1

INTRODUCTION TO INDUSTRIAL ECONOMICS AND INDUSTRIAL PROFILE

Unit Structure

1.0 OBJECTIVES

- To understand the meaning of Industrial Economics
- To discuss the scope of Industrial Economics
- To study the industrial profile

1.1 MEANING OF INDUSTRIAL ECONOMICS

The name 'Industrial Economics' is associated with the writings of British Industrial Economist PWS Andrews [Philip Walter Sawford Andrews (1914 – 1971)]. According to Andrews- 'industrial economics will be interested in what actually happens as distinct from what should happen in hypothetical or ideal circumstances.

Industrial economics is a branch of economics which deals with the economic problems of firms and industries and their relationship with society. In other words, Industrial economics deals with the organizations or institutions of production and economic forces which operate within the industrial sector.

The subject is also known with different names like Industrial Organization, Business Economics, Industry and Trade etc.

Industrial economics comprises two broad elements:

(i) Descriptive element- Descriptive element is concerned with the information content of the subject. It deals with industrial and commercial organizations of nations. It provides information regarding availability of factors of production, natural resources and climate, competitive situations in the industry, government rules and regulations, industrial policy, commercial policy, infrastructure etc. Thus, it has a positive approach as it deals with what is happening in the economy rather than what should happen in a hypothetical or ideal situation.

(ii) Business policy and decision making element - Business policy and decision-making element of industrial economics concern with the analytical and decision-making part such as location of plant, market analysis, pricing, wages, production of commodities, size of the factory, advertisement, choice of techniques, product diversification, hiring and firing of labour, and so on. All such decisions explain the behavior of producers in different market situations, which we study in industrial economics.

Thus, the Industrial Economics has both the micro and macro aspects of economics. It has a strong theoretical base of micro economics. It deals with the analysis of markets in a more positive manner than micro-economics. It provides useful applications in industrial management and public policies and therefore, it is a specialized field of economics.

1.2 SCOPE OF INDUSTRIAL ECONOMICS

Though the scope of the subject industrial economics is very wide, following are some of the important areas studied under the core of the subject-

1. **Industrial profile:** An industry profile provides a picture of a business industry based on data related to trends and areas of growth. It also deals with ownership patterns-like public, private, cooperative and their respective performances, problems, measures to deal with such problems etc.

2. **Diversification and Industrial Combinations:** Industrial economics studies sector-wise, commodity-wise and geographical location-wise diversification of industries. It also studies the types of industrial combinations, Mergers and Acquisitions and also motives behind the same.

3. **Industrial Location:** It gives information about suitable locations for the proposed industrial project through analyzing various factors like availability of resources, infrastructure etc. which are the determinants of Industrial Location. Similarly, theories of Industrial Location - is also an important area of study of this subject.

4. **Dispersion of Industries and Regional Imbalance:** The dispersion of industries deals with spread and concentration of industries in specific geographical locations. Factors responsible for such spread, types of firms located in a particular geographical location, infrastructural availability etc. are the topics covered in this aspect. Similarly, the problem, causes and measures to solve issues related to regional imbalance is also an important area of study of industrial economics.

5. **Industrial Productivity and Industrial Sickness:** Industrial productivity deals with topics like Concept and Measurement of Industrial Productivity, Factors Affecting Industrial Productivity etc.

while under industrial sickness- Causes, Effects and Remedial Measures are being studied.

6. **Industrial finance:** One of the important areas of industrial economics is Industrial Finance which has two levels for study - available finance source and effective utilization of the same.

7. **Industrial Disputes:** Under this aspect- causes of Industrial Disputes, Role of trade Union, collective bargaining and Settlement Mechanism of industrial disputes etc. are studied.

8. **Labour welfare:** Under this aspect-Concept, Theories and Principles of Labour Welfare, Characteristics of the Labour Market, problems of child labour, Agencies for Labour Welfare, Labour Social Security Measures, Role of International Labour Organization etc. are studied.

1.3 INDUSTRIAL PROFILE

An industry profile provides a picture of a business industry based on data related to trends and areas of growth. It also deals with ownership patterns-like public, private, cooperative and their respective performances, problems, measures to deal with such problems etc. as discussed below.

1.3.1 Private sector - Performance and Problems:

A. Meaning of Private Sector:

The private sector is an important part of a country's economic system that includes those production firms and processes which are run by a private individual or group of individuals or private organizations. Most private sector organizations run with the intention of profit maximization.

In other words, Private sector includes all different types of individual or corporate enterprises, both domestic and foreign, engaged in different fields of productive activity. Private sector enterprises are owned and managed by the private sector. These private sector enterprises are mostly characterized by certain common characteristics like private initiative, profit motive and ownership and management in private hands.

B. Performance of Private Sector in India:

The Private Sector played a crucial role in the Indian Economy before and after independence in India. The New Industrial Policy-1991 gave the leading role to the private sector and aimed at converting the Indian Economy into the largest free market economy in the world by the turn of the century.

The role of the private sector in the Indian economy is explained as follows:

1. **Leading Sector:** Private sector companies outnumbered public sector companies in the year 2009-10. As per table given below, out of the 1,143,292 active companies limited by shares in India, as on 31st January, 2018; 1,072,257 were Private and 71,035 were Public companies. Thus, the private sector is found to be one of the Dominant sectors in the Indian Economy.

Table No. 1.1

Table 1.2 : Active Companies Limited by Shares as on 31st January 2018				
Sl. No.	**Companies Limited by Shares**	**Government**	**Non Government**	**Total**
1	**Public Limited**	**1,386**	**69649**	**71,035**
	Of Which			
i	Listed	74	7,173	7247
ii	Unlisted	1,312	62,476	63,788
2	**Private Limited**	**528**	**1,071,729**	**1,072,257**

Source: http://www.mca.gov.in/Ministry/pdf/MIB_JAN_2018.pdf

2. **Employment Generation:** Private sector is playing a dominant role in generating employment opportunities in India. A big number of large scale, small scale, cottage industries are run by the private sector in India. About 80% of the total workforce is employed in either organized or unorganized private sector units. The importance of the private sector in the Indian economy has been very commendable in generating employment and thus eliminating poverty.

3 **Help in Economic Development:** Schumpeter assigned a dominant role to the private sector in economic development. According to him It enhances the process of industrialization through introduction of new products, new techniques of production, innovations etc. For example, as per a 2017 study, in India, the private sector's share in providing employment had been over 90%, while it also contributed over 75% to domestic capital formation. This is how the private sector helps in enhancing GDP, per capita income, infrastructure, and quality of life.

4. **Social Welfare:** Private firms have also contributed to social welfare, especially, during disasters they have come up with various solutions to serve the citizens to end their woes. Eg.In response to Covid-19, private businesses have been giving monetary support and donating life-saving instruments to the

health industry. It has massively helped the citizens and governments around the globe.

5. **Corporate Social Responsibility (CSR):** CSR is a mandatory practice for private firms as it ensures that they give back to society in terms of welfare. CSR programs have uplifted many underprivileged sections of society. It has also ensured sustainable business growth.

6. **Competition and Innovation:** The private sector is responsible for bringing about competitiveness in the economy. The benefits of such competition are – availability of a variety of quality products at cheap rate and thereby expansion of consumers' choices.The intense competition forces the companies to develop newer technologies and ways to cut down resource wastage. Also, to satisfy the customers' needs, companies develop innovative products and services that have improved the quality of life of people.

7. **Modern Industrial Sector:** All consumer goods industries are established in the private sector. Cotton textile, sugar, paper and edible oil industry is predominantly in the private sector. Cosmetics, pharmaceutical and chemical industries are largely in the private sector. The automobile industry is also dominated by the private sector. The private sector is investing heavily in Research and Development activities and has modernized their production processes.

8. **High Potentiality:** The private sector can play a vital role in increasing the gross domestic saving (GDS) and gross domestic capital formation (GDCF) within the economy. This sector has the potential to achieve higher rates of productivity, income, savings and capital formation. Further, the private sector has the power to develop and use technology to unleash greater prosperity for the nation.

9. **Nurturing entrepreneurship:** The private corporates are integral to fostering innovation and entrepreneurship and ensuring the future progress of an economy by developing human resource through training and education.

10. **Development of infrastructure:** The Private sector has made investments to develop necessary business infrastructure that is sustainable, reliable, and uses modern technology to create new products and services. They have even helped the government to provide necessary social infrastructure by partnering with government firms through the Public-Private-Partnership (PPP) model.

11. **Environmental Efficiency:** The role of private sector has become critical to ensuring environmental efficiency through its greater adoption of cleaner, greener technologies and the adoption and sharing of best practices.

C. Problems / Challenges faced by Indian Private Sector

- **Infrastructure Problems:** Capacity short falls, poor quality and high cost of infrastructure are the major constraints of the private sector. Acute power shortage, power cuts, power fluctuation and high industrial energy costs are other problems. These problems affect the competitiveness and performance of the private sector.
- **Fall in Value Addition:** The net value added is defined as the amount generated above the cost of raw materials and depreciation charges. Many industries in the private sector have reported a fall in the share of net value added in output in the last few years. Fall in the net value added is an indicator of falling efficiency of the private sector.
- **Increasing Economic Inequality:** The increased private sector involvement in development processes is also associated with increasing disparity and widening inequality among the rich and the poor.
- **Regulatory Procedure and Delays:** Too many regulatory measures imposed by the Government on the private sector has resulted in lengthy procedure and delays in getting final clearance of a new industrial project.
- **Unnecessary Control:** The price controls imposed by the government on certain goods has resulted in disincentive to increase production.
- **Inadequate Diversification:** The private sector has been suffering from inadequate diversification as the Government did not allow them to participate in those basic, heavy and infrastructural sectors which were earlier reserved for the public sector.
- **Lack of Finance and Credit:** The money and capital markets in India are under-developed. Inflationary tendencies have always kept the interest rates high. Both long and term and working capital requirements of the private sector are not adequately met. High interest rates and seasonal shortage of funds limits the growth of the private sector in India. The small-scale units are especially facing acute problems in raising funds for their expansion.
- **Industrial Sickness and Industrial Disputes:** Another important problem of the private sector enterprises is the declining trend in its net profit ratio. Such decline in profitability is a main cause of industrial sickness. Sick industrial units are a big drain on the financial resources available for investment. Similarly, Industrial disputes lead to strikes, lockouts and slow-down of activities leading to loss of man-days and production.

- **Foreign Competition:** Since the adoption of the New Economic Policy-1991, competition in the private sector of India has been increasing due to progressive liberalization of the Indian economy. The Transnational Corporations (TNCs) have posed challenges to the domestic firms. In order to stay competitive in the market, the Indian firms need to spend more and more on research and development, promotion and marketing of their products. Additional cost leads to lower profits and slower growth.

1.3.2 Cooperatives:

A. Meaning:

Co-operative organization is a voluntary association of usually economically weaker sections of society; who join together to achieve a common objective. It is based on the principle of 'Self help and Mutual Aid' and 'each for all and all for each'. The basic motive behind cooperative organization is to maximize service to its members and not to maximize profits. All cooperatives are voluntary associations of persons who contribute their share to the capital of the concern. All members have equal voting rights. The operations of the cooperatives are highly localized and hence they are small in size. In India, they are registered under the Cooperatives Act of the respective State Governments. There are different types of cooperative organizations. Producer co-operatives, consumer co-operatives, co-operative marketing societies, credit co-operative societies, farming co-operatives, cooperative banks are some of the examples.

B. Features of Cooperatives:

Following are the features of cooperatives-

1. Voluntary Organization:

Cooperative organization is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organization at their own will without any coercion or intimidation.

2. Democratic Management:

The management of a cooperative organization is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote' irrespective of the number of shares held by any member. The general body of the members lays down the broad framework within which the managing committee has to function. Democracy is, thus, the keynote of the management of a co-operative society. The managing committee usually consists of the following office-bearers: 1.President, 2. Vice-president, 3. Secretary, 4. Joint Secretary, 5. Treasurer

3. Service Motive:

One basic feature which distinguishes a cooperative organization from other forms of business ownership is that the primary objective of a co-operative society is to render services to its members rather than to earn profits.

4. Capital and Return:

The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organization. The rate of dividends paid to the members/ shareholders is restricted to 9% as per the Cooperative Societies Act, 1912.

5. Government Control:

In India, the activities of cooperative societies are regulated by the Co-operative Societies Act and the State Cooperative Societies Acts. Co-operative societies are required to submit their annual report and accounts to the Registrar of Cooperatives.

6. Distribution of Surplus:

After giving dividends to the members, the surplus of profits, if any, is distributed among the members in the proportion of business they have done with the cooperative society. For example, in the case of a consumer cooperative society, bonus is given in the proportion of purchases made by the members from the society.

7. Registration:

A co-operative society must be registered under the Co-operative Societies Act, 1912 or under a State Co-operative Societies Act. On registration, the society becomes a corporate body, having a separate legal entity of its own, with perpetual succession and limited liability of its members.

8. Limited Liability:

The liability of each member of a co-operative is limited to the extent of the value of shares held by him, in the share capital of the co-operative.

C. Types of co-operatives:

1. Retail Cooperatives

Retail Cooperatives are a type of ‘consumer cooperative’ which help create retail stores to benefit the consumers. They allow consumers the opportunity to supply their own needs, gain bargaining power, and share earnings. Retail cooperatives are often found in small communities where local businesses

have shut down. Examples: hardware, food, agriculture products, and even movie theaters.

2. Worker Cooperatives

Members of worker cooperatives are both employees of the business as well as owners of the cooperative. This is one of the fastest growing segments of cooperatively-owned businesses. Possibilities for being organized as a worker cooperative include: New business start-ups, entrepreneurs sharing highs and lows of business, or a conversion of existing businesses. Examples: bakeries, retail stores, software development groups, and aquaculture.

Larger companies also have the option of Employee Stock Ownership Plans (ESOPs). This means employees will own a stake in the business, allowing for similar types of democracy in the workplace.

3. Producer Cooperatives

Producer cooperatives are created by producers and owned and operated by producers. Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency. They are organized to process, market, and distribute their own products. This helps lessen costs and strains in each area with a mutual benefit to each producer. Examples: agricultural products, lumber, carpentry and crafts.

4. Service Cooperatives

Service cooperative means a cooperative that is involved in providing business and finance related services to their members. They are organized to give members more control over the services that are offered. Examples: Service Cooperatives such as child care, health care clinics, and funeral services.

5. Housing Cooperatives

Housing cooperatives are a type of service cooperative which provide a unique form of home ownership. They allow homeowners the opportunity to share costs of home ownership (or building). They are organized as an incorporated business formed by people who wish to provide and jointly own their housing.

D. Advantages of Co-operative Organization:

(i) Easy to Form:

A co-operative society is easy to form. Its registration is very simple and does not involve many legal formalities.

(ii) Universal Brotherhood:

A co-operative organization represents universal brotherhood. Membership of a co-operative is open to all having a common interest; irrespective of caste, creed, religion and political affiliation. Any member may leave the society, after giving proper notice. There is no compulsion to stick to the co-operative against one's will.

(iii) Fully Democratic Management:

Managing committee of a co-operative is elected by members. Further, 'one-man one-vote' principle is followed in all co-operatives. As such, each member has equal rights and equal voice in the management of the co-operative.

(iv) Perpetual Succession:

After registration, a co-operative society acquires a separate legal status with perpetual succession. Its life is not affected by the death, insolvency or lunacy of members. Co-operatives exist for long periods-benefiting members and the community.

(v) Limited Liability:

Liability of members of a co-operative society is limited to the extent of the value of their shares. Members do not run personal risk; while being members of the co-operative. This fact encourages even poor people to join co-operatives.

(vi) Governmental Patronage:

As a matter of social welfare policy, the Government extends all support to co-operatives e.g. loans at low rates of interest, relief in taxation etc.

(vii) Internal Financing:

A large part of the profits of a co-operative is transferred to the general reserve every year. Through plowing back of profits, a co-operative can undertake schemes for its growth and expansion.

(viii) Lower Operating Costs:

Operating costs of a co-operative are quite low; because: 1. Office bearers offer honorary services 2. There is no expenditure incurred on advertising and marketing activities.

(ix) Fair Distribution of Surplus:

Surplus of a co-operative is not distributed as dividends are paid in companies. Rather surplus is given away to members, on the basis of their dealings with society. This approach to disposal of surplus is called 'distributive justice'.

(x) Social Welfare:

Co-operatives are non-business organizations. They spread ideals of cooperation in society. They promote feelings of equality, independence, hard work among people in a society and help them morally upgrade themselves.

E. Limitations of Co-operative Organization:

(i) Limited Capital:

Co-operative organizations have very limited capital; because of the following reasons:

(a) Members of a co-operative are economically backward, in most of the cases.

(b) Co-operatives do not give higher returns on capital invested. This provides not much incentive to invest huge amounts in co-operatives.

(c) The principle of 'one-man one-vote' discourages people from buying a large number of shares in a co-operative organization.

All told, limited finances stand in the way of growth of activities indulged in by a co-operative.

(ii) Inefficient Management:

Management of a co-operative organization is called inefficient. In fact, members of the managing committee are part-time and inexperienced people. They usually possess no specialized knowledge of modern management principles and techniques. Because of limited financial capacity, a co-operative is unable to hire the services of professional managers; who charge very high for their services, in the present-day-times.

(iii) Rift among Members:

Co-operatives are started with a sense of enthusiasm about cooperation; but this enthusiasm disappears very soon. Over a period of time, differences develop among members as to how to run the society. Selfish interests of dominating members prevail upon the genuine interests of poor members. Differences among members usually lead to a decline of co-operative activities; and the co-operative organization runs just as a matter of routine to justify its existence among society.

(iv) Rigid Rules and Regulations:

Co-operatives have to function according to rigid rules and regulations. They are subject to excessive Governmental control over their functioning. The result is lack of flexibility of operations in the functioning of co-operatives; which does

not permit their growth in view of environmental opportunities.

(v) Political Interference:

Government also invests in co-operative organizations. There are, then, members in the managing committee, who represent the interests of political parties. In fact, members of political parties dominate the working of the co-operative; and the co-operative organization very often turns into a political organization.

Thus, the very purpose and philosophy of cooperation, which is the basis of a co-operative organization, is met with frustration.

(vi) Lack of Motivation:

The office-bearers of a co-operative are honorary officials. They have no incentive to work hard for the co-operative. In the absence of remuneration, they just work minimum and justify their status, in the eyes of the members.

1.3.3 Public Sector:

The Public Sector is usually composed of organizations that are owned and operated by the government and exist to provide services for its citizens. Funding for public services are usually raised through a variety of methods, including taxes, fees, and through financial transfers from other levels of government (e.g. from a federal to a provincial or state government).

