CHAPTER 4

INDUSTRIAL PERFORMANCE AND POLICIES

After a steady progress during first four years of the Seventh Plan, the growth of industrial production particularly in the manufacturing sector has dropped rather sharply during the current year. Latest available data on the Index of Industrial Production (IIP) shows an overall growth of only 5.2 per cent during April-November 1989 as compared to 9.4 per cent during the corresponding period of last year. The manufacturing sector which accounts for more than three-fourth of the total weight in the Index, recorded a still lower growth of 3.6 per cent as compared to 10.2 per cent during the corresponding period of last year. The deceleration in growth has, however, been selective and confined to a few industries like sugar, steel, cement, fertilizer, cotton cloth (mill sector), commercial vehicles and consumer electronics, which have been affected by certain industry specific problems like constraints in demand, shortage of imported raw materials, etc. The overall investment climate, however, remains bright and available indicators suggest that there has been a growth in the investment activity.

Industrial Production

4.2 After a mild deceleration during the drought year 1987-88, industrial production recovered in 1988-89 and grew by 8.8 per cent as compared to 7.3 per cent in 1987-88. Among the industrial sector the Mining and Quarrying sub-sector recorded a growth of 7.9 per cent which was the highest annual rate achieved during the Seventh Five Year Plan. Growth of the Manufacturing sector at 8.9 per cent also exceeded the previous year's growth of 7.9 per cent, and that of the Electricity sub-sector at 9.6 per cent was also higher than the growth of 7.6 per cent achieved in 1987-88. (Table 4.1)

TABLE 4.1

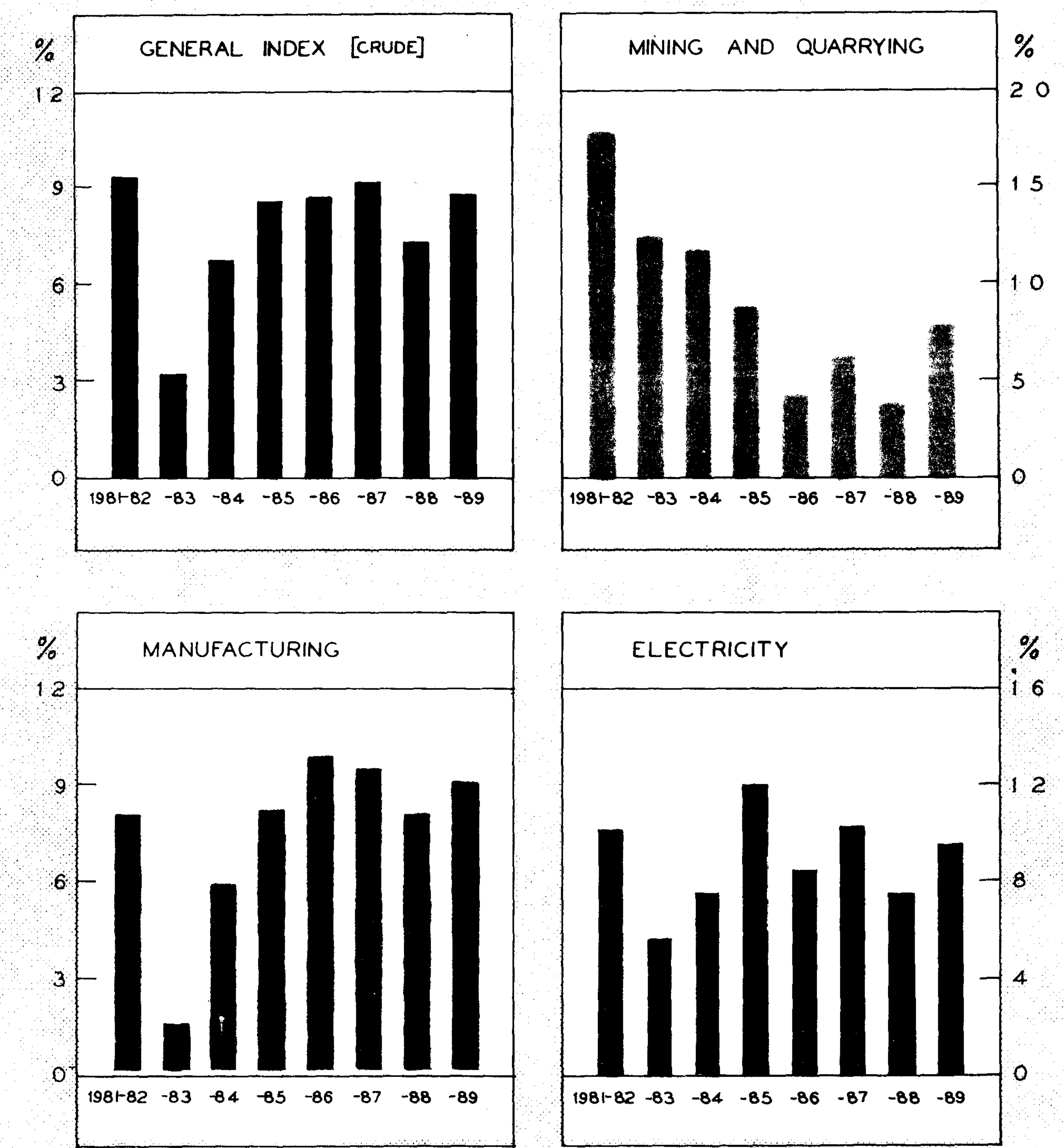
Annual Growth Rates in Major Sectors of Industry

Year	Mining	Manufacturing	Electricity	General
(Weight) . .	(11.46)	(77.11)	(11.43)	(100.00)
1981-82 .	17.7	7.9	10.2	9.3
1982-83 . .	12.4	1.4	5.7	3.2
1983-84 . .	11.7	5.7	7.6	6.7
1984-85 . .	8.8	8.0	12.0	8.6
1985-86 . .	4.2	9.7	8.5	8.7
1986-87 . .	6.2	9.3	10.3	9.1
1987-88 . .	3.8	7.9	7.6	7.3
1988-89 . .	7.9	8.9	9.6	8.8

4.3 Among the 17 major industry groups at 2 digit level of National Industrial Classification (NIC), all except two-cotton textiles and leather & leather goods (with a combined weight of 12.80 per cent in the Index of Industrial Production) recorded positive growth rates during 1988-89 (Table 4.2). Production of cotton textiles, mainly in the mill sector, declined by 3.2 per cent and that of leather & leather goods by 4.4 per cent. Five industry groups *viz.* beverages and tobacco, jute, wood and wood products, non-metallic mineral products and non-electrical machinery and machine tools with a total weight of 13.26 per cent which exhibited recessionary trend in 1987-88 recovered and showed positive growth in 1988-89. Twelve industry groups with a total weight of 55.34 per cent recorded accelerated or stable growth

GROWTH RATES IN INDEX OF INDUSTRIAL PRODUCTION

[1980-81=100]



