

CHAPTER : I :

INDUSTRIAL ESTATE : A TOOL FOR INDUSTRIALISATION

- i. Introduction
- ii. Historical Review Of The Programme
Of Industrial Estate
- iii. Experience Of Industrial Estate As A
Technique For Planned Industrialisation
In Different Countries.
- iv. Review Of The Implementation Of The
Scheme Of Industrial Estate With
Special Reference To India.

R E F E R E N C E S

CHAPTER - I

INDUSTRIAL ESTATE - A TOOL FOR INDUSTRIALISATION

INTRODUCTION :

India is a developing country. There are certain characteristics of developing countries viz. low levels of per capita income; low levels of national income; existence of mass poverty; low levels of standard of living; heavy pressure of population on land; low levels of capital formation etc. To overcome these characteristics certain measures have been adopted in India. Rapid industrialisation is one of them. But for industrialisation there is need of capital formation and capital investment. Our country is facing the problem of low capital formation. Therefore, India's Industrial Policy Resolution of 1956 has given much importance to the cottage and village and small scale industries.

For the development of cottage and village and small scale industries, some measures have been initiated in India. Amongst the measures taken to assist small industries; the programme of establishing industrial areas and industrial estates is the most significant one. Because industrial estates are supposed to be an effective means of promoting small industrial enterprises, modernising them; raising their productivity and thus reducing their costs and improving the quality of their products.

1) CONCEPT OF INDUSTRIAL ESTATE :

In fact; the concept of industrial estates is not new to developing countries. Because recently; developing countries are using this technique as a tool for planned industrialisation.

A brief review of various definitions will help us to understand the various dimensions of the concept of industrial estate.

a. According to William Bred¹ " an industrial estates is tract of land which is sub-divided and developed according to a comprehensive plan for the use of community of industrial enterprises. The plan must make detailed provision for streets and roads; transportation facilities and installation of utilities. The plan may provide for the erection of factory buildings in advance of scale or lease to occupants."

b. According to P.C.Alexander² " an industrial estate is a group of factories constructed on an economic scale in suitable sites with facilities of water; transport; electricity, steam, bank, post office, canteen; watch and ward and first-aid provided with special arrangements for technical guidance and common service facilities."

c. The United Nations has defined an industrial estate as ³ "a planned clustering of industrial enterprises offering standard factory buildings created in advance of demand and

variety of services and facilities to the occupants."

From the above definitions, it becomes clear that an industrial estate is a tract of land, wherein all the infrastructure facilities like road; transport; power; communication are systematically planned. This is with a view to encouraging small entrepreneurs to set up their units there, offering them initial economies in their capital expenditure. It is an organised location where all basic facilities required for a small industrial unit are provided, possibly at concessional rates. As the factory plots and sheds are made available on lease basis along with other facilities, small entrepreneurs saves his initial capital substantially.

TYPES OF INDUSTRIAL ESTATES :

There are various types of industrial estates in India, industrial estates have been classified as under :

I) Industrial estates are classified on the basis of location:

a. URBAN INDUSTRIAL ESTATES :

Industrial estates located at the places with population exceeding 50,000 is known as urban industrial estates.

b. SEMI-URBAN INDUSTRIAL ESTATES :

Industrial estates located at the places with population between 5,000 and 50,000 is known as semi-urban industrial estates.

c. RURAL INDUSTRIAL ESTATES :

Industrial estates located at the places with population less than 5,000 is known as rural industrial estates.

II) INDUSTRIAL ESTATES ARE CLASSIFIED ACCORDING TO THEIR SIZE :

a. VERY SMALL :

Industrial estates with an area upto 2 acres which can also be classified as Mini Industrial Estate.

b. SMALL :

Industrial estates with an area between 2 and 10 acres.

c. MEDIUM :

Industrial estates with an area between 10 and 30 acres.

d. LARGE :

Industrial estates with an area exceeding 30 acres.

III) INDUSTRIAL ESTATES ARE CLASSIFIED ON THE BASIS OF THE ORGANISATIONAL SET-UP :

a. GOVERNMENT INDUSTRIAL ESTATES :

Generally such type of industrial estates are found in developing countries. Because developing countries suffer from low level of capital formation and lack of entrepreneurial ability. Therefore, in such countries government takes an initiative to establish industrial estates.

b. PRIVATE INDUSTRIAL ESTATES :

Such types of industrial estates are established by a private agency or persons, who may own the estate. The owner of the estates performs the managerial and proprietary functions in most of the cases.

c. CO-OPERATIVE INDUSTRIAL ESTATES :

Such types of industrial estates are established by the voluntary organisation of members.

d. MUNICIPAL INDUSTRIAL ESTATES :

As the basic idea behind industrial estate is to provide certain amenities like water, transport, communication, electricity to small units, these industrial estates can also be sponsored by municipal corporations. In fact, this would be the notional extension of the concept of civic bodies since they are expected to provide civic amenities to individuals as well as groups coming within their area of operation.

