6. Industrial Sector

Industrial Policies : The need for an industrial policy in independent India was in the context of

1. To correct the lopsided industrial development in the colonial period.
2. Lay down the desired pattern of industrial investment.
3. Determine the pattern of industrial development over space and time.
4. To reduce inequalities among people and regions. Hence in light of the above factors, the government of India formulated the Industrial Policy Resolution in 1948. The chief objectives of the Industrial Policy Resolution (IPR) - 1948
   (i) To lay the basis for a mixed economy.
   (ii) To enable the state to assume the responsibility of industrial development in accordance with nationally determined goals.
   (iii) The policy divided industries into 4 categories.

CATEGORY A : Industries under this category to be a state monopoly (like Atomic Energy, Railways etc.)

CATEGORY B : This included the mixed industrial sector. The state to set up new capacity i the industries under this group while existing capacity of the private enterprise would be allowed for 10 years.

CATEGORY C : Industries under this category to be in the private sector but subject to close governmental control. The state may also set up capacity in this category.

CATEGORY D : Industries under this to be left to private enterprise subject only to general governmental control,

The Industries (Development and Regulation) Act-1951 was enacted tb give effect to the Industrial Policy Resolution- 1948. It provided for licensing for new industries and also for expansion of existing capacity (no license would be required for units with less than 100 workers and where investment was less than 10 lakhs). It empowered the government to prescribe prices, volume of output and distribution of output. It also empowered the government to take over the management of private industry if it failed to act .in accordance with the guidelines laid down in the IPR-1948 and the Industries Act-1951. The act also provided for intervention by the government to investigate industrial activity.

The Industrial Policy Resolution -1956 : This was to give effect to the goal of establishing a socialist pattern of society. This was based on the Mahalonobis strategy of development. The classification of industries was more clear and the coverage of indu'st^es: was more broader in terms of the role of the State. Under IPR-1956, more industrial groups were' brought under public sector and industrial licensing was made mandatory. The IPR-1956 grouped,, industries into three schedules.

Schedule A : Included 17 Groups of industries. These will be the monopoly of the State.

Schedule B : Included 12 Groups of industries. Capacity in these would be increasingly set up by the State but private sector would be allowed at the discretion of the State. The schedule B industries were to be developed by the states. However, in-schedule B industries, the private sector was expected to supplement the efforts of the state governments. Hence, schedule B industries will not be monopolies of state governments.

Schedule C: Included all other industries. These were to be developed by the private enterprise subject to control by the government under economic legislations like the IDRA- 1951. Schedule C industries will also be subject to licensing under IDR Act -1951.

Review of Industrial Development under IPR -1956 : The government set up the Hazari Committee in 1966 to review the working of industrial licensing. The committee submitted its report in 1967. The Subimal Dutt Committee was also set up in 1967. This was the Industrial Licensing PoHcy Inquiry Committee. It submitted the report in 1969. Both these committees concluded that the licensing authorities ignored the objectives of industrial licensing. The Dutt Committee recommended the concept of the joint sector. It also recommended identification of core industries. From these, those in Schedule A should be reserved for the State.

Liberalisation of Industrial Licensing : Based on the findings of the Hazari and Dutt committee Reports, liberalisation of industrial licensing was initiated. This .took the form of series of Industrial Policy Statements. These were :

(i) Industrial Licensing Policy 1970 (Industrial Policy Statement-1970) : It identified 8 core industries. Of these, those in Schedule-A should be reserved for public sector and in others, private enterprise should be allowed. The industries were divided into 4 sectors -

1. core sector - Which included critical and strategic industries such as steel, coal, cement, atomic energy, clear minerals etc. The core sector units were to have investment in fixed assets of at least 5 core.
2. The Middle Sector or Medium Sector : This would be include units with an investment of oe:.veen 1 crore to 5 crore in fixed assets.
3. Non-core sector : This was also called the joint sector a"d would include some core industries with an investment of 5 crore
4. Delicensed sector : These would include industries which do not require a license. It also identified industries for the joint sector, heavy industrial sector and medium industrial sector.

(ii) Industrial Licensing Policv-1973 (Industrial Policy Statement-1973) : It identified industries for development in the Joint Sector and also identified the priority industries. This defined core industries as basic industries or infrastructure industries which would fefe also is? developed by private enterprise (subject to licensing) and with an investment of at least 20 crore. The Joint Sector as an instrument of public private partnership was also visualized. The core industries identified for the private sector included iron and steel, crude oil exploration, Oil refining, cement, coal, and electricity. The 1973 licensing policy also provided for entry of multinational companies into India on a limited basis.

(iii) Industrial Licensing Policv-1975 (Industrial Policy Statement-1975) : This was a major step in delicensing of a large number of industries. This permitted unlimited expansion beyond licensed capacity and delicensed 21 groups of. industries.

(iv) Industrial Licensing Policv-1977 (Industrial Policy Statement-1977) : it expanded the list of industries for the small scale sector. It also proposed the establishment of District Industries Centres (DIG) to help the Small Scale Sector (SSI). It also introduced the Tiny Sector TTTTs" prohibited foreign investment in non-priority industries. The policy expanded: the number of items reserved for the SSI from 180 to more than 500. It defined tiny units as those which would have investment in fixed assets of not more than one lakh and would be set up in villages and towns with up to or less than 50,000 population as per the 1971 census. It also declared that foreign companies that reduced foreign equity to 40% of total paid up capital would be treated on par with Indian companies.

(v) Industrial Licensing Policv-1980 (Industrial Policy Statement-1980) : This provided for regularisation of excess capacity particularly for FERA/MRTP companies. It also sought to promote export oriented units. This exempted some key industries from the provisions of MRTP Act.

(vi) Industrial Licensing Policy-1985 (Industrial Policy Statement-1985): This aimed to encourage the growth of large industries. It raised the limits on investment infixed assets for the purpose of the MRTP Act. It also introduced Broadbandinq as a device to liberalise industrial licensing. Broadbanding covered machine tools, paper, automobile and other industries.

(v) Inindustrial Licensing Policy -1988 (Industrial Policy Statement-1988) : This was another major step towards delicensing Indian industry. Non-MRTP and Non-FERA companies were exempted from licensing if they set up capacity in industrially backward areas. It also proposed the establishment of Growth Centres. Non-FERA and Non-MRTP companies were exempted from licensing if they set up industries with fixed investment of not more than 50 crore in backward areas.

Industrial Policy Resolution -1991 : This represents a new economic philosophy with emphasis on competitiveness of Indian industry, growth of large enterprises, accelerating the rate of industrial Investment and the development of an export oriented Indian industry. The chief features of IPR-1991 are : 1) Abolished industrial licensing except for few industrial groups, (Note : Today licensing is required for 6 industrial groups. These are : i) distillation / brewing of alcoholic drinks, ii) manufacture of cigar/ cigarette, tobacco substitutes, iii) electronic, aerospace and defence equipment, iv) Industrial explosives and detonating elements, v) Hazardous chemicals, vi) drugs and pharmaceutical products) 2) Dereserved 9 industrial groups from the 17 reserved for the public sector (Note : Today, 3 industries are reserved for the public sector. These are : i) Atomic energy, ii) Nuclear materials/substances specified by the department of atomic energy, iii) Rail transport). 3) It opened Indian industry to Foreign Direct Investment (FDI). 4) The IPR-1991 declared that Foreign Exchange and Regulation Act (FERA) would be amended to attract FDI. 5) It places responsibility of industrial development on the private enterprise.

SMALL SCALE INDUSTRY

The Small Scale Sector (SSI) Includes : 1) Ancillary Units : These are industres which sell at least 50% of their output to other industrial units. The ceiling on investment infixed assets is one crore. 2)Tiny Units : Defined by Industrial Licensing Policy of 1977. The investment ceiling in fixed assets is 25 lakhs. 3) Small! -Scale Units ; These are units with a ceiling on investment in fixed assets being not more than one crore. Based on the Abid Hussain Committee's recommendations, the investment ceiling in fixed assets was increased to 3 crore for small scale units. However, it has been reduced later to one crore. 4) Small Scale Service Business Enterprises: Are those with a maximum investment of 10 lakh. These produce industrial services for industry.

THE IMPORTANCE OF THE MEDIUM SMALL AND MICRO ENTERPRISES (MSME): The MSME account for 40% of India's exports, 45% of India's manufacture output and provide direct employment to 70 million people. The MSME also contribute to more than 90% of India's non-traditional exports. India today has around 3.11 crore units in the MSME. These account for 95% of all enterprises. Their economic significance is in terms of

1. Have low ICOR compared to big medium industry.
2. Add value to the agricultural output.
3. Are labour intensive
4. Help in rural industrialisation.
5. Have low import intensity
6. Are labour intensive and capital saving (India is labour surplus and has inadequate capital). For example, SSI create more.employment per unit of investment (15 times more than the employment generated by medium and big industry).
7. SSI tap hidden resources, idle rural savings and also rural enterpreneurial ability.
8. They reduce income inequalities and reduce regional imbalances.
9. They also help in preservation of inherited skills because they manufacture non-traditional items (for e.g. 90% of exports of SSI are made up of non-traditional items).