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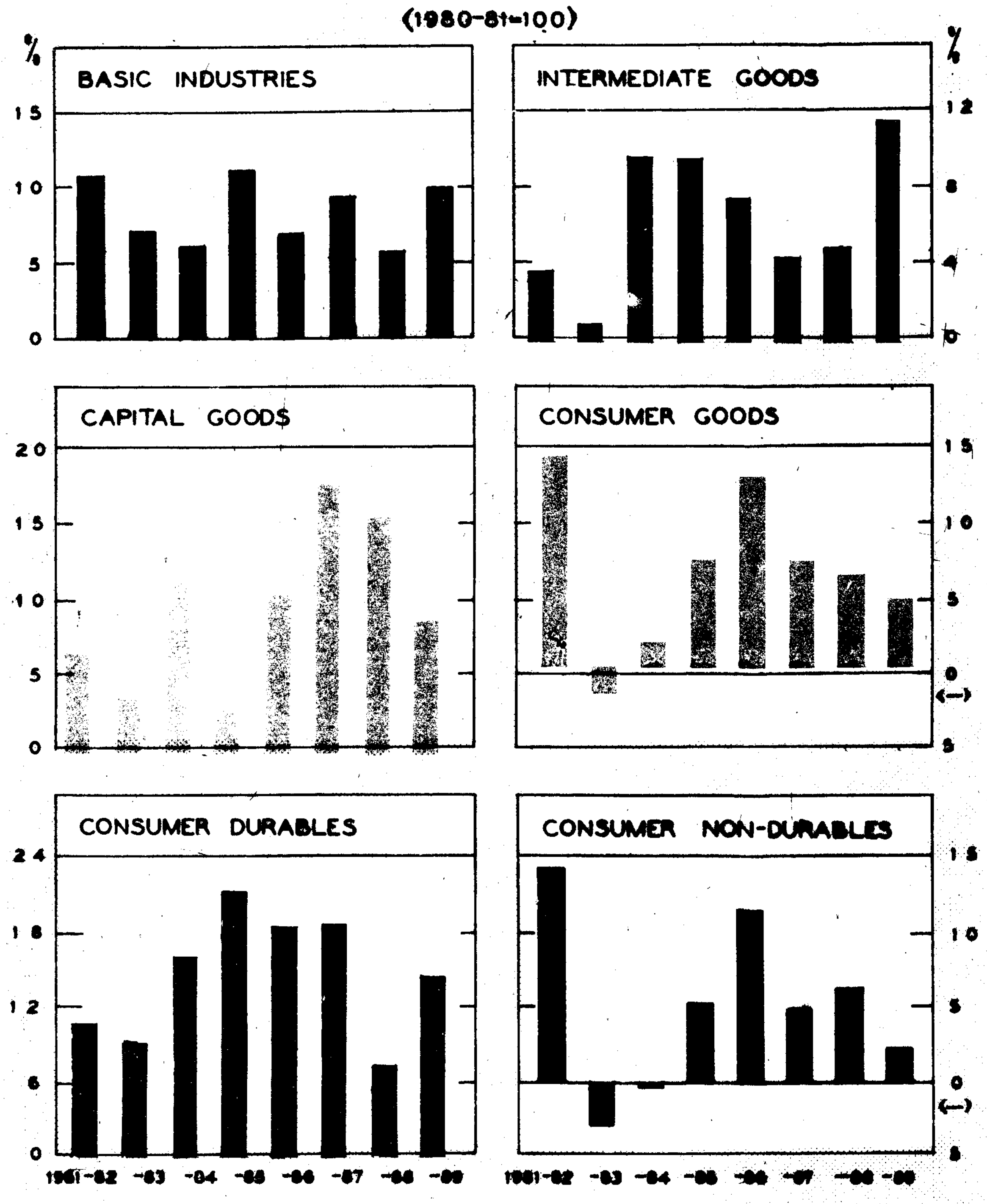
GROWTH RATES IN USE-BASED INDEX OF INDUSTRIAL PRODUCTION

(1980-81=100)



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rates, while three industry groups—metal products, electrical machinery and appliances (including electronics) and miscellaneous manufactured products with a combined weight of 8.97 per cent showed some deceleration of growth in the year.

4.4 As mentioned earlier, in contrast to an upswing shown during last year, the Index of Industrial Production has indicated a sharp deceleration during the first eight months (April—November) of the current year. Growth in the overall industrial production during this period was only 5.2 per cent as against 9.4 per cent in the corresponding period of last year. The deceleration has been solely due to the poor performance of the manufacturing sub-sector. Growth of this sub-sector during the said period drifted to 3.6 per cent this year from 10.2 per cent last year. Among the 17 major industry groups (at 2-digit level of NIC), four groups—Food products, Jute and Jute products, Wood and wood products and Basic metals—showed decline in production. Other 13 industry groups with a combined weight of 59.5 per cent in the IIP recorded positive growth and 3 of them—Beverages and tobacco, Textile products and Electrical machinery and appliances recorded growth above 10 per cent. Infrastructural sub-sectors *viz.* mining and quarrying and electricity, however, maintained the tempo of accelerated growth. Growth of mining and quarrying sub-sector during the April-November period improved from 6.8 per cent last year to 8.4 per cent this year and that of electricity sub-sector, from 7.5 per cent to 12.1 per cent.

TABLE 4.2

Trends in the Performance of Manufacturing Sector

(Base : 1980-81 = 100)

Code	Industry Group	Weight	Growth Rate (Per cent)					
			Seventh Plan Target	1985-86 / 1984-85	1986-87 / 1985-86	1987-88 / 1986-87	1988-89 / 1987-88	1989-90@ / 1988-89 @
20—21	Food products	5.33	6.4	4.7	6.0	4.4	6.8	—2.8
22	Beverages, Tobacco and products . .	1.57		0.4	—12.1	—13.8	8.5	14.1
23	Cotton Textiles	12.31		8.0	1.9	—1.2	—3.5	1.7
25	Jute, Hemp and Mesta products . .	2.00	5.0	—2.2	4.0	—10.0	12.3	—9.7
26	Textile products (including wearing apparel other than footwear)	0.82		18.0	—22.8	5.3	46.3	15.2
27	Wood and Wood products . . .	0.45	8.5	3.1	10.3	—34.3	6.2	—1.0
28	Paper and Paper products . . .	3.23		12.6	9.9	1.9	3.0	4.9
29	Leather and Fur products . . .	0.49	4.3*	21.1	5.0	4.4	—4.4	3.5
30	Rubber, Plastic, Petroleum and Coal products	4.00	6.2**	3.9	—2.2	3.7	8.5	1.8
31	Chemicals and Chemical products . .	12.51	9.5	8.1	13.7	14.5	16.1	1.9
32	Non-Metallic Mineral products . . .	3.00	5.6	13.7	1.9	—1.4	16.8	1.1
33	Basic Metals	9.80	8.1	9.0	8.4	6.9	6.9	—2.4
34	Metal products and parts	2.29		9.2	8.5	4.2	3.0	4.2
35	Machinery and Machine Tools . .	6.24	11.8	2.0	8.9	—1.8	15.2	1.9
36	Electrical Machinery & appliances . .	5.78	12.5	34.8	27.0	31.6	4.6	13.7
37	Transport Equipment	6.39	10.8	3.2	6.7	4.8	13.1	5.7
38	Other Manufacturing Industry . . .	0.90	9.8***	24.3	54.2	15.6	11.1	9.2
	Manufacturing.	77.11	8.0	9.7	9.3	7.9	8.9	3.6

*Includes rubber. @April —November.