A. Role of Public Sector in Indian Economy and Industrial development:

Table 1 The Highlights of the performance of Central Public Sector Enterprises (CPSEs), during 2019-20

Parameter	Value (as on 31.3.2020)
Number of operating CPSEs	256
Number of profit making CPSEs	171
Number of loss making CPSEs	85
Total Paid-up Capital	Rs 3,10,737 crore
Total Financial Investment	Rs 21,58,877 crore
Capital Employed	Rs 31,16,455 crore
Gross Revenue from Operations	Rs 24,61,712 crore
Aggregate Profit	Rs 1,38,112 crore
Aggregate Loss	Rs 44,817 crore
Reserves and Surplus	Rs 9,57,579 crore
Net Worth of all CPSEs	Rs 12,35,706 crore
Number of CPSEs declared Dividend	105
Dividend declared/paid	Rs 72,136 crore

Contribution of all CPSEs to Central Exchequer (by way of excise duty, custom duty, GST, corporate tax, interest on Central Government loans, dividend, and other duties and taxes)	Rs 3,76,425 crore
Foreign Exchange Earnings	Rs 1,21,756 crore

Source: https://dpe.gov.in/

1. **Generation of Income:**

   Public sector in India has been playing a positive role in generating income in the economy. The share of the public sector in net domestic product (NDP) at current prices has increased from 7.5 per cent in 1950-51 to 21.7 per cent in 2003-04. Again the share of public sector enterprises only (excluding public administration and defense) in NDP was also increased from 3.5 per cent in 1950-51 to 11.12 per cent in 2005-06. However, in recent times this has reduced drastically due to shrinkage in the public sector with the government policy of disinvestment, reduced government spending on setting up of new firms, promotion of privatization etc.

2. **Capital Formation:**

   Public sector has played an important role in the gross domestic capital formation of the country. The share of the public sector in gross domestic capital formation has increased from 3.5 per cent during the First Plan to 9.2 per cent during the Eighth Plan. The comparative shares of public sector in the gross capital formation of the country also recorded a change from 33.67 per cent during the First Plan to 50 per cent during the Sixth Plan and then declined to 21.9 per cent in 2005-06.

   But the Public sector is not playing a significant role in respect of mobilization of savings. The share of the public sector in gross domestic savings increased from 1.7 percent of GNP during 1951-56 to only 3.6 per cent during 1980-85. During the 1980s, the share of the public sector in gross domestic savings declined from 16.2 per cent in 1980-81 to 7.7 per cent in 1988-89.

   However, recent trends in this regard are again that of decline and in 2019-20 Capital Employed in all CPSEs was Rs 31,16,455 crore.

3. **Employment:**

   Public sector is playing an important role in generating employment in the country. Public sector employments are of two categories, i.e:

(a) Public sector employment in government administration, defense and other government services and

(b) Employment in public sector economic enterprises of both Center, State and Local bodies.

In 1971, the public sector offered employment opportunities to about 11 million persons but in 2003 their number rose to 18.6 million showing about 69 per cent increase during this period. However, there is considerable decline in the annual growth rate of employment in the public sector from 1.53 per cent during 1983-1994 to 0.80 per cent during 1994- 2004.

4. Infrastructure development:

The Public sector investment on infrastructure sectors like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole. Private sector investments are also dependent on these infrastructural facilities developed by the public sector of the country.

5. Strong Industrial base:

Another important role of the public sector is that it has successfully built a strong industrial base in the country due to initial investment in heavy, basic and capital goods industries. The industrial base of the economy is now considerably strengthened with the development of the public sector in various fields like—iron and steel, coal, heavy engineering, heavy electrical machinery, petroleum and natural gas, fertilizers, chemicals, drugs etc. Thus, by developing a strong industrial base, the public sector has developed a suitable base for rapid industrialization in the country. Moreover, the public sector has also been dominating in critical areas such as petroleum products, coal, copper, lead, hydro and steam turbines etc.

6. Export Promotion and Import Substitution:

Public sector enterprises have been contributing significantly for the promotion of India's exports. The foreign exchange earnings of the public enterprises rose from Rs. 35 crore in 1965-66 to Rs. 34,893 crore in 2003- 04. Thus, the export performance of the public sector enterprises in India has been quite satisfactory in the past decades. However, recently it has shown declining trends.

7. Contribution to Public Revenue:

The public sector enterprises are contributing a good amount of resources to the government in the form of dividend, excise duty, custom duty, corporate taxes etc. The contribution has increased from Rs. 7,610 crore in 1980-81 to Rs. 85,445 crore in 2003-04. Contribution of all CPSEs to Central Exchequer by way of excise duty, custom duty, GST, corporate tax, interest on Central Government loans, dividend, and other duties and taxes stood at Rs 3,76,425 crore in Financial Year 2019-20

8. Income and Wealth Equality:

The public sector can reduce this problem of inequalities through diversion of resources for the welfare of the poor people, undertaking measures for labour welfare and also by producing commodities for mass consumption at reasonable prices.

9. Removal of Regional Disparities:

From the very beginning industrial development in India was very much skewed towards certain big port cities like Mumbai, Kolkata and Chennai. In order to remove regional disparities, the public sector tried to disperse various units towards the backward states like Bihar, Orissa, and Madhya Pradesh. Thus, the public sector is playing a dominant role in all-round development of the economy of the country.

B. Performance of the Public Sector:

The performance of the public sector in India can be studied with reference to the following aspects:

1. Share in National Income:

In 1951, there were only five central public sector enterprises (CPSEs) with investment of RS.29 crore. By 2019-20, there were 256 operating CPSEs with an investment of Rs 21,58,877 crore. The central public sector enterprises are key contributors to the production of coal, lignite, petroleum and non-ferrous metals like lead and zinc. Their contribution was 85.2 % to coal production, 85.87 % to crude oil production and 74.51 to petroleum refining in the year 2005-06. The number of CPSUs have gone up to 260 as of 31st March 2012 but declined to 256 in 2019-20.

2. Profitability:

The profit before interest and tax increased from Rs.13, 675 crore in 1991-92 to about Rs.1.43 lakh crore in 2006-07. Profit of 171 profit-making CPSEs stood at Rs 1,38,112 crore in Financial Year 2019-20. It is to be noted that Loss of 84 loss

making CPSEs was Rs 44,817 crore in Financial Year 2019-20.

3. Employment and labour Welfare:

The public sector has not only been the greatest employment generator but also an ideal employer in India. Employment in the central public sector enterprises as on 31st march 2011 was 17.54 million persons as against 11.45 million in the organized private sector. The average wage was also higher than the private sector. The public sector developed townships for the employees with facilities like schools, hospitals, shopping complexes etc. The employees enjoy medical facilities, subsidized canteen services, transport and educational facilities etc.

4. Foreign Exchange Earnings:

Capital goods, industrial machinery and other equipment which were imported before are now manufactured in India leading to savings in foreign exchange. The ONGC and Indian Oil have helped in reducing the dependence on foreign imports. The Hindustan Antibiotics Ltd and the Indian Drugs and Pharmaceuticals Limited have broken the monopoly of foreign firms in the pharmaceutical sector. The public sector earns foreign exchange by exporting goods and services and through trading and marketing services through which exports are canalized. The public sector accounted for 11.5 per cent of export income in the year 2006-07. There are declining trends in recent times in this regard. Foreign Exchange Earnings of CPSEs through export of goods and services stood at Rs 1,21,756 crore in Financial Year 2019-20.

5. Efficiency of Public Sector Enterprises:

The return on investment of the public sector enterprises in India is very low and hence it is argued that they fare poorly in terms of efficiency.

C. Problems and Limitations of Public Sector:

The profitability of public sector enterprises has been very low and this has been the most important problem. The important causes of low profitability are as follows:

1. Pricing policy of public enterprises:

The determination of prices of goods and services produced by the public sector enterprises are based on no loss no profit criterion and It was adopted by a large number of public

enterprises for a very long period. Hence the profitability of public enterprises is inefficient and many of them are loss making enterprises.

2. Under-utilization of Capacity:

Under-utilization of installed capacity is an important cause of low profitability of the public sector enterprises. A large number of public enterprises have operated at less than 50 per cent of installed capacity for many years. This is because investment decisions were not made in the best interests of the country. Further a large number of private sector sick industries were taken over by the Government particularly to protect employment. Further, labour disputes, inefficient management and poor operations, political interference etc. were the other causes of low utilization of installed capacity.

3. Problems of Planning and Construction of Projects:

The problems experienced in case of planning and construction of projects of the public sector enterprises are: Wrong selection of the site without detailed investigation, actual cost of projects higher than the original estimates, delays and deadlocks, use of unsuitable out-dated technology etc.

4. Political Interference:

Political interference in the routine working of public enterprises was yet another big problem. Top managerial appointments were not made on the grounds of professional competence. The civil servants from the IAS cadre were appointed as the heads of public sector enterprises. These civil servants were experienced in general administration but public enterprises required professional experience. The work ethic of public enterprises was not in tune with profitability and growth.

5. Problems of labour Management:

Overstaffing of unskilled labour and payment of higher wages and lack of incentives to hard working and enterprising personnel led to low and inefficient production. The management of public enterprises had no autonomy in routine decision making and also had no effective control over the workforce.

1.4 QUESTIONS

Answer the following questions:

Q.1. Explain the meaning and scope of Industrial Economics.

Q.2. Write about Performance of Private sector in India.

Q.3. What are the Problems of Private sector in India?

Q.4. Discuss the Features of Cooperatives.

Q.5. What are the different Types of co-operatives?

Q.6. Compare the merits and limitations of cooperatives.

Q.7. Describe the Role of Public Sector in Indian Economy with reference to Industrial development.

Q.8. Evaluate the Performance of the Public Sector in India.

Q.9. What are the Problems and Limitations of Public Sector in India?

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2

DIVERSIFICATION AND INDUSTRIAL COMBINATIONS

Unit Structure

2.0 OBJECTIVES

- To know diversification in Industry
- To study the determinants of diversification.
- To study the various types of diversification
- To know the meaning and types of mergers
- To study the motives of industrial combinations.

2.1 DIVERSIFICATION IN INDUSTRY

In the contemporary industrial world most firms produce more than one product. In other words, firms adopt the policy of diversification. Hence it is natural to raise the question of measurement of the extent of diversification.

According to L.R. Amey 'Diversification is the spreading of its operations by a business over dissimilar economic activity.' In other words, it is the spreading of operations by a business over dissimilar economic activity.

According to Penrose, when a firm begins to produce new products without stopping the production of old products and the new products are sufficiently different from the old products, it is called diversification.

2.2 DETERMINANTS OF DIVERSIFICATION

There are many determinants of diversification, such as:

(i) Profitability:

In an industry firms try for diversification of products in order to increase profitability. The monopolist units operating separately are

seen being combined as one firm when these products are closely substituted. Price policy of one will affect the sale of the other because the cross demand elasticity of the products of these firms is positive.

Joint prices for both can be determined, while working as a single firm so that profits may be enhanced. Diversification causes economically more intensive use of stable factors of production which increases the profits of the firms.

(ii) Stability:

Usually a trade operates under uncertainty and instability. The cyclical changes in demand, price, profitability etc. create an environment of instability. But these cyclical changes do not affect all profits equally. Firms attempt diversification to reduce the risk created by such changes.

(iii) Tax Incentives:

Some tax incentives are available for diversified firms. Hence they can attract capital at lesser cost. There is also a concession for some years in the initial stages of a new line of production. This causes people's attraction to purchase the shares of diversified companies. Companies/firms reduce their liabilities by allotting their inner funds for different lines of production.

Thus, firms diversify to achieve:

- Sales and growth stability
- Favorable growth developments
- Favorable competition shifts
- Technological changes

2.3 TYPES OF DIVERSIFICATION

Based on the relationship to existing businesses, diversification has been classified into four broad categories: Vertically integrated diversification, Horizontal integrated diversification, concentric diversification and conglomerate diversification are the four broad categories.

1. In **vertically integrated diversification**, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. It moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new business for the firm. The firm does not jump outside the vertically linked product-process chain. In case of backward integration, the firm begins manufacturing products previously purchased from others. For instance, a firm manufacturing chocolate may have its own cocoa

plantation farm. A milk product company may have its own dairy farm etc. Forward integration takes place when a firm moves near to the final market for its product and carries out a function which was previously undertaken by its customers. For instance, a shoe manufacturing firm may set up a distribution network or a flour mill setting up its own bakeries.

2. **Horizontal integrated diversification** takes place through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain that is going into complementary products, by products or taking over competitors' products. For example, a leather tanning firm makes boots and shoes, leather garments and suitcases. Since these products diverge or vary from leather tanning, it is called lateral diversification.

3. In **Conglomerate Diversification**, the new businesses/products are disjointed from the existing business/products in every way. It is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones.

4. In **Concentric Diversification**, the new products are connected to the firm's existing process/technology. The new products are not intermediate in nature and are not vertically linked to the existing ones. They serve new functions in new markets. In this case, the new business is a spin-off from the firm's existing facilities.

2.4 INDUSTRIAL COMBINATIONS- MERGERS AND ACQUISITIONS

A. Meaning:

Merger means integration of two or more firms. The firms under different ownership and Management control come under a unified command through merger. The terms 'acquisition' and 'take over' are also used for merger. Acquisition or take over means a firm acquires assets in part or full of another firm to get operational control. Diversification is implied in mergers and acquisitions.

B. Types of mergers:

There are different types of mergers as mentioned below:

1. In a **horizontal merger**, firms who produce identical products are merged and a single entity is formed.

2. In case of **vertical merger**, firms producing intermediate products pertaining to a single products are merged.

3. In a **conglomerate merger**, firms producing unrelated products are merged together. Industrial combinations or mergers are gaining ground these days. In fact these are outstanding features of modern industrialization. Behind each

formation of industrial combination there are certain motivating forces and factors.

C. Causes/Motives of Industrial Combinations:

There are certain causes responsible for the growth of combinations which are as follows:

i. Organizational Ability:

Many combinations are formed because of the ambition and proven abilities of the industrialists. They are encouraged by favorable tariff policy and the capital market etc.

ii. Trade Cycles:

Combinations are encouraged when in the country there are too many economic fluctuations and business cycles. During depressions many smaller as well as inefficient industrial units go out of market. These are then absorbed by the bigger units, which are comparatively more efficient and survive even under depressions. Therefore, there is a desire on the part of smaller units to combine with bigger units. Economic fluctuations can also result in a boom in the industry. It is at this stage that every industrialist will try to take maximum risk, so that it can earn. During the boom period there is also a desire for a combination so that the element of risk is reduced to the minimum. Since industrial cycles are inevitable, therefore, desire to have a combination is bound to be there and that cannot be wiped out.

iii. **Rationalization**:

Rationalization demands that efficient and inefficient units must work and combine together. Similarly it is provided that big and small units must also combine with each other. It is with the help of combinations that stabilization in industry becomes possible.

iv. Technological Advancements:

Modern technology has resulted in the setting up of large size industries and specialization. It has also resulted in the concentration of economic power in the hands of very few persons. All this has encouraged and is bound to encourage combination, because it is quite clear that advantages of modern technology cannot be fully derived unless there are industrial combinations. No small industrial unit can possibly face national or international competition.

v. Government Policies:

Combination is also encouraged by the policies which the government follows. If governmental taxation policies are

such which encourage combinations, obviously the industries will try to combine. Similarly, if these policies discourage big industries, obviously the industrialists will try to remain separate, rather than coming closer and nearer to each other. Thus, governmental policies go a long way in encouraging or discouraging combinations.

vi. Accelerated Growth:

Growth is essential for sustaining the viability, dynamism and value-enhancing capability of a company. A company can achieve its growth objective by-Expanding its existing markets and Entering in new markets.Through industrial combinations this task becomes easier and the opportunity of risk sharing also becomes possible.

4. Increased Market Power:

A merger can increase the market share of the merged firm. The increased concentration or market share improves the profitability of the firm thanks to economies of scale. The bargaining power of the firm with labour, suppliers and buyers is additionally enhanced. The merged firm also can exploit technological breakthroughs against obsolescence and price wars. Thus, by limiting competition, the merged firm can earn supernormal profit and strategically employ the excess funds to further consolidate its position and improve its market power.

5. Acquisition of Assets at Bargain Prices:

The merger can be explained by the possibility of acquiring assets, especially land, mining rights, plants and equipment at a lower cost than if they were purchased or built at current market prices. By acquiring a company that already owns and operates assets, one can often get the assets one wants at a lower price. Risk is also mitigated because the assets were already in place and business organizations knew how to manage the assets and sell the products.

6. Increased external funding capacity:

Many mergers occur, especially when the acquired company simply cannot raise funds for the business, when the small company runs out of bank loans and has virtually no access to long-term fixed income or stock markets or small businesses having operational difficulties can approach a large company proposing a merger.

2.5 SUMMARY

In summary, the motives for mergers and acquisitions can be easily summarized as follows:

1. The **profitability** of the company due to the merger may be improved by improving market power and efficiency.

2. It provides stability in earnings meaning thereby there will be little or no fluctuation in revenues of the firm.

3. As a result of the merger, the company will be able to make a **gain on the stock market**. The combined strength of two or more companies that form a single entity can contribute to capital gains.

4. Economies of scale will **improve the efficiency** of the merged company. For example, reducing inventory levels, transportation and distribution costs, R & D costs, lower raw material costs, and better management.

5. The merged company has market power or **authority over price and production** decisions.

6. Companies build an empire by expanding or merging existing companies.

2.6 QUESTIONS

Answer the following questions:

Q.1. What is Diversification in industry? What are the Determinants of Diversification in industry?

Q.2. Explain different Types of industrial diversification.

Q.3. Discuss the meaning and types of Mergers and Acquisitions.

Q.4. Describe the Causes/Motives behind Industrial Combinations.

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3

INDUSTRIAL LOCATION

Unit Structure:

3.0 OBJECTIVES

- To study the determines of industrial location.
- To understand weber's theory of location.
- To understand sargent florence's Inductive Theory.

3.1 INTRODUCTION

An appropriate choice of industrial location is associated with cost of production, cost of distribution, profitability, efficiency of factors of production etc. It is very important to choose location of an industry carefully.

According to Kimball, The most advantageous location is that at which the cost of gathering material and fabricating it plus the cost of distributing the finished product to the consumer will be minimum". Industrial location helps firm to sustain for a long because suitable industrial location helps firms to operate smoothly. Industrial location helps firms to achieve economies of scale and gives increasing returns, if chosen wisely. In an industry economies of scale ultimately leads to maximisation of profit. While deciding location management must take into account present and future sustainability of factors associated with choosing location.

3.2 DETERMINANTS OF INDUSTRIAL LOCATION

Following are the factors responsible for choosing appropriate location of an industry:

A] Availability of labour:

Sustainability and profitability of an industry is linked with availability of cheap labour. Availability of cheap labour results in

lower cost of production which is associated with increase in profitability. For eg. Existence and sustainability of industrial units in Mumbai is because of availability of cheap migrated labour force.

B] Availability of raw material:

Raw material is the most important factor in deciding price and profitability of product produced by firms. If location of an industry is near to the place where raw material it produced then this will give boost to producer of raw material and manufacturer of finished product. For eg. Iron and steel industry localised near the source of raw material.

C] Transportation:

Transport and communication facilities also affects location of an Industry as it has its impact on production and distribution. Transport not only helps to reach finished product to market place but it also helps to bring raw material to the plant. Convenient transport facilities helps to produce product as and when required by the market.

D] Access to market:

Industries producing perishable commodities requires less time to travel market place. It is not possible for such kind of industries to be located far away from market. Industry, therefore tends to be established where communication facilities and market are easily accessible.

E] Geographical factors:

Harsh climate is not suitable for establishments location should be finalised according to the need of a product. For example sugarcane should be cultivated in an area having temperature 20 degrees to 26 degrees Celsius, so it is not worth it to have an establishment in cold region which requires sugar cane as raw material.

F] Government policy:

In many of the cases government encourages production of product or establishment of industrial units in an area by providing some incentives or subsidies. It is always preferable to such area while deciding industrial location to opt for such area while deciding industrial location

G] Availability of drinking water and water for industrial use:

Availability of water is the most important thing in determining industrial location.

H] Availability of disposal facility:

Apart from the process of production disposal of waste is an

important factor in determining location of an industry. Waste management helps an industry to sustain for along and it helps to sustain environment as well.