Problems:

1. 96% of units in SSI have fixed assets less than 5 lakh but account for 60% of output of the SSI sector. (These do not enjoy economies of scale and have obsolete technology and production process). Only 4% of units of SSI with Investment in plant and machinery above 5 lakh account for 40% of output from the small scale sector.
2. Though the definition of SSI is on the basis of investment in fixed assets according to the Industries Development and -Regulation Act - 1951 (the earlier definition of SSI on the basis of investment and employment criteria was modified to exclude employment criteria), still the SSI come under the purview of the Factory Act - 1948 for labour purposes. This leads to harassment by

labour inspectors. Many units within the tiny sector (which is part of SSI) with an investment of- 2 - 3 lakhs in fixed assets and with 10-12 workers are subject to Factories Act and other labour laws, hence leading to harassment by inspectors.

3. Encroachment by big industry is another serious problem. The medium and big industry have entered the SSI on one pretext or the other to produce the items reserved for the SSI and to avail concessional credit by banks.

Measures for the Promotion of SSI in India :

l. **The Small Industries Development Organisation (SIDO)** was set up in 1954 to formulate, co-ordinate and monitor programmes and policies for the promotion and development of SSI in India.

2. **Reservation of items for SSI :** The government has reserved around 836 items to be manufactured and produced by the SSI. Encroachment by medium/large industries on these reserved items is penalised. This policy of reservation is under'constant review and hence items may be added or deleted from the reserved list. To review the reservation policy, the government has constituted an "Advisory Committee on Reservation" in 1951. The items reserved for the production by the SSI however can be produced by the large and medium sectors only if they export 75% of their production.

3. **Marketing Assistance :** The "National Small Industries Corporation" has been set up in 1955 which helps the SSI in obtaining greater share of government and defense purchases, In fact, the government is the single largest purchaser from SSI The "Small Industries Development Organisation" (SIDO) provides indirect support to the marketing efforts of the SSI by preparing "Area Survey Reports", Industry Prospect Sheets: for their guidance.

4. **Financial Assistance :**

(a) The National Small Industries Corporation (NSIC) at the national level and its counterparts at the state level supply machinery to the SSI on a hire-purchase basis.

(b) Financial Institutions like IDBI (Industrial Development Bank of India), NABARD, ICICI (Industrial Credit and Investment Corporation of India) provide refinance to banks (i.e. reimburse the amount given to SSI by other banks) for financing the SSI.

(c) The Small Industries Development Fund within the IDBI has been set up in 1986 with a paid up capital of 2500 crores. The fund caters to finance the expansion/ diversification programmes of SSI.

(d) The "National Equity Fund" has been set up in the IDBI to provide equity support to small scale enterpreneurs for setting up new projects and also for rehabilitation of potentially sick units, e) The "Small Industries Development Bank of India" was set up in 1989. It is an apex bank (which became operational in April, 1990) to cater to financing, development and promoting the SSI. It has an authorised capital of 250 chores, and is a subsidiary of IDBI.

5. **Technological Assistance :**

(a) Items of machinery/ equipment for the SSI and the VSI (village and small industries) are put -in the "Open General License" (OGL). (Items in the OGL do not require an import license i.e., they can be freely imported).

(b) SSI enterpreneurs are entitled to import machinery/equipment upto 3 lakhs for setting up capacity.

(c) The "District Industries Centres" (DIC) assist the SSI with respect to information about technology.

(d) The National Equity Fund, SIDO help the SSI in technological modernisation.

(e) In 1990 - 91 budget "Tool Rooms""Process and Product Development Centres" have been under SIDO for the technological upgradation and modernisation of SSI.

(f) Again in the 1990 budget, a "Department of Small Scale, Agro and Rural Industries" at New Delhi has been set up to harness innovtive technology for achieving value addition to agricultural/horticultural produce and also raise the level of rural technology in village industries.

(g) In 1992, a Small-Scale Industrial Policy was announced which assured timely and proper finance for growth, technological upgradation, removal of labour irritants and ending the inspector raj.

Other Problems of the Small Scale Sector :

1. Lack of assured supply of credit/inadequate financial assistance.
2. Inadequate supply of raw material : The SSI are starved for assured supply of raw material because the medium and large sectors get most of the raw material since they have adequate resources at their disposal to buy up huge quantities of raw material.
3. Encroachment by big/medium industry : On an average, 95% of the SSI have assets worth less than 5 lakhs i.e., units having assets more than 5 lakhs each are usually controlled/owned by big/ medium industrial houses.
4. Poor R&D : Small sector has practically no R & D. Though ICICI lends money for R & D and also provides expertise, its schemes attract few takers. The IDBI has provision to fund only common testing facilities for the small sector. The government should therefore step up investment in R & D for SSI.
5. Inadequate development of rural markets : The total size of the rural market for packaged goods is huge, in which the share of SSI is very low. The factors impeding the growth of rural markets include widespread dispersal of villages, inadequate road network in rural areas frail communications, low purchasing power, scant marketing research and inadequate number of retail outlets. Hence there rs no adequate demand for the goods produced by SSI.
6. Cumbersome procedure: The procedures are still cumbersome and the inspector raj is far from eliminated. A large number of inspectors from various organizations still keep coming to SSI units on some pretext or the other thus slowing down the production process.
7. Inadequate utilisation of installed capacity : Most of the units do not use their installed capacity to the fullest. This is owing to the reason that they believe that there is no market if they produce the maximum possible by them.
8. Lack of proper counselling facilities : The small industrialist starts his unit without full information regarding the viability of the unit A. As a result some units fall sick.
9. Delayed sanctioning of loans : Though credit facilities exist, a lot of time is lost in sanctioning loans due to the cumbersome procedures.
10. Frequent changes irf fiscal levies : Small scale enterpreneurs are subject to varying tax structures which retards their progress.
11. High rate of interest : SSI pay a high rate of interest on borrowings which the industrialist can ill-afford. Apart from this, banking institutions also collect service charges, commission for discounting bills, handling charges etc.
12. Infrastructural problems : Frequent breakdown or shortage of power is a major impediment that effects the health of the unit.
13. Lack of effective marketing back-up : Because of poor managerial skills and sub-standard quality of goods the SSI find it difficult to market their output.
14. SSI is catering to elite sections of the society : Contrary to the objectives of producing wage goods and goods of mass consumption, the products of SSI are catering to the elite sections of the society and hence are not fulfilling their role in harmony with the objectives.

Suggestions :

1. Simplification of procedures
2. Implementation of the single window system.
3. Development of marketing surveys and outlets

4. Sanctioning of loans within a stipulated time.
5. Introduction of a single tax like VAT.
6. Modernization of the plant.
7. Provision of Infrastructure

Reforms for the SSI:

1. The Abid Hussain Committee was set up in 1997 and it suggested many reforms.
2. Based on the Abid Hussain Committee's recommendations, the government has started dereserving items reserved for the SSI. In the 1997-98 budget, for the first time 14 items were dereserved. Based on the same committee's recommendations, the distinction between export - oriented and non-export oriented SSI has been abolished, the investment ceiling on fixed assets of SSI have been raised and norms for loans by banks to SSI have been laid down.
3. Big ncustry can participate in the equity of SSI upto 49% of the total equity.
4. FDI is allowed upto 24% of the equity of SSI.
5. Export obligation of big industry producing items reserved for SSI -as been brought down from 75% to 50% of total output.
6. Small and Medium Enterprises Fund nas been set up under SIDBI and is operational since April,2004. 7) The S.P. Gupta Study Group on Development of Small Enterprises was set :up in 1999. It gave a 3-fold definition of tiny, small and medium enterprises. Tiny units are to be defined as those with investment not exceeding 10 lakhs in plant and.machinery. Small units are those with investment on plant and machinery being between 10 lakhs to one crore. Medium units are those with .investments on plant and machinery between one crore to ten crore. For the first time the Study Group defined the investment ceiling for plant and machinery for medium units. 8) In 1997, the RBI set up the S.L. Kapoor Committee to make recommendations on the problems of untimely and inadequate credit to the small scale sector.