**Excludes rubber.

***Includes metal products.

NOTE :—For April—November 1988 and 1989, Wholesale Price Index (WPI) base : 1981—82=100 has been used instead of WPI base : 1970—71=100 used for earlier periods.

4.5 Table 4.3 gives the indices of industrial production disaggregated into use-based industrial groups. Basic and consumer durable industries which had suffered a set-back in 1987-88 due to drought regained the tempo of growth in 1988-89. Following the past trend, consumer durables recorded the highest growth rate of 22.1 per cent during the year—the highest ever achieved in the eighties. There was a further decline in the growth of capital goods industries from 15.9 per cent in 1987-88 to 7.4 per cent in 1988-89. Consumer non-durables too showed a downslide in growth after a modest recovery in 1987-88.

4.6 Provisional production data at the disaggregated level available upto November 1989 in respect of 155 industries with a total weight of 85.5 per cent in the Index of Industrial Production show that the deceleration in the manufacturing sector has not been uniform across the industries. Eighty four manufacturing industries with a total weight of 38.1 per cent in the IIP showed positive growth, and 39 of them with a total weight of 9.9 per cent recorded growth above 10 per cent. Fifty nine manufacturing industries with a total weight of 25.0 per cent showed negative growth. Some of the important industries which showed growth over 10 per cent are saleable pig iron, synthetic detergents, aluminium, leather clothes, soda ash, agricultural tractors, jeeps, passenger cars, scooters and mopeds, viscose staple fibre, polyester fibres, wrist watches, computer systems and peripherals, tetracycline and penicillin. On the other hand, saleable steel, commercial vehicles, diesel engines, power-driven pumps, jute goods, caustic soda, polyethelene, cloth (mill sector), streptomycin, vanaspati, cement, sugar and phosphatic fertilisers are some of the major industries which have shown recessionary trend during the current year.

TABLE 4.3

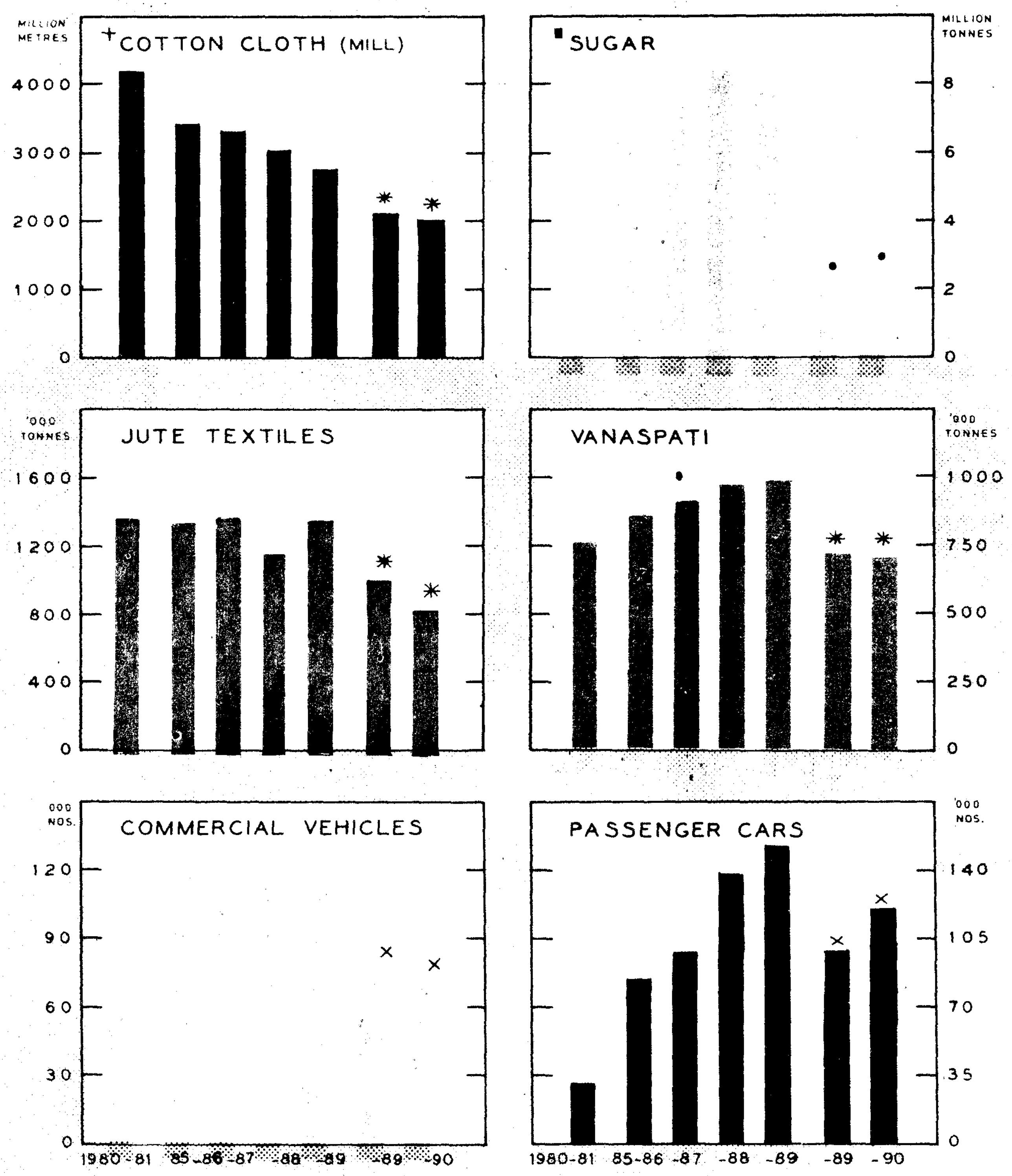
*Use-based Group Indices of Industrial Production**

(Base : 1980-81 = 100)

Industry Group	Weight	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1	2	3	4	5	6	7	8	9	10
I. Basic Goods	39.42	110.9 (10.9)	118.7 (7.0)	125.7 (6.0)	139.7 (11.1)	149.2 (6.8)	163.0 (9.2)	172.2 (9.6)	189.2 (9.9)
II. Capital Goods	16.43	106.7 (6.7)	110.6 (3.7)	123.5 (11.7)	127.2 (3.0)	140.7 (10.6)	166.3 (18.2)	192.8 (15.9)	207.0 (7.4)
III. Intermediate Goods . .	20.51	103.7 (3.7)	104.6 (1.0)	114.9 (9.8)	126.1 (9.7)	135.5 (7.5)	141.5 (4.4)	148.3 (4.8)	165.4 (11.5)
IV. Consumer Goods . .	23.65	113.8 (13.8)	112.0 (—1.6)	113.8 (1.6)	122.0 (7.2)	137.3 (12.5)	147.1 (7.1)	156.6 (6.5)	166.0 (6.0)
(a) Consumer Durables .	2.55	110.9 (10.9)	121.0 (9.1)	140.5 (16.1)	170.8 (21.6)	202.8 (18.7)	241.2 (18.9)	260.1 (7.8)	317.7 (22.1)
(b) Consumer non-Durables	21.10	114.1 (14.1)	110.9 (—2.8)	110.5 (—0.4)	116.1 (5.1)	129.4 (11.5)	135.7 (4.9)	144.1 (6.2)	147.6 (2.4)

NOTE :—Figures within brackets indicate percentage change over the preceding year.
*Provisional.

