PEO Study No.118

EVALUATION REPORT ON CONCESSIONAL FINANCE AND OTHER INCENTIVES IN INDUSTRIALLY BACKWARD AREAS - 1981

1. The Study

Notwithstanding the Industrial Policy Resolution of 1956 and various measures taken by the Centre and the State, the imbalances in the levels of industrial development persisted between regions. In this connection, in 1968, the Committee of National Development Council constituted two Working Groups; one for suggesting steps to identify industrially backward areas (Pande Group) and the other for recommending fiscal and financial incentives for the promotion of industries in the selected backward areas (Wanchoo Group). A set of criteria was evolved for the identification of industrially backward districts and a package of fiscal and financial incentives was suggested. With a view to achieve balanced economic growth, the Government of India introduced in 1970 a number of incentive schemes, of which the most important were (1) Concessional Finance to be extended by all term lending institutions and (2) Central Investment Subsidy on capital investment for the promotion of industries in backward districts/areas. In 1975, after about 5 years of their implementation, the Programme Evaluation Organisation (PEO) was asked to undertake an evaluation study of these schemes. Accordingly, the study was conducted during 1975-76 and the Report thereon was published in 1981

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2. Objectives

i) To study the differential trend of industrial growth and to attempt an analysis of factors explaining these relative trends;

ii) To study the range and utilisation of the various incentives given by Central and State Agencies their impact in terms of costs, their adequacy in off setting possible diseconomies and, therefore, for providing necessary incentives for the location of an industry in backward areas and the problems of implementation;

iii) To assess the overall impact of the incentives; and

iv) To suggest whether any changes are required in the Schemes themselves, or in their range or in the way they were implemented.

3. Sample Size/Criteria for Selection of Sample

6 industrially backward States viz. Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Orissa, and Uttar Pradesh, as well as 7 relatively advanced States i.e. Haryana, Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu and West Bengal were selected for the study. The district to which, inter alia, the flow of funds from all the three sources i.e. the I.D.B.I., commercial banks and the Central Subsity was above the state average constituted the sampling frame for the State. One district was selected from each of the chosen 13 States except for Utter Pradesh from where 2 districts were selected. In each selected district, 30 beneficiary industrial units were selected randomly. If in a district the number was less than 30, all the units were selected. Thus, the sample for the study consisted of 13 States, 14 districts and 352 beneficiary industrial units.

4. Reference Period

The field work was conducted during the period December, 1975 to December, 1976. The survey gathered information and data for the period 1969-70 to 1976-77. However, some of the tables had updated information till 1979.

5. Main Findings

1. The prescribed criteria (based on Pande Group) for the indentification of industrially backward districts (IBDs) were, by and large, adopted by the States,. However, due regard was not accorded for the area potential for industrial development and existing infrastructural support.

2. Due to survey deficiencies, comprehensive planning in an integrated way was conspicuously absent. Promotional activities were sporadic in nature.

3. The State Governments tried to ensure a greater flow of infrastructural investment to the IBDs. However, the flow of funds was relatively more to developed areas in Haryana, Gujarat, Maharashtra , Orissa and Uttar Pradesh.

4. There was not much improvement in the infrastructural position of the selected IBDs during the reference period. The factors like shortages, interruptions and stoppages in the supply of power, paucity of funds for the development of infrastructure, scant rural coverage of the branch expansion programme, inadequate rail and road network in rural and interior areas and problems of water supply impeded the industrial advancement of the IBDs. The policy regarding the location of public undertaking in the selected districts was , by and large, satisfactory. Compared to the insignificant growth of industrial estates, the flourishing of industrial areas exhibited greated pace.

5. About 63% of the new entrepreneurs were induced by the available infrastructural facilities in the selected IBDs. About $2/5^{th}$ of them reported problems regarding utilisation of the existing facilities, especially those related to power supply.

6. Initiatives for opening new enterprises came largely from individuals only. The Seminars/Campaigns conducted were mainly intended to create an awareness of the available schemes and an industrial climate. The programme of identifying and motivating prospective entrepreneurs was only a partial success. Effective follow-up was completely lacking. The procedural delays, especially in the case of credit supply reported to have dampened the entrepreneurial zeal. Training courses, largely conducted by the private agencies, were availed by only one fifth of the selected enterprises and were highly inadequate.