Small and Medium Enterprises Development (SMED) Act, 2006: The salient features of the Small and Medium Enterprises Development (SMED) Act, 2006 are :

1. Enterprises are classified into manufacturing enterprises and service enterprises.
2. Both have been further sub-classified into micro, medium and small based on their investment in plant and machinery, if it is manufacturing, and based on equipment, if it is a service enterprise.
3. Manufacturing enterprises are:
   (a) Micro enterprises with an investment of upto 25 lakh rupees
   (b) Small enterprises with an investment of between 25 lakh and 5 crores
   (c) Medium enterprises with an investment above 5 crore and upto 10 crores.
4. Service enterprises are :
   (a) Micro enterprises with an investment upto 10 lakh
   (b) Small enterprises with an investment between 10 iakh and 2 crores.
   (c) Medium enterprises with an investment between 2 crores and 5 crores. The Act provides for a consultative body at the national'level with representation to all stakeholders, an Advisory Committee to assist the Central and state governments.

The Act also provides for:

(a) Specific funds for the promotion of competitiveness of these enterprises.
(b) Progressive credit policies.
(c) Preference in government purchases from them.
(d) Address the problem of delayed payments to these enterprises by big industry.
(e) Simpler procedures for closure of these enterprises.

Abid Hussain Committees Recommendations on SSI: The Abid Hussain Expert Committee on Small Enterprises has made the following recommendations.

1. Scrap reservation policy for SSI (836 items are reserved for production of SSI. Medium and big

industry can enter into these areas only if they undertake to export 75% of output).

2. Scrap 24% limit on foreign equity participation in units producing these items.
3. Raise investment limits in plant and machinery for tiny sector to 25 lakhs (now 5 lakhs).
4. Tax concessions to existing units producing reserved items for a 5 year transition period.
5. Government to provide 2500 crore as financial assistance to SSI in a five year transition period.
6. Pending scrapping of reservation policy, the export obligation of non-SSI unis producing items reserved for SSI to be brought down from 75% to 50%.
7. Public and private partnership for setting up support systems for SSI.
8. Redirect SSI to backward regions based on the cluster approach.

Credit Guarantee Fund Scheme for Micro, Small and Medium Enterprises : It was launched in 2000 by the SIDBI and Ministry of Micro Small and Medium Enterprises. The government of India and SIDBI contribute to the corpus of the fund in the ratio of 4:1. The corpus of the Fund was raised to 2500 crore by end of the 11th plan. The eligible institutions to lend are scheduled commercial banks, select RRB's, National Small Industries Corporation Limited (NSIC), and SIDBI. The credit facilities are given to new and existing units for both term loans and working capital upto 1 crore per borrowing unit, without any collateral. If the credit is more than 50 lakhs, the Trust will guarantee credit up to 50 lakh only. The credit should be availed by the borrowing unit from a single lending institution. The guarantee cover by the Trust will be up to 75% of sanctioned credit amount but guarantee cover is upto 80% for micro enterprises for loans upto 5 lakh, micro and small enterprises owned by women and for loans in the North East Region.

Nationai Manufacturing Competitiveness Programme : This was launched in 2005 with the objective to support the small and medium enterprises to help them become competitive. The components of the programme have been worked out by the National Manufacturing Competitiveness Council (NMCC). This began to be implemented in 2006-07 financial year. The 5- year programme of National Manufacturing Competitiveness to be executed in a public private partnership mode, includes marketing support to SME's, support for entrepreneurial / managerial development of SME's through incubator approach, building awareness on intellectual property rights, setting up of mini tool rooms by ministry of MSME, training in quality management, support for design expertise, technology and'quality upgradation support etc. These schemes were to be implemented in the 11th 5 year plan.

India Opportunities Venture Fund: This was announced in budget 2012-13. This will be within SIDBI with a fund size of 5000 crore. This fund is to enhance availability of equity capital to MSME.

National Eguitv Fund Scheme: This provides loans to MSME for projects upto 50' lakh. The concessional loan for such projects is 25% of the project cost subject to a maximum of 10 lakhs per project. The NEF loans are at 5% interest.

Credit Linked Capital Subsidy Scheme: This is to facilitate technological upgradation of MSME. The scheme provides for 15% subsidy an capital expenditure on induction of proven technologies. Under the scheme the maximum loan is 1 crore of which 15 lakhs is subsidy given. Term Loans sanctioned under CLCSS are only eligible for subsidy.

Other Initiatives for MSME: Two SME Exchanges have been set up in Mumbai in 2011 to enable these enterprises to have greater access to finance. The government also approved a policy under which ministries and central PSE's are required to make a minimum of 20% of their annual purchase from micro and small enterprises. 4% of this purchase will be from MSE's owned by SC and ST entrepreneurs.

THE INDEX OF INDUSTRIAL PRODUCTION

Any index like the IIP or the wholesale price index is a composite or a summary indicator whose absolute numbers are free from units of measurement. The 1st IIP of India had a base year of 1937. The Central Statistical Organization started Compiling IIP with the base year as 1946. The IIP measures growth of a basket of industrial goods which are most important to the industrial economy of India. The basket does not include all industrial groups because data of output may not be consistently available and / or because the contribution of some industrial groups is not significant to the overall industrial economy of India. The current IIP includes 682 items in its basket clubbed into 399 item groups (manufacturing includes 397 item groups, mining and quarrying include one item group and electric power production, one item group). Of the 682 items, 620 belong to manufacturing, 61 belong to mining and quarrying and one to electric power production. The items are also clubbed into use based groups i.e., basic goods, intermediate goods, consumer goods. All groups of the basket that the IIP includes are assigned weights which refer to the gross value added by that activity. The pfresent IIP is based on 2004-05 as base year in which manufacturing has a weight of 75.53%, mining / quarrying a weignt or 14.16% and electricity production a weight of 10.32%. In use based classification, basic goods have a weight of 45.68%, capital goods a weight of 8.9%, intermediate goods a weight of 15.7% and consumer goods a weight.of 29.8%. The IIP includes 8 core industries with a combined weight of 37.9%.

New Electronics Policy and Electronic Industry: The chief features of the Electronic Hardware Manufacturing Policy 2012-17 are 1. Under Electronic Manufacturing and Modified Special Incentive Scheme (M-ships) promoters setting up electronic Manufacturing clusters which offer basic infrastructure to enable concentration of units producing components sub-assembly, other products in the value chain will get 50% of the project cost with a ceiling of 50 crore for every 100 acres and for a maximum of 200 such plusters. For units"TrTSEZ, a 20% subsidy on capital expenditure will be given.'Fortirownfield clusters, 7B% of project cost will be given subject to a ceiling of 50 crore. For units outside SEZ, a subsidy of 25% of the project cost will be given if they manufacture any one of the 29 identified product categories, without any ceiling on project cost. For non-SEZ units, there will be refund of counter-vailing duty and excise duty paid on capital equipment. There will be an Electronic Development Fund with a corpus of 10,000 crore which will be for promoting electronic hardware manufacturing. This fund will'also finance many other funds under it to identify deserving R&D projects. The Electronic Development Fund will have 25 to 100% equity exposure in these other funds.

India's electronics production by March 31 2012 was 70 billion USD and is expected to grow to 400 billion USD by 2020. The 30,000 crore policy will be distributed across

(i) 10,000 crore for EDF

(ii) 10,000 crore as financial support for development of electronic manufacturing clusters.

(iii) 10,000 crore for financial support to large units.

INDUSTRIAL SICKNESS

Definition of Industrial Sickness : The Sick Industrial Companies Act - 1985 defines industrial sickness. According to the SICA - 1985, a medium and large company- (i.e., a non-SSI Company) is deemed to be sick if:

1. It has been registered for not less than 7 years.
2. If at the end of any financial year it has accumulated cash losses equal to or exceeding its entire net worth.
3. Has also suffered cash losses in the current financial year.
4. Has. suffered cash losses in the immediate preceding financial year.

This definition excluded government companies (PSE's), shipping companies, small scale and ancillary units. In 1989, the small scale sector wasTjTougfit unae the purview of SICA. A sick small scale Unit is one which, at the end of any financial-year, has'accumulatedTosses equal to or exceeding 50% of its peak rie't worth. A potentially sick unit is one whose accumulate cash losses have eroded 50% of the net worth. Weak Units are defined by. the Sick Industries Companies Act - 1985 as units where 50% of net worth has been eroded.

That is, any unit which has accumulated losses which are equal to or exceeding 50% of its peak net worth in the immediately preceding five accounting years and which has also suffered cash losses in the immediate preceding financial year, is a weak unit. The Boaxd of Lndustriaj and Financial Reconstruction (BIFR) was set up under SICA in 1987. BIFR has the power to make inquiries" to determine whether a company is sick or otherwise. In 1991, the scope of BIFR was extended to cover sick PSE's. In 1994, SICA was amended to permit BIFR to investigate potentially sick units. To deal with sickness, the Industrial Reconstruction Corporation on and was changed to Industrial Reconstruction'Bank of India. In 1993, the government appointecfthe Goswami Committee to examine industrial sickness.