I] Access to technology:

In the production of some commodities, technology plays crutial role. Location of an industry would be in an area in which there is possibility of importing machinery and at the same time other factors like power supply, skilled labour force to handle newly launched machinery will lead to smoother production of commodity.

J] Cultural facility such as schools, hospitals and recreational facilities:

Location of an industry should be such that it would make lives of employees and their families convenient and comfortable. Facilities like schools, amusement parks, hospitals will make lives of employees comfortable.

K] Availability of finance:

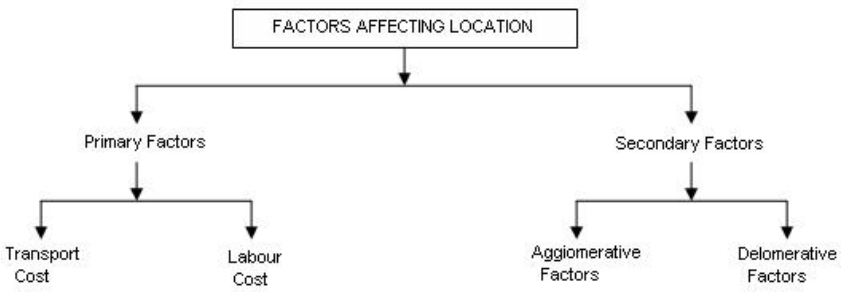
One of the important factor affecting location of an industry is availability of finance. Availability of finance and easy accessibility to banking and financial operation will facilitate smooth functioning of production, distribution activities and create a healthy environment in an industry.

Sometimes personal factors also play an important role in determining the location of an industry.

For eg. An entrepreneur may take an emotional decision in setting a plant at his birth place.

3.3 WEBER'S THEORY OF LOCATION

Weber's theory of location was developed by Alfred Weber in the year 1909 In German language and later translated by Carl. J. Friedrich (1929) in English. Weber tried to identify the element which influences the location of an industry, through cost analysis. This theory focuses on transport and labour cost along with agglomerative and deglomerative factors to locate an industry. Cost to locate an industry are divided into primary and secondary factors which are as follows:



Primary Factors

1. The cost of transportation

Locations having less transportation cost in regard to place of consumption and deposit of raw material are always preferable. Below factors plays vital role in determining transport cost

(a) the weight to be transported

(b) the distance to be covered

(c) the type of transportation system and extent of its use

(d) the nature of region and kind of roads

(e) The nature of goods themselves i.e quantities.

The location figure also depends upon

A) The type of raw material deposit

B) The nature of transformation into products

Raw material further classified into

- Ubiquities (water, bricks which are easily available)
- Localised material (iron, mineral, wood etc. are found only in certain region)

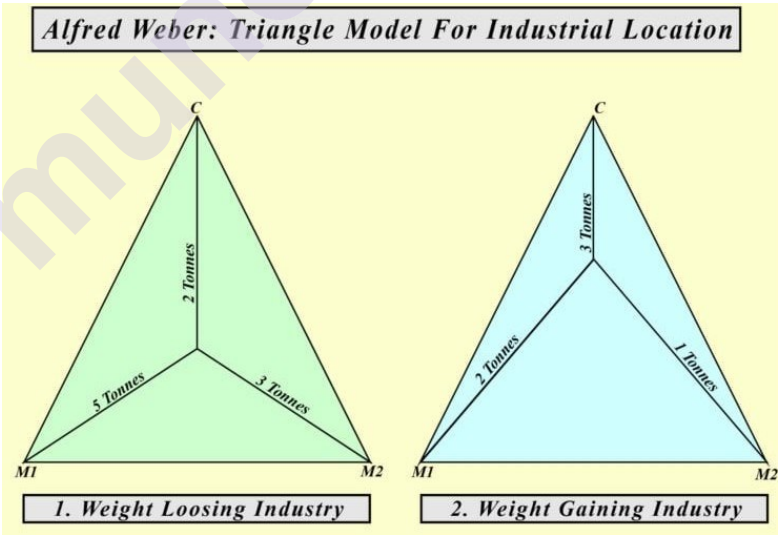


Figure 3.1

Weber categorised raw material as pure (non-weight losing) and gross (weight-losing) materials. Pure material imparts their total weight to the product and the materials are said to be weight losing if only a part enters into the product. Therefore industries using weight losing material are drawn towards their place of deposit and those industries using pure material are drawn towards the place of consumption.

Therefore localised material is the governing factor in deciding location of industry. Weber used material index to measure total weight to be moved

Material Index=weight of localised material/Weight of finished products

2. Cost of labour :

Labour cost of an industry depends upon the efficiency of labour and organisation, technology etc. Sometimes location of an industry is suitable in terms of transportation cost but remains to be very expensive in terms of labour cost. Thus cheap labour may also attract industrial location as saving in the cost of labour are larger than the additional cost of transport. A particular place may be the best one for a specific industry on the basis of transportation cost the same location may not be suitable for labour cost, thus Weber provided theoretical solution for this purpose which are called as "Isodapanes". Isodapanes means expense or cost.

Secondary Factors :

Location of an industry depends upon certain agglomerative (cheapening of production) and deglomerative (production in more than 1 place) factors. Agglomerative factors causes concentration of industry at 1 place which are as follows

1. Prevalance of machines and other technical components
2. Availability of repair and replacement facility
3. Availability of skilled labour
4. Availability of better banking facility etc

Deglomerative factors results in external diseconomies which are as follows

1. Increase in local taxes
2. High cost of land
3. High wage rates and increasing rent
4. Problem of housing

Thus it can be seen that Agglomeration promotes concentration while Deglomeration promotes decentralisation of industries.

Criticisms of weber's theory

1. Unrealistic approach
2. Transport cost basis an unrealistic criteria
3. Lacks price consideration
4. Unrealistic labour concept
5. Illogical consideration of artificial facts

Alfred Weber's deductive theory on location inspite of the shortcoming is the only theory which has been enjoying the universal acceptance and application as all the other alternative suggestions are neither complete nor comprehensive.

According to R. Balkrishna, "It would be more profitable to give up some of the unreal assumptions of Weber's deductive theory rather than to discard it altogether."

3.4 SARGENT FLORENCE'S INDUCTIVE THEORY

Sargent Florence offers mode of inductive analysis. Sargent's theory is more practical and realistic than that given by Weber. For the purpose of formulating this theory Prof. Sargent analysed statistical data to ascertain the tendency of location of industries. He had tried to find out the statistical measures by taking into account working population in that area on the basis of production census. Focus of this theory is on two newly introduced terms viz. "Location factor" and "coefficient of localisation"

Location factor

Location factor indicates centralization of an industry. This is an index of the degree of concentration of an industry in a particular place. This index is arrived at by taking the percentage of all workers in a particular industry found in certain region and diverting it by the proportion in that particular region of the total industrial workers in the country. The region chosen would be the political region of the country. An idea behind formulation of such index is that location should be explained as the degree of dissimilarity between the geographical distribution of an industry and the population of the country. Below is the formula to calculate location factor

Location factor=Workers engaged in a particular industry as a percentage of industrial workers engaged in a given area/ Total number of industrial workers engaged in a given area as a percentage of total industrial workers in the country

If the location factor index is greater than unity, the region is supposed to have a higher share of the industry. If it is below unity, the region is not supposed to have sufficient share of industry. If it is equal to one, then an industry is distributed evenly over the whole country.

For eg. Suppose that the population of industrial worker in a country is 500,workers engaged in given area is 200 and workers engaged in particular industry is 100

LFI=[(100×100)÷200]÷[(200×100)÷500]= 50÷40=1.25

LFI Index>1,therefore the industry appears to be centralized in that area.

Co-efficient of localization:

It indicates propensity of an industry to concentrate. The objective of formulating such an index is to classify industries according to their

qualities of dispersion or concentration. This index is related to particular industry and not to region. On the basis of coefficient of localization all industries of a country can be divided into 3 categories of high, low and medium coefficient of industries. Thus locational significance of industries is shown and the problem of investigation becomes easier. Industries having low-coefficient of localisation like coal mining and other mineral industries are centralised in particular region.

Coefficient of location=(% of workers in the area)×(%of workers in particular industry)÷100

Suppose the % of workers in the area is 90 and those engaged in particular industry is 60.Coefficient would be

COL=(90-60)÷100=30÷100=0.3

Since the co-efficient of localization is less than unity, industries have tendency of decentralization in that area.

Criticisms of sargent florence industry

1. The indices given by Florence only reveal the existing state of distribution of industries in a particular country.They are not capable of stating the reason behind concentration.
2. The co-efficient of localisation is based essentially on the pattern of distribution in each country and therefore it varies from country to country.
3. Absence of knowledge of productive capacity
4. The location factor is not always a sure guide of the degree of concentration as it is based on the number of industrial workers employed in that area.A better basis of comparison may be the output in each area as it is based on efficiency of production.

3.5 DISPERSAL AND DECENTRALIZATION OF INDUSTRIES

Decentralization means dispersal of industries where an industry is scattered in different regions of the country. Decentralization removes disadvantages of localisation and recommends strategic and defence point of view. This helps to maintain balance regional development, increased employment opportunities and ultimately increases standard of living of the people residing in neglected sector.

Advantages of decentralisation are as follows:

A] Balanced economic development:

When industries are dispersed in various regions of the country it leads to balance development of all the regions evenly. Because establishment of industries in rural area uplift people above poverty line.

B] Remove social degradation:

Since industries get dispersed, peoblems related to development of slum dwellings, congestion, get minimised leading thereby to reduction of social degradation.

C] Mobility of workers :

Dispersal helps to move workers from less developed areas to developed areas so that they grow further and their standard of living improves.

D] Strategic view:

From a strategic point of view decentralisation is beneficial to the economy. Since industries are not concentrated in a particular bet, attacks when made during war does not disturb the whole economic setup at a time.

E] Helps to maintain equality :

Decentralisation helps to maintain equality between the regions of an economy as all the activities tend to perform in different regions of a nation. Eventually this will boost employment and standard of living of the people working in industries.

F] Boost employment and living standard:

Decentralisation helps to boost employment and living standard of regions as all the activities are expected to perform in different regions of nation. This may sometimes leads to development of region by way of construction of roadways, educational institutions and hospitals.

Disadvantages of decentralisation

A] Immobility of skilled labour force:

Resistance of skilled labour to move or migrate to another place affects sustainability of a particular industry. Dependence on skilled labour force helps industries to finish process of production on time with less cost.

B] Lack of control:

Dispersed industrial units do not follow uniform policies anywhere. Though they are expected to follow as it is the requirement of a location or area to have suitable unique policy.

C] Wage discrimination:

In many cases wages form a part of an area in which industry is located. If industry is located in an area where there is skilled labour force, wages will tend to be high as compare to an area where there is absence of skilled labour force.

D] Immobility of inputs:

Some inputs are very difficult to transport from the place of production to the place of requirement because of the nature of input. Example of perishable agricultural commodities which are the part of input of food producing industries can be considered.

E] Increase in operational cost:

Decentralisation has the disadvantage of an increase in operational cost which is required to perform industrial activities on regular basis because all the units of industries are located in different regions.

F] Exploitation of dispersed industrial units:

Sometimes dispersed industrial units face exploitation by native political parties and they end up paying more money to politicians which affects profitability of such units.

3.7 QUESTIONS

Q.1. What are the determinants of industrial location?

Q.2. Explain weber's theory of location.

Q.3. Explain Sargent Florence's Inductive Theory

Q.4. Explain advantages and disadvantages of decentralization.

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4

PROBLEM OF REGIONAL IMBALANCE

Unit Structure:

4.0 OBJECTIVES

- To study the correlation between five year plans and regional development.
- To know the indicators of reginal disparity
- To know the reasons behind failure of reginal planning to remove regional imbalance.

4.1 INTRODUCTION

India suffers from imbalanced regional growth and this fact has been accepted by planning commission India. The third five year plan places emphasis on importance of regional development in India. It stated that," Balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusions of industry are among the major aims of planned development." Planning commission with the help of NDC and now NITI Ayog provides participation of every state from the country which is also helpful in resolving the issues related to natural resources, sharing of water and inter-state disputes.The planning process initiated after the independence resulted into the construction of Multipurpose projects for macro-level regions. Planning at the micro level includes the regional projects for the development of underdeveloped regions.Some of the micro level planning includes:

- Damodar valley corporation
- Bundelkhand regional planning
- Indra gandhi canal
- Vidarbha and Telangana regional planning
- Rajasthan desert development planning

- Kerala kuttanad development planning.

Some of the recent projects in Micro level regional development planning includes:

- Granting status of special category state to some backward and underdeveloped states.
- Jhabua district watershed development program
- Bharat mala project
- Sagar mala project

4.2 FIVE YEAR PLANS AND REGIONAL DEVELOPMENT

The approach of the third plan was to:

1. Help the states in reducing intra-state inequalities
2. Initiate new programs and extended programs adopted in the previous plans to reduce inter-state inequalities.

In order to reduce inter-state inequalities in development, the third five year plan proposed following steps:

1. Increase in agricultural production
2. Ensure greatest possible increase in income and employment.
3. Developing social services such as elementary education, water supply, health services in rural area
4. Developing communications and power.
5. Raising the standard of living for less developed areas of the state.

In order to reduce inter-state inequalities, the following actions were proposed:

1. Intensive development of agriculture
2. Extension of irrigation
3. Promotion of small and village industries
4. Large scale expansion of power
5. Development of road and rail transport
6. Provision of universal education for the age group 6-11 years
7. Large opportunities for secondary, technical and vocational education
8. Improvements in conditions of living and water supply etc.

The fourth five year plan initiated a number of development schemes for the rural poor. The small farmers development agency (SFDA), Marginal Farmers and Agricultural Labourers Development Agency (MFAL) Drought Prone Area Program(DPAP) Crash Scheme for Rural Employment (CSRE) were some of these schemes. In the fifth Five Year Plan emphasis was placed on Area development. Resource based development approach, target group approach, incentive approach and the comprehensive area approach were adopted during this plan to bring about regional development in India.The seventh five year plan laid emphasis on agricultural productivity and human resource development to bring about balanced regional development in the country. Agricultural productivity was sought to be raised for rice,coarse cereals, pulses and oilseeds.

4.3 INDICATORS OF REGIONAL DISPARITY

A] Per capita income:

Inter-state disparities in levels of agriculture growth and industrial development have contributed to difference in the growth of per-capita income. States like Punjab and Haryana have achieved high rate of agriculture productivity due to high proportion of area irrigated and high level of fertiliser used.

B] Population below poverty line:

The population below poverty line also creates regional imbalance. Due to strong production base the percentage of poverty in the states of Punjab and Haryana is low.

C] Electrification:

Power is necessary pre-requisite for development and the states in which the power development process is not proper, they find obstacles in growing rapidly. Some states even today do not have cent per cent electrification.

D] Transport and communication:

Another important indicator of regional imbalances is disparity found in availability of facilities relating to transport and communications, banking, insurance, public health and education.

E] Industrialisation:

The level of industrialisation attained by different states is also different.In Bihar,Orissa,M.p, Rajasthan share of industries in total income is low,whereas it is high in maharashtra. The heavy dependence on agriculture has opposed the industrialisation.

F] Lack of finance:

Lack of finance is another hindrance in the smooth development of any region. Financial institutions feel shy to finance various

development activities schemes on account of non recovery of their fund.As result these regions remain backward.

G] Political pressure:

It has been correctly observed that political parties interfere in the process of development.Infact they want to bring catchy projects in their area only to influence the vote bank.

Balanced development of all regions and state is necessary to draw available human and material resources throughout the country into the development process and to enable people in all regions to share the benefits of development. It was seen that though in the First-plan problem of regional disparities got not attention it was the Second plan and Third plan which gave importance to see that industries should be located in less developed area.

In 1968, National Development Council considering the problem of Regional Imbalances recommended the following criteria for the identification of industrially backward states and union territories:

- Total per capita income together with the contribution of industry and mining
- Number of workers in factories per lakh of population
- Per capita annual consumption of electricity
- Length of surfaced roads in relation to population and area of the state
- Railway mileage in relation to the population and the area of the state
- The National Development Council appointed two working groups G
- The Pandey working group to identify industrially backward states
- The Wanchoo working group to recommend fiscal and financial incentives for starting an industry in backward area.

4.4 REASONS BEHIND FAILURE OF REGIONAL PLANNING TO REMOVE REGIONAL IMBALANCE

1. Refusal by rich state to transfer resources to poor state
2. Lack of self-reliance on the part of poorer state and there by too much dependence on the transfer of resources from richer state.
3. Area development programmes for backward areas are lacking an integrated approach.

4. Failure of large central projects to be called in the backward areas to their economies.

5. Non-approaching attitude of the entrepreneurs to seek concessional finance from the public sector financial institutions.

6. Too much concentration of central government subsidy meant for specific backward areas into a few areas of some districts and too much of such investment subsidy on capital related investments leading to creation of lesser employment opportunities.

7. Inadequate fund provided by state government for tacking the problem of intra-state imbalances existing within a state.

8. Non-utilisation of plan outlays and loans and advances given to the state for the development of backward areas.

4.5 SUMMARY

The steps taken to resolve the problem of regional imbalances have been largely in financial terms.Infact central assistance should be linked with specific programmes for the development of the relatively backward regions.Besides the financial approach should be replaced by the planning approach under which the backward regions should be clearly identified along with their capabilities and potentialities so that separate agencies be adopted for each backward regions.This is therefore necessity to see that agricultural, industrial and infrastructural development all be coordinated. Only then development of backward areas shall take place.

4.6 QUESTIONS

Q.1. Write a note on Five Year plans and Regional Developments

Q.2. What are the indicators of regional disparity.

Q.3. What are the reasons behind the failure of reginal planning to remove regional imbalance.

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5

INDUSTRIAL PRODUCTIVITY

Unit Structure:

5.0 OBJECTIVES

i. To help the learner comprehend the concept of Industrial Productivity.

ii. To enable the learner understand meaning and measurement of Industrial Productivity

iii. To help the students to understand and analyse the factors which affect the Industrial productivity

5.1 INTRODUCTION

Productivity is the efficiency of production of goods or services expressed by some measure. Measurements of productivity are often expressed as a ratio of an aggregate output to a single input or an aggregate input used in a production process, i.e. output per unit of input, typically over a specific period of time.

5.2 INTRODUCTION: INDUSTRIAL PRODUCTIVITY

Productivity as defined by Organisation of European Economy Cooperation (OEEC) is the quotient (ratio) obtained by dividing output by one of the factors of production. Thus, it is possible to speak productivity of capital, labour, space, energy and raw materials according to whether output is being considered in relation to capital, labour, space, energy or raw materials respectively.

Productivity is the efficiency of production of goods or services expressed by some measure. Measurements of productivity are often expressed as a ratio of an aggregate output to a single input or an aggregate input used in a production process, i.e. output per unit of input, typically over a specific period of time. The most common example is the (aggregate) labour productivity measure, e.g., such as GDP per worker.

There are many different definitions of productivity (including those that are not defined as ratios of output to input) and the choice among them depends on the purpose of the productivity measurement and/or data availability. The key source of difference between various productivity measures is also usually related (directly or indirectly) to how the outputs and the inputs are aggregated into scalars to obtain such a ratio-type measure of productivity.

