stores, inventory of raw materials into inventory of finished goods, inventory of finished goods into books debts or accounts receivable from the customers and finally realization of cash from the customers and finally realization of cash from the customers. Longer is the period for such cycle more will be the requirement of finance for business operations. The other factor'sinfluence the requirement of business finance can be cited as terms ofpurchasesand sales, growth andexpansion policies of the term, dividend policy, production policies, business, cyclefluctuation and managerial efficiency of the firm. In short, initially finance is needed to establish the business. i.e. installation of plantand other facilities which we call 'fixed capital formation'. Once such facilities are developed than money will needed for meeting the requirements of working capital. The configuration of technical factor, market and marketing forces and internal managerial decisions andefficiency of thefirm will determine the need for finance. The relative important forof individual factors in such configuration is likely to vary across the industries.

5.4 TYPE OF FINANCE

There are basically two type of fiancé –short-term and long-term. Short-term finance is needed to meet day-to-day requirements of working capital, i.e.making each round of production possible. Long-term finance is needed to meet the requirements of fixed capital formation, i.e. to buy long-life assets which are used repeatedly in the process of production. Normally a firmwill not commit long-termfinanceforshort-term purposes. A firm, for example, will not use its equity capital raised from stock-market for meeting the requirements of working capital. There is a great risk of capital loss by doing so. Since themoney invested in short-termuses is not certain to be realized in the form of return from the business. It is only, expected to flow back to the firm in the form of realized sales. Between these two categories of finance, e.g. short-term and log-term, there is no unanimity about what constitutes the medium term it can be nay use of money between, say, one to ten years. The medium term finance has considerable

flexibility in its uses. It may be sought for investment in plant and equipment and so semi-permanent or permanent addition to current assets say long-term buffer stock of certain input higher purchase requirements or leasing of equipment or other property for use in business. The firm can use term finance the retiring a bond issue ofredeemable preference shares.

Short-term finance, used in business, is paid back when the goods are sold. it will be recovered when everything produced with its help is sold to the customers at a reasonable price and the cash from thesales is realized by the firm. After making appropriate deductions for profit, depreciation and other imputedvalues, the firm uses the balance of the sales revenue to finance the next round of production. There maybe deficiency in financing the successive rounds of production when the output of the previous round ofoperation is not sold fully in the market and thus part of the working capital remains unrealized. Thedeficiency of funds may also arise as a result of increase in cost of production and upward revision of theproduction target. In all such situations, the firm would be in need of additional slior1-term finance whichcould be arranged by either drawing from the reserves of accumulated retained earnings and depreciation or borrowing from outside. Retained earnings and depreciation reserves are generally used for long-term financing, i.e. for expansion of productive capacity of the firm or replacement of old unserviceable equipmentby new one. If such reserves are diverted towards short-term uses then there may be deficiency in financingthe long-term expansion plans of the firm. Again it has to go to the market for borrowings to cover up such deficiency. Both the types of finance are, thus, used for different purposes. The firm is likely to face difficulties or complications in properuse of its money if there is overlapping in the uses of short-term andlong-term finances. The overlapping is possible of course in the case of medium-term financing.

Besides the requirements of finance for short-term and long-term purposes a firm would need money to meet future uncertainties and business-risks. Fraud, embezzlement, thefts, fire-destruction, etc., are someexample of business-risks and uncertainties. Firms generally maintain adequate financial reserves to meetsituations. There is no specific name for this type of financing. Some of the

risks are covered throughshort-term provisions such as insurance coverage but, by and large, there is no standard procedure to account for them regularly. Each firm will be having its own criterion and judgment to meet the financial requirements for risk-coverage. Its short-term and long-term financial policies will take care of such requirements mostly on probability basis. So, we may still classify the finances into two general categories: short-term and long-term, and add a third one to themwhich is called 'medium-term finance' as defined and discussed above.

5.5 SOURCE OF FINANCE

Storeimportant inquiry in connection with the financial analysis is to examine the sources of short-termlong-term finances. Where from we get them and at what cost, is a highly relevant question. In this section the first part of this question is being examined leaving the second part for the later section. Sources of finance can be divided into three categories:

i. Internal or Self-Finances comprising of (a) Retained Earnings, (b) Depreciation Provision, (c) TaxationProvisions, and (d) Other Reserves.

ii. Short- and Medium-term External Ponds comprising of mainly (a) Bank Credit, (b) Hire-Purchase Debt,(c) Trade Credits, and (d) Fixed Deposits.

iii. Long-term External Funds, i.e. the sale of shares and loancapital.

Internal Sources

Internal funds are generated by the firm itself. The major portion of such funds will be in the form of reserves and surplus which a business firm accumulates annually by retaining a portion of its profits. Apart from contained earning a business firm makes annual provisions for depreciation allowance, taxation, etc. The accumulated amounts of such provisions constitute the other element of internal funds.

Deprecation money would be used for replacement of old and unserviceable fixed assets. However there is no strict rigidity in use of internal funds. If needed, such funds could be used absolute levels of past and current

profits, the policy adopted by the firm towards, the distribution of such profits (i.e divided policy) and scope and need for expansion of the firm. The dividend policy or retained earnings decision of the firm directly affects the current supply of internal funds for long-term uses and indirectly the external funds for such uses, since for a given requirement of long-term funds greater the proportion of internal supply of funds lesser will be the dependency on external sources, other things such as cost of capital, etc,. remaining same. The availability of deprecation founds depends on the amounts of capital invested on fixed asserts., method of depreciation calculation. Service-life of the asserts rate of discount, etc. The internal funds available from other source such as taxation (net of income tax) provision, development rebate etc., will depend mainly on the government's fiscal and investment policies. Their proportion in the total internal funds will be normally very low or insignificant.

External source: short-term

External funds for short-term uses are raised in various forms such as bank loans, trade credits, commercial papers like bill-of-exchanges and other promissory notes, hire-purchase facilities and leasing, etc. Banks are traditional source of short-term finance. They provide credit for industry and trade in the form of loans and overdraft facilities basically to meet the working capital requirements. Such loans mature within a year time after which they are either returned backed with interest or renewed for next year. Banks also provide medium term loans to meet the requirements of fixed capital formation pending the raising of long-term finance through other sources. Availability of bank finance depends on good banking relations, cost of borrowing, repayment terms, credit-worthiness of the firm, and nature of business whether it is risky or not, etc.

Trade credit is another important form of short-term financing. It refers to the sale of goods on non-cash terms. A firm receives trade credits when it pays in arrears for goods and services received from its suppliers. It gives credits when it allows its customers time for paying the bills. The firm giving trade credit records it under "accounting received by the firm largely in manufacturing and distributing sector. It is now becoming popular in other sectors of economy also.

There are four important factors which determine the volume of trade credits, they are (1) the nature of product, (2) the seller's financial position, (3) the buyer's financial position and (4) the terms of sale, i.e. the cash discounts. The nature of product refers primarily to the speed of sales turnover. The products that have faster sales turnover, i.e. sell quickly in the market, are sold on shorter credit terms as the firm giving such credit would not be facing slackness of demand for its product and consequently accumulation of inventories. Where demand prospects are positions jointly determine the availability and terms of trade credit. A seller's and buyer's financial position may offer favourable credit terms for longer period than a seller whose financial position is weak. Similarly, a buyer with strong financial position may prefer shorter trade credits as he would like to have benefits of cash discount while buying goods. A buyer having weak financial position wouldnot be able to get such cash discount. His option will be to prefer long trade credits. Cash discounts will have independent influence on the length of credit. A seller may induce its buyer to reduce the length of trade credit received by them by offering high cash discounts. Trade credits are flexible and deadly available source of short-term finances. However, there will be costs associated form the seller's and buyer's codes in trade credit transitions which are to be properly balanced with the advantage of the system.

Another source of short-term finance is commercial papers which consists of the unsecured promissory notes of large firms sold primarily to other large firms and financial institutions. The bill-of-exchange is a simple example of a commercial paper is widely used in financial markets for short-term funds. The bill-of-exchange is, in law an unconditional order in writing, addressed by one person to another the person giving it, requiring the person to whom it is addressed to pay on demandor at determinable future time a sum certain in money to or to the order of a specified person or to beater. The person to whom the bill is addressed'accepts'it by signing on its face. Tire bill-of-exchange then a legal commercial paper and an instrument for short-term financing. The drawer of the bill (i.e.the who issues it) can hold it himself until it is due for payment or he might be able to discount it with a bank or discount house and get payment at once less interest for the outstanding period and banks the service'

He might be able to use it after endorsement to pay a creditor of his own if the willing to accept the bill the use of the bill-of-exchange is restricted now to large firms. Deferred cheque arenow preferred over the bill-of-exchange. In India, 'Hundi' is the conventional form of the bill-of-exchange. Being a form of unconditional promissory notes, the success of the bill-of-exchange in credit market depends on goodwill of the business firms commercial papers, including the bill-of-exchange, are usually cheaper than unsecured bank loans. The business circles, particularlythe large corporations, find them convenient in use.

Recently hire-purchase system has gained the status of an important source of short-term financing. Firmsresort to this practice for buying machinery and plants and other durable goods. It is the easiest-way of financing since the firm pays in installments for the goods and the security of loan (i.e. value of goodspurchased) resides in the goods purchased as they belong to the supplier till will payment is made for them.This system of financing, though convenient, may be expensive. It is more appropriate for medium-term financing rather than short-term. There are other miscellaneous ways of short-term financing which on the whole may be quite significant. Fixed deposits with companies under the companies (Acceptance of Deposit)Rules, 1975, in India, for example, is becoming a popular way of financing for short-term, medium-term purposestheir borrowing from commercial banks. Public deposits are channelized in business directly rather than throughbanks, which eliminates bank profits and service charges from the cost of funding. The facility of publicdeposits is beneficial only to large corporations. Small business firms run by single proprietors or partnerswould not be resorting to this method of financing. They depend for their short-termfinances on the othersources discussed above and even may go to private unorganized money markets for funds.

EXTERNAL SOURCES: LONG-TERM

Long-term finance is raised from external sources in the form of share or equity capital and borrowings. The issue of shares and thus raising of share capital from outside is regulated by the government. It is, therefore also called as 'authorized paid-up capital'. The shares are 'sold' in the market in two forms:

ordinary common shares and preference shares. Mainly, they are distinguished on the basis of the mode of payment dividend. The rate of dividend on preference share is fixed which is to be paid even though there may be a loss in earnings. The rate of dividend paid to ordinary shares will be fluctuating depending on earnings and dividend policy of the firm. The proportion of preference shares will normallybe extremely low or evenitsignificant in the total number of shares floated by the firm. A public limited company will collect its authorizedequity capital from a large number of shareholders directly or through brokers. A private limited company however restricts the number of shareholders to 50 only. Though tile share capital is owned by the owner of the firm, i.e. the shareholders, yet it comes under external funds because it is not earned by the firm itself. It comes from the outside sources. Some shares are, of course distributed by the firm form its serves and surplus stock to its shareholders. Such shares are called bonus shares. The amount of money shown by such share will of course be defined internal funds.

Bounds and debt instruments. A bond is a security to pay a certain number and money units of yearly until it matures. After that time the borrower pays back the principal of the bound at the. A debenture is just like an equity share but it is a loan to the company. A person holding debenture get interest at fixed rate. He cannot participate in the ownership of the firm. The loan specified by debenture is usually, but not necessarily, redeemable in the stated year or within a stated range of years. It is normally secured on the company as a specific assets. Such debenture is called mortgage debenture. The debenture may be secured by a general changes on the assets of the company. It is then called floating debenture and when it us secured at all then unsecured debenture. If debentures are convertible into shares then they are called convertible-debenture'. A growing practice in most of the industries is, now to issue such debentures. Bonds and debentures are alike as for as their functionsare concerned. Both, being debt instruments, save corporate income tax. However, a bond is issued for some fixed time but debenture has not such limit of time.

5.6 CHOICES OF FINDING INTERNAL VS EXTERNAL SOURCES

Once alternative sources of financing are available to a firm it has to make the choice from them. Particular the decisions to the taken whether money is to be raised from internal or external sources. If external sources are to be tapped then the obvious question arises about the form in which funds should be raised. A firm may float more shares in the market. It may raise money through debenture and bonds or simply borrow from banks and or financial corporations or even approach the government or its own friends for help. The choice of the form in which finance is to be raised is not very easy. Let us examine some of the issues involved making such choice.

As the choice between internal and external finance is concerned, firm in general prefer the former one. There are some advantages from this. it will be easy for the firm to take risks with internal, i.e. own money than with someone else's. The firms will be having flexibility in the use of internal funds. They will not be subjected to control and pressure of outsiders in the company's affairs which is an inherent difficulty of external finance. The firms pay high price by surrendering control, or a part of it, to the outsides by taking external finance. Further, the firms need not be under constant pressure of increasing their profits to meet the cost of funding effectively. They may be contented with some satisfactory level of profits with internal money. Whatever be the advantage of internal financing economists' suspect it as conducive to an inefficient use of resource since companies relying on entirely internal funds are subjected to no checks on the relative profitability of their investment. Such as imposed by competition for fund in the market. With external funds, a firm becomes more conscious of the cost of financing. It attempts to maximize its profits through efficient management of the funds and their utilization. It is, thus, subjected to the test of the market which makes firms more efficient. Firms relying on internal funds, particularly the small firms who find it difficult to borrow or raise money from outside may be as efficient as the firms which are subjected to the market test through external finance provided their management is efficient. Most of the

firms go to the for money when internal sources are not enough. A firm retaining high proportion of its profits for internal financing is likely to lose its wealth as low rate of dividend affects the value of shares adversely. On the other had of the firm approaches the market for funds frequently in the absence of sufficient internal funds, it has to pay higher rate to cover the creditors risk due to its high indebtedness. The external situation of financing, i.e. hundred per cent internal or external finances are unlikely. The common practice observed in business circles is that firms maintainsome appropriate proportion between internal and external funds. The proportion of the funds depends on factors like purpose for which funds are required profitability of the firm, dividend policy, stability of earnings, relative cost of funds, availability of funds nature of business, structure of firm's assets and liabilities, ownership pattern of the firm, future expectation and the regulatory policies of the government. Such factors are not allowed to raise equity capital beyond a certain limit by floating shares. Similarly, they are not free to issue bonds or debenture beyond the sanctioned limit. Considering all constraints imposed by the government by the government and/or market, firm will take decisions about the financing pattern of their business. The principle of opportunity cost of funds will be the basis for financial decision-making. If opportunity cost of internal funds is high, the firm will be external funds in greater proportion and vice-versa.

While taking financial decisions a firm has to keep in mind that there should not be either under capitalization or over-capitalization of its business. Under-capitalization is a situation when funds are inadequate for the work they intend to do. If there is such situation, the firm will face several consequence. It will be two much cautious in its uses of funds. It will be foregoing spot bargains, economies of buying and cash discounts due to shortage of finance. It will be dependent on markets for short term finance. Frequent borrowing by the firm from outside may be viewed as a red signal about the sound of the firm. Creditors may therefore raise the rate of interest for such firm in order to cover the risks of defaults The current operations and growth of the firm are likely to be to under-capitalization. The suppliers of the firmdo not get their payments in time thedeliverers of materials, etc. This hampers production and consequently by

thecustomers and eventually a loss of revenue and further deterioration in the financial position of the firm. If production, and hence earnings are maintained effectively (which is unlikely of country) then under-capitalization makes the profit-rate high. Because of high profit-rate there may be demand from workers for more wages, customers plead for lowerprices and the firm is subjected to public criticism for higher profits. This puts the firm in embarrassing situation. If the firm responds to all such demands then its financial position will worsen further.

Over-capitalizationis the reverse situation, i.e., funds are more than required. It helps themanagement in the early stages in bringing the stability in earnings and growth of the firm. However, too much money in the hands of managers is a temptation to waste and inefficiency. This may lead to low income-capital ratio which, in turn, reduces the rate of dividend. Low dividends due to over-capitalization, eventually put unfavourable effect on the market valuation of the firm's shares which implies a loss to the firm. The externalfinancing in such situation becomes more difficult or expensive forcing the firm to rely more on internalsources. If this is so, the firm has to make adequate provision for internal finance to meet its currentrequirements by increasing retained earnings. This reduces the rate of dividend further which puts the firmin troubles in the share markets. To avoid such possibility the firm may be led to low income-capital ratio which, in turn, reduces the rate of dividend. Low dividends due to over-capitalization, eventually put unfavourable effect on the market valuation of the firm's shares which implies a loss to the firm. The external financing in such situation becomes more difficult or expensive forcing the firm to rely more on internal sources. If this is so, the firm has to make adequate provision for internal finance to meet its current requirements by increasing retained earnings. This reduces the rate of dividend further which put the firm in trouble in the share markets. To avoid such possibility the firm may be led to inflate its income by dubious methods in order to show high profitability on , though it increases maintain its good will in the stock-market the firm has to make some sacrifice. In practice, a rational, i.e.efficiently managed firm, would never allow itself to be in such a trap.

Both, under-capitalization and over-capitalization are undesirable symptoms of business. They are to beavoided. For this, the firm has to be very careful in making estimates of capitalrequirements for its business.once such estimates are made the him looks for the sources of funds. The choice of the sources of fundswill be governed by the factors mentioned earlier such as purpose of funding, cost of capital, current and expected earnings, dividend policy of the firm, assets-structure, government policies, etc. It is not very easy to find the optimum structure of financing since this requires a careful balancing of so many interplayingfactors.

5.7 LET US SUM UP

A business firm, whether it is owned by an individual proprietor or partners or shareholders, undertakes business in anticipation of future gain or return from it. For setting up in business the firm has to make advance expenditure before it receives any return.

The machines are to be purchased, the factory space is to be purchased or leased, raw materials are to be bought and wages and salaries arc to be paid to the employees for their services Finance is needed to undertake all such activities in business. Thus arises the need for finance. . Finance is considered as the life-force of industry. Without getting adequate finance industrial development is not at all possible. Industries require both short term, medium term and long term finance for meeting their requirements of fixed capital expenditure and also to meet their working capital needs.

Therefore, it is necessary to understand type and source of industrial finance .

Key words:- Fixed capital, bond, debentures embezzlement, retained earnings, hire purchase, lease, dividend.

Short answer Type questions

Q1: What are the types of Finance?

Ans:- There are basically two types of finance:

Short term and long term

Short term finance is needed to meet day to day requirement of working capital. Long term finance is needed to meet the requirements of fixed capital formation i.e. to meet the requirement of foxed capital formation i.e. to buying long life assets which are used repeatedly in the process of production.

Q2:- Discuss the source of finance.

Ans:- Source of finance can be divided into three categories.

a) Internal or Self Financing comprising

(a) Retained earnings (b) Depreciation Provision

(c) Taxation Provisions (d) other reserves

b) Short and Medium Term External Funds comprising of mainly

(a) Bank Credit (b) Hire Purchase debt

(c) Trade Credits (d) Fixed Deposits

c) Long term external funds i.e. the sale of shares and loan capital.

5.8 EXAMINATION ORIENTATED QUESTIONS

1. Discuss the need and important of Industrial finance.
2. What are the various types of finance?
3. What are the basic sources of finance?
4. Discuss in details the choice of funding: External vs Internal.

Suggested Reading

Barthwal, R.R, An Introduction to Industrial economics, New Age Publishing House.

UNIT-2 : INDUSTRIAL FINANCE

M.A. Economics — **Lesson-6**
Course No. 409 — **Unit-2**

STRUCTURE:

6.1 Introduction

6.2 Objectives

6.3 IDBI

6.5 IFCI

6.6 State Financial Corporation

6.7 ICICI

6.8 Let Us Sum Up

6.9 Examination Oriented Questions

6.1 INTRODUCTION

In India there are number of financial institutions doing commendable work in the field of finance. In this lesson an attempt is made to discuss the role, nature, volume and types of various financial institutions like IFCI, IDBI, ICICI and SFC.

6.2 OBJECTIVES

The objective of this lesson is to make the student role and important of

finance institutions like IFCI, IDBI, ICICI and IFCI, so that they may have knowledge of every aspect of these institution.

Financial Institution of India

The economic development of any country depends on the extent to which its financial system efficiently and effectively mobilizes and allocates resources. There are a number of banks and financial institutions that perform this function , one of them is development bank.

Development banks are unique financial institutions that perform the special task of fostering the development of a nation., generally not undertaken by other banks.

Development banks are financial agencies that provide medium and long term financial assistance and act as a catalytic agents in promoting balanced development of a country .

6.3 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

Prior to the establishment of the industrial bank of India, the country had a no. of special industrial financing institution. They had done commendable work in the field of industrial finance, through in terms of range and magnitude they could not adequately meet no apex organization to coordinate the functions of various industrial financing institution. It was under these circumstances that IDBI was set up as wholly owned subsidiary of the RBI. In February 1976, the IDBI was made an autonomous institution and its ownership passed on from the reserve bank of India.

The IDBI has rightly been designated as the apex organization in the fields of development banking. It not only has organizational links with other development banks but it also readers some such service to term which only an apex organization is expected to perform.

In the first place, it provides reference against loans granted to industrial

concerns by other development banks like the IFCI, the SFC and so on and rediscount their machinery bills.

Secondly, it subscribes to the share capital and bond issues of the IFCI the ICICI, the SFCs and the IRCI. Apart form these linkages the IDBI plays the role of a coordinator aall India level. For this proper machinery has been evolved and regular meetings of the Heads of Various financial institutions are held under its leadership. Thus the IDBI enjoys a unique position in India's development banking system.

Conversion of IDBI into a commercial bank

A committee formed by RBI recommended the development financial institution (IDBI) to diversify its activity and harmonize the role of development financing and banking activities by getting away from the conventional distinction between commercial banking and developmental banking. To keep up with reforms in financial sector, IDBI reshaped its role from a development finance institution to a commercial institution. With the *Industrial Development Bank (Transfer of Undertaking and Repeal) Act*, 2003, IDBI attained the status of a limited company viz., IDBI Ltd.

Subsequently, in September 2004, the Reserve Bank of India incorporated IDBI as a 'scheduled bank' under the *RBI Act*, 1934. Consequently, IDBI formally entered the portals of banking business as IDBI Ltd. from 1 October 2004. The commercial banking arm, IDBI BANK, was merged into IDBI in 2005.

Initially, it operated as a subsidiary of the Reserve Bank of India and later RBI transferred it to the Government of India. LIC completed the acquisition of 51% controlling stake on 21 January 2019 making it the majority shareholder of the IDBI Bank. Reserve Bank of India has clarified vide a Press Release dated 14 March 2019, that IDBI Bank stands re-categorized as a Private Sector Bank for regulatory purposes with effect from 21 January 2019.

The bank has an aggregate balance sheet size of ¹ 3.74 trillion as on 31 March 2016. It has 3,683 ATMs, 1,892 branches, including one overseas branch in Dubai and 1,407 centers as of 1 February 2020.

Role played by IDBI

The most important feature of the IDBI is that it is assigned the role of the principle institution for coordinating the financial activities of public financial institutions engaged in providing financial assistance as also in promoting and developing industries, coordination being done in conformity with national policies and priorities.

The IDBI is assigned a special role to play in the following sphere:-

1. Helping to plan, promote and develop industrial as per the national priorities as indicated by the Industrial policy resolution and help to fill vital gaps in the industrial structure of the country.
2. Providing administrative and technical assistance for promotion, expansion and management of industries.
3. Undertaking research and surveys in the sphere of marketing and investment and techno-economic surveys relating to the development of industrial in the country.

A special and most important function of the IDBI is to coordinate and monitor the entire range of credit facilities offered by the public financial institutions for small and cottage industries.

The IDBI is empowered to provide financial assistance to types of industrial establishments engaged in the following activities. Manufacturing, processing and presentation of goods, shipping and transport, mining, generation and distribution of electricity, fishing, vehicles, hostelling and setting up of industrial estates. The IDBI is taking research and development of any product or providing technical knowhow a there type of service needed for the development of industries. Also, the IDBI provides for exporting of engineering goods on a deferred payment system.

Management and organization of the IDBI

Management of the IDBI is infracted to the board of directors. This board consists of 22 persons, including a full time chairman cum-managing director who is appointed by the central government.

1. The other members of the Board of Directors include a representative of the RBI.
2. Officials of financial institution a representative each of all India financial institutions,
3. Representatives of the public sector banks and state financial corporations and persons with special knowledge of industries. These are also provision in the Act for appointing nominees of employees of the financial institutions.

The board of Directors constitutes are executive committee of 10 directors including the chairman-cum-managing director. While the board of director's deals with only overall policy matters concerning the activities of the IDBI. The executive committee deals with applications for loans and with proposals for sanction of financial assistance to industries and other important matter of the IDBI.

The IDBI has its head office in Bombay it has five Regional offices which are located at Ahmadabad, (western Region) Calcutta (Eastern Region) Guwahati (Northern Region), Chennai (Southern Regions) and New Delhi (Northern Region). The IDBI has set up Regional committees to gives advice and guidelines to different regional offices of the IDBI.

Besides these, the IDBI has eleven branches at Bangalore, Bhopal, Bhuvneshwar Chandigarh, Cochin, Hyderabad, Jaipur, Jammu, Kanpur, Patna and Shimla.

Capital and financial resources of IDBI

The operations of IDBI have grown over the years and so have it resources. The main source of its funds are share capital reserves, borrowing from the RBI and the government of India and bonds and debentures issues. A part from these principal sources these are a few companies and role of investment. The IDBI raised its original share capital from Rs. 100 crores to Rs. 200 crores in May 1980. At of hue 1981 its paid capital stood at Rs. 14 crores Reserves and Reserve fund at Rs. 129 crores i.e. its own funds came to Rs. 274 crores. Its total funds including other at the end of June 1981 stood at Rs. 3363 crores.

Types of Assistance/functions by the IDBI

The activities of the IDBI which comes a wide compass have been patterned to suit the requirements of the large, medium and small sector industries. In respect of the size of the loans there are virtually no restrictions on it. Moreover, it is completely free to use its own direction in respect of the security to be obtained against the loan sanctioned. Its assistance can be broadly classified into the following categories.

1. **Direct financial assistance to industrial enterprise**

   The IDBI provides direct financial assistance to industrial concerns in the forms of loans underwriting and direct subscription to shares and debenture and guarantees. The policy framework of the IDBI in respect of direct financing has been decided by its apex position. It, therefore generally avoids competing with other special industrial financing institutions. It Infact acts as the lender of the last resort. More, the loans and advances which the industrial Development Banks makes to any industrial concern may be converted into equity stocks and shares at the option of the development bank. The bank is also empowered to guarantee loans raised by industrial concerns in the open market from scheduled banks, the state cooperatives banks, IFCI and other notified financial industries.

   The IDBI normally charges a rate of industrial of 11.85% on its term loans, charges understanding commission of 2.5 % on the face value of shares underwritten, 1.5 % in the case of underwriting of debenture. The IDBI's direct assistance to industrial enterprises in the entire period of its existence has accounted for about 1/3 of its total assistance.

2. **Indirect financial assistance**

   A major part of the IDBI's assistance is routed through some other financial institutions including the state financial corporation, (SIDC) State Industrial Development corporation and commercial banks. This form of assistance is generally characterized as indirect financial assistance. It has demand into three categories

First of all it can refinance term loans to industrial concern repayable within 3 to 25 yrs given by the financial institutions.

Secondly, it can reference terms loans repayable between 3 and 10 years given by the scheduled banks or state cooperative banks.

Thirdly, it can refinance export credit given by scheduled banks and state cooperative banks rediscounting of bills

(3) subscription to shares and bonds of financial institutions.

Special Assistance:- The IDBI Act, 1964 has provided for the creation of a special fund known as the development assistance fund. This fund is to be used by the bank to assist those industrial concerns which are not able to secure funds in the normal course because of low rate of return.

It is interesting to note that unlike the other existing saturators financial corporation's the development banks has no restriction imposed regarding the nature and type of security which it should kept.

Some more operations of the IDBI

The industrial development bank provided direct loans to industrial concerns, refinance of industrial loan and export credits, rediscounting of bills, undertaking of and subscription to shows and debentures of industrial units. It has become the most important institutions asserting industrial units.

IDBI has introduced new services with a view to provide wide range of service under direct finance. For instance IDBI has introduced venture capital funds and technology upgradation requirement finance etc. some more functions or assistance of IDBI are shown as under:

Assistance to backward areas:- The IDBI has initiated certain financial and non financial measures to encourage industries in back ward area. Financial measures are of three types:

a) Direct financial assistance in the form of loans at concessional rates, longer initial grace period etc.

b) Conversional reference assistance to project in backward areas.

c) Special concession to project in North eastern area under the bill rediscounting scheme.

Non financial measures aim at helping potential enterprises in identifying and formulating able projects, technical assistance etc. The IDBI's assistance to projects in backward area amounted to 4227.02 crores in 1967-83 constituting 36.3% of its total assistance. During 1983-84, it provided 42.4 % of its total assistance to backward areas.

Assistant to small scale sector:- The IDBI are shown particular interest in the small scale sector. Form the very beginning it has been operating a scheme under which the small scale industry receives financial assistance concessional term. The IDBI's assistance to small scale industries and small road operations is picking up very fast.

IDBI launched the National Equity Funds scheme in 1988 for providing support in the nature of equity to small scales industrial units engaged in manufacturing cost not exceeding Rs 5 lakh. Of particular importance is the setting up of the small industries development fund in may 1986 to facilities the development and expansion of small industries. It started functioning from April 1990 and has become the principle financial institution for promotion, financing and development of small scale industries.

Refinance facilities by IDBI:-

Refinance of industrial loans is an important function undertaken by the IFBI.

Under this scheme medium size and small scale industrial units can avail of the IDBI's refinance assistance through eligible financial institutions like the commercial banks, state cooperative banks, SFC, Regional Banks and investment corporations.

The IDBI provides reference assistance upto a maximum of Rs. 140 lakh to a single project involving investment ofupto Rs. 200 lakhs in respect of loans sanctioned by the conservation of state level financial institutions.

The IDBI also provides reference facilities in the case of given for construction of industrial estate.

For small scales industrial, refinance of loans upto Rs. 5 lakh from eligible institution is possible from 1st July 1978. Rs 25000 sanctioned to village and othage industrial.

The IDBI also provides foreign currency loan assistance through the SFCs to medium and small size industrial units for financing the port of capital equipment and technical knowhow firm abroad Maximum amount of loan is Rs 10000000 and minimum 10000.

Soft loan Scheme:- IDBI introduced in 1976 the soft loan schemes to provide financial assistance to productive units in selected industries namely cotton textiles, jute cement, sugar etc. This soft loan assistance is given to enable these industrial units to bring about the much neglected modernization, replacement and renovation of plants and machinery, all with the objectives of enabling the assisted units to achieves higher lends of efficiency and productivity. This scheme is operated by the IDBI in cooperation with EFC and ICICI.

The rate of interest is 7.5% and the period of loan is 1st years.

From Jan 1984, this schemes was modified and now called –soft loan schemes for modernization –so as to cover deserving units in all industrial.

Technical development funds Scheme: The IDBI provides direct financial assistance or loans to enable industrial units to utilize imports license under the technical development fund scheme of the Government. Generally, the limit for total import under this scheme is Rs. 250000 per undertaking per years.

Balanced Regional development:- Since 1970 IDBI has initiated certain promotional and development activities to meet the twin objection of balanced regional development and accelerated industrial growth.

Export finance and counseling service of IDBI:- The IDBI provide finance for the purpose of helping the export of engineering and other capital goods and services on deferred payment basis. The IDBI offers financial assistance on

liberal credit terms with a view to enable Indian exporters to complete in international markets. The IDBI's principal export formation schemes include items such as:-

a. Over as buyer's credits under which the IDBI offers credits to foreign buyer to import capital good form India.
b. Providing finance to over sea financial institute
c. Direct financial assistance to Indian export of capital goods.
d. Refinancing facilities in case of export credit
e. Providing guaranties.

Subscription to share capital and bonds of other financial institutions:- IDBI makes a contribution to the share capital and bond of financial institutional like SIC's the IEC's, ICICI and the UTI with a view to strength their financial base and position by providing a sound capital base.

IDBI's Schemes of Discounting of Bills:- Under this scheme, the IDBI rediscounts bill promissory notes assessing out of roles of indigenous machinery on a deferred payment basis. The advantage of these schemes is that it enables industrial establishment to buyer machinery deferred payment basis.

Seed capital assistance schemes of IDBI:- With a view to sender assistance to entrepreneur who possess technical skill but lack of funds IDBI has put into operation the following 2 seed capital schemes.

A. The SFCs special shares capital schemes:- Under this schemes, the SFCs provide such assistance to projects in the small scales sector from their special class of shares capital contributed by the IDBI and the concerned state government.
B. The IDBI's own schemes:- This schemes is operated mainly through SIDCs and the SIICs and is providing seed capital assistance to medium scales industrial projects costing up to Rs 1 crore. Assistance under both the schemes mentioned above is interest free with a require charges of just 1 % premium.

Promotional function of IDBI:- Apart from providing financial assistance to industry the IDBI performs certain promotional functions as well. These include provisions of training in project evaluation and development of entrepreneurship. A special schemes had been initiated for no industrial potential of 90 no industry district. The programme is to arrange training for potential entrepreneur in these district besides giving financial, technical and administration resistance to selected projects.

The IDBI has also sponsored and technical consultancy organization in different parts of the country. TCo has also made conservable progress in training new entrepreneur.

Financial assistant by the IDBI:- Since its establishment in July 1964 till the end of 1991 the IDBI has sanctioned finical assistance of ground 48560 crores whereas the total amount of financial assistance disbursed amounted to Rs. 34660 crores. In 1980-81 amount disturbed by IDBI was 788.5 crores whereas in 1990-91 it will 3511.5 crores amount sanctioned during 1991-92 it will Rs 3511.5 crores. Amount sanctioned during 1991-92 was Rs 7639.6 crores.

Critical Appraisal

From the above description of the role of functions of the IDBI, it would be clear that the IDBI aims at providing new direction and thrust in the area of industrial finance. The IDBI was set up twenty three years ago to function as an apex institution in the field of development from judge by its assistance measured in quantitative terms, the performance of the IDBI looks quite impressive.

However, without under the important of the contributions made by the IDBI, it must be stated that it has failed to develop itself as a true development bank.

Firstly, it accent on providing loans and treating underwriting of shares and debentures of industrial concerns as a secondary activities is not very appropriate.

Secondly, though the IDBI has covered 245 out of 247 backward district

in the country, these still exists a wide disparity in financial assistance to backward district of different states.

Similarly, in spite of its repeated consenting to help the small scales sector, the largest check of financial assistance has gone to big industrial concerns. Thus the distributional constancies of its working are not very healthy.

Finally, the IDBI has mainly concentrated on providing the financial assistance. The promotional and consultancy works has not been assigned the same importance.

6.4 INDUSTRIAL FINANCE CORPORATION OF INDIA. (IFCI)

Industrial finances corporation of India was set up in 1948 under a special Act, with the object of providing medium and long term credit to industry. The role assigned to it was that of a gap filler which implied that it was not expected to compete with the existing channel of industrial finance. It was only meant to supplement their efforts. It was expected to provide credit to industrial concerns including cooperatives only when they could not raise funds by recourse to capital issues methods or normal banking accommodation. The objective was to diversify industrial and financial activities, sub serve the common good of the nation and promote industrial growth by providing industrial finance in areas where banks could not make much headway. The ambit of the IFC embraces the entire industrial sphere in the country.

Management of the IFCI

The board of directors of the IC consists of a whole time chairman and 12 directors. The chairman si appointed by central government in consultation with the IDBI of the 12 directors, 2 are nominated by the central government and 4 by the IDBI and 6 are elected by the shareholders of the IFC other than IDBI.

Capital and other Financial Source of IFC.

The main source of funds of funds of IFCI, other than its own capital,

retained earnings, repayment of loans and role of investments borrowings from the markets by the issues of bonds, borrowing from the central government and lines of credit secured form foreign lending institution.

Three main sources:-

i. Share capital

ii. Bonds and debenture

iii. Other borrowings

The authorized capital of IFC is RS 20 crores of that 50% is subscribed by the IDBI and the remaining 50% is subscribed by the scheduled commercial banks, cooperatives banks, life Insurance corporation etc.

Functional performed by the IFCI

The IFC provides financial assistance to industries in India in one or more of the following ways :-

i. Rupee loans

ii. Under or direct subscription to shares and debenture of public limited companies and

iii. Loans in foreign currencies out of foreign exchange line credits made available to the IFC.

The FCI also provides guarantee for:

i. Deferred payments in respect of machinery purchased from Indian market or import from abroad.

ii. Foreign currency loans raised from foreign financial institutions by industrial undertaking in India from the scheduled commercial banks and state cooperative banks and from the money market.

Conditions for eligibility for financial assistance from IFC: Under the IFC Act of 1948, the following classes of industrial concerns in India are eligible for financial assistance from the IFC:

1. Public limited companies whether in the public, private or joint sector incorporated in India.
2. Cooperative society registered in India which are engaged in
    i. Manufacturing processing and preservation of goods
    ii. Shipping
    iii. Hotel industry
    iv. Generation and distribution of electricity and any other form of energy.

Quantum of financial assistant by IFC:-

The IFC has been largely catering to the financial needs of large scale and medium scales industrial assistance either single or jointly in cooperation with other financial institute like the IDBI, LIC, UTI etc. The IFC entertains applications from those eligible industrial undertaking in India whose cost is above Rs 2 crores. Industrial project costing over Rs 2 crores upto Rs 3 crores can be considered eligible for financial assistance by the IFC independently.

In case the IFC considers that such a project costing above Rs 2 to 3 crores require particular for financial assistance purpose of other financial institutions the IFC arranges such participation of other financial institution by itself by contracting them.

But the policy of the central level financial institution is that as for as possible, the applicant should have to deal with only one financial institutions for appraised of an industrial project, distribussment of Funds and follow up action.

Purpose for which the IFC assistance is available:-

The IFC, by itself or jointly with other central level financial institutions, provides financial assistance for

a. Establishing new industrial project.
b. Expansion of existing industrial units.
c. For diversification into new lines of production.

d. For renovation and modernization of existing industrial units.

The IFC does not generally give loans to industrial concerns for the purpose of meeting their working capital requirement.

While giving financial assistance to a new industrial project or for expansion of an existing industrial units, the IPC also pays due attention to economic and social aspects of the project such as employment potential possibilities of development of ancillary industrial units, benefits which are likely to accurse to backward and rural areas of the country and so on.

Apart from giving financial assistance to industrial specifically listed by the government in the priority sector, the IFC considers the following criteria while financial assistance.

a. Labour intensive and employment orientated projects

b. Export oriented project with export obligation of 60% of the total quality by produced or above that %

c. Project preferred to be established in notified less development area of the country.

d. Industrial project of new entrepreneur and technology and new materials.

Soft loans to industrial by the IFC.

At present, the planning commission has notified 247 districts in 22 states and seven UT as less developed districts or areas. In the case of industrial units to be started in these specified less developed districts or areas, loan are given on concessional terms upto a maximum limits of Rs 2 crores and underwriting up to maximum of Rs 1 crore are available from the central financial institution on a joint financing basis. In the case of the IFC the overall conversional finance for individual industrial units is Rs 1 crore, in the case of backward area development other schemes include:

a. Concessional rate of interest applicable to both Rupee loan and sub loan in foreign currency.

b. Extended amortization and moratorium period.

c. 50 % reduction in the case of rupee loans by the IFC's normal charges such as legal charges etc.

d. 50 % reduction in the applicable rate of underwriting commission

e. 25 % reduction in the rate if commission on deferred payment guarantee.

Concessional loans to hotel industry:-

The IFC is the only designated central financial a limits of RS 75 lakh per hotel at a subsidies rate of interest to hotel industry. The element of subsidy is 1% per annum and it borne by the Government provided the concerned hotel does not commit default in paying installment and meeting it commitment to IFC. The objective behind giving subsidized loans to the hotel industrial is to promote tourism and earn valuable foreign exchange for the country.

Modernization Assistance Scheme:- For modernization of five selected industries, namely cotton textiles, jute, cement, sugar and engineering, there is a scheme known as soft loan scheme. The overall responsibility of the Scheme in with the IDBI.

Under the Soft loan scheme introduced in 1976 both of and weak industrial units in the above mention categories are eligible for concessional assistance for modernization would be that of modernization of the units is not effected that would lead to sickness, where if modernization is taken up it would lead to increase in productivity and competitive strength of the unit in a relatively short period of time.

Sub Loans in Foreign currencies.

Sub loans in foreign currencies at concessional rate of west Germany, the UK and Sweden are given by the IFC along with the lines already stated for financing import of capital goods for new projects or expansion or balancing or modernization of existing industrial units.

For this, it is necessary that the applicant must have in this possession capital goods clearance from the Government followed by the issue of requisite import license authority the import of plant and equipment.

Guarantees for deferred payment and for foreign currency loan:

The IFC is empowered under the statue to provide guarantees for deferred payment to be made by industrial units to supplies of machines, for import of machinery from abroad or purchased within the country. Also, the IFC provides guarantee in the case of industrial units which have negotiated loans from foreign lending institute whenever such guarantee as require by lender.

Underwriting and Direct Subscription to shares and Debentures:-

The IFC can underwrite shares and debentures of industrial undertaking, the approaches of IFC in the regard is project oriented not investment oriented. Generally, the IFC considers applications for underwriting or direct subscription in conjunction with other forms of assistance to be given by it.

In order to provide some measure of relief to small and medium scale industrial units, The IFC subscribes directly to their share capital on a selective bank, instead of underwriting where the amount for subscription does not exceeds Rs. 25 Lakh. The objective behind this schemes to help small entrepreneurs and save their expenditure on the items such writing, advertisement, besides underwriting commission etc.

Promotional Role of the IFC

In additional to rendering financial assistance to industrial undertaking, the IFC has also been undertaking promotional activities financed out of a special funds called Benevolent Reserve Funds.

The IFC has been laying emphasis on the development of backward region . it helps development of small of medium scale enterprisers by providing them with the much needed guidance through its specialized agencies in the sphere of project identification project formulation, project implementation, development of ancillary industries and small scale industries etc.

Also the IFC has set up its offices at various centres in the country, fully equipped to give necessary guidance to entrepreneur in the matter of preparation of application for loans and their submission to the IBC Guidance from these official of the IFC can be obtained in respect of matters like project planning,

completion of application forms, requirements regarding debt equity ratio social cost benefits analysis, eligibility for financial assistance etc.

Risk capital foundations

IFCI set up in 1975 Risk capital foundation which was later converted into risk capital and technology foundation LTD (RCTF) in 1998 to promote three schemes:-

1. Risk capital Scheme
2. Technology Promotion Scheme
3. Venture capital schemes

Since 1998, RCTF has been renamed as IFCI venture capital Funds ltd.

Financial assistance by the IFCI

As on March 31,2020 IFCI has assets worth rupees 18429.28 crores down from 27004.53 crores as on 31 March 2018. However , its Capital to risk Assets ratio has increased from 8.0 percent in march 2019 to 13.5 percent in march 2020. Its debt to equity ratio has also fallen from 4.3 percent in 2018 to 3 percent in 2020.

The total financial assistance sanctioned by the IFCI since its establishment in 1948 upto 1991 amounted to Rs 11420 crores against which the actual total disbursed amount Rs 7050 crores.

The financial assistance given by the IFCI included Indian Rupee loans, foreign currency loans, underwriting and direct subscription to equity shares and debentures, foreign loans guarantee and so on..

The GOI subscribed Rs 400 crores through 20 years convertible bonds to improve the capital adequacy ratio of IFCI.

Steps Taken for Revival

IFCI constituted an expert committee in 2001 to formulate a medium-to long-term strategic plan for IFCI in the emerging new business environment. The committee laid down the road map/action plan for the next five years. The

committee made recommendations covering a wide range of structural and operational areas.

IFCI is concentrating on its core competence and is focusing on lending to established clients with a sound track record. It has strengthened its risk management techniques and is putting in efforts to bring down the NPAs to a manageable level, through corporate debt structuring.

The company has initiated the process of restructuring of liabilities and has initiated action against defaulters and has filed suits against defaulter companies.

It has repositioned itself as a mid-corporate specialist targeting small and medium enterprises (SMEs) and offering them services relating to asset financing, IPO management, loan syndication, project finance, receivables financing, mergers and acquisitions, and corporate and project advisory services.

Inspite of all these efforts, the financial state of affairs of the company has not improved.

IFCI reported a net profit of 5229.59 crore for the first time in the nine-month period ending December 31, 2006. The profit before tax of over 31,200 crore during FY 2007 was the highest ever in the history of IFCI. From a serious liquidity and solvency crisis, IFCI, within a short span of time could turnaround as a profitable institution with a comfortable liquidity position.

Conclusion

IFCI has reported losses during the year 2016–17 due to reversal of income on account of increase in nonperforming assets, pre-payments, low credit off take and reversal of unrealised interest.

The Government of India converted its OCDs worth 1923 crores into equity in December 2012 and further acquired preference shares of 360 crores from PSU Banks in April 2015. IFCI has become a Government of India Undertaking with effect from 7th April 2015.

The Government of India has placed a Venture Capital Fund of 200 crore

for Scheduled Castes (SC) with IFCI with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance. IFCI has also committed a contribution of 350 crore as lead investor and sponsor of the fund. IFCI Venture Capital Funds Ltd., a subsidiary of IFCI Ltd., is the investment manager of the fund. The Fund has been operationalized during FY 2014–15 and IVCF is continuously making efforts for meeting the stated objective of the scheme.

Further, Government of India has recently designated IFCI as a nodal agency for "Scheme of Credit Enhancement Guarantee for Scheduled Caste (SC) Entrepreneurs" in March, 2015 with an objective to encourage entrepreneurship in lower strata of the societies. Under the Scheme, IFCI would provide guarantee to banks against loans to young and start-up entrepreneurs belonging to scheduled castes.

IFCI Ltd is now being regulated as a systemically important non-deposit taking NBFC.

Critical appraisal of IFCIs performance

Locking at the growth IFCIs capital financial assistance sanctioned and disbursed and steadily rising profits, its performance seen to be impressive.

However , an in-depth study reveals certain flows in its functioning and those have innate criticisms for different quarters.

i. As pointed out by Mahalanbs committee long ago the IFCIs lending operational have an concentration of wealth and capital and pressures a discriminatory to the disadvantage of medium 8 small sized industrial units.

ii. The IFC has done little to remove regional disparities.

iii. The IFC has failed to exercise necessary control over the defaulting borrows.

iv. The rate of interest charged was fairly high.

v. There was much delay in sanctioning loans and their actual disbursal.

While some points of criticism may have some validity, it should be pointed out that the IFCI has been entering new lines and giving increasing financial assistance to increasing number of large scale industries with experience, the administration of the IFCI has also improved.

Working of IFCI is not satisfactory as the clear from the fact that since 1998-99 , the assistance sanctioned and disbursed by IFCI has declined .

6.5 INDUSTRIAL CREDITS AND INVESTMENT CORPORATION OF INDIA.

The industrial credits and investment corporation was sponsored by a mission form the world banks for the purpose of developing small and medium industries in the private sector. It was registered in Jan 1955 under the Indian companies Act with an authorized capital of Rs 60 Crore and a subscribed capital of Rs. 22 crores. Its issued capital has been subscribed by Indian Banks Insurance companies and individuals and corporations of the United States, the British eastern exchange banks and other companies and the general public in India. Its headquarter is at Mumbai.

In March 2002, the ICICI was merged with the ICICI Bank and created a first universal bank in India. With this merger, ICICI does not exist any more as a development financial institution.

The ICICI differs from the two other all India development banks i.e. IFCI and IDBI in respect of ownership, management and lending operations. Unlike the IFCI and IDBI which are public sector development banks, the ICICI is a private sector development banks. Its distinguishing feature is that it provides underwriting facilities which are generally neglected by other institutions.

Objective of the ICICI

1. To provide financial assistance in promoting expanding and modernization of industrial undertaking.
2. To encourage and promote participation of private enterprise, both Indian and foreign in industrial enterprises in India

3. To encourage and promote industrial investment and expansion of investment market.

Capital and financial resources of the ICICI were rather moderate compared with its present massive resource. At all time of its establishment, the ICICI share capital was Rs. 3 crores.

The ICICIs authorized capital is Rs 50 crores of that Rs 5 crores is an ordinary share of Rs 100 each of these Rs 5 crore Rs 3.5 crore were taken up in India (Rs 2 crore by Indian Banks, insurance companies etc and Rs 1.5 crore by the general public). The subscribes in the UK (including the common wealth Development Finance corporation limited) took Rs 1 crore and American subscribers took Rs 10 lakhs.

In the case of the ICICI, the major share holders are the LIC of India, the general Insurance corporation and UTI. The ICICI has at present about 2000 individual shareholders.

As regards other financial resource of ICICI, the share capital has been supplemented by borrowing from the GOI the world Bank, Agency for International Development, Government of federal republic of Germany, Government of UK and DBI. The ICICI has further raised its financial resource by selling debentures in India, by selling bonds in Switzerland and by raising loans from the dollar market. Also since 1978, the ICICI has started accepting deposits from the public.

Infact , more than half of ICICIs resources are in foreign currency. World Banks alone accounts for 80% of foreign currency resources of the ICICI.

Types of financial Assistance Given by the ICICI.

With the objective of promoting industrial development in India, ICICI provide the following types of financial assistance.

1. To underwrite public and private securities such as equity shares preference shares, debentures, bonds etc.
2. To subscribe directly to shares and securities of industrial concerns.

3. To secure Rupee loans for industrial undertakings payable over a period of 15 years.

4. To provide similar loans in foreign currencies for payment of imparted capital goods and foreign technical service.

5. To grantee for payment for credit made available by other institution.

6. To provide credit facilities to manufacture for formulating the role of equipment on a payment basis.

The main purpose for which the ICICI gives financial assistance is the procuring of capital assets suchas land, building, machinery and such other productivity assets.