In 1992, the Government of India under a cabinet decision set up the National Renewal Fund (NRH with a corpus of 2500 crore. The fund is to meet the needs of industrial restructuring in India. In 1994, the NRF has been extended to cover companies in the private sector. In 1995, the NRF has been extended to cover workers of state public sector enterprises Note : The NRF has been scrapped,in 2000).

Changed Definition of Sickness for MSME : in November 2012, the norms for sickness for Micro, Small and Medium enterprises have been revised. According to the new definition, any ' %1SME is deemed to be sick if the loan and interest payable by the enterprise is overdue for 3 months or more (earlier it was 6 months or more). In addition the unit need not be in commercial producflorvfor at least 2 years to be declared sick. The revised norms are to be implemented from lst April 2013.

SARFAESI ACT : The Securitization of Assets, Reconstruction of Financial Assets and Enforcement of Security Interest Act or simply the SARFAESI Act - 2002, which came into force in 2003, provides for three methods of recovery - securitizing the asset, asset reconstruction and enforcement of The provisions of the Act are not applicable when the due outstanding to the bank is less than 20% of the principal and interest. According to the Sick Industries Companies (Repeal) Act -2003, the NationaLCompany Law Tribunal wilMnvestigate sick units, not the BIFR. Under the Act

1. Banks to acquire assets under a decree from a tribunal without intervention of courts.
2. Civil courts have no jurisdiction over the Act.
3. A bank having 75% of dues owned by borrowers can seek repayment within 60 days.
4. In case of failure to repay, bank can take over the company and its management.
5. Bank can sell assets of defaulters.
6. Defaulters can appeal to Debt Recovery Tribunals against banks which have seized assets.

PUBLIC SECTOR ENTERPRISES

The public sector enterprises were set up under the Industrial Policy Resolution-1956. The IPR-1956 provided for the expansion of the public sector in order that it would occupy the commanding heights in the mixed economy visualised for India. In fact, the public sector was to be the major instrument to achieve a socialistic pattern of society. The IPR-1956 therefore divided the industries into three categories :

1. **Schedule A :** This had 17 groups of industries whose development would be the exclusive responsibility of the state. The reserved category of industries include defence industries, heavy industries, minerals, transport and communication, and power.
2. **Schedule B :** This had 12 groups of industries. The state would increasingly establish new units in these groups but private sector participation would not be denied and private sector could expand the existing units. The group includes aluminium and other non-ferrous metals not included in Schedule-A, machine tools, ferroy alloys, tool steels, basic chemicals and intermediates, anti-biotics and other essential drugs, fertilisers, synthetic rubber, road and sea transport.
3. **Schedule C :** This contains residual industries whose future development'was left to the initive and enterprise of the private sector.

The Objectives of the Public Sector : The broad objective was that the public sector would be the instrument for implementing the socio-economic policies of the government to achieve a socialistic pattern of society and lead to a welfare state. The specific objectives are :

1. To develop infrastructure for industrialisation of the country.
2. To remove regional imbalances in development.
3. To promote self-reliance.
4. To control basic and strategic sectors of the economy.
5. To prevent concentration of economic power and establish an industrial democracy.
6. To prevent domination by foreign capital.
7. To generate employment and be a model employer.
8. To provide essential consumer goods at reasonable prices.

As a result of the conscious policy of expanding the public sector, it came to function in the key areas of industries such as coal, steel, minerals/metals, heavy equipment, power etc. The public sector also came to operate in the fields of foreign trade, shipping, tansportation, construction, tourism, development of small scale industries etc. In addition, it came to occupy key position in crude oil, basic metals, fertilisers, electrical equipment. The public sector in India on the eve of economic reforms in 1991 accounted for 70 percent of the paid-up capital of the corporate sector in industry trade, agriculture and services. From only 5 enterprises in 1951 with a total investment of just 29 crores, the number rose to over 249 enterprises today. Practically, one can find the public sector in almost every area of economic activity. India today has 249 PSE's of the centre of which 217 are operational and 158 are profit making. There are around 55 central PSE's which are listed in India's capital markets.

Profile of Public Sector : The top sectors in Central government PSEs in terms of investme-: are: Enterprises producing goods got around 61.1% of investment by the State. Within, this most investment went to power, petroleum, coal /lignite and fertilizer. Enterprises producing services received roughly 37% of the investment. Within this most of the investment went to Financ a Services. The top enterprises of the central government on the basis of gross turnover are Indian Oil Corporation, Hindustan Petroleum Corporation Ltd., Food Corporation of India, Bharat Petroleum Corporation Ltd. In terms of gross profit of PSE's, the petroleum companies yielded the highest followed by telecom, power and financial services.

Achievements : The contribution of the public enterprises to the economy, notwithstanding their problems, has been impressive.

1. It has been accounting for the major portion of the output of basic metals including steel, fuel, fertiliser and electric equipment.
2. Developed the services sector such as shipping, transporation, construction, consultancy, tourisn foreign trade, insurance and banking.
3. It lead to the growth of a vibrant private sector by providing infrastructure and by creating a market, has made significant contributions in the public sector R&D through 40 national labs, especially in space, atomic energy and defence.
4. On an average, it has contributed about 24% of the G.N.P.
5. It has been making substantial contributions to the government exchequer through payment of dividends, corporate tax, excise/customs duties and other levies.
6. Undoubtedly the public sector has contributed to reduction in regional imbalances and creation of large employment opportunities in the past.
7. It has indirectly helped in the growth of small and ancillary industries.
8. Public sector intervention led to country becoming self-sufficient in foodgrain requirement of the country. The public sector, in a nutshell, transformed the colonial underdeveloped economy into a developing economy.

The problems and hence the compulsion to reform the public sector enterprises:

1. Poor return on investments : The public sector in terms of overall profitability, has a poor record.
2. Public sector has not been able to generate internal resources and has been increasingly depending upon the budgetary support of the 'government, which has been at the cost of other developmental projects.
3. The PSUs are overstaffed

4. The PSUs have become inefficient in terms of production/productivity and hence their operations have become-high cost. They have thus led to a high cost structure of the economy because they supply basic/critical inputs to other sectors at high prices.
5. Mounting sickness 6. The rate of saving of the nation contributed by the public sector is as low as 8%.

The Underlying Causes for the Problems:

1. **Over-expansion of the Public Sector :** Over the years, the public sector had extended its operations to sectors which have been traditionally for the private sector i.e., the non-infrastructure areas. Deviations like HMT, a machine tool unit, producing watches and bulbs and other such public enterprise unrelated to the welfare,of the people led to all kinds of distortions. For e.g., it led to rnisallocation of resources. Being handicapped in several ways relative to the private sector (management style, pricing, political and bureaucratic interference, etc.) it could not function as a truly corporate business entity in these areas. This led to losses, requiring budgetary support. The resources of the government were now being spread over vast areas and without any justification. In simpler terms, had not the public sector entered into non-infrastructure areas, the government would have been left with larger resources which could have been more gainfully deployed in meeting requirements of other developmental projects and also for meeting the investment requirements of on-going projects and for public enterprises in the core sector, to meet their technological upgradation/ modernisation/ expansion plans. In fact, many long and medium term inyestment plans of the public enterprises were turned down by the planning commission on grounds of paucity of resources. The net result was : cost and time overruns of many on-going projects, corporate needs of profit making companies, especially in terms of investment, not met (profit making companies like BEL, BHEL, BEML, SAIL etc.), led to sub-critical investment in new projects planned - a major reason for sickness both in the private sector and public sector being the low paid-up capital i.e., under capitalization and, rnisallocation of resources into non-priority areas.
2. **No linkage between National plan and Corporate Plans of Public Sector :** The resources of the public sector units including their depreciation provisions, are considered as national resources (by the Union Finance Ministry and the Planning Commission) available for plans. This led to neglect of maintenance norms and also needs for modernisation of many public enterprises. In fact, the long term corporate plans of even healthy public enterprises were neglected by the Planning Commission (the basic reason again being the unmanageable expansion of the public sector) hence no linkages existed between national plans and corporate plans of public enterprises.
3. **Lack of Autonomy :** At present, right from the appointment of chief executives and the nomination of directors to minutest details like rules on T.A., L.T.C., medical benefits, house rent etc., the government controls everything, leading to lack of freedom in unit management. Bureau of Public Enterprises guidelines/instructions/ procedures are uniformly applicable to all the enterprises irrespective of the fact whether they are loss or profit making or whether they are in the core sector with high technology or otherwise. The respective administrative ministry under which the public enterprise functions, by playing the role of ownership and monitoring, interferes on a day to day basis under the guise of parliamentary accountability. The Chief Executive, full and part time directors in the Board of Directors are appointed by the administrative ministry. Though only the representatives of the Finance Ministry and the concerned administrative ministry are called government directors, the fact remains that all directors on the board, full and part time, are in effect, government directors. Another problem is the lack of

participation of the two government directors in the decision-making process. A bureaucratic work culture has thus been created in the management structure of the public enterprises. Though the Public Enterprises Selection Board was constituted in the seventies to select the Chief Executives and full-time directors, its recommendations are usually ignored. In addition, all short and long-term investment decisions are taken by the concerned administrative ministry in consultation with the Union Finance Ministry and the Planning Commission, resulting in a subordinate-superior relationship. Another problem is multiplicity of audit which stultifies the decision-making process (audit by chartered accountants as per questionnaire given by CAG, followed by test audit of this questionnaire, followed by comprehensive review of public enterprises by CAG and in addition, direct scrutiny of public enterprises by the Committee on Public Undertakings).