PRODUCTION OF SELECTED INDUSTRIES



+ INCLUDING MIXED BLENDED
■ RELATES TO SUGAR SEASON (OCT - SEP)
* APR - DEC • OCT - DEC × APRIL - NOV.

MINISTRY OF FINANCE, ECONOMIC DIVISION.

4.7 Table 4.4 gives growth of the selected 155 industries classified into broad use-based groups.

TABLE 4.4

Growth Rates of Selected Industries
(Use based Group-Wise)

Industry Group	Weight	Percentage change over the previous year (April—November) 1988-89	1989-90
1. Basic Industries . .	36.36	10.8	4.7
2. Consumer Durables .	2.20	19.3	0.8
3. Consumer Non-Durables	19.56	2.8	5.9
4. Capital Goods .	11.32	9.9	9.1
5. Intermediate Goods .	16.10	13.2	2.2
All Industries . .	85.54	9.8	5.1

Investment Climate and Capital Market

Investment Climate

4.8 Better performance by all sectors of economy, particularly the agriculture and infrastructure sectors in 1988-89 provided an impetus to the tempo of industrial investment. Approvals granted for capital issues have gone up by 57 per cent from Rs. 5167 crores in 1987-88 to Rs. 8122 crores in 1988-89. Import of capital goods approved by the Capital Goods (Main) Committee in 1988-89 at Rs. 1017 crores was higher by 26 per cent compared to Rs. 806 crores in the previous year. Total financial assistance to industries sanctioned by the all-India financial institutions have also gone up substantially to Rs. 13919 crores in 1988-89 from Rs. 8787 crores in 1987-88. With more industries taken out of the purview of industrial licensing, the number of industrial licences issued in 1988-89 declined to 332 from 349 in 1987-88, although there was an increase in the number of letters of intent issued from 971 in 1987-88 to 1215 in 1988-89.

4.9 Available data as presented in Table 4.5, indicate that the investment climate so far during the current year has been encouraging. During the period April—December 1989, 247 industrial licences and 900 letters of intent have been issued as against 234 and 933 respectively in the corresponding period of last year. Capital issues approved have more than doubled from Rs. 5344.23 crores in April—December last year to Rs. 10713.58 crores in April—December, this year.

Capital Market

4.10 The capital market which remained somewhat subdued in 1987-88 had turned optimistic in 1988-89. An estimated amount of Rs. 4544 crores was raised through the capital market in the year as against Rs. 3890 crores in 1987-88. The down trend in equity prices observed during 1987-88 was reversed and ruled firm for most part of the year 1988-89. RBI's average index of All-India Ordinary Share Prices (Base : 1980-81 = 100) moved up from 207.3 in 1987-88 to 248.3 in 1988-89.

4.11 The capital market has been remaining by and large buoyant during the current year. RBI's All India Index of Ordinary Share Prices (Base : 1980-81 = 100) stood at 384.9 on January 27, 1990 recording a spurt of 25 per cent over March 25, 1989 index of 308.2.

4.12 On April 1, 1989, three All-India Financial Institutions, *i.e.*, IDBI, ICICI and IFCI introduced the Exchange Risk Administration Scheme with a view to extending measures of protection to borrowers of foreign currency loans against exchange risks as also for distributing cost of such protection equitably amongst the borrowers. The volume of resources earned through the capital market has increased at a very rapid rate. This positive feature has to be sustained by maintaining the confidence of the investors in the market. Major policy initiatives taken during the current year for strengthening the capital market are :—

(1) The Controller of Capital Issues would impose the following standard conditions which were earlier imposed as special conditions on large-sized issues of capital, on all approvals of Rs. 50 crores and above :

(i) The proceeds from the proposed issue till deployment in the proposed activities, can be invested only in fixed duration deposits/investments with approved financial institutions/ public undertakings (other than in

TABLE 4.5

Selected Indicators on Industrial Approvals and Sanctions

(Numbers)

Sl. No.	Indicators	1987-88	1988-89	April—December 1988-89	April—December 1989-90
1	2	3	4	5	6
1.	Fresh approvals for setting-up new industrial capacities.				
	(a) Letters of Intent Issued	971	1215	933	900
	(of which those issued for backward areas)	(525)	(610)	(479)	(422)
	(b) Registrations issued by SIA under the Scheme of delicensing	1750	1125	925	1003
	(of which those issued for backward areas)	(1020)	(678)	(563)	(560)
	(c) Registration of Industrial Undertakings exempted from licensing.	—	274*	114@	762
	(of which, those issued for backward areas)	—	(199)	(89)	(433)
	(d) Cases approved under the scheme of Minimum Economic Scales (MES)	46	36	24	41
	Total	2767	2378	1996	2706
2.	Industrial licences issued, cases approved for endorsement of higher capacities under the scheme of re-endorsement and cases approved under the scheme of broadbanding :				
	(a) Industrial licences issued by way of conversion of letters of intent/direct licences	349	332	234	247
	(of which those issued for backward areas)	(147)	(149)	(108)	(111)
	(b) Carry-on Business licences issued	48	58	42	57
	(of which those issued for backward areas).	(14)	(21)	(14)	(16)
	(c) Re-endorsement made under the scheme of re-endorsement of capacity.	173	204	157	47
	(d) Cases approved under the scheme of broad-banding	112	75	53	70
	Total	682	669	367	321
3.	Foreign collaboration approvals on the basis of clearance accorded by FIB.	587	636	544	254
4.	CG approvals on the basis of clearance accorded by the CG (Main) Committee.	216	224	183	134
5.	DGTD registrations	1133	651	490	327
	(of which those issued for backward areas)	(613)	(321)	(298)	(176)
6.	Capital Issues (Approvals) (Rs. crores)	5166.72	8122.40	5344.23	10713.58
7.	Capital Goods (Approvals) (Rs. crores)	805.92	1017.19	892.40	1153.84
8	Total Financial Assistance by All-India Financial Institutions** (Rs. Crores)				
	(a) Sanctions	8829.64	13587.63	10385.9	9786.3
	(b) Disbursements	6610.47	8659.57	5561.8	5437.4

*Figures relate to the period November 1988 to March 1989.

