Industry

12.1 The target of growth for industry in the Tenth Plan was put at 10 per cent per annum. This, it was believed, would be consistent with the goal of 8 per cent per annum growth of gross domestic product (GDP). Rapid industrial growth was expected to raise the share of industry in GDP, increase India's share in world exports of manufactured goods, bring about balanced industrial development and create the much-needed jobs for skilled workers. These objectives were to be achieved through a combination of policies, plans and projects.

PROGRESS IN THE TENTH PLAN

Raising the Share of Industry in GDP

12.2 The industrial sector in the first two years of the Plan has performed below expectations though in the third year i.e. 2004-05 the performance appears to have turned around with a growth rate of 7.8 per cent (advance estimate). This is below the growth rate of 8.9 per cent targeted in the Tenth Plan but it marks a distinct improvement over the performance in the first two years. Nevertheless, the average for the first three years is unlikely to exceed 7 per cent. This is much better than the average growth of 4.5 per cent in the Ninth Plan but it is well short of Plan target. The trends in capital formation in manufacturing and industrial investment intentions (as reflected in Industrial Entrepreneur's Memoranda, Letters of Intent and Direct Industrial Licenses) indicate an improved outlook for industrial growth in the remaining period of Tenth Plan.

Nonetheless, the share of manufacturing in GDP continues to stagnate in the range of 17 per cent as can be seen in Table 12.2.

Structure and Growth Pattern of the Manufacturing Sector

12.3 Within the manufacturing sector, registered units have historically contributed approximately 65 per cent of gross value added (GVA), with unregistered units accounting for the rest. However data problems preclude any meaningful assessment of the relative performance of the registered and unregistered sectors. The Annual Survey of Industries (ASI), which is the basic source of data for registered manufacturing, shows stagnation of GVA since 1997-98. Since this is considered implausible, the Central Statistical Organisation (CSO) has in recent years been using the much more limited Index of Industrial Production (IIP) to project growth of both the registered and unregistered sectors at 2-digit level for manufacturing. This major statistical weakness requires an urgent expert resolution for proper planning and analysis.

OUTPUT OF INDUSTRIAL SECTOR

12.4 The data available from the Index of Industrial Production shows that in the first two years of the Plan period, the manufacturing sector posted an annual average growth rate of 6.7 per cent in terms of output (Table 12.3).

12.5 As the table clearly shows, the performance has not been uniform across all segments. Three industrial groups – cotton textiles, wood and wood products and leather products – accounting for a weight of 9.3 per cent showed negative growth, while another three – beverages and tobacco products, paper and paper products, and transport equipment – posted an annual average growth of more than 10 per cent. The capital goods sector registered over 10 per cent growth rate in the first three years of the Tenth Plan. The growth rates

Table 12.1

	CAGR in Ninth Plan	2002-03	2003-04	2004-05 (advance estimate)
GDP	5.5	4.0	8.5	6.9
Agriculture, Forestry & Fishing	2.0	-7.0	9.6	1.1
Industry (Manufacturing)	4.5 (3.8)	6.6 (6.5)	6.6 (6.9)	7.8 (8.9)
Services	8.1	7.1	8.4	8.9

Source : CSO

realised are: 10.5 per cent in 2002-03, 13.6 per cent in 2003-04 and 11.8 per cent during April-February 2004-05, indicating a good overall outlook for industrial growth.

12.6 The recovery in the capital goods sector has been under way since May 2002 and has come after negative performance for more than a year. The demand for capital goods in the economy is on the rise because capacity is being created across a wide spectrum of manufacturing activity.

12.7 At the two-digit level of classification, the first eleven months (April-February) of 2004-05 saw machinery and equipment items growing at close to 20 per cent, which is a substantial improvement from 1.6 per cent growth in 2002-03 and 15.8 per cent in 2003-04. This reflects an increase in investment activity and physical capital formation in the economy. Basic chemicals and chemical products witnessed an increase in growth rate from 8.7 per cent in 2003-04 to 15.3 per cent in April-February 2004-05.

Capital Formation

12.8 After peaking in 1995-96, the rate of capital formation in manufacturing had been generally on a decline. During the first two years of the Tenth Plan period, however, there have been signs of a reversal of the trend, and the rate of capital formation has begun to increase. (Table 12. 4)

Industrial Investment Intentions

12.9 Industrial investment intentions, as reflected in Industrial Entrepreneurs Memoranda (IEM), Letters of Intent (LOI) and Direct Industrial Licences (DIL), increased significantly in 2003 and 2004 (Table 12.5).

12.10 The industry-wise distribution of investment intentions continues to reflect a

Table 12.2
Sectoral share in GDP (%)

	Agriculture,	Manufacturing	Secondary	Tertiary
1997-98	26.5	17.7	27.7	45.8
1998-99	26.4	17.0	27.0	46.6
1999-2000	25.0	16.7	26.7	48.3
2000-01	23.9	17.2	27.2	48.9
2001-02	24.1	16.9	26.6	49.3
2002-03	21.5	17.3	27.3	51.2
2003-04	21.7	17.0	26.9	51.4

Source: National Account Statistics, 2004

Table 12.3
Trends in the performance of industrial sub-sectors
Annual Growth Rate (Per Cent)

Industry Code	Industry Name	Weight in IIP	Compound Annual Growth Rate (CAGR) 1997-2002	2000-01	2001-02	2002-03	2003-04	April -February	
								2003-04	2004-05
20-21	Food Products	9.08	2.49	10.12	-1.68	11.0	-0.5	2.0	-0.6
22	Beverages & Tobacco	2.38	11.17	4.32	12.18	27.9	8.5	9.2	10
23	Cotton Textiles	5.52	0.29	2.91	-2.20	-2.7	-3.1	-3.9	7.3
24	Wool, Silk & Man-made Fibre Textiles (Except Cotton)	2.26	8.53	5.81	4.40	3.0	6.8	5.4	2.9
25	Jute Textiles	0.59	0.37	0.76	-5.86	8.3	-4.2	-4.6	3.3
26	Textiles Products	2.54	2.60	4.04	2.40	14.4	-3.2	-4.0	16.5
27	Wood & Wood Products	2.70	-6.79	2.86	-11.03	-17.6	6.8	7.3	-8.5
28	Paper & Paper Products	2.65	4.29	-9.14	2.99	6.8	15.6	15.8	8.5
29	Leather & Fur Products	1.14	8.07	10.70	5.93	-3.2	-3.9	-3.0	5.2
30	Chem. & Chem. Products	14.00	8.56	7.29	4.76	3.7	8.7	7.7	15.3
31	Rubber, Plastic, Petroleum	5.73	7.55	11.81	11.08	5.5	4.5	5.3	1.5
32	Non-metallic Mineral Products	4.39	8.89	-1.18	1.37	5.1	3.7	4.4	1.2
33	Basic Metals & Alloys	7.45	2.16	1.84	4.01	9.2	9.2	9.9	4.9
34	Metal Products & Parts	2.81	5.34	15.02	-9.59	6.4	3.7	2.1	6.6
35-36	Machinery & equipment	9.57	6.51	7.29	1.02	1.6	15.8	13.9	19.6
37	Transport equipment	3.98	6.40	-1.96	6.83	14.6	17.0	18.0	3.5
38	Other Manufacturing Industries	2.56	0.35	11.65	8.86	0.1	7.7	6.5	17.3
39	Manufacturing	79.36	5.27	5.33	2.86	6.0	7.4	7.3	8.7

Source: Central Statistical Organisation.

preference for textiles, metallurgical industries and chemicals other than fertilisers.

Exports of Manufactured Products

12.11 Export growth in 2002-03 and 2003-04 was broad based, with both commodity groups and manufactured goods depicting strong growth (Table 12.6).

12.12 The manufacturing sector, accounting as it does for close to three-fourths of exports, has continued to fuel export growth. During the first three years of the Tenth Plan period, exports of manufactured goods have registered a growth rate of 20 per cent per annum in dollar terms. The engineering goods sector has posted a remarkable export growth rate in excess of 30 per cent per annum. Major

Table 12.4
Gross Domestic Capital Formation and capital formation in manufacturing

Year	Capital Formation as % of GDP (at market price)				Capital formation in registered and unregistered manufacturing as % of respective GVA	
	GDCF at current price	Manufacturing GCF	Registered manufactuing	Unregistered manufacturing	Registered	Unregistered
1994-95	26.0	8.38	6.12	2.26	59.9	44.0
1995-96	26.9	13.53	9.48	4.04	87.8	73.4
1996-97	24.5	10.19	7.56	2.62	69.9	49.4
1997-98	24.6	9.29	7.22	2.06	73.2	38.5
1998-99	22.6	7.57	5.87	1.70	63.4	32.5
1999-00	25.3	7.75	6.39	1.36	72.4	27.4
2000-01	24.4	6.09	4.27	1.82	45.4	36.1
2001-02	23.1	5.03	3.74	1.28	40.5	26.8
2002-03 (P)	24.8	5.55	4.06	1.49	43.0	30.8
2003-04 (Q)	26.3	6.12	3.92	2.20	41.4	46.2

Source: CSO

traditional exports like textiles and readymade garments, gems and jewellery, chemicals and allied products have also registered a double-digit export growth rate.

12.13 Table 12.7 shows that India's share in world exports of manufactured products has improved from the level of 0.73 per cent in 2001 to 0.88 per cent in 2003. Industry segments which have performed particularly well are iron and steel, chemical products, machinery, transport equipment, automotive products and textiles. At the same time, the fact must not be ignored that India's share in the world export of manufactures is not commensurate with its potential and that some other developing countries have been able to increase their shares to much higher levels (Table 12.8).

Table 12.5
Industrial investment proposals

	IEM		LOI/ DILs	
Year	No. of Proposals	Proposed investment (Rs crore)	No. of proposals	Proposed investment (Rs crore)
2001	2981	91,234	117	1,318
2002	3172	91,291	89	649
2003	3875	118,612	116	1395
2003*	3140	65,206	91	799
2004*	4148	219,307	77	2764

* January to October
Source: Economic Survey

Table 12.6
Composition of exports and growth rate

Commodity	Exports (in $ million) 2003-04 P	Share (%) of Exports				Growth rate (%) over previous year			
		2001-02	2002-03	2003-04 P	Average Ninth Plan	2001-02	2002-03	2003-04 P	Compound Annual Growth Rate in US $ (CAGR) Ninth Plan
I. Primary products	**9746.4**	16.3	16.3	16.5	15.4	0.5	21.5	11.9	-2.27
II. Manufactured goods	**47615.7**	76.1	76.3	75.0	77.4	-2.8	20.6	18.3	6.28
1. Leather and manufactures	2025.3	4.4	3.5	3.2	4.5	-1.8	-3.2	9.6	3.53
2. Chemicals and allied products	6005.6	9.3	9.6	9.5	9.1	1.1	23.4	19.3	8.69
2.1 Drugs, pharmaceutical and fine chemicals	3116.6	4.7	5.0	4.9	4.4	7.6	28.5	17.6	11.01
2.2 Others	2889.1	4.6	4.5	4.6	4.7	-4.7	18.2	21.1	6.58
3 Engineering goods	12213.0	15.9	17.1	19.2	14.9	2.0	29.8	35.2	6.99
4 Readymade garments	6088.4	11.4	13.0	13.9	10.8	-10.1	13.6	7.0	5.93
5 Textile yarn, fabrics, made-ups, etc.,	5510.5	10.2	11.6	12.6	9.9	-8.6	13.8	8.4	1.95
6 Handicrafts	11495.1	18.8	23.3	26.2	17.6	-3.1	24.1	12.5	7.76
6.1 Gems and jewellery	10509.7	16.7	20.6	24.0	15.3	-1.1	23.6	16.4	8.98
III. Petroleum products	**3518.5**	4.8	4.9	5.5	2.3	13.3	21.6	36.6	34.48
IV. Others	**2573.6**	2.7	2.3	4.1	2.0	-4.5	1.5	115.9	28.18
Total exports	**63454.1**	100	100	100	100	-1.6	20.3	20.4	5.54

Balanced Industrial Development

12.14 Several Centrally Sponsored Schemes and special area development packages, which were initiated in earlier Plans, were continued in the Tenth Plan period. In addition, new initiatives such as a special package for industrial development in Sikkim as well as packages for Jammu and Kashmir, Uttaranchal and Himachal Pradesh were launched. These special packages seem to have sparked off considerable investment activity in Uttaranchal and Himachal Pradesh within a short period of time, but this has not been the case in the north-east. A review of major schemes from previous Plans and those initiated in the Tenth Plan is provided in Annexure 12.1.

