

CHAPTER IIIEVALUATION OF POLICY AND PROGRAMMES FOR  
INDUSTRIAL DISPERSAL

The central investment subsidy scheme, the scheme of concessional finance, fiscal incentive, the location of public enterprise, licensing policy, the location of industrial estates and the other promotional activities of the state governments etc have been some of the instruments used for achieving industrial dispersal.

It was not till the seventies, that central subsidy and concessional finance were instituted. In pursuance of National Development councils meetings (Sept.13,1968) two working Groups were set up by the Planning Commission. The first dealing with incentive is known as Wanchao Working Group, the second dealing with identification of backward areas as the Pande Working Group.

The Pande Working Group recommended i) Criteria to be applied in aggregate for the purpose of identification of industrially backward States and Union Territories.<sup>1</sup>

2) Criteria of backwardness, for identification of backward districts in backward state / Union Territories.<sup>2</sup>

The Pande working Group had suggested careful application of these criteria "Utmost care would have to be taken in the final selection of backward districts which inter alia satisfy that the latent resources and also the economic and social factors are favourable enough to take advantage

of the incentives that may be offered for the types and size of industries which may have potential for development. The working group is of the opinion that each industrially backward state and Union Territory may be requested to furnish the data in respect of the criteria recommended for identification of backward districts for three to six such district from among them about 20-30 districts in all may be finally selected for grant of special incentives during the Fourth Plan Period.

Besides the problem of resources, it is considered that concentration of organisation and administrative machinery by the state in a few districts on a number of short term and long term measures required for promotion of industries (e.g. railway siding, housing colony for industrial labour, dispensary or hospital, banking and other facilities), is a prerequisite for ensuring success.

The Wanchoo Committee recommended fiscal incentives in respect of

- 1) Grant of higher development rebate
- 2) Grant of exemption from income tax
- 3) Exemption from import duties on plant and machinery and component.
- 4) Exemption from excise duties, sales tax is to units in backward areas for five years from date of their going into production.
- 5) Transport subsidy upto 400 miles distance should be considered as normal and beyond that the transportation

cost for finished products should be subsidised for such backward areas as may be selected in Assam, Nagaland, Manipur, Tripura, NEFA & Andamans. The transport subsidy should be equivalent to 50% of the cost of transportation in the case of backward areas in J & K state.

The recommendations of Pande and Wanchoo committee were considered by National Development council in 1969. The main decisions taken were ;

i) Concessions to be offered by financial and credit institutions for financing industries in backward areas should be available to selected backward areas in all the states and Union Territories.

ii) The criteria to be adopted for selection of industrially backward districts in the States and Union Territories may be settled by the Planning Commission in consultation with the financial institutions and the state Govts. in the light of the two sets of criteria recommended by the Working Group on identification of the backward areas. Accordingly, Planning Commission held deliberations with RBI and other financial institutions like IDBI, IFCI, ICICI etc. for evolving a set of interia for the purpose.

Secretary Planning Commission in 1969, addressed the State Govts & u.terriraries, on the subject of backward areas and enumerated guidelines for identifying districts to be considered industrially backward but which possess the

minimum infrastructural facilities essential for industrial development.

The criteria were :

- 1) Per capita foodgrains commercial crops production depending on whether the districts in pre-dominantly a producer of foodgrains /cash crops (for inter-district comparisons conversion rates between foodgrains and commercial crops may be determined by the State Government were ever necessary)
- 2) Ratio of population to agricultural workers.
- 3) Per capita industrial output (gross)
- 4) Number of factory employees per lakh of population or alternatively number of persons engaged in secondary and tertiary activities per lakh of population.
- 5) Per capita consumption of electricity.
- 6) Length of surfaced roads in relation to population or railway mileage in relation to population.

It was also indicated that only those districts with indices well below the State average may be selected for suitable incentive from financial institutions.

The State Governments have adopted some what different criteria for purposes of identification either on account of lack of availability of data or based on their judgement of local circumstances.

So far 247 districts have been identified as backward districts.

With regard to the provision of a subsidy by the Central

Govt, the recommendations of Pande Working Group regarding selection of only 20 to 30 districts in industrially backward states/union Territories for special incentives were (no) accepted.

Instead the State Governments were initially requested in 1969 to select two districts /areas from each of the states identified as industrially backward and one district/area from each of the other States to qualify for the central Scheme of investment subsidy\*. There were modifications in the scheme in 1969, 1972, 1973, 1977 in respect of rate of subsidy, selection of districts for assistance. From 1977, the existing units in such districts/areas are eligible to subsidy for the purpose of the expansion if the additional in not less than 10% of the existing investment. In case of units having fixed capital investment beyond Rs.1 crores, the subsidy was to be extended on a selective basis. Prior to the extension of coverage 44 districts/areas had been identified for this purpose. However, after extension, 101 districts/areas have been selected to qualify for assistance under this scheme.