@ Figures relate to the period November and December 1988.

**IDBI, IFCI, ICICI, UTI, GIC, LIC.

public sector bonds) and be used strictly for the requirement of the projects/activities mentioned in the application and not for any other purpose.

(ii) The utilisation of the proceeds of the issue will be monitored by the concerned financial institutions.

(iii) The proposed amount will be called at 25 per cent on application, 25 per cent on allotment and the remaining 50 per cent in two or more calls to be made only after the satisfaction of the monitoring institution about the use of the funds already collected.

(2) The Government have approved the creation of Over the Counter Exchange of India (OTC) which would help the introduction of a multi-tiered market for securities.

(3) Stock Exchanges have been directed to transfer the scrip of a company from the specified section to the spot section if the company intends to come out with a rights issue.

(4) Ceilings on inter-corporate loans and investments were raised from 10 per cent to 20 per cent and 25 per cent respectively.

(5) The Employers' Option Scheme was partially modified restricting the allotment of the unavailed portion of the public/rights issues earmarked for employees only to financial or investment institutions or mutual funds.

(6) In January 1990, the Government modified the guidelines for bonus shares. According to the new guidelines, a company may make a further application for issue of bonus shares after 12 months instead of 24 months previously, from the date of sanction of the earlier issue.

Industrial Policy

4.13 The initiatives taken in the recent years, to reform the over all industrial policy regime to make it more conducive to the promotion of modernisation, cost efficiency and competitiveness can be grouped into 3 categories; (i) measures to facilitate capacity creation; (ii) measures to facilitate output expansion; and (iii) measures to remove procedural impediments.

Measures to facilitate capacity creation

4.14 *Delicensing :* Automobile tyres and tubes were delicensed during the current year for all industrial undertakings including MRTP/FERA companies, subject to specified locational policy. The delicensing facility has now been extended to cover items reserved for small scale sector, weaving units employing less than 50 employees and certain items covered under the broad-banding of telecommunication equipment, industrial control instrumentation system, computer peripherals, etc.

4.15 *Technical Development Fund (TDF) :* Government have taken some major steps in 1988-89 to widen the scope and coverage of the fast track scheme introduced earlier to encourage modernisation and technological upgradation of the existing industrial units. The scheme is administered by a Committee in the Ministry of Industry, which acts as a single window for composite import packages. The ceiling for import under TDF has now been raised to a foreign exchange equivalent of Rs. 3 crores per unit per financial year, relaxable in deserving cases. The earlier limit of 40 per cent on capacity expansion arising out of implementation of TDF approvals has been relaxed for non-MRTP and non-FERA companies (including units registered under Section 20(b) of the MRTP Act in respect of product(s) in which they are not dominant) and sick industrial units reported to the Board for Industrial and Financial Reconstruction (BIFR).

4.16 The distance and capacity norms under the Sugar Licensing Policy were relaxed for new sugar factories in the public and co-operative sectors. The capacity norm is reduced from 2500 TCD (Tonnes Cane crushed per day) to 1750 TCD subject to expansion to 2500 TCD within 5 years and spatial distance norm from 40 kms to 25 kms subject to certain conditions.

4.17 Industrial units licensed or registered for any finished product and manufacturing components and parts for captive consumption are now allowed merchant sale of such parts and components subject to certain conditions *i.e.* the turnover from such merchant sale in domestic market should not exceed 25 per cent of the turnover of the finished product.

4.18 Licensing of fresh capacities in the steel industry for the manufacture of cold rolled strips/sheets was liberalised. Manufacturers of bicycles, precision tools and coated steel strips/sheets are now allowed to manufacture cold rolled strips/sheets for their captive use, within certain limits. Government have also decided to create additional capacity for ferro-nickel and ferro-silicon.

4.19 *Minimum Economic Capacity* (*MEC*) : The policy of prescribing minimum capacity levels for selected industries was introduced by the Government with a view to preventing fragmentation of capacity at uneconomic levels and improving cost efficiency in the long run. Under this policy existing manufacturing units are automatically allowed to expand their capacities upto the prescribed minimum economic levels while new units are sanctioned only for the minimum capacity levels. Manufacture of by-products obtained in the production of main products is also allowed freely. During the current year more industries were brought under the purview of MEC stipulations and capacities refixed for a few industries. Now, there are 108 industries for which MEC has been prescribed.

Measures to Facilitate Output Expansion

4.20 *Broad-Banding:* The facility of broad-banding which enables manufacturing enterprises to adjust their product—mix in line with changing market conditions and facilitate better capacity utilisation has been further extended to include Glass Fibre industry and Man-made Fibre industry in Cellulose Fibre sector. Manufacture of hot and cold rolled steel strips/sheets is now broad-banded within the existing licensed capacity. Units licensed for manufacture of hot-rolled strips/sheets are allowed to set up captive capacity for making steel slabs. Altogether 45 items have been brought under the purview of broad-banding.

4.21 Broad—banding is permitted within the existing licensed capacity and is not available to an item reserved for small scale sector or public sector. However, in cases where an existing industrial undertaking is already manufacturing a reserved item, the capacity will be pegged at the existing level. Installation of additional equipment to the extent of 10 per cent of the existing book value of the plant and machinery used for products under broad-banding has also been permitted. Broad-banding facility can be availed of by MRTP/FERA companies in case of Appendix-I items. The facility will also be available for MRTP/FERA companies for non-Appendix—I items in accordance with certain prescribed guidelines. There has been no change in the policy enunciated earlier in this respect.

Measures to Remove Procedural Impediments

4.22 Government have taken a number of measures to simplify the administrative procedure and facilitate smooth and speedy implementation of industrial investment projects. The period of validity of letters of intent issued and registrations granted by DGTD after 1st June, 1985 has been increased to three years. Procedure for setting up industrial units by foreign companies has also been simplified.

4.23 The stipulation of routing the industrial licence applications for sugar industry through the State Government has now been dispensed with. Prospective entrepreneurs may now submit industrial licence application for setting up new sugar factories as well as expansion of existing units direct to the Secretariat for Industrial Approvals in the Department of Industrial Development instead of submitting to the State Government for onward transmission to the Secretariat for Industrial Approvals. The applications as and when received will be circulated to the concerned scrutinising agencies and State Government for their comments. This change in procedure is in order to bring about uniformity in respect of industrial licence applications and also for streamlining the policy.

Industrialisation of Backward Areas

4.24 There has been a marginal increase in the number of industrial licences issued for backward areas in April-December this year compared to those issued in the corresponding period of last year. (Table 4.5). But less number of letters of intent were issued for backward areas during the period, i.e., 422 compared to 479 in April-December last year. The number of registrations issued by the Secretariat for Industrial Approvals (SIA) under the Delicensing Scheme also showed a nominal fall; 560 as against 563 in the corresponding period of last year. DGTD registrations issued to backward areas during the period declined to 176 from 298 in April-December last year. These available indicators, owing to their mixed behaviour, do not present a clear picture of the flow of industrial investment to backward areas during the current year.

