

Committee to evolve
a strategy
for Development programme
for
Small Scale Industries
in
Backward Areas.

Ministry of Industry
& Civil Supplies.

INDIA.

New Delhi,
16th March, 1976.

Dear Shri Couto,

Subject:- Report of the Committee to evolve
a strategy for development programme
for Small Scale Industries in
backward areas.

The Standing Committee on General Policy set up by the Small Scale Industries Board had recommended to the Government of India that a Committee should be constituted to review and examine the backward area development programme, so that a suitable strategy could be evolved for a development programme for small scale industries in backward areas. In pursuance of this recommendation, the Government of India in the Ministry of Industry & Civil Supplies, Department of Industrial Development set up on 9th September, 1975, our Committee consisting of the following members:-

1. Sri P.C.Nayak,
Secretary (Industries
and Labour),
Government of Maharashtra, .. Chairman.
Bombay.
2. Sri G.N. Mehra,
Industries Commissioner, .. Member.
Government of U.P.
Kanpur.
3. Sri C.S.Sastry,
Managing Director, .. "
Andhra Pradesh SSIDC;
Hyderabad.
4. Sri P.S.Krishnan,
Director of Industries, .. "
Andhra Pradesh,
Hyderabad.
5. Sri S.N. Sinha,
Director of Industries, .. "
Government of Bihar,
Patna.
6. Sri J.C.Das,
Director of Industries, .. "
Assam,
Gauhati.

.....2

7. Sri H.S.Bhatty,
President, FASST,
New Delhi. .. Member
8. Sri Chakradhari Agrawal,
Secretary-General, NAYE,
New Delhi. .. "
9. Sri G.B. Newalker,
Bombay. .. "
10. Sri S.F. Joseph, Chief (V&SI),
Planning Commission,
New Delhi. .. "
11. Sri Swarajya Prakash,
Director, DC (SSI),
New Delhi. .. "
12. Sri C.V.Kuppuswamy,
Director, DC (SSI)
New Delhi. .. Member-Secy.

The terms of reference of this Committee, as set out by the Government of India, were as follows:

1. To examine the adequacy of the criteria used for identifying the industrially backward districts with a view to suggest improvements/modifications, if any.
2. To examine the impact of the Central Scheme of Investment Subsidy for promotion of industries in selected industrially backward districts/areas with a view to find out whether these districts/areas had really developed industrially, vis-a-vis the other districts and, if so, size and types of industries established and their concentrations in different parts of the districts/areas.
3. To review the working and impact of the existing schemes of the Central and State Governments and also of all-India financial institutions for subsidies, concessions, and other incentives for promotion of industries in selected backward areas and to suggest modifications, if any, especially in the context of the growth centre strategy.

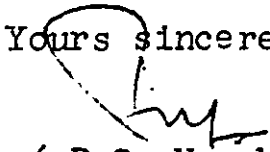
The Committee has concentrated its efforts on evolving a suitable strategy for the development of industrially backward areas with special emphasis on promotion of small scale industries. In the short span of time available, it could neither examine in great detail the adequacy of the criteria used for identifying the industrially backward districts; nor study in depth the Central Scheme of Investment Subsidy for promotion of industries in selected industrially backward districts and to make its final recommendations. However, based on the personal experiences of the various members of the Committee and from a Study of whatever material that was provided to it by its Secretariat, the Committee has made a number of important observations on both these aspects in the Report. The Committee hopes that these observations would be useful to the Government of India.

I am happy to forward herewith the report of our Committee. Both Sri C.S.Sastry and Sri P.S.Krishnan were transferred from their respective posts and as such they could not attend to the work of this Committee in the final stages. Sri S.E. Joseph also could not attend the last few meetings when the recommendations were finalised. Excluding these three members, the other members subscribe to the views expressed in this report. All our conclusions and recommendations are unanimous. However, these represent the personal views of the Members of the Committee, and not necessarily those of the Government/Organisation which they represent.

In conclusion, the Committee would like to place on record its gratefulness to Sri A.P.Sharma, Minister of State for Industry and Civil Supplies, Government of India, for giving us this opportunity to study and report on this important subject.