Creation of Jobs for Skilled Workers

12.15 Since employment data comes with a lag of two years, information on employment is available only for the first year of the Tenth Plan. The organised manufacturing sector accounts for approximately 23-24 per cent of total manpower in organised sector. The public sector's role as a provider of employment has steadily declined (Table 12.9). In the first half of the 1990s, the growth in employment by the private sector in industry offset the decline in employment in the public sector and total employment in the organised sector increased modestly. However, in the second half of the 1990s, the growth in employment in the private sector in 2001 and 2002 decelerated and there

Table 12.7
Share of India's exports in world exports of manufactured goods

	World Export and India's Export in $ million	1995	2001	2002	2003
Manufactured Goods – Total	World Export	3718846	4516543	4749458	5436591
	India's Export	22647	33115	37324	47996
	India's Share (%)	0.61	0.73	0.79	0.88
Iron and steel	World Export	154862	132129	143890	181130
	India's Export	941	1158	2153	2858
	India's Share (%)	0.61	0.88	1.50	1.58
Chemical products	World Export	485518	600707	666955	793685
	India's Export	2581	4785	5875	7336
	India's Share (%)	0.53	0.80	0.88	0.92
Machinery and transport equipment	World Export	1940502	2474111	2560050	2894068
	India's Export	2384	3809	4420	6128
	India's Share (%)	0.12	0.15	0.17	0.21
Automotive products	World Export	459187	569436	627929	723572
	India's Export	568	580	753	1318
	India's Share (%)	0.12	0.10	0.12	0.18
Office and telecom equipment	World Export	604731	836786	844825	933087
	India's Export	465	602	587	831
	India's Share (%)	0.08	0.07	0.07	0.09
Textiles	World Export	152319	146866	152758	169422
	India's Export	4358	5375	6028	6846
	India's Share (%)	2.86	3.66	3.95	4.04
Clothing	World Export	158353	194490	202310	225940
	India's Export	4110	5483	6037	6625
	India's Share (%)	2.60	2.82	2.98	2.93

Source: International Trade Statistics, WTO

was an absolute decline in terms of total numbers in 2001 or 2002.

12.16 The deceleration in new investment witnessed between 1996 and 2002 was the main reason for the stagnation and even decline in employment by the private sector in manufacturing industries during that period. The increase in employment resulting from whatever little new investment has come in has been offset by labour rationalisation in existing manufacturing units. Although probably an inevitable consequence of competitive pressures that may help increase competitiveness and also employment in the longer term, this is a matter of obvious concern. In an increasingly globalising world, the real employment opportunities are provided more

Table 12.8
Share of countries in world exports of manufactured goods

	1990	1995	2000	2003
China	1.85	3.36	4.68	7.30
Hong Kong, China	3.16	4.32	4.10	3.96
Korea, Republic of	2.53	3.08	3.30	3.26
Taipei, Chinese	2.59	2.82	3.01	2.60
Mexico	1.06	1.66	2.95	2.48
Singapore	1.57	2.66	2.51	2.22
Malaysia	0.66	1.48	1.68	1.42
Thailand	0.61	1.11	1.10	1.11
India	0.52	0.61	0.70	0.88
Philippines	0.23	0.37	0.74	0.65
Indonesia	0.38	0.62	0.75	0.58

Source: International Trade Statistics, WTO 2004

by upstream and downstream activities than by the modern manufacturing sector itself.

Plan Outlays and Expenditure in the Tenth Plan

12.17 The industry sector, including minerals and the village and small enterprises (VSE) components, spans 11 departments/ ministries. The Plan outlay for the sector is quite small, when compared to outlays for the social and infrastructure sectors. The sector is essentially policy driven and, to that extent, the shortfall in achieving growth targets can be attributed to virtually little progress made on major policy issues.

12.18 A summary of Plan outlay and expenditure on major schemes in the industry sector during the Tenth Plan and the first three Annual Plans (2002 to 2005) is given in Annexure 12.2.

12.19 In relation to the Tenth Plan outlay, the cumulative expenditure during the first three years has been 45 per cent for Department of Industrial Policy and Promotion (DIPP), 55 per cent for the Ministry of Textiles (MOT),

Table 12.9
Employment situation in organised manufacturing (in lakh)

	Manufac-turing (Private sector)	Manufac-turing (Public sector)	Total Employment in manufacturing	Employment (in public sector - Industry)	Employment (in private sector - Industry)	Total employment in organised sector
1991	44.81	18.52	**63.33**	190.57	76.77	267.34
1996	50.49	17.38	**67.87**	194.29	85.12	279.41
2000	50.85	15.31	**66.16**	193.14	86.46	279.60
2001	50.13	14.30	**64.33**	191.38	86.52	277.89
2002	48.68	13.50	**62.18**	187.73	84.32	272.06

Source: Economic Survey, 2003-04

40 per cent for Department of Heavy Industries (DHI), 63 per cent for Department of Consumer Affairs and 25 per cent for Ministry of Steel.

12.20 The Industrial Infrastructure Upgradation Scheme (IIUS), the flagship scheme of the DIPP has recorded expenditure of 31 per cent in the first three years of the Plan, while the Technology Upgradation and Modernisation Scheme (TUMS) has remained a non-starter. The progress of expenditure in the Integrated Leather Development Programme has been unsatisfactory, as its major component (Rs 290 crore) is still in the final stages of approval.

12.21 The major schemes implemented by the Ministry of Textiles are the Technology Upgradation Fund Scheme (TUFS), Cotton Technology Mission (CTM), Apparel Parks and Textile Centre Infrastructure Development Scheme (TCIDS). The expenditure on TUFS during the three years of the Plan period is 59 per cent of the Plan outlay. Expenditure on CTM is estimated at 64 per cent, on Apparel Park 46 per cent and on TCIDS 33 per cent. Expenditure on the Department of Heavy Industry's scheme, Support to Existing Public Sector Undertakings is 35 per cent. The progress of expenditure in respect of scheme Testing Facilities for Automobiles appears to be satisfactory. The consumer protection scheme of Department of Consumer Affairs (DCA) incurred over 43 per cent expenditure of the Department's Plan outlay in the first three years of the Plan period.

12.22 The WTO Agreement on Textiles and Clothing (ATC) has completed the transitional period for phasing out of quota regime with effect from 1.1.2005. This has unleashed competitive environment for developing countries like India to strengthen their position on inherent merit. In order to meet the emerging challenges, suitable measures including de-reservation of knitting and made up items have been devised in the National Textiles Policy which would provide an enabling environment to integrate domestic textiles sector with global markets. Subsequently special efforts would be required so as to implement long term goals for the emergence of India as an important global competitor in textiles.

POLICIES FOR FASTER INDUSTRIAL GROWTH

Industrialisation and Development

12.23 Given the low levels of industrial growth in the Ninth Plan period, there is some pessimism on whether the country can ever become a significant industrial power. The rapid growth of the tertiary sector has raised the question whether India should, in its development strategy, leapfrog from an agricultural to a service economy, skipping the middle phase of industrialisation. However, a number of factors need to be kept in mind when taking a view on the long-term prospects for India's manufacturing sector.

12.24 The manufacturing sector has shown some buoyancy in the Tenth Plan period, after languishing at less than 5 per cent growth during the Ninth Plan period, with the growth rate rising to 8.7 per cent in April-February 2004-05. Despite the steep reduction of tariffs and the elimination of quantitative restrictions, the much-feared flood of imports has not happened. On the other hand, India's exports of manufactures have been rising consistently at more than 20 per cent per annum over the past two years. Although handicapped by policy, procedural and infrastructure constraints, India has maintained its status as a competitive supplier to the world of such labour intensive products as apparel, footwear, jewellery, leather and textiles.

12.25 More significantly, the country has, in recent years, emerged as an important supplier of skill-intensive products such as auto components and pharmaceuticals. Some recent assessments suggest that India has the potential to share the top two positions with China in exports of apparel, leather, jewellery, pharmaceuticals, power transmission and distribution equipment, auto components, iron and steel, aluminium and speciality chemicals. In any case, it should be emphasised that no other developing country in Asia has achieved

economic growth without a substantial industrial base (Table 12.10).

12.26 The Indian work force consists of labour at different levels of skills, with a large proportion in the unskilled category. A vibrant manufacturing sector is essential for providing job opportunities to this category. Rapid industrialisation is the sine qua non for any diversification of the labour force.

World Class Infrastructure

12.27 Improving the quality of infrastructure, especially infrastructure related to electric power and transport facilities, is a prerequisite for realising the potential for industrialisation. Transport infrastructure includes railways, roads, ports and airports. Comparative surveys such as those conducted by the World Competitiveness Yearbook 2003 clearly reflect the fact that such infrastructure is deficient in India compared to Malaysia, Thailand, China and Mexico. On a ten-point scale (0 for least favourable and 10 for most favourable), India scores 3.8 in infrastructure for distribution of goods and services. China scores 5.4 and Malaysia 8. In the case of infrastructure maintenance and development, India scores 2.3 as compared to 5.3 for China and 7.2 for Thailand.

12.28 While steps have been taken to increase investment in the physical infrastructure (for details see Chapter 9), a possible short-term strategy could be to develop six to eight special economic regions (SERs), where manufacturing industries could be encouraged to establish new units. The regions should be of large size (around 5,000 hectares each) and should have their own modern industrial townships in order to attract large-scale investment, including foreign direct investment (FDI). For such SERs to be successful, they must have world-class internal and peripheral infrastructure. The airport and sea-port serving the SER could be upgraded to provide world class services. Each of the SERs could be anchored around one or two big players.

Labour Laws

12.29 Both domestic and foreign investors cite rigidity of labour laws as one of the factors affecting the competitiveness of the manufacturing industry, especially the labour intensive sectors. Some of the labour laws may appear to improve the position of labour in the organised sector, but these may also reduce new employment in the organised sector by imposing labour rigidity, especially in the industries where scope for expanding employment is linked to export possibilities and competing producers in other countries benefit from greater labour flexibility.

12.30 A case in point is the poor performance of textiles and garment exports after the abolition of quota for textile exports with effect from 1.1.2005, exports of textiles and clothings were expected to sky rocket from India. Exports during January – March, 2005 from China are reported to have increased over 500 per cent . However, exports from

Table 12.10
Manufacturing value added as %of GDP in Asian economies

Country	1985	1990	1995	2000
India	16.3	17.2	17.8	15.8
China	34.9	32.9	34.7	34.5
Indonesia	15.8	18.3	24.1	26.0
Malaysia	19.3	24.2	26.4	32.8
Singapore	23.3	27.1	24.7	26.5
Thailand	21.9	27.2	28.4	31.9

Source: World Development Report, various issues

India are said to have increased by about 1 per cent in value terms. The Industry has asserted that this insignificant growth of textiles and garments exports against the large potential is to a great extent owing to the rigidity in the prevalent labour regime. There is an urgent need to relax labour legislation.