1. Partial Productivity

Partial Productivity refers to Productivity measures that use one class of inputs or factors, but not multiple factors. In practice, measurement in production means measures of partial productivity. Interpreted correctly, these components are indicative of productivity development, and approximate the efficiency with which inputs are used in an economy to produce goods and services. At the company level, typical partial productivity measures are worker hours, materials or energy used per unit of production.eg. Labour productivity

a. Labour productivity

In macroeconomics, a common partial productivity measure is labour productivity. Labour productivity is a revealing indicator of several economic indicators as it offers a dynamic measure of economic growth, competitiveness, and living standards within an economy. It is the measure of labour productivity which helps explain the principal economic foundations that are necessary for both economic growth and social development. In general labour productivity is equal to the ratio between a measure of output volume (gross domestic product or gross value added) and a measure of input use (the total number of hours worked or total employment).

Labour Productivity = Output Volume/Labour Input Use

2. Multi - Factor Productivity

When multiple inputs are considered, the measure is called multi-factor productivity or MFP. Multi-factor productivity is typically estimated using growth accounting. If the inputs specifically are labor and capital, and the outputs are value added intermediate outputs, the measure is called **Total Factor Productivity** or **TFP**. TFP measures the residual growth that cannot be explained by the rate of change in the services of labour and capital.

3. Total Productivity

When all outputs and inputs are included in the productivity measure it is called total productivity. A valid measurement of total productivity necessitates considering all production inputs. If we omit an input in productivity this means that the omitted input can

be used unlimitedly in production without any impact on accounting results. Because total productivity includes all production inputs, it is used as an integrated variable when we want to explain income formation of the production process.

5.3 PRODUCTIVITY: MEANING AND MEASUREMENT

Productivity refers to the physical relationship between the quantity produced (output) and the quantity of resources used in the course of production (input). "It is the ratio between the output of goods and services and the input of resources consumed in the process of production."

$$\text{Productivity } (P) = \frac{\text{Output } (O)}{\text{Input } (I)}$$

Output implies total production while input means land, labour, capital, management, etc. Productivity measures the efficiency of the production system. The efficiency with which resources are utilized is called productive efficiency. Higher productivity means producing more from a given amount of inputs or producing a given amount with lesser inputs.

At the level of a plant or an industry productivity is an output-input ratio. But at the macro level, productivity is a measure of performance of an economy or country. From a nation's viewpoint productivity is the ratio of available goods and services to the potential resources of the country.

Productivity means an economic measure of output per unit of input. Output refers to the total production in terms of units or in terms of revenues while input refers to all the factors of production used like capital, labour, equipment, etc. Productivity is a good indicator of the efficiency with which a factory is operating. If a firm has higher productivity, i.e. it produces more with a given amount of inputs, it means it is utilising the resources properly.

Similarly, a lower productivity indicates wastage of resources and time. It is vital to have a high productivity rate because resources like capital and time are scarce and should be exploited in the best possible way. Productivity can be calculated as the ratio of the volume of output to the volume of inputs.

Productivity can be increased by:

a. Generating more outputs from same level of inputs.

b. Producing same level of outputs with reduced level of inputs.

c. A combination of both.

For the long term growth of the firm and the economy as a whole, it is impertinent that a high level of productivity is maintained. A high productivity means that the resources are utilised to the optimum, while minimizing wastage. This leads to reduction in cost of production, and subsequently availability of quality products to customers at lower price.

Profitability of the firm is also related to its productivity. More profits mean that more retained earnings which would ultimately increase shareholders' wealth.

5.4 FACTORS AFFECTING INDUSTRIAL PRODUCTIVITY

Productivity is the outcome of several factors. These factors are so interrelated that it is difficult to identify the effect of any one factor on productivity.

These factors may broadly be divided as follows:

1. **Human:** Human nature and human behavior are the most significant determinants of productivity. Human factors may further be classified into two categories as given below:

    - **Ability to work:** Productivity of an organization depends upon the competence and caliber of its people - both workers and managers. Ability to work is governed by education, training, experience, aptitude, etc. of the employees.

    - **Willingness to work:** Motivation and morale of people is the second important group of human factors that determine productivity. Wage incentive schemes, labour participation in management, communication system, informal group relations, promotion policy, union management relations, quality of leadership, etc., are the main factors governing employees' willingness to work. Working conditions like working hours, sanitation, ventilation, schools, clubs, libraries, subsidized canteen, company transport, etc., also influence the motivation and morale of employees.

2. **Technological:** Technological factors exercise significant influence on the level of productivity. The main technological factors are Size and capacity of plant**,** Product design and standardization**,** Timely supply of materials and fuel**,** Rationalization and automation measures**,** Repairs and maintenance**,** Production planning and control**,** Plant layout and location**,** Materials handling system**,** Inspection and quality control**,** Machinery and equipment used**,** Research and development**,** Inventory control and Reduction and utilization of waste and scrap.

3. **Managerial:** The competence and attitudes of managers have an important bearing on productivity. In many organizations, productivity is low despite latest technology and trained manpower. This is due to inefficient and indifferent management. Competent and dedicated managers can obtain extraordinary results from ordinary people.

Job performance of employees depends on their ability and willingness to work. Management is the catalyst to create both. Advanced technology requires knowledge workers who in turn work productively under professionally qualified managers. No ideology can win a greater output with less effort. It is only through sound management that optimum utilization of human and technical resources can be secured.

4. **Natural:** Natural factors such as physical, geological, geographical and climatic conditions exert considerable influence on productivity, particularly in extractive industries. For example, productivity of labour in extreme climates (too cold or too hot) tends to be comparatively low. Natural resources like water, fuel and minerals influence productivity.

5. **Sociological:** Social customs, traditions and institutions influence attitudes towards work and job. For instance, bias on the basis of caste, religion, etc., inhibited the growth of modern industry in some countries. The joint family system affected incentive to work hard in India. Close ties with land and native place hampered stability and discipline among industrial labour.

6. **Political:** Law and order, stability of Government, harmony between States, etc. are essential for high productivity in industries. Taxation policies of the Government influence willingness to work, capital formation, modernization and expansion of plants, etc. Industrial policy affects the size, and capacity of plants. Tariff policies influence competition. Elimination of sick and inefficient units helps to improve productivity.

7. **Economic:** Size of the market, banking and credit facilities, transport and communication systems, etc. is important factors influencing productivity

Productivity is an economics term which refers to the ratio of product to what is required to produce the product. Productivity is outcome of several interrelated factors. All the factors which are related to input and output components of a production process are likely to affect productivity.

Thus there are many factors which can influence productivity; such as internal and external. Knowing the internal and external factors that affect productivity of an Industrial organization; give industrial engineers; the intelligence, they needs to sort out the low performance of resources and make strategic plans for the future.

However there are some of the other factors also which affect the Industrial Productivity which can be classified as follows:

A. Controllable Factors (Internal Factors).

B. Uncontrollable Factor (External Factors)

A. Controllable Factors (Internal Factors): Controllable Factors are considered as internal factors. These are the factors which are in control of industrial organization. Controllable factors are as follows:

- **Material and Power:** Improved quality of raw materials and increased use of power have a favorable effect on productivity. An effort to reduce materials and energy consumption brings about considerable improvement in productivity. It consists of Selection of quality material and right material, Control of wastage and scrap, Effective stock control, Development of sources of supply and Optimum energy utilization and energy savings.

- **Machinery and Plant Layout:** The size of the plant and the capacity utilization has direct bearing on productivity. Production below or above the optimum level will be uneconomical and will tend towards lower level of productivity. The arrangement of machines and position in the plant and the setup of the wore-bench of an individual worked will determine how economically and efficiently production will be ferried out.

- **Human Factors:** Human nature and human behavior are the most significant determinants of productivity. Human factors include both their ability as well as their willingness.

  a) **Ability to Work:** Ability to work is governed by education, training, experience and aptitude of the employees. Productivity of an organization depends upon the competence and caliber of its people (both workers and managers).

  b) Willingness to Work: Motivation and morale of people are very important factors that determine productivity. These are affected by wage incentive schemes, labour participation in management, communication systems, informal group relations, promotion policy, union Management relations, quality of leadership, working hours, sanitation, ventilation, subsidized canteen and company transport etc.

- **Organization and Managerial Factors:** Organization factor include various steps taken by the organization towards maintaining better industrial relations such as delegation and decentralization of authority. These factors also influence motivation likewise the existence

of group, with higher productivity as their goal is likely to contribute to the organization objectives.

The competence and attitudes of managers have an important bearing on productivity. Competent and dedicated managers can obtain extraordinary results from ordinary people. Job performance of employees depends on their ability and willingness to work.

- **Technological Factors:** Technological factors exert significant influence on the level of productivity. These include Size and capacity of plant**,** Product design and standardization**,** Production planning and control**,** Plant layout and location**,** Materials handling system**,** Inspection and quality control**,** Machinery and equipment used and Research and development**.**

B. Uncontrollable Factors (External Factors): Uncontrollable factors are known as external factors and these factors are beyond the control of the individual industrial organization. Uncontrollable factors are as follows:

- **Economic Political and Social Changes:** There are economic, social and political factor that affects the productivity.

  a. Economic Factors like Size of the market, banking and credit facilities, transport and communication systems, etc. is important factors influencing productivity.

  b. Political Factors like Law and order, stability of government, harmony between states etc. are essential for high productivity in industries Taxation policies of the government influence willingness to work, capital formation, modernization and expansion of plants etc. Industrial policy affects the size, and capacity of plants. Elimination of sick and inefficient units also helps to improve productivity.

  c. Social Factors like Social customs, traditions and institutions influence attitudes towards work and job. For instance, bias on the basis of caste, religion, etc., inhibited the growth of modern industry in some countries. The joint family system affected incentive to work hard in India. Close ties with land and native place hampered stability and discipline among industrial labour.

- **Natural Resources:** Natural factors such as physical, geographical and climate conditions exert considerable

influence on productivity, particularly in extreme climates (too cold or too hot) tends to be comparatively low. Natural resources like water, fuel and minerals influence productivity.

- **Government Factor:** Government policies and programs are significant to productivity practices of government agencies, transport and communication power, and fiscal policies (interest rates, taxes) influence productivity to the greater extent.

5.5 SUMMARY

Industrial Productivity has become almost synonymous for progress. The resources of a country are generally limited. Therefore, higher productivity is essential for improving living standards and for the prosperity of a nation. Higher productivity requires elimination of waste in all forms. Higher productivity leads to economic growth and social progress.

It is only by improving productivity that employees can get better wages and working conditions and more employment opportunities. Higher productivity brings lower prices for consumers and higher dividend for shareholders. It improves the exports and foreign exchange reserves of a country. Thus, productivity is the key to prosperity.

5.6 QUESTIONS

Q.1. What is the meaning of Industrial Productivity? Explain the concept and measurement of Industrial Productivity.

Q.2. Analyse the factors affecting Industrial productivity.

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6

INDUSTRIAL SICKNESS

Unit Structure:

6.0 OBJECTIVES

i. To expose the learner to the concept and meaning of Industrial Sickness and its causes, effects and remedial measures

ii. To enable the learner analyse the meaning of rationalization, its aspects and impact

6.1 INTRODUCTION

Industrial Sickness is defined as 'an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

According to world economic conference Geneva 1927 rationalization refers to the method and techniques of organization designed to secure the minimum of waste of either effort or material. It includes the scientific organization of labour standardization of both material and products simplification of processes and improvement in the system of transport and marketing.

6.2 INDUSTRIAL SICKNESS

6.2.1 Industrial Sickness: Introduction

Industrial Sickness is defined as 'an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

According to Reserve Bank of India 'a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year.'

6.2.2 Causes of Industrial Sickness

There are several causes of industrial sickness, however they can broadly be divided as External and Internal causes. These causes are explained in detail as follows:

External Causes:

a. **General Recessionary Trend:** Sometimes a general depression hits industrial units. This is reflected in lack of demand for industrial products in general. An overall slowdown in economic activities affects the performance of individual projects. Improper demand estimation for the products to project lands the industrial units in difficulties.

b. **High Prices of Inputs:** When the costs of manufacture are high and sales realization low, the industrial unit cannot stand in the market. This happens when the prices of inputs such as price of fuel such as petroleum during energy crisis goes up whereas the competitive forces keep down the prices of the products.

c. **Non-Availability of Raw Materials:** When the supplies of raw materials are not available regularly or in good quality, the industrial units are bound to be in trouble. This often occurs in case of supply of imported raw materials.

d. **Changes in Government Policies:** The industrial sickness is also caused by certain changes in policy designs of the government. These frequent changes affect the long-term production, financial and marketing planning of an industrial unit. Changes in Government policies regarding imports, industrial licensing and taxation can make viable units sick. For example, liberal import policy since 1991 has rendered many small-scale industrial units sick.

e. **Infrastructure Bottlenecks:** Often the infrastructure difficulty is responsible for industrial sickness. No industrial unit can survive prolonged transport and power bottlenecks.

Internal Causes:

a. **Project Appraisal Deficiencies:** The industrial unit becomes sick when the unit has been launched without a comprehensive appraisal of economic, financial and technical viabilities of the project.

b. **Industrial Unrest and Lack of Employee Motivation:** When there is labour discontent, no industrial unit can function smoothly and efficiently. When labour lacks motivation no good results can be expected and this results in sickness and non-viability of several industrial units.

c. **Wrong Choice of Technology:** If the promoters use wrong technology, results are bound to be unsatisfactory. Many industrial units, especially in the small-scale sector, do not seek professional guidance in installing the correct machinery and plant. If the machinery and plant installed turn out to be defective and unsuitable, they are bound to suffer losses and become sick and non-viable.

d. **Marketing Problems:** The industrial unit becomes sick due to product obsolescence and market saturation. The industrial unit becomes sick when its product-mix is not attuned to the consumers' demand.

e. **Wrong Location:** If the location of an industrial unit happens to be defective either from the point of the market or the supply of inputs, it is bound to experience insurmountable difficulties.

f. **Lack of Finance:** Inadequate financial arrangements or in the absence of timely financial aid an industrial unit is bound to come to grief. It will not be able to withstand operational losses.

g. **Improper Capital Structure:** If capital structure proves to be unsound or unsuitable especially on account of delayed construction or operation, it will result in cost overruns or unduly large borrowing and create financial trouble for the unit concerned.

h. **Management Deficiencies:** The biggest cause of industrial sickness is the managerial inefficiency. Lack of professional management or experienced management and the existence of hereditary management is an important cause of industrial sickness. Inefficient management results in inability to perceive things in proper perspective devoid of routine considerations. Inefficient management is also unable to build up good team and inspire confidence for an organized collective effort and takes autocratic and high-handed decisions.

i. **Voluntary Sickness:** There is some sickness which is voluntarily invited by the entrepreneurs for various motives like getting

government concession or aid from financial institutions. Thus industrial sickness cannot be attributed to any single or simple cause but may be the result of a combination of number of allied causes.

6.2.3 Effects of Industrial Sickness

There could be various effects of Industrial Sickness on the economy. Some of the effects are discussed as follows:

- **Huge Financial Losses to the Banks and the Financial Institutions:** The banks and the financial institutions provide substantial funds to start an industry. Obviously, the locking up of substantial funds in the sick industrial units impinges on the future lending capacity of the banks and the financial institutions.

  Further, recovery of overdue takes an unduly long period of time and in many cases only a small portion of overdue amount is finally recovered. Thus, these bear an adverse effect on the financial health of the banks and the financial institutions.

- **Loss to Employment Opportunities:** One of the serious consequences of industrial sickness has been loss to employment and, thereby, aggravating the most dangerous socio-economic problem of unemployment in a labour surplus economy likes ours. According to an estimate, nearly 30 lakhs of workers are likely to be affected by the closure of sick and weak units.

  In relative terms, about 6% of total employment in industrial sector is likely to be affected by industrial sickness. Out of total 30 lakh workers likely to be affected by closure of sick units, even more than two-thirds (68%) of total will be rendered jobless in small sector alone. This presents a grim prospect in the employment scenario of the country.

- **Emergence of Industrial Unrest:** The closure of sick units causes not only unemployment, but leads to industrial unrest also. Whenever the workers are retrenched and rendered out of jobs, the trade unions oppose it and resort to industrial strikes. Such disturbances threaten the peace and tranquility of the industrial environment. This results in setback to industrial production.

- **Adverse Effect on Prospective Investors and Entrepreneurs:** Industrial sickness adversely affects the prospective investors and the entrepreneurs also. Due to sickness, the share price of the unit tumbles down which, in turn, adversely affects the stock market of the country. In this way, industrial sickness creates a psychology of despair for investments amongst the prospective investors.

  Added to this, the failure and closure of a unit acts as an unhappy example of disincentive to the prospective entrepreneurs who are planning to plunge into the same lines of production. On the whole, the industrial climate becomes non- conducive for the industrial development of the economy.

- **Wastages of Scarce Resources:** In an under-developed economy like ours, the resources are already scarce. If these scarce resources are locked up in sick units, it becomes the wastage of scarce resources which otherwise invested would have yielded substantial returns to the economy.

- **Loss of Revenue to the Government:** The government raises a substantial portion of its revenue from industrial units by way of various taxes and duties levied on them. But, when a large number of industrial units become sick, the possibilities for raising substantial revenue from the sick units by way of various levies are greatly reduced. Thus, industrial sickness results in loss of revenue to the Government also. The shortage of revenue ultimately affects the functioning of the economy as a whole.

The Planning Commission (1983) commenting on the consequences of industrial sickness mentions:

"The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders in fructuous capital investment and generally creates an adverse climate for further industrial growth. While in advanced countries where there are adequate social security benefits, this is accepted as a normal feature of industrial scene. But such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce clearly the problem of industrial sickness is an area to which the Government must give priority."

6.2.4 Remedial Measures for Industrial Sickness

- **Government Policy Measures:** A number of measures have been taken to tackle the problem of industrial sickness. The importance of detection of sickness at the incipient stage has been emphasised by the RBI. The policy framework in respect of measures to deal with the problem of industrial sickness has been laid down in the guidelines issued on October 1981 (which was subsequently modified in February 1982) for guidance of administrative ministries of the Central Government, State Governments and financial institutions.

  The salient features of these guidelines are the following:

  a. The administrative ministries in the Government will have specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charges. They will have a central role in monitoring sickness and coordinating action for revival and rehabilitation of sick units. In suitable cases, they will also establish standing committees for major industrial sectors where sickness is widespread.

b. The financial institutions will strengthen the monitoring system so that it is possible to take timely corrective action to prevent incipient sickness. They will obtain periodical returns from the assisted units and from the Directors nominated by them on the Boards of such units. These will be analysed by the Industrial Development Bank of India and results of such analyses conveyed to the financial institutions concerned and the Government.

c. The financial institutions and banks will initiate necessary corrective action for sick or incipient sick unit based on a diagnostic study. In case of growing sickness, the financial institutions will also consider taking of management responsibility where they are confident of restoring a unit to health. The Ministry of Finance will have to issue suitable guidelines for management.

d. Where the banks and financial institutions are unable to prevent sickness or ensure revival of a sick unit, they will deal with their outstanding dues to the unit in accordance with the normal banking procedures. However, before doing so, they will report the matter to the Government which will decide whether the unit should be nationalised or whether any other alternative- including workers' participation in management - can revive the undertaking.

e. Where it is decided to nationalise the undertaking, its management may be taken over under the provisions of the Industries (Development and Regulation) Act, 1951, for a period of six months to enable the Government to take necessary steps for nationalisation.

f. Finally the industrial undertakings presently being managed under the provisions of the Industries (Development and Regulation) Act, 1951, will also be dealt with in accordance with the above principles.