ICICI has assisted industries manufacture paper chemical and pharmaceutical, electrical equipment textiles, sugar, metal ore, glass, manufacture etc. ICICI assists all sector i.e. private sector, the joint sector, the public sector and the cooperative sector. But the major beneficiary the private 3.5 sector. Its assistance comprised of foreign Indian currency loans, rupee loans, guarantees and corporative of shares and debenture.

Eligibility for financial assistance from the ICICI.

The following can avail of financial assistance from the ICICI.

1. Any companies with a limited liability.
2. Promoter of such a company
3. Any role propriety concern
4. Partnership firm and
5. Any cooperative society

All or any of the above can approach the ICICI for financial assistance for financing a second industrial project or for expansion or modernization of an industrial undertaking.

The person applying for assistance from the ICICI may be Indian or foreign,

the Plan to be financed may be in any part of India, the applicant may require assistance in any from the ICICI.

There is no minimum or maximum limits on the financial assistance that the ICICI can be provide to industrial concerns. In actual practice, the lower limits on finance to be provided by the ICICI is fixed at Rs 5 lakhs because there are other financial institutions providing financial assistance of smaller amounts. If the financial assistance by industrial undertaking is too large for the ICICI it tries to enlist the cooperation of other financial institutions in India or abroad for providing financial assistance to the project.

Providing consortium finance:- The ICICI encourage Indian and foreign financial institution and individuals to collaborate in its investment and lending operations. Where required, the ICICI operates in consortium with other public financial institution like the IDBI, LIC, UTI, and foreign financial institutions like financescompany of the UK and international companies.

Other functions of the ICICI

1. Assistance to Industrial Project in Backward Areas:- The ICICI provide financial assistance to Industrial projects to be established in backward areas. For examples low rate of interest, lower rate of commitment charges and underwriting commission, longer period of repayment and of moratorium. The ICICI plays on active role in undertaking techno-economic surveys of areas in different states under the initiative of public financial institutions at the all Indian lend. The objective of such survey is to determine the industrial potential of selected areas and suggest measure for realizing such potential.
2. The ICICI assistance under soft loan schemes:- The ICICI in cooperation with the IDBI and IFCI operates the soft loan schemes. This is meant for modernization of industrial undertaking in cement, sugar, cotton textile, jute and certain engineering industries. The schemes was introduced in 1976 for providing concessional assistance for modernization, replacement and innovation of plants and equipment that would enables the assisted

industrial units to achieves higher efficiency, productivity, and therefore higher competitive strength in both domestic and foreign markets. The ICICI has assumed lead responsibility in respect of engineering and cotton textile industrial and IDBI and the IFC is respect of other industries.

3. Promotional activities:- The ICICI consistent with its corporate philosophy, provides promotional assistance like identification of new industrial projects and selection of suitable locations for the proposed industrial projects. Special concession is offered in the case of manufactures of new products and adoption of new process. It provides comprehensive guidelines to new process. It provides comprehensive guidelines to new entrepreneur in selected projects for their formulation.

4. Merchant Banking Activities of the ICICI:- The ICICI started its merchant banking division in 1973 with the objective of advising its client on raising finance for existing industrial units. The division also gives advice to its clients on amalgamation proposals for submission to finical institutions and banks for financial assistance and for negotiation with them in the matter of securing loans and for underwriting.

5. Rural Development Assistance:- The ICICI has been taking interest in rural development since 1976, by assisting on an experimental basis, rural projects such as land shaping, lift irrigation and agricultural research. The ICICI has brought out a publication entitled "Perspectives on Rural Development" in 1977 after undertaking a detailed study of various aspects of rural development. In 1977, the ICICI set aside a sum of Rs. 25 lakh for undertaking projects of rural development in association with industrial units and voluntary association in the area concerned.

6. Establishing Research Institutes;- The ICICI has been instrumental in establishing the institute of financial management and research of Madras which has been conduction specialized course in subjects like advanced techniques of financial management and carrying on reach in the field of financial management in the corporate sectors.

The ICICI conducts informal discussion with entrepreneur, seeks their assistance right from the early stage of project finding and formulation right up to the final stage. The ICICI has regional offices at Delhi, Chennai and Calcutta all well equipped to advice entrepreneurs on requirements for sending applications and in fulfilling legal and other requirements and formalities and also follow up action.

The ICICI staff analyses the application and carries and out independent enquiries. The appraisal of the proposal is placed before the Board of directors for discussion. If the assistance is sanctioned, the legal contracts covering it must be carried out within a reasonable times generally not more than four months.

Institutions setup by ICICI:- The ICICI has set up a no. of institutions which are working very creditably. ICICI has Joined with J.P Morgan and co to set up ICICI securities and finance co ltd, ICICI, Mutual fund, ICICI Asset Management co. ltd in June 1993, ICICI Banking corporation ltd (Jan 1994), credit Rating Information service of India, shipping credit and investment company of India limited used to specialize in growing loans for acquisition of ships and no of such institutions.

Financial Assistance by ICICI:-

Revenue	149,786.10 crore (US$21 billion) (2020)
Operating income	78,268.2 crore (US$11 billion) (2020)
Net income	9,566.31 crore (US$1.3 billion) (2020)
Total assets	1,377,292.23 crore (US$190 billion) (2020)
Total equity	118,518.45 crore (US$17 billion) (2020)
Number of employees	84,922 (2019)
Subsidiaries	ICICI Prudential
	ICICI Lombard
	ICICI Securities
	ICICI Direct

Financial assistance actually disbursed during 1980-81 was Rs 18503 crores which rose Rs 1936.5 crores. Amount sanctioned during 1991-92 was Rs 4305.9 crores. The ICICI has provided financial assistance to industries manufacturing chemical, pharmaceuticals, paper, Cement glass etc.

The ICICI has shown interest in developing industries in backward areas of country. For Example in 1990-91, the ICICI sanctioned loans amounting to Rs 1270 crores for industrial development in backward areas of the country. Till March 1991, total loans sanctioned to project in backward areas by ICICI amounted to Rs. 5400 crores.

Conclusion:-

Of all the development financial intuitions setup by the Indian government after Independences, ICICI has registered the most of spectacular success, particularly in the last 10 yrs and so. Infact, the financial assistance sanctioned disturbed by the ICICI rose tremendously during the 1990s and has exceeded the assistance extended by IDBI, which us the institution in the field of development finance.

However, like the fact and ICICI has alsonot cared to help in reducing disparities. The most advanced industrial state of Maharashtra alone received more than 1/3 of total assistance granted by the ICICI. Gujrat, W.B, T.N and Karnataka have received substantial assistance from the ICICI and received about 40% of the loans and assistance from the ICICI.

The ICICI which commenced assistance for competition, modernization schemes, export orientation, pollution control, balancing and expansion. The industries assisted under leasing include textiles engineering chemical, fertilizers cement, sugar etc.

6.7 STATE FINANCIAL CORPORATIONS:-

At the central level, financial institutions like the IFCI, the IDBI and IRBI were established and functioning to provide financial and other assistance to the basic and heavy industries and other industries of national importance, it was felt

that there should be financial institutions to function at the state level and help development of industries in each state, taking into account the peculiarities of each state, differences in the industrial structure and problems of each state and so no.

And therefore, the state financial corporation Act was passed by parliament on 1951. This Act of 1951 enabled the state government to establish state financial corporation with the objective of making a significant contribution to industrial development of their respective states. The first SFC was set up in Punjab in 1953. Subsequently in other states too, SFCs were set up. At present there are in all 18 SFCs in the country, out of which 17 SFCs were established under the SFC Act 1951. Tamil Nadu Industrial Investment Corporation Ltd. Which is established under the company Act, 1949, is also working as state finance corporation.

Normaloperations of SFCs in the country.

Normally operation of SFCs areconfined to their respective states. However, in some case they extend to neighboring states or union Territories. The SFCs are meant to provide financial assistance to medium and small industrial units in the respective states.

Financial Resources of the SFCs:-

The authorized capital of a state Financial corporation is fixed by the state Government within the minimum and maximum limits of Rs. 50 lakhs and Rs 5 crores.

It is divided into shares of equal value which were acquired by the respective State Governments, the Reserve Bank of India, scheduled banks, co-operative banks, other financial institutions such as insurance companies, investment trusts, and private parties.

The State Government guarantees the shares of SFCs. The SFCs can augment its fund through issue and sale of bonds and debentures also, which should not exceed five times the capital and reserves at Rs. 10 Lakh.

The SFCs mobiles their financial resources from the following source.

1. Their own share capital.
2. Income from investment and repayment of loan
3. Sale of bonds
4. Loans from the IDBI
5. Borrowings from the RBI
6. Deposits from the public
7. Sometimes loans from the government.

Management:- The management in the case of SFC is similar to that of the IFCI. It has a board of directors, managing Director and an executive committee. The corporation can open offices at different places with the state.

A Board of ten directors manages the state Finance Corporations. The State Government appoints the managing director generally in consultation with the RBI and nominates the name of three other directors.

All insurance companies, scheduled banks, investment trusts, co-operative banks, and other financial institutions elect three directors.

Thus, the state government and quasi-government institutions nominate the majority of the directors.

Industries eligible for Financial Assistance from the SFCs:- Under the state Financial corporation Act, 1951 industrial establishments which are engaged in the following industrial activities are eligible for financial assistance from the SFCs.

1. Manufacture, Processing and preservation of goods
2. Mining activities
3. Generation and distribution of electricity
4. Transport of passengers by motor, waterways
5. Vehicles, vessels, motor boat, travelers and tractors
6. Maintenance, repair, testing and servicing machinery of nay description.

7. Packing industry
8. Development of land for industrial estates
9. Fishing
10. Technical knowledge and other services that would help promotion of Industrial growth in the state.

Large industries in the country can approach financial institutions like the IFC and the ICICI and IDBI. The SFCs are established to provide financial assistance to medium and small scale industrial units in the respective states. To attain this objective the SFCs are statutorily prevent from giving financial assistance or loan to any industrial establishment which has its owned funds exceeding Rs 1 crores and secondly the SFCS cannot lend more than Rs 90 lakhs to any single borrow industrialist.

Purpose for which SFCs can give financial assistance.

The SFCs grant loans primarily for helping entrepreneurs to establish new industrial units and for the expansions of existing industrial units. Loans to new industrial units are considered in case of feasible industrial schemes and in cases to feasible industrial schemes and in case where entrepreneur are prepared to contribute then stipulated share predated to contributiontheir stipulated share of capital. In the case of industrial liners loans are granted by the SFCs for their expansion and renovation. In both the case, loans from the SFCs are given for accruing tangible capital assets such as land, machinery and other such accessories. The SFCs also grant assistance in foreign currencies in special cases for importing plant and machines other accessories machine tool and technical know how.

Types of financial assistance by the SFCs.

All types of industrial concerns can get accumulation from state financial corporation and so in this sense the scope of activities of a state financial corporation is very ride. It provides the following types of assistance to industrial units in their irrespective states.

1. Loans and subscriptions to debentures of industrial concerns repayable within a period not exactly 2 years.
2. Providing guarantee for loan raised by industries units form commercial banks and state cooperative banks.
3. Providing guarantee for deferred payment in case where industrial units have purchased capital goods on a differed payment.
4. To underwrite the issue of shares bonds and debentures of industrial concerns. To subscribe to shares, bonds and debentures of industrial units .

The main function of the SFCs is to grant loans to industrial units and some if the SFCs underwrite shares of industrial units. The SFCs great loans to industrial units for the purchase of fixed capital assets like land and machinery. In some exceptional cases some SFCs also provide loans for working capital requirements in combination with loans for fixed capital.

→ The SFCs also provide loans in foreign currency loans and subscriptions to debentures of industrial concerns repayable within a period not exceeding 20 years.

→ Besides a nine SFCs acts as agents for their respective state Government for sanctioning and disbursing loans to small scale industries under the state Aid to industrial Act.

→ The SFCs have also been entrusted with International Development Association (IDA) credit for assisting small and medium industrial units.

Role played by the SFCs

Althere has been a steady increase in the financial assistance pounded by the SFCs to medium and small soles industries. For example if m 1970-71 the financial assistance sanctioned by the 18 SFCs was less than Rs 50 crores. In 1979-80, it rose to Rs 164 crores. At the end of June 1980 it was Rs 1500 crores. And total disbursement amounted to Rs 104 crores of the total assistance of Rs 1500 crores sanctioned by the 18 SFCs till the end of June 1980. 44% was given to industrial units in backward areas.

→ Till the end of June 1980, the SFCs have assisted nearly 63,000 small scale industrial units and the total financial assistance sanctioned to them amounted to Rs 836 crores. Over 13000 transport operators were granted financial assistance totaling Rs 115 crores. This means that about 56 % of the total financial assistance sanctioned by 18 SFCs till the end of 1980 was given to a small scale industrial units and 7.7 % to small road transport operations.

Financial assistance by the SFCs

Total amount of assistance advanced by all these corporations between the period 1971 to 1993 was to the tune of Rs. 15,630 crore. Total amount of loan sanctioned by SFCs which was to the tune of Rs. 2,790.7 crore in 2000-01 and then declined to Rs. 1,134 crore in 2003-04.

Critical appraisal of SFC:- The working group appointed by its RBI to look into the functioning of the SFCs has found that the preference of the various state Financial corporation has not been way satisfactory. The SFCs have failed to the demands of medium and small industrial adequately. A apart from the soft loan which they now sanction on all other loan their rates of interest are high and terms and conditions stringent.

A major problem faced by the SFCs in their operation is the magnitude of over dues. The increasing over dues have considerably cut into resources available to the SFCs for industrial financing.

Then there is difficulty of getting technical personal of the right type to examine the soundness of the loan proposals of the borrowing units. Despite of the odds of the SFCs face, they have given good account of themselves. As part of the promotional role, SFCs are taking positive interest in the development of backward area either independently or in collaboration with the state government and the IDBI.

Problems of State Financial Corporations

- Bad loans are prevalent in State Financial Corporations are quite common as in commercial banks and other financial institutions. The loans are taken

by small and medium industries who find it tough to repay the loans which put the State Financial Corporations in a fix.

- The excessive focus on granting loans is also a problem of State Financial Corporations. The small and medium firms are also in need of other financial services that the corporations do not focus on.
- The leniency of the financial corporations to the larger firms is also very common. This will lead to the lack of financial services for smaller firms, which are actually in more need of funds.
- As the employees of the financial corporations are appointed by the government via a general eligibility criterion, there is a dearth of specialized technical staff. This leads to a lack of efficiency in the implementation of policies and programs.
- One of the most important drawbacks of borrowing funds from the SFCs is the high rate of interest charged by it. This high rate of interest generally puts the small and medium entrepreneurs in a tough position.
- The rigorous procedures and formalities to gain a loan from an SFC is also a huge hurdle for businessmen. People find it easier to borrow from commercial banks and other financial institutions.

Key words:- Refinance, Bonds, Debenture, Soft loan, Merchant Banking.

6.8 LET US SUM UP

This unit familiarise you to the various Development Financial Institutions. The unit discusses the different kinds, of schemes, these institutions offers and the kind of activities they undertake. Finance is considered as the life-force of industry. Without getting adequate finance industrial development is not at all possible. Due to the lack of adequate finance, industrial development in India could not achieve a significant position and shape. Industries require both short term, medium term and long term finance for meeting their requirements of fixed capital expenditure and also to meet their working capital needs. These term lending Institutions are not only disbursing a good amount of finance for the

promotion of industries but they are also sending a good amount of assistance for the development of small scale industries and also for developing the backward districts of the country industrially.

Short Answer Type Questions

Q1:- When does IDBI established?

Ans:- IDBI was established in July 1964 as a wholly owned subridiary of the RBI. IN Feb 1976, the IDBI was made an autonomous institution and its ownership passed on from RBI to government of India.

Q2:- When does IFCI formed?

Ans:- IFCI was set up in 1948 under a special Act with the objective of providing medium and long term credit to industry.

Q3:- What are State Financial Corporation?

Ans:- The State Financial Corporation Act was passed by Parliament in September 28, 1981. This Act of 1951 enabled the state Government to establish state financial corporation with the objective of making a significant contrition to industrial development of their respective state. The first SFC was set up in Punjab in 1953. Subsequently in other states too, SFCs were set up.

6.9 EXAMINATION ORIENTED QUESTION

1. Discuss the Role, Nature and Importance of IDBI.
2. Explain in detail the role and volume of IFCI.
3. Discuss the Industrial Credit and Investment corporation of India in detail.
4. What is the role, nature and volume of SFCs?

Suggested Reading

1. Desai &Bhalerao(2002), Industrial Economy of India, Himalaya Publishing House, Delhi.
2. Dutt&Sundhram, Indian Economy.

UNIT-2 : INDUSTRIAL FINANCE

M.A. Economics | **Lesson-7**
Course No. 409 | **Unit-2**

STRUCTURE:

7.1 Introduction

7.2 Objectives

7.3 Financial statement- Balance sheet

7.4 Profit and loss statement

7.5 Ratio analysis

7.6 Let Us Sum Up

7.7 Examination oriented questions

7.1 INTRODUCTION

In this lesson we will go through basic accounting procedures , financial statements , their usage and importance . we will also cover ratio analysis, all these are good indicators of financial soundness of a firm and are vital in fundamental analysis of a company.

7.2 OBJECTIVES

The objective of this lesson is to gain familiarity with balance sheet and ratio analysis. The importance and limitations of ratio analysis etc.

BASIC ACCOUNTING PROCEDURES:

There are certain basic principles which are to be kept in mind while preparing accounts. The ' first is that accounts are prepared for business which is conceived of as an entity separate from its owners. creditors, and others associated with that business. All the transactions of the business are recorded in the books of the business from the point of view of the business. The second principle that is to be followed is that transactions which are of financial nature and can be measured in money terms are recorded in books. Facts, like 'good industrial relations', integrity and farsightedness of management, etc.. arc excluded frorn the accounts as they are not of financial character and can't he measured in money terms. On the other hand, buying materials, paying wages etc., do have such character and measurability in money tems so they are recorded in the books of accounts. The third principle of accounting is that assets purchased by the firm are recorded in the books at their costs, i.e. the prices paid in acquiring them rather than the prices they command if resold in the market.Theacquiringcostofanassetistakenasthebasisforallsubsequentaccountingfor the asset.Thefourth principle is that alI accounting transactions should be evidenced and supported by business documents, e.g. sanctions, correspondence, invoices, vouchers and receipts. Such documents make the account verifiable and help in protecting the assets of the firm from unjustified and unauthorized uses. The fifth and core principle of accounting is the recognition of its dual nature. That is. Every transaction has two aspects-giving and receiving. Both these aspects are recorded in the ledgers in the appropriate form.Such pattern of accounting is called' double-entry system' which is followed in practice by business firms in the standard format for different transactions. lt is a basic accounting procedure which makes the things to understand easily and provides a cross check for auditing. The rule of the double entry accounting is that the account which 'receives the benefit' o f the transaction is debited with its money value on the ground that to receive a benefit is to have a liability tothe person or the account which imparted the benefit and the account which 'gives the benefit is credited with same money value on the ground that in imparting the benefit it has acquired a credit from the person or the account receiving the benefit.

For example, if Mr. X gives Rs. I lakh on loan to a firm, then Mr. X will have some honour or reputation in the eyes ofthe firm. His account with the firm will therefore be credited by Rs. 1 lakh and the firm will be debited bythis sum. If a firm buys raw materials on cash terms, the Cash Account of the firm will be credited and the Materials Account will be debited by the sum involved in the transaction. Take a slightly bigger example. A proprietor arranges Rs. 30.000 in cash for his business. He paysin cash Rs. 5000 for purchase of material. Rs.5 00 for rent and Rs. 100 for transport. He ,gets Rs. 4000 in cash from sales. He then withdraws Rs. 2000 for his personal use. Using the double entry system of accounting these transactions are recorded as:

Credit (Receivables)		Debit (Payables)	
Increase will be recorded on this side or what comes in:		Decrease will be recorded here or what goes out:	
1. Cash arranged	Rs. 30,000	1.purchase of Raw Material	Rs.5,000
2. Cash sales	Rs. 4,000	2.Payment of Rent	Rs.500
Total	Rs.34,000	3. Payment for transport	Rs. 100
		4.Personal Withdrawal by proprietor	Rs. 2,000
		Total	Rs.7600
		Balance	Rs.26,400

In the above given example cash flows were considered on both debit& credit sided which are balanced in sum. There will be verities of such accounts the title of the various ledger account it will differ from one firm to another according to the types of business conducted & the choice of journal classification.

7.3 BALANCE SHEET

A balance sheet (also called the statement of financial position), can be defined as a statement of a firm's assets, liabilities and net worth. It provides a snapshot of a business at a point in time. These are prepared at the end of an accounting period like a day, a month, quarter or year end. Comparison of balance sheets over years helps to gauge the financial health of a business. It got its name as assets minus liabilities (net assets) must equal the owner's equity (they must

balance). Every business will generally need a balance sheet while applying for loans or grants, submitting taxes or seeking potential investors.

Components of the Balance Sheet

The three major components of the balance-sheet that indicate what the company owns and owes are Assets, Liabilities and Owner's Equity.

Assets:

Assets can be defined as the valuables that the company owns to benefit from or are used to generate income. They are the resources of the company that have future economic value. These are categorized into tangible and intangible assets. The tangible assets are further bifurcated into current, long term and other assets. The non tangible assets are trademark, copyrights, goodwill to mention a few.

Current assets include the cash, accounts receivable, prepaid expenses and all that can be converted into cash within a year.

Long term assets are also called fixed assets. They are distinguished from the current assets due to their longevity in generating revenues. All fixed assets except for land are shown on the balance-sheet at original cost less depreciation.

Liabilities:

Liabilities are debts owed by the business. These are claims of the creditors against the assets of the business. These are claims or obligations that arise out of past or current transactions. Liabilities are classified into current and long term liabilities.

Current liabilities are accounts payable, accrued expenses, taxes payable, the current due within one year portion of long term debt and any other obligations due within a year.

Long term liabilities are debts that must be repaid by the business in more than one year from the date of the balance sheet.

Net worth (Owner's Equity): Owner's equity (called when it's sole proprietorship) sometimes is also referred to as the book value of the company because owner's equity is equal to the reported asset minus the reported liability.

Assets = liabilities + Net worth, this can be reposed to yield the definition of net worth, which is the balance after the liabilities are subtracted from the assets of the business.

This section of the balance sheet includes:

- Paid up capital
- Retained earnings
- Treasury stock

Preparing a Balance Sheet with hypothetical example

The two most common formats of reporting the balance sheet are the vertical balance sheet (where all line items are presented down the left side of the page) and the horizontal balance sheet (where asset line items are listed down the first column and liabilities and equity line items are listed in a later column). The vertical format is easier to use when information is being presented for multiple periods.

Example of Balance Sheet

Balance Sheet of company X (as on 31 Dec. 2019)		
Liabilities (Rs. Crores)		
1.	Networth (i+ii)	12.05
	i. Paid up capital	7.48
	ii. Reserves	4.57
2.	Borrowings total of which:	3.08
	i Long -term	1.22
	ii . Short –term	1.86

3.	Non–current liabilities & provisions	0.004.
4.	Current liabilities & provisions	11.08
Assets		
5.	Gross fixed assets	18.366.
	Depriciation	13.837.
	Net Fixed assets.(5-6)	4.53
8.	Current Assets of which	21.68
	i. Inventories	9.66
	ii Recievables, loans &advances	11.50
	iii. Other current assets	0.529.
9.	Other assets	0.00
	Total Liabilities (1to 4) ,= Net Assets(7 to 9)	26.21

Liabilities (Networth (i+ii) + total borrowings + Current liabilities & provisions 12.05+3.08+11.08=26.21)=Assets(Net fixed assets current total assets 4.53+ 21.68= 26.21)

The choice of the format of balance sheet is amatter of convenience to the firm . it may be horizontal presentation in which the liabilities and assets are shown side by side or vertical presentation in which the liabilities are presented first& then assets vertically as shown in the above table.The individual items of the balance- sheet need not balance but total liabilities will always be equal to total assets.

Advantages of reporting the balance sheet

Business snapshot:Balance Sheet provides an accurate picture of the business status. While the profit and loss statement provides the profit made in a transaction, balance sheet gives the details of the bills the business owes to the vendors. Every balance sheet is unique; while a business may experience a high profit account, it can simultaneously have a poor balance sheet if the total net

asset value is low and vice versa. Balance sheet determines the financial strength of a business and helps in future financial planning.

Provides information for apt decision making:Balance-Sheet provides the investors and potential lenders with the information needed to take decisions while lending money or resources. It reflects the company's ability to collect and pay debts on time. On the basis of this, one can form an opinion of the company's risk and return prospects.

Provides helpful financial ratios:Balance Sheet helps to calculate the ratios to determine a company's long-term profitability and short-term financial outlook. Ratios like the current ratio and the acid test or liquidity ratio are calculated using information from the balance sheet. These ratios help obtain a very thorough summary of the company's financial health by analyzing its cash position, working capital, liquidity and leverage. It also provides insight into the company's likelihood of defaulting on its credit obligations or even its bankruptcy risk.

Disadvantages of the balance sheet

Numbers could be misleading:As the balance-sheet gives the financial snapshot at a given point of time, it could be misleading sometimes. For e.g. the analysis could get distorted if the company's cash position at year end is high, indicating high reserves, but the company may intend to distribute it in the form of dividends.

Doesn't give true value of assets:The balance sheet does not provide the true value of the assets as they are reported at the historical costs. It does not reflect the current market valuation.

Other limitations:The balance sheet has some of the current assets valued on estimated basis, so it does not reflect the true financial position of the business. Also there is complete omission of the valuable non monetary assets from the balance-sheet.

Conclusion

The Balance-sheet is indispensable financial statement . it is needed by

the owners of the firm to assess financial soundness of their firm. Inwhat form capital is realized& how it is used is clearly shown in the balance-sheet.For control of capital structure such information is vital.The creditors, government, officials& potential shareholders will also assess the financial soundness of the firm by lookingat the balance-sheet.The bulk of data for planning is obtained from the balance-sheet.

Balance-sheet is one of the essential financial statements needed to take appropriate and sound financial decisions. Blended with the other components (Profit and Loss Statement, Cash Flow Statement and Statement of Owner's Equity) of financial reporting, one can decide whether the business under focus is right as an investment option.

Check your progress:

1. What are the components of balance sheet
2. Define liabilities.
3. What do you mean by assets?

7.4 THE PROFIT & LOSS ACCOUNT & INCOME APPROPRIATION STATEMENT

A Profit & Loss Statement (P&L) measures the activity of a business over a period of time – usually a month, a quarter, or a year. This financial report may have several different names: profit & loss, P&L, income statement, statement of revenues and expenses, or even the operating statement.

The sources of revenue income and expenditure items are separately indicated in the profit & loss account. The difference between total revenue&total expenditure during the period constitutes the profit to the firm. It will be loss when the expenditure exceeds the total revenue.the entries in a Profit & Loss Statement are the flows during the period .

Revenue is realized through production of goods & services, work done for consumers & other income like dividend, interest,rent earned by the firm sales of by products etc.

The expenditure includes all administrative and operating expenses incurred by the firm during the period.The format of Profit &Loss account varies from the country to country& firm to firm. A common pattern that is ,by&large, followedin India is shown as under:

1. Value of production &other income: this will be a sum of (a)sales net of rebate discounts, excise duty &cess (b)increase(+)or decrease(-)in the value of the stock of finished goods and work in progress(c)other income such as dividends, interest, rent, by- product sales, work done for others& (d)non-operating surpluses(+)or deficit (-).

2. Total Expenditure: this includes(a) materials, stores& other manufacturing expenses,(b)current repairs(c)salaries& wages(d)managerial remunerations(TA, DA, etc.)(e)welfare expenses(f)selling expenses (g)depreciation (h)other provisions like rent, provident fund, local taxes, bad debts, royalties (i)insurance charges &,(j)other miscellaneous expenses such as R&D expenses etc. The difference between total value of production& other income &total expenditure(i.e1-2)is called gross profit. The distribution of such profit is called appropriation of income.

The identities for this will be:

Gross profit-interest=profit before tax or operating profit.

Profit before tax-Corporate income taxes=Net Profit

Net Profit=Dividend + Profit Retained

Income statement or Profit & Loss Statement (or Account) of company X (2019) (Hypothetical example)

		(Rs. In Crores)
Income		
1.	Sales net of excise duty, discounts& selling commission	46.01
2.	Increase(+)or decrease(-) in stocks of finished goods & work in progress	-1.91

3.	Value of production(1+2)	44.10
4.	Other income	0.11
5.	Value of production & other income (3+4)	44.21
Expenditure		
6.	Material, stores & other manufacturing expenses	32.54
7.	Current repairs	0.77
8.	Salaries & wages	3.76
9.	Welfare Expenses	0.30
10	Managerial remuneration	0.00
11.	Other expenses	2.98
12.	Depreciation	1.34
13.	Other Provision	0.00
14.	Operating profit (5-(6to13))	2.53
15.	Interest	0.26
16.	Tax Provision	1.57
17.	Profit after tax(14-(15+16))	0.70
Appropriation		
18.	Dividend	0.45
19.	Profit retained (17-18)	0.25
Total value of Production& other income (5) or Expenditure & appropriation (6 to 14)		

The profit-and-loss account has two important uses:

1. The share holders(including potential one) get precise knowledge about the earnings of their company.

2. The government can determine the tax –liability of the company for the concerned year. The creditors will also be interested in profit-and-loss account of a firm in order to assess its credit worthiness.

Like the balance sheet ,a profit-and-loss account is an indispensable financial statement. These two statements are shown in the annual report of every firm &published together (in case of public limited companies only) whenever the firm approaches to the markets for equity capital,loans & fixed deposits and selling of its shares. Balance Sheet provides an accurate picture of the business status. While the profit and loss statement provides the profit made in a transactions& shows the performance of the firm for a period for which the profit and loss statement is made.

7.5 RATIO ANALYSIS: MEANING, CLASSIFICATION AND LIMITATION OF RATIO ANALYSIS

Meaning:

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.The values of different variables shown in the balance sheet& the profit –loss account when linked together through appropriate ratios provide us simple pragmatic& operational ways to assess the performance of the firm. The ratios as such will not be of much use unless they are compared with some standard values which may be the targets or objectives of the firm.The deviation between actual and standard values of the ratio will throw considerable light on the related performance of the firm.

This relationship can be expressed as a percent or as a quotient. Ratios are simple to calculate and easy to understand. The persons interested in the analysis of financial statements can be grouped under three heads,

i) owners or investors

ii) creditors and

iii) financial executives.

Although all these three groups are interested in the financial conditions and operating results, of an enterprise, the primary information that each seeks to obtain from these statements differs materially, reflecting the purpose that the statement is to serve.

Investors desire primarily a basis for estimating earning capacity. Creditors are concerned primarily with liquidity and ability to pay interest and redeem loan within a specified period. Management is interested in evolving analytical tools that will measure costs, efficiency, liquidity and profitability with a view to make intelligent decisions

Classification of Ratios:

Financial ratios can be classified under the following five groups:

1) Structural 2) Liquidity3) Profitability4) Turnover5) Miscellaneous. All these type of ratios are derived from both balance sheet& profit & loss statement.

1. Structural group:

The following are the ratios in structural group(derived from balance sheet)

i) Gearing Ratio:This ratio indicates proportion of debt finance to the total assets of a firm. it may be expressed in a variety of forms depending on how the term debt & assets are defined for computing the ratio.one may define debt as a sum of total borrowings(short-term& long –term borrowings) plus current liabilities&assets as a sum of net fixed assets & working i.e current assets.No hard & fast rule can be specified as to what should be included in debt &assets. From the First example balance sheet discussed earlier for Company X, the gearing ratiotaken as proportion of total borrowings(3.08) to total capitalization(Borrowings:3.08crores+ ResevesRs.4.57crores+Paid up capital:Rs.7.48 crores)comes out to be 0.203 or 20.3 percent.

Gearing Ratio= $\dfrac{\text{total borrowing}}{\text{total capitalization}}$

or

Funded debt to total capitalisation:

The term 'total' capitalisation comprises loan term debt, capital stock and reserves and surplus. The ratio of funded debt to total capitalisation is computed by dividing funded debt by total capitalisation. It can also be expressed as percentage of the funded debt to total capitalisation. Long term loans

Total capitalisation (Share capital + Reserves and surplus + long term loans)

Ratio = funded debt / total capitalisation.

The gearing ratio has an important role in financial decision making .The cost of a company is likely to linked with its gearing ratio.A high gearing ratio implies greater debt burden which reduces the margin of safety for lenders.The interest burden increases with the gearing ratio having its impact on net earnings of the firm & therefore on dividend paid to the shareholders. If the dividend paid to the shareholders is low the value of the firm is likely to be affected adversely in the market.

ii) Debt to equity or solvency or leverage Ratio:

Due care must be given to the; computation and interpretation of this ratio. The definition of debt takes two foremost. One includes the current liabilities while the other excludes them. Hence the ratio may be calculated under the following two methods:

Long term loans + short term credit + Total debt to equity = Current liabilities and provisions Equity share capital + reserves and surplus (or)

Long-term debt to equity = Long – term debt / Equity share capital + Reserves and surplus

Debt-Equity ratio =proportion of debt/ net worth(paid up capital+ reserves)=3.08/7.48+4.57

=3.08/12.05=0.2556 or 25.56%

1. It shows the credit worthiness of a firm.
2. The extent of owners own money in the total capital of the firm.

3. A high debt-equity ratio goes against the interest of the government (as the interest on debt is exempted from the corporate tax)

If the earnings are high &stable ,it may go for higher debt-equity ratio, other wise not as it may lead to insolvency due to poor earnings & high interest charge.

The Net worth ratio: It expresses the net worth of a company as a proportion of its total net assets. Net worth/ total assets

=12.05/26.21=0.459 or 45.9% if high the company will be in acomfortable position because of lesser extent of the creditors potential claim for its assets.

4. The Networth to Fixed assets Ratio=Netwoth/Gross Fixed assets Ratio

=12.05/18.06=0.66

The ratio indicates the extent to which equity capital including reserves are used to finance fixed capital formation. The firm will be in a better position if this ratio is high .The creditors will consider this ratio while assessing the credit needs of the firm .Ahigh ratio will provide greater security for their credit.

5. The Internal Allocation Ratio or organic composition of capital :

=Net Fixed Assets/Net Assets=4.53/26.21=0.1728or 17.28%

[Net Assets=26.21 (Net Fixed Assets4.53+total current Assets 21.68]

Through this ratio a firm will get an idea about how capital is being used. A low ratio is a reflection of higher weight age by the firm to current assets rather than fixed assets.

iii) Net fixed assets to funded debt:

This ratio acts as a supplementary measure to determine security for the lenders. A ratio of 2:1 would mean that for every rupee of long-term indebtedness, there is a book value of two rupees of net fixed assets:

iv) Funded (long-term) debt to net working capital:

The ratio is calculated by dividing the long-term debt by the amount of

the net working capital. It helps in examining creditors' contribution to the liquid assets of the firm.

2. Liquidity Ratios(Balance Sheet)

The current ratio shows the proportion of current assets to current liabilities. A current ratio of 2:1 is considered as a norm but it depends on the quality & character of the current assets.

The difference between current assets & current liability is called net current assets or working capital. The quick assets or acid –test ratio is more stronger test of liquidity of a firm.

Quick assets ratio=Current assets-inventories/current liabilities.

This ratio shows the ability of the firm to meet its current obligations immediately with the readily convertible funds on hand. any value less than unity is a warning signal for the firm.

1. Current ratio= Current assets/ current liabilities=Rs.21.68/ Rs.11.08=1.96
2. Quick assets ratio= Current assets-inventories/current liabilities =Rs.21.68-Rs.9.66 / Rs.11.08=1.09
3. Net current assets= Current assets-current liabilities=Rs.21.68cr.-Rs.11.08cr.=10.60crores.

The liquidity ratios are useful tools for credit planning& control. Apart from the managers of the firm, it a creditors& the government will have interest in these ratios for assessing the credit needs of the firm.

It contains current ratio and Acid test ratio.

i) Current ratio:

It is computed by dividing current assets by current liabilities. This ratio is generally an acceptable measure of short-term solvency as it indicates the extent to which he claims of short term creditors are covered by assets that are likely to be converted into cash in a period corresponding to the maturity of the claims. Current assets / Current liabilities and provisions + short-term credit against inventory.

ii) Acid-test ratio:

It is also termed as quick ratio. It is determined by dividing "quick assets", i.e., cash, marketable investments and sundry debtors, by current liabilities. This ratio is a bitterest of financial strength than the current ratio as it gives no consideration to inventory which may be very a low- moving.

3. Profitability Ratios(profit &loss statement):

It has five ratios & is calculated as under.

1. Net Profit Margin: This is defined as the ratio of Net Profit(i.e profit after interest & taxes)to net sales. For example, company x, this ratio turns out to be. Net Profit/ Net sales=0.70/46.01 or 1.52 %.this ratio is very low. Higher the ratio better the profitability of the firm.

2. Gross Profit Margin(inclusive of the tax & interest to net sales): Gross Profit/Net sales=2.53/46.01=0.055 or :5.5%

3. Operating Margin is the ratio of net sales to total operating expenses. if this ratio is more than one , it reflects positive profit, other wise negative, except when it is unity showing no profit-no –loss situation.

4. Rate of Return on investment: This ratio reflects the long- term profitability of a firm. This expresses gross or net profit as percentage of return on net assets of the firm.

   I. Rate of Gross Return on net assets=Gross Profit/Net Assets=2.52/ 26.21=0.096=9.6%

   ii. Rate of Net Return on net assets= Net Profit/Net Assets=0.070/ 26.21=0.0267 or 2.67%

5. Rate of Return on Net worth: This is an alternative index to compute long term profitability of a firm. Instead of taking net assets as base for computing the rate of Return, the net-worth which is owners own investment in business is used. Again the numerator may be gross or net profit, the latter being more appropriate from share holders,point of view

for computation of the profit rates .For company x, the rates of return on net worth are 21% &5.8% using gross & net profit respectively.

=Gross Profit/Net Worth=2.52/12.05=20.91or 21%

=Net Profit/Net Worth=0.70/12.05=0.058 or 5.8%

i) Operating ratio =

$$\frac{\text{Operating expenses (cost of goods sold + Administrative and selling expenses}}{\text{Net sales}} \times 100$$

ii) Operating profit to sales = $\frac{\text{operating profit}}{\text{Net sales}}$

iii) Net profit to sales= $\frac{\text{Net profit}}{\text{Net sales}} \times 100$

iv) Coverage of Earning Before interest and Taxes

v) Return on investment = $\frac{\text{EBIT}}{\text{Capital employed}} \times 100$ (or)

$$= \frac{\text{Net profit after preference dividend}}{\text{Net worth}}$$

Activity Ratios or Turn Over Ratios (Balance Sheet& Profit &Loss Statement): it compares the sales or cost of goods sold to some assets such as total net assets, total net fixed assets, working assets & inventory.

The ratios are called turn over ratios , as they reflect turnover of the concerned assets.The popular ratios are:

i. Assets Turnover Ratio or Capital –turnover ratio=Net Sales /Netassets of the firm=46.01/26.21=1.76

   A high ratio reflects better use of tangible assets but in some industries the ratio may be low because of large outlays on fixed assets.

ii. Net Fixed Capital Turnover: reflected, the efficiency of fixed capital utilization.

Net Sale/Net Fixed Capital= 46.01/4.53

iii. Working Capital Turnover: this is the ratio between net sales & working capital employed by the firm. In general, a higher ratio indicates better utilization of working capital but there may be situation when the ratio is higher or lower as a result of undercapitalization or overcapitalization of operations.

Working Capital=current assets-current liabilities=21.68-11.08=10.6

Working Capital Turnover Ratio=Net Sales/ Working Capitalemployed =46.01/ 10.6=4.6.

A higher ratio indicates better utilization of working capital.

Inventory Turnover Ratio : Cost of Goods Sold/Average Inventory

Cost of Goods Sold=Value of Production(Rs. Crore 44.10)-Depreciation(Rs. Crore 1.34)+Operating Profit(Rs. Crore 2.53)= Rs. Crore 40.23

The Average inventory is the simple arithmetic average of Inventory levels at the beginning & end of the year.The Inventory figures will be clearly specified in the balance sheet under current assets.

Inventory Turnover Ratio: Cost of Goods Sold/Average Inventory: 40.23/ 9.66=4.16 Rs. Crore times for company x.

A high turnover from smaller average level of inventory investment is an indication of better performance.

Ii] Inventory –Sales turn over ratio:=Sales/Ending inventories= Rs. 46.0 Crores/ Rs. 9.66Crores=4.76 Times for Company X.

This ratio serves the same purpose as (i).However ,it is acrude approximation as ending inventory figure may not be a true representative of the level of inventories throughout the year.

Receivable Turn over Ratio& Average Collection Period

Receivable Turn over Ratio=Total Sales/ Receivables Outstanding= Rs. 46.01 Crores / Rs. 11.50 Crores =4.0 times.

A larger ratio will reflect better efficiency of sales collection.

Average Collection Period: For deriving Average Collection Period the 1st step is to calculate Av. Daily Sales

Av. Daily Sales=Total SalesRs.46.01crore/Total Number of days in a year365=0.126 crores

Av. Collection period =Total Receivables/Av. Daily Sales=Rs.11.50crores/ 0.126crores=91.26 days.

A longer average collection period for receivables is a reflection of poor or less effective management of credit department.

A short payment period for the payables is desirable from the managerial efficiency point of view.

i) Assets Turnover (Capital turnover) $= \frac{\text{Net sales}}{\text{Net fixed assets + Current asse}}$

ii) Net Working (Capital turnover) $= \frac{\text{Net sales}}{\text{Net working capitals}}$

iii) Receivables turnover (collection period) $= \frac{\text{Sundry debtors}}{\text{Net sales}} \times 100$

iv) inventory turnover = a) $\frac{\text{Sales}}{\text{Ending inventory}}$

b) $\frac{\text{Cost of Goods sold}}{\text{Average inventory}}$

Miscellaneous Ratios (Balance Sheet& Profit &Loss Statement):

1. Retention Ratio:The profit after interest & tax is appropriated as dividend plus retained earnings. The proportion of retained earnings in total net profit is called retention ratio& the proportion of dividend as the pay out ratio .The pay out ratio will be one minus the retention ratio.For company X these ratios are:

Retention ratio= Retained Profit/ Net Profit=Rs.0.25 Crores /Rs.0.270 Crores=0.357 or 35.7%

Pay -out ratio=Dividend /Net Profit= Rs.0.45 Crores Rs.0.70 Crores=0.645or 64.5%

A firm keeps high payout ratio in order to maintain or get an increase in the market price of its equity shares.

A firm may keep low pay out ratio, if earnings are required for financing its growth. A firm has to maintain abalance between retention & pay out of the earnings.

i) Earnings price ratio $= \frac{EPS}{MP}$

ii) Price - earnings ratio $= \frac{MP}{EPS}$

iii) Dividend - yield ratio $= \frac{DPS}{MP}$

iv) Pay - out ratio $= \frac{DPS}{EPS}$

$$EPS = \frac{\text{Net profit after preference dividend}}{\text{No. of outstanding ordinary shares}}$$

$$DPS = \frac{\text{Dividends for ordinary shares}}{\text{No. of outstanding ordinary shares}}$$

MP = Market price per share

Standards for comparison:

For making a proper use of ratios, it is essential to have fixed standards for comparison. A ratio by itself has very little meaning unless it is compared to some appropriate standard. Selection of proper standards of comparison is a most important element in ratio analysis. The four most common standards used in ratio analysis are; absolute, historical, horizontal and budgeted.

Absolute standards are those which become generally recognised as being desirable regardless of the company, the time, the stage of business cycle, or the objectives of the analyst. Historical standards involve comparing a company's own' past performance as a standard for the present or future.

In Horizontal standards, one company is compared with another or with the average of other companies of the same nature.

The budgeted standards are arrived at after preparing the budget for a period Ratios developed from actual performance are compared to the planned ratios in the budget in order to examine the degree of accomplishment of the anticipated targets of the firm.

Limitations:

The following are the limitations of ratio analysis:

1. It is always a challenging job to find an adequate standard. The conclusions drawn from the ratios can be no better than the standards against which they are compared.
2. When the two companies are of substantially different size, age and diversified products,, comparison between them will be more difficult.
3. A change in price level can seriously affect the validity of comparisons of ratios computed for different time periods and particularly in case of ratios whose numerator and denominator are expressed in different kinds of rupees.
4. Comparisons are also made difficult due to differences of the terms like gross profit, operating profit, net profit etc.
5. If companies resort to 'window dressing', outsiders cannot look into the facts and affect the validity of comparison.
6. Financial statements are based upon part performance and part events which can only be guides to the extent they can reasonably be considered as dues to the future.

7. Ratios do not provide a definite answer to financial problems. There is always the question of judgment as to what significance should be given to the figures. Thus, one must rely upon one's own good sense in selecting and evaluating the ratios.

7.6 LET US SUM UP

This lesson focuses on the interpretation and analysis of financial statements. How does the financial manager know that he or she is moving the company in the right direction, and how do investors in the firm's shares evaluate the performance of the managers? The stakeholders look at the firm's financial statements for answers to these and other questions. Firm managers use accounting information to help them manage the firm. Investors and creditors use accounting information to evaluate the firm.

Financial analysis helps managers with efficiency analysis and identification of problem areas within the firm. Also, it helps managers identify strengths on which the firm should build. Externally, financial analysis is useful for credit managers evaluating loan requests and investors considering security purchases.

Another takeaway from this lesson is Ratio analysis, which is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement.

7.7 EXAMINATION ORIENTED QUESTIONS

Q.1 Discuss the components of balance sheet.

Q.2 Discuss the profit and loss statement format followed in India.

Q.3 What is the tools for ratio analysis and what are its limitations.

UNIT-3 INDUSTRIAL LABOUR

M.A. Economics — **Lesson-8**
Course No. 409 — **Unit-3**

STRUCTURE:

8.1 Introduction

8.2 Objective

8.3 Employment dimension of Indian industry.

8.4 Industrial relations

8.5 Evolution of industrial relation during post reform period

8.6 Let Us Sum Up

8.7 Examination Oriented Questions.

8.1 INTRODUCTION

Industrial labour force occupies a dominant place in the production activity. In this lesson we will discuss growth of Industrial labour force and employment dimensions of industry. More over an attempt is also made to study the definitions, objective and evolution of industrial relations.

8.2 OBJECTIVE

The basic objective of this lesson is to make the student aware about the industrial labour force and various employment dimensions of Indian Industry.Industry dispute is also an issue in industries. The approaches of this

lesson is provide the necessary knowledge regarding industrial relations and their evolution. An attempt is also made to study and analyse the industrial relation Policies after independence and Industrial relations in the public and small scale sector.

8.3 EMPLOYMENT DIMENSION OF INDIAN INDUSTRY

Indian industry is well known for its diversity. Not only does it contain a range of , very large to very small factories, but also has a mix of technologies from modem -to old. For instance, a power plant employs several thousands of workers, while auto garage may be run by two or three mechanics. Similarly, a TV manufacturing company may be using the very latest technology brought from Japan, but the batteries needed for the TV remote, are probably being produced with old technology.

With planned efforts for industrialisation, India has been able to create a vast network of modern industries that produce a large number of goods, both for intermediate and final use. However, this achievement of technological capability has not been matched with a structural change in the pattern of employment. The majority of our people (over 40 per cent) are still employed in agriculture; our industries account for about 26 per cent of the total employment and about 27 per cent of GDP - not a very good record for a sector that has received massive state patronage since independence. Within the industrial sector, registered manufacturing units provide employment only to minor part of the workforce, but have a major share in per cent of value added (a measure of output), while the unregistered manufacturing units account for the rest. This suggests that the registered manufacturing sector, which has been the main beneficiary of state support and planning, is relatively a capital-intensive sector failing to provide direct employment to our large industrial workforce

According to the 2011 Census, 48.9 per cent of the main workers labour force was employed in the agricultural sector and allied activities. Obviously, this reflects the predominance of agriculture in the economy. But when we compare

the percentage of agricultural labour force in 1991, 2001 and 2011, we notice that during the 1990s and 2000s there was a significant decline in the relative importance of agriculture. According to the 1991 Census, of the total main workers labour force, as much as 66.8 per cent was employed in agricultural and allied activities. As against this, 56.7 per cent of the workers in 2001 and 48.9 per cent of the workers in 2011 were employed in this activity. In 1991, only 12.7 per cent of the workers were employed in industry. This percentage rose to 18.2 in 2001 and further to 24.4 in 2011-12. This shows that there was a significant rise in the percentage of the labour force engaged in industrial sector during 1990s and 2000s. As is clear from Table 11.6, the main reason for this was the significant rise in employment in the construction sector. The services sector in India accounts for a little more than one-fourth of the labour force. According to the 1991 Census, 20.5 per cent of the main workers labour force was employed in this sector which comprises trade, commerce, transport, communications and other services. As against this, in 2011-12, 26.7 per cent of the main workers force was employed in this sector. This indicates that the relative size of the services sector grew during the period 19912011.

Sectoral Distribution of Employment

In Table below, we have provided estimates of employment by sectors. These estimates are based on NSS data for the various Rounds.