7. About 68% of the entrepreneurs belonged to the same district. They mostly belonged to the advanced caste-groups and were predominantly of the age group 31-44 years. A third of them were graduates and above.

8. Apart from the Centre, certain State Governments also provided, with varying range and coverage, a number of concessions/ facilities for the development of industries in their backward districts.

9. The total investment subsidy reimbursed for all the States upto 1976-77 was Rs.21.73 crores. Of this, the States of Tamil Nadu, Maharashtra, Karnataka and Andhra Pradesh snatched away almost 53%. Besides this, large and medium scale industries received a large chunk of benefits from the Central subsidy. 91.2% of the total units assisted were of small scale with investment upto Rs.10 lakhs and their share in the total subsidy was ,

however, only 21.5%. Although, only 3.4% of the units assisted were of large scale with investment of Rs.50 lakhs or above, yet their share in the Central Subsidy was a whopping 53.3%.

10. 61.4% of the selected individual units received the Central Investment Subsidy. Of the selected units, 14.2% reported no financial assistance at all for fixed capital investment. The percentage of units not receiving any assistance for working capital was as high as 60. Of the total assistance for fixed capital, the shares of the Government, banks and other agencies were 20.3%, 17.5% and 62.2% respectively. The corresponding figures for working capital were 1.6%, 65.2% and 33.2% respectively.

11. The effective general term lendings by the IDBI to the IBDs increased from Rs.21 crores in 1970-71 to Rs.352 crores in 1976-77 and the proportionate share of the IBDs in the total increased from about 25% to about 52% during the period. Of the 13 States, the share of 4 industrially advanced states, i.e. Maharashtra, Tamil Nadu, Karnataka and West Bengal was more than half of the total assistance for backward areas in 1976-77. However,the share of these advanced States recorded a declining trend since 1970-71.

12. During 1970-71 to 1976-77, the total concessional finance extended by the IDBI was Rs.456 crores which formed 57% of the total assistance to the IBDs. However, 70% of this was disbursed in the last two years. Industrially advanced States accounted for half to three-fourth of the total concessional finance. Direct concessional finance was extended mainly for larger projects of a limited number. In concessional re-finance, the share of commercial banks was only 17% for the years, 1975-76 and 1976-77. Undue shares of this were seized by the advanced States and larger units.

13. Problems in the availment of assistance, mainly due to cumbersome procedures, were reported by 18% of the beneficiaries. In the case of Central Investment Subsidy, availment problems due mainly to cumbersome procedures, delays in payment, non-payment and low rate of payments were reported by 19% of the respondents.

14. Monitoring of the programmes was highly unsatisfactory. At the state level, the degree of co-ordination was not satisfactory. The co-ordination committees at the district level, wherever they were constituted, were functioning effectively. However, in more than half of the selected districts, such committees were not constituted.

15. The involvement of commercial banks was reported satisfactory in only 5 out of 14 selected districts while the State Corporations were reported having close involvement in 10 selected districts. The reasons for lesser involvement of banks included rigid security oriented loan policies,inadequate branch expansion to rural areas, high interest rates and reluctance to extend assistance for new ventures.

16. Success in attracting industrial units to the IBDs through facilitatory Arrangements was achieved largely in Andhra Pradesh, Haryana, Maharashtra and Punjab, to a reasonable extend in Himachal Pradesh, Karnataka , Kerala and Tamil Nadu and not to any significant extent in Assam, Bihar, Orissa, Uttar Pradesh and West Bengal.

17 Considerable growth of industrial units was reported for the period 1969 – 70 to 1975-76 from the districts of Cannanore (Kerala), Hissare (Haryana), Mysore (Karnataka), Aurangabad (Maharashtra) and Ramnathpuram (Tamil Nadu) which were blessed with better infrastructural support, better availment of facilities and better ogranisation. Tkhe second category of districts viz. Guddapah (Andhra Pradesh) , Dhenkanal (Orissa), Champaran (Bihar), Bhatinda (Punjab) and Solan (Himachal Pradesh) which were endowed with reasonable degree of infrastructural support and location advantages recorded reasonable growth. The last group of districts comprising Raebareily, Moradabad (Uttar Pradesh), Gollpara (Assam) and Purilia (West Bengal) recorded poor growth of industrial units because of inadequate infrastructure, locational disadvantages leading to poor transport and communication facilities, inadequate financial support and poor institutional and field set-up.