Increasing managerial autonomy has been an explicitly stated goal but still the autonomy is non-existent. In 1969, Mrs. Gandhi's government took a policy decision not to depute IAS officers to run the public enterprises. This practice re-surfaced during the Janata Government and since then , has not been discontinued. Other efforts to give autonomy were also experimented like forming holding companies or appointment of independent directors to boards of public sector units like for e.g. to those of Indian Airlines and Air India. In 1984, as per the recommendation of the Arjun Sengupta Committee, the device of MOU was also implemented. The Senqupta Committee recommended MOU only for holding PSUs and apex companies for a period of 5 years (to be reviewed/updated every year). The MOU was intended to be a'contract between equal partners with mutual responsibilities and obligations instead^of treating PSUs as subordinate entities. This was supposed to ensure an appropriate balance between autonomy and accountability without disturbing ownership nor reducing government control. The government was to be concerned with only fulfillment of an overall plan contained, in the-MOU without interfering in the day-to-day affairs of PSUs. An MOU signing company was granted'certain enhanced delegation of powers in matters like wage revision, incentive related schemes, voluntary retirement scheme, transfer of directors within the organisation and approval of projects in which capital investment was less than 100 crores. The problems with MOUs are: bureaucratic structure, government is non-committal in its obligations/responsibilities while obligations/targets of PSUs are spelt out, evaluation of MOU is one sided i.e., only obligations/ targets of PSUs in the MOU are evaluated but not the government's, MOU has become an additional step over and above the existing system of reporting and monitoring and finally, chief executives of big organsiations like ONGC/SAIL are able to negotiate a satisfactory MOU while small PSUs have to practically accept stipulations of the administrative ministry. The MOU has increased accountability but has not significantly enhanced accountability. In spite of this, the MOU process has now been extended to cover more PSE's since 1993-94.

4. **Misguided Technology Acquisitions :** Except those public sector units in the strategic and high technology sectors who could acquire the state-of-art technologies, the other public sector units in general, suffered from misguided technology acquisitions. Quite often, the technology acquired either domestically or from external sources, was of a sub-standard nature because of political and bureaucratic considerations in the acquisition of technology and also because of lack of capital for upgradation and modernisation. The technological obsolescence manifested itself in the form of low productivity and high cost of operations.'

5. **Poor Location Decisions :** Due to the stated objective of developing tne backward areas of the country, the public sector units came to be located in areas which lacked even basic infrastructure facilities for their corporate functions. This

resulted in enhanced project costs which included the de. eiopment of infrastructure to a certain extent and later on, higher operational costs. In addition, the iocation decisions were often influenced by political leaders who could succeed in most cases to i ocate the public sector units in their respective constituencies.

6. **Conflicting Objectives :** A look at the objectives of the public sector in India mentioned earlier, shows that they are mutuall conflicting. For e.g., the public sector is expected to generate arge surplusses while at the same time, it is supposed to protect the interests of the disadvantaged sections of the society and also provide essential commodities to the people at reasonable prices. In the hierarchy of priorities, profitability and business activities on a commercial basis occupied a lower rung.

Thus, all the above factors, to name the few most important, led to what is today described as the public sector inefficiency problem.

MAJOR POLICY CHANGES ON PSE's

Policy Changes: The policy changes are due to the problems of'"PSE's, and also due to factors like globalisation / liberalisation of economy, resource crunch of the government, and compulsion to increase competitiveness of Indian Industry. The major policy changes are:

1. **IPR 1991 :**
   - (i) Government equity in PSE's to be di sin vested to increase autonomy / competitiveness.
   - (ii) BIFR to be extended to PSE's
   - (iii) Extending MRTP to PSE's
   - (iv) Extend and strengthen the MOU system
   - (v) Reduce budgetary, support
   - (vi) Professionalise boards of PSE's
   - (vi) Compel PSE's to compete with private sector where social considerations are not paramount.

   As a follow up to this new policy
   - (a) Sick Industries.Companies Act - 1985 was. amended in 1991 to extend BIFR to PSE's.
   - (b) Government launched a disinvestment programme in 91-92 budget.
   - (c) Efforts were made to reduce budgetary support to PSE's.

2. **Plan's Changed Policy on PSE's :**
   - (i) PSE's to be withdrawn from non-infrastructure and non-priority areas.
   - (ii) Fresh PSE investment only in infrastructure, security and defence / strategic sectors, high tech areas and for population control, education and health.
   - (iii) PSE's to concentrate in areas relating to preservation of basic resources like land, forests, water and environment.

3. **Access to Capital Markets :** PSE's were permitted to access the capital markets (both within India and abroad) to raise equity.

4. **Navratna Package :** Autonomy Package for 9 important PSE's (Navratnas) was announced in 1997 which is considered the most important initiative since the MOU system recommended by Arjun Sengupta in 1984. The Bureau of PubHc Enterprise^uses 6 parameters to confer Navratna status which are
   - (i) Total manpower cost as a percent of total cost of production
   - (ii) Profit before depreciation, interest and taxes (PBDIT) as a percent of capital employed
   - (iii) Inter sectoral performance
   - (iv) PBDIT to turnover ratio
   - (v) Earnings per share
   - (vi) Net profit to Net worth.

   In addition, the PSU should be a miniratna, must have 4 independent directors in its Board before it is chosen as a mahar&tna. For Navratna status to be given, the PSU must get a score of at least 60 on the total 100 based on the above parameters. The Navratna status empowers the management to nvest upto 1000 crore or 15% of the net wortji on a single project without seeking approval from the government. "However the overall ceiling on such investment in all projects put together must not exceed 30% of the net worth of a Navratna.

No ceilings on capital expenditure. Can raise debt from domestic capital markets / borrow from international debt market (subject to approval by RBI or Department of Economic Affairs). Autonomy in Personnel Policy (structuring and implementing schemes related to personnel and human resource management, training, voluntary or compulsory retirement schemes). Organisational restructuring (for appropriate marketing, including opening of offices in India / abroad). Government to induct professional, non-official directors to the Board. Committee of Secretaries to monitor the autonomy, The aim is to make these Navratnas global giants.

5. **Autonomy Package for Mini Ratrsas :** Another autonomy package for consistently profit making PSE's called the Mini-Navratna Package was also announced. The details of this package are :

   (i) **Category I Mini Ratnas :** Th.is will have PSE's which made profits for three immediate previous continuous years. The pre-tax profit should be a minimum of 30 crore in any one of the 3 preceding years. The PSE's should not have availed of budgetary support and also should not have defaulted on government loans in the 3 years. The units should have a positive net worth. The category-I PSE's under the Mini-Ratna deal will be permitted to incur capital expenditure upto 500 crore or equal to their net worth without government approval (to buy new equipment, modernise or invest in new projects). They can structure their own HRD schemes and professionalise their boards (by including 3 private experts as part-time directors).

   (ii) **Category-II Mini Ratnas :** These should have made profits for immediate proceeding 3 years and should have a positive net worth. PSE's under this will be permitted to incur capital expenditure (on new projects, modernisation, new equipment) upto 300 crore or 50% of their net worth (whichever is lower). They can enter into a joint venture with an equity participation upto a specified limit. They can structure their own HRD schemes and professionalise the boards.

6. **Relaxing BPE Guidelines:** The Union Government has accepted the Vittal Committee's recommendations on BPE guidelines. As a result, from 892 BPE guidelines, only 171 are to be retained.

7. **Liberalising Salaries and Wages:** The Government has appointed the Justice Mohan Qommittee to examine issues relating to pay, financial management, audit procedures~etcTof' PSE'S.

8. **Professionalizing Boards:** The government has allowed inclusion of outside professionals as part time non-official directors. It has also restricted the number of government nominated directors to one-sixth of the strength of the Board of Directors subject to a maximum of 2 directors. It has also allowed including of functional directors upto a limit of 50% of the strength of the board of directors.

9. **Restructuring and Revival:** The Board for Reconstruction of PSE set up in 2004. This will recommend .measures for restructuring and reviving the sick PSE's, recommend cases for disinvestment, closure or outright sale is to be considered. As of 2008-09, about 70 firms have been referred to the Board.