IV) INDUSTRIAL ESTATES ARE CLASSIFIED ON THE BASIS OF FUNCTIONS / ACTIVITIES :

a. GENERAL TYPE (CONVENTIONAL) :

By general type we mean industrial estates which provide accommodation to a wide variety and range of industrial concerns.

b. SPECIAL TYPE :

Special type industrial estates attempt the establishment of industrial units, which are vertically or horizontally



interdependent. This horizontal or vertical interdependence will help them to avail of economies of large scale production. That also ensures backward and forward linkages. "Special type industrial estates includes the following industrial estates:

i) ANCILLARY INDUSTRIAL ESTATES :

In ancillary industrial estates, relationships are established between the occupants of the estates and neighbouring large industrial enterprises in the form of sub-contracting arrangements. This parent-ancillary relationship ensures that whatever is being manufactured, will be purchased by a parent unit. In this case, the small units need not face odds of marketing since there is an assured market.

ii) FUNCTIONAL INDUSTRIAL ESTATES :

Functional industrial estates are those where the functions of one industry are subdivided among a number of small scale units located in the estate, each functioning according to a co-ordinated manufacturing programme. In the language of E.A.G. Robinson, this is actually the vertical disintegration wherein the process is divided and carried out by small units independently so that technical optimum unit remains intact.

iii) SINGLE TRADE INDUSTRIAL ESTATES :

Single trade industrial estates produce identical goods and co-operate each other in technical services and facilities and

for marketing of their products.

In India, general type industrial estates have become popular and special type estates are established very sparingly.

11) HISTORICAL REVIEW OF THE PROGRAMME OF INDUSTRIAL ESTATE :

The modern industrial estate was started in 1896, when the first industrial estate was established in the United Kingdom at Trafford Park; at Manchester. This estate is also called the "Mother of Industrial Estates." In the United States, the pioneer industrial district known as the Clearing Industrial District, was founded at Chicago in 1899.

Initially the idea of industrial estate spread slowly, but a phenomenal increase in the use of industrial estates have occurred in above and certain other countries during the past twenty five years. Industrial estates have now spread over 56 countries; -12 in Europe, 3 in North America, 11 in Latin America; 16 in Asia and Far East and 14 in Africa.

Thus the new method of organising, housing and servicing industry; which began to be applied in the advanced countries of Western Europe and in the United States towards the end of the nineteenth century, has today attained a very wide coverage of developed and underdeveloped countries. At present these organisations are known as planned or organised industrial tracts,

districts or parks in the United States, trading estates or industrial estates in the United Kingdom, industrial zones in Italy, industrial sub-divisions in Puerto-Rico and industrial estates in India and other countries.

Before the Second World War, establishment of industrial estates in the United Kingdom aimed at the diversion of industry into "depressed" or "distressed" areas. This area was known as heavy unemployment area. In the United Kingdom, at present, the industrial estate policy is used to regulate industrial location throughout the country.

Industrial estates are used in the United States as instruments of area or regional planning, they are used in Puerto-Rico as tools of attracting industries from outside, in India, Pakistan and some other countries, they are primarily used to promote small or large industrial enterprises.

In India, the programme was initiated with a view to developing and to modernising small industries, but later, as the scheme made progress, the economic and social objectives like shifting of industries from large cities or locating new industries in the areas, which are relatively underdeveloped were incorporated.

111) EXPERIENCE OF INDUSTRIAL ESTATES AS A TECHNIQUE FOR PLANNED INDUSTRIALISATION IN DIFFERENT COUNTRIES :

The industrially advanced countries are the pioneers in the development of industrial estates. These countries are responsible for developing the technique of industrial estates and have developed with different objectives and policies regarding the development of industrial estates are different not only from country to country but also from one estate to another. Even though all estates present some common features and they are combined with the other promotional efforts and development programmes to induce private enterprises in establishing their industrial units on the estate.

A brief countrywise account of the objectives, policies and progress of the industrial estates programme has been taken here with a view to throwing light on the special features of these programmes.