- **Concessions:** The Government has also provided certain concessions to assist revival of sick units without direct intervention. For example, the Government has amended the Income-tax Act in 1977 by addition of Section 72A by which tax benefit can be given to healthy units when they take over the sick units by amalgamation, with a view to reviving them.

  The tax benefit is in the form of carry forward of the accumulated business losses and un-provided depreciation of the sick companies by the healthy companies after amalgamation. A scheme for provisions of margin money to sick units in the small-scale sector at soft terms to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme has been introduced from January 1, 1982.

Moreover, financial assistance in the form of long-term equity up to Rs. 15 lakh to units with a project cost not exceeding Rs. 10 lakhs at a nominal service charge of 1% is available to potentially viable sick SSI from the National Equity Fund.

- **Establishment of BIFR:** The Central Government has set up a Board for Industrial and Financial Re-construction (BIFR) with effect from 12 January 1987 in pursuance of enactment of the Sick Industrial Companies (Special Provision) Act, 1985. This is a major step for intervening at an early stage and detecting, preventing, as well as taking ameliorative, remedial and such other measures which to be taken with respect to sick and potentially viable companies. The role of the Board for Industrial and Financial Reconstruction (BIFR) needs a re-look in the face of a steep rise in the number of industries turning sick. BIFR was constituted to facilitate the revival of industries deemed sick. When an industry turns sick, BIFR acts as an operating agency (generally the lead financial institution having the largest loan exposure among the creditors) to devise a revival strategy proposal.

  Progress in the right disposal of sick company cases registered with BIFR has been slow on account of the conflicting interests between the companies and the creditors (banks and financial institutions, government bodies/agencies) and certain lacunae in the SIC A Act. The rehabilitation schemes met with 40-45% failure, as a result of which many of the cases had to be reopened.

  The rate of registration/sickness increased substantially during 1997-98 due to (a) the recessionary trends prevalent in industry, (b) poor financial market conditions, and (c) the tough stance taken by banks/financial institutions (FIs) towards defaulters/potentially sick companies under their non-performing assets (NPA) accounts for rescheduling of repayments, etc.

  The problem appears even more acute if we take note of potentially sick BIFR companies, as also the NPAs of FIs and banks. In fact, the NPAs of banks and others have continued to rise.

  Up to 1997-98 the outstanding bank credit against sick companies has reached an abnormal' proportion of over Rs. 23,658 crores, in March' 2000. Over 15 lakh workers have been affected by companies turning sick.

- **IRBI (IIBI):**

  The Industrial Reconstruction Bank of India (IRBI) set up in 1985 has initiated various steps for checking the growth of industrial sickness and helping in industrial revival. From April 1997 the name of IRBI has been changed to Industrial Investment Bank of India (IIBI). By March 2000, cumulative financial assistance sanctioned

and disbursed by it stood at Rs. 10.090 crores and Rs. 7,353 crores, respectively.

A significant measure taken during 1986 was the setting up of Small Industries Development Fund (SIDF) in the IDBI. This is meant to provide special financial assistance to the small-scale sector. The Fund would be used for providing refinancing assistance not only for development, expansion and modernisation, but also for the rehabilitation of the small-scale sick industries.

- **Modernisation Fund:** The Government has set up two funds, namely the Textile Modernisation Fund and the Jute Modernisation Fund, for modernisation of the textiles and jute sector. Under these two funds, assistance is provided not only to the healthy units for modernisation at 11.5% rate of interest; but also' to sick but potentially viable units. Special loans are given to the weak units for meeting a part of the promoters' contribution.
- **Goswami Committee Report:** The Committee on Industrial Sickness and Corporate Restructuring under chairpersonship of Dr. Omkar Goswami submitted its report in July 1993.

  The main recommendations of the Committee with respect to sick companies are:

  a. For early detection of sickness the definition of sickness should be changed to:

     i. Default of 180 days or more on repayment to term lending institutions, and

     ii. Irregularities in cash credits or working capital for 180 days or more.

  b. Amendment of the Urban Land (Ceiling & Regulation) Act, 1976 to improve generation of internal resources of sick companies.

  c. Empower the BIFR for speedier restructuring, winding-up and sale of assets of companies.

  d. A sick company's own reference of BIFR should be voluntary, not mandatory.

- **SICA Amendment Act,** 1994: The modifications brought in the Sick Industrial Companies (Special Provisions) Act, 1985 by the 1994 Amendment Act pertain to the changes in the definition of SICA, expansion of the term operating agency, clarification that an enquiry as to sickness shall be deemed to have commenced on receipt of a reference by the BIFR complete in all respects, scope for reverse merger, **"deemed consent"** after the lapse of 120 days, **"single window concept"** for release of funds by banks/financial institutions to the sick company, monitoring implementation of

sanctioned revival schemes by BIFR, holding on operations by financial institutions/banks/State Governments, empowering the Central Government, State Government, banks, institutions, etc., to report cases of potential sickness, etc.

In the definition of sickness the period for the registration of an industrial company as sick has been reduced from seven to five years. Furthermore, the condition of incurring cash losses during the preceding two years has been waived. This means that an industrial company would be considered a sick industrial company once its net worth is completely eroded and has been registered for not less than five years.

Suggested Remedies:

Some of the effective measures which may be taken for revival of sick units are technical help, professional counseling and improved management. Also, the role of professionals and experienced management becomes more important in times of sickness.

In addition to technical and professional consultants, no sick industry will ever be able to recuperate without sufficient, timely and soft finance. Bankers are the key to the problem. The role of the bankers needs to be redefined and a new direction needs to be given to support aid and lift sick industrial units from the situations that befall them. It is also the level of service and support in terms of financial advice, assistance in related matters of insurance, release of hypothecated assets and timely finance.

The Sick Industrial Companies (Special Provisions) Bill, 1997, passed by Lok Sabha, introduced encouraging changes. It suggested that a time-bound procedure was to be adopted within which the scheme has to be sanctioned and BIFR would play the role of a mediator and not a court.

Technical obsolescence and financial mismanagement are also important factors that lead to industrial sickness. As per the new provisions, an opportunity will be given to get an unanimous consent to a scheme from all concerned, failing which secured creditors will attempt to form a scheme and, if all this fails, the undertaking would be sold off. Only if it is not possible to do that, the BIFR may order winding up of the company.

6.3 RATIONALIZATION

6.3.1 Rationalization: Introduction

Rationalization in industry was first discovered in Germany. After the First World War the economy of Germany was completely ruined. Industries which wear at the top before the war where declining. Labour force was badly reduced the industries where experiencing the acute shortage of funds and there was depression in the market. For the burden of reparation payment and the depreciation in the value of currency made the economic condition of Germany bad to worst. Industries had to

recognize and revamp. With a view to rehabilitating and reorganizing the revenged economy National Commission was set up in 1921. On this basis several experiments were done. Several new tools and techniques were introduced. As a result, the economy of Germany revived miraculously. With a short span of time between 1924 and 1929 the country regained its old position. All these experiments and efforts were collectively termed as 'rationalization, In German language rationalization is termed as rationalisierung. It means new industrial philosophy. Walter Meakin has named its new industrial revolution.

6.3.2 Rationalization: Concept and Definition

In common parlance rationalization refers to rational and logical thinking for getting better result. In the industrial sense it is an act of reforming and industry by reorganizing it so as to eliminate waste and inefficiency relating to time, labour, material, methods, tools, etc.

In a wider sense it implies a fundamental change in the structure and control of industrial activity in a well coordinated and integrated manner for removing various types of waste and inefficiency and bringing down cost and meeting market demands.

According to national board of economy and efficiency Germany e rationalization consists in understanding and applying every means of improving the general economic situation through technical and systematic organization.

According to world economic conference Geneva 1927 rationalization refers to the method and techniques of organization designed to secure the minimum of waste of either effort or material. It includes the scientific organization of labour standardization of both material and products simplification of processes and improvement in the system of transport and marketing.

Professor E.A.G Robinson rationalization refers to the reorganization of relationship of the individual form to the industry as a whole.

Professor Sergeant Florence rationalization is the moment to eliminate waste and inefficiency scientifically and logically by some short of joint action between all the firms within one industry.

6.3.3 Aspects of Rationalization

- **Movement for reforms:** Rationalization is a movement for reforms, revolution for change, plan for reorganization and reconstruction, revival and growth. It was adopted in Germany for the Revival and growth of shattered industrial structure of the country.

- **Elimination of waste and inefficiency**: This is another important characteristic of rationalization. Rationalization is adopted in order to remove inbuilt inefficiency and whispered wastage of men money and material.

- **Application of rational and scientific method and techniques:** With the help of rationalization old methods, traditional approach and unscientific and unsystematic thinking or supplanted by new methods, modern approach and scientific and logical thinking.

- **Comprehensive process**: Rationalization is a comprehensive process. It is not restricted to production only. It covers the entire range of technologies, financial management, labour relations and personal management, marketing methods, and practices, transportation and warehousing, etc. So as to the entire fabrics of economy can be brought back on right track and desired growth may be achieved.

- **Macro approach**: Rationalization lives in macro approach, not in micro approach. It is industry oriented, not firm oriented. The rational and logical thinking are applied in industry at large. With the help of collective Endeavour every unit within an industry is rationalized so that maximum benefits may be reaped.

- **Promotion of Industrial Research**: This is also an important characteristic of rationalization. In order to get maximum benefit research and development is promoted. Research and development are also aimed for the purpose of replacing old methods and techniques and introducing new ones, in proving traditional system and approaches, promoting mechanization and automation.

- **Social motive**: Rationalization has social motive by eliminating waste and inefficiency and by adopting rational and logical Tools and techniques productivity is improved, efficiency is increased and cost of production is reduced. This helps in loading price which in turn benefit the customers.

- **Ensuring maximum utilization of resource:** Rationalization can ensure optimum use of available resource. It is a well-known fact that resource is eliminated and hence scarce. Irrational use depletes the resources very soon and increases the cost of production. Without ensuring optimum utilization of resources maximum production at minimum costs is not possible.

- **Maximizing production**: Rationalization aims at maximization of production by applying rational and logical approach. This helps in lowering costs and offering products to consumers at low prices. Production is increased due to use of better machines and equipment's and increases in overall efficiency of industry.

- **Maximizing efficiency at minimum effort:** Efficiency affects the overall performance and profitability of industry. Hence rationalization seeks to improve efficiency of workers by improving working conditions.

- **Simplifying marketing and distribution system**: One of the fundamental objectives of rationalization is to improve the

efficiency and effectiveness of distribution system. To achieve this objective unnecessary transport practices are eliminated unless multiplication of middleman is removed and access a financial burden is relation to transport system is terminated.

- **Improving the quality of product**: Rationalization aims at not only increasing the quantum of production but also in enhancing quality of product. Quality of product is increased by using that equality raw material, standardization and specification.

- **Establishing industrial stability:** One of the basic objectives of rationalization is to establish industrial stability in the nation. This is done by adopting the means of restructuring and reorganizing the entire industrial structure of the nation. This helps in overcoming the danger and trade cycle.

- **Improving Industrial Relation:** In order to increase the efficiency of workers rationalization aims at improving the condition of Industrial Relations in the industry. The Bombay textile labour inquiry committee 1941 also stressed on the improvement in the efficiency of workers and in working conditions. In fact, only a motivated and satisfied worker can give better result.

- **Regulating the variety of products:** An unnecessary variety of products causes wastage in industry and prove a burden on scarce resources. This also leads to confusion in the minds of customers. Hence, rationalization aims at reducing the unnecessary varieties of products through which research into the processes and methods of manufacture and standardization and grading.

- **Increasing the standard of living of society**: Increasing the standard of living of the mass is also a basic objective of rationalization. By eliminating waste and inefficiency at all levels improving working conditions, and by introducing modern tools and techniques, efficiency of increased; production is maximized; quality of product is improved; resources are optimally used; and cost are reduced.

6.3.4 Impact of Rationalization

Rationalization is considered a key to industrial development and economic stability. It attacks on waste and inefficiency and promotes efficiency and productivity as also social welfare. As a result, it positively impacts producers, consumers and the nation.

A. **Impact on producers:** Initially rationalization benefits the producers in a number of ways these benefits are as under. a) Higher production b) Lowering of costs c) Maximum use of power and materials d) Higher profit e) Elimination of wasteful competition f) Adequacy of funds g) Benefits of standardization h) Benefits of specialization i) Protection from the evils of trade cycle j) Promotion of Industrial Research k) Promotion of better industrial Corporation

B. **Impact on workers**: Workers are the vital part of any industrial system. Hence, the levels of production, productivity, profitability and use of resources are greatly influenced by the work culture of the workers. This is the reason why you rationalization page great attention on it. Further, rationalization benefits the workers in many ways. These benefits are as follows: a) Increase in efficiency b) Increase in remuneration c) Stability in employment d) Better working conditions e) Labour welfare f) Proper selection and training g) Mutual cooperation

C. **Impact on consumers:** Consumers are also benefited from rationalization. The major benefits are as follows: a) Availability of better products b) Availability of cheaper products c) Ease in product selection d) Highest standard of living e) Availability of products in right quality f) Prompt delivery

D. **Impact on the Nation**: As we know the scheme of rationalization was introduced in Germany with the view of restructuring the shattered economy. This reveals that ultimately rationalization benefits the nation in the number of ways. The major gains the nation obtains are as follows. a) Effective and economical use of resource b) Increase in national income c) Economic prosperity and stability d) Rapid industrial development e) Increase in export potential

6.4 SUMMARY

- Industrial Sickness: Considering the gravity of the problem of industrial sickness, the government has taken various measures. However, some critics observed that the coverage of SICA 1985 is not adequate and some unscrupulous entrepreneurs are trying to turn their units; sick deliberately for extracting various concessions and reliefs.

  Thus government agencies should be careful in detecting in genuine sick industrial units and to start revival process in right time.

- Rationalisation: Rationalization refers to rational and logical thinking for getting better result. In the industrial sense it is an act of reforming and industry by reorganizing it so as to eliminate waste and inefficiency relating to time, labour, material, methods, tools, etc. It also implies a fundamental change in the structure and control of industrial activity in a well coordinated and integrated manner for removing various types of waste and inefficiency and bringing down cost and meeting market demands.

6.5 QUESTIONS

Q.1. Explain the concept of Industrial Sickness.

Q.2. What are the causes of Industrial Sickness?

Q.3. Analyse the effects of Industrial Sickness.

Q.4. Discuss remedial measures for Industrial Sickness.

Q.5. What is the meaning of Rationalization? Explain its aspects.

Q.6. Discuss the Impact of Rationalisation.

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7

INDUSTRIAL DEVELOPMENT IN INDIA - I

Unit Structure:

7.0 OBJECTIVES

This unit will enable you to:

- Formularise the learners with the NEP and to sustain a stable rate of productivity increase.
- Identify Make better use of the given human resources
- Understand various aspects of Using various methods to accelerate the country's advancement
- Thorough comprehension of the topic To reach parity with the rest of the world in terms of international standards and competitiveness.

7. 1 INTRODUCTION

Under the leadership of P. V. Narasimha Rao, India started its New Economic Policy in 1991. For the first time, this policy allowed India's economy to be exposed to the rest of the world. P. V. Narasimha Rao's New Economic Policy cut import levies, opened the reserved sector to private actors, and depreciated the Indian currency to encourage exports. This is also known as the LPG Growth Model.

The scale of industrial development accelerated after the progressive liberalisation of the 1956 Industrial Policy in the mid-1980s. However, the business was still burdened by a slew of rules and regulations. Even these restrictions had to be removed in order for industry to flourish more quickly. On July 24, 1991, Shri Narasimha Rao's new government, which assumed office in June 1991, proposed a package of liberalisation measures as part of its Industrial Policy.

Economic liberalization or tariff reductions, market deregulation or opening markets to private and foreign participants, and tax reductions are all examples of New Economic Policy used to spread the country's economic wings.

Manmohan Singh, India's former Prime Minister, is regarded as the founder of the country's New Economic Policy (NEP). On July 24, 1991, Manmohan Singh announced the NEP.

7.2 OBJECTIVES OF NEW EDUCATION POLICY

The following are the key objectives underlying the launch of the New Economic Policy (NEP) by union Finance Minister Dr. Manmohan Singh in 1991:

1. The fundamental goal was to bring the Indian economy into the 'Globalization' arena and give it a fresh market-oriented impetus.
2. The NEP was created with the goal of lowering inflation.
3. It aimed to achieve a greater rate of economic growth while also accumulating sufficient foreign exchange reserves.
4. Its desired economic stabilization and the transformation of the economy into a market economy by removing all unnecessary restraints
5. It desired to allow free international trade in products, services, capital, human resources, and technology.
6. It aimed to boost private sector engagement in all sectors of the economy. As a result, the number of government-reserved sectors has been reduced. This number is currently only two

7.3 ROLE OF THE PUBLIC SECTOR

The role of the public sector in industrial licencing, foreign investment and technology, and the MRTP Act have all undergone substantial changes as a result of the New Industrial Policy. The policy's primary provisions are mentioned below.

1. Industry de-reservation for the public sector:

The public sector, which was created to promote rapid industrial development, has generally failed to fulfil its mandate. The majority of public sector firms became symbols of inefficiency and put a significant financial burden on the government as a result of their ongoing losses. Since a major portion of industry was earmarked for the governmental sector, which remained a virtual non-performer (except for a few units like the ONGC).

As a result, the most significant casualty was industrial development. The new industrial policy aims to minimise the public sector's role while encouraging private sector participation in a broader range of industries. In light of this, the following policy reforms affecting public-sector industries have been implemented.

2. Reservations for the public sector are reduced:

The new **policy de-allocated 9 of the 17 industries reserved** for the public sector under the 1956 industrial policy, limiting the scope of the public sector to only 8 industries.

Later, a few more industries were de-reserved, and the public sector's exclusive territory is today limited to **only four industrial sectors:** I defence industry, (ii) atomic energy, (iii) railways, and (iv) minerals needed in atomic energy generation. However, if necessary, some of these areas might be made available to the private sector. If the national interest requires it, the public sector may be authorised to establish units in areas that have been made available to the private sector.

3. Efforts to resurrect loss-making enterprises:

Public enterprises that are chronically sick and lose money on a regular basis would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or comparable high-level entities established for this purpose. Schemes for rehabilitation and reactivation of such industrial units would be developed by the BIFR or other similar entities.

4. Disinvestment in selected public sector industrial units:

The government would sell a portion of its shareholding in these industries to Mutual Funds, financial institutions, the general public, and workers as a way to raise large sums of money and introduce greater private participation in these units.

In August 1996, the Indian government established a "Disinvestment Commission" to figure out disinvestment mechanisms. The government sells public enterprise shares in accordance with the recommendations of the "Disinvestment Commission."

5. Increased public-sector autonomy:

The New Industrial Policy aims to offer public firms more autonomy in their day-to-day operations. The trust would be placed in public enterprises to improve their performance through a combination of increased autonomy and accountability.

6. Abolition of Industrial Licensing:

Industrial Licensing was abolished in the previous industrial strategy, which subjected businesses to strict oversight through the

licencing system. Though some liberalisation measures were **implemented in the 1980s**, they had a positive impact on industry growth. Despite this, industrial progress was stifled to a large extent.

Except for a small list of industries relating to the country's security and strategic concerns, hazardous industries, and industries that cause environmental degradation, the new industrial policy abolishes the system of industrial licencing for most industries. Under this policy, no licences are required for setting up new industrial units or for substantial expansion in the capacity of existing units.