Impact of PSE Reforms : The profitability i.e., profits to total paid up capital employed, has doubled from 10.9% in 1991 to around 21% in 2010-2011. The navratnas have come to develop the status of Indian MNC's (like for e.g., BHEL or ONGC). The PSE's listed on the stock exchanges have shown a sharp irrcrease in their profits and revenues. The government has been moving rapidly in completing many ongoing PSE's in different stages of being commissioned. The cost overruns of central PSE's to be commissioned have been brought down from 62% in 1991 to 12% in May 2010.

Norms for Maharatnas : The following are eligibility conditions for a central government PSE to be chosen as a Maharatnas.

1. It should be a navratna.
2. It should be listed on India's stock exchanges with minimum prescribed public shareholding under SEBI regulations.
3. It should have an average annual turnover of 20,000 crore during three immediate preceding years.
4. It's average annual net worth should be 10,000 crore.
5. It average annual net profit after tax should be more than 5000 crore during each of the 3 immediate preceding years.
6. It should have a significa global presence and international operations.

Benefits enioved by Maharatnas : The boards of management of Maharatnas in addition :: exercising all benefits of Navratna boards will enjoy additional powers like 1) they are allowed to ~ake equity investment to set up joint ventures and wholly owned subsidiaries in India or abroad 2 they can undertake mergers and acquisitions in India or abroad subject to a ceiling of 15% of :-e:r net worth in the project or an absolute ceiling of 5000 crore. However, the overall ceiling on equity investment in mergers and acquisitions in all projects put together not to exceed 30% of the ~et worth of the given Maharatnas. The boards will have autonomy in creating below management board posts upto to a given level.

The National Investment Fund : This was set up in 2005 with a fund of 994J32 crores. The government set up three Asset Management Companies to .manage the fund (these are the UTI Asset Management Company Private Limited) the SBI Funds Management Private Limited and the LIC Mutual Fund Asset Management Company Ltd.). The objectives of the NIF are: proceeds from disinvestment of central PSE's will be put into NIF which will be outside the CFI and the money in the fund will be of a permanent nature. The NIF will be professionally managed to provide sustainable returns to the government without eroding the fund size. Around 75% of the annual income from the NIF will be used to finance select social sector schemes particularly in. education, health and employment. The balance 25% of the income from the NIF will be used to meet the capital investment requirement of profitable and revivable central PSE's with a view to enlarge their capital base and to finance expansion and diversification. In January 2013, it has been decided that NIF will use its funds to buy shares of central PSE's. The NIF money to be used for recapitalization of public sector banks and public sector insurance companies. Proceeds of disinvestment of government equity in PSE's to be credited to NIF in the Public Account of India. The idea of NIF to buy PSE shares and shares of PSE banks is to~ensure that government shareholding in these does not go down below 51,%. The NIF will issue preferential shares to central PSE's so that government shareholding does not drop to below 51%. Currently, most money of NIF is being used for social sector programmes, tnough it was to be used for social sector programmes, meet investment needs of profitable PSE's and revival of sick PSE's.

PRIVATISATION AND DISINVESTMENT OF PSE's

DISINVESTMENT OF CENTRAL PSE'S: The policy of disinvestment of government equity in central PSEs was announced in the IPR-1991. The objectives disinvestment are

1. To make the PSEs competitive and autonomous
2. To mobilize resources in a non-inflationary manner
3. To deploy these resources to complete various central government public sector projects in different stages of being commissioned.

The Government of India set up the Disinvestment Commission in 1996 to evolve a comprehensive policy on disinvestment. The first round of disinvestment was held in 1991-92. It may be noted that whenever a particular public sector ' company is being aisinvested via the mechanism of Strategic Sale, the government transfers 74% of its equity to private enterprise and retains the remaining 26% equity. In this method ofdisinvestmentTthe errTrifeht'Transfers decision-making power in all policy matters and operational control to the private sector. In Book Building as a. method of disinvestment of government equity, there is public offer of shares based on SEBI guidelines. The issue price of share is determined on the basis of bids received from investors but not by the issuer or merchant banker. The Bids can be made between the floor price (minimum price) and ceiling price (maximum price). All bidders get sha_res^at the bid price till the offer is exhausted. Book building retains government control over management unlike strategic sale. French Auction : The bidder is asked to bid for shares being disinvested above the floor price upto the ceiling price (which are pre-determined). The bidders are offered shares at the price they have bid till the offer is exhausted. Institutional Placement ProgrammeTnd Offer of Shares: These were approved by the SEBI in January 2012 to disinvest government equity in central PSE's. In Institutional Placement Programme, the government can offer shares of PSE's being disinvested to a maximum of 10 qualified Institutional Buyers (like banks, foreign and domestic mutual funds, insurance companies like GIC/LIC/domestic and foreign venture capital funds registered with SEBI etc). In offer of shares, the shares are offered to people as well as institutions via the stock exchanges. This was resorted to in December 2012 for disinvesting Hindustan Copper Ltd and NMDC. Buyback of Shares : The government aisols~thinking of buyback of shares by the PSE from the government. That is,, the PSE buys back its own shares from the government using its cash surpluses.

The government of India had set up the Rangarajan Committee to recommended an appropriate policy of disinvestment. The Rangarajan Committee laid down the following norms :

1. The government to disinvest upto 49% of government equity in industries reserved for PSE's.
2. Disinvest upto 100 % in rest.
3. Disinvest 49% of government equity in arms / defence production, atomic energy, nuclear minerals and rail transport. For purpose of disinvestment, in 1999, there was classification of PSE's. into strategic and non-strategic.

   The strategic sectors include : arms and ammunition, defence equipment, atomic energy, rail transport. The government to disinvest only up to 49% of the equity in the strategic sectors.

Privatisation of public sector has to be understood in the context of the structure of Public Enterprises, in India. There are public enterprises which are Departmental Undertakings and are extensions of Central / State Government departments like Chittaranjan Locos or Integral Coach Factory. Then we have Public Corporations which have been created by Acts of Parliament like the Damodar Valley Corporation and lastly the public sector enterprises which are Government owned companies set up under^the Companies Act - 1956 and which for all practical purposes, are corporate entities. The focus of privatisation are the Government Companies set up under the Companies Act and to a certain extent, the corporations, set up under Acts of Parliament.

Rationale of Privatisation :

1. Private sector can manage public sector efficiently and offer better services to society.
2. Liberalisation and globalisation of Indian economy demand restructuring of PSU's since the PSU's in their present form will not be able to compete with the private sector.
3. Failure of PSU's to deliver and mounting losses. Hence the need to use resources efficiently.
4. Generate competition by reforming the PSU's which have led to the development of a high cost industrial structure for lack of effective competition.
5. Resource crunch of the Government and hence its inability to offer budgetary support to inefficient PSU's.
6. Emphasis of liberalisation on market forces and private enterprise demands reform of PSU's.

NATIONAL MANUFACTURING POLICY AND NIMZ

National Manufacturing Policy : The policy seeks to increase the share of manufacturing sector in

GDP from 16% to 25% within a decade. To achieve this goal, the policy proposes.

1. Setting up of National Investment and Manufacturing zones
2. Promote labour intensive industries.
3. Add value to industry, by use of local technologies
4. Develop industries which are of strategic importance and have competitive advantage
5. Encourage small and medium enterprises (SME's)
6. Simplify / rationalize business regulations
7. Speed up the development of infrastructures.

The National Investment and Manufacturing Zones (NIMZ):

1. These will be mega industrial clusters to create lOOjnjnion jobs by 2022, make Indian manufacturing comparable to China and Japan, and increase tTrelHiare of industryTrom 16% to 25% of GDP by 2022.
2. The clearance for unitsin the NIMZ will be coordinated by a speciafpurpose vehicle
3. UnitsTrTthe NIMZ have to provide job loss compensation either through insurance or a dedicated fund in case of closure of the unit. The special purpose vehicle will help find alternative employment such labour
4. Private enterprises will be encouraged to set up training centres for skill development of labour. These will get tax deduction of 150% of the capital expenditure on setting up the centres.
5. There will be no subsides for units in NIMZ
6. Around 12 NIMZ will be set up initially
7. NIMZ will not enjoy any unique tax benefits like SEZ'sTT
8. The states will acquire land for NIMZ while the centre will fund the development and infrastructure cost.
9. There will be capital gains tax exemption on sale of plant / machinery for units in NIMZ
10. Individuals will be' exempted from capital gains tax on sale of property to SME's and entrepreneurs which.will be located in NIMZ.