4.25 A total amount of Rs. 827.46 crores has been reimbursed to the State/Union Territories as central investment subsidy for notified backward areas since the inception of the scheme in 1971 till the end of 1988-89. The amount of subsidy reimbursed in 1988-89 was Rs. 154.97 crores as against Rs 154.35 crores in 1987-88. The scheme has been discontinued since 1-10-1988. The Transport Subsidy Scheme on industrial raw materials and output for selected hilly/remote areas introduced in 1971 will be in operation till the end of March 1990.

Growth Centres

4.26 Lack of adequate infrastructural facilities is one of the major impediments hindering the industrialisation of backwatd areas. With a view to overcoming this impediment, the Government decided last year to set up 100 growth centres spread across the country over the next five years or so. It was decided initially to set up 61 growth centres in the first phase. These centres were allocated to 16 major States, and 9 smaller States and Union Territories based on three criteria; namely, population, area and industrial backwardness as measured by inverse of the ratio of number of factory workers to the population of the State. Smaller States and Union Territories were given one growth centre each and a minimum of two growth centres were allocated to other States so that the regional spread of these centres is kept balanced. In October 1989, nine more growth centres were sanctioned raising the total number of growth centres to be set up in the first phase of the programme to seventy. Distribution of these growth centres among the States and Union Territories are as follows; 8 in U.P., 6 each in Bihar and Madhya Pradesh, 5 each in Maharashtra and Rajasthan, 4 each in Andhra Pradesh and Orissa, 3 each in Assam, Gujarat, Karnataka, Tamil Nadu and West Bengal; 2 each in Haryana, Jammu & Kashmir, Kerala and Punjab and 1 each in Arunachal Pradesh, Goa, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Pondichery and Tripura. The criteria for selection of growth centres as mentioned in the last year's survey remain unchanged.

4.27 Each growth centre will acquire about 400 to 800 hectares of land for infrastructural development and for onward allocation primarily to small and medium sized units. Apart from the cost of land and its development, the other items eligible for financing under this scheme are provision of water supply, telecommunication facilities, construction of access roads, effluent disposal system, power distribution net-work within the growth centre and upgradation of existing schools, industrial training institutes, etc. Funds for augmentation of power supply are to be provided under the State Plan separately. Adequate banking facilities will also be provided in the growth centre but the expenditure on this will be borne by the banks concerned. Growth centres selected under the Scheme will be included in category 'B' (unless it is already included in Category 'A') of the list of backward areas and will be entitled to all incentives available to category 'B' areas.

Small Scale Industries

4.28 The small scale sector has been assigned an important role in the industrial economy of the country on account of some of its inherent advantages like low capital intensity and high employment generation potential. Besides, the sector promotes decentralisation of industrial activity and help in widening of the entrepreneurial base. Special emphasis has been laid on the upgradation of technology and modernisation of the small scale sector during the Seventh Plan.

4.29 The small scale industries have made a steady progress over the years. The number of units have been estimated to have gone up from 15.76 lakhs in 1987-88 to 17.01 lakhs (provisional) at the end of 1988-89, showing an increase of about 7.9 per cent. The employment in the sector is estimated to have increased from 107 lakh persons in 1987-88 to 113 lakh persons (provisional) in 1988-89, marking an increase of 5.6 per cent. At current prices, the production in the small scale sector in 1988-89 has been estimated at Rs. 106875 crores (provisional) as compared to Rs. 87300 crores (revised) in 1987-88 thereby registering an increase of about 22 per cent. During 1988-89, the production has been estimated to be of the order of Rs. 82400 crores (at 1984-85 prices) as against Rs. 72880 crores in 1987-88, showing a growth of about 13 per cent. Direct exports from small scale sector during the year 1987-88 are estimated at Rs. 4535 crores (provisional) accounting for about 29 per cent in the total direct exports from the country during the year. As a major policy initiative to give a new thrust to the small and village industries, a new department.—'The Department of Small Scale, Agro and Rural Industries' was created in the Ministry of Industry in January, 1990.

4.30 Government have introduced a wide range of policies and programmes to support the development of small scale sector. To this end, an intensive institutional support network has been created. Important among these include assistance in marketing through the Small Industries Development Corporations in different States, provision of consultancy services, common facility services including testing facilities, technical and entrepreneurial training, etc. Apart from the infrastructural support to the small scale sector, Government have also pursued a policy of providing protection and purchase preference to the products of the small scale sector. The total number of items reserved for exclusive manufacture in the small scale sector stood at 836 as on 31-1-1990. Under the Government Stores Purchase Programme,over 400 items have been reserved for exclusive purchase from small scale sector, KVIC and Womens' Development Corporations.

4.31 With a view to further strengthening the provision of financial assistance to small scale sector, especially to the smaller amongst the small scale units,several schemes have been introduced in the recent past : the Small Industries Development Fund in 1986, National Equity Fund in 1987 and the Single Window Scheme in 1988. For meeting the long-standing demand of small scale industries for a separate Apex Bank for providing assistance to them, the Government introduced a Bill on 12th May1989 for the setting up of a Corporation by the name "The Small Industries Development Bank of India" (SIDBI). After receiving the Presidential assent, it has become an act on 25-10-1989. The authorised capital of the SIDBI shall be Rs.250 crores with an enabling provision to increase it upto Rs.1000 crores by IDBI. SIDBI has two funds viz. Small Industries Development Fund and Small Industries Development Assistance Fund. Work relating to Small Industries Development Fund and National Equity Fund, which is being presently handled by IDBI is proposed to be transferred to SIDBI.

4.32 The National Equity Fund (NEF) set up in 1987 provides equity-type support to small entrepreneurs for settiug up new projects in tiny/small scale sector and also assistance for rehabilitation of viable sick units in the SSI sector. Soft seed capital assistance in the form of loan to meet the gap in the equity after taking into account the promoters' contribution to the project subject to a maximum of 15 per cent of project cost within a ceiling of Rs. 75,000 per project is provided under NEF. The Single Window Scheme (SWS) introduced in 1988 provides working capital loans along with term loans for fixed capital to new tiny and small scale units having project cost upto Rs. 5 lakhs and working capital requirement upto Rs. 2.5 lakhs. During the current year, it has been decided that the projects covered under the Single Window Scheme can also avail of the assistance under the National Equity Fund if such projects satisfy the eligibility criteria under both the Schemes. However, the assistance from the National Equity Fund is admissible only for the creation of fixed assets and not for meeting the working capital requirement. Besides, the new units which were sanctioned term loans by SFCs/twin-function SIDCs on or after 1-1-1988, but have not been able to obtain working capital requirment from the banks to commence production can also be covered under the Single Window Scheme provided they meet the eligibility criteria. Instructions have also been issued for clearing of proposals within 60 days of the receipts of application under the Single Window Scheme.