18 Among the newly started sample units, about 30% only were started during the first three years period upto 1971-72 while during the next three years, the remainly 70% were started.

19. The average number of workers ws 101.7 and the investment per worker was Rs.1.6 lakhs for units with above Rs.20 lakhs of investment on fixed capital. The corresponding figures were 7.1 and Rs.10,300 for units having fixed investment between Rs.0.5 lakh and Rs.1.0 lakh and 14.3 and Rs.1623 for units having fixed investment less than Rs.0.5 lakh.

20. About 91% of the units reported positive impact of the incentives/ facilities received. About 75% of entrepreneurs reported that these facilities enabled them to establish units in backward areas.

6. Major Suggestions

1. As regards identification of backward areas, it is suggested that smaller units of areas than district be considered for evolving strategies for industrial development, that the feasibility of demarcating contiguous areas with similarities in endowments and infrastructure be explored and that integrated planning and synchronised action programmes be pursued to conform to different development strategies that are relevant for different resource endowments and infrastructural conditions.

2 For precisely assessing areas potentialities, it is suggested that detailed industrial potentiality surveys and studies be conducted, that the survey analysis and reporting be well-directed and clear, that the survey results be of practical utility for comprehensive planning and that promotional activities, consultancy services, training programmes etc. be organised on the basis of the needs reflecsted by the survey results.

3. The integrated development of basis infrastructure particularly power, road, rail net work, transport and communications, etc., of backward areas may be planned at the State level. Soft loans on a significant scale may be provided to the State Governments for infrastructural promotion. To ensure the flow of funds from the State programmes, the instruments of `sub-plan' for infrastructural development in the backward areas may be persued. The planning machinery at the State level may be strengthened with the co-ordination of the involved departments and agencies of the State Governments.

4. Systematic identification and selection of prospective entrepreneurs in the IBDs by the SISI, reconsideration and reformulation of the training programmes entrusted with private agencies, strengthening of extension and promotional activities and special efforts for ensuring proper representation to Scheduled Castes and Scheduled Tribes are the suggestions mooted for entrepreneurial promotion.

5. With national consensus regarding the type of supplementary incentives to be regard to incentives and facilities, the need for arriving at a offered by the State Governments is emphasised. Some rationality must be introduced in this aspect through State plan discussions.

6. The differentiation that must be effected between backward areas with reference to the package of incentives/ facilities to be offered has to be carefully worked out. The delivery of the package should be smooth, ensuring full coverage of all relevant entrepreneurs.

7. Effective extension and service agency must be built up in the field, at least at the district level Co-ordination Committees at the district and State levels must be constituted for ensuring harmony between the concerned State departments, agencies and financial institutions.

8. The share of commercial banks in concessional term lending should be raised . Opening of adequate branch offices of commercial banks in the interior rural areas and at least one branch office of the State Financial Corporations at the district level must be ensured. Relaxation of security requirements, margins, etc. should be contemplated for smaller entrepreneurs. Extending all the assistance under term loans to the IBDs at concessional terms may be considered. The policy regarding the working capital assistance should be reconsidered. The coverage of districts, especially of the IBDs , for direct financing by all India term lending institutions may be extended.

9. The Central Investment Subsidy, though inevitable, should be extended in a graded scale. The share of industrially advanced states in the central subsidy must be restricted. 10% Central Investment Subsidy may suffice in industrially advanced States, while subsidy can be extended upto 30% in industrially backward States. Grading may be introduced within the backward districts also, depending on the extent of backwardness of areas. So also, the extent of subsidy granted to large units may be limited to 10% of their fixed investment while it can be upto 15% and 30% respectively for medium and small units.

10. The Central Investment Subsidy should ensure fuller coverage and effective implementation to benefit all eligible entrepreneurs. Need is also felt to extend transport subsidy to all the backward areas of industrially backward states.