Competition Commission of India: The Competition Commission of India (CCI) is a statutory body set up under the Competition Act-2002. The Act came into force in Octobe[r] 20C3 and was amended in 2007. The 2007 amendment was to provide a dual structure a Regu ate. Body i.e. the Competition Commission and an adjudicatory body i.e. Competition appellate Tribunal. The Competition Act rules were notified in ,2009.. Hence beginning September 1, 2009, the MRTP Act - 1969 lapsed and the MRTP commission was not to accept fresh filings of cases after a period of 2 years of the enactment of the Competition Act - 2002. The Act is valid throughout India except the state of Jammu andKashmir. The competition Act looks into

1. Anti competition Agreements such agreements are eTWTeTTiorizontal agreements (the agreements between competitors like forming cartel's) or vertical agreements (which are those relating to actual or potential relationships between firms on selling and purchasing from each other, particularly if they are in a position of dominance).
2. Abuse of dominance : i.e. a firm which enjoys a position of strength by which it is able to operate independently of competitive forces of the market or affects its competitors or consumers or the market in its favour, resorts to abuse of the dominant power. Dominance is said to be abused when the enterprise imposes unfair or discriminatory conditions in sale or purchase of goods / services or in the price in purchase / sale of goods /'services. Though the Act does not prohibit / restrict enterprises acquiring dominance, it only prevents abuse of dominance.
3. Acquisitions and Mergers : The Act regulates the operation of acquisitions and mergers. For e.g., domestic mergers and acquisitions have to be informed to the Commission if the combined entity has assets of 1000 crore or a turnover of 3000 crore. If a group of companies acquire another group of companies, the merger has to be informed to the Commission if the combined entity has assets of 4000 crore or a turnover of 12000 crore. The Commission can also scrutinise offshore mergers ^ acquisition only if the

combined entity has a market present in India with assets of 500..crore. 4) Competition advocacy i.e. to create a culture of competition. For e.g., the union government can refer to the CCI for its opinion on the likely effect of a policy under formulation or an existing law related to competition. It can suggest measures to the government on introducing policies that lower the barriers to entry so that there are many market participants, promote deregulation and trade liberalization and other measures that promote competition in the market place. The CCI does not adjudicate on disputes but passes cease and desist orders. These orders can be appealed against in the Competition Appellate Tribunal. The CCI consists of a chairman and 6 other members appointed by the central government. The chairperson and members need not be qualified to be judges of a High Court. The selection committee to select members, chairperson of the CCI to be headed by the CJI or a nominee of the CJI. The Competition Appellate Tribunal will be headed by a chairperson who is or has been a judge of the supreme court or the chief justice of a high court.

Monopolies and Restrictive Trade Practices: Monopolistic trade practices can also be described as dominant firm practices. These refer-to the behavior of an individual firm or a group of not more than three firms which have attained such a dominant position in the industry that they are able to control the market by regulating prices or output or eliminating competition. Restrictive trade practices refer to the action: taken by .a group of two or more firms to avoid competition regardless of whether the market share of the member firms is or is not dominant. The Government of India enacted the Monopolies and Restrictive Trade Practices Act jn 1970, Under the MRTP Act- 1970, a statutory commission called the MRTP Commission was.set up to investigate the effects of such monopolistic and restrictive trade practices and recommend appropriate action. In the case of monopolistic practices, the MRTP Commission was vested with only recommendatory power but in trie cause of restrictivi trade practices, the MRTP Commission was vested with jthe powers of a court cfjaw. The MRTP Act defines a business house in terms of a group of interconnected undertakings. To determine whether or not a company belonged to large business house, the licensing authorities would have to establish

(i) Its interconnection with other undertakings and

(ii) Whether or not the total value of assets of all the interconnected companies added up to 1.00 crore.

Apart from the interconnected large house, the MRTP Act referred to dominate undertakings. These .vere firms whose assets were not less than one crore and which either on their own or along with other interconnected undertakings, supplied at least one-third of any goods or services within India as a whole

The MRTP Act required both the large houses and the dominant undertakings to register with the government under the MRTP Act. Undertakings under the jurisdiction of the MRTP act were required to obtain government approval when they proposed to undertake

1. Expansion of capacity
2. Diversification of existing capacities.
3. Establishment of interconnect undertakings
4. Merger or amalgamation with any undertakings.
5. Takeover of the whole or part of any other undertaking. It may be noted that the Government of India has replaced the MRTP Act with the new competition law

MRTP Act-1970: The Act did not apply to PSE's, trade unions, cooperatives and financial institutions. Any company with assets of more than 25 crore was classified as an MRTP company. However the threshold limit was raised to 50 crore by Industrial Licensing Policy - 1980 and 100 crore by the Industrial Licensing Policy of 1985. The threshold limit was scrapped in 1991 Industrial Policy Resolution. The MRTP Act created the MRTP Commission as an organ of the Department of Company Affairs as a quasi-judicial body. It's major function was to enquire into and take appropriate action in respect of unfair trade practices / restrictive trade practices. The.MRTP Act has ceased to be in force since September 1, 2009. It may be noted that restrictive trade practices are those by t'raders who attempt to block flow of capital into production to maximize their profits. These traders may also impose conditions of delivery to affect the flow of supplies leading to unjustified costs. Any trade practice which indicates misuse of one's power to abuse the market in terms of production and sale of goods, services was defined as monopolistic trade practice. Such practices eliminate competition, can lead to decline in quality of product, reduce technological development and lead to adoption of unfair trade practice. Unfair trade practice refers to false representation and misleading advertisement of goods / services in terms of usefulness, quality/standards and need.

ECONOMIC PLANNING IN INDIA

Economic Planning is to formulate sound macro-economic policies to achieve a pre-determined set of macro-economic objectives.

The Approaches / Concepts in Planning in India :

Physical Planning : The phvsicaj_output targets for different sectors and sub-sectors are ordered in priority along with the development of Inter-sectoral balance. Output targets in physical terms are outlined.

Financial Planning: Plans focus on allocating financial resources to various sectors. This includes setting physical targets for different sectors and sub-sectors in accordance with available financial resources.

Rolling Plan: Within an overall 5-year plan, the sectoral targets and allocation of resources are fixed on a yearly basis. The 5-year plan is extended by one year at a time (rolls on for another year beyond the original 5-year period by excluding each previous year). The plan includes 3 plans made each year

1. AnjaruiuaLpJan which is reflected in the annual budget
2. A 5- year plan whose base year is changed each year in response to changing conditions of the economy.
3. A perspective plan for 10 to 15 years which includes the annual plan and the 5-year plan.

Rolling plan is to meet the needs of an uncertain economic situation due to natural catastrophes or events like war where targets fixed for a given period of time cannot be achieved due to economic instability. The 7th 5 year plan (1985-1990) was integrated with a perspective plan of 15 years and the annual plan was adopted in 1962 in the context of India-China war.

Top Down Approach (Trickle Down Approach): High growth rate of GNP is the objective. Gains of economic growth are expected to trickle down to all sections of society.

Trickle UP Approach : Increasing the minimum purchasing power of people rather than maximisation of GNP. Economic development is geared to meet the demands of bottom 50% of population.

The Mahalonobis Model of Plan Strategy: P.C. Mahalonobis, the deputy chairman of the planning commission in the period of the second 5-year plan outlined a developmental strategy called the Mahalonobis Model. It Is a 4 stage model in which each stage will focus investment on a particular sector. It declares that the initial focus of investment should be on development of basic and capital goods industries (industries producing plant / machinery, equipment which help in the production of other goods and setting up of other industries). The broad base of the basic and capital goods industry would hence facilitate the development of a modern industrial economy. Simultaneously, investment should be made continuously in developing small and cottage industry for producing wage and consumer goods which would also help in development of a new small entrepreneurial class. The model also called for import substitution, and state development of infrastructure industries. The Mahalonobis strategy aimed at self-sustained growth. The strategy included the following as its chief elements

1. Private sector to complement public sector.
2. Use fiscal policy of taxation and public expenditure to achieve two objectives of planning i.e., remove inequalities and self-reliance in savings/ investment.
3. Emphasis is on heavy industry to build capital stock.
4. Village and cottage industry to produce consumer goods. The model was accepted by Nehru and became the basis for the 2nd 5 - year plan (1956-

1961) and hence is called the Nehru - Mahalonobis Model.

Rao-Manmohan Singh Model: This became the basis for structural reforms inaugurated in India in 1991 by P.V. Narasimha Rao the prime minister and Manmohan Singh, the then'Finance Minister. It's focus is on productivity, efficiency, competitiveness and globalization. It specifically calls for increased role for private sector in economic development, reorienting the role of the state from that of developer of the economy to facilitator of ..nomic development along with state investment focused on social and infrastructure development, and development of the external economy of India i.e. foreign trade and two way movement of-foreign direct investment.

Planning Commission: This was set up in 1950 March by a cabinet resolution for formulating five year strategies of economic development (the 5-year plans). The planning commission works under the guidance of the National Development Council and is-chaired by the Prime Minister. The 1950 resolution outlined some functions for the Commission like

1. determine the priorities of economic development and include them in 5 year plans
2. Identify resources (physical, financial and human) for formulating development strategies and also identify the deficiency of India in these resources.
3. Identify hurdles to economic development and suggest strategies to overcome them
4. Identify the administrative machinery to successfully execute the plan projects
5. Suggest corrective steps if the plan projects are not being successfully implemented. The planning commission's deputy chairman (a nominee of the government) has the rank of a cabinet minister and all members of the planning commission enjoy the rank of minster of state of the union council of ministers.