4.33 The District Industries Centres (DIC) programme was started in 1978 as a centrally sponsored scheme with a view to provide all the services and support to village and small scale enterprises under a single roof for effective development of small industries in the widely dispersed rural areas and small towns of the country. At present, 422 DICs are functioning and providing assistance to small scale industries dispersed in 431 districts of the country. In order to assess the strength and weaknesses of the DIC programme, an evaluation was carried out in 1988 by 5 reputed institutions in the country, viz., Institute of Economic Growth, Delhi; Indian Institutes of Management, Bangalore and Ahmedabad; Gujarat Industrial and Technical Consultancy Organisation, Ahmedabad; and Management Development Institute, Gurgaon. The findings of the evaluation teams are under examination.

4.34 The scheme for providing self-employment opportunities to educated unemployed youth in the country continued to be in operation for the entire period of the Seventh Plan. An evaluation of the scheme in selected States reveals that 70 per cent of the units established under the scheme were actually working; annual income per unit was about Rs. 11,000, cost of creation of employment per person under the scheme was also Rs. 11,000; average employment generated per unit was 1.80 and average credit per unit provided by the banks was about Rs. 13,000. The main problem in the implementation of the scheme was found to be the delay in disbursement and underfinancing by the banks. Under the scheme a target of 2.50 lakh beneficiaries was fixed for 1988-89. Information available upto 31-1-1990 shows that 1.92 lakh cases were sanctioned by banks involving a total assistance of Rs. 404.32 crores, of which, Rs. 201.83 crores was disbursed to the beneficiaries.

4.35 For technological upgradation of the small scale sector, Tool Room and Training Centre facilities are provided at Calcutta, Ludhiana and Hyderabad with assistance from international agencies. These centres provide consultancy services to engineering industries on processes of production, standardisation of components, product development, design, etc. and training facilities to workers and supervisory staff. A few more such centres are being set up in different parts of the country.

4.36 Since October 1989, those items of plant and machinery which contribute to modernisation of small scale units viz., pollution control equipment and pure R&D equipment have been excluded for computing the ceiling value of plant and machinery viz., Rs. 35 lakhs for SSI units and Rs. 45 lakhs in the case of ancillary units.

4.37 The second All-India Census of Small Scale Industrial Units registered with the State/UT Directorates of Industries as on 31st March, 1988 has been taken up by the Small Industries Development Organisation. The Census is expected to cover about 10 lakh units and to fill the void of timely and reliable data which has been a persisting problem with the SSI sector for long.

Khadi and Village Industries.

4.38 Khadi and village industries (including handlooms), constitute an important segment of the industrial economy of the country. The estimated production of khadi and village industries under the Khadi and Village Industries Commission (KVIC) in 1988-89 was Rs. 1745 crores as against a target of Rs. 1588 crores. About 43.5 lakh persons were employed in the sector during the year. During the current year, the sector is expected to provide employment to 45 lakh persons. In the handloom sector production of cloth in 1988-89 at 3665 million metres recorded a growth of 4.5 per cent over the previous year. Production of handloom cloth is targeted to be 4600 million metres during the current year.

The sector employed 78 lakh persons and exported handloom fabrics, made-ups and readymades valued at Rs. 305 crores in 1988-89.

Industrial Sickness

4.39 Growing incidence of sickness has been one of the persisting problems faced by the industrial sector of the country. Substantial amount of loanable funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the healthy growth of the industrial economy. At the end of December 1987, the latest period for which data are available, there were more than 2 lakh sick industrial units in the portfolios of all financial institutions and scheduled commercial banks involving an outstanding bank credit of Rs. 6256 crores (Table 4.6). Between December 1986 and December 1987, the number of sick units has gone up by nearly 40 percent and bank credit outstanding against these units by more than 28 per cent. Sickness has been growing faster in the small scale sector than in the large and medium scale sectors and as on December 31, 1987, about 29 per cent of the outstanding bank credit locked up in sick units was in the small scale sector. As per RBI data, out of 22.27 lakh borrowal accounts in the SSI sector as on 31st December 1987, 2.04 lakhs were reported to be sick, which means that every eleventh SSI unit in the country was sick.

TABLE 4.6

Industrial Sickness

Category	No. of Units		Amount Outstanding (Rs. Crores)	
	End—December 1986	End—December 1987	End—December 1986	End—December 1987
1. SSI Sick Units	145776 (21.9)	204259 (40.0)	1305.10 (22.0)	1797.31 (37.6)
2. Non-SSI sick Units (covered by SICA 1985) .	1964 (7.7)	1119 (—43.0)	3568.39 (11.5)	2801.79 (—21.5)
3. Non-SSI weak units (not covered by SICA) .	—	720	—	1657.30
Total .	147740 (23.5)	206098 (39.5)	4874.49 (14.1)	6256.40 (28.3)

Note : Figures in parenthesis indicate the percentage change over the previous year.

4.40 The viability status of identified sick units as on December 31, 1987 shows that 91.5 per cent of the SSI sick units and 46.1 per cent of non-SSI sick/weak units were not viable (Table 4.7). Bank credit blocked in non-viable sick units was as high as 71.5 per cent in the SSI sector and 38.7 per cent in the non-SSI sector. About two-third of the total viable sick units were already brought under nursing programme at the end of December 1987.

4.41 The Government have initiated a number of measures for the revival of the sick industrial units as well as to prevent the incidence of industrial sickness. A major step in this direction was the setting up of the Board for Industrial and Financial Reconstruction (BIFR) under the Sick Industrial Companies (Special Provisions) Act (SICA) 1985. The Board became operational in May 1987. Industrial companies (other than Government companies and those specifically exempted under the Act) whose net-worth has been eroded completely or by 50 per cent or more are required to make a reference to the BIFR under Sections 15 and 23 of the Act, respectively. While references received under Section 15 are required to be inquired into, there is no such requirement in respect of references received under Section 23. Since its inception, BIFR has received 1168 references under Section 15 of the Act, upto 31-1-1990. Out of the references received 302 were rejected after initial scrutiny, 31 references were under scrutiny and 835 references were registered. Of the registered references, 128 were dismissed as not maintainable after first hearing. Operating agencies were appointed in 399 cases and the reports of the operating agencies received in 275 cases. BIFR has sanctioned 69 schemes for revival, which include 6 mergers, 6 change of management and 2 leasing. In 98 other cases approval has been accorded under Section 17(2) to enable the companies to make their net-worth positive on their own. Winding up was recommended in 49 cases and sale of the unit to the State Government in one case. Out of the 835 references registered by the BIFR upto the end of January 1990, 452 cases have been disposed of. It is too early to know how many of the units approved by the BIFR will actually be revived.