6 Besides this a concession in corporate for has been available to units in backward district under section 80 HH of the Income Tax Act since April 1974. Under this 20% of the taxable profits are allowed as a rebate for calculation of tax.

These concessions are available during the construction stage, in the early stage of production and in later years. Besides this transport subsidy special facilities for imports, hire-purchase of machinery etc are provided.

The Statewise location of the various units in the fixed capital investment ranges is given in Table 3.3. It would be seen from it that in the advanced states like Tamil Nadu, Maharashtra, Gujarat and Karnatak which received a major share of the subsidy, a bulk of the large scale units, receiving the subsidy are located. The less developed states of Andhra Pradesh and Rajasthan which also received sizeable funds and a relatively large number of large scale units coming up.

The district wise distribution of the Central investment subsidy shows that a small number of districts account for a substantial share in the benefit.

#### Distribution of Central Investment Subsidy

(Cumulative upto 78-79) ? over

- 1) North Arcot (Tamil Nadu) - 488
- 2) Aurangabad (Maharashtra) - 381
- 3) Barnch (Gujarat) - 366
- 4) Ramanathpuram (Tamil Nadu)- 358
- 5) Medak(Andhra Pradesh) - 225
- 6) Solan (Himachal Pradesh) - 216
- 7) Mysore (Karnatak) - 209
- 8) Panchmahals (Gujarat) - 192
- 9) Dewas (Madhya Pradesh) - 162
- 10) Dharampuri ( T.N.) - 157
- 11) Surendranagar (Gujarat) - 155

12)	Goa (Goed, Daman & Div)	148
13)	<del>Al</del> pey (Kerala)	141
14)	<u>Maelurai</u> (T.N.)	139
15)	Ratnagiri (Maharashtra)	138

These 15 districts account ~~for~~ over 56% of the subsidy disbursed.

Only 3 of the 15 districts are in states/UTS which were classified as industrially backward by the Pande Committee. Most of these districts are in close proximity to relatively developed industrial centres (e.s. Medak, Allepey, Madhurai) are lie on the trunk route between developed centres (e.g. North Arcot, Dharampuri, Baruch). Many of the districts that have benefited have large industrial estates or areas promoted aggressively by State level agencies e.j. Hosur in Dharampuri, Ranipet in North Arcot, Aurangabad town in Aurangabad.

#### CONCESSIONAL FINANCE SCHEME:

The All India Financial institutions CIOBI, ICICI, and IFCI) offer loans to industrial project in backward areas on concessional terms. The concessions involve a lower interest rate, a longer grace period and ammortization period and few other concessions. Nearly 55% of the concessional finance flowed to units in state not considered backward by Pande working group.

TABLE - (1979)

	Share of Industrially Developed States		Share of Industrially Backward State *	
	Sanctions	Disbursements	Sanctions	Disbursements
IDBI	53.6	52.8	46.4	47.2
ICICI	61.6	59.7	39.4	40.3
IFCI	55.5	54.0	44.5	46.0
Total	54.7	53.9	45.3	46.1

\* as defined by the Pandit Group

	1976-77	1977-78	1978-79
Share of backward districts of which	35.6	40.4	44.2
Proportion under concessional terms	64.7	64.4	57.6

Source : Industrial Development Bank of India

A Annual Report ( 1978-79, page 134.)

The p.c. share of the backward districts in total disbursement must be compared with the fact that these districts cover about 70% of the area of country and about 60% of the population. Thus neither as a population nor on an area basis backward districts got as much as the other non-backward districts.

where is this taken? In Table 3.5, it has been seen that 1/5 th the eligible districts amount for the bulk of the benefits. The share of top 50 districts has tended to decline over the years from

85% in 1974 to 69% in 1979.