12.31 Examples of provisions which impose rigidity are Chapter V-B of the Industrial Disputes Act, 1947 that requires companies with more than 100 workers to obtain state government's approval to retrench their work force, and the Contract Labour (Regulation & Abolition) Act, 1970, which restricts outsourcing of core activities.

12.32 These laws make it difficult for employers to respond flexibly to changes in demand when necessary and have the net effect of discouraging the growth of strong labour absorbing sectors. However, as discussed in the Chapter on Labour and Employment, there is as yet no consensus on labour reforms. Given the vital need for such reforms to foster industrial development, it is imperative that the search for consensus must continue. In the meantime, on the request of state governments, selective exemption from the applicability of the above two laws could be considered for special economic zones (SEZs) and export-oriented units (EOUs) and even in the larger SERs.

Indirect Taxes and Import Duties

12.33 Customs duty on raw materials, intermediate and capital goods raises the price of inputs for industrial products. As noted in the chapter on The International Context, there has been a significant reduction in customs duty on industrial products between 1991 and 2004, but the peak rate of 20 per cent (since reduced to 15 per cent in the Union Budget for 2005-06), which is also the minimum rate in most cases, is a drag on the efficiency of the Indian manufacturing industries. In order to improve the investment climate, particularly in the context of the Regional Trade Agreement with the ASEAN countries, it is important to shift to a three-rate structure consisting of 5 per cent, 8 per cent and 10 per cent as recommended by Kelkar Task Force on Indirect Taxes.

12.34 The combined incidence of indirect taxes at the Central and State levels is high, in comparison with that in many other countries. Cascading is generally avoided in Central excise because of the levy of CENVAT. However, State sales tax and similar levies like turnover tax, entry tax etc. do not provide for input tax credit, leading to cascading, overlapping and tax-on-tax situations. Effective tax rates vary widely across products and states. As a consequence, economic neutrality is affected and business decisions distorted. Growth, competitiveness and budgetary revenues also suffer.

12.35 The Central government and the Empowered Committee of State Finance Ministers have agreed to move towards state-level Value Added Taxation (VAT) by 1st April 2005, replacing state sales tax with two principal rates of 12.5 per cent and 4 per cent. This is a welcome development, even though there are serious design flaws in the suggested structure, which need to be addressed.

12.36 The proposed VAT does not extend to all indirect taxes on goods, as entry tax and octroi will continue. The concept of value addition has been substantially diluted by continuing the erstwhile statutory distinction between "inputs" and "final products", since any good can be either an input or a final product in the production and consumption chain. Input tax credit is not available in respect of inter-state sales and the road map for removal of Central sales tax and the mechanism of taxing inter-state transactions have not yet been spelt out. Many goods have been kept out of VAT, including petroleum products, which are basic to manufacturing and transport. No attempt is also being made to merge taxes on goods and services and replace them with a composite tax on consumption to rationalise the structure and make it economically neutral.

12.37 Put together, the combined incidence of Central and state VAT would be close to 30 per cent. It could be even higher if taxes that are going to be retained after VAT is introduced

are taken into account. High tax burden will keep prices high and dampen demand, particularly in the case of low-income consumers. To boost manufacturing, the combined effective rate of indirect taxes of the Central and state governments will have to be brought down to 20 per cent. As the Kelkar Task Force noted, this compares favourably with the standard VAT rates in the countries of the Organisation of Economic Cooperation and Development (OECD).

12.38 While customs duty and indirect taxes need to come down across the board to improve the competitiveness of Indian manufacturing industry, urgent attention needs to be given to products and tariff lines which suffer from an inverted duty structure (See Box 12.1).

Entry and Exit Barriers

12.39 One of the factors influencing the investment climate in industry is the ease with

Box 12.1
Inverted duty structure

(a) The IT/electronic products listed under the Information Technology Agreement (ITA)* will not attract any duty from 1st March 2005, in keeping with the commitment given by India in the World Trade Organisation (WTO). Many input parts and components of items listed in the ITA are already, or will become, duty free on that date, but several basic raw materials such as metals, plastics and chemicals outside the ITA framework will not, and this will create an inverted duty structure.

(b) The Indo-Thailand Free Trade Area (FTA) Agreement envisages the elimination of duty on 82 selected products in a time frame of two years, while the duty on some of the inputs remains unchanged. For instance, the duty on colour television sets has been reduced to 12.5 per cent on 1st September 2004, while the duty on some of the inputs has remained at 10-20 per cent. The inverted structure will be exacerbated if the duty on these inputs is not changed, because the duty on the finished product under the Indo-Thailand FTA is scheduled to go down to 6.25 per cent on 1st September 2005 and to zero on 1st September 2006. A similar problem has arisen for refrigerators/air conditioners where the duty on inputs has remained at 15-20 per cent while the duty on the finished product is being phased out.

(c) The indirect tax structure at the state level also adversely affects Indian manufacturers. Under Article 286(b) of the Constitution, states are not permitted to levy sales taxes on imports; such taxes are, thus, confined to domestically produced goods. Since the clause has not been amended, the bar will continue even after state-level VAT comes into force. Special additional duty (SAD) of 4 per cent, levied since 1998 on imported goods to compensate in an ad hoc manner for state consumption taxes on domestic products, was also withdrawn in 2004. Adverse effects are likely to be particularly acute for goods where there has been progressive lowering of tariff rates such as IT products and capital goods.

(d) When excise duty on personal computers (PCs) was eliminated on 2nd July 2004, without lowering the 16 per cent excise duty on some components, it became more advantageous to import PCs instead of buying them from domestic manufacturers. An attempt has been made to rectify this anomaly by imposing, on 26th July 2004, additional customs duty of 6 per cent on the CPU box and 7 per cent on the Full System. While this solved the problems of PC manufacturers, the manufacturers of some components, such as motherboard and monitors, which attract 16 per cent excise duty, have been adversely affected by the sale of parts from disassembled imported PCs.

* ITA covers computers, telecommunication products, semi-conductors, semi-conductor manufacturing equipment, software and scientific instruments.

which firms are able to enter into and exit from business activities. Recent investment climate assessment studies have noted excessive regulation of this activity, with a large number of Central and state-level clearances needing to be taken, particularly in power and mining projects. This not only delays projects inordinately but also creates avenues for corruption. Delays in obtaining these clearances are one of the main reasons for the poor realisation of approved foreign investments during the last 10 years. The cumbersome and long drawn out bankruptcy proceedings under outdated laws and the need to take the permission of the competent state authorities for retrenchment of employees, all of which delay exit procedures, are also a cause for concern. The study has noted that in general the proceedings take more than two years, and over 60 per cent of the liquidation cases before the High Courts are more than 10 years old.

12.40 In the case of the manufacturing sector, the main procedures that have to be complied with at the entry stage are at the State level. The delay is mainly on account of the fact that various bodies give clearances independently. Progress can be made in expediting the clearances if they are coordinated by a committee headed by a high level functionary like the Chief Minister. A similar procedure can be adopted for mining projects. In order to promote expeditious clearance, state governments should put a status report of clearance of applications for industrial and mining projects on their websites. At the Central level, the few clearances that are required for establishing manufacturing enterprises have become automatic. However, a single window clearance needs to be considered for mining projects.

12.41 In the case of exit barriers, Chapter V-B in the Industrial Disputes Act, 1947 is one of the problems to which a solution would depend upon the emergence of political consensus on the overall question of labour reforms. Progress could be made for resolving the problem of long drawn out company liquidation proceedings if the legal impediments to the creation of National Company Law Tribunal (NCLT), established by the Companies (Second Amendment) Act, 2002, are removed.

Other Policy Corrections/ Initiatives

12.42 A number of other problems of the manufacturing industry need to be addressed.

12.43 The policy of reserving certain items for manufacture by small-scale industrial units is one of the major constraints on the growth of industry. This policy was devised at a time when circumstances were very different. It has become an anachronism in the post-reform era and it prevents units from attaining economies of scale and preparing to stand up to global competition or even competition from domestic medium or large enterprises. It is indeed an anomalous situation that, following the elimination of import restrictions and falling levels of duty protection, the small-scale units in reserved sectors have to compete against foreign manufacturers (though they are still protected from competition from local medium and large enterprises) but they are not allowed to expand to meet growing competition. Over time, there has been a growing realisation that this policy is unsustainable and the government has been following a policy of reducing the number of items reserved for the small-scale sector. About 600 items are still on the list and there is a strong case for further and substantial de-reservation, especially in areas with export potential and where import competition is significant. It would be much better to adopt a promotional approach to small-scale industry, while eliminating protective policies such as reservation

12.44 The growth of industrial units that use non-coking coal, such as cement and sponge iron units, is severely constrained by the non-availability of adequate quantities of coal of the required grades. Coal shortages are likely to increase further as demand from the power sector is rising at a rate higher than that projected earlier. Pending the passage of amendments to the Coal Mines (Nationalisation) Act, 1973, interim measures need to be taken and have been spelt out in the chapter on Energy. Adequate supply of domestic natural gas/LNG at internationally

competitive prices to fertilizer and steel units needs to be ensured. For this, the recommendations of the inter-ministerial group/group of ministers need to be expedited. The growth of the paper industry is constrained by the lack of land for plantations and by inadequate supply of fibre. Arrangements for growing fibre through initiatives such as Joint Forest Management (JFM) need to be considered seriously. (Details of JFM are dealt with in the chapter on Environment and Forests.)

12.45 India's large pool of engineers has made the country an attractive FDI destination. However, there has been a continuous decline in educational standards and only about 50,000 engineers out of the annual turnover of 400,000 are reported to be of internationally acceptable standard. It is necessary to take firm steps to stem the decline.

12.46 Another source of India's strength in manufacturing in particular has been the personnel trained in the Industrial Training Institutions (ITIs). Since industry is experiencing shortage of trained personnel, it has become necessary to take steps to increase the capacity for their training as well as improve the quality of training and make it demand driven.

12.47 The absence of a unified food processing law is a major impediment to the growth of the food processing industry. Today the food processing sector is subject to a variety of overlapping laws administered by different ministries. The provisions under these laws are often contradictory and make entrepreneurs potentially vulnerable to imprisonment. Though enforcement is poor, larger corporate groups are discouraged by the lack of clarity on these issues. A Group of Ministers (GOM) under the Minister of Agriculture is considering the draft of an Integrated Food Law, which has been placed on the website of the Ministry of Food Processing Industries and comments invited. The GOM will consider the revised draft law and it is only then that a government decision will be possible. This important reform is long overdue and needs to be introduced as early as possible.

12.48 The food processing industry can be sustained only by assured supply of quality agricultural produce, and the best arrangement for this is for industrial units to get involved in contract farming. The state-level Agricultural Produce Marketing Committee (APMC) Acts, which prohibit contract farming, are a major constraint in the development of the food processing industry. The Ministry of Agriculture has circulated a model legislation to replace the APMC Acts, but there has been little progress in substituting the existing legislation by the model Act.

Public Sector Enterprises

12.49 Public sector enterprises (PSEs) have made a significant contribution to the economic and industrial development of the nation. They have been instrumental in creating the necessary infrastructure, ensuring balanced regional development and generating employment opportunities.

12.50 According to the Public Enterprise Survey (2002-03), there are 240 Central public sector enterprises, of which 227 are operational and the remaining 13 are under construction. Out of the 227 operating units, 145 are engaged in manufacturing, while the remaining 82 are in the services sector. In 2002-03, 118 CPSEs earned profit amounting to Rs.43,085 crore (Rs.20,306 crore for non-petroleum and Rs.22,779 crore for petroleum CPSEs), while 107 incurred losses to the tune of Rs.10,944 crore and two just managed to break even.