1. THE UNITED KINGDOM :

The programme of industrial estates in the United Kingdom was introduced by the establishment of the famous Trafford Park Estates Limited in 1896, which is called the "Mother of Industrial Estates". The prime object of introducing the programme of industrial estates was to facilitate the development of depressed or backward areas of the country, Now most of the

industrial estates in the United Kingdom are privately owned, profit motivated and commercially operated. But in the earlier years the government has played a crucial role in promoting the development of industrial estates. It is clear that the technique of industrial estates has been used in this country as a tool for regional development.

The Government of the United Kingdom started the movement for the development of depressed areas in 1930. Afterwards the government has established a large number of industrial estates as an instrument for the development of depressed areas under the Special Areas Legislation Acts of 1936 and 1937, the Distribution of Industry Acts of 1945 and 1950, the Town and Country Planning Acts of 1947 and 1954 and the Local Employment Act of 1960. In the early stages of development, industrial estates were set up in the depressed areas to encourage new industries to settle there and create new employment opportunities. But after the Second World War there was a slight change in the object of the programme. The government followed the policy of better geographical distribution and regional diversification of industry in order to avoid congestion in highly industrialised and populated areas and to promote new industries in the Development Areas. The main objective of the programme of industrial estates in the United Kingdom has been entirely changed

from assisting the development of depressed areas in the 1930's to regulating the industrial location all over the country in the 1950's , and finally to maintaining a reasonable level of employment in every part of the country in the 1960's.

The industrial estates in the United Kingdom offer improved sites and factory buildings on rental basis. The programme of industrial estates is very comprehensive; and includes investment in overhead facilities, grants, loans, temporary exemption from taxes, subsidies on rent and restrictions on rent, and provide some facilities and services.

Thus the developmental history of the industrial estates programme in the United Kingdom reflects the basic fact that the industrial estates are playing a very significant role in the programme of employment oriented economic development.

2. THE UNITED STATES :

The planned industrial estates or industrial districts were developed in the united states towards the close of the 19th century. The American variant of Industrial Estates is the industrial park. The first industrial park was the clearing industrial park sponsored by a private corporation and established near Chicago in the year 1899. This district, consisting of seven tracts of 2000 acres has provided accommodation primarily

to large industries.

An Industrial Park is a tract of land developed and subdivided according to a comprehensive plan for the use of community of industries. The objective of industrial parks in the U.S. is not development of small scale industries as in India or development of depressed areas as in the United Kingdom. The approach in the U.S. is mainly one of area planning and the main objective is to provide factory accommodation to industries.

During the period of and after the Second World War there was a spurt in the growth of industrial parks and over 300 industrial parks came to be established by about 1957. Due to easy availability of land in places away from metropolitan cities, most of these parks were located in newly developing townships. The majority of these parks were less than 3,000 acres in size. A significant feature of the industrial park scheme in the U.S. is that it has been sponsored largely by private initiative with profit motive. The chief sponsors of such commercial industrial parks are railroad companies, industrial development corporations, chambers of commerce, land development companies, financial institutions and individual investors. Nearly one third of all industrial parks have been developed by railroad companies. There are a few non-profit making industrial parks also. They

have been sponsored by community development companies, local chambers of commerce and municipal and country administrations.

IV) REVIEW OF THE IMPLEMENTATION OF THE SCHEME OF INDUSTRIAL ESTATE WITH SPECIAL REFERENCE TO INDIA :

Small industries have been assigned a very important role in the Indian Economy. Because small industries provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned mechanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

But small industries are facing the number of problems like lack of capital and other infrastructural facilities. To solve the problems of small industries and to assist them the Government of India launched number of programmes. The establishment of industrial estate is one of them.

The programme of industrial estate was introduced in India towards the close of the First Plan Period, i.e. 1955.

1) OBJECTIVES OF INDUSTRIAL ESTATES IN INDIA⁴ :

The objectives underlying the establishment of industrial estates in India are as follows :

- A. To encourage the growth of small scale industries,
- B. To shift small scale industries from congested areas to estate premises with a view to increasing their productivity;
- C. To achieve decentralised development in small towns and large villages,
- D. To encourage growth of ancillary industries in the townships, surrounding major industrial undertakings, both in public and private sectors.

During the First and Second Five Year Plans, the objective of the Government's policy and programmes was on the promotion and growth of small scale industries. But during the Third Five Year Plan it decentralisation and development of backward areas was the objective of the Government Policy and programme. Therefore, the programme of industrial estates was given a rural bias and all new estates were expected to be located, as far as possible, near the small and medium sized towns.