7. Liberalized Foreign Capital and Technology Policy:

Under the previous Industrial Policy, foreign capital inflows and technology imports were rigorously restricted. The government has to approve each foreign investment proposal in advance. Wherever foreign investment was permitted, the proportion of foreign equity was kept to a minimum so that Indians retained the majority of ownership control.

However, such a strategy limited the entrance of foreign money, and industrial development suffered as a result of a lack of capital and technology. Several concessions were provided in the July 1991 Industrial Policy to encourage the entry of foreign capital and technology into India.

8. Relaxation of the Foreign Investment Upper Limit:

Under the 1991 policy, the maximum foreign equity participation ceiling was set at **40% of the total equity capital** of industrial units that were accessible to foreign investment; this limit was **lifted to 51%.** This list of 51 percent foreign equity participation was expanded to include **34 additional industries**.

In several industries, the foreign equity percentage was **increased to 74%.** Foreign Direct Investment (FDI) was further liberalised, with **100 percent** foreign stock being allowed in mining, including coal and lignite, pollution control equipment, projects for electricity generation, transmission, and distribution, ports, and harbours, among other things.

Recent decisions to further liberalise FDI include **allowing 100% FDI in oil** refining, all manufacturing activities in Special Economic Zones (SEZs), and various telecom-related sectors, among others.

9. Modifications to the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act of 1969, all big companies and large business houses (with assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to seek permission from the MRTP Commission before establishing any new industrial unit,

because such companies (known as MRTP companies) can only invest in certain industries.

As a result, in addition to acquiring a licence, they were now obliged to secure MRTP clearance. This was a significant hindrance to industrial development since large business organisations with the means to expand and diversify their activities were unable to do so.

By repealing those elements of the MRTP Act that made it essential for large industrial enterprises to seek prior approval from the MRTP Commission for new projects, the Industrial Policy of 1991 has brought these industries up to par with others.

7.4 EVALUATION OF THE NEW INDUSTRIAL POLICY

The New Industrial Policy of 1991 strives/aim to free India's industrial economy from the tangles of bureaucratic red tape. According to this strategy, the government's role should shift from merely exercising control over industries to assisting them in growing swiftly by reducing delays.

Barriers to access are being removed, and procedures are becoming more transparent. As a result, this programmed aims to effectively remove the 'License-Permit Raj,' which has stifled private initiative and industrial progress. As a result, the new strategy opens up practically the whole field of industry to the private sector.

The new industrial policy, which went into effect in July 1991, was widely hailed as a historic moment in India's economic history. It was regarded as a fresh start that would lead to India's economic growth and general well-being. Since the introduction of the new policy, the Indian economy has been undergoing a process of liberalisation, privatisation, and globalisation. The domestic and foreign private sectors have been allowed to invest in the oil exploration, electricity generating, and mining industries. Although not totally transformed, the Indian economy today appears to be a far cry from the lethargic giant of the past.

7.5 DISINVESTMENT POLICY IN INDIA

A large number of countries in Central and Eastern Europe, Eurasia (consisting of Russia and other breakaway countries from the former Soviet Union), Asia, Africa, and Latin America adopted the free market system and embarked on a massive privatisation programme during the last two decades, particularly after the breakup of the Soviet Union. Under World Bank pressure, India launched the New Economic Policy in July 1991, adopting the policy prescriptions of Liberalization, Privatization, and Globalization. Since independence, India has proceeded along the lines of a socialist society in which the government has been given command of the economy. In India, the public sector dominated the industrial sector, with government investment in basic and heavy

industries, a sub-sector allocated for the government. It was asserted that India's enormous and powerful public sector was not just inefficient and inept, but also out of step with the times. The most serious charge levelled against the government was that its rate of return on investment was as low as 5% per year.

7.5.1 THE DISINVESTMENT PROGRAM'S OBJECTIVES

The following are the disinvestment program's goals:

1. Resource mobilisation.
2. Giving public enterprises autonomy and responsibility.
3. To make better use of national resources and assets.

The government announced the following goals for the disinvestment initiative on December 9, 2002:

1. Modernization and upgrading of government-owned businesses.
2. Development of new assets
3. Workforce development.
4. Public debt retirement.
5. Keep the government's ownership in public companies.
6. Establishing a Fund for Disinvestment Proceeds.
7. Developing disinvestment standards for natural asset firms, and
8. Developing a report on the feasibility and modalities of establishing an Asset Management Company to hold, manage, and dispose of the remaining government shares in firms that have been divested to a strategic partner.

The government also announced the disinvestment of BPCL and HPCL in this announcement.

7.5.2 RANGARAJAN COMMITTEE ON DISINVESTMENT OF GOVERNMENT EQUITY:

In 1993, the government formed a Committee on Disinvestment in Public Sector Enterprises, chaired by C Rangarajan, to recommend the best disinvestment technique. The Committee recommended that once public firms' shares are listed on the stock market, the optimum option is to offer them to the general public at a predetermined price through a general prospectus. The Committee's other major recommendations are as follows:

1. Disinvestments of 40% in public-sector units and 74% in other non-reserved public-sector units.
2. Developing a disinvestment action plan.

3. Establishing a separate regulatory framework for PSEs.
4. A method for valuing PSE shares that has been thoroughly researched.
5. Preferential share offer to PSE personnel and employees.

7.5.3 THE DISINVESTMENT COMMISSION

In August 1996, the government established a five-member Public Sector Disinvestment Committee, chaired by GV Ramakrishna, to develop a long-term disinvestment plan for the PSUs nominated to the commission. The Disinvestment Commission's long-term approach had four goals:

1. Wherever possible, strengthen public sector units in order to ease disinvestments.
2. Defend the interests of employees.
3. Owning a large number of people, and 4. Increasing government revenue.

The Disinvestment Commission looked at all 58 public sector firms that had been referred to it and recommended the government on the level of disinvestment. The suggestions were divided into five broad categories:

1. A strategic sale involving 29 units with a change in ownership/management and 8 units with a trade sale.
2. In 5 units, there is an offer to sell shares with no change in ownership or management.
3. Deferment of dis-investments in 8 units, while one unit has had none.
4. Asset closure/sale in four units;
5. Employee buyout/strategic sale in two units

In July 2001, the government recreated the commission, with RH Patil as chairman. The government has decided to refer all non-strategic units, including subsidiaries, to the commission for independent advice (with the exception of IOC, ONGC, and GAIL). The Ministry of Disinvestment is in charge of the disinvestment process.

7.5.4 THE PROCESS OF DISINVESTMENT

The selling of minority stakes in some governmental firms began off the disinvestment process in 1991-92. From 1999-2000 to 2003-04, it moved its concentration to strategic sales. Initially, the government sold shares in 'bundles,' which included a mix of equity from both excellent and bad enterprises. Bundling, on the other hand, resulted in an extremely low average price. In 1992-93, the government abandoned the bundling process in favour of auctioning each company's shares individually. In

1994-95, NRI and other persons were allowed to participate in the auction. In 1996-97 and 1997-98, GDRs of VSNL and MTNL in international markets fetched Rs.380/- and Rs.980/- crores respectively. In 1998-99, along with GDR and domestic offerings with the participation of FIIs, cash rich PSUs like ONGC, GAIL and IOC were forced to cross hold shares in related PSUs by buying them from the Government. Since 1999-2000, the focus of the government shifted to the second method of disinvestments i.e., strategic sale of a PSU to a private sector company. The government resorted to strategic sale of a number of companies like Modern Foods India Ltd, Videsh Sanchar Nigam Ltd, Indian Petrochemicals Corporation Ltd, Bharat Aluminium Company, CMC Ltd, HTL Ltd, IBP, ITDC, Hotel Corporation of India, Paradeep Phosphates Ltd, Maruti Udyog Ltd etc.

Detail of budgeted receipts and actual receipts with regard to disinvestments is given in Table 7.1 below

Table No. 7.1 SUMMARY ON RECEIPTS FROM DISINVESTMENT 1991-92 TO 2011-12

Year	Budgeted Receipts	Total Receipts	Transactions
1991-92	**2,500.00**	3,037.74	Minority shares sold in Dec, 91 and Feb, 92 by auction method in bundles of "very good", "good" and "average" companies
1992-93	**2,500.00**	1,912.51	Shares sold separately for each company by auction method.
1993-94	**3,500.00**	-	Equity of 6 companies sold by auction method but proceeds received in 94-95.
1994-95	**4,000.00**	4,843.10	Shares sold by auction method.
1995-96	**7,000.00**	168.48	Shares sold by auction method.
1996-97	**5,000.00**	379.67	GDR -VSNL
1997-98	**4,800.00**	910.00	GDR -MTNL
1998-99	**5,000.00**	5,371.11	GDR-VSNL; Domestic offerings of CONCOR and GAIL; Cross purchase by 3 Oil sector companies i.e. GAIL, ONGC and IOC.

1999-00	**10,000.00**	1,860.14	GDR-GAIL; Domestic offering of VSNL; capital reduction and dividend from BALCO; Strategic sale of MFIL.
2000-01	**10,000.00**	1,871.26	Sale of KRL, CPCL and BRPL to CPSEs; Strategic sale of BALCO and LJMC.
2001-02	**12,000.00**	5,657.69	Strategic sale of CMC, HTL, VSNL, IBP, PPL, hotel properties of ITDC and HCI, slump sale of Hotel Centaur Juhu Beach, Mumbai and leasing of Ashok Bangalore; Special dividend from VSNL, STC and MMTC; sale of shares to VSNL employees.
2002-03	**12,000.00**	3,347.98	Strategic sale of HZL, IPCL, hotel properties of ITDC, slump sale of Centaur Hotel Mumbai Airport, Mumbai; Premium for renunciation of rights issue in favor of SMC; Put Option of MFIL; Sale of shares to employees of HZL and CMC.
2003-04	**14,500.00**	15,547.41	Strategic sale of JCL; Call Option of HZL; Offer for Sale of MUL, IBP, IPCL, CMC, DCI, GAIL and ONGC; Sale of shares of ICI Ltd.
2004-05	**4,000.00**	2,764.87	Offer for Sale of NTPC and spill over of ONGC; sale of shares to IPCL employees.
2005-06	**NTF**	1,569.68	Sale of MUL shares to Indian public sector financial institutions & banks and employees
2006-07	**NTF**	-	
2007-08	**NTF**	4,181.39	Sale of MUL (Rs.2366.94 cr) shares to public sector financial institutions, public sector banks and Indian mutual funds and sale

			of PGCIL (Rs.994.82 cr) and REC (Rs.819.63 cr) shares through Offer for Sale.
2008-09	**NTF**	-	
2009-10	**NTF**	23,552.93	(Rs.2012.85 - NHPC, Rs.2247.05 - OIL and NTPC - 8480.098, REC Rs.882.52, Rs.9330.42 NMDC,)
2010-11	**40,000.00**	22,144.20	Rs.1062.74 SJVN, EIL 959.65, COAL INDIA 15199.44 CR; PGCIL 3721.17; MOIL 618.75 #; SCI 582.45
2011-12	**40,000.00**	13,894.05	Rs.1144.55 PFC,Rs. 12749.5 ONGC
2012-13	**30,000.00**	124.97	Rs. 124.97 NBCC
Total		1,13,139.18	
Source: Government of India, Ministry of Finance.			

7.5.5 DISINVESTMENTS- A HISTORICAL PERSPECTIVE

For the first four decades after independence, India followed a development path that emphasised the public sector as the engine of prosperity. However, the public sector outgrew itself, and its flaws began to show up in low capacity utilisation and efficiency as a result of overstaffing, poor work ethics, overcapitalization as a result of significant time and cost overruns, inability to innovate, take quick and timely decisions, large interference in decision-making processes, and so on. As a result, in 1991, the decision was made to adopt the Disinvestment course. The transformation process in India began in 1991-92, when 31 public sector undertakings were disinvested for a total of Rs.3,038 crore. The Disinvestment Commission, chaired by G V Ramakrishna, was established in August 1996 to advise, supervise, monitor, and promote the gradual disinvestment of Indian public sector undertakings. The Disinvestment Commission, on the other hand, ceased to function in May 2004.

In December 1999, the Agency of Disinvestment was established as a separate department, and in September 2001, it was renamed the Ministry of Disinvestment. The Department of Disinvestment was transferred to the Ministry of Finance on May 27, 2004.

Since April 14, 2016, the Department of Disinvestment has been renamed the Department of Investment and Public Asset Management (DIPAM),

which has been designated as the nodal department for strategic stake sales in public sector undertakings (PSUs).

The National Investment Fund (NIF) was established in November 2005 to redirect earnings from the disinvestment of Central Public Sector Enterprises.

7.5.6 DISINVESTMENT'S CHALLENGES

The government would lose monthly money if profit-making and dividend-paying PSUs were sold.

There's a chance the strategic partner will "Asset Stripe." Plant and machinery, land and buildings, and other significant assets are held by the majority of PSUs.

National Security and Strategic Concerns: Some analysts believe that strategic disinvestment in oil PSUs is a threat to national security because oil is a key natural resource, and probable foreign ownership is inconsistent with our strategic goals.

Disinvestment has an impact on the social security of workers.

It also boosts the possibility of cronyism.

The market's downturn and a scarcity of suitable purchasers would result in a terrible deal.

Complete privatisation might result in public monopolies becoming private monopolies, which would then take advantage of their position to raise service costs and gain bigger profits.

A sale of a majority interest to another CPSE results in no genuine change in ownership and is hence nonsense.

7.6 ROLE OF SMALL SCALE INDUSTRIES

Small scale industries are those that create, produce, and provide services with the use of small machines and minimal labour. These businesses must follow the rules put forth by the Indian government.

SSIs are critical to the economy's survival, particularly in emerging countries like India. Because these businesses are typically labor-intensive, they play a vital role in job creation. SSIs are an important part of the economy from both a financial and social standpoint, as they aid with per capita income and resource utilisation.

Role and Importance of Small Scale Industries

The Small-scale sector plays a vital role in the growth of the countries.

1. **Employability**: Small-scale industries have a high labour-intensive nature. A given amount of money invested in small-scale industrial ventures is likely to result in more jobs. The same amount of capital invested in large-scale activities, at least in the short term. Encouragement of small-scale companies would help to offset agricultural seasonal unemployment and so make use of labour that

would otherwise go to waste. These industries provide a plethora of self-employment alternatives. These self-employed people form the backbone of the country. Every effort must be made to boost the economic situation of these proud and self-reliant individuals.

2. **Lower Investment Requirement:** Small-scale industries are the capital-light example; they require a fraction of the capital that large-scale industries do. As a result, one of the major advantages of small-scale industries is that they provide for capital cost savings. Because capital is scarce in developing countries. It may be employed to greater advantage in the early phases of growth if it is used to expand transportation and other public utilities, irrigation, and other agricultural requirements, as well as those sorts of large-scale industries when the benefits are exceptional.

3. **Hidden Resources**: Small-scale industries will generate capital that would not otherwise exist. The expansion of small-scale companies across the countryside would inspire rural residents to be more thrifty and invest their money. Furthermore, the astute small manufacturer must scrounge together finance wherever it may be found. If it hadn't been for the Micro Enterprises, this capital would almost certainly never have existed as productive capital.

4. **Proficiency Level-** Medium: Another advantage of small-scale enterprises is that they are skill light, whereas large-scale industries require a lot of management and supervisory skills, such as foremen, engineers, and accountants. These abilities, like capital, are in short supply in our country, and it is critical for economies to maximise their utilisation. Small-scale industries provide a means of doing so while also providing industrial experience and serving as a training ground for a significant number of small-scale industry managers, at least some of whom gain the capacity to manage major projects.

5. **Less reliance on agriculture:** As cottage and small-scale enterprises flourish, surplus labour will be diverted from our overcrowded farm, resulting in a more ideal occupational distribution.

6. **Relieving Congestion in Urban Areas:** These industries will ease congestion in overcrowded urban locations by offering remunerative employment in rural areas.

7. **Sustaining Green Revolution:** Small-scale companies can assist sustain the green revolution in rural areas by developing agro-based industries and services, such as the production of farm implements and equipment for food processing industries, as well as agricultural machinery repair and service workshops. Furthermore, as a result of the green revolution, consumer demand for sophisticated things such as radios, television sets, transistors, bicycles, sewing machines, and cosmetics is predicted to rise, which small-scale manufacturers can easily meet.

8. **Foreign Exchange Net income:** Small-scale industries are justified in terms of balance of payments on two grounds. For one thing, they don't require a lot of foreign exchange to get started, so they don't put too much of a strain on the balance of payments. Two, small-scale industries can help the country's foreign exchange reserves by increasing exports. These industries export both conventional and non-traditional products.

9. **Consumer Products Manufacturing:** Small-scale industries, which primarily create consumer goods, play an important role in the development process. The country's industrialisation, with a focus on heavy industries, necessitates significant capital expenditure, leaving little room for large and consumer goods sectors. When income rises during the industrialization process, so does the demand for consumer products. If there is insufficient supply of consumer goods, prices will rise, lowering not just the standard of life of impoverished employees, but also jeopardising the growth process itself.

10. **Political and Social Benefits:** Small-scale industries can assist in reawakening powerful dormant forces among the populace for constructive purposes. The tangible activities undertaken in these businesses can be built around the freedom of work, self-reliance, self-confidence, ambition to succeed, and other characteristics of a healthy nation.

11. **Hereditary Skill Preservation**: Small-scale companies aided in the preservation of our artisans' inherited skills, which would otherwise atrophy and vanish. Many individuals in rural and small towns will be spared the mechanical, monotonous, and robotic lives associated with large industrial centres. These non-economic aspects are impossible to quantify with cold statistics. These are the very core of life.

12. **Quick Development**: Small-scale industries are of the "rapid investment type," that is, those in which the time between capital investment and the start of the flow of commodities produced is relatively short. The value of such quick investment type Industries in a developing economy with high inflationary pressure and a need for rapid rises in living standards cannot be overstated. Anti-inflationary criteria and development requirements frequently clash, but small-scale industries, which have a high fruition coefficient and a short fruition lag, provide a compromise.

13. **Fragmentation/ Decentralization**: The development of small-scale industries will focus on industry decentralisation, promoting the goal of balanced regional development. The regional distribution of industries in our country is quite uneven, which is a key flaw in our industrial structure. On the other hand, in a few regions, large-scale industries are growing at an inappropriate rate.

7.7 PROBLEMS FACED BY SMALL SCALE INDUSTRIES

The following are the problems faced by Small Scale Industries:

1. Poor capacity utilization

In many of the Small Scale Industries, the capacity utilization is not even 50% of the installed capacity. Nearly half of the machinery remains idle. Capital is unnecessarily locked up and idle machinery also occupies space and needs to be serviced resulting in increased costs.

2. Incompetent management

Many Small Scale Industries are run in an incompetent manner by poorly qualified entrepreneurs without much skill or experience. Very little thought has gone into matters such as demand, production level and techniques, financial availability, plant location, prospects etc. According to one official study, the major reason for SSI sickness is deficiency in project Management i.e., inexperience of promoters in the basic processes of production, cash flow etc

3. Inadequate Finance

Many Small Scale Industries face the problem of scarcity of funds. They are not able to access the domestic capital market to raise resources. They are also not able to tap foreign markets by issuing ADR's (American Depository Receipts) GDR's (Global Depository Receipts) etc because of their small capital base. Banks and financial institutions require various procedures and formalities to be completed. Even after a long delay, the funds allocated are inadequate.