12.51 Sick public sector undertakings (PSUs) were brought under the Sick Industrial Companies Act (SICA) in 1991. Between 1992 and 2004, 70 sick CPSEs were registered with the Board of Industrial and Financial Reconstruction (BIFR). Only three PSUs have been declared to be no longer sick. Though the BIFR recommended the winding up of 27 CPSEs, none of these could be wound up so far. During 2003 and 2004, four CPSUs were registered with BIFR.

12.52 The National Common Minimum Programme (NCMP) states:

'The UPA government is committed to a strong and effective public sector, whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The UPA is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit making companies will not be privatised.'

'All privatisation will be considered on a transparent and consultative case-by-case basis. The UPA will retain existing "Navratna" companies in the public sector, while these companies raise resources from the capital market. While every effort will be made to modernise and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The UPA will induct private industry to turn around companies that have potential for revival.'

12.53 The Department of Public Enterprises has already set up an Ad-hoc Group of Experts to make recommendations on devolving full managerial and commercial autonomy to profit-making CPSEs. A Board for Reconstruction of Public Sector Enterprises (BRPSE) has also been constituted to advise on ways and means of strengthening the public sector enterprises by revival, restructuring, disinvestment, closure or sale and for making them autonomous and professional.

12.54 The policy on chronically sick enterprises is clear. They have to be sold off or closed after all workers have got their legitimate dues and compensation. In addition to the 27 CPSEs that the BIFR has recommended to be wound up, other chronically sick units must be identified for initiating winding up procedures. Some of the units have been referred to the BIFR, which continues to function in the absence of the constitution of the NCLT. Pending the establishment of the NCLT, the existing procedure of reference to BIFR would have to continue. Reference to the BIFR has caused long delays and the referred units have continued to incur losses. Breaking the stalemate on the repeal of SICA needs to be accorded priority.

12.55 In considering revival of other sick CPSEs, it is necessary to bear in mind the past experience of failed attempts to rehabilitate several undertakings despite repeated infusion of government funds. Chances of yet another failure must be minimised by putting in position adequate safeguards in the procedure for considering a sick CPSE for rehabilitation. To start with, the CPSE concerned must obtain a report from a professional consultant of repute recommending that it is revivable. If the administrative ministry or department considers turnaround to be technically feasible and commercially viable, it should seek the participation of financial institutions in the financial package for the revival. Project appraisal by financial institutions, which would be a pre-requisite for their agreement to participate, would provide a second opinion about the viability of the proposal for revival. In other words, the administrative Ministry should check whether the proposal for revival of a sick CPSE is bankable. The norm in developing a financial package must be that the government takes the responsibility for strengthening the equity base while the financial institutions provide the loans (without the need for government guarantee). The government may also have to bear the burden of waiver of interest and even the principal amount of outstanding loans, penalties and taxes. Bankability must be a pre-requisite before rehabilitation proposals of sick CPSEs can go forward.

12.56 In the course of developing the financial package for rehabilitation, private sector involvement should be sought through transparent means such as inviting expressions of interest. Such a step should be envisaged particularly in those cases in which it is felt that the CPSE would benefit from the technical, managerial and commercial expertise available in the private sector.

Industrial Subsidies

12.57 The WTO disciplines on domestic subsidies on industry are relatively benign. The level of subsidies cannot be raised once a tariff commitment has been made. Further, exports benefiting from these subsidies are liable to face countervailing duties if they cause injury to domestic industry in importing countries. Generally speaking, the WTO rules on industrial subsidies are not a major constraint on policy making. However, following the worldwide phase-out of quotas in textiles and clothing, the industrialised countries are not likely to miss any opportunity to put obstacles on imports from India and other efficient producing countries. This would make Indian textile exports particularly vulnerable on account of the subsidies under the TUFS. Therefore, it would be appropriate to phase out this scheme after the expiry of its present validity period on 31st March 2007.

12.58 As far as other schemes/practices are concerned, it is economic good sense rather than WTO disciplines that should guide the country's subsidy policy. Industrial subsidies generally do not make sense as they lead to misallocation of resources. A case can be made for subsidies if they result in positive externalities as in the case of support to industrial undertakings adopting environmentally sound practices. The Integrated Leather Development Scheme could be justified on this basis. A case could also be made on socio-economic considerations for assisting industries in geographically disadvantaged regions, as in the case of industrial subsidies for the North East region and J&K. However, for redressing geographical imbalance, preference should be given to removing locational disadvantages through the development of infrastructure rather than through subsidies. If subsidies have to be given, the superior option must be direct subsidies rather than exemption from direct or indirect taxes as these are highly distortionary.

12.59 Even where the subsidy can be justified on broad economic considerations or on socio-economic grounds, constant monitoring is needed to ensure that the objectives are being met. In case of the subsidies for the north-east region, the schemes can be said to be worthwhile only if there is substantial value added or if the employment generated is substantial, which is not always the case in manufacturing activities. For generating economic activity and employment on a substantial scale, it is necessary to consider expanding the North-East Industrial Policy (NEIP) to the services sector, information technology, construction, health care and tourism, as has been recommended by a report of the Tata Economic Consultancy Services, which carried out an impact evaluation study of the programme.

12.60 It is also necessary to take corrective steps with regard to the extension of the incentives for industry available to the North-East to Uttaranchal and Himachal Pradesh, as this step had adversely affected the industrial climate of the more advanced adjoining states. The scheme was not calibrated adequately to take into account the fact that Uttaranchal and Himachal Pradesh are not as disadvantaged geographically as the north-eastern states.

12.61 If a rational policy on industrial subsidies is followed, there would be little merit in running sick CPSEs for prolonged periods. It is for this reason that an economically rigorous policy has been suggested for the revival of sick CPSEs. Besides, the continuation of the cost plus approach in the pricing of urea defies economic logic. It is sought to be justified on the specious plea that it supports food security, but, clearly, what should be done to enable farmers to produce food is to supply inputs like fertilisers at the most economical price in the world rather than producing urea domestically at costs that are a multiple of the international parity price. Pricing of items like natural gas must eventually be done on the basis of international parity price as was envisaged in the Tenth Plan.

12.62 Apart from these reasons, fiscal constraints also dictate the need for moderation of subsidy practices in industry. Giving up the cost plus approach in the

pricing of urea and closure/sale of sick CPSEs that cannot be revived will contribute substantially to the reduction of fiscal deficit, which is a threat to macroeconomic stability. Reduction of industrial subsidies is of paramount importance for the health of the national economy.

Intellectual Property Rights Regime

12.63 The adoption of a world-class intellectual property rights regime is a prerequisite for industrial development of any country. The Central government has been active in enacting laws complying with requirements of the WTO Agreement. The latest addition is the Patents Act, 1970, as amended by the Patents (Amendment) Ordinance, 2004. The amendment expands the scope of patentability to all fields of technology including food, drugs and pharmaceutical and agri-chemicals.

MINERAL SECTOR

Tenth Plan Objectives

12.64 The Tenth Plan aimed at faster development of an internationally competitive mining sector based on cost-effective mineral exploration and development using state-of-the-art exploration technologies. This was to be done through promotion of private investment in mineral exploration and creation of new mining capacities. The aim was to accelerate growth, keeping environment protection and conservation in mind and the need to encourage both foreign capital and technology was recognised. Other objectives of the Plan included the search for minerals in off-shore areas, intensification of mineral exploration activities with the state–of-the art-technology for building up of a mineral reserve-base, restructuring and modernisation of the Geological Survey of India (GSI), and adoption of the United Nations Framework Classification (UNFC).

Physical Performance

12.65 The mining and quarrying sector has a 10.5 per cent share in the overall Index of Industrial Production (IIP). Like the manufacturing sector, this sector too has posted a smart recovery during the first two years of the Tenth Plan as may be seen from Table 12.11.

Specific production achievements of some important minerals are impressive as can be seen fromTable 12.12.

12.66 Modernisation and upgradation of national and regional laboratories to provide high quality laboratory support was initiated in Geological Survey of India, in the terminal year of the Ninth Plan (1997-02) and continued in Annual Plans 2002-03 and 2003-04. However, progress in this area has been slow and special efforts are needed to be taken to complete the work in the Tenth Plan. The project of Establishment of Net and Portal in the GSI for connecting the regional offices with headquarters at Kolkata is in advanced stages of implementation.

12.67 Procurement of a sea-going research vessel in the Tenth Plan would enhance the performance of the GSI for carrying out bathymetric and magnetic surveys in off-shore areas, which is necessary for staking claim on the extended continental shelf zone up to 350 nautical miles under III Convention–United Nations Conference on the Laws of the Sea (UNCLOS). The procurement process for the research vessel needs to be speeded up.

12.68 Indian Bureau of Mines (IBM) has completed the preparation of the mineral maps along with forest overlays, in respect of Chhattisgarh, Orissa, Jharkhand, Bihar and Andhra Pradesh. Preparation of these overlays for all states needs to be completed in a time-bound manner in order to facilitate clearance of investment proposals in the sector.

12.69 Work taken up by the IBM to bring the National Mineral Inventory in line with the UNFC System has been progressing slowly. Completion of the work may help in attracting more private investment, both domestic and foreign, along with state-of-the-art-technology in the sector.

Table 12.11
Annual growth rates in Index of Industrial Production (per cent)

	Weight %	2001-02	2002-03	2003-04	2004-05 (April – Dec., 2004)
Overall IIP	100.0	2.7	5.7	7.0	8.4
Mining & Quarrying	10.5	1.2	5.8	5.2	4.8

Source: Economic Survey, 2004-05

Table 12.12
Physical performance of some Important minerals/ metals

Sl. no	Item	Unit	2001-02 Actual	2002-03 Actual	2003-04 Actual	2006-07 Projected
1.	Iron ore	Million tones	86.23	96.96	119.78	110.00
2.	Aluminium (primary)	Thousand Tonnes	633.75	689.04	816.50	*950.00
3.	Copper (cathodes-primary)	Thousand Tonnes	305.52	377.44	395.96	500.00
4.	Zinc (primary)	Thousand Tonnes	244.50	235.52	**254.55	*281.00
5.	Lead (primary)	Thousand Tonnes	37.20	39.67	**33.70	*91.80

* Projected by Working Group for the Tenth Plan (2002-07)
** Estimated

Outlays and Expenditure in the Tenth Plan

12.70 The total outlay approved in the Tenth Plan for the Ministry of Mines was Rs.8344.50 crore at 2001-02 prices, which was to be funded through internal and extra budgetary resources (IEBR) to the tune of Rs.7073.50 crore and gross budgetary support (GBS) of Rs.1271.00 crore. Details are given in Annexure 12.5a and 12.5b. The likely expenditure during the first four years of the Plan (Annual Plan 2002-03 actual, Annual Plan 2003-04 actual, Annual Plan 2004-05 anticipated expenditure and Annual Plan 2005-06 BE) is Rs.2172.75 crore (at 2001-02 prices), which accounts for 26.04 per cent of the approved Tenth Plan outlay. The main shortfall is in respect of National Aluminium Company Ltd. (NALCO) followed by the GSI.

Private investment/ Foreign Direct Investment

12.71 A number of minerals, which were hitherto reserved for exploration and exploitation by the public sector, have been opened up to the private sector. So far, the Central government has approved as many as 188 reconnaissance permits, involving an area of 2,54,307.303 sq. km in Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttar Pradesh.