Estimated number of UPSS workers across broad industrial categories

Industry	1951	1972-73	1983	1993-94	2004-05	2011	2016	2018	2019	2020
Agriculture and allied activities	**72.1**	**73.9**	**68.6**	**64.8**	**58.5**	**48.9**	**45.14**	**43.3**	**42.4**	**41.5**
Industry	**10.7**	**11.3**	**13.8**	**14.7**	**18.1**	**24.4**	**23.98**	**25**	**25.6**	**26.2**
Mining and quarrying	0.6	0.4	0.6	0.7	0.6	0.5	-	-	-	-
Manufacturing	9.0	8.9	10.6	10.5	11.7	12.8	-	-	-	-
Electricity, Gas and water supply	-	0.2	0.3	0.4	0.3	0.4	-	-	-	-
Construction	1.1	1.8	2.3	3.1	5.6	10.6	-	-	-	-
Services	**17.2**	**14.8**	**17.6**	**20.5**	**23.4**	**26.7**	**30.9**	**31.7**	**32**	**32.3**

The main results that can be obtained from a study of Table are as follows:

1. The main sector as far as employment is concerned, continues to be agriculture although there has been a decline in employment in this sector in percentage terms (from 73.9 per cent in 1972-73 to 64.8 per cent in 1993-94 and further to 48.9 per cent in 2011-12 and 41.5% in2020). In absolute terms, the number of people employed in this sector rose from 241.5 million in 1993-94 to 268.6 million in 2004-05 (a rise of 27.1 million). However, the number of people employed in agriculture fell after 2004-05 and stood at 231.9 million in 2011-12. Thus, over the seven year period 2004-05 to 2011-12, as many as 36.7 million workers abandoned agriculture (which was nearly 16 per cent of the total workforce in agriculture in 2011-12). This absolute decline in the number of workers in Indian agriculture after 2004-05 occurred for the first time in India's postIndependence economic history and is indicative of a structural transformation that is now taking place on the employment front in our economy. According to Santosh Mehrotra et al., "This structural shift ... is precisely the kind of progressive structural change in employment that should accompany a structural shift in output between the primary, secondary and tertiary sectors in any developing economy.

2. The number of workers employed in manufacturing rose from 38.9 million in 1993-94 to 53.9 million in 200405 and further to 59.8 million in 2011-12. However, in percentage terms, there has been no significant change in employment in the manufacturing sector during the period of the last three decades. As is clear from as. against 10.6 per cent of workers employed in manufacturing in 1983, 12.8 per cent of workers were employed in this sector in 2011-12.

3. Next in importance from the point of view of employment is trade, hotels and restaurants. This sector employed 7.4 per cent of workers in 1993-94 and 11.4 per cent in 2011-12.

4. The sector which has registered the fastest growth in recent times as far as employment generation is concerned, has been the construction sector.

This is basically due to a large number of infrastructure projects being undertaken in recent years (particularly projects of road construction under NHDP, and projects under MGNREGS). As a result, while only 3.1 per cent of workers were engaged in the construction sector in 1993-94 and 5.6 per cent in 2004-05, there was a sudden jump to 10.6 per cent in 2011-12.

5. As a result of economic reforms in the post-1991 period, there has been substantial expansion in employment in: (i) transport, storage and communication and (ii) financing, real estate and business services. As can be calculated from Table 12.2, while 3.2 per cent of workers were employed in these sectors in 1983, this percentage rose to 5.3 per cent in 2004-05 and 7.0 per cent in 2011-12.

6. The sectors exhibiting a marked stability in terms of employment over 1983 to 2011-12 have been the sectors of: (i) mining and quarrying, and (ii) electricity, gas and water supply. Their combined share in total employment was 0.9 per cent both in 1983 and 2011-12.

7. A structural change in employment is evident from Table , with the share of agriculture declining over the entire five decade period 1972-73 to 2011-12 from as high as 73.9 per cent (i.e., nearly three-fourths of total employment) to 48.9 per cent in 2011-12 (i.e., less than half of total employment). The share of industry over the period rose from 11.4 per cent to 24.4 per cent and the share of services from 14.8 per cent to 26.7 per cent. However, as can be seen from Table , this structural shift has been the result of changes taking place in the economic reform period, i.e., the post 1991 period only. In this context, two comments are in order:

   (i) The increasing share of industry in total employment is mainly the result of the massive expansion in the construction sector. However, the 'quality of employment in this sector is not good as most of the people working in it have casual and temporary jobs and, are thus, not entitled to the benefits that accompany regular and permanent jobs (like casual and sick leave, medical benefits, social security cover etc.)

(ii) The ‘backbone of the industrial and economic progress, i.e., the manufacturing sector, continues to face stagnation in terms of employment. Even in 2011-12, this sector could employ only 12.8 per cent of the people. Without a rapid growth of the manufacturing sector, the country will not be able to push up economic growth to any significant heights. The Government of India has realised this fact and is thus putting in efforts to expand the manufacturing sector. As far as employment is concerned, the National Manufacturing Policy (NMP) announced by the government on November 4, 2011 calls for the creation of 100 million additional jobs in the manufacturing sector by 2022.

8. Gender-wise sectoral distribution of workers reveals the following information: as far as male workers are concerned, 58.3 per cent of these workers were employed in agriculture in 1993-94 and this percentage fell by 43.6 per cent in 2011-12 (a decline of almost 15 percentage points). This was basically due to the fact that more and more male workers are now shifting to other sectors of the economy, particularly the construction sector. In fact, the share of the construction sector in total male employment rose from 4.1 per cent in 1993-94 to as high as 12.3 per cent in 2011-12.

   As far as female workers are concerned, 78.1 per cent (i.e., more than three-fourths) of these workers were employed in agriculture in 1993-94. This percentage fell to 62.8 per cent in 2011-12 (a decline of about 15 percentage points). The share of the construction sector in female employment rose from a meagre 1.2 per cent in 1993-94 to 6.1 per cent in 2011-12.

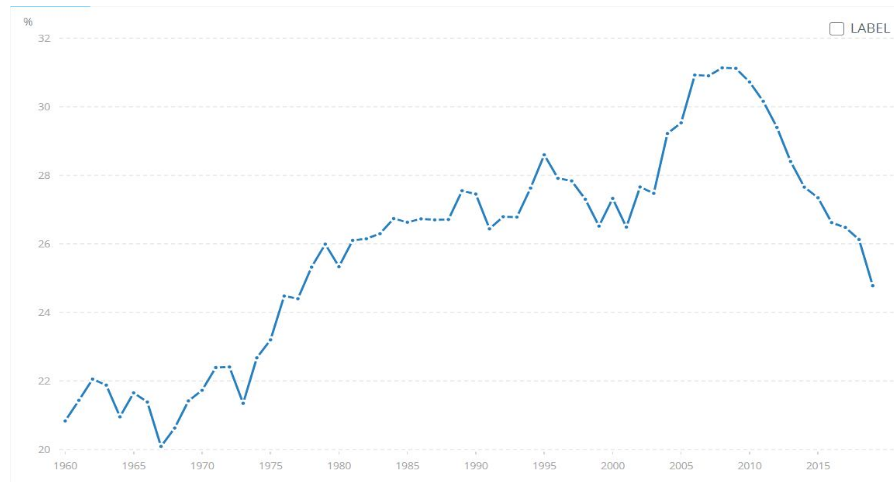
Proportion of workers in the industrial sector.

Considering the overall industrial sector, it looks at if very little happened in this sector in terms of employment of labour force during 1951 to 1991. In 1991, 12.7 per cent of the working population was employed in this sector as against 10.7 per cent in 1951. Compared to the position in 1951, the situation in

1991 could not be deemed as satisfactory. But these inferences are correct only superficially. During the four decade period from 1951 to 1991, basic and heavy industries had received high priority under the strategy of planned development. This fact is reflected in the changes in occupational structure. Until the 1951 Census, separate data were not provided for household industry and other than household industry, but from other indicators it is obvious that in terms of employment, household industry was more important. But the situation changed between 1961 and 1991 as the proportion of labour force in household industry declined (from 6.4 per cent in 1961 to 2.4 per cent in 1991). Correspondingly, the proportion of labour force in other than household industry increased from 4.2 per cent in 1961 to 7.8 per cent in 1991,

During the post-reform period 1991-2011, the proportion of labour force in the industrial sector increased significantly from 12.7 per cent in 1991 to 18.2 per cent in 2001 and further to 24.4 per cent in 2011-12. As far as the sub-sectors of industry are concerned, while the proportion of workers engaged in mining and quarrying remained unchanged, that in the manufacturing sector rose from 10.2 per cent to 13.2 per cent. Reflecting the increased activity in the construction sector during the post-reform period, the proportion of workers employed in this sector rose considerably over the period 1991 to 2011. As is clear from Table 11.6, only 1.9 per cent of the workers were employed in the construction sector in 1991. This percentage rose to 3.7 in 2001 and further to as high as 10.6 in 2011-12. This shows that now one-tenth of the workers are employed in the construction sector.

Share of industry in GDP (1960-2019)



SOURCE- world bank

Proportion of workers services sector.

While most of the Indian workforce is still employed in the agricultural sector, it is the services sector that generates most of the country's GDP .As is clear from Table, the proportion of workers employed in the services sector increased over the six decade period 1951 to 2011-12 from 17.2 per cent to 26.7 per cent. Not only this, the relative position of the three sub-sectors (trade and commerce; transport, storage and communications; and other services) has also kept on changing. For example, the proportion of labour force employed in transport, storage and communications steadily increased from 1.5 per cent in 1951 to 2.7 per cent in 1991 and 4.4 per cent in 2011-12. This is a welcome development as it reflects improvements in the infrastructure which this country badly needs for stepping up the development process. The expansion of trade and commerce is also linked with economic development. In this sector, the percentage of people employed was 5.2 in 1951 and this rose to 11.4 in 2011-12.

Employment in Informal and Unorganised Sectors

Employment in the unorganised sector was as high as 86.3 per cent in 1999-2000 and 2004-05 of total employment though it fell somewhat to 82.7 per cent in 2011-12. As a result, organised sector employment rose from 13.7 per cent in 1999-2000 and 2004-05 to 17.3 per cent in 2011-12. However, the increase in the organised sector employment has been mainly in the informal sector (from 37.9 per cent in 1999-2000 to 46.5 per cent in 2004-05 and 54.6 per cent in 2011-12). The informal employment in the unorganised sector remained the same (99.7 per cent).

As far as employment in the informal sector is concerned, it was 91.1 per cent of total employment in 1999-2000. The share of informal sector employment in total employment rose to 92.7 per cent in 2004-05 and stood at 91.9 per cent in 2011-12. This shows that only 8 per cent of people work in the formal sector. This is a matter of serious concern. Another significant observation is that formal employment in the organised sector is not increasing (it was 33.7 million in 1999-2000, 33.4 million in 2004-05 and just 30.74 million in 2009-10). This points to the fact that organised enterprises' employers are increasingly hiring workers on contractual terms.

Employment in Public and Private Sectors

Information on employment in public sector and private sector is presented in Table below. A little calculation on the Table shows that the public sector's share in total employment in these two sectors was 67.7 per cent in 1981. This roseto 71.3 per cent in 1991 but fell thereafter. This was the result of a conscious policy decision by the government to reduce employment in the public sector. As a result of this policy, the share of public sector in employment in the two sectors fell to 68.9 per cent in 2001, 68.1 per cent in 2005 and further to 59.6 per cent in 2012. As can be seen from Table 12, the rate of growth of employment in the two sectors combined was 1.20 per cent per annum over the period 1983-94 but decelerated considerably to only 0.46 per cent per annum during 1991-2012. This decline was mainly due to a decrease in employment growth in the public sector establishments from 1.53 per cent per annum in the earlier period to (-)

0.36 per cent per annum in the later period. The private sector, on the other hand, showed accelerated growth from 0.44 per cent per annum to 2.03 per cent per annum.

Employment in public and private sectors(in lakh)

	1981	**1991**	**2001**	**2005**	**2011**	**2012**
Public sector	154.8	190.6	191.4	180.1	175.5	176.1
Private sector	74	76.8	84.5	114.2	119.4	119.4
Total	228.8	267.4	277.9	264.6	289.7	295.5

Increasing Casualisation

Data on employment status by category of employment shows the phenomenon of increasing casualisation over the years 1972-73 to 2011-12.

The entire period of 1972-73 to 2009-10 can be divided into two distinct periods – 1972-73 to 2011-12 and then 1999-2000 to 2011-12. During the first period, a clear trend of casualisation of workforce is evident (excepting the category of urban females). For instance, in the category of rural males, the share of casual labour in total employment rose from 22.0 per cent in 1972-73 to 36.2 per cent in 1999-2000. In the category of rural females, the share of casual labour rose from 31.4 per cent to 39.6 over the same period while in the category of urban males, the share of casual labour increased from 10.1 per cent to 16.8 per cent. This shows that there was an evidence of increasing casualisation of workforce over the period 1972-73 to 1999-2000 in both rural and urban areas. As far as rural areas are concerned, agriculture proved to be incapable of productively absorbing the growing rural labour force. Asa result, people increasingly sought employment in nonagricultural activities (like construction, trade and services). According to Papola, while some casualisation in rural areas was 'distress driven', as small and marginal land holders and land labourers, unable to find gainful work in agriculture, were forced to take up whatever work the non-agricultural sector offers, some people opted for non-agricultural activities as they offer better earnings. In urban areas, displacement of regular workers from large enterprises increased the casualisation of labour force.

Lets sum up

From the foregoing analysis of India's occupational structure, it is clear that over the first four decades of economic planning (1951 to 1991), the occupational structure of the Indian population remained almost unchanged. As is clear from Table, the percentage of people employed in agriculture and allied activities declined only marginally over this period – from 72.1 in 1951 to 66.8 in 1991. The same type of stability is found in the industrial sector and services. A careful study of the economic history of the various countries that have witnessed significant changes in the occupational structure within a relatively short period of time, reveals that three prominent factors behind this change have been: (1) a rapid decline in the rate of population growth, (2) considerable increase in labour productivity in agriculture, and (3) a spurt in the growth of industries. Between the four decade period 1951 to 1991, none of these factors was operative in India. For instance, the rate of population growth was 1.96 per cent per annum during the decade 1951 to 1961 and 2.16 per cent per annum during the decade 1981 to 1991 (in other words, there was no decline). As far as agriculture is concerned, its nature mostly remained traditional resulting in low productivity.

For ensuring changes in occupational structure, it is necessary to increase productivity in agriculture significantly so that manpower can be released from this sector which could then seek employment in other sectors. Apart from releasing manpower, a rise in agricultural productivity enables the market for manufactured goods to expand in the rural sector which, in turn, provides inducement to industrialisation. Since labour productivity in Indian agriculture continued to remain low, neither were people from agriculture able to move to non-agricultural sectors nor could large markets for manufactured goods develop. To increase productivity in the agricultural sector, it is necessary to push forward a two-pronged strategy: first, carry out large scale land reforms (so that land can be taken over from absentee landlords and handed over to tenants and actual cultivators) and second, adopt new agricultural techniques. However, land reforms in this country have failed miserably and the control of big and absentee landlords

remains as strong as ever. As far as new agricultural techniques are concerned, their benefits remained concentrated to some crops and some States for most of the time over the period 1951 to 1991. As far as the industrial sector is concerned, the pace of growth remained slow and, there was industrial stagnation during the period 1965 to 1980. One of the main reasons for this stagnation was the continued low levels of agricultural productivity which did not allow adequate markets for industrial goods to develop. Moreover, the benefits of whatever economic growth occurred, remained limited to a small elite high income group. This explains why only those consumer goods industries developed rapidly which cater to the demand of relatively well-off sections of the society. Growth of other consumer goods industries (which have a much larger employment potential) continued to be very slow. Public sector enterprises producing heavy machinery, machine tools, steel and other raw materials could not maintain their earlier pace of development, as slow-moving private sector industries failed to generate adequate demand for their products. Because of all these factors, the occupational structure remained almost unchanged during the first four decades of planning, i.e., from 1951 to 1991.

However, as is clear from Table 11.6, significant changes in India's occupational structure have occurred during the post-economic reform period (i.e., the period since 1991). Whereas almost two-thirds of working population was engaged in agricultural activities in 1991, now less than half of the working population is working in the agriculturalsector. Because of the massive expansion in the fields of trade, commerce and transport etc. in the post-1991 period, there has been a substantial increase in employment in the services sector. Whereas one-fifth of the working population was engaged in the services sector in 1991, now more than one-fourth of the people are working in this sector. However, the most important change has occurred in the industrial sector. While only 12.7 per cent of the people were employed in industry in 1991, now 24.4 per cent of the workers are working in this sector in other words, one-fourth of the working population is now engaged in the industrial activities). The most important reason for this significant change has been the massive increase in employment in the construction sector. While only 1.9 per cent of the workers

were working in this sector in 1991, now as many as 10.6 per cent workers are employed in construction activities (in other words, one-tenth of the working population is now engaged in the construction sector). However, it must be pointed out here that the people engaged in the construction activities have mostly temporary and contractual jobs. Since their jobs are not permanent, they face uncertain future. Moreover, they are deprived of all benefits that go alongwith permanent jobs like casual and sick leave, pension, social security benefits etc. From this point of view, the best position is of the workers employed in the manufacturing sector (particularly those employed in the registered manufacturing sector). However, not many job opportunities could be created in this sector. As is clear from Table, only 10.2 per cent of the workers were employed in the manufacturing sector in 1991. This percentage rose to only 13.9 in 2001 and stood at 13.2 in 2011. Failure to create employment opportunities in the manufacturing sector is a cause of serious concern. Taking note of this fact, the NMP (National Manufacturing Policy) announced by the Government of India on November 4, 2011 aims at creating 100 million additional jobs in the manufacturing sector by 2022.

8.4 INDUSTRIAL RELATIONS

Industrial relations is that field of study which analyzes the relationship among the management and the employees of an organization at the workplace and also provides a mechanism to settle down the various industrial disputes. This concept evolved in the late 19th century because of the industrial revolutions.

Industrial relations may be defined as the relations and interactions in the industry particularly between the labour and management as a result of their composite attitudes and approaches in regard to the management of the affairs of the industry, for the betterment of not only the management and the workers but also of the industry and the economy as a whole.

Industrial Relations – Meaning and Definition

The term ‘Industrial Relations’ comprises ‘Industry’ and ‘relations’. Industry means any productive activity in which an individual is engaged. It

includes- (a) primary activities like agriculture, fisheries, plantation, forestry, horticulture, mining etc. etc. and (b) Secondary activities like manufacturing, construction, trade, transport, commerce, banking, communi-cation etc.

Economically speaking, industry means the secondary sector where factors of production (land, labour, capital and enterprise or four M's – men, materials, money and machines) are gainfully employed for the purpose of production, and where a business organisation exists.

'Relations' means 'the relations that exist in the industry between the employer and his work-force. Different authors have defined the term industrial relations in somewhat different way.

Industrial Relations – Scope

Industrial relations are relation between employee and employer in their day-to-day work. Hence, it is continuous relationship.

The scope of industrial relations includes:

a) Relationship among employees, between employees and their superiors or managers.

b) Collective relations between trade unions and management. It is called union-management relations.

c) Collective relations among trade unions, employers' associations and government.

Scott, Clothier and Spiegel remarked that industrial relations hasto attain the maximum individual development, desirable working relationships between management and employees and effective mouldingof human resources. They have also asserted that either industrial relations or personnel administration is primarily concerned with all functions relating man effectively to his environment.

Thus, the scope of industrial relations seems to be very wide. It includes the establishment and maintenance of good personnel relations in the industry, ensuring manpower development, establishing a closer contact between persons connected with the industry and that between the management and the workers,

creating a sense of belonging in the minds of management, creating a mutual affection, responsibility and regard for each other, stimulating production as well as industrial and economic development, establishing a good industrial climate and peace and ultimately maximising social welfare.

Industrial Relations – Objectives

The objectives of industrial relations are given below:

(i) To safeguard the interest of labour and management by securing high level of mutual understanding and goodwill between all sections in the industry which are associated with the process of production.

(ii) To raise productivity to a higher level by arresting the tendency of higher labour turnover and frequent absenteeism.

(iii) To avoid industrial conflicts and develop harmonious relations between labour and management for the industrial progress in a country.

(iv) To establish and maintain Industrial Democracy, based on labour partnership, not only by sharing the gains of the organisation, but also by associating the labour in the process of decision making so that individual personality is fully recognized and developed into a civilized citizen of the country.

(v) To bridge about government control over such units which are running at losses or where production has to be regulated in the public interest.

(vi) To bring down strikes, lockouts, gheraos and other pressure tactics by providing better wages and improved working conditions and fringe benefits to the workers.

(vii) To bring the gap, by the state, between the imbalanced, disordered and maladjusted social order (which has been the result of industrial development) and the need for reshaping the complex social relationships adaptable to the technological advances by controlling and disciplining its members, and adjusting their conflicting interests.

The main theme behind the concept of industrial relation is to recognise

the fact that labour is a human being and not a commodity and, therefore, it should be treated as living being. Every individual differs in mental and emotional abilities, sentiments and traditions. Human like treatment only can improve the relations between the management and the labour. In its absence, the whole edifice of organisational structure may crumble down.

Thus, the employees constitute the most valuable assets of any organisation. Neglecting this important source may result in high cost of production in terms of wages and salaries, benefits and services, working conditions, increased labour turnover and absenteeism, growing indiscipline, strike and walkouts and the like besides deterioration of quality of goods and strained labour- management relations.

Industrial Relations – Types

Industrial relations include four types of relations:

(i) Labour relations i.e., relations between union- management (also known as labour management relations);

(ii) Group relations i.e., relations between various groups of workmen i.e., workmen, supervisors, technical persons, etc.

(iii) Employer-employee relations i.e., relations between the management and employees. It denotes all management employer relations except the union-management relations;

(iv) Community or Public relations i.e., relations between the industry and the society.

The last two are generally, not regarded the subject matter of study under industrial relations. They form part of the larger discipline—sociology. The first two are studied under industrial relations but these two i.e., labour management relations and employer-employee relations are synonymously used.

Industrial Relations – Salient Characteristics

The salient characteristics of industrial relations are discussed herein below:

1. **Parties in the Industrial Relations Activities:**

Basically, two parties-workers and management are involved in the process of establishing relations. However, the government agencies regulate / maintain industrial relations.

2. **Interactive Process:**

Industrial relations arise out interactions between different persons/parties. They are supervisors, workers trade unions, employers' associations.

So, interactive process takes place between –

i. Supervisors and industrial workers

ii. Supervisors and group/team members

iii. Management and trade union leaders

iv. Employers' federations and workers' unions.

3. **Two-Way Communication:**

IRs is a two-way communication process. One party gives stimuli, other party responds to the stimuli. So, the transaction occurring through such mechanism is either complementary or cross. More the complementary transactions, better will be the industrial relations situations.

4. **HRM Practices:**

Effective human resource planning system, identification and stimulating prospective employees, designing the most suitable selection technique to choose the right kind of people help to organization to get a committed and willing workforce that want to grow, develop and achieve. Such employees in the process like to develop better relations with their bosses. So, HRM practices influence IRs pattern in the industry.

5. **Approaches to IRs:**

Various approaches contribute to shape IRs pattern in industrial organizations. These approaches include sociological, psychological, socio-ethical, human relations, Gandhian, system approaches etc.

6. **State Intervention:**

State plays a vital role to influence industrial relations situations through its activities as facilitator, guide, counsellor for both the parties in the industry.

7. **Role of Trade Union:**

Behavioural manifestations of workers are mostly governed by the trade unions to which they belong. Hence, trade union's perception, attitudes towards management influence workers to form their mind set that regulates/promotes interaction with the management.

8. **Organizational Climate:**

If, congenial and conducive organizational climate prevails, workers feel homely, interact spontaneously, communicate boss about their problems, difficulties directly and come close to him to exchange/share the views each other in respect of work, change of job design, introduction of any operative system, process etc. Under such situation, possibility of establishing healthy human relations develops and these relations influence industrial relations pattern of organization.

9. **Dispute Settlement Process:**

If, the management personnel believe on the philosophy of settling workers' grievances/ disputes through bi-lateral negotiation process, they give much more emphasis on mutual talk, sharing responsibility, collaboration, partnership dealing and mutual trust. In the process changes in workers' attitudes, behavior and thought pattern are likely to occur which effect industrial relations.

10. **Outcomes of IRs:**

Outcomes of IRs are reflected in production both in quantity and quality, services, man days lost, wastes, accident rate, productivity, labour turnover rate, absenteeism rate, number of bipartite negotiations, company's image, growth, development etc.

11. Competency Development:

Healthy industrial relations help to develop workers' skill, knowledge, ability, aptitude and change their attitudes, perception to enable them to participate in collaborative activities / collective bargaining process effectively.

12. Issues in IRs:

Industrial relations climate / situation is greatly influenced by the issues-economic, non-economic governed by service contract / terms and conditions of employment. Besides, the issues not covered under service rules viz., behavioral, and attitudinal issues influence IRs pattern.

Industrial Relations – 3 Main Participants in Industrial Unit

Basically there are two parties in the employment relationship, i.e., the labour and the management. Over the years, the Government has come to play a major role in industrial relations and they have established legal and non-legal measures for cordial industrial relations in the country.

These three parties of industrial relations interact with the environment that prevails in the industry at any time. Good industrial relations are the outcome of- (a) Healthy labour management relations, (b) Existence of industrial peace and settlement of all disputes in such a manner that there are no strikes or lockouts and (c) Labour participation in industry which is referred as Industrial democracy.

In an industrial unit, different people are performing the different tasks.

We can have three parties or participants or actors in an industrial unit:

1. The workers and their unions,
2. Employees and their associations, and
3. Government.

1. Workers and their Unions:

The total work plays an important role in industrial relations. The total work includes working age, educational background, family background,

Psychological factors, social background, culture, skills, attitude towards other work, etc. Workersorganisation prominently in trade union activities.

The main purpose of trade unions is to protect the workers economic interest through collective bargaining and by bringing pressure on management through economic and political practices. Trade union factors include leadership, financial, activities, etc.

2. Managers and their Associations:

The prominent role is of work group, the differences in their sizes, constitutions and the degree of specialization they press upon. Of course, there is the necessary provision for mutual communications for the structure of status and authority and for such other organisation as trade unions and employer's associations.

3. Government:

Government plays a balancing role as a custodian of the nation; government exerts its influence on industrial relations through its labour policy, industrial relations policy, implementing labour laws, the process of conciliation and adjudication by playing the role of a mediator, etc. It tries to regulate the activities and behaviour of both employee's organisations and employer organisations.

Thus the three groups of employees, employers and the government work within the social and economic environment that prevails at a particular time. Whatever industrial relations system may be in vogue, it has in its framework the intricate rules and regulations which enforce the workplace and the working community.

The various systems might comprise of different forms of such rules and regulations. There might be laws and awards of different courts, committees or tribunals. There might be agreements written or sanctioned by custom, usage, practice or tradition or there might be the outcome of government policies or intervention.

CHECK YOUR PROGRESS

Q.1 What is the importance of industrial relations in Indian context

Q.2 Who are the three parties in industrial relations and what are their roles?

5.5 EVOLUTION OF INDUSTRIAL RELATION DURING POST REFORM PERIOD

In June 1991, the ruling minority government decided to adopt the World Bank-IMF's stabilisation and structural adjustment program. The rupee was devaluedtwice, import quotas were reduced, tariffs were lowered, state monopoly on exportsand imports ended and a statement on industrial policy aimed at lowering the ûscaldeûcit was presented.

New Economic Policy of India was launched in under the leadership of P. V. Narasimha Rao. This policy opened the door of the India Economy for the global exposure for the first time. In this New Economic Policy P. V. Narasimha Rao government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This is also known as the LPG Model of growth.

The thrust of the **New Economic Policy** has been towards creating a **more competitive environment** in the economy as a means to **improving the productivity and efficiency** of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.

1. The main objective was to plunge **Indian Economy** in to the arena of 'Globalization and to give it a new thrust on market orientation.

2. The NEP intended to bring down the rate of inflation

3. It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.

4. It wanted to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of un-necessary restrictions.

5. It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

6. It wanted to increase the participation of private players in the all sectors of the economy. That is why the reserved numbers of sectors for government were reduced.

The requirements for global competitiveness includes international standards in quality as well as quantity, cost effectiveness and customers. This in turn requires introduction of state of art technology, followed by innovation creativity and strategic alignment of divergent resources to create performing climate.

Such a performing climate requires a dynamic and synergic relationship. However, post reforms the tradition of industrial relation is under tremendous pressure because it was made to cater to the requirements of a controlled protected and regulated market and was unable to address the new imperatives of a competitive, global market.

A tug of war is going between forces of change and forces of inertia. The market requires a flexible , and aggressive employee relations approach, while traditional industrial relation wants to remain adhered to status quo without any change.

In the new and changed scenario, traditional institutions of industrial relations are losing their importance and relevance. Trade unions are marginalized and kept outside the mainstream of business.

Strike is losing its effectiveness and relevance. Collective bargaining is being replaced by collaborative and productivity and individual bargaining. The institutions of collective bargaining is being decentralized and being replaced by unit bargaining and individual bargaining.

The institutions of trade unions are also getting weaker in the current post reform period.

Service and IT sector has emerged as the biggest sector , but there are hardly any trade unions in IT sector.

According to Nagaraj (1997), the Indian economy grew at 5.3 per cent during theûrst ûve years of the reforms (1992–96). The tertiary sector grew the fastest in the1990s at about 6.8 per cent per year. The economy become considerably more openthan ever before. There was some apprehension that government expenditure on thesocial sector would decline signiûcantly, but Nagaraj (1997) found that social spending did not suffer; most of the cuts took place in defense and economic services.Again, contrary to earlier expectations, investment performance in India actuallyimproved since the reforms, with private corporate businesses emerging as theeconomy's'leading sector'since the reforms. Even though public investment witnesseddeep cuts since the reform, 'public sector output growth and proûtability improved'suggesting better resource utilisation.

One of the primary objectives of the economic reform package has been the restructuring or closing down of public sector enterprises that are unproûtable and are largedrains on the public exchequer. These enterprises were given the freedom to reducetheir excess human resources through Voluntary Retirement Schemes (VRS) assistedthrough the National Renewal Fund (NRF) that was instituted by the government.The objectives of the NRF was to serve as a generous 'safety net', by providingassistance to cover the costs of retraining and redeployment of employees resultingfrom modernisation, technological upgradation, industrial restructuring, and possibleclosure. The government dissolved the NRF and entrusted the corpus to theindustry ministry. The money under the fund will now be given to the public sectorenterprises directly by the ministry. More over, the government has announceda'golden handshake scheme'for both proûtable and loss-making enterprises.

While recruitment was all but stalled (especially at lower levels) in the public sector, the government also froze the centralised wage bargaining process for the ûrstfew years after 1992. It opened the negotiation process subsequently and attemptedto decentralise the bargaining process by announcing that any wage increase willhave to be absorbed by the speciûc enterprise as these increases now cannot bepassed on to ûnal output prices (as they used to be earlier). In other words, the newpolicy clearly stated that any additional wage burden will not receive budgetary support.

The need for tripartite consultation relating to the various issues concerning labourmatters under economic reform was clearly felt during the initial years and manysuch meetings were carried out. Mathur (1993) documented the experience of consultation during the early phase of structural adjustment in India (1990–92), and suggested that unions had ‘serious misgivings about the adequacy of consultation at(the) industrial or enterprise level’. In the private sector, economic restructuringarrangements led to an increase in managerial ûexibility through all sorts of newcontract provisions: ban on recruitment, job transfers to non-bargainable category,introduction of parallel production, mergers, suspension of industrial action for aperiod of ûve years, concession bargaining (Venkataratnam, 1996).

On the other hand, it is during this phase that the public becomes acutely aware(thanks to the media) that unions in India today represent a declining ‘sectionalinterest group’. Bhaduri and Nayyar (1996: 139) point this out in no uncertain terms:

‘The government also needs to protect consumers against sectional interests of manyunrepresentative trade unions. While the trade union rights of workers must also berespected in any democracy, the government must also ensure, perhaps through secret ballot, that no unrepresentative union harasses ordinary consumers’. Union membership as a percentage of non-agricultural labour dropped from 6.6 per cent in 1985to 5.5 per cent in 1995, and union membership as a percentage of formal sectorworkers declined from 26.5 per cent to 22.8 per cent. At the same time however, India looses more days annually as a result of strikes and lockouts than any othercountry (ILO, 1997/98).

On October 1999 the government set up the second National Labour Commission(the ûrst NLC was set up 30 years ago). The terms of reference lay down that thecommission should suggest rationalisation of existing labour laws in the organized sector and recommend an ‘umbrella’legislation to ensure minimum protection forunorganised workers. The commission had a two-year term and compriseof representatives from government, unions, and industry. Unions feel that there islittle in the existing laws to protect workers from the

whims of errant management,and that any tinkering of these laws would only add to managerial power. Forexample, the proposal to relax contract labour laws so as to generate more jobs oncontract for the unorganised sector is interpreted by unions as a move to undercutpermanent unionised jobs. While the initial workings of this NLC is now under critical scrutiny(Venkataratnam, 2000), there is no doubt that labour laws that govern employmentsecurity and collective bargaining need to be urgently rationalised. According to Sengupta and Sett (2000: 152), the only real hope lies in the formation of an IndustrialRelations Commission, a high-powered statutory body independent of politicalinûuence, that will be made responsible for conciliation and adjudication of industrialdisputes as well as for granting of bargaining agent status to recognised unions indifferent bargaining units. However, differences within the centralized unions, the political parties, and state governments, have indeûnitely delayed thepassage of these much-required labour law reforms. A lack of consensus, and political instability at the centre (in terms of several coalition governments being unableto complete their full terms) since 1992, has led to an inertia in the political willrequired to carry out these reforms.

A negative fall out of this inability to arrive at a national consensus on labourmarket reform are the effects of heightened inter-state competition to attract foreignand local capital on regional labour markets and labour relations in general. Duringthe post-reform period, the states have performed at signiûcantly varying rates(Ahluwalia, 2000) and both national and international capital ûows have created new industrial geographies (Shaw, 1999). In response, the states may attempt the 'levelingdown'of their labour market institutions by offering several incentives to employers.As these divergent trends will make it increasingly difûcult for the centralised unionfederations to act on a national level, it is in their immediate interest to press forindustrial relations reform.

Commentary:

In terms of labour market and industrial relations reforms, continuingeconomic liberalisation will lead to greater employment ûexibility, a movementtowards greater decentralisation in bargaining (especially in the public

sectorenterprises) and lesser governmental intervention in the bargaining process, fewerstrikes, and a possible halt to the cleavages within the union movement. From thepositive side, all this could imply more employment, and a more efûcient unionvoice developing both at the micro and macro-level with industrial pluralism beingstrengthened. On the negative side, the proposed reforms could lead to an increasein managerial power and accelerate the growth of the non-union sector both leadingto a decline in the power of organisedlabour. While at the micro-level, unions of allpolitical hues are cooperating with management in the economic restructuring process (often, because they have no other choice), at the macro-level, the labour movement has been critical of the globalisation and reform process.

Conclusions

India's experience with the setting up of labour institutions that are compatible withpluralistic industrial relations has been mixed. Though the government kept extollingthe virtues of industrial pluralism and bilateral bargaining during the early years,the institutions within which all this was to take place were largely controlled bythe state. This 'state-dominated'pluralism, coupled with ambiguous labour lawsregarding union recognition and 'industrial disputes', eventually led to the multiplicity of party-based unions that weakened the political power of the labour movement as a whole, although in some strategic sites in the public sector, centralized unions had considerable bargaining power. Though unions could impose severe coststo the economy in key sectors, the labour movement was not strong enough toimpose a cooperative solution at the national level. The latter continues to be truetoday.

With the opening up of the economy, competitive forces affected the structure ofthe union movement. In several enterprises in the private sector, 'independent'rank-and-ûle led unions came into existence and engaged in informed and militantbargaining with employers, securing substantial wage and non-wage gains in theprocess. As these unions 'traded off'increased wages at the cost of employmentgrowth, and as employers shifted to 'outsourcing'to non-union sites, the traditionalparty-based unions found their potential recruitment

terrain both challenged andcurtailed. More recently, since the liberalisation process ofûcially began in 1992, manyof these centralised party-based unions have frequently united under a common frontto resist government's attempt at both privatisation and decentralisation in the public sector.

In terms of the 'monopoly'versus 'voice'framework, the years after independencewitnessed the state acting as the 'collective voice'of workers for the purpose of rapidindustrialisation with minimum industrial strife. Potential 'monopoly'effects wereminimised, especially in the growing public sector enterprises where wage and working condition outcomes were administered rather than collectively negotiated. Animplicit 'incomes policy'kept the 'union wage markup'in check. With time, as bothinter and intra industry differentiation began to take place, especially in private sectorûrms, more radical union 'voices'emerged and effectively challenged the state's holdover the labour movement. In the private sector, efûcient 'productivity bargaining'with informed unions kept 'monopoly'effects within the ûrm in check while 'voice'effects increased. In the public sector enterprises and service sites, union 'voice'overtime led to rigid and inûexible contract provisions, and with pay increases beingunrelated to increases in productivity, union 'monopoly'effects increased.

Kuruvilla and Venkataratnam (1996) characterise Indian industrial relations as a'politicised multi-union model', where organised workers are protected at the costof workplace ûexibility and efûciency. The above historical analysis suggests thatwhile this characterisation possibly describes the ûrst two phases of industrial relations, it does not capture the complexities and nuances of the latter two phases.ûndings suggest that the evolution of industrialrelations institutions in India has been incremental and adaptive. Change has beendriven more by the endogenous forces of party politics, government policy, classsegmentation, demography and geography, rather than simply by the exogenousforces of globalisation or by the functional requirements of a particular industrialisation strategy. Comparative industrial relations discourse needs to pay more attention to the historical-speciûcities within the nation state in order to achieve an acceptable alignment between theory and reality. One concrete

corrective could be tocompare India with China (or Mexico or Brazil), rather than with the small and verydifferent economies of East and Southeast Asia.

8.6 LET US SUM UP

Industrial labour force occupies a dominate place in the production activity. In this lesson, we discuss about growth of industrial labour force and employment dimensions of indian industry. Moreover an attempt is made to study the definition, objectives and evolution of industrial relations. an attempt is also made to study and analyze the industrial relations policy after independence and industrial relations in the public and small industries sector.

8.7 EXAMINATION ORIENTED QUESTIONS

Q.1 Describe the trend of employment in Indian industry

Q.2 What do you mean by industrial relations. What are its objectives.

Q.3 Explain the importance of industrial relations in post reform period.

UNIT-3 INDUSTRIAL LABOUR

M.A. Economics **Lesson-9**
Course No. 409 **Unit-3**

STRUCTURE:

9.1 Introduction

9.2 Objective

9.3 Social security measures in India

9.4 Wages

9.5 Problem of bonus in India

9.6 Let Us Sum Up

9.7 Examination oriented questions

9.1 INTRODUCTION

Social security measures provide the security of an income to take the place of earning in case of sickness, accident, retirement, death etc. In this lesson, we will focus on various social security measures.

9.2 OBJECTIVES

The approach of this lessons is to appraise the students about the various social security legislations in India their critical appraisal

9.3 SOCIAL SECURITY MEASURES IN INDIA

Taken in its widest sense, social security means the security of the whole society. This concept is so wide that it encompasses all activities of mankind in all spheres of human life. However, the term as commonly used countries measures for economic security only under government auspices and such economic security in underdeveloped countries like India does not extend to all members of the society, but only to some restricted classes of people life industrial labour, government employees, etc. A coverage of the programmes under social security would be clear from the following definition put forward by Lord William Beveridge, "The term 'social security' is used to denote the security of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement thought age, to provide for loss of support by the death of another person, and to meet an exceptional expenditure, such as those connected with birth, death and marriage ." Social security measure involve (1) providing cash payment to persons and families specified class whose income from earning has been reduced drastically or caused temporarily or permanently (2) providing medical benefits and medical care to persons in the specified class in the event of sickness, maternity, etc; and (3) providing cash payments in the form of stipends, pensions, etc. to the dependants of an employee' in the event of his death.

Social Security legislation in India

Social security measures are usually divided into the following two categories:

(i) social insurance and

(ii) social assistance.

Social insurance schemes are usually financed through contributions by the employees, employers and the state. The benefits to insured persons are linked to their contribution. Social assistance schemes seek to provide assistance to the poor and made persons. They are not linked to the contributions made by the persons and are financed from the general revenues of the State.

The important social security legislations in India are briefly discussed below.

- **Workmen's compensation Acts 1923**

In 1923 the Government of India passed the Workmen Compensation Act, in order to provide for compensation to the workers for **in case of industrial accidents& injury**

1923 is an enactment that was issued by and was implemented by various State Governments which gives social security to workers. The Act also puts in place the amount that is to be paid according to the intensity of the injury. This makes an employer aware of the amount of compensation he is liable to pay in case of an accident.

The Act know covers workers employed in factories, plantations, mines, mechanically propelled vehicles transport establishments, railways, ships, circuses, construction work and other hazardous occupations .

It provides payment of compensation by the employer to the workers & their families in case of industrial accidents & of certain occupational diseases arising out of &in the course of employment resulting in death &disablement. The amount of compensation depends upon the nature of the injury&salary of the worker concerned .Minimum rateof compensation for permanent total disablement can goup to Rs.90,000 and Rs.80,000 respectively.Maximum amount for death &total permanent total disablement can go up Rs.4.56 lakh& Rs.5.48 lakhs respectively depending upon the age&wages of the workers.In case of partial disablement,compensation at the rate of 50percent of wages is payable for a maximumperiod of 5 years. There is no wage limit to the coverage of the Act.The Actis, however,not applicable to the persons who are covered by Employees State Insurance Act,1948.

VIII. Amendmentof the Act in 1995

(a) The provisions of the Workmen's Compensation Act, 1923, were reviewed by the Law Commission of India (1974) and (1989). The Commission had made a number of recommendations for amendment of the Act.

Based on their recommendations and suggestions received from the Ministries/State Governments. The Act has been amended for carrying out certain amendments.

The amendments made by the Workmen's Compensation (Amendment) Act, 1995 provides inter-alia for enhancement in the rate of compensation from 40% to 50% and from 50% to 60% of the monthly wage in the case of death and permanent total disablement respectively;

(b) The minimum rate of compensation for permanent total disablement and death have been fixed at Rs. 60,000/- and Rs. 50,000/- respectively, as against the previous rates of Rs. 24,000/- and Rs. 20,000/- respectively;

(c) The monthly wage ceiling specified in Explanation II under Section 4(1) for working out the maximum amount of compensation has been enhanced from Rs. 1000/- to Rs. 2000/-. The rate of compensation is linked to the age of the workman at the time of his disablement or death.

The workers getting disabled/dying at an early age are, therefore entitled to compensation at a comparatively higher rate.

(d) A provision for payment of Rs. 1000/- towards funeral expenses has been made in addition to compensation;

(e) The Act has been made applicable to workmen recruited by Companies registered and based in India and sent for work abroad;

(f) Sixteen new employments have been added to Schedule-II. In addition to State Governments, the Central Government has also been empowered to add hazardous employment in Schedule-II.

(g) Three new occupational diseases added to Schedule-Ill. Power to add occupational diseases in Schedule-Ill conferred also on the Central Govt.

(h) The claimant of compensation may have the claim/petition filed/ transferred also before the Commissioner for the area in which the workman ordinarily resides.

The Workman Compensation Act, 1923 was formed to provide compensations for workers who acquired/acquire injuries caused by accidents in the course of employment. It ensure that their rights and value as labourer is maintained. Therefore, employers are obligated to pay compensations to workers who got injuries that led to disablement or even death in the course of employment.

- **EMPLOYEES STATE INSURANCE ACT, 1948**

The most important step in the field of social security was taken in 1948 when the Employees' State Insurance (ESI) Act was passed. The Act is applicable to non-seasonal factories using power and employing 20 or more persons and non-power using factories employing 20 or more persons' the Act is being gradually extended by the State governments to new classes of establishments, namely, shops, hotels, restaurants, cinemas including preview theatres, road motor transport undertakings and newspapers establishments. The Act covers employees drawing wages not exceeding Rs 10, 000 per month with effect from October 18, 2006.Persons of armed forces are not covered in the ESI scheme.

Benefits under ESI. The ESIC has its own fund known as the ESI funds. It is utilized for payment of cash benefits to the insured persons, provision for medical benefits under the scheme, establishment of hospitals, dispensaries, etc.

The ESI Act provides the following six major types of benefits to the insured persons –1.**medical benefit, 2.sickness benefit, 3.disablements benefit, 4.maternity benefit, 5.dependants benefit 6. the funeral benefit.**1.As far as medical benefits is concerned, to involves free and complete medical care to all insured persons and their families. The person seeking such medical benefit gets free hospitalization, tree medical treatment and attendance, free consultation and dispension etc. During indoor medical treatment, food is supplied free of cost. As on March 2009, there were 143 ESI hospitals and 42 annexes with 27,739 beds and 1393 dispensaries under the scheme.

2. The scheme of sickness benefit provides for periodical cash payments to an insured person in the event of his certified sickness. The benefit is payable for a maximum period of 91 days in any two consecutive benefit periods. However, in certain long drawn-out diseases this period can be further extended.

3. Maternity benefit is payable to an insured, women employee for a period of 12 weeks (six weeks before and six weeks after the date of confinement).4. Disablement benefit is payable to an employee who suffers an injury resulting into disablement, whether permanent or temporary or who suffers from an occupational disease. The worker is paid for the period for which he is unable to work but if the period is less than three days, no benefit is paid. In the case of permanent disablement, the payment is made for lifetime and its rate is determined in proportion to the degree of disability as decided by the medical board. 5.Dependants' benefit is paid to the dependants of the employee in the event of an employment injury resulting in the death of the employee. The dependants include the widow, minor children and parents of the deceased. 6.Funeral benefit comprises the payment towards the expenditure on the funeral of the deceased insured person and is payable to the eldest surviving member of his family.

- **EMPLOYEES' PROVIDENT FUND AND MISCELLANEOUS PROVISIONS ACT,1952**

Retirement benefits in the form of provident fund, family pension and deposit linked insurance are available to the employees under the Employees' Provident Funds and miscellaneous Provision Act, 1952. The "Employee" as defined in Section 2(f) of the Act means any person who is employed for wages in any kind of work, manual or otherwise, in or in connection with the work of an establishment, and who gets wages directly or indirectly from the employer and includes any person employed by or through a contractor in or in connection with the work of the establishment. The objective of this Act is to make:

(1) some provisions for the future of the industrial worker after the retires

(2) to provide for the dependents in the case of the employee's death, and

(3) to cultivate the spirit of savings among the employees.

Employees' Provident Fund Scheme takes care of following needs of the members:**i)** Retirement**(ii)** Medical Care **(iii)** Housing**(iv)** Family obligation**(v)** Education of Children**(vi)** Financing of Insurance Policies.

The Act covers 186 industries/classes of establishments employing 20 or

more persons. The rate of contribution is 12 per cent. Under the Act, employers are required to make matching contribution.

Refund and Claims.

Under the scheme, a subscriber can withdraw the full amount in the fund in the following cases:

(i) retirement from active service after attaining the retirement age;

(ii) retirement on account of permanent and total incapacity;

(iii) migration from India for permanent settlement abroad;

(iv) termination of service in the course of mass retrenchment.

Full amount of employer's contribution with interest is payable only when the subscriber has remained a member of the scheme for at least 15 years. If a subscriber remains member for less than 15 years, only a part of the accumulation of employer's share is payable to him. However, in all cases, he will always get back his own contribution to the Fund.

The scheme also provides for payment of non-refundable advances in certain contingencies like illness of family members, house building, purchasing shares of the Consumers Cooperative Credit Housing Societies, marriage of the member himself or of his dependant, damage to property due to some grave calamity, etc.

The statutory scheme applies to-

a. Whose monthly salary or wages are upto Rs.6500 b. who are employeed in factories,employing 20 or more persons c. who are engaged in scheduled industries and activities listed under the act.The scheme contributory &is compulsory.The scheme also provides for payment of non-refundable advances in certain contingencies like illness of family members, house building, purchasing shares of the Consumers Cooperative Credit Housing Societies, marriage of the member himself or of his dependant, damage to property due to some grave calamity, etc.

- **Maternity Benefit Act, 1961**.

The Maternity Benefit Act,1961 (53 of 1961)" provides maternity relief and benefit to women employees.

The Maternity Benefit Act, 1961, regulates the employment of women in certain establishments for certain period before and after child birth (six weeks before and six week after confinement) and provides for maternity woman shall, on request being made by her, be required by her employer to do any arduous work one month before her expected delivery. The Act applies to mines, factories, circus, industry, plantations, shops and establishments employing 10 or more persons except the employees who are covered under the Employees' State Insurance Act, 1948. It can be extended to other establishments by the State governments. There is no age limit far coverage under the Act.

What are the different benefits that can be availed under this Act?

The Maternity Benefit Act, 1961 provides both cash as well as non-cash benefits which include-

Cash Benefits

- Leave with average pay for six weeks before the delivery.
- Leave with average pay for six weeks after the delivery.
- A medical bonus if the employer does not provide free medical care to the woman.
- An additional leave with pay up to one month if the woman shows proof of illness due to the pregnancy, delivery, miscarriage or premature birth.
- In case of miscarriage, six weeks leave with average pay from the date of miscarriage.

Non Cash Benefits/Privilege

- Light work for ten weeks (six weeks plus one month) before the date of her expected delivery, if she asks for it.

- Two nursing breaks in the course of her daily work until the child is 15 months old.
- No discharge or dismissal while she is on maternity leave.
- No change to her disadvantage in any of the conditions of her employment while on maternity leave.
- Pregnant women discharged or dismissed may still claim maternity benefit from the employer.

In addition to the above the Act also makes provisions to undertake light work activities for pregnant women 10 weeks prior to her delivery also nursing breaks during daily work till the child attends age of 15 months.

The Maternity Benefit (Amendment) Act 2017 has made amendments to the Maternity Benefits Act, 1961. The major aim of the amendment Act is to regulate the employment of women during the period of childbirth. It has amended the provisions related to the duration and applicability of maternity leave, and other facilities.

- The act is applicable to all those women employed in factories, mines, and shops or commercial establishments employing 10 or more employees.
- It enhanced the duration of paid maternity leave available for women employees from 12 weeks to 26 weeks.
- However, for those women who are expecting after having 2 children, the duration of the leave remains unaltered at 12 weeks.
- It extended the benefits to the adoptive and commissioning mothers by providing them 12 weeks of maternity leave from the date of adoption. Note: The commissioning mother has been defined as a biological mother who uses her egg to create an embryo planted in any other woman or surrogate mother.
- The paid maternity leave can be availed 8 weeks before the expected date of delivery. Before the amendment, it was 6 weeks. Remaining 18 weeks can be availed post childbirth.