With regards,

Yours sincerely,


(P.C. Nayak)

Sri A.F. Couto,
Development Commissioner,
Small Scale Industries &
Joint Secretary to Govt. of India,
Ministry of Industry & Civil Supplies,
Udyog Bhavan, New Delhi.

Encl: Report:

C O N T E N T S

Page Nos.

INTRODUCTION

Chapter	I -	Strategy for development of Backward Areas.	1 - 4
Chapter	II -	Criteria for identifying industrially backward districts.	5 - 11
Chapter	III-	The Impact of the Central Scheme of Investment Subsidy.	12 - 22
Chapter	IV-	Authority for Backward Area Development.	23 - 28
Chapter	V -	Recommendations	29 - 46
		CONCLUSION	47 - 48

INTRODUCTION

We have been asked to review and examine the backward area development programme. We are fully aware that the industrial programme is only one of the programmes in the context of the general development of backward areas. There may be backward areas which can be developed much more fruitfully through agricultural or animal husbandry programmes. Some of the hilly areas may also benefit more by a programme for forest development or development of tourism. Since we have confined our study mainly to measures which would lead to a faster development of industries in the backward areas, the measures that we have suggested are related to backward areas promising for industrial development. Further, though the main thrust of our Report has been towards a development programme of small scale industries in backward areas, we have also dealt with the promotion of large and medium industries in the context of general industrial development in such backward areas.

2. We have also been asked specifically to examine and comment on the erstwhile proposal for the setting up of a Backward Area Development Corporation in the light of the discussions which took place at the Small Scale Industries Board Meeting in September, 1975. After a thorough examination of all the aspects of this important subject, we strongly feel that there is an urgent need for setting up a central organisation

to promote industrial development programmes in backward areas. It is not necessary for this organization to take on the work of refinancing development of physical infra-structure at growth centres in backward areas. While we have wholeheartedly recommended the growth centre approach, the refinancing activity for development of physical infrastructure, we feel, should be better left to the IDBI. IDBI, of course, will have to play its due role by putting in more positive effort in this direction. The central organization, which we have called the Authority for Backward Area Development (ABAD), should, however, be a high-power body which can take decisions on behalf of Government for special dispensations and exemptions from existing rules and regulations to promote development of large and medium projects in backward areas.

3. To-day there are large number of schemes which have been introduced by the Government of India for the speedy industrial development of backward areas. Some of these schemes, especially those which were to be implemented by IDBI and Nationalised Banks, have really not taken off from the ground. There is a large amount of ignorance even at the official levels regarding these schemes. Nationalised Banks have also not put in the effort that was required and IDBI could certainly streamline its procedures so that the benefits of such schemes are widely available. We have,

therefore, made various suggestions to improve their implementation.

4.- We firmly believe that a speedy development of industries in the backward areas can be achieved by the rapid promotion of small scale industries. Such a programme of SSI development should be conceived as an instrument of social change and not merely as a welfare programme. It is from this aspect that we have suggested a large number of measures for programme support to the small sector as compared to our recommendations for project support in the large and medium sector. It is the small industries sector which can have a tremendous impact on our economy by diversification of production through ancillarisation, diffusion of ownership through the promotion of local entrepreneurship and geographical dispersal of industrial activity by basing industries on local resources. Our backward areas in the country are rich in resources both mineral and agricultural. They have remained industrially backward because we have located industries based on these raw materials near the cities which provide the markets. Now the time has come for us to locate industries in backward areas where the raw materials are available.

5. Finally, in spite of a number of incentives which have been given till now and the infrastructure support, it is a matter of deep concern that most of the industrial development that has taken place in

-: 4 :-

our country since independence has been concentrated round a few metropolitan areas and large cities. We have, therefore, felt that it is necessary that the system of incentives for industrial development of backward areas is also coupled with a system of dis-incentives to prevent further industrial development near metropolitan areas and large cities.