2) ROLE OF THE GOVERNMENT :

The responsibility of planning and developing industrial estates has been entrusted to the State Governments. The

Central Government extends loans to the State Governments of the duration of 20 years for land and buildings and of the duration of 30 years for layout, roads, power transmission, water supply etc. at 4.5% rate of interest to cover 75% outlay of the respective State Governments on these items. The Central Government also gives grant to the State Governments to meet the entire expenditure incurred for preparing plans, blue prints and estimates of the industrial estates. Similarly the Central Government also shares with the State Governments the subsidy in the rent of the factory sheds, for the period of First Five Years, in the case of sheds given on lease at the rates lower than standard rent.

3) PROGRESS OF INDUSTRIAL ESTATES :

1) FIRST FIVE YEAR PLAN : (1951-1956) :

The programme of industrial estates as a measure for the development of small-scale industries was first adopted in India by the Small Scale Industries Board at its meeting held in January, 1955. The first industrial estate was started by the former Government of Saurashtra (Now in Gujarat) in a 20 acre plot near the Bhaktinagar Railway Station in Rajkot. In the First Plan Period ten industrial estates were sanctioned and implemented by the State Governments concerned. Those estates have been listed below. :

Guindy and Virudhunagar (Madras); Kanpur and Agra (Uttar Pradesh); Palghat, Trivandrum, Kottayam, Quilon and Trichur (Kerala); Kalyani (West Bengal).

In addition, construction of two estates, one at Okhla (near Delhi) and the other at Naini (near Allahabad) was undertaken by the National Small Industries Corporation. This was established as a private limited company by the Central Government.

During the First Plan Period very little progress was achieved in the schemes of the sanctioning industrial estates. The selection of suitable sites and the formalities for land acquisition took considerable time in most cases. In the case of the industrial estates sanctioned for Kerala, the actual sites were subsequently changed and the estates were located at Olavakodu (Palghat), Pappanam Kodu (Trivandrum), Ettumanur (Kottayam) and Kollakadam (Quilon).

ii) SECOND FIVE YEAR PLAN (1956-1961) :

In the Second Plan Period, the scheme of the industrial estates received a real impetus. In this plan the provision for small-scale industries was increased from Rs. 5 crores in the First Plan to Rs. 55.57 crores in the Second Plan. Out of Rs. 55.57 crores Rs. 11 crores were earmarked for industrial estates. In addition to this, a fairly liberal pattern of financial assistance was introduced by the Central Government as a measure of inducement the State Governments to take up the

scheme of industrial estates on an extensive scale. The Central Government also announced the policy that the construction and management of industrial estates will be the responsibility of the State Governments and their agencies.

By the end of the Second Five^{Year} Plan, 120 industrial estates of different sizes had been sanctioned all over India and the total expenditure was about Rs. 11 crores. These schemes were sanctioned over a period of 5 to 6 years and were in different stages, of completion at the close of the Second Plan.

BY THE END OF MARCH †(1961) :

- 1) 53 industrial estates were functioning,
- ii) 14 industrial estates were completed but not started functioning;
- iii) 24 industrial estates were under construction,
- iv) 28 industrial estates were under preliminary steps.

Progress in terms of factory sheds was as follows :

1. Number of sheds completed - 2077.
2. Number of sheds allotted -1872.
3. Number of sheds occupied - 1589.
4. Number of sheds functioning -1049.

iii) THIRD FIVE YEAR PLAN (1961-1966) :

In the third plan provision for small-scale industries has been increased from Rs. 55.57 crores in the Second Plan to

Rs. 114 crores in the Third Plan. The increase in the provision for industrial estates was from Rs. 11 crores in the Second Plan to Rs. 30.2 crores in the Third Plan. The success and popularity of the scheme in the second plan have been mainly responsible for inducing the Government to provide such a liberal allocation for this scheme in the Third Plan.

During the First Year of the Third Plan technical approval for as many as 93 industrial estates had been issued by the Central Small Industries Organisation.

Now we will see the productivity of Labour Employment per factory and Output per Factory in the Industrial Estates from the following table.No.1.1

TABLE NO.1.1

PRODUCTIVITY OF LABOUR EMPLOYMENT PER FACTORY AND OUTPUT PER FACTORY
IN THE INDUSTRIAL ESTATES

Sr. No.	Year	Per factory employment	Per factory production of output	Output per labour
1.	1961	12.75	67,921.91	5,327.01
2.	1966	19.65	90,247.15	4,593.61
3	1971	19.04	1,14,159.78	5,995.38
4	1972	15.01	1,52,591.23	10,168.15
5	1974	18.56	2,13,670.15	11,511.00

SOURCE : Report of the Working Group of Industrial Estate Reserve Bank Of India ~~1974-75~~.