- The Act has introduced an enabling provision relating to "work from home" that can be exercised after the expiry of 26 weeks leave period. Depending upon the nature of work, a woman can avail of this provision on such terms that are mutually agreed with the employer.
- The amended Act has mandated a crèche facility for every establishment employing 50 or more employees. The women employees should be permitted to visit the facility 4 times during the day.
- The amended act makes it compulsory for employers to educate women about the maternity benefits available to them at the time of their appointment.
- **Employees' Deposit linked insurance Scheme 1976**

The Employees' Deposit Linked Insurance Scheme was introduced for the members of the Employees' Provident Fund and the exempted Provident Funds with effect from August 1, 1976. A special feature of this scheme is that the members are not required to contribute to the Insurance Fund; only the employers and the government are required to make contributions. On the death of a member' the person entitled to receive the provident fund account accumulations would be paid an additional amount equal to the coverage balance in the provident fund account of the deceased during the preceding twelve months. The maximum amount of benefits payable, under the scheme, is Rs 1,00,000.

- **The Payment of Gratuity Act 1972**

Gratuity is a voluntary Payment made by the employer to the employee in recognition of continuous, meritorious services and sincere efforts by the employee towards the organization. It is governed under the Payment of Gratuity Act 1972. Gratuity is defined as a lumpsum payment made to a worker or to his heirs by the company on termination of his service due to retirement, retrenchment, invalidity or death. The Payment of gratuity Act,1972, is applicable to factories, mines, oil fields, plantations, ports, railways, motor transport undertakings, companies shops and other establishments. The Act provides for payment of gratuity at the rate of 15 days wages for each complete year of service subject

to a maximum of Rs 10 lakh. In the case of seasonal establishments, gratuity is payable at the rate of seven days wage for each season. The Act does not affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with the employer. Gratuity is payable to an employee (nominee – in case of death of employee) who has rendered continuous service of five years or more ,on his termination of employment, superannuation, retirement or resignation. Completion of continuous service of five years is not necessary where the termination of employment is due to death or disablement due to accident or disease.***The Gratuity limit as per Section 4(3) has been raised from 3.5 lakhs to 10 lakhs from*** 24 May 2010**.** This will give advantage to both private and public sector employees. According to this new amendment, the maximum gratuity exemption as per IT Act also increases to Rs. 10,00,000. In the year of 2019 ,the maximum limit of gratuity has been raised to Rs. 20lakh.

- **Determination of Gratuity Amount:**

1. For every completed year of service or part thereof in excess of six months, the employer shall pay gratuity to an employee at the rate of fifteen days' wages based on the rate of wages last drawn by the employee concerned.2.The Gratuity calculation is done as per the last average remuneration drawn and time in years served by an employee.3.The amount of gratuity payable to an employee shall not exceed Rs. 10,00,000 (increased from Rs. 3,50,000).4.In order to compute the gratuity payable in case of employees em-ployed in seasonal establishments, daily wages, or piece rated employ-ees. Computation will be as per the provision of the Act.5It can be formulated as follows: **Basic + DA (Wages Last drawn)* 15days 126 * number of years of continuous service (six months or less to be ignored and more than six months to be counted as full year)**

- **Employees' Pension Scheme, 1995**

This scheme was introduced for the industrial workers with effect from November 16,1995. Under the Scheme, pension at the rate of 50 per cent pay is payable to the employees on retirement/superannuation on completion of 30 years contributory service. A minimum 10 years' service is required for entitlement to pension. Depending upon the salary and service of the employee at the time of

death, the scheme also provides for grant of family pension ranging from Rs 450 per month to Rs 2,500 per month. In addition, children pension at the rate of 25 per cent of widow pension subject to a minimum of 150 per child also payable upto two children. The scheme is financed by diverting the employer's share of provident fund representing 8.33 per cent of the monthly wage to the pension fund. In addition, tire Central government also contributes to t1re scheme at the rate of 1.16 per cent of the wage' The upper limit has been raised from Rs 5,000 to Rs 6,500 with effect from June 1, 2001.

- **Social Security Coverage Scheme for Workers in Unorganized Sector:**

In order to provide social security benefits to the workers in the unorganised sector, the Government has enacted the Unorganised Workers Social Security Act, 2008. The 2008 Act stipulates formulation of suitable welfare schemes for unorganised workers on matters relating to: (i) life and disability cover, (ii) health and maternity benefits, (iii) old age protection and (iv) any other benefit as may be determined by the Central Government through the National Social Security Board. Various Schemes, formulated by the Government to provide social security cover to the unorganized worker, listed in the Schedule I of the above Act are as under:

i. Indira Gandhi National Old Age Pension Scheme. (Ministry of Rural Development)

ii. National Family Benefit Scheme. (Ministry of Rural Development)

iii. Janani Suraksha Yojana. (Ministry of Health and Family Welfare)

iv. Handloom Weavers Comprehensive Welfare Scheme. (Ministry of Textiles)

v. Handicraft Artisans Comprehensive Welfare Scheme. (Ministry of Textiles)

vi. Pension to Master Craft Persons. (Ministry of Textiles)

vii. National Scheme for Welfare of Fishermen and Training and Extension. (Department of Animal Husbandry, Dairying & Fisheries)

viii. Aam Admi Bima Yojana. (Department of Financial Services)

ix. RashtriyaSwasthyaBima Yojana. (Ministry of Health and Family Welfare)

Central Government has also launched following three schemes for all citizen targeting unorganised workers to provide them comprehensive social security.

(i) Atal Pension Yojna (APY): Under the APY, subscribers would receive a fixed minimum pension at the age of 60 years, depending on their contributions, which itself would vary on the age of joining the APY. The Central Government would also co-contribute 50 percent of the total contribution or Rs. 1000 per annum, whichever is lower, to each eligible subscriber account, for a period of 5 years, who are not members of any statutory social security scheme and who are not Income Tax payers. The pension would also be available to the spouse on the death of the subscriber and thereafter, the pension corpus would be returned to the nominee. The minimum age of joining APY is 18 years and maximum age is 40 years. The benefit of fixed minimum pension would be guaranteed by the Government.

(ii) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY): Under PMJJBY, life insurance of Rs. 2 lakh would be available on the payment of premium of Rs. 330 per annum by the subscribers. The PMJJBY will be made available to people in the age group of 18 to 50 years having a bank account from where the premium would be collected through the facility of "auto-debit".

(iii) Pradhan Mantri Suraksha Bima Yojana (PMSBY): Under PMSBY, the risk coverage will be Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability on the payment of premium of Rs. 12 per annum. The Scheme will be available to people in the age group 18 to 70 years with a bank account, from where the premium would be collected through the facility of "auto-debit"

Recently in 2020,The Code on Social Security, 2020, directs the Union and the state governments to consider designing welfare schemes to provide

social security to gig economy workers such as, online-platform based taxi drivers, delivery persons, etc.

- **Social Security Schemes under Erstwhile UWSSA, (unorganized workers social security Act) were Subsumed under the Code on Social Security, 2020 include Welfare schemes**:

1 National Family Benefit Scheme (NFBS) The NFBS under the Ministry of Rural Development (MoRD), provides single-time payment of Rs. 10,000, in the case of the death of the primary earner of a family. 2 Janani Suraksha Yojana (JSY) JSY scheme provides conditional cash transfer to reduce maternal and neonatal mortality by promoting institutional delivery among pregnant women. Financial assistance for institutional delivery in Low Performing States is Rs. 1,400 in rural areas, and Rs 1,000 in urban areas. In High Performing States it is Rs 700 in rural areas, and Rs 600 in urban areas. 3 Indira Gandhi National Old Age Pension Scheme (IGNOAPS) IGNOAPS is a non-contributory old-age pension scheme that covers citizens below the poverty line (BPL), and above the age of 60 years. It provides economic support during old-age. 4 Handloom Weavers Comprehensive Welfare Scheme (HWCWS) It provides life, accidental, and disability insurance coverage to handloom weavers. 5 Handicraft Artisans Comprehensive Welfare Scheme (HACWS) It provides health and life insurance coverage for handicraft artisans.6National Scheme for Welfare of Fishermen It provides financial assistance to fishermen during lean seasons and for other purposes such as construction of houses and tube-wells. The scheme reduces the insecurity that comes from the seasonality of a person's occupation. 7 Aam Admi Bima Yojana (AABY) AABY, administered by the Life Insurance Corporation of India (LIC), offers insurance coverage to one earning family member. It provides monetary support, protecting beneficiaries from economic distress in the case of death or in case of permanent or partial disability. 8 Pension to Master Craft Persons It provides pension of Rs 2,000 per month to master craftsperson aged 60 years or above, who are recipients of national awards or merit certificates or state awards in handicrafts and whose private income is less than Rs. 30,000

- **Social Security Schemes for Unorganised Workers, not Specified under the Social Security Code, 2020 includes Welfare schemes**: such as

1.Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM): Implemented by MoL&E in 2019, this is a voluntary contributory scheme for unorganised workers' economic surety during old-age. It is meant for those who are not covered under the New Pension Scheme (NPS); Employees' State Insurance Corporation (ESIC) scheme; or Employees' Provident Fund Organisation (EPFO). It covers home-based workers, street vendors, cobblers, ragpickers, domestic workers, rickshaw pullers, landless labourers, own account workers, among others. 2 National Pension Scheme for Traders and SelfEmployed Persons (NPS-Traders) NPS-Traders, another MoL&Escheme(Ministry of Labour&Employment), aims at old age social security to retail traders, shopkeepers or self-employed persons with an annual turnover of less than Rs. 1.5 crore. 3 Atal Pension Yojna (APY) APY, under the Ministry of Finance, is another contributory pension scheme for unorganised workers such as maids, delivery boys, gardeners etc. who dot pay income tax. 4 Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) PMJJBY, under the Ministry of Finance, provides life insurance cover to unorganised workers of Rs. 2 lakh, on payment of premium of Rs. 330 per annum. It is applicable to the 18 to 50 years age group. 5 Pradhan Mantri Suraksha Bima Yojana (PMSBY) PMSBY, under the Ministry of Finance, provides insurance cover to unorganised workers. It provides Rs. 2 lakh on accidental death or full disability, and Rs. 1 lakh on partial disability, on payment of a premium of Rs. 12 per annum. It is applicable to the 18 to 70 years age group. 6 Pradhan Mantri Kisan Man Dhan Yojana (PM-KMY) PM-KMY under the Ministry of Agriculture & Farmers Welfare, provides pension of Rs 3,000 per month to small and marginal Farmers on attaining the age of 60 years. The eligible farmer is required to contribute between Rs. 55 to Rs. 200 per month depending on the age of entry. 7 Pradhan Mantri KIsanSAmman Nidhi (PM-KISAN): PM-KISAN is an income support scheme that provides small and marginal farmers with up to Rs. 6,000 per year to support their financial needs. It aims at improving the economic security of farmers.

General Social Protection Schemes for Economically Disadvantaged Groups: 1.Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) It is one of the most widely implemented schemes with a legal mandate under MGNREGA. It aims to ensure livelihood security by guaranteeing 100 days of employment to every rural household, in a year. 2 Public Distribution System (PDS) PDS aims at ensuring food security, as mandated by the National Food Security Act (NFSA), 2013, by providing certain essentials such as pulses, wheat, rice, etc., at a subsidised rate to poor families. 3 Indira Gandhi National Disability Pension Scheme (IGNDPS) It provides citizens with severe disabilities above the age of 18 years,with up to Rs. 300 per month, to protect them from economic distress due to disability. 4 Indira Gandhi National Widow Pension Scheme (IGNWP) IGNWPS is applicable to widows who do not qualify for the IGNOAPS, i.e. are less than 60 years of age. The beneficiaries are entitled to Rs. 200 per month. 5 Varishtah Pension Bima Yojana (VPBY) VPBY, administered through the Life Insurance Corporation of India (LIC), is a pension scheme for senior citizens. 6 Pradhan Mantri Matru Vandana Yojana (PMMVY) PMMVY under the Ministry of Women and Child Development, provides conditional cash transfers to pregnant women and lactating mothers for the first live birth. A cash benefit of Rs. 5,000 is provided in three instalments on fulfilling the eligibility criteria. 7 Ayushman Bharat –Pradhan Mantri Jan Arogya Yojana(PM-JAY) PM-JAY aims at protecting poor households against the financial shock of hospitalization. It provides a cover of up to Rs.5 lakh per family, per year, for secondary and tertiary care hospitalization at public and empanelled private hospital

- **A CRITICAL REVIEW OF SOCIAL SECURITY MEASURES IN INDIA**

As would be clear from the brief review of social security legislation in India, the government has undertaken various steps in the post-independence period to provide social security to employees. However, we have only made a start so tar and much needs to be done as would be clear from the following discussion.

1. Insufficient coverage. The most important criticism of the social security measures undertaken by the government is their totality insufficient coverage. A majority of the people continue to remain outside the ambit of social assistance and social insurance. For example, the total employment in both organised and unorganized sectors in the country in 1999-2000 was of the order of 39.9 crores i.e., around 2.8 crores in the organized sector and the balance 37.1 crores (about 92.0 per cent) in the unorganized sector. No social security scheme worth the name is available for the workers in the unorganized sector. Particularity miserable has been the condition of 23.9 crores worker employed in the unorganized sector in agricultural (of the total 17.1 crores workers employed in the unorganized sector) who have irregular employment and no land or poverty to fall back upon. Even in the organised sector only persons working in establishments employing more than 20 persons are covered under most of 'the social security schemes.

In addition to workers employed in organized are unorganized socials, there are a large number unemployable people—old and sick people, people suffering from various disabilities etc. No social Security measures worth the names have been undertaken for the class of people.

However, in recent times the government has been trying to provide some semblance of social security to these people by introducing old age pension schemes and health insurance schemes (for example, the four public sector general insurance companies launched a Community based Universal Health Insurance Scheme' in July 2000. For old persons an integrated programme for older people is being implemented which includes setting p of an age homes, day care centers and introducing mobiles median units.

2. No unemployment insurance. In many developed countries there is a provisions for unemployment insurance. Benefits under such schemes are available to those individuals who are able to work and are available for work (as evidenced by requirement at a public employment office). Such insurance enables by registration at a public employment office). Such

insurance enables the individual to meet his minimum , subsistence requirement during the period he is seeking employment. However, because of the immense economic costs of this scheme, most of the under developed countries (including India) have found it difficult to implement it. What we have in our country a provision for retrenchment and lay-off compensation which does not even touch a fringe of the problem. Unless something is done to provide unemployment insurance, economic security cannot be achieved and in the absence of economic security, social security will also remain a dream.

3. Over lapping of schemes. India does not have an integrated scheme of social security. on account of this reason. There is considerable overlapping of schemes and similar benefits are disturbance under various schemes. This result in wastage of effort and money. Though the idea of integrating the various schemes has been mooted at various- seminars and discursions, nothing concrete has been direction so far with the result that different schemes of practically the same nature continues to be administered by different agencies.

4. inadequate facilities in relations to the needs of, beneficiaries. The social security schemes are woefully inadequate in relation to the demand for them by the beneficiaries. For example, the medical and dispensing facilities available under the ESI scheme are very insufficient. The number of dispensaries and hospitals is much less than desired. Even the dispensaries and hospitals that exist are understaffed. The beneficiaries are put to a lot of trouble and botheration. There is overcrowding in the dispensaries and hospitals and their staff finds it difficult to cope with the demand on this service. Naturally, they get irritated and their behaviour towards patients is anything but cordial.

5. Unfortunately, many of the provisions of UNWSSAct2008, have been retained in the Code. But unless specific schemes and rules are announced by government for informal workers under the new Code in the near future, it is unclear how it will help address some of the gaps of the previous

legislations that are currently subsumed under it. By and large, the Code on Social Security2020 mostly directly picks from the UWSSA. It does not elaborate on the scope, nature, funding mechanism or minimum goals of the possible social security schemes. More importantly, it fails to address some fundamental issues that made UWSSA ineffective. For example, the national and state level advisory boards, under both ,the Code and erstwhile UWSSA, have an advisory role only, and no institutional power. The registration of unorganised workers is the responsibility of the district administration, but there is no provision to hold them accountable. This has led to limited registration of unorganised workers. Moreover the Code, diverging from the erstwhile UWSSA, no longer requires the district administration to ensure and facilitate registration of workers. Thus, no authority or institution can be held accountable for delayed registration.

6. Giving up legislative ground to the executive at the numerous instances in the Code, specifics are missing. The Code stipulates "as may be prescribed" or "as may be framed" at the discretion of the executive. A recent report by the Parliamentary Standing Committee on Labour on the Code of Social Security (MoL&E, 2020), also noted that too many substantive provisions have been left for the executive to decide.

7. Schemes for unorganised workers, their administrative architecture does not make any specific provisions for migrants Therefore, a comprehensive security net for migrant workers, which is de-linked from the place of origin, becomes all the more important. Schemes that are more place-specific such as the PDS system, have been even less accommodating. Since ration cards are given to households and not individuals (with some regional exceptions), the migrant workers often have to leave their ration cards with families at their native places and cannot have access to subsidised food. Even though recent labour law reforms have tried to address this issue by making PDS benefits portable, there is no clarity on how these proposed changes would be implemented in the current fragmented financing set-up.

- Conclusion:The recent revision of existing legislations into a comprehensive Code on Social Security, and the learnings from the pandemiccovid-19, provide us with an opportunity to address some of these longstanding issues. A key drawback of the social security framework for unorganized sector workers, has been, the stagnated and varied implementation of the laws. keeping this in view some interventions which are needed are:1 Ensuring a minimum social security net for all workers irrespective of wage, enterprise size, and place of origin. 2.Need for a robust monitoring and enforcement mechanism to ensure compliance to labour legislations.3. Creating a common database of informal workers instead of the current scheme-specific ones.4. Streamlining registration process of informal workers and creating awareness about entitlement .The government of India has attempted to widen the ambit of social security coverage for the informal workers but at the implementation the above cited interventions will be important in addressing the limited reach and scope of social protection for informal workers in India .At present there is also a need to bring about a qualitative improvement in the services provided, introduce unemployment insurance and bring about an integration among the various social security schemes.

9.4 WAGES

Labour is a human ability of human power, which is projected to any type of physical ,mental or combination of both the work. The main aim of the work is to get the income . whatever monetary , economic benefits (financial) the person who works (labourer)gets for doing this type of work is called “wages” in the economical term.

Labour is an important factor of production. If there is no labour to work, all other factors, be it land or capital, will remain idle.

Thus, Karl Marx termed labour as the “creator of all value”.

In economics, the price paid to labour for its contribution to the process of production is called wages.

Definitions:

"A wage may be defined as the sum of money paid under contract by an employer to worker for services rendered." -Benham

"Wages is the payment to labour for its assistance to production." -A.H. Hansen

'Wage rate is the price paid for the use of labour." -Mc Connell

"A wage is price, it is the price paid by the employer to the worker on account of labour performed." -J.R. Turner

Characteristics of wages

"wages" is a broad and deep concept . it is widely interpreted . many aspects and views are waved around.it. its main feature or characteristics are as following….

1. A person gets wages for physical or mental or both type labour work.
2. This labour work is mainly production oriented . wage is given for any labour used for the production of any thing or services.
3. Wage can be in the form of monetary income or non monetary benefits. i.e in cash or kind.
4. There are certain concepts , principles and standards for determining the wages .
5. Wages is given for certain time limit such as hours , days, weeks, monthly or yearly or subject to some work or by work.
6. Wages differ acc. To different industries , profession , area or region. It also differs according to type and class of the labourers.
7. Wages does not depend only on demand and supply of labour but life style , relative bargaining power, political interference etc.

Importance of wages

One of the most important aspects of a job for most workers is the wage

it pays. Wages allow workers to make a living from their labor. They also provide incentives to be productive and loyal to an employer. In a broader sense, the wages workers earn fuel the economy.

Income

For workers, wages are a primary source of income, along with smaller sources like government aid and investment income. Wages from work pay for essentials, such as rent, a mortgage, food and utility bills. Workers who earn high wages can afford more expensive lifestyles than those who earn a lower wage. Minimum wage laws ensure that all workers earn enough to pay for the basics, and that employers can't take advantage of workers.

Retention

To employers, wages are an important tool for retaining workers. Low wages will save money on payroll, but a more competitive wage will give workers fewer reasons to leave for a job elsewhere. Wages provide a means of reward, such as when an employer gives a raise based on a performance evaluation, or issues a performance bonus. Employees who earn a reasonable wage are more likely to feel valued by an employer, which means that wages also contribute to workplace morale.

Spending Power

Wages play a major role in the economy by giving workers spending power. This refers not only to the money workers earn that they spend on necessities, but also the money they save or use in the short term for consumer goods, recreation, travel and investing. Workers' wages create jobs elsewhere by supporting manufacturers, retailers, service providers and financial institutions that help workers manage their wealth.

Taxes

Wages are also a source of tax revenue for governments. The more workers earn, the higher their taxable income and tax rate. Unemployed taxpayers must claim their unemployment benefits as income, but the limits on unemployment

benefits mean that unemployed individuals pay less in state and federal taxes than those who earn a steady wage. Higher wages, as occur in competitive industries where workers are in high demand, boost government revenue and provide more funding for services and new projects.

So long as workers are not guaranteed sufficient and reasonable wages neither industrial peace nor worker's satisfaction with the job is possible.

Various concepts of wages

Soon after the independence, Government of India set up a **Committee on Fair Wages i**n 1948 which has defined various concepts of wages which govern the wage structure in the country specially in those sectors which can be termed as underpaid and where workers do not have bargaining power through unions. These concepts are: minimum wage, living wage, and fair wage. Later, the concept of need-based minimum wage was added.

1) FAIR WAGE

The **concept of fair wage** is linked with the capacity of the industry to pay. The Committee has defined fair wage as follows:

"Fair wage is the wage which is above the minimum wage but below the living wage. The lower limit of the fair wage is obviously the minimum wage: the upper limit is to be set by the capacity of the industry to pay. "

Thus, fair wage depends on different variables affecting wage determination. Such factors are labour productivity prevailing wage rates, the level of national income and its distribution and the capacity of industry to pay. At present, the concept of fair wages is followed by the most business organisations.

2) MINIMUM WAGE

A **minimum wage** is one which has to be paid by an employer to his workers irrespective of his ability to pay. According to the above committee,

"Minimum wage is the wage which must provide not only for the bare

sustenance of life, but for the preservation of the efficiency of the workers. For this purpose, minimum wage must provide some measure of education, medical requirements and amenities. "

Subsequent to the committee's report, Government enacted legal provisions regarding minimum wages under the Minimum Wages Act. 1948. This Act does not define the concept of minimum wages but empowers the Central Government as well as State Governments to fix minimum wages from time to time. Wherever this Act applies, the payment of minimum wages is mandatory. In 1957, Indian Labour Conference elaborated the concept of fixation of minimum wars which were termed as need-based minimum wages. For the calculation of wages, the Conference suggested the following guidelines:

1. The standard working class family should be taken to consist of three consumption units for the earner; the earnings of women, children and adolescents should be disregarded.
2. The minimum food requirements should be calculated on the basis of the net intake of 2.700 calories per adult.
3. The clothing requirements should be estimated at a per capita consumption of 18 yards per annum per person.
4. In respect of housing. the norms should be the minimum rent charged by the Government in any area for houses provided under subsidized housing scheme for low-income groups.
5. Fuel, lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage.

Justice Higgin propounded the concept of minimum wage as the irreducible level of wage paid to an unskilled worker, considering him a human being living in a civilised society. In this single sentence, he indicated three important considerations, namely, (i) that minimum wage is an irreducible level which cannot be further reduced; (2) secondly, it is paid to an unskilled worker who has not undergone any expensive training to acquire skill, (3) thirdly, the worker is to be

considered a “human being living in a civilised society and therefore he is entitled to same basic needs of food, clothing and shelter which any other human being requires. Thus according to Justice Higgins a minimum wage is that irreducible wage, which should enable the worker to get three basic necessities of life, namely, food, clothing and shelter.

3) LIVING WAGE

Along with the minimum wage the Committee on Fair Wages has given the **concept of living wage** which has been defined as follows:

“A living wage is one which should enable the earner to provide for himself and his family not only the bare essentials of food, clothing and shelter but a measure of frugal comfort including education for his children, protection against ill-health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age. “

Living wage is more than the concept of minimum wage. Such a wage is determined keeping in view the national income and paying capacity of industrial sector. The Committee also observed that since the national income did not support the payment of living wage. It should be implemented in three phases. In the initial stage the wages to be paid to the entire working class were to be established and stabilized. In the second phase fair wages were to be established in the community and industry. In the final phase the working class was to be paid the living wage.

Having described the minimum wage to provide for food, clothing and shelter as a basic and irreducible level of wage, Justice Higgins developed his concept of living wage as one which should not only provide for food, clothing and shelter but for some frugal comfort of life, good education to children, some amusement and provision for sickness and old-age including some measure of social security. Again die frugal comfort should be such as measured at the changing values at a given time.

Thus according to Justice Higgins “Living Wage is one appropriate for the normal needs of the average employee, regarded as a human being living in a

civilised society. It must provide not merely for the absolute essentials such as food, clothing and shelter, but for a condition of frugal comfort estimated by current human standards". It must be sufficient to ensure the workmen food, clothing, shelter, frugal comforts, provision for evil days etc. as well as regard for the special skill of an artisan if he is one. Marriage is an usual fate of adult man, a wage which does not allow of the matrimonial condition and the maintenance of about five persons in a home would not be treated as a living wage. It is pertinent to note that the above concept of living wage, as described by Justice Higgins is also endorsed by Supreme Court in the Express Newspaper (P) Ltd. v. Union of India -Therefore die living wage should enable the wage-earner to provide for himself and his family not only for the three basic necessities of life, namely, food, clothing and shelter, but also for frugal comforts, good education to children, protection against ill-health and a measure of insurance against the more important misfortune including old-age.

In any even the minimum wage must be paid irrespective of the extent of profits, the financial condition of the establishment or the availability of workmen at lower wages. The wages must be fair, i.e. sufficiently high to provide standard family with ,food, shelter, clothing, medical care and education of children appropriate to the workmen. A fair wage lies between the minimum wage and the living wage which is the goal. Wages must be paid on an industry wise and region basis having due regard to the financial capacity of the unit.

4) REAL WAGES AND MONETARY WAGES

A. Money Wages or Nominal Wages:

The total amount of money received by the labourer in the process of production is called the money wages or nominal wages.

B. Real Wages:

Real wages mean translation of money wages into real terms or in terms of commodities and services that money can buy. They refer to the advantages of worker's occupation, i.e. the amount of the necessaries, comforts and luxuries of life which the worker can command in return for his services.

An example will make the things clear. Suppose ‘A’ receives Rs. 500 p.m. as money wages during the year. Suppose also that midway through the year the prices of commodities and services, that the worker buys, go up, on the average, by 50%.

It means that though the money wages remain the same, the real wages (consumption basket in terms of commodities and services) are reduced by 50%. Real wages also include extra supplementary benefits along with the money wages.

LAWS RELATING TO WAGES

Minimum Wages Act, 1948

The Minimum Wages Act, 1948 (the Minimum Wages Act) provides for fixing of minimum rates of wages in certain employments. The minimum wages are prescribed by States through notifications in the State’s Gazette under the Minimum Wages Rules of the specific State.

In terms of the provisions of the Minimum Wages Act, an employee means (i) any person who is employed for hire or reward to do any work, skilled or unskilled manual or clerical, in a scheduled employment in respect of which minimum rates of wages have been fixed; (ii) an outworker, to whom any articles or materials are given out by another person to be made up, cleaned, washed, altered, ornamented, finished, repaired, adapted or otherwise processed for sale for the purposes of the trade or business of that other person; and (iii) an employee declared to be an employee by the appropriate Government.

The term “wages” has been defined to mean all remuneration capable of being expressed in terms of money which would, if the terms of the contract of employment express or implied were fulfilled, be payable to a person employed in respect of his employment or work done in such an employment and includes house rent allowance but does not include:

i. The value of:

   a. Any house accommodation or supply of light, water and medical attendance; or

b. Any other amenity or any service excluded by general or special order of the appropriate Government;

ii. Any contribution paid by the employer to any personal fund or provident fund or under any scheme of social insurance;

iii. Any travelling allowance or the value of any travelling concession;

iv. Any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or

v. Any gratuity payable on discharge.

Further, the Minimum Wages Act requires the employer to pay to every employee engaged in schedule employment wages at a rate not less than minimum rates of wages as fixed by a notification without any deduction (other than prescribed deductions, if any).

Payment of Wages Act, 1936

The Payment of Wages Act, 1936 (the Payment of Wages Act) is an Act to regulate the payment of wages to certain classes of employed persons. The Payment of Wages Act seeks to ensure that the employers make a timely payment of wages to the employees working in the establishments and to prevent unauthorized deductions from the wages.

According to the Payment of Wages Act, all wages shall be in current coin or currency notes or in both. It is, however, provided that the employer may, after obtaining the written authorisation of the employed person, pay him the wages either by cheque or by crediting the wages in his bank account.

9.5 PROBLEM OF BONUS IN INDIA

In India, the term 'Bonus" has been interpreted differently by different people. The worker organization define bounce as deferred wage or pay which is their legitimate due and which therefore cannot be denied to them whether an industrial establishment makes a profit or suffers a less. It is also interpreted as a share in profits on which workers have a claim.

On the other hand, managements generally view bonus as either incentive payment of things like satisfactory work or additional work done etc. Some management regard bones as ex-gratia payment to be paid entirely at the discretion of the management and which, therefore, cannot be claimed by workers as their legal dues.

When these opposite interpretation of bonus are kept in mind, it would at once become clear why bonus has become a bone of contention between management and workers. The main point or centre of controversy has been whether bonus is ex-gratia payment of bakshish which management may or may not give to workers at its sweet will.

Right since independence the nature of bonus and its quantum to be given by management to workers have been a matter of controversy and the causes of many industrial disputes.

Bonus commission

As a result of increasing pressure by trade unions on Government for payment of bonus the government of India appointed the bonus commission under the chairmanship of M.R Moher.

The bonus commission came to the conclusion that bonus is a share due to workers in the profits or prosperity of the company where they are working, it is worker's share in the profits of the company.

Based on this conclusion, the bonus commission made specific recommendation regarding how much minimum bonus (4%) should be given to worker, how to calculate the surplus of a company, who are entitled to the payment of bonus and so on.

Payment of bonus act

The government of India while accepting the broader recommendations of the bonus commission made some suitable modifications and enacted the payment of Bonus Act in 1965.

The main provisions of the Payment of Bonus Act, 1965 were as fallow.

a) The payment of bonus Act applies to all factories and public sector undertakings (excepting those run departmentally) employing 20 or more employees.

b) The reserves Banks of India, life Insurance corporate, unit trust of India, colleges and university, social welfare organization, hospitals and public undertaking run by the central and state governments and local bodies will be exempt from the application of the Act.

c) The act will apply to employees drawing a monthly wages or salary up to Rs 1600, but bonus payable above Rs. 750 per month would be calculated as if the wage or salary of the employee was Rs 750 per month.

d) The minimum bonus to be paid would be 4% of the salary or wages or Rs 40 whichever is higher, whether a company makes a profit or not, the maximum amount of bonus in any year payable out of available surplus would be 20% of the basic wage and dearness allowance.

e) Those employees who have worked on tall working days would be allowed the full payment of bonus, reduction in the amount of bonus being made in proportion to the days absented the minimum period of working being 30 days in a year for entitlement to payment of bonus.

f) For purpose of calculating available surplus for distribution of bonus, certain will be deducted such as deprecation and development admissible under the Income Tax Act, remuneration to directors, partners and properties, all dividends to be period on preference shares, return of 8.5% on equity shares and 6% for reserves and all direct Taxes such as corporation tax (on profits of a company.

g) In every accounting year, 60% of allocable surplus as calculated above will be available for distribution of bonus, the allocable surplus in the case of foreign companies is being 67% for distribution of bonus. Workers were dissatisfied with the provisions of the payment of bonus Act of 1965 on the ground that according to them, bonus is deferred pay legally due to them, whether a company makes a profits or not this is because if

profit is made the basic of payment of bonus, management may so manipulated accounting as to show that the company is not making any profits or less profit or is even making a loss, that the minimum of 4 % bonus was too low and that the minimum should be 8.33% or on month salary.

Bonus review committee

As the controversy over the recommendations of the payment of bonus Act 1965, got heated up Government of India appointed in 1972 a bonus Review committee under the chairmanship of Dr. B.K Madan.

The Bonus Review committee submitted its final report in September 1974. The main recommendation of this committee included the minimum amount of bonus was to be 8.33% (instead of 4%) and maximum 20% to be paid to employees getting a wage or salary up to Rs 2000 per month. But the recommendation did not include for purposes of payment of bonus. Government department employees and even employees of the LIC (who were entitled to bonus under the payment of bonus Act of 1965) as they were declared as not entitled to receive bonus.

The president of India issued an ordinance amending the payment of bonus Act of 1965 enforcing the above provisions.

Recommendation of the bonus review committee came in for review criticism from both management and workers. Management was critical and disappointed because the minimum compulsory bonus rate was raised from 4% to 8.33% whether a company made profit or not and worker were critical because their demand for 10% bonus for 1973 and 12.5 for 1974 was ignored. Payment of bonus continued as before to be one of the major issue of controversy between management and workers.

The Janta Govt. (Which assumed power and formed Government at the centre in 1977) restored the percentage of bonus from 4% to the former 8.33% as minimum bonus. It appointed the boothalingam study group to go into the question of bonus to workers in wider context of wages and incomes policy.

Recommendations of Boothalingam Study Group.

The boothalingam study Group's conclusion were as follows. Bonus as reflected to profit is suitable only in the case of undertakings where profit motive does not operate at all (a s in the case of government service, railways, post and telegraph, public utility service and financial and other institutions) bonus linked with productivity is more logical and satisfactory, but it is difficult to identify and measure productivity which and be uniformly applicable to all industrial units, bonus linked to profit both in private and public sector industrial undertaking would result is greater disparities even among workers doing the same type of work and therefore it will tend to create tension between the workers, workers and management and between government and workers.

The study group recommended that bonus should be replaced in the long run by a system which enabled workers to get a fair share of profitability without causing distortion. Bonus payment, according to the study group, has become an industrial way of life and therefore it recommended continuance of payment of Bonus.

Though the Janta Govt. raised the minimum bonus from 4% to 8.33%, the govt. had to fore a serious problem in the form of demand for bonus from government departmental undertakings like railways and posts and telegraph. The railways and posts and telegraph. The railways employers renewed their demand but it was linked to productivity through how to measure railways mans productivity was not spelt out. Soon the government had to concede the demand for bonus of all government departmental employees such as Posts and Telegraph, ordnance factories and so on.

Payment of bonus (amendment) act 2015

On 31 December 2015 the President gave his assent to certain amendments to the Payment of Bonus Act, 1965. The amendments have increased the wage threshold for determining applicability of the Act from INR 10,000 to INR 21,000 per month. Additionally, the wage ceiling for calculation of bonus has been increased from INR 3500 to INR 7000 per month.

The Payment of Bonus Act, 1965 (**Bonus Act**) has been recently amended to bring about certain key changes (**the Amendments**).

(a) ***Revision of wage threshold for eligibility***: The wage threshold for determining eligibility of employees has been revised from INR 10,000 to INR 21,000 per month, covering a larger pool of employees.

(b) ***Change in the wage ceiling used for calculation of bonus***: Previously the maximum bonus payable was 20% of INR 3500 per month. The minimum bonus payment was also capped at 8.33% of INR 3500 per month or INR 100, whichever is higher. The calculation ceiling of INR 3500 has now been doubled to INR 7000 per month "or the minimum wage for the scheduled employment, as fixed by the appropriate Government" (whichever is higher). Therefore, the cost associated with bonus payments could double (or be greater still, depending on applicable minimum wages), based on the organization's performance.

(c) ***Retrospective Effect***: The amendment has been brought into effect from 1 April 2014.

The Bonus Act applies to every factory and every establishment that employs 20 or more persons, and unlike other performance linked incentives offered by companies, the bonus payable under this law is not linked to the performance of the employee. All employees earning up to the wage threshold (increased to INR 21,000 by the Amendments), and who have worked in the establishment for not less than 30 working days in the year are eligible to receive this statutory bonus. Therefore, the Amendments could have a significant financial bearing for establishments, especially those in the medium and small scale sectors. We have analyzed the Amendments in some more detail below.

IMPACT OF THE AMENDMENTS AND POTENTIAL CHALLENGES

(a) ***INR 10,000 to INR 21,000***: As with many other labour statutes, the Bonus Act also contains a separate definition of 'wages'. Broadly, 'salary or wage' under the Bonus Act includes all guaranteed components of an

employee's salary (not just the basic salary) and specifically excludes certain allowances and concessions. Salary structures adopted by organizations these days can be fairly complex, with multiple allowances and incentives built into the compensation structure. **With the increase in the wage threshold, employers would have to undertake a more detailed assessment to determine which components of their existing salary structure would fall with the definition of 'wages' under the Bonus Act, and accordingly determine which employees are eligible to receive the statutory bonus.**

(b) ***Reference to minimum wages under the Minimum Wages Act (MW Act)***: ***The insertion of a reference to the minimum wage under the MW Act to calculate bonus payments has created an additional challenge for companies***. **The appropriate Governments (i.e. State Governments) fix different minimum wages for various scheduled employments. Further, even within a particular scheduled employment, different minimum wages are notified for different categories of employees. Thus, employers would have to carry out an assessment of the applicable wage rates for different categories of employees in order to calculate the statutory bonus payable. This issue would be even more significant for employers having offices in multiple States since the minimum wages for the same scheduled employmentalso vary from one State to another, and the variation can sometimes be quite significant.** For instance, the monthly minimum wage for a skilled employee in a shop or commercial establishment in Delhi is INR 11,154 while the monthly minimum wage for a skilled employee in a shop or commercial establishment in Maharashtra is INR 8,440.

Another consequence of including this reference to minimum wages is that it creates an additional level of unpredictability in the calculation of the bonus amount. A lot of companies (especially MNCs) currently follow a practice of calculating the maximum statutory bonus

(i.e. 20% of INR 3,500) and paying this to employees on a monthly basis through the year. However, **since there is now a reference to the minimum wages under the MW Act and since the minimum wages are updated on a periodic basis (i.e. once or twice a year), there would be an increased variability in the bonus amount, and it would therefore be difficult for employers to predict the maximum bonus payable under the Bonus Act.**

(c) ***Complexities in paying the bonus retrospectively***: Under the Bonus Act, an employer is required to pay bonus within 8 months from the close of the accounting year. Employers in India usually follow a financial year from 1 April to 31 March and close their books of accounts accordingly. Therefore, most companies would have already determined the allocable surplus for the financial year 2014 - 15 (i.e. 1 April 2014 to 31 March 2015) and distributed bonus to eligible employees. Since the Amendments are retrospective, it would impact the distribution of bonus in relation to the financial year 2014 - 15 as well. The allocable surplus would need to be re-assessed to account for the increased pool of covered employees and the bonus eligibility re-determined based on the revised calculation ceilings and available surplus. This would then have to be redistributed among this larger pool of employees, which may result in various outcomes - (i) companies could now be required to pay an additional bonus to employees who have already been paid, if the bonus amount that was paid earlier is lower than the bonus payable after the Amendments; or (ii) if the bonus already paid was higher than the bonus payable after the Amendments, there may even be a reduction of bonus entitlement for some individuals (either in terms of the amount payable or in the context of percentage of bonus received), to accommodate bonus payments to the newly covered staff using the allocable surplus.

Therefore, there would be an increase in the financial burden and greater accounting complexities for employers, and in some cases, there may also be issues around recovery of amounts from employees.

It is therefore critical that the government issues clarifications, further amendments or exemptions to ease the operational complexities with the retrospective amendments. **The requirement to consider the minimum wages under the MW Act while calculating bonus will create uncertainty and disparity around bonus payments, which was best avoided at this stage.** We have been working with various industry associations to approach the government to offer solutions in relation to the financial and operational hardships that companies will face due to the Amendments. **However, at present, the obligation to pay statutory bonus in accordance with the amended eligibility threshold and wage ceiling in relation to financial year 2014 - 15 continues to exist.**

Keywords :- bonus, minimum wage, allowance, Governmental undertakings.

Short answer type question

Q1. Define bonus

Ans:- In India Bonus is defined differently by different economists. It is a share in the profit on which workers have claim. The management generally defines bonus as either incentive payment for thing like satisfactory work or additional work done.

Q2. Which factories came under the ambient of payment of Bonus Act.

Ans:- the payment of bonus Act applies to are factories and public sector undertaking (excepting those run departmentally) employing 20 or more employees.

9.6 LET US SUM UP

Social security means security of the whole society. An attempt is made in this lesson to understand the wide concept of social security, its meaning and objective as well as social security measures in India.

Namely- workmen compensation act 1923, maternity benefit act 1961, employees state insurance act, bonus act etc.

This chapter also covers different aspects of wages , their meaning objective as well as determination of wages in India. Wage laws in India are also included in the chapter

The third section of the lesson discuss the problem of bonus in India. Bonus legislation and their amendments.

9.7 EXAMINATION ORIENTATED QUESTIONS

1. Discuss the problem of wages and bonus in India.
2. Explain the types of wages.
3. Describe the main social security measures in india

Suggested Reading

S.S.M Desai and N. Bhalerao (2002) industrial Economy of India, Himalaya Publishing House Delhi.

UNIT-3 INDUSTRIAL LABOUR

M.A. Economics **Lesson-10**
Course No. 409 **Unit-3**

STRUCTURE:

10.1 Introduction

10.2 Objective

10.3 Industrial legislations

10.4 Economic reforms and labour laws

10.5 Let Us Sum Up

10.6 Examination oriented questions

10.1 INTRODUCTION

For the proper and lawful functioning of a machinery it is necessary that it is governed by statutory laws, in this lesson on attempts is made to study the industrial legislations in India.

10.2 OBJECTIVES

In order to easily solve the industrial disputes there are number of industrial legislations in India. Through this lesson an attempt is made to understand these legislation easily.

10.3 INDUSTRIAL LEGISLATIONS

The Factories Act, 1948

Came into force on 1st April, 1 949. It was enacted with a view to removing a number of defects, revealed in the working of the Act of 1934. The act of 1948 not only consolidates but also amends the law regulating labour in Factories. It extends to the whole of India

Objective of the Act

The object of this Act is, to secure health, safety, welfare, proper working hours, leave and other benefits for workers employed in factories. In other words the Act is enacted primarily with the object to regulate the conditions of work in manufacturing establishments corning within the definition of the term factory as used in the Act.

1. **General Scheme of the Act**

The Act is divided into 11 Chapters and contains one Schedule.

Chapter I deals with Preliminary Information' like the title, extent and commencement of the Act; references to time of day; power to declare different departments to the separate factories or two or more factories to the single factory; approval of licensing and registration of factories; and notice by occupier (Sections 1 to 7).

Chapter II deals with the 'Inspecting Staff', viz., Inspectors, their powers and Certifying Surgeons (Sections 8 to 10).

Chapter III deals with the "health of the workers" with reference to such matters as cleanliness of waste and effluents, ventilation, dust and fume, artificial humidification, over-crowding, lighting, drinking water, latrines and urinals and spittoons (Sections 11 to 20).

Chapter IV deals with the with Safety of working in a factory. It includes matters such as fencing of machinery, works on or near machines, work on or near machinery in motion; employment of young person's on dangerous machines; striking gear and devices force cutting off power; self-acting machines, prohibition

of employment of women and children near. Cotton-openers, hoists and lifts, lifting machines, etc., revolving machinery, pressure plants, floor, stairs, means of access ; pits, pumps, excessive weights, protection of eyes; precaution against dangerous fumes; explosive or inflammable dust, gas, etc., precaution in case of fore; power to require specification of defective part or test of stability; safety of buildings and machinery, maintenance of buildings, and safety officers, etc (section 21 to 41).

Chapter v relate to 'welfare of workers' and provides for washing facilities; facilities for storing and drying of clothing; facilities for sitting; first-aid appliances; canteens; shelters rest-room, and lunch-rooms; crèches, welfare officers, etc. (section 42 to 50).

Chapter VI deals with working hours of adult' and contains sections 51 to 66. It covers issues like weekly hours; weekly holidays; compensatory holidays; daily hours; intervals for rest; spread over; nights shift; prohibition or overlapping shifts; wages for extra work; restriction on double employment, notice of periods of work for adult; register of adult workers etc. (sections 51 to 66).

Chapter VII provides for various restrictions/laminations on employment of young persons and deals with other matters like certificate of fitness; working hours for children; register of child working hours for children; power to require medical examinations, etc (sections 67 to 77).

Chapter VIII deals with annual leaves and wages and includes annual leaves with wages; wages during leave period; payment in advance in certain case mode of recovery of unpaid wages, etc. (Sections 78 to 84).

Chapter IX deals with special provisions relating to power to apply the act to certain premises; power to exempt public institutions; dangerous operations; notice of certain accidents; notice of certain diseases; power to direct enquiry into cases of accident or diseases etc. (Sections 85 to 91A).

Chapter X deals with Penalties and procedures connected therewith. (Section 91 to 106).

Chapter XI deals with supplemental issues like appeals; display and

service of notices; returns, obligations of workers; publication of rules, protection to person acting under the Act; and restrictions on the disclosure of information. (Section 107 to 120).

It also includes one Schedule which gives the list of Notifiable Diseases.

2. Scope of The Act (Section 1)

The Act is applicable to the whole of India. It being a social legislation; tries to achieve social reform and therefore, must be constructed Liberally to achieve its legislative purpose without doing violence to language.

3. Approval, Licensing and Registration of Factories (section 6)

Every employer has to obtain the prior permission in writing of the State Government for the site on which a factory is to be situated and for the construction or extension of any factory. For this, he has to submit plans and specifications of construction for certification and approval to the chief Inspector or the construction or extension of all factory. For this, he has to submit plans and specifications of construction, for certification and approval to the Chief Inspector or the State Government.

4. Inspectors (Section 8)

Under Section 8(1), the State Government is required to appoint an inspector for the enforcement of the Act by a notification in the State Gazette. The person who possess the required qualification can be appointed for the purpose and his powers can be prescribed by the state Government. Further, under Section 8(2), the State Government can also appoint any person as chief inspector.

Under sub section.(2-A); the state Government may, by notification in the Gazette, appoint any number of chief inspector is, Joint-chief Inspectors, Inspectors and deputy chief inspector and as many other officers as it thinks fit for the purpose of the Act.

Powers of inspectors (Section 9),

Under the Act, the chief Inspector enjoys the following Powers:-

1) He may enter any place which is used or which he has reason to believe is used, as a factory. He may be accompanied by such assistants who are Government servants or any local or public authority as he thinks fits. :

2) He many examine the premises, plants and machinery, acquire the production of any prescribed register or any other document relating to the factory.

3) He may inquire into any accident or dangerous occupations, whether resulting in bodily injury, disability or not and take on the spot or otherwise, statement of any person or persons which he may consider necessary for the purpose of the Act.

4) Confiscate any register, record, or other document or any portion thereof which he may consider necessary in respect of any offence under this act, which he believes or has been committed.

5) Exercise any other such power as may be prescribed.

5. Provisions Regarding Health

A large number of provisions have been made under the Act, which are required to be enforce by the employers for health of the workers. These relate to cleanliness, disposal of waste and effluents, ventilation and control of temperature, artificial humidification, elimination crowding, lighting, drinking water facilities , latrines, urines and spittoons.

6. Provisions Regarding Safety

Safety provisions are contained in sections 21to 41 of the Act. These relate to: fencing of machinery work on or near machinery in employment of young person's on dangerous machines; striking gear and advices for cutting off power, self: acting machines; casing of new machinery prohibitions of employment of word and children near cotton openers hoist and lifting tackles; revolving machinery; pressure plant machines; chains, ropes and lifting tackles; revolving machinery; pressure plant; floors; stairs and means of access; pit, sumps, opening in floor; excessive weights; precaution of eyes; precautions against dangerous

fumes, explosive or inflammable dust, gas, etc.; precautions in the defective parts or tests of stability. These provisions are absolute in character and the occupier of every factory is expected to comply with them.

7. Provision Regarding Welfare of workers.

The act has laid down elaborate provisions for the welfare of workers. The various provision detailed out in the act are as under:-

a) Washing facilities (Section 42): In Every factory : (a) adequate and suitable facilities for washing shall be provided and maintained for the use of workers therein; (b) separate and adequately screened facilities shall be provided for the use of male and female workers; (c) such facilities shall be conveniently accessible and shall be kept clean.

b) Facilities for Storing and Drying Clothing (Section 43.)

c) Facilities for sitting (Section 44)

d) First Aid Appliance (Section 45)

e) Shelter, Rest Room and Lunch Rooms (Section 47)

f) Welfare Officers (Section 49): Section (49) provides that (a) In every factory, wherein five hundred or more workers, are ordinarily employed, the occupier shall employ in the factory such number of welfare officer as may be prescribed; (b) The State Government may prescribe the duties, quantifications and conditions of service of officers employed.

8. Provisions Regarding working fours and holidays for Adults

The Act makes no distinction between 'perennial' and non-perennial, factories and as such the same hours of work are kept for all factories.

a) Hours of work (Section 51): No adult worker shall be required or allowed to work in a factory for more than forty-eight hours in any week. Further, the daily hours of work have restricted to nine (Section 54). But the daily maximum working can be exceeded with a view to facilitate the change of shifts by previous approval of the Chief Inspector:

b) Weekly Holiday (Section 52): An adult worker shall have a holiday, on the first day of the week (i.e. Sunday).

c) compensatory Holidays (.section 53): where the worker is required to work on a weekly holiday consequent, upon an order or rule made under the provisions of this Act, he must be allowed compensatory holidays of an equal number to the holidays so, worked within the month in which the holidays were due to him o within two months immediately following that month.

d) Extra Wages for Overtime.(section 59): When a worker works in a factory for more than 9 hours in a day or for more than 48 hours a week, he is entitled to extra wages in respect of overtime work. The extra wages shall be paid at the rate of twice his ordinary rate of wages.

e) Double Employment (Section 60): No adult worker shall be required or allowed to work in any factory on any day on which he has already been working in any other factory, except in such circumstance as may be prescribed.

f) Register of Adult Workers (Section 62): The manager is required to maintain a register of adult workers showing:, (i) the name of each worker; (ii) the nature of his work; (iii) the group in which, he is included; (iv) where his group works or shifts, the relay in which he is allotted and (v) such other particulars as may be prescribed.