12.72 The Foreign Investment Promotion Board (FIPB) has granted 73 approvals for foreign direct investment (FDI) in the mining sector involving an investment of Rs.4,044 crore. There has been significant investor interest in respect of precious and high value minerals like diamond, gold, silver, the platinum group of metals, non ferrous minerals such as copper ore, lead and zinc ore, and strategic minerals/ores such as nickel, tungsten etc. However, there is no successful case of a reconnaissance permit being converted into a mining lease so far. Although the liberalisation of the sector is more than a decade old, the results have not been encouraging so far. This

is mainly due to procedural delays in various clearances at the levels of both Central and state governments, especially in the case of mandatory environment clearance and inadequate infrastructure such as roads, ports and power in the mining areas. Procedures involved in various clearances for Reconnaissance Permit (RP), Prospecting Licence (PL) and Mining Lease (ML) are detailed in Box 12.2.

12.73 The procedural delays are generally much longer than the stipulated time indicated as per the Mineral Concession Rules (MCR), 1960. In this connection, a Committee was constituted under the chairmanship of Additional Secretary, Ministry of Mines to consider the policy and procedural matters relating to Reconnaissance Permit (RP) and Prospecting Licence (PL) in October, 2003. The Report is yet to be finalized. It is

Box –12.2
Procedures involved in various clearances for Reconnaissance Permit / Prospecting License / Mining Lease

Reconnaissance Permit (RP) — 6 months

- Site clearance
- Clearance for forest land / revenue land/private land
  - One time prior approval from Central government for 10 specified minerals
  - Clearance from defence/Directorate of Civil Aviation.
  - Grant of RP by the state government.

Prospecting License (PL) — 9 months

- Site clearance
- Clearance for forest land / revenue land/private land
  - One time prior approval from Central government for 10 specified minerals
  - Grant of PL by the state government.

Mining Lease (ML) — 12 Months

- Site clearance
- Clearance for forest land / revenue land/private land
- Public hearing in case area is more than 25 ha.
- Issue of letter of intent from state.
- One time prior approval from Central government in case of 10 specified minerals.
- Clearance from Foreign Investment Promotion Board (FIPB) for FDI cases as per Mineral Concession Rules 1960.
- Mine plan clearance from state/Central government (IBM)
- Approval of mine closure plan by IBM
- NOC from State Pollution Control Board
- Environmental Clearance from Ministry of Environment & Forests (MOEF).
- Forest clearance from MOEF.
- Issue of grant order by the state government
- Execution of ML.

necessary to ensure that the Report of the Committee is finalized quickly. To go into the whole gamut of questions relating to development of mineral sector including the requirements for the infrastructure, expeditious clearance from the environmental angle and other related issues, a high level committee needs to be established.

VILLAGE AND SMALL ENTERPRISE SECTOR

12.74 The village and small industries, including the small-scale industries, form a vital segment of Indian industry, contributing 92 percent of industrial employment in the country. It is estimated that more than 6.5 million persons are engaged in handloom weaving and allied activities, 6.2 million in handicrafts and 19.1 million in village and small enterprises. Women constitute a major segment of handicraft workers, and there are certain crafts, like embroidery, beadwork, appliqué, durries, shawls, cane, bamboo and mat weaving that are almost exclusively practised by women. Among handloom weavers, 65 percent are women and 32 percent belong to the scheduled castes/scheduled tribes (SC/ST). In sericulture, a large proportion of workers belong to the SC/ST categories and over 50 per cent are women.

12.75 The government has an array of programmes for assisting the VSE sector (Box 12.3).

Physical and Financial Performance

12.76 Annexure 12.3 provides details picture of the physical performance of the village and small enterprises sector while Annexure 12.4 details its financial performance.

Small Scale Industries

12.77 The small scale industries (SSIs) continue to be an important segment of Indian Industry in terms of output and employment. Despite the general constraints on industrial growth, the specific constraints on the VSE sector and increasing competition from domestic and foreign producers due to de-reservation and import liberalisation, the SSI sector outstripped the overall industrial growth in the country. Employment also continued to grow in the sector during the first three years of the Tenth Plan period.

Handlooms

12.78 Apart from continuing the ongoing schemes and programmes, the Tenth Plan launched new schemes such as the Bunkar Bima Yojana and Integrated Handloom Training Project

Powerloom

12.79 The contribution of the powerloom sector to the total cloth production in the country was about 63 per cent during 2002-03. A Powerloom Package was introduced in 2003-04, which enlarges the existing Technology Upgradation Fund Scheme (TUFS) to cover the modernisation of powerlooms, introduces a new Group Workshed Scheme in collaboration with the state governments to create a better working environment and obtain higher productivity; seeks improvement of other infrastructure facilities under the Textile Centre Infrastructure Development Scheme (TCIDS) and provides insurance cover to the powerloom workers against death, accident and disability under a Special Group Insurance Scheme.

Handicrafts

12.80 The handicrafts sector enjoys special significance in the country's economy, in terms of employment generation as well as foreign exchange earnings through exports. The Office of the Development Commissioner (Handicrafts) continued to implement six schemes – Babasaheb Ambedkar Hastshilp Vikas Yojana (AHVY); Design and Technology Upgradation; Export Promotion, Marketing Support and Services; Research and Development; Training and Extension; and Financial Assistance to State Handicrafts Development Corporations/State Apex Societies.

Box 12.3
Support provided to VSE sector during Tenth Plan

- Purchase and price preference for goods produced in the sector.
- Capital subsidy for technology upgradation and modernisation of small-scale industry (SSI) units.
- Exemption from payment of excise duty up to a turnover of Rs 1 crore or payment of excise at the concessional rate of 60 per cent of normal duty with CENVAT facility
- Collateral free credit facilities up to Rs.25 lakh per unit under the Credit Guarantee Fund Scheme.
- Marketing support for domestic as well as export market.
- Technical support to SSI units through technological upgradation of cluster units.
- Support for promotion and development of khadi and village industries through interest subsidy, revival of sick village industries/ revitalisation of KVI Institutions, training, technological modernisation etc.
- Under the Rural Employment Generation Programme (REGP), financial support to rural and village industries through margin money by banks and financial institution.
- Under the Prime Minister Rozgar Yojana (PMRY) financial assistance without collateral guarantee is provided to educated and uneducated youth to set up business/industrial ventures
- Under the National Programme for Rural Industrialisation, financial assistance is provided to fill up gaps in the development of clusters in rural areas.
- Capacity building support is provided in handicrafts, handlooms, sericulture, food processing and small scale sectoral schemes.

Table 12.13
Performance of the small scale industrial sector based on the Third Census of SSIs

YEAR	Number of units (in lakh) and Fixed Investment (Rs. crore)				Production		Employment	Exports
	Registered	Unregistered	Total	(Rs. crore)	Current Prices	Constant Prices (At 1993-94 prices)	(lakh persons)	(Rs. crore)
					(Rs. In crore)			
1	2	3	4	5	6	7	8	9
2001-02	13.75 (4.96)	91.46 (3.93)	105.21 (4.07)	154349 (4.75)	282270 (8.03)	195613 (6.06)	249.09 (4.18)	71244 (2.07)
2002-03	14.68 (6.76)	94.81 (3.67)	109.49 (4.07)	162533 (5.30)	311993 (10.53)	210636 (7.68)	260.13 (4.43)	86013 (20.73)
2003-04 (P)	15.54 (5.86)	98.41 (3.79)	113.95 (4.07)	170726 (5.04)	351427 (12.64)	226581 (7.57)	271.36 (4.32)	N.A.

Note: Figures in brackets show the percentage growth over previous year.

12.81 Initiatives taken during the Tenth Plan are:

- Special Handicrafts Training Project (SHTP) to benefit 10,000 artisans/ weavers (out of which 2,200 would be trained for carpet weaving and 7,800 would be trained in crafts other than carpets through existing components of the Guru Shishya Parampara under the Design and Technology Upgradation Scheme and training for carpets and crafts other than carpets under AHVY).
- Workshed for Handicraft Artisans, which focuses on providing improved working conditions, with emphasis on a well-ventilated and healthy working environment for handicraft artisans. This is expected to lead to improved productivity. (This scheme is being implemented in Jammu and Kashmir).
- Bima Yojana for Handicrafts Artisans, which is to cover 200,000 weavers/ artisans under insurance cover during the Tenth Plan period. The scheme is being implemented in association with the Life Insurance Corporation of India and a total of 62,070 artisans were covered.
- Artisans' Credit Card (ACC) Scheme, which is meant to provide adequate and timely assistance to artisans in order to fulfil their working capital needs. A target of 200,000 cards was set for 2003-04 but only 16,500 cards were issued till 31st March 2004.
- Urban Haats, which were to provide permanent marketing outlets to the artisans' community from rural as well as urban areas. A provision for the establishment of 20 urban haats has been agreed to during the Tenth Plan. Urban haats have since been sanctioned/ approved in principle at Mysore (Karnataka), Dimapur (Assam), Puri and Konark (Orissa) and Pune (Maharashtra).

12.82 The physical and financial performance of the VSE sector has been given in Annexures 12.3 and 12.4. The VSE sector has, by and large, performed satisfactorily in terms of production, turnover, employment and exports. The performance of small-scale industries, village industries and the powerloom sector has been particularly noteworthy. In handlooms, production of cloth has come down due to competition with powerlooms.

Constraints on the VSE Sector

12.83 The VSE sector faces three major constraints – ceiling on investment in plant and machinery, difficulty in obtaining credit (both term loans and working capital) from financial institutions and the need to deal with a plethora of laws and multiple inspections under these laws.

12.84 Small-scale industries are defined in terms of units with investment in plant and machinery not exceeding Rupees one crore. The present limit was fixed in 1999 but in October, 2001, the limit was raised to Rupees five crore for hi-tech and certain export-oriented industries. In the competitive environment at present prevailing in the country with the reduction of trade barriers, it has become necessary to allow small-scale units to make higher investments in plant and machinery for effecting technological up-gradation. The time has come, therefore, to raise the limit to Rupees five crore for all small-scale units. In fact, the small-scale units must be allowed to grow further and graduate smoothly into medium enterprises for which some of the benefits may need to be scaled down. It is also necessary to enlarge the concept of small-scale units to cover not only manufacturing units but also those engaged in services. Thus we should be talking of small and medium enterprises (SMEs) rather than small-scale industries.

VSE Financing

12.85 Small-scale units as well as medium-sized units have been adversely affected by the virtual destruction of Development Financial Institutions (DFI) and their conversion into universal banks. At the same time the State Financial Corporations (SFCs) are in difficult

times because of huge non-performing assets (NPAs). These institutions catered to the term loan needs of the small and medium enterprises (SMEs) in the past and their weakening has led to the source of term loans for the SMEs virtually drying up. The Small Industries Development Bank of India (SIDBI) is overstretched and does not have the network to meet the needs of the SMEs over the whole country.

12.86 Commercial banks are generally averse to dealing with SMEs because the transactions with them do not have the economies of scale that those with large units have. There is greater apprehension of the account being classified as a NPA if the repayment is delayed by 90 days in the case of term loan and if the account is not in order for the same period in the case of working capital. However, such delays are common among SSI units because their clients tend to delay clearance of their dues. All these factors have led to a situation in which adequate credit is not being made available to the VSE sector, thus seriously affecting the health of the units.

12.87 Over the past few years the Reserve Bank of India (RBI) has issued a number of guidelines on lending to small enterprises but these are not being adhered to. Some of the important guidelines are:

- Setting up of specialised SSI branches in each district (March 2000)
- Dispensing with the collateral security requirement for loans up to Rs.5 lakh (January 2002) and up to Rs.25 lakh for units with a good track record and financial position (November 2003)
- Fixing a time limit of two weeks for loans up to Rs.25,000 and four weeks for loans up to Rs.5 lakh for the disposal of loan applications (October 2002)
- Fixing self-targets for growth in advances to the SSI sector (June 2003)
- Enhancement of the composite loan limit from Rs.50 lakh to Rs.1 crore (October 2004)

12.88 However, the main grievance of the SMEs is that none of these guidelines is being observed. The commercial banks demand collateral security for both term loans and working capital. Only 175 of the country's 590 districts have specialised SSI branches. Bank personnel at the branch level are not fully aware of the various schemes and facilities available for the SMEs and the branch managers need to be trained in techno-economic appraisal of projects of small enterprises.