CHAPTER I

Strategy for Development of Backward Areas

The strategy that we would like to unfold for the development of backward areas has five major elements. The first element which is the king-pin for the whole programme is the setting up of a central organisation to plan, sponsor and promote industrial development programmes for the backward areas. Till now, due to the lack of such a single central organisation, the various schemes of the Industry Ministry as well as the other Ministries have lacked a unified approach and primary leadership. The setting up of such a central organisation which we have designed as the Authority for Backward Area Development (ABAD) at the national level would assist in planning, sponsoring and promoting a co-ordinated programme for the speedy industrial development of backward areas. We have dealt with the objectives and functions of ABAD in a separate chapter.

The second element in our strategy is to utilise the close link between urbanisation and industrialisation for promoting industrial development of backward areas. It is by now a well-established fact that industrialisation and urbanisation go hand in hand with each other. Without urban and social infrastructure, it is difficult to attract large and medium units to locate themselves in growth centres. We have, therefore, come down very heavily in favour of the growth centre approach in contrast to general area development of backward areas. In the multi-level planning exercises for total development, area development plans ---2

especially of backward areas, taking into consideration all the sectors of development such as agricultural, mineral, industrial and even tourist development, etc., do not have an important place. Against this backward ^{ground} of total area development plans, we would like to suggest that suitable growth centres should be selected which have a promise of industrial development. All efforts should then be concentrated on such growth centres for promoting large and medium industries so that within a time-frame of five years concrete results can be achieved. In the context of scarce resources available for industrial development better results can be achieved by pooling them and concentrating all efforts at such growth centres. It is only by properly co-ordinating and correlating the essential social infrastructure with physical infrastructure that we can hope to catalyse industrial development specially in the large and medium sectors at well selected growth centres in backward areas. Another significant aspect of the close relation between urbanisation and industrialisation is the undisputed fact that large metropolitan cities which are already over-crowded and over-congested still continue to attract large and medium industries. This leads to increasing social costs at large cities and a set-back to development of industries in backward areas. We have, therefore, strongly recommended that a system of disincentives should be adopted by the Central Government to ensure that such large metropolitan centres do not become attractive to large and medium industries. Unless such a system of disincentive is adopted, it would be difficult to promote industrial

development of growth centres away from such large metropolitan cities.

The third element in our strategy is the adoption of an approach for balanced development of large, medium and small scale industries. While large and medium industries necessarily need physical and social infrastructure at growth centres, small scale industries can have widespread impact in the geographical dispersal of industries. While the total number of growth centres that we take up for development of large and medium industries within the time frame of each Five Year Plan has necessarily to be limited to a manageable number for getting concrete results, there need be no such restriction on a widespread growth of the small scale industries in the entire backward area. It is in this context of a widespread growth of small industries that the development of local entrepreneurship becomes important. The large and medium industries coming up at growth centres would easily provide the necessary umbrella for the development of ancillaries in the hinterland.

The fourth element in our strategy is to bring about organisational and administrative measures to ensure that all the backward areas in India get uniform advantage of the present schemes which are being operated by the Central Government. It is a sad commentary of our industrial administration at the State levels that while some of the backward areas have drawn a lion's share of the subsidies and assistance given by the Central Government, other backward areas have remained relatively untouched by such schemes. One of the main purposes

of setting up of the ABAD is that this institution would be able to actively help the backward areas which have till now remained outside the influence of the present schemes for industrial development of backward areas so as to ensure that they get their due share as well. ABAD will necessarily have to be able to draw up schemes for training the Government staff working in such backward areas to ensure that they can efficiently operate schemes which benefit the areas in which they are working. In some extreme cases ABAD may itself have to take up the implementation of Central schemes so as to ensure that such backward areas which have not received any assistance till now do get their due share.

The last element of our strategy is a better re-arrangement and re-alignment of the existing schemes so that better results are more quickly obtained. In this direction, we have made a number of detailed suggestions in Chapter V. We have also suggested some additional features for existing schemes and a few new schemes well within the present concepts of existing schemes.

CHAPTER II

Criteria for identifying industrially backward district.