9. Employment of women (Section 66)

Certain restrictions have been placed under the Act on the employment of women. For example:

a) Hours of work: (i) No women can be allowed to work for maximum, daily hours of work, i.e. nine hours a day (ii) No women shall be employed in any f4tory except between the hours of 6 a.m. and 7 p.m. The State Government may & notification in the official Gazette vary the limits for particular factories: But such provisions request not authorize the employment of women between the hours of10 pm and 5 am. (iii) There

shall be no change of shift for women except under a weekly holiday or any other holiday.

b) Work on or near Machinery in Motion: No woman shall be allowed to clean, lubricate or adjust any part of the machinery while the prime-mover or transmission machinery is in motion or to work between moving parts, or between fixed and moving parts of any machinery which is in motion, and is likely to expose her to the risk of injury from any moving part (Section 22 (2)).

c) Prohibition of Employment of Women near Cotton Openers: No woman shall be employment in any part of a factory for pressing cotton in which a cotton-opener is at work (Section 27).

d) Excessive Weights; The State Government may make rules prescribing the maximum weights which may be lifted, carried or carried by adult man, adult women, adolescents and children employed in factories or in carrying on any specified process.

e) Creches: In every factory wherein more than thirty women workers are ordinarily employed, there shall be provided and maintained a suitable room or rooms for the use of children under the age of six years of such women(Section 48)

f) Dangerous Operations: When the State Government declares any operation in any factory as dangerous or injurious to the health of women, it may make rules prohibiting or restricting the employment of women in that operation Section 87(b)].

10. Employment of Young Persons

Various restrictions have been put on the employment of young person's on the ground of State's responsibility for, the health of future citizens.

a) Prohibition of Employment of Young Children (Section 67) A child who has not completed his fourteenth year is prohibited from working in any factory.

b) Child or Adolescent to Carry token (Section 68): A child who has completed his fourteenth year or an adolescent shall not be required or allowed to work in q factory unless: (a) he has been granted a certificate of fitness by a competent surgeon. Such a certificate shall be in the custody of the manager; and (b) such child or adolescent carries, while he is at wo1k, a token giving a reference to such a certificate.

c) Employment of and Working Hours for Children (Section 7l):The Act provides that:

   1) No child shall be employed or permitted to work in any factory: (i) for more than four and a half hours in any day; (ii) during night hours, (By night is meant a period of at least twelve consecutive hours which shall include the interval between 10 pm and 6 am.

   2) The period of work of all children employed in a factory shall be limited to 2 shifts which shall not overlap or spread over more than 5 hour each. Each child shall be employed in only one of the relays which shall not be changed more frequently than once in a period of thirty days.

   3) No child shall be required or allowed to work in any factory on any day in which he has already been working in another factory.

d) Notice of Period of Work for Children (Section 72): A notice must be displayed and correctly maintained giving the periods of work for children growing clearly the periods during which children shall be required or allowed to work in any factory unless his name and other particulars have been enter in the Register of Child Workers.

11. Annual Leave with Wages:

1) Annual Leave with wages (section 72): Every worker who has worked for a period of two hundred and forty days or more in a factory during a calendar year is qualified for annual leave with wages. The worker is to be allowed this leave during the subsequent calendar year. The leave shall be allowed at the rate of (a) one day for every twenty days worked in

the case of adults; and (b) one day for every fifteen days worked in the case of the children.

2) Wage During the Leave Period (Section 80): Wages fur the leave period are payable at a rate equal to the daily average of his total full time earnings for days on which he worked during the month immediately preceding his leave. For, the purpose of calculation education, wages will exclude any overtime and bonus but include any dearness allowance and cash equivalent of the advantage accruing through the concessional sale to the worker, of foodgrains and other articles.

3) Payment in Advance in Certain cases (Section 81) A worker will be paid advance wages provided the leave allowed is not less than four days in the case of a child.

4) Mode of Recovery of Unpaid Wages (Section 82): This Section lays down that any sum required to be paid by the employed, if remains unpaid, shall be recoverable as delayed wages.

5) Power to Make Rules (Section 83): This Section empowers the State Government to make Rules directing inspectors to keep the leave register updated as' prescribed, requiring it to be made available for examination by the inspector.

12. Obligations of the Employers

a) Under the Act, every employer or occupier of a factory is under an obligation to

   i. Obtain approval of the government for the location, plan and construction of the factory, and also license and registration certificate for operating the factory.

   ii. Implement of all provision of the Act, and under the health, safety and welfare measures.

b) Observe all restrictions regarding working hours, spread over, over-time' double employment, over lapping shifts and employment of women and children.

c) Provide all benefits and facilities to the workers regarding annual leave, weekly holidays, extra wage for overtime, washing, first-aid, canteens, creches, rest and lunch rooms.

d) Display notices, maintain registers and records, and submit to the government returns required for the proper enforcement of the Act.

13. Rights of Employers ,

Under the Act, the employers have the following rights:-

a) To make the workers observe hearth and safety provisions.

b) To refuse employment to children and other young persons who fail to produce fitness certificate from a certifying surgeon.

c) To go ahead with their plans to start constructing a new factory, and extend the existing ones, if they do not hear from the government within three month of their submission of necessary papers and information.

d) To appeal against the decision of the government in this and other respects.

14. Obligations of Employees

Under the Act, no workman in the factory is entitled

a) Interfere willfully or misuse any appliance, convenience or other things provided in a factory for the purpose of securing the health and welfare of the factory workers.

b) Do willfully and without any reasonable cause anything likely to endanger himself or others.

c) Neglect willfully to make use of any appliance or other things provided in the factory for the purpose of securing the hearth and safety or factory workers.

15. Rights of Employees

They workers enjoy the following rights under the Act:

a) They can claim minimum health and safety welfare facilities, annual leave, observance of working hours for adults, women and children.

b) They can refuse to work in contravention of provisions of the Act and observe the statutory working hours, rest intervals, weekly holidays and overtime restrictions.

c) They can claim overtime payment at double the ordinary rates of wages, and also advance payment for annual leave if the period of leave is of not less than four days.

d) They can claim wages for the proportionate annual leave even before he puts in the qualifying service, if he is discharged or dismissed.

INDUSTRIAL DISPUTES ACT, 1947

The Industrial Disputes Act, 1947 (the "ID Act") has been enacted for the investigation and settlement of industrial disputes in any industrial establishment.

The Industrial Disputes Act defines "Industrial dispute" as a dispute or difference between workmen and employers or between workmen and workmen, which is connected with employment or non-employment or the terms of employment or with the conditions of labour. Dismissal of an individual workman is deemed to be an industrial dispute.

The ID Act provides for the constitution of the Works Committee, consisting of employers and workmen, to promote measures for securing and preserving amity and good relations between the employer and the workmen and, to that end, endeavours to resolve any material difference of opinion in respect of such matters.

The ID Act provides for the appointment of Conciliation Officers, Board of Conciliation, Courts of Inquiry, Labour Courts, Tribunals, and National Tribunals for settlement of disputes. Another method recognised for settlement of disputes is through arbitration. The Industrial disputes Act provides a legalistic way of settling disputes. The goal of preventive machinery as provided under the Act is to create an environment where the disputes do not arise at all. The ID Act prohibits unfair labour practices which are defined in the Fifth Schedule— strikes and lockouts (except under certain defined conditions and with proper

notice). It also provides for penalties for illegal strikes and lockouts and unfair labour practices and provisions regarding lay off and retrenchment as well as compensation payable thereof.

The ID Act provides that an employer who intends to close down an industrial establishment shall obtain prior permission at least ninety days before the date on which he intends to close down the industrial establishment, giving the reasons thereof.

TRADE UNIONS ACT, 1926

The Trade Unions Act, 1926 (the "Trade Unions Act") seeks to provide for the registration of Trade Unions in India and for the protection of the same. Further, the Trade Unions Act also in certain respects defines the law relating to registered Trade Unions like mode of registration, application for registration, provisions to be contained in the rules of a Trade Union, minimum requirement for membership of a Trade Union, rights and liabilities of registered Trade Unions, etc.

Registration of trade unions.

As is evident from the preamble itself that the act is encacted of provide for registration of trade unions, the act lays done in a comprehensive manner the procedure for registering a trade union. However, it should be noted that registration of trade union is not mandatory under the act. In view of a number of immunities granted to a registered trade union from civil and criminal proceedings, registration of trade unions is desired. The procedure for registration enumerated in the following Para graphics carved out form the provisions of the trade unions act and the central trade union regulations, 1938, which are in relation to a trade union whose objects are not confined to one state. The procedure for registration in relation to other trade unions can be ascertained from the provision of the trade unions act, 1926 and the regulations made by the appropriate governments.

Any seven or more members of a trade union may apply for registration by subscribing their names to the rules of trade union and complying with other requirements in relation to registration under the act.

Privileges of a Registered trade union

The Act protect the members and the office-bearer of a Registered Trade Union from certain criminal and civil acts, provided such acts are necessary in carrying out the lawful objectives of the trade union.

Rules of trade union:

According to section 6 of the trade unions act, no trade union shall be entitled to registration unless the executive thereof is constituted and the rules thereof provide for the matters stipulated in section 6. A trade union cannot be registered unless its executive has been constituted according to the law and the rules thereof provide for the following matters: a) the name of the trade union: b) the whole of the objects for which the trade union has been established; c) the whole of the purposes for which the general funds of the trade union shall be applicable, all of which purposes shall be purposes to which such funds are lawfully applicable under this act. d) The maintenance of a list of the members of the trade union and adequate facilities for the inspection thereof by the office-bearers and members of trade union; e) The admission of ordinary members who shall be persons actually engaged or employed in an industry in an industry with which the trade union is connected, and also the admission of the number of honorary or temporary members as office bearers required under section 22 to form the executive of the trade union;. f) the conditions under which any member shall be entitled to any benefit assured by the rules and under which any fine or forfeiture may be imposed on the members; g) the manner in which the members of the executive and the other office bearers of the trade union shall be appointed and removed; h) the manner in which the members of the executive and other office bearers of the trade union shall be appointed and removed. i) The safe custody of the funds of the trade union, and annual audit, in such manner as may be prescribed, of the accounts thereof, and adequate facilities for the inspection of the account.

MINIMUM WAGES ACT, 1948

The Minimum Wages Act, 1948 (the Minimum Wages Act) provides for

fixing of minimum rates of wages in certain employments. The minimum wages are prescribed by States through notifications in the State's Gazette under the Minimum Wages Rules of the specific State.

In terms of the provisions of the Minimum Wages Act, an employee means (i) any person who is employed for hire or reward to do any work, skilled or unskilled manual or clerical, in a scheduled employment in respect of which minimum rates of wages have been fixed; (ii) an outworker, to whom any articles or materials are given out by another person to be made up, cleaned, washed, altered, ornamented, finished, repaired, adapted or otherwise processed for sale for the purposes of the trade or business of that other person; and (iii) an employee declared to be an employee by the appropriate Government.

The term "wages" has been defined to mean all remuneration capable of being expressed in terms of money which would, if the terms of the contract of employment express or implied were fulfilled, be payable to a person employed in respect of his employment or work done in such an employment and includes house rent allowance but does not include:

i. The value of
   a. Any house accommodation or supply of light, water and medical attendance; or
   b. Any other amenity or any service excluded by general or special order of the appropriate Government;
ii. Any contribution paid by the employer to any personal fund or provident fund or under any scheme of social insurance;
iii. Any travelling allowance or the value of any travelling concession;
iv. Any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
v. Any gratuity payable on discharge.

Further, the Minimum Wages Act requires the employer to pay to every employee engaged in schedule employment wages at a rate not less than minimum

rates of wages as fixed by a notification without any deduction (other than prescribed deductions, if any).

Payment of Wages Act, 1936

The Payment of Wages Act, 1936 (the Payment of Wages Act) is an Act to regulate the payment of wages to certain classes of employed persons. The Payment of Wages Act seeks to ensure that the employers make a timely payment of wages to the employees working in the establishments and to prevent unauthorized deductions from the wages.

According to the Payment of Wages Act, all wages shall be in current coin or currency notes or in both. It is, however, provided that the employer may, after obtaining the written authorisation of the employed person, pay him the wages either by cheque or by crediting the wages in his bank account.

The Plantation Labour Act, 1951

The Plantations Labour Act (PLA) seeks to provide for the welfare of labour and to regulate the conditions of workers in plantations. This Act empowers the State Governments to take all feasible steps to improve the lot of the plantation workers. The passing of PLA has helped in creating conditions for organising the workers and the rise of trade unions.

The Act defines an employer as**,** the person who has the ultimate control over the affairs of the plantation and where the affairs of the plantation are entrusted to any other person, such other person shall be the employer in relation to that plantation.

Plantation: Any plantation to which this Act applies and includes offices, hospitals, dispensaries, schools and any other premises used for any purposes connected with such plantation.

The Act makes it mandatory for every employer to get their plantation registered within 60 days of its coming into existence.

The Mines Act, 1952

The Mines Act, 1952 (**Mines Act**) aims to secure safety and health and

welfare of workers working in the mines. "Mine" is defined under the Mines Act as a place where any excavation work is carried on for the searching and obtaining of minerals.

The Mines Act provides that persons working in the mine should not be less than 18 years of age.

The Mines Act lays down provisions for appointment of one chief inspector who would be regulating all the territories in which mining is done and an inspector for every mine who would be sub ordinate to the chief inspector. Moreover, the District Magistrate is also empowered to perform the duties of an inspector subject to the orders of the Central Government. The chief inspectorr any of the inspectors may make such inquiry, at any time whether day or night, in order to check whether the law is being abided in the mines or not.

Payment of Bonus Act, 1965

The Payment of Bonus Act, 1965 (the "Bonus Act") provides for the payment of bonus to persons employed in certain establishments in India either on the basis of profits or on the basis of production or productivity and is applicable to every establishment in which 20 or more persons are employed and to all employees drawing a remuneration of less than Rs 10,000. Those employees who have worked for less than thirty days are not eligible to receive bonus under the Bonus Act. The Bonus Act provides for the payment of bonus between 8.33% (minimum) to 20% (maximum). However, for the calculation of bonus, a maximum salary of Rs 3,500 is considered.

Employees Provident Funds and Miscellaneous Provisions Act, 1952

The Employees Provident Funds and Miscellaneous Provisions Act, 1952 (the "EPF Act") provides for the institution of provident funds, pension funds, and deposit-linked insurance funds for employees and applies to all establishments employing 20 or more persons or class of persons. An establishment to which the EPF Act applies shall continue to be governed by this Act, notwithstanding that the number of persons employed therein at any time falls below 20.

On account of 2014 Amendment to the said Act, The definition of

"excluded employee" has been amended whereby the members drawing wages exceeding Rs 15,000 per month have been excluded from the provisions of the PF Scheme. Accordingly, the wage ceiling for an employee to be eligible for the PF Scheme has been increased from Rs 6,500 per month to Rs 15,000 per month. It further provides that every employee employed in or in connection with the work of a factory or other establishment is required to become a member of the Provident Fund.

The 2014 Amendment further lays down the following changes:

a. New members (joining on or after 1 September 2014) drawing wages above Rs 15,000 per month shall not be eligible to voluntarily contribute to the Pension Scheme.

b. The pensionable salary shall be calculated on the average monthly pay for the contribution period of the last 60 months (earlier 12 months) preceding the date of exit from the membership.

c. The monthly pension for any existing or future member shall not be less than Rs 1,000 for the financial year 2014-2015.

d. The contribution payable under the Insurance Scheme shall also be calculated on a monthly pay of Rs 15,000, instead of Rs 6,500.

e. In the event of death of a member (on or after 1 September 2014), the assurance benefits available under the Insurance Scheme has been increased by twenty percent (20%) in addition to the already admissible benefits.

Contributions to the Provident Fund are to be made at the rate of 12% of the wages by the employers with the employee contributing an equal amount. The employee may voluntarily contribute a higher amount but the employer is not obliged to contribute more than the prescribed amount. Further, the EPF Act contains provisions for transfer of accumulations in case of change of employment.

In terms of power conferred under s 143(11) of the Companies Act, 2013, the Central Government has issued the Companies (Auditor's Report) Order,

2015 (CARO), which came into force on 10 April, 2015. Clause (vii) (a) of Paragraph 3 provides that:

The [Statutory] Auditor has to report, inter alia, on the following:

i. Is the company regular in depositing undisputed statutory dues, eg, Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, income tax, wealth tax, service tax, sales tax, customs duty, excise duty, cess and any other statutory duties with the appropriate authorities?

ii. If not paid regularly, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, then it shall be indicated in the report.

iii. If such non-payment of dues is on account of any dispute, then the amount involved and for the forum where the dispute is pending should also be mentioned.

The CARO is, however, not applicable to a banking company, an insurance company, s 8 company, one person company, small companies and certain class of private companies, as specified under the CARO.

Employees' State Insurance Act, 1948

The Employees' State Insurance Act, 1948 (the ESI Act) is a social welfare legislation enacted with the objective of providing certain benefits to employees in case of sickness, maternity and employment injury. In terms of the provisions of the ESI Act, the eligible employees will receive medical relief, cash benefits, maternity benefits, pension to dependants of deceased workers and compensation for fatal or other injuries and diseases. It is applicable to establishments where 10 or more persons are employed. All employees, including casual, temporary or contract employees drawing wages less than Rs 15,000 per month, are covered under the ESI Act. This limit has been increased from Rs 10,000 to Rs 15,000 w.e.f. May 1, 2010.

The Government enacted as the Employees' State Insurance (Amendment) Act, 2010 (No.18 of 2010). All the provisions of the ESI (Amendment) Act 2010 (except s 18) have come into effect from June 1, 2010. The salient features of the ESI (Amendment) Act are as under:

- facilitating coverage of smaller factories;
- enhancing age limit of dependent children for eligibility to dependants benefit;
- extending medical benefit to dependant minor brother/sister in case of insured persons not having own family and whose parents are also not alive;
- streamlining the procedure for assessment of dues from defaulting employers;
- providing an Appellate Authority within the ESI Corporation against assessment to avoid unnecessary litigation;
- continuing medical benefit to insured persons retiring under VRS scheme or taking premature retirement;
- treating commuting accidents as employment injury;
- streamlining the procedure for grant of exemptions;
- third party participation in commissioning and running of the hospitals;
- opening of medical/ dental/ paramedical/ nursing colleges to improve quality of medical care;
- making an enabling provision for extending medical care to other beneficiaries against payment of user charges to facilitate providing of medical care from under utilised ESI Hospitals to the BPL families covered under the RashtriyaSwasthayaBima Yojana introduced by the Ministry of Labour& Employment w.e.f. 1.4.2008;
- reducing duration of notice period for extension of the Act to new classes of establishments from six months to one month;

- empowering State Governments to set up autonomous Corporations for administering medical benefit in the States for bringing autonomy and efficiency in the working.

The employer should get his factory or establishment registered with the Employees' State Insurance Corporation (ESIC) within 15 days after the Act becomes applicable to it, and obtain the employer's code number.

The employer is required to contribute at the rate of 4.75% of the wages paid/ payable in respect of every wage period. The employees are also required to contribute at the rate of 1.75% of their wages.

It is the responsibility of the employer to deposit such contributions (employer's and employees') in respect of all employees (including the contract labour) into the ESI account.

Labour Welfare Fund Act (of respective States)

The [State] Labour Welfare Fund Act provides for the constitution of the Labour Welfare Fund to promote and carry out various activities conducive to the welfare of labour in the State so as to ensure full and appropriate utilisation of the Fund.

Payment of Gratuity Act, 1972

The Payment of Gratuity Act, 1972 (the Gratuity Act) applies to (i) every factory, mine, oilfield, plantation, port and railway company; (ii) every shop or establishment within the meaning of any law, for the time being in force, in relation to shops and establishments in a State, in which 10 or more persons are employed or were employed on any day of the preceding twelve months; and (iii) such other establishments or classes of establishments, in which 10 or more persons are employed or were employed on any day of the preceding twelve months, as the Central Government may, by notification, specify in this behalf.

The Gratuity Act provides for a scheme for the payment of gratuity to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments. The Gratuity Act enforces the payment of "gratuity", a reward for long service, as a statutory retiral benefit.

Every employee, who has completed continuous service of five years or more, irrespective of his wages, is entitled to receive gratuity upon termination of his employment, on account of (i) superannuation; or (ii) retirement; or (iii) death or disablement due to accident or disease. However, the completion of continuous service of five years shall not be necessary where the termination of employment of any employee is due to death or disablement.

The gratuity is payable even to an employee who resigns after completing at least five years of service.

The gratuity is payable at the rate of fifteen days wages for every year of completed service, subject to an aggregate amount of Rupees ten lacs only. However, if an employee has the right to receive higher gratuity under a contract or under an award, then the employee is entitled to get higher gratuity.

10.4 ECONOMIC REFORMS AND LABOUR LAWS

This topic deals with the labour reforms in India, mainly focusing on labour legislation, the reform of which has been much discussed during the past decade. It is well known that, in the post-independence period, the policymakers in India attempted for a long time to build a nation characterized by a 'socialistic pattern of society', where the emphasis was placed on economic and social equality as well as social justice rather than on economic efficiency. With the resource constraints and the inward-looking economic administration, market competition was curbed and the efficiency that competition could have engendered was compromised. However, the situation began changing gradually in the 1980s when the government initiated partial economic liberalization, and then dramatically after the announcement of the New Economic Policy (NEP) in 1991. Especially due to the NEP and the subsequent economic and industrial policies in the 1990s, the structural adjustments of the Indian economy have proceeded, and ever since, market competition has been intensified by the gradual but substantial deregulations and the abolition of the restrictions on entry to the market. Nonetheless, one of the areas where the reforms by government initiatives did not moved forward greatly was that of labour.

NATIONAL LABOUR COMMISSION

The first National Labour Commission 1929, had promised lot in the direction of socialsecurity, social welfare, wages, social insurance, industrial relations, industrial adjudication,collective bargaining etc.,. In sequel to the recommendations made in the report of the firstnational commission on labour series of labour enactments were passed.

After the gap of almost 72 years the Second National LabourCommission wasconstituted and submitted its report in the year 2002 to the Government of India.

Recommendations

Main Recommendations of the National Commission on Labour

1. It recommended that the Central Government and the State Government should have auniform policy on holidays, only 3 national holidays be gazetted - namely Independence Day,Republic Day and Gandhi Jayanti Day, two more days may be added to be determined byeach State according to its own tradition and apart from these each person must be allowed toavail of 10 restricted holidays in the year, Government holidays should be delinked fromholidays under the Negotiable Instruments Act.
2. Flexibility in the hours of work per week and compensation for overtime.
3. Attempt to change the basis of tenure in all jobs (permanent as well as non-permanent) tocontractual and for stipulated periods, involves a basic change in attitude and notion. Iftransforming the basis of all employment is a social necessity because it has becomeeconomic necessity for industrial and commercial enterprises, then, it is equally necessary tocreate social acceptability for the change and the social institutions that can take care of theconsequences.
4. The commission recommends that government may laid down list of highly paid jobs whoare presently deemed as workman category as being outside the purview of the laws relatingto workman and included in the proposed

law for protection of non-workmen. Another alternative is that the Govt. fix a cut off limit of remuneration which is substantially highenough, in the present context such as Rs.25,000/- p.m. beyond which employee will not betreated as ordinary "workman".

6. Existing set of labour laws should be broadly grouped into four or five groups of lawspertaining to:

   i) Industrial relations

   ii) Wages

   iii) Social security

   iv) Safety

   v) Welfare and working conditions and so on

7. It is necessary to provide minimum level of protection to managerial and other (excluded) employees too against unfair dismissal or removal. This has to be trough adjudication bylabour court or Labour Relations Commission or arbitration.

8. Central laws relating to the subject of labour relations are currently the ID Act, 1947, TheTU Act, 1926, Industrial Employment (SO) Act, 1946, Sales Promotion Employees(Conditions of Service) Act, 1976. There is State level legislation too on the subject. Werecommend that the provisions of all these laws be judiciously consolidated into a single lawcalled "The Labour Management Relations Law" or "Law on Labour ManagementRelations".

10. Commission has recommended to the withdrawal of essential services maintenance Act

11. The Commission has suggested to identify a bargaining agent on the basis of check-offsystem, with 66% entitling the Union to be accepted as a single negotating agent and if nounion has 66% support, then Unions that have the support of more than 25% should be givenproportionate representation on the college.

12. Check-off system in an establishment employing 300 or more workers must be madecompulsory for members of all registered trade unions.

13. Commission also recommended that recognition once granted, should be valid for aperiod of 4 years to be co-terminus with the period of settlement. No claim by any otherTrade Union / Federation / Center for recognition should be entertain till at least 4 years haveelapsed from the date of earlier recognition.

15. Every establishment shall establish a grievance redressal committee consisting of equalnumber of workers and employers representatives. The said committee is the body to whichall grievance of a worker in respect of his employment will be referred for decision within agiven time frame.

18. The commission has recommended for maintenance of panel of arbitrators by the LRC concern, to settle the disputes.

19. The matters pertaining to individual workers, be it termination of employment or transferor any other matter be determined by recourse to the Grievence Redressal Committee,conciliation and arbitration / adjudication by the Labour Court. Accordingly, Sec.2 a of theID Act may be amended.

20. The system of legal aid to workers and trade unions from Public Fund be worked out toensure that workers and their organisations are not unduly handicapped as a result of theirinability to hire legal counsel.

21. Strike should be called only by the recognised negotiating agent and that too only after it had conducted a strike ballot among all the workers, of whom at least 51% of support the strike.

22. Workers participation in management - the legislative teeth should be provided.

23. The Commission urges that these recommendations are taken up as a whole and not in a piece-meal manner that may destroy the context of inter-relation and holistic approach.

24. The provisions in respect of small establishments can be in the form of a separate law name Small Enterprises (Employment Relations Act) or be included in the general law as a separate chapter to ensure that the interest of the workers are fully protected, even while lessening burden on the management and providing them with vigilance in exercising managerial functions.

26. The Commission would recommend that no worker should be kept continuously as a Casual or temporary worker against a permanent job for more than 2 years.

27. The Commission recommends that every employer must pay each worker his one-month's wage, as bonus before an appropriate festival, be it Diwali or Onam or Puja or Ramzan or Christmas. Any demand for bonus in excess of this upto a maximum of 20% of the wages will be subject to negotiation. The Commission also recommend that the present system of two wage ceilings for reckoning entitlement and for calculation of bonus should be suitably enhanced to Rs.7500/- and Rs.3500/- for entitlement and calculation respectively.

28. There should be a national minimum wage that the Central Government may notify. This minimum must be revised from time to time. It should, in addition, have a component of dearness allowance to be declared six monthly linked to the consumer price index and the minimum wage may be revised once in five years. The Commission also recommends the abolition of the present system of notifying scheduled employments and of fixing/revising the minimum rates of wages periodically for each scheduled employment, since it feels that all workers in all employments should have the benefit of a minimum wage

29. There is no need for any wage board, statutory or otherwise, for fixing wage rates for workers in any industry.

The legislative measures in the domain of labour taken in India have often been described as excessive and have been considered responsible for slowing down the growth of employment by discouraging investment and economic growth

(Deshpande et al. 2004: 40). Also, when the goal of economic reforms is to achieve higher economic growth, the labour reforms are not unrelated to the policies to enhance competitiveness of the economy. Proponents of the market principle of the economy argue that what should be highly emphasized is realization of allocative efficiency, which is essential to achieve high growth as well as to generate employment by measures like deregulation. To them, the rigidity, or inflexibility, especially that caused by the institutional factors of the labour market, is to be considered as having harmful effects. The proponents of labour reforms, therefore, urge the central government to reform labour laws that they charge are archaic and the main cause of the rigidity in the labour market, hampering high economic growth such as that being achieved by the powerful neighbouring country of China. Whether the argument is true or not, there is no doubt that labour law reform is a requisite part of economic reforms.

As may be seen from the above argument, one of the viewpoints that is most frequently quoted in respect of the study on labour reforms is 'flexibility'. There are many who classify the types of labour flexibility. Standing (1999), for instance, classifies the types into four: organizational or production flexibility, wage system flexibility, employment or numerical flexibility, and work process (functional) flexibility. Door (2005) classifies them broadly into qualitative flexibility and numerical flexibility, with the former being internal and the latter external flexibility. Imano and Sato (2002), quoting Atkinson's (1985) flexible firm model, classify them into four types of flexibility: numerical, functional, financial and temporal flexibilities.2 However, though the viewpoint of flexibility may well be useful for grasping the contour of labour law reform and is used as a reference here too, we should duly recognize that there are certain areas of labour law reform where the flexibility argument should never be applied. It should also be pointed out that the flexibility which is discussed by management and that which is discussed by workers/trade unions may differ, and that these different versions may have effects in opposite directions. Flexibility, therefore, is not the absolute guiding principle for labour law reform.

Labour falls under the Concurrent List of the Constitution. Therefore,

both Parliament and state legislatures can make laws regulating labour. The central government has stated that there are over 100 state and 40 central laws regulating various aspects of labour such as resolution of industrial disputes, working conditions, social security and wages. The Second National Commission on Labour (2002) (NCL) found existing legislation to be complex, with archaic provisions and inconsistent definitions. To improve ease of compliance and ensure uniformity in labour laws, the NCL recommended the consolidation of central labour laws into broader groups such as (i) industrial relations, (ii) wages, (iii) social security, (iv) safety, and (v) welfare and working conditions.

In 2019, the Ministry of Labour and Employment introduced four Bills on labour codes to consolidate 29 central laws. These Codes regulate: (i) Wages, (ii) Industrial Relations, (iii) Social Security, and (iv) Occupational Safety, Health and Working Conditions

KEY ISSUES IN LABOUR REFORMS

Simplification of labour laws

The 2nd National Commission on Labour (NCL) recommended consolidation of central labour laws. It observed that there are numerous labour laws, both at the centre and in states. Further, labour laws have been added in a piecemeal manner, which has resulted in these laws being ad-hoc, complicated, mutually inconsistent with varying definitions, and containing outdated clauses.[2] For example, there are multiple laws each on wages, industrial safety, industrial relations, and social security; some of these laws cater to different categories of workers, such as contract labour and migrant workers, and others are focused on protection of workers in specific industries, such as cine workers, construction workers, sales promotion employees, and journalists. Further, several laws have differing definitions of common terms such as “appropriate government”, “worker”, “employee”, “establishment”, and “wages”, resulting in varied interpretation. Also, some laws contain archaic provisions and detailed instructions (e.g, the Factories Act, 1948 contains provisions for maintaining spittoons and frequency of white-washing walls).

The Commission emphasised the need to simplify and consolidate labour laws for the sake of transparency, and uniformity in definitions and approach. Since various labour laws apply to different categories of employees and across various thresholds, their consolidation would also allow for greater coverage of labour. Following the recommendations of NCL, the four Codes on wages, industrial relations, social security, and occupational safety were introduced in Parliament.

While the Codes consolidate and simplify existing laws to some extent, they fall short in some respects. For example, the Codes on occupational safety and social security continue to retain distinct provisions of each of the laws that these Codes subsume. For example, while the Occupational Safety Code contains provisions on leaves for all employees, it continues to retain additional leave entitlements for sales promotion employees (e.g. earned medical leave for 1/18th of time on duty). Similarly, while the Codes rationalise definitions of different terms to a large extent, they are not uniform in all respects. For example, while the Codes on wages, occupational safety and social security contain the same definition of “contractor”, the code on industrial relations does not define the term. Finally, while the government stated that 40 central labour laws would be subsumed, the four Codes only replace 29 laws. The Annexure to this note lists the laws which are being subsumed by each of the Codes.

Facilitating job creation while protecting work

The 6th Economic Census (2013-14) reported that there were 5.9 crore establishments in India employing 13.1 crore people (of which 72% were self-employed and 28% hired at least one worker). A total of 79% workers were in establishments with less than ten workers. The central challenge to labour regulation is to provide sufficient rights to workers while creating an enabling environment that can facilitate firm output and growth, leading to job creation. Firms should find it easy to adapt to changing business environment and be able to change their output (and employment) levels accordingly. At the same time, workers need protection of assured minimum wages, social security, reduction in job insecurity, health and safety standards, and a mechanism for ensuring

collective bargaining rights. This would also require a labour administration that effectively manages conflicts and ensures the enforcement of rights.

It has been argued that firm sizes have remained small in India because of: (i) labour rigidity arising from the fear of having to take prior permission for retrenchment/closure even if businesses are not viable (lack of an easy exit option), and (ii) high administrative burden since multiplicity of labour laws has resulted in multiple inspections, returns and registers. This has constrained growth of firms.[5] Amongst registered factories, the Annual Survey of Industries (2017-18) indicates that 47% factories employ less than 20 workers, but provide only 5% of employment, and 4% of output. Further, high administrative burden has resulted in corruption and rent-seeking.[5]

10.5 LET US SUM UP

Industrial Laws help to put an end to unfair labour practices and provides for the rights, privileges, obligations and responsibilities of the workforce. Industrial legislation helps both workers and management to know exactly about their rights, duties and obligations and also the liabilities. This lesson covers various industrial laws - Factories act 1948 , industrial dispute act 1947, workmen compensation act 1923, mines act , plantation act etc. this laws govern the affairs of industries in India.

In the second session an attempt has been made to understand the labour laws after the reform period.

Short Answer Type Questions.

Q1: When factories Act came in force?

Ans:- The factories Act, 1948 came into force on 1st April, 1949.

Q2: What does Adult refer as per Factories Act 1948.

Ans:- According to the Act, Adult means a person who has completed 18 years of age.

10.6 EXAMINATION ORIENTAL QUESTION

1. Explain the Industrial legislation in India.

Suggested Reading

1. Memories and Memories, Dynamics of Industrial Realtions.

UNIT-3 INDUSTRIAL LABOUR

M.A. Economics | **Lesson-11**
Course No. 409 | **Unit-3**

STRUCTURE:

11.1 Introduction

11.2 Objective

11.3 Skill development in the unorganized (informal) sector.

11.4 Skill development for marginalized and vulnerable groups.

11.5 Let Us Sum Up

11.6 Examination oriented questions

11.1 INTRODUCTION

In this chapter we will focus on various skill development and employment schemes initiated by government for unorganized sector as well as marginalized and vulnerable groups within the society.

11.2 OBJECTIVE

The objective of this lesson is to gain knowledge various skill development programmes, their implementation, achievements as well as their implications.

11.3 SKILL DEVELOPMENT IN THE UNORGANIZED (INFORMAL) SECTOR.

India is passing through the phase of demographic transition which could be the biggest opportunity or the biggest concern of the country depending upon the utilization of its huge work force. India adds 12 million people to its workforce annually, but very few have any formal skill training. Today, less than four per cent of the Indian workforce is skilled, in contrast to the 42 per cent in US, 76 per cent in Germany, 80 per cent in Japan and 96 per cent in South Korea. Our workforce readiness is one of the lowest in the world and a large chunk of existing training infrastructure is irrelevant to industry needs. Without proper skills this huge youth population would be a demographic liability instead of demographic dividend, However, this could change if we reach out to more people with quality learning opportunities, revamp our existing infrastructure and execute plans more efficiently by making better use of monetary and resource support available.

Skills and knowledge are the driving forces of economic growth and social development for any country. Countries with higher and better levels of skills adjust more effectively to the challenges and opportunities of world of work. India is facing several skill development issues which are hampering its' progress & economic growth.

Why India needs Skill Development?

A. Demographic Dividend:

1. Demographic dividend does not mean just people; it means skilled, educated or employed people.
2. The 'demographic window' is only a span of few decades. The skilled youth is required to save demographic dividend from becoming demographic disaster.
3. It is worth mentioning here that India has 54 per cent of its total population below 25 years of age. Over the next 20 years, the labour force in the industrialised world is expected to decline by 4 per cent, while in India it will increase by 32 per cent who are not sufficiently skilled and employable.

4. A conservative estimated figure shows that 104.62 million fresh entrants to the workforce need to be skilled by 2022 in addition to the 298.25 million working persons needing skill training.

B. Sectoral mobilization:

1. Less number of people will be required to work in farming as productivity improves. This would result in sectoral mobilization of workforce from agriculture to secondary and tertiary activities.
2. Skills are the bridge between good jobs and the workforce .Setting standards and quality of training is a pre requisite for skilling and its utilization.

C. New schemes:

Only a skilled workforce would lead to the success of initiatives like Make in India and Digital India and smart cities.

D. Skill Capital of World:

To convert this vision into reality, India needs to create a skilled and productive workforce matching international standards of quality and productivity through integration of skills and training along with education.

E. Better Employment:

Skills are needed to those currently in colleges for them to be better employed.

Skill India is an umbrella mission under which there are multiple schemes and programmes with specialised focus areas. The sub-schemes are as follows.

National Skill Development Mission (NSDM)

The NSDM was launched for creating convergence across various sectors and different states with respect to activities relating to skills training. The mission, apart from consolidating and coordinating skilling efforts, would also facilitate decision making across sectors to achieve quality skilling on a large scale.

The National Skill Development Mission (NSDM) was launched by the Hon'ble Prime Minister on 15th July, 2015 on the occasion of World Youth Skills Day to provide a strong institutional framework to implement and scale up skill development efforts across the country and to train a minimum of 300 million skilled people by the year 2022. Under the Mission, 20 Central Ministries/Departments including Ministry of Skill Development and Entrepreneurship are involved in the implementation of more than 40 schemes/programmes on Skill Development. The implementation of skilling activities under the Mission will be as per the budget provisions of various schemes under their respective heads of account. Further, the National Skill Development Fund has been set up by the Government of India with an initial corpus of Rs. 995.10 crore for skill development in the country.

To achieve the objective of Skill India Mission, Ministry of Skill Development and Entrepreneurship (MSDE) are running various schemes/ programs to impart skilling to the youth through long term and short term training. The Ministry is providing long term training through Industrial Training Institutes. Under the Craftsmen Training Scheme (CTS), 13 new courses have been introduced in the National Skill Training Institutes (NSTIs) and Industrial Training Institutes (ITIs), the details of the course is placed at **Annexure-I**. No course on electronic vehicle courses has been started under CTS, however, a module on EV technology have been introduced in trade Mechanic 2 and 3 wheeler.

The Ministry is implementing its flagship scheme Pradhan Mantri Kaushal Vikas Yojana (PMKVY 2.0) 2016-20 with an objective to provide skill training to one crore prospective youth pan India over four years with a budgetary outlay of Rs. 12,000 crore. Under the scheme, as on 11.11.2019, 69.03 lakhs candidates have been trained. Further, under the Craftsmen Training Scheme of Directorate General of Training, 23.14 lakhs trainee have been enrolled during the year 2018-19 across the ITIs located all over the country, for getting skilled training. The seating capacity for the year 2019-20 is 35.44 lakhs.

Annexure-I

List of new courses introduced under the Craftsmen Training Scheme.

Sl.No.	Course
1.	Soil Testing and Crop Technician
2.	Internet of Things (Smart Agriculture)
3.	Internet of Things (Smart Healthcare)
4.	Internet of Things (Smart City)
5.	Smartphone Technician Cum App Tester
6.	Geo Informatics Assistant
7.	Aeronautical Structure and Equipment Fitter
8.	Additive Manufacturing Technician (3D Printing)
9.	Remotely Piloted Aircraft (RPA)/Drone Pilot
10.	Electrician Power Distribution
11.	Technician Mechatronics
12.	Solar Technician (Electrical)
13.	Fireman

This information was given by the Minister of State for Skill Development and Entrepreneurship Shri R.K. Singh in a written reply in the Rajya Sabha

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

The Ministry of Skill Development and Entrepreneurship launched the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) in 2015 administered by the *National Skill Development Corporation (**NSDC**)*. The Government of India aims to provide the country's youth with training that will help them achieve meaningful, industry-relevant skills.

PMKVY is a skill certification scheme that aims to encourage the young

population of the country to take up training which is industry-relevant and builds them in skill development.

The scheme contains many specialised components such as the National Skills Qualifications Framework (NSQF), Recognition of Prior Learning (RPL), Kaushal, and Rozgar Melas among others.

OBJECTIVE

PMKVY is a Skill Certification Scheme that aims to encourage the youth population of the country to take up training which is Industry- Relevant and builds them in Skill Development. The scheme was launched with an intention to provide secure livelihoods for the individuals participating in the training. PMKVY will also certify the previous learning experiences or skills of the individuals under the Recognition of Prior Learning (RPL).

Components of PMKVY

Pradhan Mantri Kaushal Vikas Yojana has four key components as follows:

Component	**Description**
Short Term Training	▪ The National Skills Qualifications Framework(NSQF) and different training centres will provide skill development training to the unemployed and school/college dropouts. ▪ They'll also grant Soft Skill training, Digital & Financial Literacy sessions, Entrepreneurship, etc. depending upon the requirements of the industry. ▪ The training provided will be NSQF Level 5 and below.
Recognition of Prior Learning (RPL)	▪ Individuals having prior learning experiences/skills are certified and assessed under the Recognition of Prior Learning (RPL). ▪ RPL is a process of assessment of an individual's prior learning, skills, and experience.

Special Projects	▪ This component of PMKVY aims to encourage training in the groups of society that are marginalized and vulnerable. ▪ These Special projects can be defined as projects that have some deviation in the Terms and Conditions from the Short Term Training projects.
Kaushal and Rozgar Mela	▪ They are events organized every six months in order to provide assistance for individuals who have taken PMKVY training and have been certified.
Placement and Monitoring Guidelines	▪ Creating and Providing placement opportunities to trained and certified individuals. ▪ Maintaining high-quality training standards through the Skills Development Management System (**SDMS**).
Training Partners (TPs)	▪ Placement assistance ▪ Training to National Skills Qualifications Framework NSQF level 5 and below ▪ Providing support to entrepreneurship development

Current Updates on PMKVY

The Ministry of Skill Development and Entrepreneurship (MSDE) has launched Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 3.0, in a bid to empower India's youth with employable skills by making over 300 skill courses available to them.

PMKVY 3.0 phase will focus on new-age and COVID-related skills and envisages training of 8 lakh candidates over a scheme period of 2020-2021

To build a robust pool of skilled professionals, 729 Pradhan Mantri Kaushal Kendras (PMKKs), empaneled non-PMKK training centers and more than 200 ITIs under Skill India will be rolling out PMKVY 3.0 training..

The Ministry has improved the newer version of the scheme on the basis

of the learning gained from PMKVY 1.0 and PMKVY 2.0 so as to match the current policy doctrine and energize the skilling ecosystem affected due to the COVID-19 pandemic.

PMKVY Implementation

PMKVY is administered and implemented by the *National Skill Development Corporation (**NSDC**)* under the Ministry of Skill Development and Entrepreneurship.

- Along with this, the training providers affiliated with the State or Central government will also provide training under the PMKVY scheme.
- The training providers have to register themselves on the ***S**kill **M**anagement & **A**cc**r**editation of **T**raining Centre* (**SMART**) portal to participate and provide training under the scheme.
- PMKVY training is scrutinized by the Sector Skills Councils and State Governments.

Recognition of Prior Learning (RPL)

Recognition of Prior Learning commonly known as RPL largely refers to an assessment process used to evaluate a person's existing skill sets, knowledge and experience gained either by formal, non-formal or informal learning. RPL under Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 2016-20 primarily has threefold objectives.

1. Enhance Employability
2. Reducing inequalities
3. To align the competencies of the un-regulated workforce.

RPL – 5 step process

It is a 5 step process which are given-below

1. Mobilization
2. Counselling and Pre-Screening

3. Orientation
4. Final Assessment
5. Certification, mark sheet and pay-out distribution to candidates

Indian Skill Development Service

The Indian Skill Development Services (ISDS) is a new central government service that has been created especially for the training directorate of the Ministry of Skill Development and Entrepreneurship. It is a Group 'A' service and is expected to give a big push to the government's skilling initiatives by drastically enhancing the effectiveness and efficiency of the various schemes in this domain. The qualifying exam for this service is the Indian Engineering Service Exam conducted by the UPSC. The idea behind the ISDS is to attract young and talented people into the skill development domain and make skilling initiatives successful in the country.

National Policy for Skill Development and Entrepreneurship 2015

The chief objective of this policy is to match the challenge of skilling at scale with speed, standard (quality), and sustainability. It aims to offer an umbrella framework to all skilling activities carried out within India, to align them to common standards and connect skilling with demand centres. In addition to laying down the objectives and expected outcomes, the policy also identifies the overall institutional framework which will act as a means to achieve the expected results.

Skill Loan Scheme

Under this scheme, loans ranging from Rs.5000 to Rs. 1.5 lakhs will be provided for those seeking to attend skill development programmes. The idea behind the scheme is to remove financial hurdles for people who want to upgrade their skills and learn new skills.

Eligibility

Any individual who has secured admission in a course run by Industrial Training Institutes (ITIs), Polytechnics or in a school recognized by central or State education Boards or in a college affiliated to recognized university, training

partners affiliated to National Skill Development Corporation (NSDC)/Sector Skill Councils, State Skill Mission, State Skill Corporation, preferably leading to a certificate / diploma / degree issued by such organization as per National Skill Qualification Framework (NSQF) is eligible for a Skilling Loan. The Government of India / State Governments may, from time to time, notify institutes/ organizations for the purpose.

Quantum of Finance

Loans will be in the range of Rs. 5,000/- to Rs. 150,000/-.

Expenses Considered for Loan

Tuition / course fee, any other reasonable expenditure found necessary for completion of the course including but not limited to assessment fee, Examination fee, Library charges, Laboratory fee, Caution deposit, Purchase of books, equipment's and instruments

Moratorium Period

Upon completion of the course, repayment will start after a moratorium period as indicated below: Courses of duration upto1 yearupto 6 months from the completion of the course Courses of duration above 1 year 12 months from the completion of the course.

Repayment

The loan will be repaid after moratorium period in Equated Monthly Installments (EMI's) as follows : Loans up to Rs. 50,000/- Up to 3 years Loans between Rs. 50,000/- to Rs. 1.00 lakh Upto 5 years Loans above Rs. 1.00 lakh Upto 7 years

PM-YUVA (Pradhan Mantri YuvaUdyamita Vikas Abhiyan)

- It is a centrally-sponsored scheme related to entrepreneurship education and training.
- Objectives:
    - The development and education of entrepreneurship to all citizens

free of cost through Massive Open Online Courses (MOOCs) and eLearning systems.

- o The designing of assessment and certification mechanism for the same.
- o To equip institutes (schools and colleges) to help them deliver entrepreneurship educational programmes of global standards.
- o Also to focus on social entrepreneurship promotion.
- o The creation of an online web-based platform that connects entrepreneurs, investors, financial institutions, and business services such as legal, accounting, HR, and technology services.
- o The setting up of a national mentor network for budding entrepreneurs.
- o Create a network of incubators, credit agencies, business service providers, and accelerators.
- o Establishment of a National Entrepreneurship Resource and Coordination Hub to coordinate and support entrepreneurship development programmes.
- o The creation of a culture of dynamic entrepreneurship by way of branding and the media.
- o Promote entrepreneurship research and advocacy.
- o Include social entrepreneurship awareness programmes for the marginal sections like SC/ST and minority.

Apprenticeship ProtsahanYojana:.

The Apprentices Act, 1961 was enacted with the objective of regulating the programme of training of apprentices in the industry by utilising the facilities available therein for imparting on-the-job training. The Act makes it obligatory for employers to engage apprentices in designated trades to impart apprenticeship training on the job in industry to school leavers and ITI pass outs, Graduates

engineer, Diploma holder and Certificate in 10+2 vocational stream to develop skilled manpower. During the past few decades, the performance of Apprenticeship Training Scheme (ATS) was not in line with the growth of the economy of India. It was found that a large number of training facilities available in the industry going unutilized depriving unemployed youth to avail the benefits of the ATS. Analysis and interaction with stakeholders revealed that employers were not satisfied with the provisions of the act, especially the penal provision of imprisonment of 6 months. These provisions were considered too rigid by employers to encourage them to engage apprentices.

Based on these inputs the Apprenticeship Act, 1961 was amended in 2014 which came into effect on 22 December 2014. The key changes brought about by the amendment are as follows:

a. Imprisonment is no longer a penalty for violations under the Apprentices Act. After the Amendment, any non-compliance would be punishable only by a fine.

b. The definition of worker has been broadened and the method of determining the number of apprentices to be appointed has been amended. These amendments would ensure that employers engage a larger number of apprentices

c. The amendment also made provision for setting up a portal leading to electronic management of records, contracts and returns.

The motive behind these amendments was to ensure that employers engage a larger number of apprentices and to encourage employers to comply with the provisions of the Apprentices Act.

National Apprenticeship Promotion Scheme

The government has launched the National Apprenticeship Promotion Scheme (NAPS) on 19th August 2016 to promote apprenticeship training and incentivize employers who wish to engage apprentices. NAPS has replaced Apprentice ProtsahanYojna (APY) from 19th August 2016. While APY provided sharing of 50% of the stipend as prescribed by the Government only for the first

two years, NAPS has provision for sharing of expenditure incurred in both providing training and stipend to the apprentice as follows:

- Reimbursement of 25% of prescribed stipend subject to a maximum of Rs. 1500/- per month per apprentice to all apprentices to employers.
- Sharing of the cost of basic training in respect of fresher apprentices (who come directly for apprenticeship training without formal training) limited to Rs. 7500/- per apprentice for a maximum duration of 500 hours/ 3 months.

NAPS was launched with an ambitious objective of increasing the engagement of apprenticeship from 2.3 Lakhs to 50 Lakhs cumulatively by 2020. We have received an encouraging response from 1.43 Lakh students who have registered since the launch of the scheme in August. Ministry of Defence has also shown support for NAPS, by asking all PSUs under it engage over 10% of total workforce as apprentices. Hon'ble Prime Minister recently distributed reimbursement cheques to 15 establishments under NAPS in an event on 19th December in Kanpur.