Bank credit to the small scale sector as a percentage of total credit has been declining. It fell from 16% in 1999 to 12.5% in 2002. Small Scale Industries are not able to get funds immediately for their needs. They have to depend on private money lenders who charge high interest. Finance, as a whole, both long and short term, accounts for as large as 43% of the sector's sickness.

4. Raw material shortages

Raw materials are not available at the required quantity and quality. Since demand for raw materials is more than the supply, the prices of raw materials are quite high which pushes up the cost. Scarcity of raw materials results in idle capacity, low production, inability to meet demand and loss of customers.

5. Lack of marketing support

Small Scale Industries lack market knowledge with regard to competitors, consumer preferences, market trends. Since their production volume is small and cannot meet demand for large quantities their market is very restricted. Now with the process of

liberalization and globalization they are facing competition from local industries as well as foreign competitors who sell better quality products at lower prices. For e.g. heavily subsidized but better quality imports from China has made most of the Indian SSI units producing toys, electronic goods, machine tools, chemicals, locks and paper etc., unviable.

6. **Problem of working capital**

Many Small- Scale Industries face the problem of inadequate working capital. Due to lack of market knowledge their production exceeds demand, and capital gets locked in unsold stock. They do not have enough funds to meet operational expenses and run the business.

7. **Problems in Export**

They lack knowledge about the export procedures, demand patterns, product preferences, international currency rates and foreign buyer behavior. Small Scale Industries are not able to penetrate foreign markets because of their poor quality and lack of cost competitiveness. In countries like Taiwan, Japan etc. products produced by Small Scale Industries are exported to many foreign countries. But in India not much thought and focus has gone into improving the export competitiveness of Small Scale Industries.

8. **Lack of technology up-gradation**

Many Small Scale Industries still use primitive, outdated technology leading to poor quality and low productivity. They do not have adequate funds, skills or resources to engage in research and development to develop new technologies. Acquiring technology from other firms is costly. Therefore, Small Scale Industries are left with no choice but to continue with their old techniques.

7.8 RURAL INDUSTRIALIZATION: MEANING AND SIGNIFICANCE

The diminishing employment prospects in rural areas is one of the most serious issues affecting rural development. In Indian communities, seasonal unemployment, partial unemployment, and artisans on the fringes because the technology they use has become outmoded are all widespread. Finding jobs that fit people's skills is a huge issue for any government. Agriculture is usually considered to be unprofitable. This has resulted in a significant increase in migration to cities, aggravating the urban poor condition. Distressed agricultural abandonment is a recent obstacle to rural development. The contradiction is that corporate interests are systematically exploiting rural resources for economic gain. Rural people are forced to stand back and watch while their resources, such as land, sand, soil, water, vegetation, herbs, trees, and other natural resources, are exploited by profiteering interests due to a lack of access to information, expertise, and technology. Rural people who are illiterate or semi-literate do their business in villas.

7.8.1 MEANING :

Industries are establishments that produce items or articles for mass consumption. Industries provide jobs for the general public. Industries contribute to a country's economic development. Rural industries are non-farm operations that rely on rural resources and are primarily intended to generate employment through the effective use of locally accessible resources, human power, and indigenous or home-grown technologies. These are, by definition, small-scale operations. The majority of these are based in settlements. As a result, they're sometimes referred to as "small-scale industries," "village industries," or "country industries." Because one of the primary goals of rural businesses is to create jobs, they typically adopt a mass-production mentality, as opposed to mainstream industries that mass-produce items. Its goal is to lower unemployment and increase individual and household earnings. Because the operations are limited in scope, the financial requirements are usually small as well.

When the Planning Commission approved a rural industries projects programme in 1962, it was the first time the phrase "rural industries" was used. "The phrase 'rural industries' connotes such sorts of industries as khadi, Village industries, handloom, handicraft, sericulture, coir, and tiny and service businesses situated in rural regions," the Planning Commission (1988) wrote in a study on the Village and Small Industries sector.

As a result, rural industrialization includes non-agricultural economic activities carried out in villages, ranging in size from families to sizable enterprises. Cottage, tiny, village, and small-scale manufacturing and processing enterprises, as well as numerous types of services, are examples of these activities. Household businesses have dwindled in recent years, whereas small-scale, non-household enterprises have grown. Cottage businesses, which rely on part-time family labour, are inefficient in comparison to small-scale, full-time, and specialised rural industries.

7.8.2 SIGNIFICANCE OF RURAL INDUSTRIALIZATION :

The rural labour force has been quickly rising in most emerging countries, including India, while job possibilities have been shrinking. If rural poverty is to be alleviated, options for non-farm employment must develop as land available for agricultural expansion becomes increasingly rare. Large-scale urban industries are unlikely to be able to absorb the rising tide of workers migrating from the rural to the metropolis, given their predicted development and composition. We must slow the urbanisation process, which has huge social and environmental consequences like as traffic, pollution, increasing land costs, and so on. As a result, shifting labour from agricultural to manufacturing and service sectors becomes critical.

Because employment in the service sector is limited, particularly in rural areas, the development of the industrial sector, particularly in the rural segment, is critical. Rural industrialisation is seen as a means of providing productive jobs and money to the rural poor.

The following elements contribute to the significance of rural industrialization:

i) They have the potential to reduce urban migration and thereby alleviate urbanisation issues.
ii) By minimising the concentration of industrial units in large cities, they benefit the environment.
iii) They can boost rural income and provide farmers with non-farm work.
iv) They can help both skilled and unskilled workers find work.
v) By preventing excessive industrial concentration, they can promote balanced industrialization.
vi) They are based on local requirements and are more suited to meet local consumption requirements.

7.9 ROLE OF VILLAGE SMALL INDUSTRIES IN INDIA'S EXPORT

Despite receiving a small percentage of plan funding, the VSI sector accounts for around one-third of India's export revenues. It's odd that, despite its enormous export potential, we haven't included export promotion as a goal for this sector's development in our five-year plans. This does not, however, imply that no efforts have been made to boost the sector's exports. Government efforts to stimulate the export of VSI items can be seen in organisations like the Handicrafts and Handlooms Exports Corporation and the Central Industries Corporation. Despite their tremendous export potential, our five-year plans do not include contribution to exports as a key goal of village and small-business growth.

Between 2000-01 to 2004-05, the small enterprises sector registered continuous growth in the number of units, production, employment and export. The performance of SSI is given in the Table:7.2

Table No. 7.2
Status of Industrial Units, Employment and Exports

Year	No. of units (lakh)			Employment (lakh)	Exports (Rs. Crore)
	Regd.	Unregd	Total		
2000-01	13.10	88.0	101.10 (4.1)	239.09 (4.4)	239.09 (4.4)
2001-02	13.75	91.46	105.21 (4.1)	249.09 (4.2)	249.09 (4.2)
2002-03	14.68	94.81	109.49 (4.1)	260.13 (4.4)	260.13 (4.4)
2003-04	15.54	98.41	113.95 (4.1)	271,36 (8.6)	271.36 (4.3)
2004-05	16.57	102.02	118.59 (4.1)	2,51,511 (10.0)	282.91 (4.3)

Note: Figures in parenthesis indicate percentage growth over previous years
(**Source:** *Economic Survey 2005-06, GOI*)

7.10 TYPES OF RURAL INDUSTRIES

There are four categories of industries based on scale and core function. In the Eighth Plan, which can be enlarged or developed in rural areas:

1) **Traditional village businesses:** Khadi, leather tanning, wood work, artisan industries, cotton cloth, both handloom and power loom and fabrics, handicrafts, coir, sericulture, and wool development are examples of traditional village businesses.

2) **Heavy Industry:** As indicated in the graph, there is a growing demand and scope for heavy industry.

   The most recent Rural Consumer Expenditure Survey on the topic of heavy industries. These include: (a) bio-mass fertiliser plants; (b) bio-mass fertiliser plants; and (c) bio-mass fertiliser plants. pesticides (b) Biological inputs, (c) Mini-steel plants, and (d) auxiliary engineering can handle the need for ploughs and threshers on medium and large farms etc.

3) **Medium Group Industries**: (a) Molasses-based mini-cement plant or coal as an energy source that can meet the needs of rural construction projects, (b) minor plant made of paper, etc.

4) **Light Enterprises:** (a) animal feed and fodder industries, (b) expanding building and construction programmes to meet rural area housing demand, industries producing building materials such as hinges, screens, doors and windows frames, and roofing materials, and (c) improved agricultural implements and machinery using rural steel and iron.

7.11 CHALLENGES OF RURAL INDUSTRIALIZATION

Some of the challenges of rural industrialization are as follows:

i) **Technology Multiplicity**- Technology dualism is posing a significant obstacle to rural industrialization. On the one hand, we have hand spinning, and on the other hand, we have power spinning, hand-looming, and power looming. Many rural businesses, such as food processing, building, leather goods, carpentry, blacksmithing, paper making, food preservation, and processing, exhibit this diversity. As a result, specific regions must be set aside exclusively for SSIs (Small Scale Industries), and some protection mechanisms, such as quality requirements, production capabilities, and price subsidies, may be considered.

ii) **Type and nature of employment**—The nature of job requirements differs depending on the type of rural industry. Self-employment, wage-employment, wage-cum self-employment, and so on are examples. As a result, the pattern of employment must be considered while building rural industry

iii) **Managerial and Entrepreneurial skills in Rural Entrepreneurs**- There is a general lack of managerial and entrepreneurial skill in the rural industries. The entrepreneurial acumen among the decentralized industrialization unit is lacking because of lack of technical manpower at the grassroots. The village artisans and entrepreneurs need to be enlightened on various skills of management.

iv) **Access to credit**- Access to institutional credit is always a problem for small entrepreneurs. Most of the rural industries are starved of financial resources. With the globalization there is a shift in credit system towards the urban entrepreneur and real estate market keeping the rural entrepreneurs in credit crunch.

v) **Marketing infrastructure**—The marketing of rural entrepreneurs' products is a major issue. Rural items will not be able to find a market as long as they do not enter the usual supply chain. As a result, without a strong rural marketing infrastructure, rural industrialisation would be a complete failure. Chelloppan has urged the government to support products made by self-help organisations, claiming that this will act as a headache reliever for rural businesses.

vi) **Defining rural industries**- It is critical to define rural industries in the perspective of globalisation. The 1979 concept of minor industry does not apply to institutional village industries. Despite the fact that total investments in these industries have increased, per capita investment has not. T.S. Papola advocated for a reclassification of small, medium, cottage, and micro businesses.

vii) **Role clarity**- The national and state governments' roles in small-scale and cottage businesses must be clearly defined. The Central government takes up various industries like coir, sericulture, khadi, and handicraft under the Centrally subsidised scheme. The state government, on the other hand, is in charge of implementation. To put it another way, the federal government supplied cash, tax breaks, and policy support to these businesses, while the states handled implementation. State governments, on the other hand, appear to believe that it is the responsibility of the federal government to promote it. As a result, there is a lack of clarity in the roles of the federal and state governments.

These are some of the major issues that rural industrialisation faces.

7.12 NATIONAL MANUFACTURING POLICY, 2011

7.12.1 INTRODUCTION :

The Indian government has launched a National Manufacturing Policy with the goal of increasing manufacturing's proportion of GDP to 25% within a decade and creating 100 million jobs. NIMZs (National Investment and Manufacturing Zones) are a key component of the manufacturing policy.

The Central Government will establish an enabling policy framework, provide incentives for public-private partnership (PPP) infrastructure development through appropriate financing instruments, and encourage state governments to use the policy's instruments.

Further the Indian government chose to release the National Manufacturing Policy in order to bring about a quantitative and qualitative improvement, with the following six goals.

Increase the manufacturing sector's growth rate to 12-14 percent in the medium term to make it the economy's engine of growth. Manufacturing will contribute at least 25% of national GDP by 2022, thanks to a 2 to 4% growth rate difference over the entire economy's medium-term growth rate.

Increase the rate of manufacturing employment development to produce 100 million new jobs by 2022.

To make growth inclusive, relevant skill sets must be developed among rural migrants and the urban poor.

Increase domestic value addition and manufacturing's technological 'depth.'

Improve Indian manufacturing's global competitiveness by providing adequate policy assistance.

Ensure growth is sustainable, particularly in terms of the environment, including energy efficiency, efficient use of natural resources, and the rehabilitation of damaged or degraded eco-systems.

Special emphasis will be paid to the following industry verticals:

- Industries with a high employment rate:
- Capital Assets:
- Sectors having Strategic Importance:
- Industries in which India has a competitive advantage include:
- Small and medium-sized businesses
- Public Sector Businesses:

To attain the aforementioned goals, specific policy tools have been developed. The following topics are covered by these instruments:

1. Rationalization and simplification of business regulations; a simple and quick departure mechanism for ill unit closure while safeguarding labour rights;

2. Technology development, particularly green technologies, requires financial and institutional frameworks.

3. Incentives for SMEs; Special Focus Sectors; Industrial training and skill upgradation programmes;

4. Taking advantage of the infrastructure shortfall and government procurement, notably defence procurement.

5. National Investment and Manufacturing Zones: Clustering and Aggregation (NIMZs).

6. Policy on Trade.

Mechanism of Exit. The National Manufacturing Regulatory aims to create policy measures that will make it easier to quickly redeploy assets from non-viable units while also protecting the interests of employees. The job loss policy will allow units to pay appropriate worker compensation through insurance in the case of business losses/closure, removing the charge from the assets. For each completed year of continuous service, or any part thereof, in excess of six months, this remuneration may be equivalent to twenty days' average pay. SPV will make it easier for businesses to purchase this insurance. Instead of implementing a job-loss policy, the SPV can implement a sinking fund mechanism, which will be paid by contributions determined by the SPV. The SPV can choose between a job loss policy and a sinking fund, or a combination of both. For example, the SPV could purchase a policy from the sinking fund.

Business Regulations Rationalization and Simplification: A manufacturing facility must adhere to almost 70 laws and regulations on average. Apart from multiple inspections, these units are required to file up to 100 returns per year. To assist entrepreneurs, some provisions of various acts may be rationalised or executed in collaboration with public or private organisations under the overall direction of statutory authorities.

Technology Acquisition and Development: The National Manufacturing Policy will take advantage of current government incentives and schemes while also introducing new measures to boost green technologies. A committee named the Green Manufacturing Committee (GMAC), made up of representatives from the concerned Ministries/Departments of the Central Government as well as key sectoral specialists from outside government, would set objective criteria. A Technologies Purchase and Development Fund (TADF) would be established to encourage the acquisition and development of acceptable technology in the country.

Industrial Training and Skill Up-gradation Measures: Between 2007 and 2017, it is expected that 85 million people would join the work force. Based on the estimates about employment elasticity and sectoral GDP growth rates, total employment growth during this period is predicted to be 116 million. Manufacturing alone is expected to provide 24.5 million new jobs between 2006 and 2017. There is a need for further vocational training in India because just 6% of the workforce now obtains any kind of training.

1. Skill building among large number of minimally educated workforce;
2. Relevant vocational and skill training through establishment of ITIs in PPP mode;
3. Specialized skill development through establishment of Polytechnics;
4. Establishment of Instructor's Training Centre in each NIMZ.

Small and Medium Enterprises: SME's (Small and Medium Enterprises) are a type of business Small and medium businesses (SME) provide a substantial contribution to the country's manufacturing production, employment, and exports. The sector is projected to account for around 45 percent of the country's manufacturing production and 40 percent of its overall exports in terms of value. The sector is anticipated to employ 59 million people across the country in over 26 million units. Furthermore, this industry has continuously outperformed the rest of the industrial sector in terms of growth. SMEs in India manufacture around 6000 products, ranging from traditional to high-tech things. After the agriculture industry, the MSME sector offers the most potential for both self-employment and employment. A number of ideas have been made to improve SMEs' access to credit in the manufacturing industry.

Sectors with a Special Focus a) Employment-intensive industries such as textiles and garments, leather and footwear, gems and jewellery, and food processing, as identified in the Planning Commission and NMCC papers. b) Capital goods, such as machine tools, heavy electronic equipment, heavy transport, earthmoving, and mining equipment, and high-tech equipment, such as telecommunications, power, ICT, and electronic hardware. c) Strategic industries such as aerospace, shipping, information technology and electronic hardware, renewable energy (solar, wind, etc), and defence equipment. d) Industries such as automobiles and pharmaceuticals where India has a comparative edge. Textiles, chemicals, basic metals, machinery and equipment, and electrical machinery are among the industries in which India excels among developing countries, according to UNIDO.

7.12.2 SIGNIFICANCE OF NATIONAL MANUFACTURING POLICY

India skipped the second stage of economic transition (i.e., the primary sector's takeover) and became mostly a service economy. The manufacturing sector accounts for 16 percent of the Indian economy. By 2022, the National Manufacturing Policy seeks to raise the manufacturing sector's contribution to GDP from 16 percent to 25 percent.

- This is a comprehensive policy aimed at boosting the industrial sector in the country.
- The National Microfinance Program (NMP) assists SMEs in improving their performance by offering growth incentives.

- For the young workforce, industrial training and skill up-gradation measures are being implemented.
- To ease the burden of procedural and regulatory compliance on firms, NMP advocated that business regulations be rationalised and simplified.
- Its goal is to establish financial and institutional channels for the development of technology, especially green technology.
- The State Government will establish a Special Purpose Vehicle to carry out the functions outlined in the policy.
- Mechanisms for public or private entities to cooperate with government inspection agencies under the overall control of statutory authorities may be devised.
- The Viability Gap Funding criteria will be used to provide capital grants to PPPs in infrastructure during the project building stage.

7.13 RECENT TRENDS IN INDIA'S INDUSTRIAL GROWTH

Since 1991, India's industrial development has been driven by the New Economic Policy, which was adopted by the Indian government on July 24, 1991. The three pillars of this new programme were liberalisation, privatisation, and globalisation. As a result, the public and private sectors' roles were examined. It was hoped that the private sector would take over the reins of the economy, while the non-performing governmental sector would be phased out. Industry and mineral production received a total investment of Rs.38, 083 crores under the Eighth Five Year Plan (1992-97). Below Table shows the performance of the industrial sector in the eighth plan.

Table No. 7.3
Annual Growth Rate of the Industries.

Year (Base Year: 1993-94)	**Mining**	**Manufacturing**	**Electricity**	**Overall**
8th Plan CAGR (1992-97)	**3.8**	**8.0**	**6.6**	**7.3**
Ninth Plan				
1997-98	6.9	6.7	6.6	6.7
1998-99	-0.8	4.4	6.5	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	3.7	5.3	4.0	5.0
2001-02	1.8	2.9	3.1	2.8
9th Plan CAGR (1997-02)	**2.5**	**5.3**	**5.5**	**5.0**
Tenth Plan				
2002-03	5.8	6.0	3.2	5.7

2003-04	5.2	7.4	5.1	7.0
2004-05	4.4	9.2	5.2	8.4
2005-06	1.0	9.1	5.2	8.2
2006-07	5.3	12.5	7.3	11.5
10th Plan CAGR (2002-07)	**5.5**	**9.0**	**5.2**	**8.2**
Eleventh Plan (2007-12)				
2007-08	5.1	9.0	6.3	8.5
2008-09	2.6	2.5	2.7	2.5
2009-10	7.9	4.8	6.1	5.3
2010-11	5.2	9.0	5.5	8.2
2011-12	-1.9	3.0	8.1	2.9

Source: Planning Commission, 10th Five Year Plan (2002-07) Vol. II and IES various issues.

Industrial Growth during the 8th Five Year Plan (1992-1997).