2.1 The first step to lay down the criteria for identification of backward areas and formulate fiscal and financial incentives for industries coming up in such areas was initiated by the Planning Commission by the appointment of two Working Groups in 1968. The Working Group on Identification of Backward Areas (commonly known as the Pande Working Group) recommended the following criteria to be applied in aggregate for the purpose of identification of industrially backward States/Union Territories:

- (i) Total per capita income.
- (ii) Per capita income from industry & mining.
- (iii) Number of Workers in registered factories.
- (iv) Per capita annual consumption of electricity.
- (v) Length of surfaced road in relation to
 - (a) the population, and
 - (b) the area of the State.
- (vi) Railway mileage in relation to
 - (a) the population, and
 - (b) the area of the State.

2.2 The Pande Working Group had recommended the following criteria for identification of backward districts in the industrially backward States and Union Territories:

- (i) Districts outside a radius of about 50 miles from large cities or large

industrial projects.

- (ii) Poverty of the people as indicated by low per capita income starting from the lowest to 25% below the State average.
- (iii) High Density of population in relation to utilisation of productive resources and employment opportunities as indicated by:
 - (a) low percentage of population engaged in secondary and tertiary activities (25% below the State average may be considered as backward).
 - (b) low percentage of factory employment (25% below the State average may be considered as backward).
 - (c) non and/or under utilisation of economic and natural resources like minerals, forest, etc.
- (iv) Adequate availability of electric power or likelihood of its availability within 1-2 years.
- (v) Availability of transport and communication facilities or likelihood of their availability within 1-2 years.
- (vi) Adequate availability of water or likelihood of availability during 1-2 years.

2.3 The report of the Pandey Working Group and also the report of another working Group on fiscal and

financial incentives for starting industries in the backward areas (commonly known as the Wanchoo Working Group) were considered in September, 1969 by the National Development Council Committee of State Chief Ministers. Briefly, the main decisions of this NDC Committee were:

- (1) Concessions to be offered by financial and credit institutions for financing industries in backward areas should be available to selected backward areas in all the States and Union Territories.
- (2) The criteria to be adopted for selection of industrially backward districts in the States and Union Territories may be settled by the Planning Commission in consultation with the financial institutions and the State Governments, in the light of the two sets of criteria recommended by the Working Group on Identification of Backward Areas.
- (3) The Central Scheme of Investment Subsidy may be given to industries in two selected districts (out of the industrially backward districts to be selected to qualify for concessional finance) from each of the States identified as

industrially backward by the Pandey Working Group and one district from each of the other States and Union Territories. Further, the Planning Commission may also work out what should be the unit of a district. Later on the scope of the Central Scheme of Investment Subsidy was extended to cover six districts/ areas in each of the States identified as industrially backward and three districts/ areas in each of the ^{other} States. As a result of these decisions today districts enjoy the benefits of this scheme.

2.4. Based on these decisions, the following set of criteria was evolved by the Planning Commission in consultation with the financial institutions for identification of industrially backward districts to qualify for concessional finance, and was recommended to the States for adoption as guidelines:

- (i) Per capita foodgrainings/commercial crops production depending on whether the district is predominantly a producer of foodgrains/cash crops. (For inter-district comparisons conversion rates between foodgrains and commercial crops may be determined by the State Government on a pre-determined basis where necessary)

- (ii) Ratio of population to agricultural workers.
- (iii) Per capita industrial output (gross).
- (iv) Number of factory employees per lakh of population or alternatively number of persons engaged in secondary and tertiary activities per lakh of population.
- (v) Length of surfaced roads in relation to population or railway mileage in relation to population.

As a result of the above set of criteria, as many as 233 districts all over the country have now become eligible for concessional finance under this scheme.

2.5 In the light of the experience gained and since more than five years have elapsed, this committee feels that the time has now come for a detailed consideration of these criteria. A district/area which has been selected as backward need not remain backward for ever. It is also necessary to adjudge and select backward district, areas periodically and we feel that this period should preferably be a five-year plan period and at any rate should not be more than a decade. Government of India should now immediately ~~initiate~~ steps for getting these criteria re-examined at the highest level and take appropriate decisions

for identifying the backward districts/areas. While such re-examination of the criteria is undertaken at the highest level, this Committee would like to recommend that the following points may be considered:

- (i) Instead of taking the district as a unit for identification of a backward area, a tehsil or a block may be taken as the unit so that development efforts are concentrated on a smaller area. Such backward tehsiles/blocks should preferably have an urban core with a population not exceeding one lakh. Such an urban core will provide the social infrastructure so essential to promote industrial development especially in the large and medium sectors. It is also essential that the tehsil/block selected as backward area should be at a sufficient distance from large cities and metropolitan areas to prevent urban spill-over
- (ii) For identification of industrial backwardness the indicators which are selected should be purely those indicative of industrial backwardness. These could be the following:-
 - (a) Ratio of population to persons

- 11 :-

engaged in the secondary and tertiary activities.