A user-friendly online portal (www.apprenticeship.gov.in) has been launched in order to facilitate the easy processing of entire apprenticeship cycle and for effective administration and monitoring of the scheme. The portal provides end to end service for the employer from registration and mentioning vacancy to submitting claims, and for the apprentice from registration to receiving and accepting offer letters online.

11.4 SKILL DEVELOPMENT FOR MARGINALIZED AND VULNERABLE GROUPS.

For holistic and sustainable development, it is important that nobody is left out. It is well recognized that women, people with disabilities, indigenous communities, scheduled castes, and various minority groups often find themselves at the margins of development.

While they are mostly referred to as marginalized groups, it is important

to note that they are high in number and it is often a result of power dynamics and social stereotyping that a huge percentage of the population is termed marginalized and are excluded. For a healthy society, it is imperative that there is equal access to opportunities for one's socioeconomic development. Better livelihood options are empowering and can be an important pillar for an inclusive society.

The heterogeneous nature of this excluded section poses a range of complex challenges that require carefully designed policies for redressal. The past few years have seen concerted and focused efforts to enhance the accessibility, relevance, and quality of skill training programs by government and non-government organizations in India. While these efforts have improved the link to employment for many, there is still a large section of the society that remains underserviced.

Constitutional provisions for weaker sections

Social protection refers to public assistance in all cases of undeserved want. It provides human security to the poor and the destitute. Article 41 of the constitution of India states the state shall ,within the limits of its economic capacity and development, make effective provision for securing the right to work ,to education and to public assistance in cases of unemployment old age, sickness and disablement , and in other cases of undeserved want.

Recognising the special needs of the weaker sections, the constitution of India not only guarantees them equality before the law(article14) but also enjoins the state to make special provisions of affirmative discrimination for the advancement of any socially and educationally backward classes, scheduled castes and scheduled tribes . It also empowers the state to make provision for reservation in appointments or posts in favoy of any backward class citizens.(article 16).

The constitution of India also States categorically that untouchability is abolished and its practice in any form is forbidden further it enjoins the state to promote with special care the educational and economic interest of the weaker section of the people and in particular of SC and ST and promises to protect them from social injustice and all form of exploitation (article 46)

for promoting the welfare of assertive and for raising the level of administration of the scheduled areas to that of the rest of the state article 244 special financial assistance is and showed under the constitution article 275 1 reservation of seats for SC and ST in the democratic institutions article 330 and 332 educational institutions and in services article 335 is another visa of positive discrimination in favor of these groups

With regard to the welfare and development of minorities the constitution incorporate certain safeguards to recognise their rights in conserving their culture and establish and administer educational institution of their choice article 29 and 30.

One of the directive principle of state policy is the constitution in joints that the state will promote his special care the educational and economic interest of weaker section of the people and in particular of the scheduled caste and scheduled Tribes and protect them from social injustice and all form of exploitation.

Following measures are needed to help SCs , STs and OBC to acquire skills and training.

1. Reservations applicable to this groups should be strictly enforced with appropriate gender composition.
2. Existing schemes for benefiting these group should be reviewed, strengthened and made more effective.
3. Effort should be made to mobilize capabilities and expertise of civil society organisations
4. New innovative schemes and measures should also be devised to ensure full and effective participation by these groups as well as the accrual of real benefits from skill development initiatives.

Minorities

The constitution of India contains special provisions for the social economic development of SCs STs and OBCs.However, religious and linguistic minorities are excluded from the purview of the special provisions, though cultural

and educational rights of the religious and linguistic minorities are regarded as fundamental rights under article 29 and 30 of part III of the constitution.

As for the provisions under the national commission of minorities act 1992 five religious communities including Muslims Christians Sikhs Buddhist and Zoroastrians (parsis) have been notified as minorities.

Following measures are needed to help minorities acquire skill and training

1. Skill development opportunities for minority groups should be expanded particularly in minority concentrated areas (MCAs).
2. Existing schemes benefiting in these groups should be reviewed, strengthened and made more effective.
3. Efforts should be made to mobilize capabilities and expertise of civil society organisation.
4. Formalization of non formal skill acquisition and transfer should also be promoted in the traditional art and craft sectors.

Persons with disabilities

The census 2001, enumerated persons with disabilities at 2.13 % of India's total population in India, the definition of disability used in the census is very different from that in the persons with disability act 1995 it can be reasonably assumed that person with disabilities constitute anywhere between 5 to 6% of 4 total population.

Following measures are needed to help them acquire skill and training.

1. The current level of participation of persons with disabilities in skill programs is very low despite guidelines of reserving 3% of the seats for them. the guidelines apply only to the government sector.
2. People with varying degrees of physical and mental disabilities should be provided with the appropriateadjustment training and skills training to bring them in the economic mainstream and make them productive citizens.
3. Training should be integrated with efforts to secure appropriate

employment opportunities. programs of public awareness and community participation need to be strengthened to promote demand for vocational training by people with disabilities as well as to facilitate their inclusion in the labour market.

School dropouts and child labour

School dropouts refer to those who leave the schools before completing 12th standard. following measures are needed to help them acquire skills and training.

1. School education should be strengthened to reduce the school dropouts. The quality of school education should influence the effectiveness of skill development programme as a whole. This will lay solid foundation for young people to acquire employable skills and engage in continuous skill upgradation throughout their working life
2. School education should be used as a tool to increase vocation awareness among young people.
3. School dropout, child labour and out of school youth need to be given alternative education coupled with skill development opportunities to bring them into the economic and social mainstream.
4. Short-term market oriented, demand driven program should provide a flexible delivery framework suited to the characteristics and circumstances of the target group.
5. Multi skilling, multi entry and exit, and linkages to skill upgradation opportunities in the future, should characterize such programs. short employable skills need to be expanded greatly to cater to the large size of the group
6. Formal educational requirements in assessing training should be reviewed in order to facilitate easy access.

MSDE's SANKALP program

Recognizing this, the Ministry of Skill Development and Entrepreneurship

(MSDE) has made inclusion as one of its key focus areas. **Skill Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP)**, a World Bank-supported program, has been working with State and District-level skill development machineries, to strengthen institutions and promote decentralization. It also aims to improve the inclusiveness of marginalized communities in the skill development programs.

SANKALP, in its unique approach, does not attempt to implement skill programs at a large scale but designs and implements different projects as pilots. These pilots further serve as blueprints for the States and Districts to adapt and customize, based on their local needs. SANKALP through its concerted efforts aims to integrate inclusion in the design and implementation of skill training, at all stages of the skilling ecosystem.

Gender inclusion under SANKALP

There is a huge gender disparity in the current workforce in India. Hence, gender inclusion is one of the areas that SANKALP is working on. Increasing women's participation in skill development programs, and thereby, in the workforce is a priority.

One of the initiatives taken under SANKALP was developing a Gender Action Plan (GAP) with the aim to provide a roadmap for promoting and improving the participation of women in skill training. Since its launch in 2015, the Skill India Mission has had a special focus on women, empowering them for better and secure livelihood. UNI India report shows that there is a nearly 97% increase in admissions of females in skill development programs in 2018 as compared to 2014, with a rise to 173,105 women trainees from 87,799.

However, the increase in skill training enrolment has not resulted in a proportionate increase in the participation of women in the workforce. Not only are women under-represented in different job roles across industries, the gender-based gap in wages still remains to be a cause of concern. The process of preparing this plan entailed the careful study of the current skill development value chain through the gender lens and identification of challenges and opportunities at each stage.

Based on the challenges identified, SANKALP, through this Gender Action Plan (GAP), outlined priority areas for improving women's participation in the workforce. Strategies and action plans proposed in GAP aims to serve as a foundation for innovations and ideas, making skill training and employment for women impactful and effective.

This has become the guideline for gender inclusion for skill development initiatives. These initiatives include re-examining training curriculum through the gender lens, creating awareness on gender and prevention of sexual harassment at work, and designing innovative pilots for training women in non-traditional livelihood.

Inclusiveness of marginalized communities in skill development programs

The scope for inclusion is not limited to the traditional notion of marginalised communities. SANKALP recognises the urgent need to work with the bottom of the pyramid, communities trapped in the vicious circle of poverty due to complex social structures. The Ministry is currently working to develop a project to make the role of manual scavenger safer, dignified and aspirational.

Through its unique approach, SANKALP critically examines the current skill development programs, identifies gaps, and design solutions. It seeks to improve the quality of skill development in India, which cannot be achieved without ensuring inclusion.

STAND UP INDIA

The Prime Minister of India, Mr. Narendra Modi launched the Stand Up India Scheme in April 2016, encouraging people from the scheduled caste and scheduled tribes and women across the country to become entrepreneurs by loaning them a sum of money to start a business.

The Stand Up India scheme aims at providing people belonging to the scheduled caste or scheduled tribe or women of the country a loan between Rs.10 lakhs to Rs.1 crore, based on their requirement. The aim is to promote entrepreneurship among them.

Under the scheme, 1.25 lakh bank branches would each be expected to lend money every year to at least one Dalit or tribal entrepreneur and one woman entrepreneur in their service area.

The scheme is anchored by Department of Financial Services (DFS), Ministry of Finance, Government of India.

Eligibility Criteria: Stand Up India Scheme

There are certain eligibility criteria that need to be fulfilled by the people applying for the loan:

1. The individual must be 18 years or above
2. The company must be a private limited/LLP or a partnership firm.
3. The turnover of the firm must not be more than 25 crores
4. The entrepreneur should either be a woman for a person belonging to scheduled caste or scheduled tribe category.
5. The loan will only be provided to fund greenfield projects i.e., the project must be a very first one being undertaken under the manufacturing or service sector.
6. The applicant must not a bank or any other Organisation's defaulter.
7. The company should be dealing with any commercial or innovative consumer goods. An approval of DIPP is also required for the same.

Loan details

- **Nature of Loan -** Composite loan (inclusive of term loan and working capital) between 10 lakh and up to 100 lakh.
- **Purpose of Loan** - For setting up a new enterprise in manufacturing, trading or services sector by SC/ST/Women entrepreneur.
- **Size of Loan** - Composite loan of 75% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 75% of the project cost would not apply if the borrower's

contribution along with convergence support from any other schemes exceeds 25% of the project cost.

- **Interest Rate** - The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).
- **Security** - Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL) as decided by the banks.
- **Repayment** - The loan is repayable in 7 years with a maximum moratorium period of 18 months.
- **Working Capital** - For drawal of Working capital upto 10 lakh, the same may be sanctioned by way of overdraft. Rupay debit card to be issued for convenience of the borrower. Working capital limit above 10 lakh to be sanctioned by way of Cash Credit limit.
- **Margin Money** - The Scheme envisages 25% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

Key features of the Stand Up India scheme:

- The scheme is part of an initiative by the Department of Financial Services (DFS) to promote entrepreneurial projects.
- An amount ranging from Rs 10 lakhs to Rs.1 crore to be provided as a loan, inclusive of working capital for setting up a new enterprise.
- The scheme states that each bank branch needs to facilitate two entrepreneurial projects on an average. One for SC/ST and one for a woman entrepreneur.
- A RuPay debit card would be provided for the withdrawal of credit.

- Credit history of the borrower would be maintained by the bank so that the money is not used for any personal use.
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs.10,000 crore.
- Under this scheme, through NCGTC, creation of a corpus of Rs.5000 crore for credit guarantee.
- Supporting the borrowers by providing comprehensive support for pre-loan training like facilitating the loan, factoring, marketing, etc.
- A web portal has been created to assist people for online registration and support services.
- The main purpose of this scheme is to benefit the institutional credit structure by reaching out to the minority sections of the population by initiating bank loans in the non-farm sector.
- The scheme will also be an advantage for the ongoing schemes of other Departments.
- The Stand Up India scheme will be led by Small Industries Development Bank of India (SIDBI) along with the involvement of the Dalit Indian Chamber of Commerce and Industry (DICCI). Along with DICCI, there will also be involvement of other sector-specific institutions.
- The designation of Stand Up Connect Centres (SUCC) will be provided to SIDBI and National Bank of Agriculture and Rural Development
- An initial amount of Rs.10,000 crore will be allotted to the Small Industries Development Bank of India (SIDBI) to provide financial aid.
- There will be a pre-loan and an operational phase for this scheme and the system and Officials tend to help people throughout these phases.
- To help the credit system reach out to the entrepreneurs, the margin money for the composite loan will be up to 25 per cent.
- The people who apply for this scheme will be familiarised with the online

platforms and other resources of e-marketing, web-entrepreneurship, factoring services and registration.

Benefits of Stand Up India Scheme

When the Government comes up with a scheme, its main aim is to benefit the citizens and the same is the case with the Stand Up India scheme. Given below are the benefits of launching the Stand-Up India scheme:

- The basic aim of the initiative is to provide encourage and motivate new entrepreneurs so as to minimize unemployment.
- If you are an investor then Stand Up India gives you the right platform where you get professional advice, time, and knowledge about laws. Another benefit is that they would assist you in the start-up for the initial two years of your work.
- They also provide post set up aid to the consultants.
- Moreover, another benefit for entrepreneurs is that they do not have to worry much about how to pay back the amount that they have taken for the loan as they need to pay back the loan in a span of seven years, which reduces the stress of repayment for the borrowers. However, a certain amount needs to be paid back each year as per the borrower's choice.
- This scheme will help to eradicate legal, operational and other institutional obstacles for entrepreneurs as well.
- It can be a very positive boost in terms of job creation, leading to socio-economic empowerment of Dalits, tribals and women.
- It may also act as the driving force for other Government schemes like 'Skill India' and 'Make in India'.
- It will help protect the demographic dividend in India
- With access to bank accounts and technological education, it will lead to financial and social inclusion of these strata of society.

Tax Benefits/Incentives in Stand Up India

- The applicants will get 80% rebate after filing the patent application form. This can only be filled by startups and the benefits are also more for them as compared to other companies.
- There is also an inclusion of Credit Guarantee Fund and the entrepreneurs enjoy relaxation in Income tax at least for the first three years.
- There will be complete relaxation for the entrepreneurs for the Capital Gain Tax.
- Moreover, for the entities who qualify the program will further enjoy benefits like the redemption of tax on the profits earned.
- This is to ease the entities during the initial startup phase and that there is no burden of paying heavy costs for taxes.

CHECK YOUR PROGRESS

Q.1 What is eligibility criteria under stand up India.

Q.2 What are tax benefits under stand up India.

11.5 LET US SUM UP

Skill development is the key to unlock the potential of manpower in India. Even of more importance is to provide skill training to informal sector , as well as marginal and vulnerable groups in the society only then we can achieve our aim of equitable and inclusive growth. In this we learnt about various govt. schemes launched for the purpose of skill development. These includes skill India, Kaushal vikas yojana, SANKALP, stand up India. Etc.

11.6 EXAMINATION ORIENTED QUESTIONS

Q.1 What is the need for skill development in India. Mention the initiatives introduced by govt. for skill training in informal sector.

Q.2 What are the policy measures introduced by govt. for skill development of marginalized and vulnerable section.

UNIT-4: CURRENT PROBLEMS OF SELECTED INDUSTRIES

M.A. Economics	**Lesson-12**
Course No. 409	**Unit-4**

STRUCTURE:

12.1 Introduction

12.2 Objective

12.3 Iron and steel Industry

12.4 Automobile Industry

12.5 Pharmaceutical industry in India

12.6 Information technology Industry

12.7 Let Us Sum Up

12.8 Examination oriented questions.

12.1 INTRODUCTION

In this lesson, we propose to discuss some major industries of India. For our discussion we have chosen the following industries - iron and steel, automobile, pharmaceutical and IT industry in india.

12.2 OBJECTIVE

The objective of this lesson is to get an insight into major industries of India. Their size, volume and working as well as their problems.

12.3 IRON AND STEEL INDUSTRY

The earliest successful attempt to manufacture iron and steel by modern methods was made in the country at Barakar in 1875 for the production of pig iron. This was taken over by the Bengal Iron Company in 1889. However, the first effort at large-scale production was made when Tata Iron & Steel Company (TISCO) was set up in Jamshedpur in 1907. The Indian Iron and Steel Company (IISCO) was set up at Burnpur in 1919. The first unit in the public sector, now known as the Visvesvaraya Iron and Steel Works Ltd., started functioning at Bhadravati in 1923.

Progress in the Post-Independence Period

After Independence, special attention was paid to the development of the iron and steel industry. The Second Plan which aimed at laying strong foundations of industrial development naturally gave top priority to the development of the iron and steel industry. This would be clear from the fact that the investment on steel programme in the Second Plan alone was about 2.5 times the combined new investment undertaken by the public and private sector on the industrial programmes in the First Plan. Three steel plants of one million tonnes ingot capacity each were set up in the public sector at Bhilai, Rourkela and Durgapur. Besides, expansion programme to double the capacity of the two private sector plants, namely, TISCO and IISCO to 2 million tonnes and 1 million tonnes respectively were also taken into hand.

The three steel plants set up in the public sector came into operation in stages between 1959 and 1962. The Third Plan placed emphasis on expansion of these plants and the setting up of a new steel works at Bokaro. The Fourth Plan steel programme was based on the maximum utilisation of steel capacity and preparation of plans to set up three new steel plants at Salem in Tamil Nadu, Vijayanagar in Karnataka, and Vishakhapatnam in Andhra Pradesh. The Bokaro Steel Plant was commissioned on February 26, 1978. With this the total installed ingot capacity which stood at 8.9 million tones on March 31, 1974, increased to 11.6 million tonnes as on March 31, 1980. The government also took over the management of IISCO in 1972 and acquired its ownership in 1976 to improve its working.

Prior to 1973, of the four steel plants in the public sector, the plants at Bhilai, Rourkela and Durgapur were owned and managed by the Hindustan Steel Limited (HSL), and the Bokaro Steel Plant by Bokaro Steel Limited (BSL). In 1973, the government set up the Steel Authority of India Ltd. (SAIL). HSL and BSL became the wholly owned subsidiaries of SAIL. The management of IISCO is also under SAIL. Visvesvaraya Iron and Steel Ltd. was taken over by SAIL in August 1989. Thus, SAIL is now the main integrated steel company. Vishakhaptnam Steel Plant of RashtriyaIspat Nigam Ltd. (RINL) was commissioned in July 1992. In the private sector, Tata Iron and Steel Company (TISCO) is the first integrated steel plant. It is located at Jamshedpur. Other important players in the private sector are Essar, Mukand (having the biggest mini steel plant in the country), Lloyds, Jindal, Nippon DenroIspat Ltd., Mahindra Ugine Steel Company Ltd., FACOR, Mardia Steel Ltd., etc. India emerged as the third largest steel producing country in the world in 2015 after China and Japan, beating the USA to the fourth place. The domestic production of total finished steel in 2016-17 was 101.3 million tonnes as compared to 91 million tonnes in 2015-16. As of 2019, India ranks second in steel production in the world. The first being China. This sector represents around 90,000 crore of capital and directly provides employment to about 5 lakh people and indirectly to about 20 lakh people. It contributes about 2 per cent to the country's GDP.

Liberalisation of Steel Policy

Iron and steel industry was reserved for the public sector in the 1956 Industrial Policy Resolution which had stated that while existing units in the private sector would be allowed to continue and expand, new units will be set up in the public sector only. However, due to acute shortage of steel in 1960s and 1970s and increase in the demand of steel by the re-rolling and engineering industries, the government liberalised the steel policy. The process of liberalisation initiated in 1982 has been progressively extended. In 1986, private sector was allowed to produce steel usingEAF (Electric Arc Furnace) process. Small blast furnaces were allowed only if they used optimum energy. In February 1988, expansion of units was permitted within an overall capacity ceiling of upto 250,000 tonnes per annum. Theenhancement of capacity up to 150 per cent of the existing licensed

capacity was allowed within the overall ceiling limit. However, certain conditions were imposed.

To liberalise and rationalise the manufacturing of steel and steel-based products, remove unnecessary restrictions, and promote minimum economies of scales of production, the government issued a new set of guidelines on June 6, 1990. Under the new policy, the private sector was allowed to set up steel plants with a capacity of up to one million tonnes per annum and, for this purpose, they were allowed the freedom to choose between the electric arc furnace and blast furnace processes. Subsequent to the announcement of the substantial liberalisation measures in July 1991, the government removed the iron and steel industry from the list of industries reserved for the public sector and also exempted it from the provision of compulsory licensing. The government also abolished price and distribution controls on iron and steel manufactured by integrated steel plants with effect from January 16, 1992. The Freight Equalisation Scheme was also withdrawn. The iron and steel sector is now almost entirely open with no sectoral reservations, with no licensing, pricing, distribution and import controls. This is a radical departure for an industry which has experienced near exclusive public sector monopoly, canalised imports, protective import tariffs and government regulated domestic prices.

Problems of Iron and Steel Industry

The development and expansion of the industrialisationprogrammes of a country depends crucially on the development and expansion of the iron and steel industry. It is mainly due to the emphasis laid on the development of this industry in the post-Independence period and the progress registered by it that India’s industrial base has now become strong enough to meet the requirements of rapidly expanding engineering goods industries, machine building industries, machine tools industries and a number of other capital goods, intermediate goods and consumer goods industries. Naturally, a set-back in the iron and steel industry due to any reasons whatsoever has to be viewed with concern since it has adverse repercussions on the numerous industries associated with it. Let us now consider some of the problems that the steel industry has had to face:

1. **Shortage of coal and power**. The steel plants frequently face problems in obtaining adequate quantities of the desired quality of coking coal. This has often forced the steel plants to restrict the pushing of coke ovens. In addition,Indian coking coal has a high ash content mainly because of the sedimentary nature of their origin. In the 1950s, the steel plants were designed for using coal with 17 per cent ash content. Over the years, as mining proceeded deeper and to lower seams, the ash content increased to 25 per cent. Every one per cent increase in ash brings down the production of blast furnaces by 2-3 per cent. In addition, coke rate goes up and quality of the product goes down. To keep the ash content of the blend at around 15 per cent, the dependence on imported coal has to be increased which is obtained at a considerably higher cost as compared with domestic coal.Power shortages also affect the functioning of steel plants adversely.

2. **Technological obsolescence**. Some public sector steel plants are today victims of technological obsolescence. In respect of blast furnace productivity, consumption of coke and tap-to-tap time in convertors, most of the integrated steel plants are half as efficient as the steel plants in the rest of the world. While labour productivity in Indian steel industry ranges between 39 tonnes per man year to 228 tonnes per man year, it ranges between 300-500 tonnes per man year in the steel industry of industrialised countries. Due to technological obsolescence, energy consumption in Indian steel mills is considerably higher than that in steel mills of the developed countries. For instance, while energy constitutes about 20 per cent or one-fifth of the total cost of steel making in the latter, it is as high as 33 per cent (almost one-thirds) of the total cost of steel making in India.

3. **Inefficient management**. The management and control of steel plants leaves much to be desired. The top management often comprises non-specialised, non-technical people who are often unequal to the task of providing the requisite managerial competence in the complex and capitalintensive projects as the steel plants, in fact, are. The management

also works under severe constraints like undue political interference, frequent labour disputes etc.

4. **The demand constraint**. The steel industry has faced rough time during a number of recent years due to a slump in demand following reduction in government's planned expenditure, lack of investment in the housing and infrastructure sectors, and additional capacity creation based on assumed growth in consumption which did not materialise. As a result, there was huge piling up of inventories resulting in downward pressure on prices and deep erosion in the profitability of the steel producers.

5. **Menace of dumping.** Already in distress over the failure of domestic demand to increase, the misery of the Indian steel industry was compounded by the alarming downtrend in international price during the late 1990s. In respect of certain steel products, the decline in prices wasas much as 30 to 40 per cent. This led to unhealthy practices like dumping which pulled down domestic prices and eroded the bottom line of the local steel makers. The lower tariff regime in the current era of liberalisation and the unrestricted import of all iron and steel material under the new export-import policy made things worse for the domestic producers of steel. What is more worrying is the fact that seconds and defective grades of steel were dumped into the economy. These were no match to the quality products turned out by the Indian steel mills but spoiled the market of domestic steel makers.

In the backdrop of a slowing world economy and over capacity in production of steel, India witnessed rising imports of cheap steel from countries like China, South Korea and Ukraine into Indian markets at low prices since early 2014-15. This dumping of cheaper steel imports adversely affected domestic producers. In order to address this, apart from raising customs duty and imposition of anti-dumping duty, Minimum Import Price (MIP) on a number of items was introduced in February 2016. These measures helped in reducing the imports of steel from 11.7 million tonnes in 2015-16 to 7.4 million tonnes in 2016-17.4 The government also notified anti-dumping duties and countervailing duties on various

steel products in February 2017. The government rolled out a National Steel Policy in May 2017. This policy aims at achieving the following objectives: (1) build a globally competitive industry; (2) increase per capita steel consumption to 160 kilograms by 2030-31 (from 61 kilograms at present); (3) domestically meet entire demand of high grade automotive steel, electrical steel, special steels and alloys for strategic applications by 2030-31;(4) increase domestic availability of washed coking coal so as to reduce import dependence on coking coal; (5) have a wider presence globally in value added/high grade steel; (6) encourage industry to be a world leader in energy efficient steel production in an environmentally sustainable level; (7) establish domestic industry as a cost effective and quality steel producer;(8) attain global standards in Industrial Safety and Health; and (9) substantially reduce the carbon footprint of the steel industry.

The National Steel Policy, 2017 envisage 300 million tonnes of production capacity by 2030-31. The per capita consumption of steel has increased from 57.6 kgs to 74.1 kgs during the last five years. The government has a fixed objective of increasing rural consumption of steel from the current 19.6 kg/per capita to 38 kg/per capita by 2030-31.

Recent Government Initiatives

Some of the other recent Government initiatives in this sector are as follows:

- In December 2020, the Minister for Petroleum & Natural Gas and Steel, Mr. Dharmendra Pradhan, has appealed to the scientific community to Innovate for India and create competitive advantages to make India 'Aatmanirbhar'.
- In September 2020, the Ministry of Steel prepared a draft framework policy for development of steel clusters in the country.
- On October 1, 2020, Directorate General of Foreign Trade (DGFT) announced that steel manufacturers in the country can avail duty drawback benefits on steel supplied through their service centres, distributors, dealers and stock yards.

- Government introduced Steel Scrap Recycling Policy to reduce import.
- An export duty of 30% has been levied on iron ore(lumps and fines) to ensure supply to domestic steel industry.
- Government of India's focus on infrastructure and restarting road projects is aiding the demand for steel. Also, further likely acceleration in rural economy and infrastructure is expected to lead to growth in demand for steel.
- The Union Cabinet, Government of India approved the National Steel Policy (NSP) 2017, as it intend to create a globally competitive steel industry in India. NSP 2017 envisage 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030-31.
- The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of Rs. 200 crore (US$ 30 million).
- The Government of India raised import duty on most steel items twice, each time by 2.5% and imposed measures including anti-dumping and safeguard duties on iron and steel items.

Huge scope for growth is offered by India's comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.

12.4 AUTOMOBILE INDUSTRY

The automobile industry is an important driver of the economic growth in India and one of the successful sectors in which the country has high participation in global value chains (GVCs)

Being deeply integrated with other industrial sectors, it is a major driver of the manufacturing gross domestic product (GDP), exports, and employment. This sector has grown on account of its traditional strengths in casting, forging

and precision machining, fabricating (welding, grinding, and polishing) and cost advantages (on account of availability of abundant low-cost skilled labor), and significant foreign direct investment (FDI) inflows.India was the sixth largest producer of automobiles globally with an average annual production of about 29million vehicles in 2017–2018. India is the largest tractor manufacturer, second largest two- wheeler manufacturer, second largest bus manufacturer, fifth largest heavy truck manufacturer, sixth largest car manufacturer, and eighth largest commercial vehicle manufacturer. The contribution of this sector to GDP has increased.

The Indian automobile industry – comprising of the automobile and the automotive components segments – is one of the key drivers of economic growth of India. This sector has grown on account of its traditional strengths in casting, forging and precision machining, fabricating (welding, grinding, and polishing) and cost advantages (on account of availability of abundant low-cost skilled labor), and significant foreign direct investment (FDI) inflows. India was the sixth largest producer of automobiles globally with an average annual production of about 29 million vehicles in 2017–2018, of which about 4 million were exported. India is the largest tractor manufacturer, second largest two-wheeler manufacturer, second largest bus manufacturer, fifth largest heavy truck manufacturer, sixth largest car manufacturer, and eighth largest commercial vehicle manufacturer. The contribution of this sector to GDP has increased from 2.77% in 1992–1993 to about 7.1% now and accounts for about 49% of manufacturing GDP (2015–2016). It employs more than 29 million people (direct and indirect employment). The turnover of the automobile industry is approximately US$ 67 billion (2016–2017) and that of the component industry is US$ 43.5 billion (2015–2016). the Indian industry accounted for 4.92% of vehicle production globally in 2017 (5.38% of production in the car segment and 3.48% of production in the commercial vehicle segment).

Automobile industry accounts for

7.1% of India's GDP

35 million employment generation

4.3 % of India's total Exports

India is a prime destination for many multinational automobile companies with aspirations of business expansion in Asia. It attracted about US$ 14.48 billion (5.2% of total) in cumulative FDI equity inflows between 2000 and 2015. The basic advantages that the country provides as an investment destination include cost-effectiveness of operations, efficient manpower, and a fast-growing dynamic market. In the past, major investments have come from Japan, Italy, and the USA followed by Mauritius and Netherlands. The industry manufactures a wide range of products to meet both domestic and international demands.

Indian Automobile Market and Market Share (%) by segment, 2017–2018

Segment	Share (%)
Commercial Vehicles	3
Threewheelers	3
Passenger vehicles	13
Two wheelers	81

Source: Society of Indian Automobile Manufacturers (SIAM) statistics

Production in the sector is mainly concentrated around four large auto manufacturing hubs across the country: Delhi-Gurgaon-Faridabad in the north, Mumbai Pune-Nashik-Aurangabad in the west, Chennai- Bengaluru-Hosur in the south, and Jamshedpur-Kolkata in the east of India.

India's indigenous passenger car industry was launched in the 1940s with the establishment of Hindustan Motors and Premier Automobiles Limited. The two companies together garnered most of the market share till the 1970s, along with Telco, Ashok Leyland, Mahindra & Mahindra (M&M), and Bajaj Auto. The market for automobiles was not large given the low rate of economic growth in the country at this time, and thus the industry had a very slow-paced growth till the 1980s. Efforts to establish an integrated auto component industry were initiated in the 1950s. The industry was protected by high import tariffs, and the production was catered to the demands of local automobile manufacturers.

Manufacturing was licensed, and there existed quantitative restrictions on imports of automobiles and automotive components.

FDI in automotive assembly was allowed in two major waves in 1983 and in 1993. This FDI was mainly "market-seeking" in nature.10 Government policies such as import barriers and local content requirements contributed to the influx of FDI and helped the industry to compete with international players. In February 1981, an Indian company called the Maruti Udyog Limited (MUL) was incorporated as a government company with Suzuki Motor Corporation as a minor partner to make an efficient people's car for middle-income class in the country. In October 1982, the company signed the license and joint venture agreement with Suzuki

However, private sector participation was still restricted in the passenger car segment with only three major players – MUL, Hindustan Motors, and Premier Automobiles Limited. India also allowed four Japanese firms – Toyota, Mitsubishi, Mazda, and Nissan – to enter the market for light commercial vehicles through joint ventures (JVs) with Indian companies and some sharing equity with state-level governments in the 1980s.

In the middle of 1991, the Indian Government made significant changes to its economic and industrial policies leading to the liberalization of the markets. This provided the impetus for the Indian automobile industry to flourish further. A new automobile policy was launched in 1993, facilitating the entry of global assemblers. Auto licensing was abolished in 1991, and the weighted average tariff was lowered from 87% to 20.3% in 1997. In 1997, automatic FDI approval of JVs with a 51% majority share for the foreign partner was allowed. Liberalized policies and the attraction of a huge unsaturated market made many globally competitive automakers to enter the passenger car market.16 The most common route of entry was through JVs with Indian firms. Some manufacturers also left the market due to increased competition.

Japanese participation in the Indian automobile industry brought significant changes to the structure of the passenger car market, including utility vehicles. e. Indian companies such as Telco, M&M, Hindustan Motors, Premier Automobiles,

and DCM entered into JVs with Ford, Mercedes, General Motors (GM), and Peugeot for assembly of medium-sized cars from knocked-down units. This increased the market competition and restructured pressures on existing players

Increased competition led to restructuring and cutting of costs, enhanced quality, and improved responsiveness to demand. MNC automakers such as Hyundai, Nissan, Toyota, Volkswagen, and Suzuki which had established production plants in India eventually started using India as an export platform for their overseas networks. The small car segment did particularly well, and India's potential as a global hub for manufacturing small cars began to be recognized. Between the years 2001 and 2010, passenger vehicle sales grew at a compound annual growth rate (CAGR) of 15.67%. Of the total sales, roughly 10% were contributed by exports. Between 2000 and 2015, the average year-on-year growth rate of export of vehicles from the country was approximately 23%. The industry is known for export of mini hatchbacks and an evolving export base for midsize cars and compact SUVs. As per the World Trade Organization's World Trade Statistical Review 2017, India was the tenth largest exporter of automobile products worldwide in 2016, accounting for US$ 13 billion worth of exports

In the last decade again, various trade and investment restrictions were removed to speed up momentum for large-scale production. As of today, the government encourages foreign investment and allows 100% FDI in the sector via the automatic route. The industry is fully de-licensed, and free imports of automotive components are allowed. India is the second fastest-growing market for automobiles and components globally (after China)

Industry Scenario

The $118 bn Automobile industry is expected to reach $300 bn by 2026.

India's annual production has been 30.91 mn vehicles in 2019 as against 29.08 mn in 2018, registering a healthy growth of 6.26%

India is expected to emerge as the world's third-largest passenger vehicle market by 2021. In FY 2018-19, sale of passenger vehicles has increased by 2.70%,

two-wheeler by 4.86% and three-wheeler by 10.27% as compared to FY 2017-18.

In April-March 2019, overall automobile exports grew by 14.50%. The overall Commercial Vehicles segment registered a growth of 17.55% in April-March 2019.

India is expected to be the world's third-largest automotive market in terms of volume by 2026.

The industry currently manufactures 26 mn vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers and Quadricycles in April-March 2020, of which 4.7 mn are exported. India holds a strong position in the international heavy vehicles arena as it is the largest tractor manufacturer, second-largest bus manufacturer and third largest heavy trucks manufacturer in the world.

- The EV market is expected to grow at CAGR of 44% between 2020-2027 and is expected to hit 6.34 million-unit annual sales by 2027. The EV industry will create five crore direct and indirect jobs by 2030.
- A market size of $50 bn for the financing of EVs in 2030 has been identified—about 80% of the current size of India's retail vehicle finance industry, worth $60 bn today
- In April-March 2020, overall automobile exports registered a growth of 2.95%.
- Passenger vehicles exports marginally increased by 0.17% and two-wheeler exports registered a growth of 7.30% in April-March 2020 over the same period last year.
- India's passenger vehicle industry is expected to post a growth of 22% - 25% in FY22

Government Initiatives

The Government of India encourages foreign investment in the automobile sector and has allowed 100% foreign direct investment (FDI) under the automatic route.

Some of the recent initiatives taken by the Government of India are -

- Under Union Budget 2019-20, the Government announced to provide additional income tax deduction of Rs. 1.5 lakh (US$ 2,146) on the interest paid on the loans taken to purchase EVs.
- The Government aims to develop India as a global manufacturing centre and a Research and Development (R&D) hub.
- Under NATRiP,(National Automotive Testing& R&D Infrastructure Project) the Government of India is planning to set up R&D centres at a total cost of US$ 388.5 million to enable the industry to be on par with global standards.
- The Ministry of Heavy Industries, Government of India has shortlisted 11 cities in the country for introduction of EVs in their public transport systems under the FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme. The Government will also set up incubation centre for start-ups working in the EVs space.
- In February 2019, the Government of India approved FAME-II scheme with a fund requirement of Rs. 10,000 crore (US$ 1.39 billion) for FY20-22.

Achievements

Following are the achievements of the Government in the last four years:

- In H12019, automobile manufacturers invested US$ 501 million in India's auto-tech start-ups according to Venture intelligence.
- Investment flow into EV start-ups in 2019 (till end of November) increased nearly 170% to reach US$ 397 million.
- On 29th July 2019, Inter-ministerial panel sanctioned 5,645 electric buses for 65 cities.
- NATRiP's proposal for "Grant-In-Aid for test facility infrastructure for EV performance Certification from NATRIP Implementation Society"

under the FAME Scheme was approved by Project Implementation and Sanctioning Committee (PISC) on 3rd January 2019.

- Under NATRiP, following testing and research centres have been established in the country since 2015.
  - o International Centre for Automotive Technology (ICAT), Manesar.
  - o National Institute for Automotive Inspection, Maintenance & Training (NIAIMT), Silchar.
  - o National Automotive Testing Tracks (NATRAX), Indore.
  - o Automotive Research Association of India (ARAI), Pune.
  - o Global Automotive Research Centre (GARC), Chennai.
- SAMARTH Udyog - Industry 4.0 centres: 'Demo cum experience' centres are being set up in the country for promoting smart and advanced manufacturing helping SMEs to implement Industry 4.0 (automation and data exchange in manufacturing technology).

Key challenges in the Indian Automotive Sector

The ever-expanding Chinese market: one of the biggest challenges of automakers outside China, is the risk of competing with China. In the last fifteen years, China has been the leading automotive market. The volume growth has helped the country to overcome other structural and competitive challenges. The biggest challenge for the planners of the automotive market is to plan a strategy keeping in mind China's outlook.

The evolution of connected cars: connected are the biggest transformational changes in the automotive industry, but it is also one of the biggest unknowns. The concept of connected cars serve as a communication hub that receives and transmits data from its surroundings. However, this technology is still in such a nascent stage that it is creating uncertainties and questions such as who will buy the car, who will deliver these services, whether the current automakers will be able to navigate through all these uncertainties keep plaguing the automotive world.

Increased competition: of all the myriad issues facing the automotive world, one of the pressing problems is the sales demand flattening in mature markets like Europe and Japan and competition rising from other manufacturers. The slowdown is sales is directly proportional to the increasing competition.

Balancing the demands of technology and government: the major global automotive markets have been facing stringent legislation focusing on controlling carbon dioxide emission and other exhaust gas emissions. This is done to improve fuel economy. One of the key challenges in the industry is to make the right powertrains and technology choices to cater to changing social preferences in a changing regulatory environment.

Consolidation of platforms: intensifying competition, state regulators and global consumers are making global automakers rethink their platform strategy. The trend towards consolidation of modular architectures or mega-platforms is slowly replacing the earlier rationalization of segments. Hence this is becoming one big challenge for automakers.

Conclusion

It goes without saying that the automotive industry is one of the ripest industries in India. But that does not stop it from being fraught with challenges and issues. Overcoming these challenges will enable the Indian automotive industry to become one of the biggest disruptors in the global market.

The automobile industry is supported by various factors such as availability of skilled labour at low cost, robust R&D centres, and low-cost steel production. The industry also provides great opportunities for investment and direct and indirect employment to skilled and unskilled labour

12.5 PHARMACEUTICALS INDUSTRY IN INDIA

India is the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK.

India enjoys an important position in the global pharmaceuticals sector.

The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

Indian drugs are exported to more than 200 countries in the world, with US being the key market. Generic drugs account for 20% of the global export in terms of volume, making the country the largest provider of generic medicines globally. It is expected to expand even further in the coming years.

Market Size

Indian pharmaceutical sector is expected to grow to US$ 100 billion, while medical device market is expected to grow US$ 25 billion by 2025. Pharmaceuticals export from India stood at US$ 16.3 billion in FY20. Pharmaceutical export includes bulk drugs, intermediates, drug formulations, biologicals, Ayush and herbal products and surgical. As of November 2020, India exported pharmaceuticals worth US$ 15.86 billion in FY21. Pharmaceutical exports from India stood at US$ 16.28 billion in FY20 and US$ 2.07 billion in October 2020.

India's biotechnology industry comprising biopharmaceuticals, bio-services, bio-agriculture, bio-industry, and bioinformatics. The Indian biotechnology industry was valued at US$ 64 billion in 2019 and is expected to reach US$ 150 billion by 2025.

India's domestic pharmaceutical market turnover reached Rs 1.4 lakh crore (US$ 20.03 billion) in 2019, up 9.8% y-o-y from Rs 129,015 crore (US$ 18.12 billion) in 2018.

Investments and Recent Developments

The Union Cabinet has given its nod for the amendment of existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100% under the automatic route for manufacturing of medical devices subject to certain conditions.

The drugs and pharmaceuticals sector attracted cumulative FDI inflow worth US$ 16.86 billion between April 2000 and September 2020 according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT).

Some of the recent developments/investments in the Indian pharmaceutical sector are as follows:

- In December 2020, Piramal Pharma Solutions announced plans to invest Rs. 235 crore (US$ 32 million) to expand its facility in Michigan, US, with additional capacity and new capabilities for development and manufacturing of active pharmaceutical ingredients (APIs).
- In November 2020, Indian Immunologicals (IIL) commenced work on Rs. 75 crore (US$ 10.17 million) viral antigen manufacturing facility in Genome Valley, Telangana, that will enhance its vaccine production capacity by 35% by October 2021.
- In November 2020, the Indian Institute of Technology (IIT) Bombay has stepped up research and development (R&D) amid COVID-19 and researchers are developing products such as a portable sterilisation device and germicidal cabinet; wheeled sterilisation unit, especially for hospitals; portable and rechargeable car sanitiser; eco-friendly sprays, and alcohol-free and bleach-free sanitisers.
- In October 2020, six generic drug makers—Dr. Reddy's Laboratories, Zydus Cadila, Glenmark Pharmaceuticals, Torrent Pharmaceuticals, Hetero Drugs and Ackerman Pharma signed a deal with Hidalgo ,a state in Mexico, to establish a large pharmaceutical cluster for production and logistics in Mexico.
- In October 2020, Aurobindo Pharma acquired MViyeS Pharma Ventures for Rs. 274.22 crore (US$ 37.30 million).
- In May 2020, Jubilant Generics Ltd entered into a non-exclusive licencing agreement with US-based Gilead Sciences Inc to manufacture and sell the potential COVID-19 drug Remdesivir in 127 countries, including India.

- Affordable medicines under Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP) achieved record sales turnover of Rs 52 crore (US$ 7.38 million) in the month of April 2020.
- During December 2019, on moving annual total (MAT) basis, industry growth was at 9.8%, with price growth at 5.3%, new product growth at 2.7%, while volume growth at 2% y-o-y.
- In October 2019, Telangana Government proposed Hyderabad Pharma City with financial assistance from the Central government of Rs 3,418 crore (US$ 489 million).

Government Initiatives

Some of the initiatives taken by the Government to promote the pharmaceutical sector in India are as follows:

- In November 2020, Prime Minister, Mr. Narendra Modi dedicated two future-ready national premier Ayurveda institutions to the country to mark celebrations of the '5th Ayurveda Day'. Also, World Health Organisation (WHO) announced the setting up of the Global Centre of Traditional Medicine in India.
- On October 15, 2020, India and the Netherlands unveiled plans to collaborate with an aim to provide digital health facilities and security to all citizens. Part of India's National Digital Health Mission (NDHM), through this cooperative initiative, the two countries will work closely to create capacities and put in place the requisite technology to enable this initiative.
- From April 2020 to September 2020, health insurance became the most valuable segment for non-life insurers in terms of premiums collected, leapfrogging in motor insurance.
- In September 2020, the government announced production linked incentive (PLI) scheme for the pharmaceutical industry worth Rs. 15,000 crore (US$ 2.04 billion).

- India plans to set up a nearly Rs. 1 lakh crore (US$ 1.3 billion) fund to provide boost to companies to manufacture pharmaceutical ingredients domestically by 2023.
- In November 2019, the Cabinet approved extension/renewal of extant Pharmaceuticals Purchase Policy (PPP) with the same terms and conditions while adding one additional product namely, Alcoholic Hand Disinfectant (AHD) to the existing list of 103 medicines till the final closure/ strategic disinvestment of Pharma CPSUs.
- Under Budget 2020-21, Rs. 65,012 crore (US$ 9.30 billion) has been allocated to the Ministry of Health and Family Welfare is. The Government has allocated Rs. 34,115 crore (US$ 4.88 billion) towards the National Health Mission under which rural and urban people will get benefited.
- Rs. 6,400 crore (US$ 915.72 million) has been allocated to health insurance scheme Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB-PMJAY).
- As per Economic Survey 2019-20, Government expenditure (as a percentage of GDP) increased to 1.6% in FY20 from 1.2% in FY15 on health.
- The National Health Protection Scheme is the largest Government funded healthcare programme in the world, which is expected to benefit 100 million poor families in the country by providing a cover of up to Rs. 5 lakh (US$ 7,723.2) per family per year for secondary and tertiary care hospitalisation. The programme was announced in Union Budget 2018-19.
- The Government of India is planning to set up an electronic platform to regulate online pharmacies under a new policy to stop any misuse due to easy availability.
- Government of India unveiled 'Pharma Vision 2020' to make India a global leader in end-to-end drug manufacture. Approval time for new facilities has been reduced to boost investment.

- Government of India has offered Rs. 6,940 crore (US$ 942.8 million) production linked incentives between 5-20% for incremental sales and plans to set up three mega drug parks to drive sustainable cost competitiveness.

Challenges

- The Indian pharma industry faces lack of research components and real time good manufacturing practices. This has always been a difficulty for the pharma industry. Pharma companies should built in such a way that they are equipped with better operational facilities and abilities.
- Indian pharma companies are not getting proper profits, their earnings are basically very low as compared to their counterparts in other countries such as the US. Their income is not sufficient enough to invest money on research component.
- The pharma industry is dependent on China for the supply of raw material for generic medicines production.
- India needs user friendly government policy for the common man to establish small scale, raw material manufacturing units/ incubators in all states of the country to improve availability of raw materials to manufacture generic drugs at affordable rates.
- The government and industry should facilitate the pharmacist community to become entrepreneurs and promote incubators' establishment.
- Raw material produced from small scale units should be properly validated in the testing laboratory of the state to ascertain their quality specifications.
- There is a need for a functional testing laboratory in every state to fasten the work of specification of raw materials.
- Small scale produces may be re-processed in another industry or via a chain of industry for quality products that can be used for parenteral/ tailor-made formulations.

- Skilled manpower from academic institutions can be achieved through continuing education programmes.
- High 'Out of Pocket (OoP) expenditure – It is limiting the access to medicines wherein, that Indian Insurance section does cater to patients in IP, and not in OP (Out Patient scenario), that causes quite a dent.
- Pricing of patented drugs - To improve access of such medicines to the common man's reach, the Government of India should have a robust procurement plan for these products, at a well-negotiated price, for supply through government hospitals and dispensaries. It will enable a breather and ease to patients, which in the country is yet to see truly.
- Spurious Medicine - Fake versions of high value and/or high volume brands of the pharmaceutical companies in India are adversely affecting their business performance posing another major challenge, more than that it gives a negative Impact to the end consumer and a huge health hazard.
- Talent Pool - In India, the demand for these services has outstripped supply. There is a huge shortfall in 'Healthcare Manpower' of the country, right from Pharmacists, Nurses and Doctors and related.
- Public and government pressure to make drug prices more affordable – Indian pharmaceutical Industry is facing a pressure from both government and the civil society to make generic medicines more affordable for a large section of the population of the country. Pharmaceutical companies, including the government ones, see a scope for further reduction of prices for essential medicines in India.
- Dependence on China- Despite being a leading supplier of high-quality medicines to several countries, Indian pharmaceutical industry is highly dependent on China for pharmaceutical raw materials.These raw materials are called the Active Pharmaceutical Ingredients (API), also known as bulk drugs. Indian drug-makers import around 70% of their total bulk drug requirements from China.In the past decade, India's import of Active

Pharmaceuticals Ingredients (APIs) and advanced intermediates – which are used for manufacturing formulations has grown rapidly.India now depends on China fully for these ingredients to make not only advanced drugs but also essential medicines like paracetamol, metformin, aspirin and a range of antibiotics such as ciprofloxacin and amoxicillin.

Road Ahead

Medicine spending in India is projected to grow 9-12% over the next five years, leading India to become one of the top 10 countries in terms of medicine spending. Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers, which are on the rise.

The Indian Government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

12.6 INFORMATION TECHNOLOGY INDUSTRY

Introduction

The global sourcing market in India continues to grow at a higher pace compared to the IT-BPM industry. India is the leading sourcing destination across the world, accounting for approximately 55% market share of the US$ 200-250 billion global services sourcing business in 2019-20. Indian IT & BPM companies have set up over 1,000 global delivery centres in about 80 countries across the world.

India has become the digital capabilities hub of the world with around 75% of global digital talent present in the country.

The government played a limited, almost non-existent role in the inception of India's IT industry. This is in contrast with the experience of many other

countries (like Ireland, Israel and Taiwan) where government played an active role in the development of the IT industry during the initial period of 1970s. In fact, Rafiq Dossani alleges that in India, the State did not just neglect the industry in the initial phases of development, it was actively 'hostile' towards it. The fundamentals that instead drove the software industry were two: "(a) a cadre of engineers, educated over the previous decades in the best engineering colleges of the country, who had limited opportunities in India. Many left India to study or work in developed countries, including a majority of graduates from IITs, but there were enough working in India's stagnant engineering industries who were available to join the initiatives of the US-educated returnees when they started the industry; and (b) entrepreneurs who were returnees of US engineering colleges, and who received the support of local conglomerates to set up their businesses".

The State remained hostile to the software industry through the 1970s. Import tariffs were high (135 per cent on hardware and 100 per cent on software). Moreover, software was not recognised as an 'industry and thus exporters were not eligible for bank finance. This automatically ruled out the participation of small firms and conglomerates became the industry's dominant players and Mumbai (the commercial capital of the country) became the centre of business. In fact, seven of the top eight exporters in 1980 were headquartered in Mumbai with 90 per cent market share. As far as the background of the founders is concerned, some were from pioneering firms such as TCS and Patni and many had an American education.