The impact of central subsidy and concessional finance was studied and the evaluations suggested some conclusions:

- 1) The impact of schemes, which were introduced in 1971, was significant after 1974.
- 2) The availability of concessional finance and subsidy has been significant motivating factor in persuading entrepreneurs to locate their units there.
- 3) The availability of industrial infrastructure and nearness to markets in developed centres seems to no a major factor determining location for medium and large units.
- 4) The pattern of development in the two districts which are near developed areas (e.g. Alwar) involves substantial interlinkages with developed areas (Chandrapur) the pattern of development involves small units based on local raw materials and very little development of an ancillary nature.
- 5) In all districts, the bulk of the employment is of local labour. However, skilled labour often comes from outside.
- 6) Entrepreneurs for medium and large units comes from outside the area but small entrepreneurs are mostly local

LOCATION OF PUBLIC SECTOR ENTERPRISES:

( See Table 3.6 )

Share of Groups of States in investment and employment  
in central Public Enterprises (31.3.1979)

	Block Capital	Employment
1) Industrially Developed (including Delhi)	31.6	45.0
2) Industrially Backward	50.5	52.9
3) Unallocated	17.9	2.1

( N.B. Classification into developed and backward states  
(in) on the basis of per capita value added in manufacturing)

It is found that bulk of the assistance has gone to backward state. But it must be noted that a large proportion of the amount to Backward States is due to heavy investment in Bokaro Bhilai and Rourkela steel plant. The benefit shown under employment is on account of the labour employed in coal mining. The bias in favour of Under developed states is not so much a consequence of deliberate policy of industrial dispersal but of techno-economic consideration.

On the contrary some central projects are purposely located in backward areas e.g.

- 1) BHEL, Plants at Bhopal, Hardwar & Jhansi
- 2) HMI - Kalamassery,
- 3) HAL - Kanpur & Lucknow
- 4) H.E.C. Ranchi
- 5) IOPL - Rishikesh
- 6) ITI-Naini & Rae Bareilly

New centres like Hyderabad, Bangalore, Nasik, Trichy  
 \* Durgapur have plants.

#### LICENSING POLICY:

1956 POLICY: stresses the fact that in order that industrialisation may benefit the economy of the country it is important to reduce progressively disparities in level of development between different regions.

No specific provisions exist in ID & R Act that seeks to give an incentive to setting up industries in backward areas.

Tables 3.7, 3.8, 3.9 & 3.10 give idea of licensing

#### GENERAL CONCLUSIONS THAT FOLLOW FROM TABLE:

- 1) The share of letters of intent has risen in regard to backward areas and in 1979 it was as high as 44%
- 2) The share of licences to b c A re <sup>?</sup> was between 20-30%
- 3) Chemical industries, paper products fermentation industries, metallurgical, food processing textiles contribute largely in the share of licences and letters of intent issued to backward areas etc.

#### INDUSTRIAL ESTATES:

The I.E. was launched in 1955. The objective is to provide factory accommodation to SSI at suitable site with infrastructure facilities and necessary common service facilities.

2ND PLAN, "The V & S S I committee expressed the view that industrial estates should be located in such a way that they do not encourage further concentration of population in large urban centre. In deciding the location of the estates,

especially the smaller estates should be kept in view so that they are developed in or near to was of comparatively small size." (2nd plan p.453, para 45)

Achievement of I.E. Programme (31.3.75)

Estates	Achievement
Estates completed	573
Estates functioning	469
Sheds completed	13580
sheds allotted	12277
shed occupied	11375
sheds working	9783
employment	185429

( I.E. in India Half yearly progress Report for period ending March 1975 DCSSI, Ministry of Industry GOI)

The no of units functioning in industrial estates constitute only around 4% of the no of registered small units as of 78-79. Thus the vast majority of SSIS are located outside the industrial estates.

Industrial estates were meant to be an instrument to promote small industry development in new centres. Hence the location of these estates in of importance. From Table 3-11, it is found that in terms of employment, Gujarat leads with 28.6% share in employment, Maharashtra with 17.5% and Tamil Nadu with 16.5% the Bulk of employment in industrial estates is accounted for by these three developed states.

In the early stages industrial estates were set up in the vicinity of major urban centres. A shift to small towns and centres came later.

CENTREWISE DISTRIBUTION OF ACHIEVEMENTS AS ON 31.3.1975

	Urban (Population more than 50th)	Semi-urban (Population bet 5.50th)	Rural (population below 5th)
	1	2	3
1) No. of estates	231	135	103
2) No. of sheds constructed.	8896	2129	1970
3) No. of sheds occupied	7897	1639	1567
4) Employment	145225	18578	21626

The data show that, though a large number of industrial estates have been set up in small centres in terms of sheds constructed, 68% of the development took place in centres with a population of over 50 thousand. The utilisation of constructed sheds was lower in the small centres. In terms of employment generated, 78% was in the larger centres. Out of the total no of estates functioning about 1/3 were in districts designated as industrially backward.

An analysis of the distribution of employment in different estates shows that the bulk of the employment has been generated in estates in or near major industrial centres.