TABLE 4.7

Viability Position of Sick/Weak units—End December, 1987

(Rs. crores)

Category	Sick SSI Units		Non-SSI Sick & Weak Units		Total	
	No.	Outstanding Bank Credit	No.	Outstanding Bank Credit	No.	Outstanding Bank Credit
1. Viable units	12484 (6.1)	389.50 (21.7)	613 (33.3)	1838.53 (41.3)	13097 (6.4)	2228.03 (35.6)
2. Non-viable units	186834 (91.5)	1284.99 (71.5)	847 (46.1)	1726.95 (38.7)	187681 (91.0)	3011.94 (48.1)
3. Viability not decided	4941 (2.4)	122.82 (6.8)	379 (20.6)	893.61 (20.0)	5320 (2.6)	1016.43 (16.3)
4. TOTAL	204259 (100)	1797.31 (100)	1839 (100)	4459.09 (100)	206098 (100)	6256.40 (100)
5. (*a*) Units under nursing programme	8470	287.48	381	1198.45	8851	1485.93
(*b*) As percentage of viable units	(67.8)	(73.8)	(62.2)	(65.2)	(67.6)	(66.7)

4.42 With a view to expediting the processing of the references received, BIFR increased the number of Benches from 3 to 4 in July 1989. The list of operating agencies was expanded in April 1989 and now includes 4 central financial institutions and 8 nationalised commercial banks. Any one of these operating agencies can be nominated by BIFR to formulate revival/rehabilitation packages for companies declared sick.

4.43 In view of the need to initiate remedial measures much before an industrial unit becomes 'sick' by eroding its net-worth fully and also to cover those categories of industrial units which do not come within the purview of SICA, the RBI has advised the banks to take remedial measures in accordance with the RBI guidelines in respect of industrial units at the stage of 50 per cent erosion of their net-worth. Such units are termed "weak" units to distinguish them from "sick" industrial units as defined in the SICA. All the operative guidelines regarding sick industrial units issued by the RBI apply to weak units also. The definition of non-SSI "weak" industrial unit was subsequently modified. A unit is now to be termed as weak if it has, at the end of any accounting year, accumulated losses equal to or exceeding fifty per cent of its peak net-worth in the immediately preceding 5 years. This revised definition is followed by the banks for the reporting system since September 1989. The RBI has also issued instructions that no single agency should unilaterally withdraw concessions/reliefs extended to a unit unless this has been agreed upon by all concerned. Banks were also advised that they should not lag behind in implementing their part of the obligations assumed under the rehabilitation packages for sick units.

4.44 The definition of sick SSI unit has been modified as under:

"A small scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net-worth in the immediately preceding 5 accounting years".

4.45 In the case of tiny/decentralised sector also a unit may be considered as sick if it satisfies the above definition. However, in the case of such units if it is difficult to get financial particulars, a unit may be considered as "sick" if it defaults continuously for a period of one year, in the payment of interest or instalment of principal and there are persistent irregularities in the operation of the credit limit with the banks.

4.46 As part of a package of measures for combating industrial sickness the Government have announced in October 1989, a scheme for excise relief for weak industrial units. The scheme applies to any industrial company, [excluding an ancillary industrial undertaking as defined in Section 3 of the Industrial (Development and Regulation) Act, 1951] whose accumulated losses, at the end of any financial year, have resulted in erosion of 50 per cent or more of its maximum net-worth during the immediately preceding 5 financial years. Such of these units as approved by an Empowered Committee constituted by the Central Government for a rehabilitation package will be eligible for grant of excise loan not exceeding 50 percent of the excise duty actually paid for 3 years subsequent to the date of such approval. The total amount of excise loan shall not, in any case, exceed 25 per cent of the overall cost of the rehabilitation package. The excise loan will be interest free and is repayable within 7 years in instalments after a moratorium of 3 years commencing from the date of last disbursement of the loan. The scheme will be implemented through designated financial institutions like IDBI, IFCI, ICICI and IRBI.

Employment in the Organised Sector

4.47. Growth in employment in the organised sector (comprising of all establishments in the public sector and those non-agricultural establishments in the private sector employing 10 or more persons) has been sluggish in recent years. According to the data collected under the Employment Market Information Programme, there was a marginal increase of 1.4 per cent in employment in the organised sector, which increased from 253.9 lakhs in 1986-87 to 257.5 lakhs in 1987-88. This increase was contributed by an increase in employment of the order of 1.6 per cent and 0.4 per cent in public sector and private sector, respectively. It is note-worthy that component of women employment showed a higher growth of 2.9 per cent in 1987-88 when it increased from 33.4 lakhs in 1986-87 to 34.4 lakhs in 1987-88. According to quick estimates, total employment stood at 260.3 lakhs as on 31st March, 1989, thereby showing an increase of 1.1 per cent over the employment figure on the corresponding day of 1988. Both the sectors, public and private, contributed to this increase by 1.3 per cent and 0.7 per cent respectively. Women employment has also increased by 3.8 per cent during the period.

4.48 The number of job seekers on the Live Register of Employment Exchanges was 324.55 lakhs at the end of October 1989 showing a rise of 7.9 per cent over the end of October 1988. The average monthly vacancies notified to Employment Exchanges during April-October, 1989 was 47.9 thousands as compared to 41.9 thousands during the corresponding period of the previous year, showing a rise of 14.3 per cent. However, average monthly placements during April-October, 1989 declined to 21.1 thousands from the monthly average of 23.9 thousands over the same period of 1988, showing a fall of 11.7 per cent.

Industrial Relations

4.49 Industrial relations situation has shown an improvement during 1988-89 with mandays lost declining from 39.55 million during 1987-88 to 25.79 million during 1988-89. Mandays lost during the first two quarters in 1989-90 continued to show substantial decline over the corresponding period in 1988-89, as there has been no prolonged major industrial unrest in the country. Strikes and lockouts were generally confined to Cotton & Jute Textiles and Engineering Industries in the States of West Bengal, Tamil Nadu, Maharashtra and Andhra Pradesh.

TABLE 4.8

Mandays lost on account of strikes & lockouts

(In millions)

Quarter	1987-88	1988-89*	1989-90*
I . . .	7.42	6.88	7.83
II . . .	10.39	8.00	1.65
III . . .	10.32	5.80	—
IV . . .	11.42*	5.11	—
Total . . .	39.55*	25.79	9.48

*Provisional.

—Not available.

Outlook

4.50 After a sharp deceleration in the first quarter of the current year, overall industrial production has been showing improvement since the second quarter. Industrial growth was only 2.4 per cent in the first quarter and improved to 6.2 per cent in the second quarter, and to 8.0 per cent in the first two months (October—November) of the third quarter. Industrial production in the past has been showing a seasonal pattern of higher growth in the third and last quarters of the fiscal years. Follwing this observed seasonal pattern, the likely increase in production, particularly in the manufacturing sector in the last quarter may lead to an overall industrial growth of around 6 per cent in the current year. This is significantly lower than the rates of growth in the previous four years.

4.51 In the medium-term the growth of the industrial sector should receive some stimulus from the higher levels of agricultural development and employment and export growth. In order to secure full advantage of this potential, industrial policy and other related policies must promote efficiency and economy in the use of capital, energy and materials. This has to be combined with a policy framework that ensures harmonious development of all sectors of industry-village/cottage, small scale and large scale—so as to be consistent with an employment oriented development strategy.