Revolutionary changes in technology in the mid-1980s opened up immense possibilities in the IT sector. The programming could now be done anywhere in the world by programmers whose only raw material, apart from a workstation, was a specified software system, that is, the programmers did not need to know which firm's hardware the programmers would work on and even the type of application the programme was intended to support. Meanwhile, important changes started taking place in the government policy.

Recognising the importance of the IT sector, the government started

abandoning its statist and protectionist stance and announced incentives for the development of the IT sector. The most important step in this regard was the announcement of the New Computer Policy (NCP) in 1984. The main objectives of this policy were as follows:

(i) enabling manufacturing in the country of computers, based on the latest technology, at prices comparable with international levels, and progressively increasing indigenisation, consistent with economic viability; (ii) simplifying existing procedures to enable users to obtain computers meeting their requirements, either from indigenous sources or from overseas, such acquisition being mainly regulated through fiscal measures; and (iii) promoting appropriate applications of computers which are of development catalysing nature, with due regard to longterm benefit of computerisation to the country as a whole. To broaden the production base, a number of incentives were given such as: (i) reduction in duty on certain raw materials for production of peripherals; (ii) liberal imports of know-how and design, drawings, for the production of computers, computer-based systems and peripherals; and (iii) reduction in duty on peripherals not indigenously available.

NCP 1984 announced a package of reduced import tariffs on hardware and software (reduced to 60 per cent); recognised software exports as a 'delicensed industry' (i.e., eligible for bank finance but not subject to the restrictive licensing policy regime); permitted the foreign firms to set up wholly-owned, export dedicated units; and promised the setting up of a chain of software parks that would offer infrastructure at below-market costs. In 1985, income from all exports (including software exports) was exempted from income tax.

The first software technology park under NCP 1984, with assured supply of electricity and telecommunications bandwidth, was located at Bangalore. As noted by Rafiq Dossani, Bangalore had certain advantages vis-à-vis Mumbai like a small-firm culture, low labour costs, and relative freedom from trade union influences. Moreover, it is located at the centre of the four southern States of Karnataka, Tamil Nadu, Andhra Pradesh and Kerala, which together produced 52 per cent of India's engineering graduates at the time. Bangalore was the site

of the elite Indian Institute of Science (ISC) and several of the State's 'national champions' in IT were located in Bangalore and contained a trained labour force. Accordingly, many top IT firms over time shifted to Bangalore and, propelled by the better infrastructure, enabling environment, and the presence of top IT firms, many new IT firms made Bangalore their base. Software Technology Parks of India (STPT) were later set up in many other important cities like Hyderabad, Pune, Noida, Mohali (Chandigarh), Gandhinagar, Mumbai, Chennai, Mysore, Jaipur, Indore, Thiruvananthapuram, Bhubaneshwar, Kolkata etc. These centres provide singlewindow interface and High Speed Data Communication (HSDC) facility to the software exporters.

Substantial policy reforms continued throughout 1990s and 2000s. Import tariffs were reduced to near zero level and foreign participation allowed and telecommunication facilities expanded on a considerable scale. In addition, technological changes during this period, particularly the Internet, led to a sharp decline in data storage and transmission costs. Internet Service Providers (ISPs) were permitted to set up international gateways and Submarine Landing Station in the country. They were also allowed to hire bandwidth on foreign satellites. This enabled increased availability of Internet bandwidth and facilitated Internet expansion in the country. National Long Distance and ISD Telecommunication Service was opened up. In order to facilitate growth of e-commerce, electronic communication through Internet and accelerate induction of IT in critical sectors of the economy, an 'Information Technology (IT) Act, 2000' was approved by the government. The Act provides a legal framework to facilitate electronic commerce and electronics transactions and aims at recognising electronic contracts, prevention of computer crimes, electronic filing/ documentation, digital signature, etc.

BPO and Call Centres. Business Process Outsourcing (BPO) services comprise data entry, data conversion, medical transcriptions, insurance claims, call centres, database services, etc. According to Nirvikar Singh, "The success of Indian firms in IT services accelerated the development of digital communications infrastructure linking India with the United States and Europe, developed and demonstrated the managerial competence of Indians, and proved

the workability of providing global-quality services from India". As the internet became ubiquitous and costs of transmitting information dropped, many US firms discovered that offshoring database management and certain other services to Indian firms made economic sense as it led to huge cost savings. India had the right mix of educated, low-cost, English-speaking and skilled workforce (including software engineers) to undertake the job. Accordingly, a number of software firms emerged in India to take advantage of these opportunities in the American markets. Indian firms started providing a range of low-cost software services to the US companies and developed offshoring' business models where a large fraction of a project, software design, development, and testing took place in low-cost India. "The result was a software boom in India with a myriad of firms designing customised software for American companies.

With the BPO going strong for the past few years, the Knowledge Process Outsourcing (KPO) - which may be called the highest level of the BPO- is still at a nascent stage of development in the country. This evolution of the market to the KPO will drive trends that will ensure very high-value service in offshoring. These opportunities in the KPO will help the Indian market climb the global value and knowledge chain.

Objectives, Targets and Thrust Areas for the Twelfth Plan

The vision and mission for electronics and IT sector for the Twelfth Plan is e-Development of India through a multi-pronged strategy. This includes promotion of e-Infrastructure creation to facilitate and fast track e-governance, promotion of software (IT-ITES) industry, building knowledge network and securing India's cyber space. The focus is on promoting manufacturing, including hardware design, building semiconductor wafer fab manufacturing facilities and strengthening R&D facilities.

In order to achieve the objectives of the Twelfth Five Year Plan, the following themes were identified: (1) e-Governance, (2) e-Learning, (3) e-Security, (4) e-Industry (electronics system design and manufacturing), (5) e-Industry (IT-ITES), (6) e-Innovation, and (7) e-Inclusion.

The overall strategy for the sector is to plan action programmes/projects for each of these themes in the Twelfth Plan, with innovation and inclusion as the fundamental paradigm in each one of them. The outlay for 'Department of Electronics and IT' in the Twelfth Five Year Plan was kept at * 40,022 crore .

The main challenge to the IT-ITES sector is increasing competition from other countries and rising protectionist sentiments in developed countries. While the EU has the highest share in computer and information services exports, followed by India and the USA, many new competitors like China, Israel and the Philippines have emerged in recent years. In the BPO sector, countries such as the Philippines, Malaysia and China in the Asian continent; Egypt and Morocco in North Africa; Brazil, Mexico, Chile and Columbia in Latin America; and Poland and Ireland in Europe are emerging as attractive destinations for voice contracts, posing a significant threat to Indian firms. According to NASSCOM, India has lost about 10 per cent market share to the rest of the world in the world BPO space, most of which is in the voice contract segment.

Not only this. Outsourcing has become a national issue in several developed countries, like the USA and UK, who are supporting the local BPO industry through various means. According to industry sources, the BPO industry in the UK employs 8,00,000 British workers and is emerging as a vital part of the economy.

In such a situation, the Indian BPO industry needs to gear up to address the challenges. According to Economic Survey 2012-13, efforts are required in the following directions: (1) information campaigns must be organised to dispel the myths and fears about outsourcing by the industry in the developed economies; (2) India should move up the value chain in software services; (3) there is an urgent need to focus on the large domestic sector where a huge opportunity exists which, if tapped, could also lead to lower costs due to scale economies; and (4) to address the rising wages in the urban BPO sector, the industry must move to rural areas (which, however, would require appropriate skill development and training in English language with American and different European accents).

Growth of the IT-BPM Sector

The size of the IT-BPM (business process management) industry has grown considerably during the period of the last two decades from $ 1.1 billion in 1995-96 to as large as $ 139.9 billion in 2016-17. A considerable part of the growth is due to the export market which increased from $ 0.6 billion in 1995-96 to $ 116.1 billion in 2016-17. In 2001-02, the total size of IT-BPM industry was $ 13.4 billion of which the export market was $ 7.6 billion (56.7 per cent) and the domestic market was $ 5.8 billion (43.3 per cent). In 2016-17, the total size of the IT-BPM industry was $ 139.9 billion of which the export market was $ 116.1 billion (83 per cent) and the domestic market was $ 23.8 billion (17 per cent). The size of the IT-BPM industry is estimated at $150-$152 billion in 2017-18 (export market is estimated at $124-$125 billion and domestic market is estimated at $26-$26.5 billion).NASSCOM has projected the IT-BPM industry to grow at 7-9 per cent in the financial year 2018-19.

The total employment in Indian IT-BPM industry in 2016-17 is estimated at nearly 39 lakh people (an addition of around 1,73,000 persons over 2015-16) and it is India's largest private sector employer. The industry comprises 16,000 plus firms that offer the complete range of services with over 4,750 start-ups.25 The IT-BPM industry is also playing a key role in promoting diversity within the industrial sector, with more than one-third women employees, a large number of foreign nationals and a greater share of employees from non-tier I Indian cities. Its contribution to GDP is estimated to have increased from 1.2 per cent in 1997-98 to nearly 9.5 per cent in 2015-16.

India's Software Export Destinations

The most important export market for India's software is USA. Its share in India's software export was as high as 66.7 per cent in 2014-15 and 64.6 per cent in 2015-16. The second most important export destination has been UK. However, the industry is steadily increasing its exposure to other geographies like Latin America and Middle East. Exports to Continental Europe in particular have witnessed steady growth. Over 600 multinational companies are known to be sourcing product development and engineering services from their centres in

India. The growing nature of responsibilities and ownership assumed by these Indiabased resources are helping India evolve into a strategic hub for R&D.

The industry has enhanced India's credibility as a business destination by creating a fundamentally new model of global 24 x 7 service delivery, forging relationship with 75 per cent of the Fortune 500 companies, generating immense savings for customers (savings from global sourcing for customers amounted to an estimated $ 20 billion to $ 25 billion in 2008) and promoting a focus on quality (65 per cent of all Capability Maturity Model Level 5 firms are based in India).

Investments/ Developments

Indian IT's core competencies and strengths have attracted significant investment from major countries. The computer software and hardware sector in India attracted cumulative foreign direct investment (FDI) inflows worth US$ 62.47 billion between April 2000 and September 2020. The sector ranked 2nd in FDI inflows as per the data released by Department for Promotion of Industry and Internal Trade (DPIIT).

Leading Indian IT firms like Infosys, Wipro, TCS and Tech Mahindra are diversifying their offerings and showcasing leading ideas in blockchain and artificial intelligence to clients using innovation hubs and research and development centres to create differentiated offerings.

Government Initiatives

Some of the major initiatives taken by the Government to promote IT and ITeS sector in India are as follows:

- In 2020, the government released "Simplified Other Service Provider" (OSP) guidelines to improve the ease of doing business in the IT Industry, Business Process Outsourcing (BPO) and IT-enabled Services.
- The Government has identified Information Technology as one of 12 champion service sectors for which an action plan is being developed. Also, the Government has set up a Rs. 5,000 crore (US$ 745.82 million) fund for realising the potential of these champion service sectors.

- As part of Union Budget 2018-19, NITI Aayog was to set up a national level programme to enable efforts in AIand leverage AI technology for developing the country.
- In the Interim Budget 2019-20, the Government announced plans to launch a national programme on AIand setting up of a National AI portal.
- National Policy on Software Products-2019 was passed by the Union Cabinet to develop India as a software product nation.

Conclusion

India is the topmost offshoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. The industry is expected to grow to US$ 350 billion by 2025 and BPM is expected to account for US$ 50-55 billion of the total revenue.

12.7 LET US SUM UP

India has shown remarkable progress in industrial development in recent time. Industries like IT, pharma and automobile have vast employment and income generation opportunities , to fully utilize the potential of these industries is the need of hour.

12.8 EXAMINATION ORIENTED QUESTIONS

Q.1 What are the main problems faced by iron and steel industry in India, also mention remedial steps taken by govt. of India.

Q.2 What is the market size and scope of pharmaceutical industry in India. Also mention challenges being faced by pharmaceutical Industry.

UNIT-4: CURRENT PROBLEMS OF SELECTED INDUSTRIES

M.A. Economics	**Lesson-13**
Course No. 409	**Unit-4**

STRUCTURE:

13.1 Introduction

13.2 Objective

13.3 Industrial sickness

13.4 Government policy with regard to Industrial sickness in India

13.5 Industrial policy for development of small scale Industry after 1991

13.6 Problems of small scale Industry.

13.7 Let Us Sum Up

13.8 Examination oriented questions.

13.1 INTRODUCTION

This lesson focuses on industrial sickness, Industrial sickness specially in small scale industry has been always a demerit for the Indian economy, because more and more industries like cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem. The problem of sickness in industries has become very acute in India. It has adversely affected the 'health' of the industrial sector in particular and the economy in general. In the present chapter, we propose to discuss this problem in detail and its remedial measures.

13.2 OBJECTIVE

Objective of this lesson is to get insight into problem of industrial sickness, its overview, extent, impact, causes and remedial measures.

13.3 INDUSTRIAL SICKNESS

Definition of industrial sicknessaccording to SICA, 1985

Prior to the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985, there was no unanimity regarding the definition of industrial sickness. Reserve Bank of India, term lending institutions and State Bank of India all defined sick industries in different ways. However, enactment of the Sick Industrial Companies (Special Provisions) Act, 1985, settled the issue. According to this Act, a sick unit was defined as an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year." In December 1991, public sector companies were also brought under the purview of the Act. The 1992 amendment (introduced in February 1994) altered the criterion somewhat: firms only need to be registered for five years, and the criterion of cash losses for two successive years was eliminated.

SSI Sector. As far as small-scale sector is concerned, that small-scale industrial unit was considered to be sickthat had: (a) incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and erosions on account of cumulative cash losses to the extent of 50 per cent or more of its peak net worth during the last five years and/or (b) continuously defaulted in meeting four consecutive instalments of interest or two-half yearly instalments of principal on term loan and there were persistent irregularities in the operation of its credit limits with the bank. While both (a) and (b) were required to be satisfied in the case of larger small-scale units, it was to suffice if either alternative (a) or (b) was satisfied in the case of tiny and decentralised sector units.

Definition According to Companies (Second Amendment) Act, 2002 and Companies Act, 2013

The definition of a sick industrial company was changed by the Companies (Second Amendment) Act, 2002. According to this Act, "sick industrial company" means an industrial company which has: (i) accumulated losses in any financial year which are equal to 50 per cent or more of its average net worth during four years immediately preceding such financial year; or (ii) failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company.

This shows that the definition of a sick industrial company was considerably modified by the 2002 amendment as (1) requirement of 5 years existence was now not required, which was required earlier, (2) accumulated losses exceeding 50 per cent of average net worth during last four years was deemed to be sufficient to classify a company as sick, and (3) alternative criteria of failing to repay its debts to the creditor within 9 months of the demand made by him was added. Any one of the criterion (2) or (3) mentioned here was sufficient to classify an industrial company as sick.

Companies Act, 2013 states that "where on demand by the secured creditors of a company representing 50 per cent or more of its outstanding amount of debt, the company has failed to pay the debt within a period of 30 days of the service of the notice of demand or to secure or compound it to the reasonable satisfaction of the creditors, any secured creditor may file an application to the Tribunal

in the prescribed manner alongwith the relevant evidence for such default, non-repayment or failure to offer security or compound it, for a determination that the company be declared as a sick company." As is clear, the process of declaring a unit as sick has now been considerably eased. The focus is now on outstanding amount of debt which is easy to determine rather than on accumulated losses, and the time period has been reduced to 30 days.

SSI sector. On November 1, 2012, Reserve Bank of India issued a notification to define sickness of micro and small enterprises (MSEs) and a

procedure for assessing their viability. According to this notification, “An MSE is considered sick when any of the borrowal account of the enterprise remains NPA (non-performing asset) for three months or more or there is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth”. The stipulation that the unit should have been in commercial production for at least two years has been removed by RBI. According to the RBI, the new definition of sickness of MSEs would enable early detection of sickness and timely action for their revival.

Earlier, there was no stipulated time frame for deciding the viability of a unit. However, now the decision on viability of the unit should be taken at the earliest but not later than three months of becoming sick under any circumstances. RBI has also laid down the procedure for declaring a unit unviable.

MAGNITUDEOFSICKNESS

The problem of industrial sickness has grown over the years and a large number of industrial units in the small-scale sector and non-small-scale sector are affected by it. For instance, the total number of sick/weak units in the large and medium sector was 2,269 at end-March 1990 and this number rose to 4,454 at end-March 2008 (data for later period are not available). Outstanding bank credit against these units rose from 6,926 crore to 32,283 crore over the period. The total number of sick/weak units in the smallscale sector was 2,18,828 at end-March 1990 and outstanding bank credit against these units was 2,427 crore. The number fell to 85,591 at end-March 2012 but outstanding bank credit rose to * 6,790 crore. As stated earlier, Reserve Bank of India revised the definition of sickness for MSE units in November 2012. In accordance with this definition, the total number of sick/weak small-scale units was as high as 4,80,280 as at end-March 2016 and outstanding bank credit against these units was as high as 32,674 crore. In addition to the problem of widespread industrial sickness, another serious problem is that a large number of sick units are non-viable.

CAUSESOFINDUSTRIAL SICKNESS

Causes of industrial sickness are usually divided into two categories: (i) external and (ii) internal. The former include factors which originate outside the

unit and, therefore, are not under the control of the unit such as power cuts, demand (or market) recession, erratic availability of inputs, government policies, etc. The latter include factors which originate within the unit and can, therefore, be said to be under the control of the unit such as production, management, finance, etc.

External Causes

1. **Power cuts.** A large number of industrial units face power cuts from time to time. These power cuts are imposed by the State governments as the generation of power is considerably below its actual requirements. Drought situation during some years in a number of States further aggravates the problem and acute power shortages result in frequent power cuts.

2. **Erratic supply of inputs.** Some units depend on scarce raw materials whose supply is erratic. This results in disturbing the production schedule causing losses to the unit. This often happens in the case of units depending upon the supply of imported inputs. Insufficient availability of transport facilities (like shortage of wagons, etc.) can also upset the supply schedule of inputs.

3. **Demand and credit restraints.** At times, recession in the market causes a steep decline in the demand resulting in unsold stocks and losses to individual units. Products with high prices, for example, tractors, trucks, buses, cars, etc. depend for their sustained demand on easy availability of credit to purchasers. If credit restraints are imposed so that the purchasers are not able to arrange finance, the demand for these products is bound to suffer. This is likely to leave the manufacturers with unsold stocks inflicting losses on them. If this situation persists for quite some time, the producing units are prone to turn sick.

   This problem can emerge in a serious way for ancillary units. If the demand of the principal buyer of the output of ancillary units falls due to any reason whatsoever, these units are put in a precarious position. They are bound to turn sick and may even face closure.

4. **Government policy.** Sudden changes in the government policy relating to imports, exports, industrial licensing, taxation, etc. can make viable units sick overnight. For instance, liberal import policy for a particular product can inflict serious damage on the domestic units producing similar/ substitute products. The very existence of these domestic units is likely to be threatened particularly if theimported product is cheaper and is of a better quality ascompared to their products. In a similar way, granting of liberal licences to big industrial houses in the production lines reserved exclusively for the small-scale sector is bound to affect the prospects of the units in the latter sector adversely. The opening up of the internal market to foreign competition in recent years in line with India's commitments to the World Trade Organisation (WTO) is making it difficult for many industrial units to survive. The most difficult problems are being faced by the small-scale industries who are now facing tough competition from cheap imports (particularly from China) on the one hand, and from largescale industries (due to dereservation) on the other hand.

Internal causes

1. **Faults at the planning and construction stage.** Faults can occur at the planning and construction stage itself. The first fault can be the wrong location of an industrial unit. If the place where the unit has been set up lacks infrastructural facilities, the unit is likely to face difficulties. The second fault can be the absence of market analysis. Some small-scale entrepreneurs plunge into production without bothering to find out the market potential of their product and this pushes them into difficulties later. At times, these small units do not 'planproduction properly. Some units start with an unbalanced capital structure, some underestimate the project cost while some spend recklessly on unproductive assets. In all these cases, either the implementation of the small-scale project is delayed or production is started under severe handicaps. A slight disturbance in the normal functioning of these units is sufficient to disturb their "balance and turn them into sick units.

2. **Defective plant and machinery.** Many entrepreneurs in the small-scale sector do not seek professional and technical guidance from competent authorities in choosing correct machinery. If the plant and machinery finally selected and installed by them turns out to be defective, their units are bound to suffer losses and will, in all probability, turn sick.

   Not only this. At times, the technology adopted by the entrepreneur is obsolete and inappropriate. Production with the help of such technology is bound to be inferior in quality as compared to the production using modern and appropriate technology. Units employing obsolete and inappropriate technology are also likely to suffer a cost and price disadvantage vis-à-vis units employing modern technology.

3. **Financial problems.** A number of units face acute financial problems right from the stage of planning and construction to the stage of implementation and beyond. The equity base of many small-scale units is very weak and slight disturbances in the market put them under acute financial strain. Often small-scale units borrow from banksand financial institutions but are unable to meet the repayment schedules. The burden of unpaid debt accumulates and they turn sick. In some cases, lack of support from banks causes a failure of small-scale units as the banks insist on 'proven performance' either to restore working capital limits or to enhance existing limits.

4. **Entrepreneurial incompetence.** Many persons setting up small-scale units are 'incompetent entrepreneurs' in the sense that they do not possess basic technical knowledge of the product they intend manufacturing, lack basic business acumen, do not know the costing of their products, have no knowledge of business accounts, marketing etc. No wonder then that units set up by such people turn sick.

5. **Management problems.** The most important internal cause of sickness is management problems. Faulty managerial decisions in the fields of production, marketing, finance, personnel management etc. can ruin a business. For instance, lack of inventory and materials management,

inadequate attention towards maintenance management (leading to frequent breakdowns and consequent lower capacity utilisation), absence of quality control systems etc. are some examples of mismanagement in the sphere of production. Insufficient sales promotion activities and improper pricing policies can create problems in the field of marketing. Inefficient use of working capital can cause financial mismanagement. Faults in personnel management include improper wage, increment and promotion policies, lack of manpower planning and bad industrial relations.

6. **Labour problems.** In some cases, acute labour problems have resulted in strikes, lockouts and even closure of industrial units. These problems may emanate from differences with management over the issue of wages, bonus, suspensions and retrenchment, inter-union rivalry, etc. If not tackled in time satisfactorily, such problems can cause sickness.

CONSEQUENCES OF INDUSTRIALSICKNESS

In a planned and underdeveloped labour surplus economy like India, industrial sickness can have serious consequences as would be clear from the discussion below:

1. **Set-back to employment prospects.** India is a labour surplus economy where avenues of employment are very much restricted in relation to the number of people seeking employment. Accordingly, closure of an industrial unit is likely to render workers unemployed. The implications are likely to be particularly serious if the sick industrial unit is a large one employing a large number of people (say, for instance, a huge cotton textile mill).

2. **Fear of industrial unrest.** Closure of a sick industrial unit (particularly if it is a large one) not only causes substantial unemployment, it also causes widespread labour unrest. Trade unions of other industries are likely to oppose retrenchment of labour of the closed unit and resort to widespread industrial strikes. The peace and tranquility of the industrial environment will be threatened resulting in industrial losses and setback to production in a number of units.

3. **Wastage of resources.** Resources are scarce in an underdeveloped economy and if an industrial unit turns sick and is closed down on this account, resources invested in that unit are wasted. This problem is particularly serious for large-scale sick units where substantial investments have been made in plant and machinery. Stoppage of production in these units not only results in a decline in production of the industry as a whole, it also implies the blocking up of valuable savings and capital equipment.

4. **Adverse impact on related units.** Frequently, an industrial unit is linked up with a number of other industrial units through backward and forward linkages. Therefore, sickness in one unit is likely to affect adversely a number of other units. For instance, iron and steel industry is linked up with a number of other industries via backward and forward linkages. Accordingly, sickness in a large unit manufacturing iron and steel is likely to have adverse repercussions on a number of other units.

5. **Adverse effect on investors and entrepreneurs.** Closure or liquidation of a large sick unit creates a psychology of despair amongst investors. The share price of that unit will tumble down and the prevalence of gloomy market conditions can adversely affect the entire stock market. Not only this. Failure of a unit acts as a disincentive to other entrepreneurs who were planning to launch production in the same lines. Such industrial climate is not conducive for industrial development.

6. **Losses to banks and financial institutions.** Closure of industrial units causes substantial financial losses to banks and financial institutions which had granted loans to these units to set up their plant and machinery and commence production. Locking up of funds in the sick units also affects adversely the future lending programmes of banks and financial institutions as shortage of resources emerges. Data given earlier show that the amount of bank credit outstanding against the large and medium sick industrial units amounted to a staggering 32,283 crore at end-March 2008. The amount of bank credit outstanding against the small-scale sick industrial units touched 32,674 crore at end-March 2016. While banks and financial

institutions do initiate legal proceedings against defaulters after givingthem reasonable time for repayment, the recovery of overdues takes a very long time and, in some cases, the recovered amount falls short of actual overdues.

7. **Loss of revenue to government.** The Central, State and local governments raise substantial revenue from industrial units by way of various levies. Therefore, sickness in industrial units results in loss of revenue to these levels of government.

13.4 GOVERNMENT POLICY WITH REGARD TO INDUSTRIAL SICKNESS IN INDIA

On account of the above consequences of industrial sickness, it was for long regarded as a 'social problem'in our country. Accordingly, various concessions and incentives were offered to sick units to help them regain their health' and stand on their feet once again. Some of the measures undertaken for the revival and rehabilitation of sick industrial units were as follows:

1. **Steps taken by banks.** The commercial banks granted various concessions to sick industrial units like: (i) grant of additional working capital facilities to overcome the shortage of working capital faced by such units; (ii) recovery of interest at reduced rates; (iii) suitable moratorium on payment of interest; (iv) freezing a portion of the outstanding in the accounts, etc. A number of steps were also undertaken on the organisational front like: (i) setting up a sick industrial undertakings cell in Reserve Bank of India to function as a clearing house for information relating to sick units and to act as a coordinating agency between the government, banks, financial institutions and other agencies for tackling the various related issues; (ii) setting up of State level inter-institutional committees at all the regional offices of the Department of Banking Operations and Development of the Reserve Bank of India for ensuring better coordination between the banks, State governments, Central and State level financial institutions and other agencies; (iii) constitution of a

standing coordination committee by Reserve Bank to consider the issues relating to coordination between commercial banks and term-lending institutions on an ongoing basis and (iv) setting up of a special cell within the rehabilitation finance division of Industrial Development Bank of India for attending to references from banks in respect of their sick and problem areas. As regards the small-scale industries, Reserve Bank issued guidelines to the banks with a view to ensuring that the potentially viable sick units in small-scale industries sector receive due attention and timely support.

2. **Policy framework of the government.** The policy framework in respect of measures to deal with the problem ofIndustrial Sickness was laid down in the guidelines issued in October 1981 (which were subsequently modified in February 1982) for guidance of administrative ministries of the Central government, State governments, and financial institutions. Under these guidelines, the administrative ministries in the government were given specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charge. They were required to monitor sickness and coordinate action for revival and rehabilitation of sick units. The financial institutions were asked to strengthen the monitoring system so that timely corrective action could be taken to prevent incipient sickness. To restore the sick unit to 'health,' the financial institutions could even consider assuming managerial responsibility. However, where the banks and financial institutions felt that a sick unit cannot be revived, they could deal with their outstanding dues to the unit in accordance with the normal banking procedures. Before doing so, they were required to report the matter to the government who was then to decide whether some measures (like nationalisation or workers' participation in management) could revive the unit. If the government decided to nationalise the unit, its management could be taken over under the provisions of the Industries (Development and Regulation) Act 1951, for a period of six months to enable government to take necessary steps for nationalisation. The government could also consider

steps such as restructuring, merger with healthy units etc. to rehabilitate the sick unit. Where revival did not seem possible, the government could denotify the unit resulting in its closure.

3. **Concessions by government.** Certain concessions were also provided by the government to assist revival of sick units without intervention. For instance, the Income Tax Act was amended in 1977 by addition of Section 72A which provided for the grant of tax benefit to healthy units when they took over the sick units by amalgamation with a view to reviving them. On January 1, 1982, a scheme for provision of margin money to sick units in the small-scale sector at soft terms was introduced to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme. This was followed by the introduction of a liberalised margin money scheme in June 1987 to supplement the efforts of the State governments in reducing sickness in the small-scale sector. In October 1989, the government announced a scheme for the grant of excise loan to sick/weak industrial units. Under this scheme, selected sick units were eligible for excise loan not exceeding 50 per cent of the excise duty actually paid for 5 years.

4. **Steps for detecting sickness early.** Importance of detecting sickness in incipient stage is crucial as correctivesteps can then be taken early and well in time. With this end in view, the Reserve Bank advised banks to take necessary remedial steps in respect of industrial units which do not come under the purview of Sick Industrial Companies (Special Provisions) Act, 1985, at the stage of 50 per cent erosion of their net worth. The Reserve Bank has also closely monitored certain specific industries where sickness is more widespread

5. **The Industrial Investment Bank of India.** The government established the Industrial Reconstruction Corporation of India (IRCI) with a view to reviving and rehabilitating sick units. The authorised capital and paid-up capital of IRCI were * 25 crore and 2.5 crore, respectively. Its share capital was subscribed by IDBI, IFCI, ICICI, LIC, State Bank of India

and commercial banks. It also received a 10 crore interest free loan from the Government of India. Functions assigned to IRCI were as follows: (i) to provide financial assistance to sick industrial units; (ii) to provide managerial and technical assistance to sick industrial units; (iii) to secure assistance of other financial institutions and the government agencies for ensuring the revival and rehabilitation of sick industrial units; (iv) to provide merchant banking services for amalgamation, merger etc.; and (v) to provide consultancy services to banks in matters relating to sick industrial units.

By a notification issued on March 20, 1985, the government converted the IRCI (which was a company registered under the Companies Act) into a statutory corporation and it was given the name Industrial Reconstruction Bank of India (IRBI) with a view to overcoming the inherent difficulties which had been faced by the IRCI in its efforts to rehabilitate sick industrial units. IRBI was reconstituted into a full-fledged all-purpose development financial institution with effect from March 27, 1997 and its new name is Industrial Investment Bank of India Ltd. (IIBI).

6. **Board for Industrial and Financial Reconstruction.** In terms of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the Government of India set up the Board for Industrial and Financial Reconstruction (BIFR) in January 1987 (which became operational on May 15, 1987) for determining the preventive, ameliorative, remedial and other measures which were required to be taken in respect of sick industrial companies and for expeditious enforcement of the measures determined. Industrial companies whose net worth had been eroded completely and those which had net worth eroded by 50 per cent or more were required to make a reference to the BIFR under Sections 15 and 23 of the Act, respectively. While references received under Section 15 were required to be enquired into, there was no such requirement in respect of references received under Section 23. Public sector enterprises were brought within the purview of BIFR through an amendment of the Sick Industrial Companies (Special Provisions) Act in December 1991.

The Board could, if it deemed necessary, require by order, an operating agency to enquire into and make a report with respect to such matters as may be specified in the order. In case where sickness was confirmed, BIFR was asked to determine the course of action to be followed with regard to the company. This course of action could be: (a) allowing the company time on its own, i.e., as per the scheme already initiated by the banks/institutions to make its net worth positive within a reasonable period; (b) having a scheme prepared through the operating agency in respect of the company; or (c) deciding on the winding up of the company

The subject matters that could be covered were wide ranging and the powers of the Board extended to the framing of the scheme of amalgamation and reconstruction, financial and otherwise. Where the scheme related to preventive, remedial and other measures with respect to any sick industrial company, the scheme could provide for financial assistance by way of loans, advances, guarantees, reliefs or concessions from official agencies. Where the Board after making enquiry and after consideration of all the relevant facts felt that it was just and equitable for the sick industrial company to wind up its operations, it could record and forward its opinion to the concerned High Court.

The working of BIFR has been a subject of much debate and criticism. This is due to the reason that there are considerable delays in the BIFR process. In many cases, the delay can extend to two years or even more. Such inordinate delays make it very difficult for a sick company (which already reports negative net worth on the current definition of SICA) to turnaround successfully and rehabilitate itself. The Committee on Industrial Sickness and Corporate Restructuring which submitted its Report in July 1993 stated that the quasi-judicial nature of BIFR proceedings further compounded the problems as it depends on consensus at almost all stages. "Consensus gives any claimant the right to veto, and implies that the BIFR process can be only as fast as the slowest party. The Committee also noted the absence of credible threats' to expedite negotiations and criticised BIFR for its clear preference for rehabilitation over winding up.

PROVISIONS OF COMPANIES ACT,2013 FOR REVIVAL AND REHABILITATION OF SICK COMPANIES

Determination of Sickness

Section 253 of Companies Act, 2013 states that "where on a demand by the secured creditors of a company representing 50 per cent or more of its outstanding amount of debt, the company has failed to pay the debt within a period of 30 days of the service of the notice of demand or to secure or compound it to the reasonable satisfaction of the creditors, any secured creditor may file an application to the Tribunal in the prescribed manner alongwith the relevant evidence for such default, non-repayment or failure to offer security or compound it, for a determination that the company be declared as a sick company." The company on its own may also file an application to the Tribunal for declaring it as a sick company. The Central government or State government or Reserve Bank or public financial institution or State level financial institution or scheduled bank, if it has sufficient reasons to believe, may also make a reference to the Tribunal to declare a company as a sick company

Section 253 also provides that on the receipt of application under the above clause, the Tribunal shall within a period of 60 days determine whether the company is a sick company or not.

Application for Revival and Rehabilitation

Section 254 provides that on the determination of a company as a sick company by the Tribunal, any secured creditor of the company may make an application to the Tribunal for the determination of measures for its revival or rehabilitation. An application shall be accompanied by audited financial statements of the company and a draft scheme of revival and rehabilitation of the company alongwith the stipulated fee.

Appointment of Interim Administrator

Section 256 provides that, on the receipt of an application under Section 254, the Tribunal shall fix a date of hearing not later than 90 days from the date of the receipt of the application, and appoint an interim administrator to convene

a meeting of creditors of the company to ascertain whether it is possible to revive and rehabilitate the sick company. In case, no draft scheme is filed by the company, the Tribunal may direct the interim administrator to take over the management of the company to protect and preserve the assets of the sick company and for its proper management.

Order of Tribunal

Section 258 states that on consideration of the report of the administrator filed under Section 256, if the Tribunal is satisfied that the creditors representing three-fourths in value of the amount outstanding against the sick company have resolved that

(a) it is not possible to revive and rehabilitate the company,the Tribunal shall record such opinion and order that the proceedings for the winding up of the companybe initiated; or

(b) by adopting certain measures the sick company maybe revived and rehabilitated, the Tribunal shall appoint a company administrator for the company and cause such administrator to prepare a scheme of revivaland rehabilitation of the sick company.

Sanction of Scheme.

Section 262 provides that the scheme prepared by the company administrator will be placed before the creditors of the company. If the scheme is approved by them, the company administrator shall submit it before the Tribunal for sanctioning the scheme. On the receipt of the scheme, the Tribunal after satisfying itself that the scheme has been validly approved, pass an order sanctioning the scheme. The Tribunal may review any scheme or it may also direct the company administrator to prepare a fresh scheme. The sanction accorded by the Tribunal shall be conclusive evidence and a copy of the sanctioned scheme shall be filed with the Registrar by the sick company within a period of 30 days.

Implementation of Scheme

Section 264 seeks to provide that the Tribunal, for effective implementation of the scheme, may authorise the company administrator to implement a sanctioned scheme.

The section also provides that where the whole or substantial assets of the undertaking of the sick company are sold under a sanctioned scheme, the sale proceeds shall be applied towards implementation of the scheme in such manner as the Tribunal may direct. Where it is difficult to implement the scheme, an application may be made before the Tribunal for modification of the scheme or to declare the scheme as failed and requesting that the company may be wound up.

Winding up of the Company

Section 265 states that if the scheme is not approved by the creditors in the manner specified, the company administrator shall submit a report to the Tribunal within 15 days and the Tribunal shall order for the winding up of the sick company.

Rehabilitation and Insolvency Fund

Section 269 seeks to provide that a Fund called the Rehabilitation and Insolvency Fund shall be formed for the purposes of rehabilitation, revival and liquidation of the sick companies. There shall be credited to the Fund

(a) the grants made by the Central government for thepurposes of the Fund

(b) the amount deposited by the companies as contributionto the Fund

(c) the amount given to the Fund from any other source;and

(d) the income from investment of the amount in theFund.

Acompany which has contributed any amount to the Fund may make an application to the Tribunal for withdrawal of funds not exceeding the amount contributed by it, for making payments to workmen, protecting the assets of the company or meeting the incidental costs during proceedings. The Fund shall be

managed by an administrator to be appointed by the Central government in such manner as may be prescribed.

INSOLVENCY AND BANKRUPTCYCODE 2016

Insolvency is a situation where individuals or companies are unable to repay their outstanding debt. It may be resolved by changing the repayment plan of the loans, or writing off parts of the debt. If insolvency cannot be resolved, assets of the debtor may be sold to raise money and repay the outstanding debt.

Prior to the adoption of the Insolvency and Bankruptcy Code 2016, there was no single umbrella legislation governing insolvency and bankruptcy proceedings in India. Instead, there was a slew of legislations governing the legal framework like the Companies Act 2013, the Sick Industrial Companies (Special Provisions) Act 1985, the Recovery of Debt Due to Banks and Financial Institutions Act 1993, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002, etc. Multiple legislations and multiple agencies created confusion and delays. Therefore, a need for long was felt for a single legislation to tackle all issues pertaining to insolvency and bankruptcy. This is what the Insolvency and Bankruptcy Code introduced by the Finance Minister in Parliament on December 21, 2015 seeks to accomplish. The Code was passed by Lok Sabha on May 5, 2016 and received the assent of the President on May 28, 2016. It is considered to be a giant leap forward in terms of streamlining India's somewhat scatteredinsolvency laws into a single piece of legislation which governs bankruptcy and insolvency for all debtors, including companies, unlimited liability partnerships, limited liability partnerships (LLPs), individuals and other entities (as and when notified by the government). The new Bankruptcy Bill attempts to create a formal insolvency resolution process for businesses, either by coming with a viable survival mechanism or by ensuring their speedy liquidation. The Bill envisages a new regulator – the Insolvency and Bankruptcy Board of India. Bankruptcy law reform is regarded by the government as a key priority for improving ease of doing business in India.

Corporate Insolvency Resolution Process

Resolving an insolvency case usually took more than four years on an average in India. With projects getting stuck, the Indian banking system has, thus, been burdened with bad loans, curtailing its lending capability. The Bill aims to resolve insolvencies and the recovery of dues in a time-bound manner. It states that the resolution process for companies and LLPs must be completed within 180 days of submission

For body corporates, the resolution process may be initiated by way of an application by the debtor body corporate or a creditor to the adjudicating authority which is the NCLT (National Company Law Tribunal) constituted under Companies Act, 2013 in the case of individuals and unlimited liability partnership firms, the adjudicating authority is the Debt Recovery Tribunal).

The resolution process begins with a public announcement of the process, after which an interim insolvency resolution professional is appointed by the adjudicating authority. The debtor must submit a resolution plan to the insolvency resolution professional with details of how it will pay for the resolution process and repay operational creditors. The adjudicating authority will then pass an order accepting or rejecting the resolution plan.

Liquidation and Distribution of Assets

If the adjudicating authority rejects the debtor's resolution plan as part of the corporate insolvency resolution process, it will order the liquidation of the debtor and appoint a liquidator to take charge of the debtor's assets and affairs.

After an extensive valuation of all the claims against the debtor, the code calls for the distribution of the debtor's assets in the following manner: (i) insolvency resolution process costs; (ii) dues owed to secured creditors;(iii) dues owed to workers for a 12-month period preceding the date on which liquidation was commenced; (iv) dues owed to other employees who are not workers for a 12-month period preceding the date on which liquidation was commenced; (v) dues owed to unsecured creditors; (vi) dues owed to any State government or Central government; (vii) dues owed to a secured creditor for any unpaid amount

following enforcement of the security; (viii) any remaining debts; (ix) preference shareholders; and (x) equity shareholders or partners.

Bankruptcy

In the event that the adjudicating authority does not accept the insolvency resolution process or if the debtor fails to adhere to its repayment schedule, the debtor or creditor may jointly or individually apply to have the debtor declared bankrupt before the adjudicating authority. In this case, a bankruptcy nominee will be appointed after which the adjudicating authority will pass a bankruptcy order. Once the bankruptcy order is passed, the bankrupt's estate will be vested in the bankruptcy nominee, administered and distributed to the creditors in accordance with the provisions made in the code.

Observers argue that in the earlier framework, disputes between debtors, creditors and other stakeholders went unresolved - meaning companies were often shut down without dues being paid, and their assets were allowed to depreciate wastefully, unused. Sometimes, assets were stripped by unscrupulous promoters while creditors and employees just looked on. In some cases, debt-ridden corporations did not get a chance to work their way out of trouble. The Insolvency and Bankruptcy Code, 2016, is aimed to solve all these problems. It will allow investors to exit from failing projects and initiatives in a time-bound manner and without locking up funds in endless legal battles. The Bankruptcy Code is expected not only to improve ease of doing business in India, but also ensure a better and faster debt recovery mechanism in the country.

13.5 INDUSTRIAL POLICY FOR DEVELOPMENT OF SMALL SCALE INDUSTRY AFTER 1991

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India

New Small Enterprise Policy, 1991

The government announced a policy package for small, tiny and village industries in August 1991 with the primary objective of imparting more vitality and growth impetus to this sector. Important measures announced in this policy were as under:

1. The investment limit for tiny units was raised from 2 lakh to 5 lakh (this limit was raised to 25 lakh in February 1997). Moreover, the locational restrictions were done away with. This opened up the way for tiny units within the new investment limit and located in bigger towns (population of more than 50,000) to become a part of the "tiny' group. In addition, while earlier on 'industry' meant, by and large, manufacturing, the new policy widened the scope to include industry-related service and business enterprises. This, according to Sandesara, is more realistic. Like in many other countries, now our country has a 'small business policy' and not a 'small industry policy.

2. The 1991 policy proposed a separate package for the promotion of tiny enterprises. While these enterprises were to receive various types of support on a continuing basis, other (non-tiny) small enterprises were to be mainly entitled to one-time benefits (like preference in land allocation/ power connections, access to facilities for skill/technology upgradation). The philosophy underlying this seemed to help the tiny units to grow faster upto a certain limit (with assistance), after which they were expected to generate their own momentum of growth, so that less frequent assistance would then suffice.

3. The third major change related to equity participation. The 1991 policy provided for equity participation by other industrial units in the small-scale units not exceeding 24 per cent of the total shareholding. This is expected to prove mutually beneficial both to large units and the small, especially ancillary units, and further cement the economic bonds between the two sectors. This provision not only relievesthe small units of the burden of full equity funding, but also builds up the stakes of large units in the survival and growth of small units.

4. The fourth important feature was the introduction of a new legal form of organisation of business, namely, restricted or limited partnership. In this form, the liability of at least one partner is unlimited, whereas other partners have their liability limited to invested capital. This is a welcome provision. It was introduced to attract equity capital from friends and relatives of the small-scale entrepreneurs who may like to help their kith and kin but who were earlier reluctant due to unlimited liability in the partnership form.

5. Some other features of the policy were: (i) The policy provided for according priority to the tiny sector in the government purchase programme; (ii) The small and tiny sector was to be accorded priority in allocation of indigenous raw materials; and (iii) The policy proposed a scheme of integrated infrastructure development for small industries to facilitate location of industries in rural and backward areas and to promote stronger coordination between industry and agriculture. The scheme was formally launched in March 1994 and Integrated Infrastructure Development Centres (IIDCs) set up.

Comprehensive Policy Package 2000 and Recent Policy Measures

A comprehensive policy package for the small-scale sector was announced by the Prime Minister on August 30, 2000. The main elements of this package were: (1) Conducting the third census of small-scale industries; (2) raising the exemption for excise duty limit from Rs 50 lakh to Rs 1 crore to improve the competitiveness of smallscale sector; (3) providing credit linked capital subsidy of 12 per cent against loans for technology upgradation in specified industries; (4) raising the limit of investment in industry related service and business enterprises from Rs 5 lakh to 10 lakh; (5) raising the limit of composite loans from 10 lakh to 25 lakh; etc.

The Third Census of the small-scale sector (covering both registered and unregistered units) was conducted during the year 2001-02. This has provided valuable information regarding the SSI sector. Other important steps undertaken in recent years are as follows:

1. **Raising of investment limit**. The investment limit for the SSI sector which was 1 crore prior to 2006 has been raised to 5 crore in MSMED Act, 2006. This has been done to facilitate technological upgradation of this sector so that it is able to compete effectively in the new global competitive industrial environment.

2. **Credit Guarantee Fund Scheme for micro and small enterprises**. The government launched the Credit Guarantee Fund Scheme for Small Industries (now renamed as Credit Guarantee Fund Scheme for Micro and Small Enterprises) in August 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to 100 lakh (later raised to 200 lakh) without collateral/third party guarantees. For making the scheme more attractive to both lenders as well as borrowers, several modifications have been undertaken in recent years.

3. **Scheme for technology upgradation**. To encourage technology upgradation, a Credit Linked Capital Subsidy Scheme for technology upgradation has been launched. Under this scheme, 15 per cent capital subsidy is admissible on loans upto 1 crore, advanced by scheduled commercial banks/State Finance Corporations/National Small Industries Corporation to small-scale industries for technology upgradation.

4. **Extension of IID**. The Integrated Infrastructure Development (ID) scheme has been extended to cover the entire country with 50 per cent reservation for rural areas.

5. **Market Development Assistance**. A flexible growth stimulating and artisan-centric scheme named Market Development Ass tance (MDA) to promote production and sales of khadi and polyvastra has been introduced from 2010-11. The scheme provides for assistance up to 20 per cent of the value of production to be shared among artisans, producing institutions, and selling institutions in the ratio 25 : 30 : 45.

6. **Dereservation.** In recent years, the government has been following the policy of dereservation as it believes that this will help the SSIs units to upgrade their technology and improve the quality of their products. As a

result of this policy, the number of items reserved for the SSI sector came down from 836 in July 1989 to 114 in March 2007 and subsequently to only 20 items. Vide Notification dated April 10, 2015, the government announced the scrapping of the reservation list. Thus, all items have now been dereserved. According to Rakesh Mohan, the irony is that starting around 2001, as a consequence of WTO commitments, almost all these items could be imported freely: large enterprises abroad could export them freely to India, but similar large enterprises in India were not allowed to manufacture them.7

7. **Credit delivery to SSI Sector**. To ensure credit delivery to the SSI sector, a number of steps have been undertaken in recent years: (i) the composite loan limit has been raised from * 50 lakh to * 1 crore; (ii) the limit of collateral free loans has been raised from 15 lakh to 25 lakh in case of SSI units with a good track record; (iii) LaghuUdyami Credit Card (LUCC) scheme has been liberalised by enhancing the credit limit from * 2 lakh to * 10 lakh, for borrowers having a satisfactory track record; (iv) the Small and Medium Enterprises (SME) Fund of * 10,000 crore was operationalised by the SIDBI (Small Industries Development Bank of India) since April 2004. Eighty per cent of the lending from this Fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR (prime lending rate) of the SIDBI. The government has also announced a policy for doubling of credit flow to the small and medium enterprises sector in a period of five years.

   As a result of all these efforts, there has been a considerable expansion of bank credit to the small-scale sector in recent years. As at the end of March 2017, the amount of credit outstanding against micro and small industries in the case of public sector banks was 7,420 billion which was 13.9 per cent of ANBC (adjusted net bank credit) of 53,297 billion. As a proportion of total priority sector advances, credit outstanding against micro and small industries as at end-March 2017 was 36.3 per cent. 8

8. **Pradhan Mantri Mudra Yojana (PMMY).** The Government has initiated

the Pradhan Mantri Mudra Yojana for development and refinancing activities relating to micro industrial units. The purpose of Micro Units Development and Refinance Agency (MUDRA) is to provide funding to the non-corporate small business sector. The government has also set up the MUDRA Bank. Loans extended under the Pradhan Mantri Mudra Yojana (PMMY) during 2016-17 crossed the target of 1.8 lakh crore. Of this amount, 1.23 lakh crore was lent by banks while non-banking institutions lent about 57,000 crore. In December 2017, total number of borrowers were 10.1 crore, out of which 7.6 crore were women.

9. **Enactment of MSMED Act, 2006**. Micro, Small and Medium Enterprises Development (MSMED) Act was enacted in 2006. It provides the first-ever legal framework for recognition of the concept of "enterprises" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium. 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. Other important provisions of the Act are: (i) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises; (ii) notification of schemes/ programmes for the purpose; (iii) progressive credit policies and practices; (iv) preference in Government procurements to products and services of the micro and small enterprises; (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises; and (vi) simplification of the process of closure of business by all three categories of enterprises.

10. **National Manufacturing Competitiveness Programme (NMCP).** The Government has launched National Manufacturing Competitiveness Programme (NMCP) for MSMEs, which has specific components that are aimed at enhancing the competitiveness and productivity of the enterprises in this sector so as to withstand global and organised competition and to thrive through better technologies and skills. The ten

components of the NMCP seek to introduce the best elements of industrial competitiveness in the MSME sector, which has been often unable to afford such practices and techniques. These ten components are the following: (i) Building Awareness on Intellectual Property Rights for MSMEs; (ii) Scheme for providing Support for Entrepreneurial and Managerial Development of SMEs through Incubators; (iii) Enabling the Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools (QMS/QTT); (iv) Mini Tool Rooms under PPP mode; (v) Marketing Assistance Support to MSEs (Bar Code); (vi) Lean Manufacturing Competitiveness Programme for MSMEs; (vii) Promotion of Information and Communication Tools (ICT) in the Indian MSME Sector; (viii) Design Clinics Scheme for MSMEs; (ix) Marketing Assistance and Technology Upgradation Scheme for MSMEs; and (x) Technology Quality Upgradation Support to MSMEs.