	Industrial estates or near selected in	centres	
	Employment	Number of Estates.	
1)	Madras	25000	3
2)	Bombay	14600	10
3)	Ahmedabad	14500	6
4)	Jullunder	9500	2
5)	Udhna (Surat)	9000	1
6)	Baroda	8500	8
7)	Poona	6600	7
8)	Hyderabad	5800	5
9)	Kolhapur	3600	3
10)	Vapi	3500	1
11)	Kanpur	3500	2
12)	Delhi	2900	2
13)	Bhopal	2200	3
14)	Calcutta	2000	5

Sources

TOTAL:

111200

58

It is found that about 60% of the employment in industrial estates is concentrated in or around 14 towns. The first three centres which were already developed industrial areas before the commencement of the programme account for nearly 30% of the total employment generated.

It appears that Industrial estates programme has not helped to relocate industries away from developed areas to need centres. The Third Plan States, "Since most of the industrial estates have been located close to fairly large towns, the objective of establishing new centres of industries have been achieved only to a limited extent" (Third Five Year Plan p.449, para 50)

In Tamil Nadu there is well dispersed pattern of industrial development. This is because of a well-planned and implemented industrial estates programme. Nine industrial estates were completed in the second plan, two of them in the same district. In the Third plan 13 estates were established. Though the estates varied in size the extent of variation was not very large. An attempt was made to disperse public sector activity to new centres like Tuticoving and Tiruchurapalli. All these efforts seem to have succeeded in dispersing industries widely though the state.

According to a study of IDBI assisted industrial estates in Southern region".\*

The important conclusions are :

i) Although the sponsoring agencies are good in setting up estates, there is some delay in entrepreneurs taking possessions of sheds and commissioning their units quickly and also operating them successfully,

ii) Out of the 116 estates covered during the survey, only 25% of the estates are located in notified backward areas.

iii) Estates located in backward areas are bedevilled with numerous problems, the main problem being lack of entrepreneurial resources. Besides the market potential, as also the availability of skilled labour are not at all attractive for outside entrepreneurs.

iv) The sponsoring agencies in all the states except in Kerala have selected the sites for estates by referring, it is stated, to some techno-economic surveys available with them. But it is doubtful whether in depth study has been conducted specially with regard to estates in backward and rural areas as most of these are found to be slow moving or non-starters. In Kerala, the criteria for locating the estates has been purely on two points, viz, availability of minimum one acre of land free of cost from Panchayats and availability of minimum 10 entrepreneurs in each Panchayat. As no in-depth study was done to establish the viability of estates in these Panchayat areas, these states were found to be laden with multitarious problems.

v) During the survey, it was noticed, that except for one functional estate at Shimoga, promoted by private agencies, there are no other functional estates at all anywhere else.

"A functional estate is one in which the functions of one industry are sub-divided among a number of small units located in one place, each functioning according to a co-ordinated manufacturing programme.

The main advantage is that it can provide to small scale units economies of specialisation and large scale production which would not have been accomplished by the small units on their own.

vi) The nationalised banks, scheduled banks, co-operative banks, State level financial corporation and SIPCOT are the institutions that have provided term finance to the sponsoring agencies for the construction of the estates. The financial agencies play limited role in monitoring the establishment of the estates.

vii) The agencies which sponsor estates are found to be taking enough care to provide basic industrial infrastructure facilities like road, water supply and power for the sheds. However, they leave it to other agencies to develop the social infrastructure, such as post office, canteen/hotel, police chowki, telegraph and communication facilities dispensary, bank, ware-house facility, goods transporters, transport arrangements for commuting workers from residential areas etc.

viii) With a view to examining the Socio-economic impact of the estates, the input-output structure of the units have been analysed.

fig.in %

Andhra Pradesh	Karnatak	Tamil.N.	Kerala	Pandi-cherry
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Raw materialSOURCES

a) Local	47	51	36	76	46
b) Near by towns/cities outside the state/imports agencies	53	49	64	24	52

SALES:

a) Local	68	60	69	23	38
b) Within the State/outside the state/exports	32	40	31	77	62

ix) The industrial units established in the estates have provided employment to the local people.

Fig. in %

Andhra Pradesh	Karnataka	Tamilnadu	Kerala	Pandi-cherry
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Employment

a) Local	65	63	89	86	85
b) Within the State	25	11			
c) Outside the state	10	26	11	4	15

x) It is found 90% of entrepreneurs in A.P. are local or come from surrounding regions.

Source 9.

xi) Technicrafts are attracted in more numbers to the estates.

On the whole availability of sheds on hire-purchases or lease, Govt, benefits, local raw material, market potential, availability of skilled labour are important factors that motivate entrepreneurs to come to Industrial Estates.

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