   The Commission is to function like a think tank and develop a series of possible plans in consultation with the state planning boards to eventually finalize a 5 - year plan in accordance with the priorities of the state. The planning commission works through its General Divisions (concerned with the entire economy) and Subject Divisions (concerned with specific fields of economic development). The Programme Evaluation Organization of the Commission monitors the working of plan projects and provides feedback to the commission for better plan, project formulation and corrective steps'to make the existing plan achieve its goals.

Plan and Non Plan Expenditure: Plan expenditure includes central assistance to states and union territories (with state legislatures), central budgetary support to central plan and union territories without legislatures (i.e. directly administered by the centre), and budgetary support to central PSE's. The resources of the centre are made up of budgetary resources (revenue mobilization through taxes, non-tax revenues, borrowings, external assistance routed through budgets and Internal and External Budgetary Resources (IEBR) of central PSE's. Gross Budgetary, support to fund plan investment by the centre includes all the above.

Funding 5 year Plans: The resources to support 5-year plans came from a) central budgetary resources 2) by state budgetary resources 3) Resources of PSE's 4) Investment by domestic private sector 5) External assistance (which is included in Gross Budgetary Support of the centre).The most important sources of plan funds were Domestic Budgetary Sources. These included : contribution of public enterprises; government revenue surplusus; internal borrowings and deficit financing. External assistance was another source of plan funds.

National Development Council : This was set up in 1952 to carry out functions like 1) Lay down guidelines for formulation of the national plan 2) To consider/ examine national plans formulated by the planning commission 3) to assess availability of resources to implement the plan and suggest a strategy to raise the resources 2) To review the working of the 5- year plans in mid-course of implementation and suggest measures to achieve the targets 4) provide a consultative mechanism between the centre and states so as to accommodate state priorities in national plans. The NDC is headed by the prime minister and includes all union ministers with a cabinet rank, chief ministers of all states, administrators of union territories and all members of the planning commission including the deputy chairman of the planning commission. The NDC is the top body to vet (approve) the 5- year plans, Approach Papers to 5-year plans and also considers the mid-term review of the 5-year plans.

Features of Indian Planning :

Indian planning was basically concerned with the allocation of the productive resources of the economy by quantitative apportionment between sectors, regions and over time. It was a centralized physical allocation mechanism in terms of target setting and allocation of real investment in sectors and projects. It was an exercise to allocate resources to priority sectors determined nationally on the basis of social good, and not necessarily based on market demand. It was in the nature of detailed investment planning by which plans went down to details of sectoral plans and micro level / specific industry level investment and execution. Indian 5-Year plans were a combination of physical and financial planning. The plans allocated resources to various sectors in a centralised fashion. The allocation of resources was prioritized across different sectors (the priority sectors are determined nationally but not necessarily on market demand). The plans made use of centalised planning instruments like licensing, reservation of economic activity for public sector, fiscal protection to trade and industry etc to achieve their objectives.

India's 5-vear plans

1. **First Plan (1951-56):** Focus was on agriculture and food security Target growth rate of GDP was 2.1% p.a. but actual growth achieved was 3.61% p.a.
2. **Second Plan (1956-61") :** Focus was on development of infrastructure, core and heavy industry. The plan was based on the Mahalonobis strategy. The target growth was 4,5% but achievement was 4.27%
3. **Third Plan (1961-66):** The objective was self-sustained growth (self reliance) and attempted to develop agriculture and industry. The Third Plan could not achieve the targeted growth due tdjlndia-China conflict (1962) India-Pak conflict (1965) and repeated droughts. The tarqet "was 5.6% but the achievement was 2.84%
4. **Annual Plans (Plan Holiday Period of 1966-69) :** Three one year plans as part of rolling plans were formulated and implemented in 1966-67, 1967-68 and 1968-69.
5. **Fourth Plan (1969-1974) :** This was focused on Growth with Stability and Balanced Regional Development. The target rate of growth of 5.7% p.a. could not be achieved as the growth was only 3.30% p.a.
6. **Fifth Plan (1974-1979) :** The focus was'on Growth with Social Justice. Target growth rate was 4.40/0 p g, but the GDP grew by 4.8% p.a. However the 4th plan was cut short in 1977 by the Janata Party which came to power.
7. **Sixth Plan (1980-85) :** Removal of Poverty (Garibi Hatao) was the top objective. India launched the world's biggest anti-poverty prograrrime, the IRDP. The target growth was 5.2% and the achieved growth rate was 5.06% p.a.
8. **Seventh Plan (1935-90) :** Food, Work and Productivity were the themes. The growth rate of 6.01% of GDP was higher than the target of 5.0%
9. **The Eighth Plan (1992-97) :** The Eighth Plan could not be started in 1990 due to the economic crisis in India and hence was started in 1992. Human development was the focus. The plan for the first time included features of indicative planning. The target was 5.6% but the achievement was 6.78% p.a.
10. **Ninth Plan (1997-2002):** Growth with Social Justice and Equality were the main themes. The target was 6.5% p.a. growth of GDP but the achievement was 5.4% p.a. due to drought and other factors.
11. **The Tenth plan:** Inclusive growth and human development were the focus. The target was 8% p.a. but the achievement was 7.8% p.a.
12. **The Eleventh Plan (2007-12):** The target was 8.1% p.a growth of GDP (as revised later due to

global economic crisis). The focus was development of infrastructure, and inclusive growth. The achievement was 7.9%.

Gadgil Formula: This was formulated in the 4th 5-year plan, named after D.R.. Gadgil, deputy chairman of planning commission. The Gadgil formula recognizes special category states and non- special category states. For a special category states, a lump sum amount is set apart from Central Plan Assistance to states. The balance is distributed a.nong the non-special category states in accordance with the following formula (as revised in 1990 and called the Gadgil-Mukherjee Formula). The weights for different criteria in the Gadgil - Mukherjee formula are 1. Population - 55% 2. Per capita income of state - 25% 3. Fiscal Management - 5% 4. Special problems - 15%. In 2000, performance by states was added to the criteria in Gadgil - Mukherjee formula and given weightage of 7.5%. Hence Fiscal Management weight was reduced to 2% and '5.5% weight would be given to performance and other criteria.

Weaknesses of Indian Planning :

1. The centralized physical allocation mechanism called for elaborate licensing, extensive trade and fiscal protection, different forms of reservation and commercially non-viable operations of the Public Sector.
2. Central planning became over centralized taking the form of over-regulation in industry and trade, which stifled initiative and enterprise and produced unintended inefficiency in the public and private sectors. In the case of the states, over-centralized planning took the form of an array of centrally aided and centrally sponsored schemes, leaving little room for innovatory state- specific thinking on the part of the state governments. Over centralization freezed thinking in states and to a great extent even in the central ministries.
3. Since the Planning Commission allocated resources after the Union Finance Ministry indicated the quantum of central assistance available to the states, the Planning Commission came to be overshadowed by the over-reaching powers of the Union Finance Ministry which determined economic policies and priorities.
4. Detailed investment planning going down to specific industry level investment and execution became the central concern of the Planning Commission leaving little room for evolving sound macro economic policies and priorities.
5. Planning Commission's preoccupation with resource allocation neglected a critical part of economic policy, i.e., finding ways in which resources are to be generated, and hence leaving it to the Finance Ministry.
6. Planning emphasized investment in a manner such that the commanding heights of the economy be dominated by the public sector. This led to uncontrolled or rapid expansion of the public sector leading to sub-critical investment and hence, time and cost overruns. In addition, detailed investment planning was never followed by careful project planning resulting in sub-optimal utilization of resources and deterioration of capital output ratios of many projects.
7. Over-centralization of planning robbed developmental programs of people's participation due to mis-match between needs and plans. Hence, implementation suffered.
8. Planning Commission has not been able to make an impact on the planning process at the state level. In many states, Planning Boards do not have technical and economic experts to prepare the Five Year and Annual Plans and to monitor the implementation. Most boards have become dormant / defunct and hence schemes of importance were therefore not implemented properly. The sector-wise working groups for State plans by central/state experts curbed freedom of states on how agreed plan funds were to be spent.

Non-Plan Expenditure: All governmental expenditure that is not included in a plan is called non-plan expenditure. This can be both developmental and non-developmental. The major items in India's non-plan expenditure are : interest payments; pensions; statutory transfers to states; defence and internal security. Non-plan expenditure in India also includes depreciation and maintenance funds i.e., funds to maintain assets created in previous plans, expenditure on administration and, expenditure on subsidies.