11. **MSE – Cluster Development Programme.** The Ministry of Micro, Small and Medium Enterprises (MSMEs) initiated selected interventions in industrial clusters first in 1998 through its scheme 'Integrated Technology Upgradation and Management Programme' (UPTECH). In August 2003, the scheme was renamed as Small Industry Clusters Development Programme (SICDP) and was broad-based for holistic and integrated development of micro and small enterprises through interventions such as capacity building marketing development, export promotion, skill development, technology upgradation, exposure visits, etc., and setting up of common facilities. The scheme was renamed as Micro and Small Enterprises Cluster Development Programme (MSE - CDP) and the Integrated Infrastructural Development (IID) Scheme of the Ministry was subsumed under MSE CDP with its existing funding pattern in August 2007. The guidelines of the MSE Cluster Development Programme were comprehensively modified in 2010 to provide higher support to the MSEs. To ensure transparency and speedy implementation of the MSE CDP, office of the Development Commissioner, MSME has started an online application system from April 1, 2012.

12. **Prime Minister's Employment Generation Programme (PMEGP).** The Government introduced a new employment generation credit link subsidy scheme tilted Prime Minister's Employment Generation Programme (PMEGP) in August 2008, for setting up micro enterprises in rural and urban areas by merging two existing employment generation programmes of the Ministry namely Prime Minister's Rozgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) with a total plan outlay of 4,735 crore.

13. **Public Procurement Policy**. The government has notified a Public Procurement Policy for goods produced and services rendered by Micro and Small Enterprises (MSE) order, 2012 effective from April 1, 2012. The policy mandates that all the Central Ministries Departments/Central Public Sector Undertakings (CPSUs) shall procure a minimum of 20 per cent of their annual value of goods/ services required by them from MSEs. Further, policy has earmarked a sub-target of 4 per cent procurement out of this 20 per cent from MSEs owned by scheduled castel scheduled tribe (SC/ST) entrepreneurs.

14. **Udyog Aadhaar Memorandum (UAM).** The UAM scheme was notified in September 2015 with the objective of promoting ease of business for MSMEs. Under the scheme, MSME entrepreneurs just need to file an online entrepreneurs' memorandum to instantly get a unique Udyog Aadhaar Number (UAN). The information sought is on selfcertification basis and no supporting documents are required. This is expected to make a significant improvement over the earlier complex and cumbersome procedure.

15. **A Scheme for Promoting Innovation and Rural Entrepreneurs (ASPIRE).** ASPIRE was launched on March 16, 2015 with the objective of setting up a network of technology centres and incubation centres to accelerate entrepreneurship and promote start-ups for innovation and entrepreneurship in rural and agriculture-based industry.

    Eleventh Five Year Plan provided an outlay of 11,500 crore for MSME

(Micro, Small and Medium Enterprises) sector. The production of micro and small enterprises (MSE) sector was targeted to increase at a compound annual rate of 15.4 per cent while employment was targeted to increase at a compound annual rate of 4.0 per cent. Outlay for the MSME sector was kept at 26,014 crore in the Twelfth Plan (2012-17). The objectives for the MSME sector in the Twelfth Plan were as follows: (i) promoting competitiveness and productivity in the MSME space; (ii) making the MSME sector innovative, improving technology and depth; (üi) enabling environment for promotion and development of MSMEs; (iv) strong presence in exports; and (v) improved managerial processes in MSMEs.

According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes i.e. Manufacturing Enterprises and Service Enterprises.

Criteria	Manufacturing		Service	
	Turnover	Investment	Turnover	Investment
Micro	Rs. 5 crore	Less than Rs. 25 lakh	Rs. 5 crore	Less than Rs. 10 lakh
Small	Rs. 50 crore	More than Rs. 25 lakh)	Rs. 50 crore	More than Rs. 10 lakh but less than Rs. 2 crore
Medium	Rs. 250 crore	More than Rs. 5 crore	Rs. 250 crore	More than Rs. 2 crore but does not exceed Rs. 5 crore

In a recent development under Atmanirbhar Bharat New definition of MSME has been introduced .Low threshold in the MSME definition have created a fear among the MSMEs of graduating out of the benefits. Hence, the government has revised the definition of MSME by raising the investment limit. An additional criteria of turnover has been introduced and distinction between manufacturing and service sector stands removed.

Revised MSME Classification			
Composite Criteria: Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment less than ₹ 1 crores and Turnover less than ₹ 5 crores	Investment greater than ₹ 1 crores & less than ₹ 10 crores and Turnover greater than ₹ 5 crores & less than ₹ 50 crores	Investment greater than ₹ 10 crores & less than ₹ 20 crores and Turnover greater than ₹ 50 crores & less than ₹ 100 crores

Source: Ministry of MSME.

Recent Government Policies

The Government of India has designed various policies for the growth of MSMEs in the country:

- After the announcement of Atam Nirbhar Abhiyan Package announcement (May13,2020), there were several representations that the announced revision is in not tune with market & pricing conditions & it should be further revised upwards. Keeping in mind these representations, it was decided to further increase the limit for the medium manufacturing &service units. For medium sector it will be Rs.50crore of investment &Rs. 250 crore of turnover. It has also been decided that turnover with respect to exports will not be counted in the limits of the turnover for any category of MSME units whether micro, small or medium.This is another step towards ease of doing business&will help attracting investment & creating more jobs in MSME sector.
- To provide reliable measures and set benchmark to boost and strength the MSME sector in India, TransUnion (is website of CIBIL) CIBILis an agency for calculating credit score i.e repayment of instalments)CIBIL, (credit information bureau India ltd i.e credit core)in partnership with the Ministry of Statistics &Programme Implementation (MoSPI), launched the MSME Credit Health Index on November 2, 2020.

- In October 2020, the Ministry of MSME in a major initiative onboarded the latest IT tools of Artificial Intelligence (AI) and Machine Learning (ML) for providing assistance and solutions to the Micro, Small, and Medium Enterprises (MSMEs). The ministry has implemented AI & ML on its robust Single Window System 'Champions', which was launched by the Prime Minister Mr. Narendra Modi on June 1, 2020.
- In September 2020, the Government of India constituted five ministerial task forces to make India's MSMEs future-ready and formulate a concrete strategy towards making the country a leading exporter.
- Udyog Aadhaar Memorandum: Udyog Aadhaar Memorandum (UAM) is a one-page online registration system for MSMEs based on self-certification. The information sought is on a self-certification basis and no supporting documents are required at the time of online filing of UAM.
- MSME DataBank: MSME DataBank enables the Ministry of MSME to streamline and monitor the schemes and pass on the benefits directly to MSMEs. It is helpful for MSME units that can update their enterprise information as and when required without visiting any government office and updating information about their products/services. Until May 2019, more than 6.1 lakh MSMEs registered in the databank.
- My MSME: In order to facilitate the enterprises to enjoy benefits of various schemes, the MSME office launched a web-based application module in the form of a mobile app called My MSME. This allows enterprises to make their applications and check for schemes on their mobile phone using the app.
- MSME Sampark: Launched in 2018, the MSME Sampark portal is a digital platform wherein jobseekers and recruiters can register themselves for mutual beneficial interactions.
- Digital Payment: As part of the Digital India initiative, the Ministry of MSME has taken numerous initiaves to digitally enable the entire MSME ecosystem all MSME offices have been digitally empowered, efforts have

been taken to spread awareness on the benefits of digital mode of payment such as BHIM, UPI and Bharat QR Code.

To encourage local production, the government is working on policies to increase MSME exports and lower imports. In addition, Rs. 200 crore (US$ 28.4 million) scheme has been sanctioned to set up 12 technology centres, which are expected to be completed by 2021.

Road Ahead

The Government of India has envisioned to double the Indian economy to US$ 5 trillion in five years. In order to achieve this goal, career opportunities for the young population has been generated and MSMEs have the potential to serve as a key employment generator. Therefore, the government has taken up promotion of MSMEs in order to create new jobs in the sector. Further, the government aims to enhance MSME's share in exports and its contribution to GDP.

In order to achieve these targets, the government should invest in providing more back-end services to improve performance of the MSME sector as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R&D activities are bottlenecks hindering the sector to become competent. Globally available technology could be subsidised by the government so that the product quality of MSME players can be improved using the existing resources. This also requires the help of academic institutions in the form of providing research and development (R&D) services for product innovation.

13.6 PROBLEMS OF SMALL SCALE INDUSTRY IN INDIA

Small scale industries play a vital role in the economic development of our country.

This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc .Small Scale

Industries do not enjoy much of the advantages enjoyed by large scale enterprises because of their nature and size. Though they have made significant contribution to economic development, they have not realized their full potential. They face many problems in their functioning and many Small Scale Industries are sick.

The government had reserved certain items for exclusive production by Small Scale Industries. Large scale enterprises were not allowed to produce the items which were reserved for the SSI sector. With the opening up of the economy and following the principles of liberalization and globalization, many items have been successively De-reserved. Therefore Small Scale Industries have to now counter the twin forces of competition from Indian large scale enterprises as well as foreign competitors.

Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

Problems faced by Small Scale Industries

The following are the problems faced by Small Scale Industries:

1. **Poor capacity utilization**

   In many of the Small Scale Industries, the capacity utilization is not even 50% of the installed capacity. Nearly half of the machinery remains idle. Capital is unnecessarily locked up and idle machinery also occupies space and needs to be serviced resulting in increased costs.

2. **Incompetent management**

   Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

   Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required

to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

3. Inadequate Finance

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function proper ? in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them.

Many Small Scale Industries face the problem of scarcity of funds. They are not able to access the domestic capital market to raise resources. They are also not able to tap foreign markets by issuing ADR's (American Depository Receipts) GDR's (Global Depository Receipts) etc because of their small capital base. Banks and financial institutions require various procedures and formalities to be completed. Even after a long delay, the funds allocated are inadequate.

Bank credit to the small scale sector as a percentage of total credit has been declining. It fell from 16% in 1999 to 12.5% in 2002. Small Scale Industries are not able to get funds immediately for their needs. They have to depend on private money lenders who charge high interest. Finance, as a whole, both long and short term, accounts for as large as 43% of the sector's sickness.

4. **Raw material shortages**

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect t e functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

Raw materials are not available at the required quantity and quality. Since demand for raw materials is more than the supply, the prices of raw materials are quite high which pushes up the cost. Scarcity of raw materials results in idle capacity, low production, inability to meet demand and loss of customers.

5. **Lack of marketing support**

Small Scale Industries lack market knowledge with regard to competitors, consumer preferences, market trends. Since their production volume is small and cannot meet demand for large quantities their market is very restricted. Now with the process of liberalization and globalization they are facing competition from local industries as well as foreign competitors who sell better quality products at lower prices. For e.g. heavily subsidized but better quality imports from China has made most of the Indian SSI units producing toys, electronic goods, machine tools, chemicals, locks and paper etc., unviable.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

6. Problem of working capital

Many Small Scale Industries face the problem of inadequate working capital. Due to lack of market knowledge their production exceeds demand, and capital gets locked in unsold stock. They do not have enough funds to meet operational expenses and run the business.

7. Problems in Export

They lack knowledge about the export procedures, demand patterns, product preferences, international currency rates and foreign buyer behavior. Small Scale Industries are not able to penetrate foreign markets because of their poor quality and lack of cost competitiveness. In countries like Taiwan, Japan etc. products produced by Small Scale Industries are exported to many foreign countries. But in India not much thought and focus has gone into improving the export competitiveness of Small Scale Industries.

8. Lack of technology up-gradation

Many Small Scale Industries still use primitive, outdated technology leading to poor quality and low productivity. They do not have adequate funds, skills or resources to engage in research and development to develop new technologies. Acquiring technology from other firms is costly. Therefore Small Scale Industries are left with no choice but to continue with their old techniques.

9. Multiplicity of labor laws

One of the merits of Small Scale Industries are that they are labor intensive

and can provide employment to a large number of people. But the multiplicity of labor laws, need to maintain several records (PF, ESI, Muster Rolls etc), fines and penalties for minor violations etc place Small Scale Industries at a great disadvantage.

10. Inability to meet environmental standards

The government lays down strict environmental standards and Courts have ordered closure of polluting industries. Small Scale Industries which are already facing shortage of funds to carry out their business are not able to spend huge sums on erecting chimneys, setting up effluent treatment plants etc.

11. Delayed payments

Small Scale Industries buy raw materials on cash but due to the intense competition have to sell their products on credit. Buying on cash and selling on credit itself places a great strain on finances. The greater problem is payments are delayed, sometimes even by 6 months to one year. It is not only the private sector but even government departments are equally guilty. Delayed payments severely impact the survival of many Small Scale Industries.

12. Poor industrial relations

Many Small Scale Industries are not able to match the pay and benefits offered by large enterprises, because their revenues and profitability are low and also uncertain. This leads to labor problems. Employees fight for higher wages and benefits which the SSI is not able to provide. This may lead to strikes, resulting in damage to property in case of violence by employees, production losses etc.

13. Strain on government finances

Marketing of products manufactured by Small Scale Industries is a problem area. The government has to provide high subsidies to promote sales of products produced by Khadi and Village Industries. This places a great strain on government finances.

14. Concentration of industrial units

There is high concentration of small scale industrial units in a few states. Of the estimated 1.37 million registered units as on 2020-21, nearly 35% were located in three states. Uttar Pradesh, Tamil Nadu and Kerala alone account for 35% of Small Scale Industries. Due to concentration, there is high competition among them to procure raw materials and other industrial inputs. This leads to high costs and scarcity of raw materials and other inputs affecting their production and increasing costs.

15. Inadequate dispersal

One of the objectives of the government in promoting Small Scale Industries was to increase industrial development and employment opportunities throughout the country. Since nearly 60% of the Small Scale Industries are concentrated in few states, the objective of balanced regional development and promotion of backward areas has not been achieved. Further majority of Small Scale Industries are located in urban areas and the aim of industrial development in rural areas has also been defeated.

16. Widespread sickness

Sickness among Small Scale Industries is widespread. Sickness is not detected in the initial stages and large amount of funds are locked in them. Due to this new entrepreneurs are not able to get loans, workers in the sick units lose their jobs and industrial and economic development is affected.

17. Lack of awareness

The government has set up many organizations to support and provide assistance to Small Scale Industries. But, many of the entrepreneurs running Small Scale Industries are not aware of the various support services.

18. Government interference

Small Scale Industries have to maintain a number of records and there

are endless government inspections. A lot of time, money and effort is wasted in complying with various inspections and records verification. This prevents Small Scale Industries from fully concentrating on their business activities.

19. Skilled manpower

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc.Theselabour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

13.7 LET US SUM UP

This lesson gave insight about the problem of industrial sickness and the risk associated with it. If India wants to utilize its potential manpower than it has to focus on its Industries. Sick units must be revived through proper planning mechanism. Problems and policy related to MSME's is another aspect we studied about in this lesson. MSME's hold good proportion of India's exports, employment, output and income generation. This sector is facing greater threat post liberalization due to arrival of big companies. However, these MSME's must be protected as they hold strategic importance in a country like India.

13.8 EXAMINATION ORIENTED QUESTIONS

Q.1 How industrial sickness is defined in India. What are the remedial measures adopted for the revival of sick units in India.

Q.2 What are the problems faced by small scale industries in India.

Q.3 Critically explain Industrial policy for development of small scale industry after 1991 in India.

UNIT-4: CURRENT PROBLEMS OF SELECTED INDUSTRIES

M.A. Economics **Lesson-14**
Course No. 409 **Unit-4**

STRUCTURE:

14.1 Introduction

14.2 objective

14.3 Industrial policy of jammu and Kashmir of 2016

14.4 Growth and development of Industrial sector in Jammu and Kashmir

14.5 Let Us Sum Up

14.6 Examination oriented questions

14.1 INTRODUCTION

The aim of this lesson is to gain familiarity with industries in jammu and Kashmir, policy as well as its growth and development .

14.2 OBJECTIVE

The objective of this lesson is to know about policy of industrial development in jammu and Kashmir its implication and critical analysis. Also, we will focus on growth and development of industrial sector in jammu and Kashmir.

14.3 INDUSTRIAL POLICY OF JAMMU AND KASHMIR OF 2016

The new State Industrial Policy-2016 aims to attract substantial investment in industry for production of goods and services and employment generation through optimal utilization of the available resources including human resources. Concurrently the policy also gives attention to the traditional cottage industries namely handicrafts and handlooms to ensure economic upliftment of the artisans. weavers and traders ,the sector in which age old traditions and craftsmanship is available in the State.While creating an enabling work environment for industrial development, the policy emphasizes on pollution and environmental safe guards to ensure ecological stability and sustainable development. The new Policy has been formulated after thorough discussion with all the stakeholders and having concurrence of the Finance, Planning and Development, Power Development, Forest and Law, Justice and Parliamentary Affairs Departments. most forward looking steps have been incorporated in the new policy to ensure ease of doing business to achieve the targets of "Make in India programme".

Vision

Achieve Sustainable. Equitable. Environment friendly and Balance Industrial Growth leading to creation of employment opportunities for the local skilled and educated youth, income generation and overall economic development of the state .

Objectives

i) Industrial development of all the three regions of the State with focus onemployment generation.

ii) Encourage utilization of the locally available raw materials and mineralresources.

iii) Promote labour intensive cottage industries in the traditional sectors (Handicrafts and Handlooms) to provide gainful employment to a largenumber of skilled and unskilled labour.

iv) Promote the growth of thrust industries and encourage Hi-Tech andknowledge-based industries including Electronics and InformationTechnology

v) Promote Human Resources Development (HRD) and Technical Educationfor creation of a pool of skilled/technical manpower,

vi) Encourage eco-friendly and environmentally sustainable industrial growththrough green industries, adoption of green technologies, use of pollution control devices and equipment and simultaneously enforce regulation as per laws and rules.

Duration

The State Industrial Policy 2016 shall remain in operation for ten years from the date of its adoption to 31st March, 2026.

Policy Targets

In line with the defined policy objectives, the Industrial Policy -2016 sets out the following targets:

i) To increase the share of ‘manufacturing, services and trade sectorin Gross State Domestic Product (GSDP).

ii) To attract an investment of atleast Rs. 2.000 crore per annum in theindustrial sector (including services)

iii) To create over 15,000 direct and indirect employment opportunities annually for the unemployed/educated youth.

iv) To create industrial infrastructure in the form of Industrial GrowthCentres/ Estates activity specific industrial parks, upgradation of theexisting Industrial Estates and Industrial Growth Centres.

v) To achieve (i) to (iv) above, the Power Development Departmentwould initiate steps to provide additional 150 MW power to the Industrial area every year. The Industries & Commerce Department would assist the power development department in taking reform measures in the industrial estates and mobilizing resources for developing required infrastructure.

Strategies

i) Creation of a land bank for development of well provided industrial estates and industry specific industrial parks, clusters, growth centresetc in Public Sector and through PPP.

ii) Providing improved infrastructure and support services with emphasis on regular and uninterrupted power supply, Telecom/Internet connectivity within the existing and new industrial estates /parks / growth centres, logistics, warehousing etc.

iii) Ease of Doing Business through simplification of procedures and rules across various departments.

iv) Attractive financial incentives of the State Government and that of the Special Central Package coupled with prompt sanction and timely disbursement of the said incentives.

v) Enabling manufacture of quality consistent products through brand promotion, modernization and quality certification.

vi) Suitable steps for establishment of Green Corridor/Inland Container Depot/ Rail Freight Corridors.

vii) Environmental protection to conform to the state and national standards by encouraging setting up of green industries and adoption of green technologies.

viii) Entrepreneurship training and Human Resource Development for capacity building of the educated unemployed youth.

ix) Encouraging Research & Development (R&D) for industrial applications.

x) Inviting reputed industrial houses and potential investors from within and outside the State to promote the State as an ideal investment destination. Road shows and Expos within and outside the state to attract investment particularly in Large, Prestigious and Mega projects. Also, to seek assistance from Industry Associations like FICCI, ASSOCHAM, CII,

PHD. Chamber of Commerce and Industry etc for promotion of industrial investment in J&K.

xi) Special focus on setting up of area-and-activity-specific Industrial clusters like Food Parks, IT/ITES, Electronics and HiTech Parks, Export Processing and Export Promotion Parks, Textile Clusters, Handicraft/ Handloom Clusters, Pharmaceutical Clusters etc.

xii) Apex Committee under the Chief Secretary, High Level Monitoring Committee - (HLMC) under the Administrative Secretary of Industries and Commerce for ease of doing business and the State Industrial Advisory Committee (SIAC) under the Hon'ble Chief Minister will be utilized to sort out problems of industry and also to suggest measures/interventions for attracting investment, creating a robust manufacturing base and to drive economic growth in the State. Decisions of the Apex Committee and SIAC shall be binding on every department of the government.

Zoning of the State based on the extent/degree of industrial development in different Districts.

Zone-A

a) Srinagar, Budgam, Pulwama, Gandarbal, Baramulla andAnantnag in Kashmir region.

b) Jammu, Udhampur, Samba and Kathua in Jammu region.

Zone-B

a) Kulgam,Shopian ,Bandipora, & Kupwara in Kashmir region.

b) Reasi, Ramban, Doda, Kishtwar, Rajouri and Poonch in Jammu region.

c) Leh and Kargil in Ladakh region.

Land Bank

The State Industrial Policy-2016 envisages to attract investment of Rs 20,000 crore in the industrial sector over a period of 10 years upto 2026. Since availability of adequate land is a pre-requisite for setting up of industry, it is

envisaged to create a Land Bank of about 20,000 kanals across the state with emphasis on locations outside the urban areas. For this purpose available state land suitable for industry shall be got transferred to the Industries & Commerce Department.

GI Certification

Consumer products can, sustain themselves only if they adopt an intelligent marketing strategy and build up a Brand of their own. In order to help such manufacturers, who are operating in highly competitive markets, the Government shall provide assistance for GI Certification in Handicraft and Handloom sector.

Entrepreneur and Skill Development Fund

An entrepreneur and skill development fund shall be created for incorporating entrepreneurial skills to the local youths for sustained industrial growth in the state.

Environment Protection and Green Initiatives

An important part of the new Industrial Policy will be to encourage environment protection through setting up of Green industries and adoption of Green technologies. Incentives schemes would be available to such units/projects which undertakes to install online pollution control devices to be monitored by the Pollution Control Board. Similarly, industrial units will be encouraged to utilize Renewable energy. Preference in land allotment and additional incentives subject to the prescribed upper ceilings will be admissible for all such projects using renewable energy.

Special attention shall be paid to environment protection by way of installation of Effluent Treatment Plants (ETPs), hazardous waste management systems, zero discharge processes, energy conservation measures, solid waste disposal plants, recycled water utilization and dense plantation. Installation of such plants under PPP mode shall be encouraged with grant of incentives as are applicable under the policy or as may be prescribed.

Allotment of Land

Land available in the Land Bank after its development by SICOP/SIDCO etc shall be allotted to the entrepreneurs on first come first serve basis. The Director, Industries & Commerce/ General Manager, DIC shall consider the request for allotment of land and determine the size of the plot to be allotted as per latest guidelines in Ease of Doing Business . The Committee shall ensure that the size of the plot allotted is not more than what is required for the unit.

The land so allotted shall be on lease basis for a period of 90 years (initially for a period of 40 years, renewable at the option of Lessor for a further period of 40 years at a time provided that maximum period of lease shall in no circumstances exceed 90 years)

Other features

- A procedure has been laid out in the "Ease of Doing Business" for registration of industrial units within a time-bound manner through e-governance interface.
- "This includes online processing of business proposals, self certification, establishment of green corridor at Lakhanpur, delegation of powers and time bound clearances from other departments including Power Development Department and State Pollution Control Board (SPCB).
- The new policy will enable creating business-friendly environment in the state through "Ease of Doing Business" which will facilitate the investors to establish Industrial Units and pave way for the establishment of mega units including that of 'Electronic City' in the state.
- The policy targets to attract an investment of over Rs 2000 crore per annum and create annually 15,000 direct and indirect employment opportunities through upgradation and creation of infrastructure and establishment of new industries.
- It also targets creation of land bank of 2500 acres across the state, zoning of districts in the state based on the extent/degree of industrial

development in different districts, besides supply of additional 150 MW power every year.

- For the revival of sick industrial units, setting up of an "Asset Reconstruction Company" in partnership with J&K Bank has been envisaged.
- To facilitate the investors, an Investment Facility Cell has been constituted at SIDCO and SICOP.
- "Entrepreneurship and Skill Development Fund has been created for skill development of entrepreneurs. Environmental protection through setting up of Green Industries and adoption of Green Technologies has been incorporated in the Policy.
- The policy proposes setting up of Industrial Grievance Forums to speedily sort out grievances and solve interdepartmental issues faced by entrepreneurs.

New Industrial Development Scheme for Jammu & Kashmir (J&K IDS, 2021)

The Cabinet Committee on Economic Affairs chaired by Prime Minister Shri Narendra Modiin its meeting considered and approved the proposal of Department for Promotion of Industry and Internal Trade for Central Sector Scheme for Industrial Development of Jammu & Kashmir. The scheme is approved with a total outlay of Rs. 28,400 crore upto the year 2037.

Government of India has formulated New Industrial Development Scheme for Jammu & Kashmir (J&K IDS, 2021) as Central Sector Scheme for the development of Industries in the UT of Jammu & Kashmir. The main purpose of the scheme is to generate employment which directly leads to the socio economic development of the area. Considering the historic development of reorganization of Jammu & Kashmir with effect from 31.10.2019 into UT of Jammu & Kashmir under the J&K Reorganisation Act, 2019, the present scheme is being implemented with the vision that industry and service led development of J&K needs to be given a fresh thrust with emphasis on job creation, skill development and

sustainable development by attracting new investment and nurturing the existing ones.

The following incentives would be available under the scheme:

1. **Capital Investment Incentive** at the rate of 30% in Zone A and 50% in Zone B on investment made in Plant & Machinery (in manufacturing) or construction of building and other durable physical assets(in service sector) is available. Units with an investment upto Rs. 50 crore will be eligible to avail this incentive. Maximum limit of incentive is Rs 5 crore and Rs 7.5 crore in Zone A & Zone B respectively

2. **Capital Interest subvention**: At the annual rate of 6% for maximum 7 years on loan amount up to Rs. 500 crore for investment in plant and machinery (in manufacturing) or construction of building and all other durable physical assets(in service sector).

3. **GST Linked Incentive**: 300% of the eligible value of actual investment made in plant and machinery (in manufacturing) or construction in building and all other durable physical assets(in service sector) for 10 years. The amount of incentive in a financial year will not exceed one-tenth of the total eligible amount of incentive.

4. **Working Capital Interest Incentive**: All existing units at the annual rate of 5% for maximum 5 years. Maximum limit of incentive is Rs 1 crore.

Key Features of the Scheme:

1. Scheme is made attractive for both smaller and larger units. Smaller units with an investment in plant & machinery upto Rs. 50 crore will get a capital incentive upto Rs. 7.5 crore and get capital interest subvention at the rate of 6% for maximum 7 years

2. The scheme aims to take industrial development to the block level in UT of J&K, which is first time in any Industrial Incentive Scheme of the Government of India and attempts for a more sustained and balanced industrial growth in the entire UT

3. Scheme has been simplified on the lines of ease of doing business by bringing one major incentive- GST Linked Incentive- that will ensure less compliance burden without compromising on transparency.

4. Scheme envisages greater role of the UT of J&K in registration and implementation of the scheme while having proper checks and balances by having an independent audit agency before the claims are approved

5. It is not a reimbursement or refund of GST but gross GST is used to measure eligibility for industrial incentive to offset the disadvantages that the UT of J&K face

6. Earlier schemes though offered a plethora of incentives. However, the overall financial outflow was much lesser than the new scheme.

Major Impact and employment generation potential:

1. Scheme is to bring about radical transformation in the existing industrial ecosystem of J&K with emphasis on job creation, skill development and sustainable development by attracting new investment and nurturing the existing ones, thereby enabling J&K to compete nationally with other leading industrially developed States/UTs of the country.

2. It is anticipated that the proposed scheme is likely to attract unprecedented investment and give direct and indirect employment to about 4.5 lakh persons. Additionally, because of the working capital interest subvention the scheme is likely to give indirect support to about 35,000 persons.

Expenditure involved:

The financial outlay of the proposed scheme is Rs.28,400 crore for the scheme period 2020-21 to 2036-37. So far, the amount disbursed under various special package schemes is Rs. 1,123.84 crore.

14.4 GROWTH AND DEVELOPMENT OF INDUSTRIAL SECTOR IN JAMMU AND KASHMIR

The Jammu and Kashmir UT is on the path of Industrialization despite topographical limitations. The Industries sector has been declared as the main vehicle for accelerating economic activity besides providing employment opportunities to the unemployed educated youth in the UT. To restore industrial activities and to attract investment the Govt. has come up withIndustrial Policy 2004, and industrial policy of 2016 . The Industrial Policy is designated to promote rapid industrialization and has evoked a great deal of interest in the private investment. The policy has a slew of incentives in the form of subsidies for all sorts of industries, especially for small scale industries to make them capable to compete in the present competitive market. The policy also lays emphasis on promoting industries based on local raw material and skills. The efforts are to woo industrialization across the country. A number of centrally sponsored schemes have been announced by the Govt. of India to promote Industrialization in the state. The conducive atmosphere created by the Government attract a lot of unemployed youth to set up their units. With collaborative efforts of the central govt. regarding extending the rail link up to Srinagar - Baramulla it is expected that this sector will flourish and some of the problems of permanent nature faced at present like lack of raw material and marketing facilities shall be removed to a large extent. The state Govt. is also encouraging progressive industries by way of providing sheds in the Industrial complexes/areas and organizing industrial exhibitions and arranging training to share the technical know how.

Jammu and Kashmir (J&K) is also global tourist destination. In addition to traditional recreational tourism, a vast scope exists for adventure, pilgrimage, spiritual, and health tourism.

The economy is primarily services based and agri-oriented. Between 2011-12 and 2016-17, the Gross State Domestic Product (GSDP) of J&K increased at a compound annual growth rate (CAGR) of 14.19 per cent to US$ 23.6 billion. The Net State Domestic Product (NSDP) increased at a CAGR of 9.59 per cent to reach US$ 16.5 billion in 2016-17.

A vast natural resource base has enabled J&K to develop land for cultivating major fruits. With varied agro-climatic conditions, the scope for horticulture is significantly high in the state. Food processing and agro-based industries (excluding conventional grinding and extraction units) thrive in the state. J&K has an ideal climate for floriculture and an enormous assortment of flora and fauna. The state has Asia's largest tulip garden.

J&K's handicrafts are world famous and the traditional handicraft industry has emerged as a large industry. Due to its large employment base and exports potential, the industry has been receiving priority attention of the government. The state is also famous for its small-scale and cottage industries such as carpet weaving, silks, shawls, basketry, pottery, copper and silverware, papier-mâché and walnut wood.

The following are some of the major initiatives taken by the government to promote Jammu & Kashmir as an investment destination:

- J&K's handicrafts are world famous, on the back of which, handicraft industry of the state witnessed huge growth. Handicraft exports from the state increased 8.6 per cent to US$ 177.81 million in 2016-17.
- J&K has an industrial policy that offers attractive incentives along with a single-window clearance mechanism. Land is allotted at concessional rates in industrial areas on lease for 90 years.
- In order to boost infrastructure, the government is planning to build two highways in order to provide all-weather connectivity from Jammu to the Kashmir valley. The first project of four-laning of Ramban-Banihal section of National Highway-1A (now NH-44) in Jammu & Kashmir will cost US$ 271 million.Another project is related to four-laning of Udhampur-Ramban section of National Highway. The 40.07-km road project will cost US$ 293 million. Also, the Border Roads Organization (BRO) is going to take up the upgradation of Jammu-Poonch highway into a four-lane expressway.
- The Department of Industrial Policy & Promotion (DIPP) has extended a

Special Incentive Package. This includes 100 per cent premium reimbursement under Central Comprehensive Insurance Subsidy Scheme to all units on expansion over the next five years. The DIPP also allowed capital investment subsidy of 15 per cent on investment in plant and machinery; the subsidy is applicable for five years from the date of commencement of production

- Under the 'Apple Insurance Scheme', the state government has decided to construct a chain of compressed air stores in each district of the state in order to introduce modern pre- and post-harvest technologies.
- The state has established the Jammu & Kashmir Handicrafts Sales & Export Promotion Corporation and Jammu and Kashmir State Handloom Development Corporation to promote development and growth of the handicraft sector.

Major industrial units in jammu and kashmir

Name	Investment (Rs. In Lacs)
Chenab Textile Mills	3500.00
Dabur India Limited	1448.00
Godrej Agrovet	257.00
Godrej Saralee	459.36
Berger Paints India Ltd.	3200.00
Coca Cola	6000.00
Flex Industries	9000.00
Neel Kamal Industrial Crafts	7150.00
Euro Bond India Pvt. Ltd.	2931.00
UK Paints	360.00
Reckitt Bankiser	4211.06
Cadila Pharmaceuticals	3000.00

Jai Beverages (PEPSI Group)	8100.00
Jindal Photo Limited	2184.00
Maral Overseas (Bhilwara Group)	3500.00
Ind-Swift Laboratories	1420.00
Medley Pharmaceuticals	3650.00
Vivek Pharmaceuticals	1691.00
Surya Health Care Limited	8090.00
Sun Pharma	2000.00
Ultimate Flexi Pack	6000.00
Bharat Box	2000.00
Graeur Weil India Ltd.	834.00

Small scale industry in Jammu and Kashmir

Small scale industries make up a large part of Kashmir's economy. These units manufacture food products, beverages, machinery, plastic goods, chemicals, drugs, paper products, silk, brick and tiles, cement and automobile equipment.The small scale industries sector plays a pivotal role in Jammu and Kashmir State. Besides providing employment opportunities to the unemployed youth inthe state, it also contributes to the Gross State Domestic Product (GSDP) that is, it contributes 12.55% to GSDP. The small scale industrial sector has recorded a constant growth rate. The total number of permanent registered small scale industrial units at the end of 2017-18 stood at 59899, providing employment to 295348 persons. This shows that small scale industrial sector is an important source of livelihood to the thousands and lakhs of people in the UT.

Growth of small scale industry in jammu and kashmir

Year	Number of units	Employment
1980-81	8428	42992
1990-91	29963	131164
1995-96	36821	159671
2000-01	42808	187399
2005-06	48224	219127
2010-11	53544	251551
2014-15	57788	276680
2017-18	59899	295348

7 Important Industries of Jammu and Kashmir

Some of the most important industries of Jammu and Kashmir are: 1. Silk Textile 2. Carpet-Making and Woolen Textile 3. Forest-based Industries 4. Agro-based Industries 5. Papier Mache 6. Cement Industry 7. Industrial Complexes.

Industries fall under the secondary economic activity. The industrial process involves changing the form of goods to enhance their value. To undertake the manufacture of goods, inputs in the form of capital, labour, power and raw materials are required. The output is a finished product that can either be used again as a raw material for another manufactured or consumed in its present form.

The location of an industry, thus, largely depends on the avail-ability of raw materials, minerals, power, capital, labour, infrastructure and managerial skill. The establishment of industry is also influenced by the gen-eral climatic conditions, weather, industrial inertia, historical accident and the government policy.

The state of Jammu and Kashmir, though rich in water and forest re-sources, has very few metallic mineral resources. The non-availability of iron-

ore, copper, good quality coal, petroleum and natural gas are the major constraints in the development of basic industries and manufacturing cen-tres.

Nevertheless, the Kashmiris have an age-old tradition in the manufacturing of carpets, silk textiles, shawls, raffle, woodwork and handi-crafts. In the rural areas, leather industry, oil-crushing, pottery, blacksmithy, carpentry, paper machine, willow-wicker, soap making, food processing, cricket bat and toys making are some of the important industries which pro-vide full or part-time employment to the people.

The Kashmiris have won a great reputation as artisans and were cele-brated in the old days for their skill in art manufacturing. The chief centre of Kashmiri industries is Srinagar, but other localities are also famous for their special manufactures. For example, Islamabad (Anantnag) turns out excellent embroideries; Kulgam is famous for lacquered woodwork.

Bijbahera has a reputation for its excellence in wood-carving, while the villagers of the Zainagir Circle are famed for their soft woolen cloth. Every Kashmiri seems to excel as a weaver, and the home-spun cloth woven by the villagers in the winter is highly appreciated all over the world.

Some of the important industries of the Jammu and Kashmir state have been concisely described in the following paragraphs:

1. Silk Textile:

Silk textile is one of the most ancient industries of Jammu and Kashmir state. Kashmiri silk-goods are renowned the world over for their quality, col-our and shades. There are historical evidences which prove that silk fabrics were used to be exported to Persian, Greeks and Roman empires. During the medieval period, the Mughals were the great lovers of silken clothes. They patronized this industry in the Valley of Kashmir.

According to the data of 1995-96, silk industry and its allied activities provide employment to about 2.50 lakh people and, contribute about Rs. six crores (60 million) to the income of the Jammu and Kashmir state. It also provides raw material for shawl making, carpet, gabha, namda, hosiery and embroidery

making. Moreover, it helps in the utilization of culturable waste and less productive tracts for the various activities of silk textile.

Silk textile provides employ-ment to about 3.1 lakh workers. About 85 per cent of the workers are busy in silkworm rearing and grainage. There are 1,150 skilled and unskilled workers who are employed permanently in silk textile. The modern silk factory consists of several sectors.

The basic units com-prise of:

(i) Farmers, rearing silkworms and production of cocoons,

(ii) The second unit is the manufacturing of silk fibre and cloth.

There are two silk factories in the state. One of them is located at Jammu. The Department of Sericulture Development which produces improved varieties of silkworms takes care of the mulberry trees. The Rambagh Silk Factory was established in May 1897 by Raja Ranbir Singh under the supervision of Malton.

The Rambagh Silk Factory produces about 50 thousand kg of raw silk annually. The silk production, however, fluctuates between 37,361 kg in 1982-83 to 57, 850 kg in 1991-92. The production of silk products largely de-pends on the availability of mulberry leaves, the main food of silk-worms.

There are various categories of workers in the Rambagh factory who perform different functions.

About one-third of the total workers (33.68%) are the spinners, about 23 per cent are storekeepers and about 18 per cent are the cooks. The remaining about 25 per cent workers are the cleaners, knotters and reminders (Table 9.3).

Agriculture in Jammu and Kashmir State, despite favourable geo-climatic conditions is not developing at the desired level. Apart from the vagaries of weather, competition from artificial silk is posing serious prob-lems for silk industry as the synthetic fibre is cheaper to that of pure silk fibre.

Other problems of the industry include, low productivity, and the in-ferior quality of cocoons. High cost of production, absence of marketing agency and the fluctuating demand for silk are the other serious problems of the industry.

2. Carpet-Making and Woolen Textile:

Carpet-making is one of the oldest industries in Kashmir. Kashmiri carpets are famous all over the world for their excellent designs and natural patterns. Though carpets are made in almost all the towns of the valley, their major factories are in and around the City of Srinagar.

In the manufacturing of Kashmiri carpets, the warp is drawn in cotton, while the leaves and texture, leaving a fluppy pile is done by wool, silk and synthetic fibres. The number of knots per sq cm/inch determines the quality and value of carpet, together with the quality of yarn, dye-stuff and finish. Kashmiri qaleens (carpets) are manufactured by the government undertak-ings as well as by the private manufacturers.

Some of the important carpet manufacturing centres in Srinagar are, the Cottage Industry Exposition, C.A.E. Carpet Factory, the Kashmiri Carpet Factory, the East-India Carpet Factory, the Oriental Carpet Factory and the John Carpet Factory.

In most of these factories, children and teenagers from the poor families are employed. These workers get low wages. Having inadequate nourish-ment, they work under unhygienic conditions. Consequently, their health, efficiency, literacy and education are adversely affected.

About 75 per cent of the total carpets production is exported to the countries of Middle East and North-West Europe (U.K., France, Netherland, Germany, Denmark, Italy and Belgium). Carpet export is one of the leading items of foreign exchange earners.

Carpets-making has many allied and ancillary crafts and cottage indus-tries. Namda and Gohha are the special types of woolen carpets, generally used by the Kashmiris to combat cold. Namda is a type of felt made of raw wool and cotton mixed in different proportions according to their grade and quality.

The average size of Namda is 1 m x 1.5 m. Srinagar City is the main centre of Namda manufacturing. Gabba is relatively large in size, being about 1.75 m x 2.50 m in dimension. Gabba is made of coarse wool in black, red,

yellow and green colours combinations. The Gabba of Islamabad (Anantnag) are famous all over the country and abroad.

Apart from carpet-making, there are two woolen textile factories, one each at Karan Nagar and Bemina in the City of Srinagar. The wool textile factory of Naushahra (Srinagar) procures fine quality of raffle, utilized mainly for shawl making. Woolen hosiery goods are produced in the Jammu City. About 900 workers are engaged in the woolen textile industry in the state, fetching about Rs. 3 crores (Rs. 30 million) annually.

In 1994-95 about 82 thousand people were employed in the carpet-making and about 10 thousand in Namda and Gabba making. Thus, carpet-making is an important employment generating industry.

The indus-try is however, facing a number of problems as the developed countries (Canada, U.S.A., Germany, France, U.K. etc.) have banned the import of In-dian carpets produced by children. Apparently, the objective seems to stop the exploitation of child labour. This policy of the developed countries is however, coming in the way of growth and development of carpet industry in the state of Jammu and Kashmir.

The production of handicraft goods during the year 2017-18 was recorded at Rs. 1930.75 crore and the exports of handicraft goods were worth Rs. 1090.12 crore. Carpet has a largest share in both production and export figures.

3. Forest-based Industries:

The state of Jammu and Kashmir has about one-third of its total area under forest. Most of the forest species in the higher altitudes belong to the coni-fers, while in the lower altitudes pine and deciduous broad-leaves trees are more prominent. These forests provide raw material to a number of forest- based industries. Paper, pulp, match, delicate boxes, sports goods (cricket bats), furniture, joinery, toys, artifacts and decoration pieces are some of the agro-based industries well developed in the Valley of Kashmir.

Although a number of joinery mills have been established in Srinagar, especially along the Srinagar-Baramulla Road, Pampore, and Jammu, sports

goods are being manufactural at Miran-Sahib (Jammu) and in the villages of Anantnag District. There is an urgent need to develop forest-based industries in the state on a scientific basis.

The willow, mulberry and walnut trees can provide raw materials required for the development of sports goods, furni-ture, and wood-artifacts. Nearly 5,000 workers earn their livelihood from the forest-based industries and their annual production amounts to more than Rs. 5 crores (Rs. 50 million).

Forest also provides turpentine and a variety of resins, used is several chemical industries. Resin is collected from the pine trees of Jammu and Kashmir Division. It has diversified properties. Lac obtained from the forests can be utilized for the manufacture of polish, gramophone-records, adhesive, printing ink, etc. The resin processing and manufacturing centres are situ-ated at Miran Sahib, Sunderbani, and Rajauri. These three factories employ about 450 workers and produce resin worth Rs. 10 lakh.

The carpenters of the villages are extremely adroit and do excellent work. Some of the lattice-work and carving of the shrines is very beautiful, and argues a strong artistic instinct. The skill of the carpenter is the more to be admired when one considers the primitive and indigenous tools with which he works.

With a kind of small hammer, half adze (Tur), and chisel (Turats), the rural carpenter executes any work which his client may require. Allied to the carpenter are the axemen and sawyers. The Kashmiri prefer axe-cut timber both for houses and boasts, and a boat made of axe-cut timber fetches more than one made of sawn timber.

The basket industry is also of importance. Most of the villages have their artisans who make the necessary basket, and baskets for agricultural purposes, and the Kiltas used for the transport of apples and for rough village work.

The Kashmiri carvers are well-known for their skill in woodwork. The skilled carpenters prepare beautiful ceilings with perfect designs which are cheap and effective as well. This type of ceiling is known as Khatamband. The shrine of Naqshbandi and that of the tourists reception centre are some of the excellent examples of Kashmiri woodwork.

The boat industry of Kashmir is also of great importance. The Hanz or Hanji, as the boatmen are called, are the boat-dwellers in the various water odies. The boat industry is quite old in Kashmir. Now forest conservancy and reduction in forests area have made good quality Deodar wood very ex-pensive which is coming in way of development of boat industry.

4. Agro-based Industries:

The state of Jammu and Kashmir has an agrarian economy. In fact, agricul-tural products not only yield over 50 per cent of the states Gross Domestic Product (GDP), it provides raw materials to a number of industries. Fruit-canning, edible oil extraction, flour mills, rice-husking factories, bakery and alcohol preparation draw their raw materials from agriculture.

The plain areas of the Jammu Division and the Valley of Kashmir pro-duce huge quantities of rice. Over 60 per cent of the total population of the state is rice eater. Consequently, there are numerous rice-husking factories in the state, situated mainly in smaller towns of the rice growing areas.

The rice mill of Barbarshah (Srinagar) is quite large. A modern rice factory was estab-lished at Laithpora (near Pampore) in 1981. The rice husk and rice bran are used for the extraction of fatty oil which finds application in soap-making industry.

The Valley of Kashmir has large tracts under apples, almond, walnut, cherry, peach and pear orchards. Transportation of these perishable fruits to the distant markets by roads is quite expensive. The processing of fruits, making jam, jelly, juice, etc., is an important industry in the state.

Numer-ous fruit processing and canning factories have been located in Baramulla and Anantnag districts. The Food Corporation of India (FCI) has to take in-itiative towards the establishment of more food and fruit processing factories.

5. Papier Mache:

Papier mache is made from the pulp of paper. The lacquer-workers apply

their beautiful designs to smooth wood. These designs are very intricate, and the drawing is all freehand. The pen-boxes (qalamdan), tables, cabinet, trays, boxes are the main articles of papier mache. Papier mache still has great na-tional and international market. After 1989, papier mache suffered as the disturbed political conditions discouraged the arrival of tourists. Papier mache industry is largely confined to the City of Srinagar and its adjacent ar-eas.

Kashmir is well known for the production of leather goods. In many of the villages around Srinagar, Islamabad (Anantnag), Baramulla and Badgam, hides are prepared by the Watals and then are sold in the markets of Srinagar where they undergo a refining process.

Skins are brought in raw, and are prepared in the city. It is claimed for the leather of Srinagar that saddles last forever. Kashmir has a good reputation in furries. The recent law for the protection of game, under which the sale of skins and horns is prohibited, has curtailed the business of furries. In addition to these, the Kashmir and Jammu artisans have great skill in the manufacturing of copper utensils, shawls, pottery and basket making.

6. Cement Industry:

The raw materials for the manufacture of cement are calcareous and argil-laceous materials. These are mixed in suitable proportions to form the raw mix limestone, gypsum, coal; bauxite and clay are the main ingredients of this industry. Limestone and gypsum are available in large quantities in Bara-mulla and Anantnag districts.

The Wuyan Cement Factory is the largest cement supplier to the Valley of Kashmir. This cement factory was established in 1962 to which raw mate-rial is supplied from Uri and Baramulla areas. This factory provides employment to about 275 workers and produces about 2,000 tonnes of ce-ment annually. In 1982, a large cement factory was established at Khrew. This factory is known as the J & K Cements Ltd. Khrew. There are more than 500 workers employed in this factory producing about 600 tonnes of cement a day.

There are several chemicals manufacturing units, tiles factory (Pam- pore),

lignite briquetting plant (Shalateng) glass-making and electric goods manufacturing units in the state. The Hindustan Machine Tools watch factory was established at Zai- nakot in the 1970s. There are about 1,500 workers who are employed in this factory. It produces about five lakh watches annually. The Indian Telephone Industry has been established at Hyderpora (Sri-nagar). It is a branch of the Indian Telephone Industry, Bangalore which produces telephone parts and accessories. It is a small unit in which about 150 persons are employed.

7. Industrial Complexes:

Since 1980, the Government of Jammu and Kashmir state has been paying adequate attention towards the establishment of agro-based, forest-based and mineral-based industries. The State Industrial Development Corporation has established a number of industrial complexes at Rangreth, Khunamoh and Doabgah in Kashmir and at Bari Brahman in Jammu.

The Rangreth factory assembles television sets, radios, transistors, elec-tronic clocks, stabilizers, electric blankets, tape recorders and jewels for watches. Joinery articles, matches, automobiles batteries and tiles are manu-factured at Khonamoh.

Bari Brahmana has become an important industrial complex of Jammu, producing detergents, resin products, vanaspati, steel rollings, scooters, textiles, sunmica, paper, pistons, hosiery, electric goods, light machines, rubber and plastic goods, chemicals, drugs, paper, printing, and transport goods.

There are assorted cottage industries in the towns and villages of the state Leather processing, shoe-making, oil pressing, pottery blacksmithy, carpentry, bee-keeping, basket-making, soap-making, fruit preservation etc. are the main cottage and small scale industries in which the rural population in finding employment.

The state of Jammu and Kashmir has not seen much of industrial growth. The industrial underdevelopment is mainly owing to the non-avail-ability of basic minerals and lack of infrastructural facilities. Industrial complexes are however, slowly emerging.

The development of new power projects, widening of road-network and coming up of the state on the rail-way map of the country have helped in creating a conducive atmosphere for the growth and development of industries. A number of industrial areas have been set up and various steps are being taken to help the development of industries. The number of registered factories has gone upto 876 and about 5,600 are the small scale industries in 1998.

14.5 LET US SUM UP

The state of Jammu and Kashmir has made its place in the industrial map of the country, however, there is still a long way in achieving industrialization of the size and magnitude required to take the state out of economic backwardness. There is an immense need to remove the bottlenecks that are coming in the way of sustained industrial development in the UT. The small scale industrial sector in the state has an incredible and fantastic potential of absorbing thousands and of unemployed educated youth. Therefore bold steps to improve the industrial environment of large scale investment are required, which calls for a pragmatic and long term result oriented policy initiative on the part of the government.

14.6 EXAMINATION ORIENTED QUESTIONS

Q.1 Critically examine and explain Jammu and kashmir industrial policy 2016.

Q.2 Mention key initiatives taken by govt. for industrial development of jammu and Kashmir.