TABLE NO.1.2

THE SHARE OF INDUSTRIAL ESTATE IN THE OUTLAY AND EXPENDITURE FOR
SMALL AND VILLAGE INDUSTRIES IN VARIOUS PLANS

Sr. No.	Plan	(Rs. in Crores)			
		OUTLAY		Estimated Expenditure	
		For Industrial Estate	Total for village & small Scale Industries	For Industrial Estate	Total for village & small scale Industries
1.	2nd plan (1956-61)	15.00 (8.46)	177.30 (100.00)	11.60 (6.44)	180.00 (100.00)
2.	3rd plan (1961-66)	30.20 (11.44)	264.00 (100.00)	23.35 (10.63)	219.56 (100.00)
3.	4th Plan (1969-74)	18.15 (6.16)	294.71 (100.00)	15.73 (6.26)	251.01 (100.00)
4.	5th Plan (1974-79)	24.97 (4.09)	611.12 (100.00)	17.64 (4.55)	387.79 (100.00)
5.	6th Plan (1978-83)	45.00 (3.19)	1410.00 (100.00)	-	-

NOTE : Figures in parentheses indicate percentage of total village and small scale industries.

1. Due to change of political party in power the 5th Five Year plan cut short to four years and the 6th Plan was started in 1978.
2. The first Five year plan does not provide the outlay for industrial estates separately under the heading of village and small scale industries. So this plan is omitted from the above table.

SOURCE : Report of the working Group of Industrial Estate.
Reserve Bank of India

It clearly points out that though the share had been quite substantial in the second and Third Five year plans, it has come down drastically in the 4th, 5th and 6th five year plan. Even the absolute figures of outlay on industrial estates have not been very

encouraging. It is evident from these figures that the efforts to establish industrial estates by the Central Government need support from State and Semi-Government agencies like The Development Corporation of Konkan Ltd. and Maharashtra Industrial Development Corporation.

REASONS FOR DECLINING IMPORTANCE OF INDUSTRIAL ESTATES :

The declining importance of the programme of Industrial Estates after the Third Five Year Plan may be due to any of the following factors, viz.

- i) That the programme attained a viable level by the end of the Third Five Year Plan and hence it was found unnecessary to increase the quantum of financial assistance further;
- ii) That the programme was proved to be costlier in terms of financial expenditure while the returns are not commensurate;
- iii) That the way of encouraging the programme was changed from one of direct financial commitment by the Government to the estate administration to that of an indirect one like marketing of output produced by the units of estate.

The question of augmenting the resources for industrial estates was widely discussed in the 14th conference of representatives of State Financial Corporations held in Bombay. in March 1970.

While it was recognised that industrial estate could play an important role in the promotion of small-scale industries. It was felt that additional resources for setting up industrial estates must be made available. It was also realised that unless adequate attention is paid to the conditions determining the successful functioning of industrial estates, it will not be prudent on the part of financial institutions to support these estates on the basis of loan finance. The Governor, Reserve Bank of India while inaugurating the Conference rightly pointed out that these estates had remained "empty shells". It shows that there has been sufficient awareness as to the factors determining the success or functioning of industrial estates. These estates entail considerable amount of capital expenditure and hence adequate returns on investment need to be ensured. At least, the utilisation rates may be improved, so that the programme of industrial estates becomes economically viable. It must be noted that economic viability of this technique of planned industrialisation on must be tested and brought to bear on the expenditure earmarked for the programme of industrial estates in India. Though initially we can not expect these estates to be self-financing, adequate attention needs to be paid, so that investment in such ventures may not become abortive.

The implementation of industrial estates programme in India has got certain problems which may be listed below. :

1. LAND ACQUISITION :

Suitable land sites may not be readily available. Even if they are available, their acquisition requires to go through a time consuming process of litigations in the courts since there battles are fought even upto the Supreme Court.

2. FINANCING OF INDUSTRIAL ESTATES :

Though the Central Government has been earmarking a certain amount of funds for development of these estates, matching resources have not been forthcoming. The financial institutions in the country are generally apathetic towards the idea of providing loan finance to these estates since they are yet to be convinced about their economic viability.

3. The utilisation rates of these estates are stated to be low and hence far from satisfactory. Many a time these projects are not economically viable and carried out just as a promotional tool.

4. There has been no monitoring of the units functioning in these estates. This is very much required in the immediate post-establishment period. As a result of this, most of these units become defunct very soon. This nullifies the efforts of governmental agencies to promote small units by offering them organised locational facilities.

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