12.89 More than any other promotional programme, what the VSE sector needs is action for providing it with adequate term loans and working capital loans. The following action points could address the financing needs of the sector:

- The RBI should take steps to ensure that commercial banks comply with the guidelines issued for facilitating loans to SMEs.
- The reluctance of the public sector commercial banks to meet the credit requirements of the SMEs arises, to a large extent, from the lack of in-house capability for techno-economic project appraisal. It is necessary for them to consider strengthening such capability in the specialised SSI branches that must be opened in all districts. Regular training programmes must also be organised.
- All banks should be required to fix a target of a minimum 15 per cent growth in advances to SMEs over the previous year's achievement.
- Recourse to credit rating will also facilitate bank financing of SMEs. The Ministry of SSI has recently launched a performance and credit rating system for SSIs, which is being implemented through the National Small Scale Industries Corporation (NSIC). SIDBI is also in the process of setting up a specialised credit rating agency for SMEs. This needs to be expedited.

12.90 The artisanal and household units in the VSE sector cannot depend on commercial

banks alone for meeting its financial needs. It is, therefore, necessary to strengthen the micro-finance institutions to address the needs of this sector and for the rural population in general.

Multiple Inspections

12.91 Small-scale units have to comply with 22 Central enactments. A survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) in October 2004 revealed that, on an average, a factory/ establishment is subject to 37 inspections a year, with some factories facing 67 inspections in a single year, the maximum number of visits being those of the Environment Officer, State Pollution Board officials and the Labour Officer. Some of the inspectors have wide-ranging powers: 20 of them have powers of imprisonment, 12 for sealing the unit and 21 for stopping operations. The wide powers vested in the inspectors and the frequency of their visits has led to the phenomenon of Inspector Raj and proved to be a fertile ground for breeding corruption. There is a dire need to tackle this problem but there are no easy solutions as the enactments need to be enforced as well. A Committee has been constituted by the Department of Industrial Policy and Promotion under Member (Industry) in the Planning Commission to look into the gamut of problems in this area and suggest solution. This Committee would need to submit its report expeditiously in order to enable the Government to take a decision at the earliest. Determined action on the part of Central Government to reduce harassment by inspectors will lend credibility to the efforts and may persuade the State Governments to act similarly.

Other Initiatives

12.92 The handloom industry, which is in a weakened state, has tremendous potential for productive growth, given relatively modest investment and adequate institutional support. To help it realise its potential, the existing support institutions need to be geared up to the task and restructured, if necessary, or new institutions need to be built. This task should be given to an independent body that is capable of driving growth in the sector. A Steering Committee for Handlooms needs to be constituted to do the following:

- Take the industry from its present weak position to a position of strength by ensuring the linkage of the strong production base with contemporary market.
- Strengthen delivery mechanisms by introducing monitoring, performance evaluation and course correction of existing institutions
- Provide inputs for the policy formulation process.

THE WAY FORWARD

Fiscal Policy

- Reduce the cumulative incidence of indirect taxes and customs duties. The peak customs tariff needs to be brought down to 10 per cent and the simple average to even lower levels. The inefficient and distortion-riven system of cascading taxes needs to be changed to a full VAT system at both the Central and state levels. As recommended by the Kelkar Task Force, the total tax burden on most goods – by the Centre and the states – should be no more than 20 per cent.
- Rectify the inverted duty structure. It is imperative that urgent attention is paid to rationalisation of the inverted duty structure on certain specific segments.

Initiatives for Food Processing

- Enact an Integrated Food Law at the earliest. The absence of such a law is a major impediment to the growth of the food processing industry. A Group of Ministers is examining the issue.
- Amend the Agricultural Produce Marketing Committee (APMC) Acts to allow contract farming. This is

important for the growth of the food processing industry.

Labour Market Reforms

- Build a consensus on the need to amend labour laws to remove some of the rigidities that adversely affect the competitiveness of the Indian manufacturing industry and can also be a constraint on the expansion of employment in labour-intensive manufacturing activities. Till such time as a consensus emerges, selective exemption from the applicability of some of the laws could be considered for SEZs, EOUs and the proposed SERs.

Scarcity of Fuel And Feedstock

- Take steps to address the supply side constraints on the availability of adequate quantities of coal of the required grades for units that use non-coking coal. Coal should be removed from the Essential Commodities Act and the process of trading commenced in a non-disruptive way by permitting trading in imported coal and allowing existing coal linkages to be made transferable. Adequate supply of domestic natural gas/LNG at internationally competitive prices to fertilizer and steel units must be ensured. The recommendations of the inter-ministerial group need to be implemented at the earliest.
- Seriously consider initiatives like Joint Forest Management for growing fibre for use by the paper industry.

Exit and Entry Policy

- Address the problem of long drawn out liquidation procedures. Remove the legal impediments in the way of the of the National Company Law Tribunal (NCLT) established by the Companies (Second Amendment) Act, 2002.
- Mandate hosting on the relevant websites the status report on all pending investment proposals at both Central and State government levels.

Small Scale Sector

- Adopt a promotional approach to the SSI sector. There is growing realisation that the policy of reserving the manufacture of certain items exclusively for small-scale units is unsustainable and prevents them from attaining economies of scale and dealing with competition. Make further progress on dereservation in September 2005.
- Raise the ceiling on investment in plant and machinery to Rs.5 crore for SSIs. Allow small-scale industry to graduate smoothly into medium enterprises.
- Address the problem of multiple inspections and consequent harassment of small scale units. Expedite the recommendations of the Committee established for the purpose.
- Provide the SME sector with adequate term and working capital loans. Credit rating, capacity building in project appraisal and compliance with RBI instructions on collateral-free loans are some areas which merit consideration.

Skilled Manpower

- Take steps to stem the decline in the quality of education for engineers.
- Increase the capacity of ITIs for training, upgrade the quality of training and make it demand driven.

Industrial Subsidies

- Review the subsidy schemes for geographically disadvantaged states and adjust them in light of experience. Consider replacing differential taxation with direct subsidies.
- Conduct a rigorous scrutiny of the industrial subsidy scheme and consider phasing out, within the next two years, those which are not found to be justified in economic terms.

Public Sector Enterprises

- Make bankability a prerequisite for taking forward rehabilitation proposals of sick CPSEs. The norm in developing the financial package must be that the government takes the responsibility for strengthening the equity base while financial institutions provide the loan. Private sector involvement should be sought through transparent means, particularly in cases in which it is felt that the CPSE would benefit from the technical, managerial and commercial expertise available in the private sector.

Handloom Sector

- Constitute a Steering Committee for Handlooms to take the industry from its present weak position to a position of strength by ensuring the linkage of its strong production base with contemporary market, strengthening delivery mechanisms, performance evaluation and course correction in existing institutions. Such a committee will also provide inputs for policy formulation.

Mineral Sector

- Set up a high level committee to consider the whole gamut of questions related to development of mineral sector including procedural delays, requirement for infrastructure, expeditious clearance from the environmental angle and other related issues.

Annexure 12.1

Review of Important Tenth Plan Schemes

1. Technology Upgradation and Modernisation

The Technology Upgradation Fund Scheme (TUFS), operated by the Ministry of Textiles, provides capital and interest subsidy for the modernisation of the textile and jute industry. The amounts disbursed since the scheme was launched in 1999 have pulled in an investment of about Rs.15,000 crore so far and an additional investment of Rs, 1,44,000 crore is estimated to be needed to modernise the textile industry. According to the Ministry of Textiles, the Indian textile industry made a total investment of US$10 billion in the last five years against US$ 100 billion by the Chinese textile industry. Clearly, the investment activity in the textile industry falls far short of the desired levels, despite the generous incentives under the TUFS. The Ministry of Textiles has been considering deepening of the incentives in order to stimulate further investment. Labour laws are the main disincentive for investment in the textile and garment industry and this cannot be neutralised by giving generous financial benefits.

There is need to be cautious about increasing the subsidy element in the TUFS or for continuing the scheme for a long period.

A scheme of the Department of Industrial Policy and Promotion (DIPP) on Technology Upgradation and Modernisation of Indian industry, which originally envisaged 30 per cent capital subsidy or 10 per cent interest subsidy, with a provision of Rs.219 crore in the Tenth Plan, has not taken off so far. It is now proposed to merge the scheme with the Industrial Infrastructure Upgradation Scheme (IIUS).

The domestic leather sector enjoys distinct comparative advantages in the form of abundance of raw material, availability of vast skilled manpower and an existing export market. The sector's strong export potential underlines the need to take comprehensive measures to enhance India's share in global leather trade. The Working Group on the leather and leather goods industry has set a target of getting a 8-10 per cent share in global leather trade by 2010. Recognising the need for capital infusion and modernisation to bring efficiency and economy of scale in all segments along the value chain of the leather sector, an allocation of Rs.400 crore was made for the leather sector in the Tenth Plan.

Out of this outlay, Rs.290 crore is meant for the Integrated Leather Development Scheme (ILDS). A summarised position of the proposal with component-wise break up is given in Annex Table 12.1.1.

The scheme has not yet taken off due to inordinate delay in settling the issue of the

Annex Table 12.1.1

Component	Investment Grant (Rs. crore)			
	% Ceiling		Ceiling Amount	
	SSI	Non-SSI	SSI	Non-SSI
Modernisation of tanneries	30	20	0.28	0.35
Modernisation of footwear units	15	-	0.20	-
Modernisation of footwear component units	15	-	120	-
Modernisation of leather garments				
and goods	15	-	0.20	-
Implementation expenditure	-	-	-	-

interest subsidy element brought in by DIPP after the approval of the Expenditure Finance Committee (EFC) approval in 2003. This issue has recently been settled and government approval can be expected shortly. Unless this inordinate delay of more than two years is made up for, there is a real danger that India may not only fail to achieve the targets originally visualised but may also lose its existing share in world exports of leather and leather goods.

The remaining Rs.110 crore is earmarked for a separate sub scheme – comprising nine small budget activities for the improvement of infrastructure and skill development in the leather sector (Annex Table 12.1.2).

Annex Table 12.1.2

Sub Programme	Financial Outlay (Rs. Cr.)
Leather complexes (2)	50
Footwear Component Park (2)	20
Leather Goods Park	05
HRD Mission	10
INTECHMART	5
Saddlery Development	5
Global Benchmarks	5
Support to Rural Artisans	5
Non-leather Footwear Sector	5
Total	110

Under the scheme, a leather complex for a tannery at Nellore, Andhra Pradesh, a footwear complex in Tamil Nadu, two footwear component parks (in Chennai, Tamil Nadu and Agra, Uttar Pradesh) and a leather goods park at Kolkata (West Bengal) have already been approved.

The Tenth Plan also visualised the setting up of testing facilities in the automotive sector. This scheme, now called the National Automotive Testing and R&D Infrastructure Project (NATRIP), envisages an outlay of Rs.1,718 crore and is considered a major developmental effort which addresses the facilities gap in regulatory and developmental requirements of the automobile and auto component industry. New testing facilities in the northern and southern parts of the country are proposed to be created in order to meet the homologation, safety and environment regulations. The proposal also includes a world-class test track, which the country does not have. As a result, the automobile industry is forced to depend substantially on developed countries for product design, development and testing. It is claimed that such facilities have been developed in other countries largely with financial support from the government. An expenditure of approximately Rs.100 crore has already been incurred in upgrading existing facilities at the Automotive Research Association of India (ARAI), which has been funded through Plan support and cess in the first two years of the Plan.