Industrial growth improved gradually under the eighth plan, rising from 2.3 percent in 1992-93 to 6% in 1993-94, and then to 9.1 and 13.1 percent in the following years. However, the industrial growth rate fell to 6.1 percent in 1996-97, the final year of the eighth plan. As a result, during the eighth plan, the compounded annual growth rate was only 7.3 percent. The rapid opening up of the economy and exposing of Indian industry to international competition is blamed for the poor growth of the industrial sector. The capital goods industry has been impacted by the government's continued reduction in capital expenditure. The capital goods industry experienced negative growth rates of 12.8%, 0.1 percent, and 4.1 percent in 1991-92, 92-93, and 93-94, respectively.

Due to import rivalry, a number of industries were unable to maximise their production potential. Industrial production was hampered by a lack of power, a faulty transportation infrastructure, and a lack of port handling facilities. The target growth rate for power production was 7.8%, but during the eighth plan, actual increase was just 6.6 percent. Despite the fact that the actual growth rate of industry during the eighth plan was 7.3 percent, compared to the aim of 7.4 percent, some sub-sectors of the industrial sector were unable to meet their targets.

Industrial Growth during the 9th Five Year Plan (1997-2002).

The goal growth rate of the 9th Five Year Plan was set at 8%. However, the actual rate of growth was only 5%. All of the sub-sectors failed miserably to meet their targets for growth. As a result, in terms of the industrial sector, the 9th Plan was a failure. The 10th Five Year Plan paper explained the dismal growth performance of the 9th Plan by stating:

"The industrial slowdown is extensive, affecting all broad sectors such as manufacturing, energy, and mining, as well as all end-use groups such as capital goods, intermediate products, and consumer goods," says the report (both durables and non-durables). The slowing of domestic and global demand appeared to be a major stumbling block to industrial expansion. Another key factor is a drop in investment, particularly in the business sector."

Manufacturing exports have been declining due to the global economy's weak development. During the 9th Plan, public sector investment fell, and the private sector was unable to compensate for the shortfall. As a result, the 9th plan was unable to achieve the desired rate of industrial expansion.

Industrial Growth during the 10th Five Year Plan (2002-2007).

Table 4.2.1 shows the annual growth rate of industry throughout the 10th Five-Year Plan. In comparison to the numbers from the 9th Plan, the figures show a significant improvement in the rate of industrial growth. During the tenth plan, the overall industrial growth rate was 8.7%, which was lower than the aim of 10%. The industrial growth rate in the tenth plan's last year was 10.6%. (April-November). This was the fastest expansion since 1995-96. Throughout the plan period, the industrial growth rate picked up and improved steadily, rising from 5.7 percent in 2002-03 to 7 percent in 2003-04 and 8.4 and 8.2 per cent in 2004-05 and 2005-06 respectively.

Industrial Development in the Eleventh Five-Year Plan (2007-12).

The aim for the 11th Five-Year Plan (2007-2012) is a 10% annual growth rate. However, during that time, growth rates were well below the target. The overall growth rate in 2007-08 was 8.5 percent. In the aftermath of the Global Financial Crisis, the growth rate fell to 2.5 percent in 2008-09, but rebounded to 5.3 and 8.2 percent in the following two years, 2009-10 and 2010-11, respectively. In 2011-12, the industrial growth rate fell to 2.9 percent for the second year in a row.

7.14 SUMMARY

Considering the shift from rural to urban areas in quest of wage jobs in the cities, rural industrialisation is significant. Agriculture's low pay makes it difficult for people to stay in the industry. The Indian government aids farmers in making agricultural production viable and profitable, while simultaneously promoting rural industrialization as a method for reducing overcrowding in agriculture. From raw material sourcing to marketing help, the Indian government has a number of organisations that support rural industrialization. Several rural sectors, particularly in rural areas and catering to specific parts of metropolitan consumers, have a prominent place in India's globalisation and free-market economy.

7.15 QUESTIONS

Q.1. Explain the New Industrial Policy of 1991 and the changes therein.

Q.2. Explain the meaning and objectives of the disinvestment program.

3. Critically examine the disinvestment program of the Government of India.

4. What is Industrialization, explain significance of Rural Industrialization

5. Explain the Role of village small industries in India's export

6. Explain the Types of Rural Industries

7. Explain the problems/ Challenges faced by Rural Industrialization

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8

INDUSTRIAL DEVELOPMENT IN INDIA - II

Unit Structure:

8.0 OBJECTIVES

- Formularise the learners with the Role of MNCs. Appreciate their significance role in economic progress and welfare of a country.
- Identify the positive and bad repercussions of multinational activities.
- Understand various aspects of multinational corporations and their activities.

8.1 INTRODUCTION OF MNCS

A multinational company (MNC) is a business that operates outside of the country where it was founded. Global corporations have their headquarters in one country, but they conduct business in other countries, which are referred to as host countries.

Pepsi and Coca-Cola, for example, have their headquarters in the United States yet operate globally. 'Supernatural Companies' or 'Transnational Companies' are other names for MNCs.

Multinational firms have existed since the dawn of international trade and have played an important role in the economic and industrial development of developing countries.

Globalization can be defined by Patrick H. O'Neil (2009), is "a process in which large and dense webs of interactions connect people across time and geography." In the 1990s, the term "globalisation" began to appear often in scholarly publications on the international political economy (IPE). Globalization can also be defined as an increase in international

interconnection, or interdependence; however, its distinctness from interdependence stems primarily from the significant involvement of multinational corporations (MNCs) in the present global economy (Hart, 2015).

Some popular examples of multinationals are given below:

Foreign Multinational	Indian Affiliate/Subsidiary
Bata Corporation	Bata India
Cadbury	Cadbury India
Coca-Cola Corporation	Coca Cola India
Unilever	Hindustan Lever
Timex	Timex Watches
Colgate Palmolive	Colgate India
Pepsi Corporation	Pepsi India
Philips	Philips India
Sony Corporation	Sony India
Suzuki	Maruti Suzuki
GEC	GEC Alsthom
ABB	ABB India

8.2 ROLE OF MNCS IN THE INDIAN ECONOMY

Multinational corporations did not play a significant impact in the Indian economy prior to 1991. The Indian economy was dominated by public firms prior to the reforms. To prevent economic power concentration, industrial policy in 1956 prohibited private enterprises from expanding above a certain size. Multinational corporations, by definition, are large and operate in multiple countries.

While multinational corporations played an important role in the promotion of growth and commerce in Southeast Asian countries, they had little impact on the Indian economy, which adopted an import-substitution development model.

Since 1991, when a liberalisation and privatisation industrial policy was implemented,

8.2.1 MERITS/ ADVANTAGES OF MNCS:

Advantages of MNCs from the Perspective of the Host Country:

Concept proposes to look at the benefits and drawbacks of MNCs from the perspective of the host country. In effect, MNC benefits become a case in favour of MNCs, while MNC constraints become a case against MNCs.

- **Job Creation**: Multinational corporations (MNCs) produce a substantial number of jobs in their host nations. This is a significant benefit of MNCs for countries with high unemployment rates.

- **Automatic Inflow of Foreign Money:** Multinational corporations (MNCs) bring in much-needed capital for emerging countries' quick development. In fact, the entry of MNCs results in an automatic inflow of foreign capital. India, for example, has received

multibillion-dollar international investment as a result of MNC entry.

- **Effective Exploit of Idle Resources:** MNCs can effectively use the host country's idle physical and human resources because of their advanced technical knowledge. The host country's National Income rises as a result of this.

- **Improved Balance of Payments Position:** Multinational corporations (MNCs) assist host countries in increasing their exports. As a result, they assist the host country in improving its balance of payments.

- **Technical Development:** MNCs bring technical development benefits to ten host countries. MNCs are, in fact, a means of transferring technological development from one country to another. Poor host countries begin to grow technologically as a result of MNCs.

- **General management Development:** Multinational corporations use cutting-edge management approaches. MNC employees conduct extensive management research. In certain ways, they aid in the professionalisation of management by utilising the most up-to-date management theory and practise. This leads to managerial development in host countries.

- **End of Local Monopolies:** When multinational corporations (MNCs) enter a market, it creates competition in the host country. Host country monopolies are either enhancing their products or lowering their pricing. MNCs thereby put an end to local monopolists' exploitative behaviours. MNCs, in fact, force domestic businesses to enhance their efficiency and quality. Because of the threat of competition posed by MNCs, several Indian enterprises have obtained ISO-9000 quality certificates.

- **Raising the Standard of Living**: MNCs contribute to the improvement of the standard of living of people in host nations by delivering high-quality products and services.

- **International brotherhood and culture promotion:** MNCs link the economies of diverse countries to the global economy. MNCs foster worldwide fraternity and culture, as well as world peace and prosperity, through their international dealings**.**

Advantages from the Viewpoint of the Home Country

Some of the advantages of the MNCs from the viewpoint of the home country are:

- MNCs generally obtain lower-cost raw materials and labour from host nations, especially when such countries are developing economies.

- MNCs can boost their earnings by expanding their market for goods by selling in host countries. They typically generate a lot of money from dividends from activities in host countries.

- MNCs build worldwide goodwill by operating in multiple countries and providing high-quality services, which they can leverage in the long run.

8.2.2 DEMERITS/ LIMITATIONS OF MNCS

Disadvantages of MNCs from the Perspective of the Host Country:

- **Domestic Industries in Danger**: MNCs pose a threat to indigenous industries, which are still developing, because of their enormous economic might. Domestic industries are unable to meet the difficulties provided by multinational corporations. As a result of the threat of MNCs, many indigenous industries are being forced to close. As a result, MNCs stifle host countries' economic growth.
- **Profit Repatriation:** (Supposed to send profits back to their home country is known as repatriation of profits.)
- MNCs make a lot of money. MNC profit repatriation has a negative impact on the host country's foreign exchange reserves, implying that a considerable sum of foreign exchange leaves the country.
- **No Benefit to the Poor**: Multinational corporations (MNCs) primarily produce goods for the wealthy. As a result, MNCs provide no benefit to poor people in host countries in general.
- **Challenge to Independence:** MNCs initially assist the host country's government in a variety of ways, before eventually intervening in the host country's political issues. In the long run, this poses an implied threat to the host country's independence.
- **Ignorance of the Host Country's National Interests:** Multinational corporations invest in the most profitable industries while ignoring the host country's national goals and priorities. They are unconcerned about the development of underdeveloped regions, and they are never concerned about resolving chronic problems in the host country, such as unemployment and poverty.
- **Misuse of Powerful Status:** Multinational corporations (MNCs) are powerful economic enterprises. They can afford to lose money for a long time in the hopes of making big profits once local competition is eliminated and monopoly is secured. This could be MNCs' worst tactic for wiping out local competition in the host country.
- **Selfish Alien Culture Promotion:** To sell their products, multinational corporations (MNCs) frequently promote alien culture in the host country. They cause people to lose sight of their own cultural roots. MNCs, for example, have fostered a desire for synthetic food, soft drinks, and other products in India. MNCs' promotion of foreign culture is harmful to people's health as well.

- **Unnecessary Natural Resource Exploitation:** MNCs have a bad habit of squandering the host country's natural resources. They result in the quick depletion of certain of the host country's non-renewable natural resources. MNCs wreak permanent havoc on the host country's economic development in this way.
- **People's Exploitation in a Systematic Manner:** MNCs join forces with huge corporate houses in the host country to form powerful monopolies. As a result, economic power is concentrated in only a few hands. These monopolies gradually acquire the right to exploit the poor and profit themselves at the expense of the poor working class.

8.2.3 Limitations from the Viewpoint of the Home Country:

- Due to the migration of production and marketing operations to other nations, there may be job losses in the home country.
- MNCs have a difficult time managing cultural diversity. This could divert management's attention away from more pressing business concerns, resulting in a loss for the home country.
- In international marketplaces, MNCs may face stiff competition from larger MNCs. Their time and money may be better spent on ineffective counter and competitive advertising, resulting in higher marketing expenditures and lower earnings for their home country.

Summary

MNCs have neither a beneficial nor a negative impact on host countries, according to studies conducted over several years. It is true that multinational corporations play a significant role in emerging countries. They can provide more job possibilities, train workers, and stimulate the development of high-level skills for the massive labour force. MNCs also contribute to increased GDP growth and capital formation, as well as poverty reduction. MNCs, on the other hand, may be responsible for pollution or violations of human rights. MNC critics claim that MNCs attempt to lower their production costs by seeking out developing nations with flexible environmental legislation and engaging in productive

activities that exacerbate both local and global environmental concerns. Rather than subscribing to either a positive or negative perspective, this perspective recognises that the costs and benefits of FDI by MNCs will vary from nation to country, as well as what constitutes costs and benefits based on the values of the observer.

8.3 INDUSTRIAL FINANCE: INTRODUCTION AND MEANING

8.3.1 INTRODUCTION:

The phrase "industrial finance" refers to the coordination of various types of finance required by industries to carry out their activities related to the creation of goods and services. Construction of buildings, machine purchases, replacement, and raw material purchases are all examples of production activities. Three types of finance are required to carry out these activities: a) long-term finance, b) medium-term finance, and c) short-term finance.

And Sources of finance mean the ways for mobilizing various terms of finance to the industrial concern. Sources of finance state that, how the companies are mobilizing finance for their requirements. The companies belong to the existing or the new which need sum amount of finance to meet the long-term and short-term requirements such as purchasing of fixed assets, construction of office building, purchase of raw materials and day-to-day expenses.

8.3.2 MEANING:

Finance is thought to be the lifeblood of a company. Without adequate investment, industrial progress is impossible to attain. India's industrial growth has been unable to gain a significant position and shape due to a lack of appropriate investment. To meet their fixed capital expenditure requirements as well as their working capital requirements, industries require short-, medium-, and long-term financing.

The modern industrial development is influenced by a number of factors. Internal and external influences are roughly separated into two groups. Internal influences are those that can be controlled by management. For instance, one's own source of finance, land, labour, capital, and entrepreneurship quality are all examples (i.e. technical, managerial and administrative know-how of organizers).

External aspects are those that are beyond the control of management. Financing availability and sources, money and capital market efficiency, infrastructure facilities, and natural resources are just a few of them. All of these factors are connected. The availability of funds is one of the most essential of these factors. It influences how much industrial capacity can be expanded and improved. This is because, while finance alone cannot solve any industrial development problem, it may certainly help in the procurement of the components or ingredients that, when used wisely and

in a balanced manner, can boost industrial development. As a result, having money available at the right time, in the right amount, and on reasonable conditions is crucial to promoting industrial development.

8.4 SOURCES OF INDUSTRIAL FINANCE

Following are some of the major sources from which Indian industries are getting their necessary finance in a regular manner:

- **Shares and Debentures**: In India, a large percentage of a company's capital is usually raised by selling shares in cheap denominations of Rs. 10 each. A share can be either a preference or an ordinary share. Companies also issue debentures on the capital market, and convertible debentures have been increasingly common in recent years.

- **Public Deposits**: Deposits raised from the general public are another form of industrial funding. The textile industry in Ahmedabad was founded mostly on public deposits. Apart from that, there are the Mumbai Cotton Mills and Sholapur Cotton Mills. The tea gardens of Assam and Bengal have also raised adequate fixed capital through public deposit. Many industrial enterprises have teamed up in recent years to invite public deposits for one to three years at enticing interest rates. The biggest flaw with this source is that these investments can be withdrawn at any time and are not suitable for long-term investing.

- **Commercial banks**: Commercial banks are also making short-term cash-credit loans backed by stock and backed by the managing agent's supplementary guarantee. In general, commercial banks advance loans to cover the working capital needs of businesses in the form of advanced loans, overdrafts, and cash credit facilities secured by government securities and stock pledges. Since the inception of IDBI, commercial banks have been providing medium-term loans to industries.

- **Indigenous Bankers:** In India, local bankers have been providing critical assistance to industry during times of crisis. Small and medium-sized businesses in urban regions are able to obtain sufficient financing from local bankers. However, these indigenous bankers frequently charge high interest rates on such loans.

- **Term-lending Institutions:** Because the above-mentioned sources of finance are limited, several term lending institutions have been established to provide loans to meet the financial needs of these industries. The Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI), the Industrial Development Bank of India (IDBI), the Industrial Reconstruction Corporation of India (IRCI), as well as State Financial Corporations and State Industrial Development Corporations, are among these organisations (in different states). In

addition, the Life Insurance Corporation of India (LICI) and the Unit Trust of India (UTI) provide a significant amount of funding to Indian businesses and have become a major source of industrial financing in recent years.

- **Industrial Development Bank of India (IDBI):** It offers finance and other services to help the country's industrial development. It provides long-term financing for new construction, as well as modernization, development, and diversification. In order to meet the diversified demands of its corporate clients, it has created numerous products such as equipment finance, asset credit, and corporate loan.

- **Industrial credit and investment corporation of India Limited (ICICI Ltd.):** By subsidising mergers and acquisitions, it helped to facilitate consolidation in several areas of the Indian economy. Since May 2002, the ICICI group's financing and banking businesses, including whole sale and retail, have been merged into a single firm.

- **Small Industries Development Bank of India (SIDBI):**It uses a network of banks and state-level financial institutions to provide refinance, bills rediscounting lines of credit, and resource support mechanisms to the SSI sector. It also provides direct financing to satisfy the needs of the SSI sector.

- **Industrial Finance corporation of India Limited (IFCI Ltd):** Project finance, financial services, and business advisory services make up the majority of its funding. Through its subsidiaries and related companies, it provides custodial, investor, and venture capital services.

- **Industrial Investment Bank of India Limited (IIBI Ltd):** IIBI Ltd provides a range of financial solutions to businesses, including project finance, short-term non-project asset-backed credit, and working capital and other short-term loans.

- **Infrastructure Development finance company Limited (IDFC Ltd):** IDFC was founded in 1997 as a specialised institution with the mission of facilitating the flow of private capital to commercially viable infrastructure projects through innovative products and processes.

- **Industrial Reconstruction Bank of India (IRBI):** Its major goal is to help ill industries get back on their feet and compete in the market.

- **State financial corporation's (SFCs):** SFCs: They provide loans to businesses in need. They also promote shares and debentures, and if necessary, they will guarantee third-party loans. These industries also receive financial aid through foreign investments and initial public offerings (IPOs).

8.5 SUMMARY

A business firm, whether controlled by a sole owner, partners, or shareholders, engages in commerce with the expectation of future profit or return. In order to start a business, the company must invest money up front before receiving any returns. • Machines must be purchased, factory space must be purchased or leased, raw materials must be purchased, and employees must be paid wages and salaries for their services. All of these operations in company necessitate financial resources. The money invested in the firm's operation is expected to return to the firm in the form of a return in a reasonable amount of time. This is something that the company will have to wait for. A manufacturer, for example, must produce items before he can sell them. He can only do so if he has the funds to produce his items. Certainly, in some businesses, things are sold before they are manufactured, but even in these industries, entrepreneurs require capital to set up the required facilities for the production of goods and services. Finance is thus a crucial precondition for the start-up and smooth operation of a firm.

8.6 QUESTIONS

Q.1. Explain the major sources from which Indian industries are getting their necessary finance in a regular manner.

Q.2. Explain the concept of Industrial finance in India.

Q.3. Explain the Small Enterprises Development Act, 2006.

Q.4. Explain the National Manufacturing Policy, 2011.

Q.5. Explain the recent Trends in India's Industrial Growth.

Q.6. Explain the concept of Industrial finance in India.

Q.7. Explain the role of MNCs in the Indian Economy.

Q.8. Role of MNC’s in the Indian economy.

Q.9. Explain the Merits and Demerits of MNCs.

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