2. Growth Centre Scheme

During the last two years, the number of functional growth centres has increased from 38 to 46. While Central assistance has increased from Rs.371 crore to Rs.494.61 crore, the contributions of the state government and other agencies has increased from Rs.689 crore to Rs.765.41 crore. The scheme has failed to evoke a significant response from potential entrepreneurs and industrialists. Some of the factors responsible for this are: slow release of funds by state governments, lack of mobilisation of resources from financial institutions and thin spread of resources over a large number of centres. An evaluation of the scheme by the Programme Evaluation Organisation (PEO) of the Planning Commission observes that the scheme has failed to achieve the objective of removing regional imbalance through setting up of small and medium scale units in industrially backward areas and recommended discontinuation of further financial support from the government.

3. Transport Subsidy Scheme

Launched in July 1971, this scheme aims at promoting industrialisation in hilly, remote and inaccessible areas. It provides subsidies ranging between 50 per cent and 90 per cent on transport cost incurred on the

movement of raw material and finished goods from designated rail heads/ports up to private and public sector industrial units located in the north-eastern states, Himachal Pradesh, Jammu and Kashmir, Sikkim, the Darjeeling district of West Bengal, hill districts of Uttaranchal, Andaman and Nicobar Islands and Lakshadweep for the initial five years of operation. The validity period of the scheme has been extended up to 31 March 2007. Actual expenditure on the scheme was Rs.189 crore in 2002-03 and Rs.13.80 crore in 2003-04. The scheme needs to be rationalised by restructuring its coverage only to Darjeeling, Andaman and Nicobar and Lakshadweep islands, since separate special packages have been subsequently launched for other areas such as the North-East, Jammu and Kashmir, Sikkim, Himachal Pradesh and Uttaranchal.

4. North East Industrial Policy (NEIP)

Under the New Industrial Policy for promoting industrialisation in the seven north-eastern states, various concessions and fiscal incentives are offered as part of a package. These include: increased equity contribution of Rs.15 crore by the Government of India in Growth Centres, enhanced Government of India funding in Integrated Infrastructure Development Centres (IIDC) and 100 per cent exemption of excise duty and income tax for 10 years. Additionally, capital investment subsidy of 15 per cent, interest subsidy of 3 per cent on working capital loans and reimbursement of 100 per cent insurance premium are provided to new units as well as for expansion work of existing units under the Capital Investment Subsidy, Interest Subsidy and Comprehensive Insurance schemes of the Central government. The North Eastern Development Finance Corporation is the nodal agency for disbursement of subsidies.

Annex Table 12.1.3 gives details of the number of units assisted, the level of investment and the employment generated so far.

An impact evaluation study of the programme carried out by Tata Economic Consultancy Services (TECS) made the following observations:

- The investment scenario appears skewed, with Assam and Meghalaya accounting for almost 94 per cent of overall investment due to their resource base and Meghalaya's better power situation.
- Greenfield units accounted for 72 per cent of investment.
- No large investment has taken place as a result of the NEIP and 69 per cent of the units involve investment of up to Rs 1 crore.
- Excise duty exemption/refund constituted the single most significant element in the policy (tobacco and pan

Annex Table 12.1.3
Physical Impact of NEIP

State	No of units	Investment (Rs. Crore)	%age share	Employment (No.)
Assam	520	528.19	49.49	12422
Meghalaya	61	441.01	41.32	6056
Arunachal Pradesh	11	39.86	3.73	577
Tripura	34	31.58	2.96	665
Nagaland	46	19.64	1.84	439
Mizoram	4	4.00	0.37	300
Manipur	5	3.00	0.28	250
Total	681	1067.28	100.00	20709

masala units. are the highest recipients of such concessions). Transport subsidy is relevant to the region because of the difficult topography but its disbursement needs to be rationalised.

- Interest subsidy and capital investment subsidy have not evoked any significant response so far.

5. New Initiatives Taken in the Tenth Plan

The new initiatives taken in the Tenth Plan period include the special package for Sikkim under the Sikkim Industrial Policy, 2002 (announced on 23rd December 2002), the package for Jammu and Kashmir under the Industrial Policy of Jammu and Kashmir (announced on 14th June 2002) and the Package for Uttaranchal and Himachal Pradesh (announced on 7th January 2003). All the three packages include provision for capital investment subsidy, interest subsidy and comprehensive insurance subsidies. Apart from this, fiscal incentives like excise duty and income tax exemptions as well as increased contribution of Government of India equity of Rs.15 crore in Growth Centres are also available under these packages. The Jammu and Kashmir Development Financial Corporation (JKDFC) would be the nodal agency for implementation and pending its formation, the Jammu and Kashmir State Industrial Development Corporation (SIDCO) has been appointed as the interim nodal agency. While these packages have been initiated in the recent past and a clear picture of their impact is yet to emerge, an interim evaluation has brought out the fact that there has been a significant favourable impact on industrialisation in Jammu and Kashmir, Himachal Pradesh and Uttaranchal.

In Himachal Pradesh, 3,472 projects are in various stages of implementation. The overall investment in these active proposals amounts to Rs.7,397 crore and they are expected to generate employment for 1,27,504 persons. In Uttaranchal, 1,150 projects – involving investment of Rs.8,600 crore and potential employment generation of 73,000 jobs – are in various stages of implementation. In Jammu and Kashmir, 253 projects – entailing investment of Rs.1609 crore and potential employment for 18,856 persons – are in various stages implementation.

While these states are, no doubt, benefiting from the various incentives being extended to them, there have been complaints that this has led to flight of capital from Punjab, Haryana, Rajasthan and Uttar Pradesh, which adjoin these states, as some units are relocating to Himachal Pradesh and Uttaranchal only to be able to get the benefit of excise duty exemption and that there is little additional investment in the rest of the country. The northeastern region has also been affected adversely, as the entrepreneurs are finding it more attractive to locate their units in Uttaranchal and Himachal Pradesh.

6. Industrial Infrastructure Upgradation Scheme (IIUS)

The DIPP had initiated the Industrial Infrastructure Upgradation Scheme (IIUS) in the Tenth Plan to enhance the competitiveness of domestic industry by providing quality infrastructure through public-private partnership approach in selected functional clusters/locations. Common facilities for transport, road, water, power, gas/fuel supply, effluent treatment, solid waste disposal would

Annex Box 12.1.1
Special features IIUS

- Development of quality industrial infrastructure through the public-private Partnership approach
- Selection of clusters based on number of units, persons employed, output/ export potential and growth potential etc.
- Appraisal of projects by financial institutions.
- User driven and implementation by Special Purpose Vehicle

Benefits: Increased productivity, lower cost of production, improved product quality, increased exports and additional employment generation.

be created under the scheme. Assistance for product design, information and communication technology support and similar facilities would also be provided.

The selection of clusters will be done on the basis of number of units, persons employed, value of output, value of export/export potential, comparative advantage, economies of scale, growth potential and the nature of critical gaps in infrastructure etc. The projects to be taken up under the scheme are appraised by professional and independent agencies.

A special feature of this scheme is that it will be implemented through Special Purpose Vehicles (SPV) at the individual cluster level, in order to ensure that the infrastructure development/upgradation is user-driven. This arrangement will also ensure the creation and sustainability of useful assets through a revenue generation model. The scheme is expected to enhance competitiveness of domestic industry through increased productivity, lower cost of production, improved product quality, increase in global market share and additional employment generation.

The IIUS scheme envisages developing 30-35 clusters in the Tenth Plan period. The scheme generated keen interest among industry associations and 88 project proposals were received from various state governments, of which 17 have been approved. Many industry associations have said that the scheme should be strengthened, made more comprehensive and broad based to include a technology upgradation component also.

7. Intellectual Property Rights (IPR)

Government has taken a number of measures to modernise Intellectual Property offices with a view to making the system responsive to the changing requirements and giving it user orientation. The major components of modernisation initiatives include review of existing procedures and development of new user-friendly procedures, computerizing the procedure for grant of intellectual property rights, networking of offices, activities connected with human resource development, training of officers, infrastructure development, awareness and outreach activities.

As part of the project for modernisation of IP offices, all Patent Offices were modernised and operationalised. The Trade Marks Registry in Mumbai was also modernized. Modern office buildings in Delhi, Kolkata, Chennai and Mumbai to house integrated IP offices of patents, designs, trademarks and geographical indications are in final stages of completion and are expected to be made operational in the last quarter of 2004-05 (for Delhi and Kolkata) and Chennai and Mumbai in 2005-06. Comprehensive computerization of operations is also being done along with enhancing human resource capabilities of IP offices. The office has a website namely, www.ipindia.nic.in where

Annex Box 12.1.2
Cluster proposals approved

1.	Auto cluster, Vijaywada	2.	Auto Cluster, Pune
3.	Pharma Cluster Hyderabad	4.	Steel Cluster, Jajpur
5.	Chemical Cluster Ankleshwar	6.	Chemical cluster, Vapi
7.	Machine Tools, Bangalore	8.	Coir cluster, Allepey
9.	Auto Cluster, Pitampura	10.	Textile cluster, Tirupur
11.	Textile Cluster, Ludhiana	12.	Cereals Cluster, Madurai
13.	Gems and Jewellery, Surat	14.	Auto Cluster, Chennai
15.	Marble Cluster, Kishangarh	16.	Foundry Industrial Cluster, Belguam
17.	Woolen Blankets and Furnishings Cluster, Panipat.		

Annex Box 12.1.3
Textile cluster, Tirupur-PPP example

Profile	:	India's leading cotton knitwear centre with exports of Rs.6000 crore. A target for doubling exports in five years has been set.
No. of units	:	4000
Employment	:	2.5 lakh (of which women are 1 lakh)
Infrastructure constraints	:	water supply, road network, waste water treatment, R & D centre.
Project	:	Supply of 185 mld water, CETP, R & D Centre, Working women's hostel etc.
SPV	:	New Tirupur Area Development Corporation Ltd.
Cost	:	Rs.1023 cr.
Funding	:	Equity Rs.372.70 crore Grant (IIUS) Rs.50 crore Debt Rs.622.80 crore Subordinate debt Rs.86.50 crore
Salient features		• Public-private partnership approach. • First water and sanitation project with private participation. • Commercial model of project components through 'willingness to pay' approach for user industries.

all laws and rules are available. Recognising the critical importance of awareness of IP systems for scientific and business community, IP offices have been undertaking awareness generation programmes and assisting other organisations in similar activities.

Under the project on modernisation of Patent Offices, online search facilities were established; CD-ROMs of patent databases of UK, USA and European Patent Office were acquired; manual of patent office procedure and practices prepared to ensure uniformity in operation; digitization of over 1,00,000 patent record completed, etc. These steps resulted in significant improvement in performance of the office and the office achieved around four times increase in number of applications examined (from 2,824 in 1999-2000 to 10,709 in 2003-04).

Under the modernisation project, backlog of about 450,000 trademark applications pending at various stages were liquidated at all stages except contest case. Online linkage of all branch offices was established and all branches are receiving applications and issuing allocation numbers on the same day. Pre-examination activities such as creation of physical file, data entry, codification and scanning of device marks etc. are being done on the very day of receipt of application. The examination of new applications is being taken up within two weeks. Accepted Trademark applications are being published in CD Journal since July, 2004 and paper publication of Trademarks Journal has been discontinued. Across the counter renewal and post registration requests in clear cases is done instantaneously. Computerized Public Search facility has been made functional at all TMR offices/ Time being taken for processing of trademark applications at varying stages is substantially less compared to statutory upper time limits.

Annexure 12.2

Plan Outlays And Expenditure Under Major Sectors/Heads Of Development During Tenth Plan (At current prices)

(Rs. Crores)

Sl. No.	Major Schemes pertaining to Industry Division	Tenth Plan Outlay (2002-07)	Annual Plan (2002-03) Actual Expend.	Annual Plan (2003-04) Actual Expend.	Annual Plan (2004-05) RE	Annual Plan (2005-06) BE	Total of four years in Tenth Plan	%age of col. (8) to col. (4)
D/o Industrial Policy & Promotion		**2000**	**273.48**	**232.92**	**400**	**550**	**1456.4**	**72.82**
1	Upgradation of Industrial Clusters Scheme	675	0	37.5	175	275	487.5	72.22
2	Indian Leather Dev. Programme (ILDP)	400	1.5	0.59	9	75	86.09	21.52
3	Technology Upgradation/ Modernisation Scheme	219	0	0	0.32	0	0.32	0.15
4	Support to Autonomous Institutions	209	45.82	40.31	24.2	37.77	148.1	70.86
5	Transport Subsidy	100	109	13.8	27	5	154.8	154.8
6	North East Packages including incentives	210	20.68	5.83	40.28	55.03	121.62	57.91
Ministry of Textiles*		**3580**	**602.54**	**631.87**	**750**	**1150**	**3134.41**	**87.55**
1	Cotton Technology Mission	150	30	30	35	80	175	116.67
2	Apparel Park	75	0	10.14	25	100	135.14	180.19
3	Infrastructural Development	75	0	10.93	15	100	125.93	167.91
4	TUFS	1270	202.59	248.97	294	450	1195.56	94.14
5	NIFT	110	13.73	23	25	12.78	74.51	67.74
Department of Heavy Industry		**2062.59**	**272.59**	**265.27**	**282.4**	**804.87**	**1625.13**	**78.79**
1	Support to Existing PSUs on Project Basis	269.25	240.23	237.89	243.03	551.17	1272.32	472.54
2	Lump Sum Provision for AMR	1507.09	3.02	0	5	7	15.02	1
3	Testing Facilities for Automobile	150	25	20	29	181	255	170
4	Others	136.25	4.34	7.38	5.37	65.7	82.79	60.76
Department of Fertilisers		**5900**	**699.12**	**436.49**	**443.63**	**1017.3**	**2596.54**	**44.01**
1	Support to Existing PSUs on Project Basis	3300	289.56	206.17	262.42	457.26	1215.41	36.83
2	Support to Existing Co-operatives on Project Basis	2490	388.76	203.82	158.5	542	1293.08	51.93
3	Others	110	20.8	26.5	22.71	18.04	88.05	80.05
Department of Chemicals & Petrochemicals		3044	45.82	47	60	106.1	258.92	8.51
1	Support to Existing PSUs on Project Basis	2784.03	19.2	17.03	20.2	41	97.43	3.5
2	Support to Auronomous Bodies on Project Basis	170.07	23.47	23.13	25.33	55.45	127.38	74.9
3	Others	89.9	3.15	6.84	14.47	9.65	34.11	37.94
Department of Consumer Affairs		**55**	**6.99**	**8.26**	**19.55**	**107.94**	**142.74**	**259.53**
1	Consumer Protection	15.5	2.85	3.1	8.59	96	110.54	713.16
2	Others	39.5	4.14	5.16	10.96	11.94	32.2	81.52
Ministry of Steel (Support to PSUs)#		**11044**	**434.34**	**699.45**	**1134.72**	**2466.12**	**4734.63**	**42.87**
Department of Public Enterprises		**50**	**8.67**	**8.81**	**26.5**	**30**	**73.98**	**147.96**

*including VSE components #including Mineral industry components

Annexure 12.3

Physical performance of the VSE sector (sub-sector wise)

S. No	Industry/Sub-sector	Unit	Tenth Plan targets 2006-07 terminal year	2002-03 Actual	2003-04		2004-05	
					Target	Anticipated Achieve-ment	Target	Achieve-ment up to Nov.04
	2	3	4	5	6	7	8	
I	**Production**							
1	Small Scale Ind.	Rs. crore	566404	311993	330000	351133	429548	358000
2	Khadi Cloth	Rs. crore	750	443	474.75	451.93	511.61	425
3	Village Industries	Rs. crore	12500	8126.30	9377.10	9263.98	10886.45	8000
4	Coir Fibre	000 tons	435	353.70	410	364	400	280
5	Handloom Cloth	Mill Sqm	10000	5980	6200	5518	5500	2628
6	Powerloom Cloth	Mill Sqm	132821	24360	25406	26800	30000	25000
7	Raw Silk	MT	26450	16319	19900	15842	17920	N.A.
8	Handicrafts	Rs. crore	47204	19565	20356	20356	26774	16058
9	Raw wool	Mill. Kg.	49	52.10	53.60	53.00	55.10	50.00
II	**Employment**							
1	Small Scale Ind.	**Lakh Persons**	237	261.38	209.03	203.97	217.80	210
2	Khadi & Village Ind.	-do-	89.50	66.45	71.38	71.17	76.82	72
3	Coir Industries	-do-	6.50	5.78	5.98	5.86	6.06	6
4	Handlooms	-do-	120	120	120	120	120	120
5	Powerlooms	-do-	45	42.50	Not fixed	Not fixed	Not fixed	52
6	Sericulture	-do-	60.03	56.00	57.50	56.50	58.40	55
7	Handicrafts	-do-	67.70	60. 16	62	61.96	63.81	63
8	Wool Development (Unorganised Sector)	-do-	7	5.5	5.5	5.5	5.5	5.5
III	**Exports**							
1	Small Scale Ind.	**Rs. crore**	120000	86013		N.A.	93653	N.A.
2	Coir Industry	**Rs. crore**	700	352	500	407.50	560	N.A.
3	Silk	**Rs.crore**	4050	2130	2556	2523	2940	N.A.
4	Handicrafts	**Rs. crore**	17000	10934	11604	12765	14900	5972

Annexure 12.4

Financial performance of the VSE sector (sub-sector wise)

(Rs. crore)

S. No	Industry/ Sub Sector	Tenth Plan Outlay	2002-03		2003-04		2004-05
			Outlay	Expenditure	Outlay	Expenditure	Outlay
I.	Min of SSI						
1	SIDO	1992.00	306.85	249.30	298.31	294.27	315.55
2	NSIC	564.00 (IEBR-384)	117.00 (IEBR-85)	97.26 (IEBR–71.61)	90.00 (IEBR-50)	72.41 (IEBR-34.28)	102.00 (IEBR-62)
3	Other Sch.	28.00	11.15	8.58	11.69	7.22	10.45
	Total of SSI	2584.00 (IEBR-384)	435.00 (IEBR-85)	355.14 (IEBR-71.61)	400.00 (IEBR-50)	373.90 (IEBR-34.28)	428.00 (IEBR-62)
II.	Min of ARI						
4	KVI	2080.00	392.00	340.55	392.00	423.60	437.00
5	Coir	115.00	18.00	13.77	18.00	14.52	18.00
6	PMRY	755.00	169.00	168.10	169.00	167.83	182.50
7	NPRI		1.00	0.00	1.00	0.18	0.50
	Total of ARI	2950.00	580.00	522.42	580.00	606.13	638.00
III.	Textiles(VSE)						
8	Handlooms	625.00	140.00	130.66	156.77	137.27	154.56
9	Powerlooms	60.00	12.00	4.52	14.00	8.47	12.28
10	Handicrafts	425.00	88.00	64.98	103.55	64.32	103.00
11	Sericulture	450.00	87.50	90.59	92.68	89.68	102.46
12	Wool	40.00	8.00	6.29	13.00	10.00	12.00
	Total of Textiles (VSE)	1600.00	335.50	297.04	380.00	323.58	384.30
IV.	Total of FPI	650.00	75.00	72.99	75.00	65.00	110.00
	Total of VSE	7784.00 (IEBR-384)	1425.50 (IEBR-85)	1247.59 (IEBR-71.61)	1435.00 (IEBR-50)	1368.61 (IEBR-34.28)	1560.30 (IEBR-62)

Annexure 12.5a

Comparison of Plan Outlays and Expenditure Under Major Sectors/Heads of Development During Ninth and Tenth Plan Periods for Central Plan

SUBJECT DIVISION - INDUSTRY AND MINREALS

Rs. crore at 2001-02 prices

Sectors/Heads of Department	Ninth Plan (1997-2002)		Tenth Plan Outlay (2002-07)	A.P. 2002-03 (Actual Expend.)	A.P. 2003-04 (Actual Expend.)	A.P. 2004-05 (RE)	2005-06 (BE)	Total of four years in Tenth Plan	%age of col.9 to col.4
	Plan Outlay	Reali-sation							
1	2	3	4	5	6	7	8	9	10
Ministry of Mines	7753.96	4725.72	8344.50*	786.08	462.01	349.25	575.41	2172.75	26.04

* Excluding outlay Rs.1113.5 crores for HZL since disinvested

Annexure 12.5b

Comparison Of Plan Outlays And Expenditure Under Major Sectors/Heads Of Development During Ninth And Tenth Plan Periods For Central Plan

SUBEJCT DIVISION INDUSTRY AND MINREALS **(Rs. crore at current prices)**

Sectors/ Heads of Department	Ninth Plan (1997-2002)		Tenth Plan Outlay (2002-07)	A.P. 2002-03 (Actual Expend.)	A.P. 2003-04 (Actual Expend.)	A.P. 2004-05 (RE)	2005-06 (BE)	Total of four years in Tenth Plan	% age of col.9 to col.4
	Plan Outlay	Reali-sation							
1	2	3	4	5	6	7	8	9	10
Ministry of Mines	7753.96	4725.72	8344.50*	815.16	494.26	396.05	685.14	2390.61	28.65

* Excluding outlay Rs.1113.5 crores for HZL since disinvested

Comparison of Plan Outlays and Expenditure Under Major Sectors/Heads of Development During Ninth and Tenth Plan Periods for States And UTs

SUBEJCT DIVISION- INDUSTRY&MINERALS **(Rs. crore at 2001-02 prices)**

Sectors/Heads of Department	Ninth Plan (1997-2002)		Tenth Plan Outlay (2002-07)	A.P. 2002-03 (Actual Expend.)	A.P. 2003-04 BE	A.P. 2004-05 (RE) BE	AP2005-06 BE	Total of four years in Tenth Plan	% age of col.9 to col.4
	Plan Outlay	Reali-sation							
1	2	3	4	5	6	7	8	9	10
STATES	1208.71	413.99	1039.94	150.92	136.33	215.45	N.A.		
UNION TERRITORIES	0	0	0	0.46	0.00	0.00	N.A.		
TOTAL	1208.71	413.99	1039.94	151.38	136.33	215.45	N.A.		

Comparison Of Plan Outlays And Expenditure Under Major Sectors/Heads Of Development During Ninth And Tenth Plan Periods For States And UTs

SUBEJCT DIVISION-INDUSTRY&MINERALS **(Rs. crores at current prices)**

Sectors/Heads of Department	Ninth Plan (1997-2002)		Tenth Plan Outlay (2002-07)	A.P. 2002-03 (Actual Expend.)	A.P. 2003-04 BE	A.P. 2004-05 (RE) BE	AP 2005-06 BE	Total of four years in Tenth Plan	%age of col.9 to col.4
	Plan Outlay	Reali-sation							
1	2	3	4	5	6	7	8	9	10
STATES	1208.71	413.99	1039.94	156.5	145.85	244.32	N.A.		
UNION TERRITORIES	0	0	0	0.48	0	0	N.A.		
TOTAL	1208.71	413.99	1039.94	156.98	145.85	244.32	N.A.		