(b) Per capita income from industry.

(c) Per capita industrial output (gross).

(d) Per capita bank credit made available to industry.

(e) Per capita annual consumption of electricity by industry.

(f) Number of workers in registered factories.

The selection of such backward tehsiles/ Blocks should be restricted to a manageable number for each Five Year Plan period so that efforts of Government towards promoting the development of these areas are not spread too thinly over a large area.

CHAPTER - III

THE IMPACT OF THE CENTRAL SCHEME OF INVESTMENT SUBSIDY.

3.1 The introduction of the Outright Grant or Subsidy Scheme is one of the important steps taken by the Government of India to promote expeditious growth of industries in selected backward areas. This scheme was announced on the 26th August, 1971. The scheme was then called " The Ten percent outright grant or subsidy scheme '1971' for industrial units to be set up in backward districts/areas. The subsidy was provided at the rate of 10% of the total or additional fixed capital investment, subject to a maximum of Rs.5.0 lakhs. The scheme was made applicable in 44 areas/districts in different States of the country for units whose total investment did not exceed Rs.50.0 lakhs. Therefore, the scheme did not only apply to the small scale units but to all units, including medium and large scale units, whose investment did not exceed Rs.50.0 lakhs. It was also announced that in case of units involving total fixed investment exceeding Rs.50.0 lakhs the scheme might be made applicable on consideration of merits at the discretion of the Government of India or the State/ Union Territory.

3.2 The Government of India in the Ministry of Industrial Development, by notifications dated 30.9.72 and 19.1.73, made certain amendments in

the 10 per cent subsidy scheme as follows:-

- i) The eligibility limit for subsidy was raised from Rs.50.0 lakhs to Rs.1.0 crore. Units having investment of more than Rs.1.0 crore were also made eligible for subsidy upto a maximum of Rs. 15.0 lakhs.
- ii) The maximum amount of subsidy payable was raised from Rs.5.0 lakhs to Rs.15.0 lakhs.
- iii) The rate of subsidy was raised from 10 per cent to 15 per cent in respect of units set up after the 1st March, 1973.
- iv) The scheme was made applicable to 58 more areas, thus making a total of 102 areas/districts all over the country which could get the benefits of the subsidy scheme.

3.3 An outlay of Rs.5.0 crores was provided in the Fourth Five Year Plan of the Union Ministry of Industry for payment of subsidy in the backward areas. In the Fifth Plan the provision for the subsidy scheme has been raised to Rs. 10.0 crores. Table I below gives the yearwise budget provision, amount reimbursed and percentage of the amount re-imbursed to the budget provision.

TABLE - I

(Rupees in Lakhs)			
Year	Budget Provision	Amount sanctioned & reimbursed	Percentage of 3 to 2
1	2	3	4
1972-73	75.00	11.76	16
1973-74	100.00	58.90	59
1974-75	400.00	400.27	100
1975-76 (as on 20.11.75)	500.00	344.29	69
	Total	<u>815.22</u>	

3.4 Table I also indicates the Utilisation of budgetary provision; this was only 16% in the first year of the operation of the scheme, i.e. 1972-73, and went upto 59% during 1973-74 and 100% during 1974-75. This shows that utilisation of the budgetary provision is increasing every year and it is expected that the States might ask for more funds than the budgetary provision during 1975-76.

3.5 Operation of the for nearly four years by now, reveals that the amount of subsidy remibursed by the Centre to States/U.T./ Financial Institutions/Nominated Agencies has been progressively increasing. Since the inception of the scheme a total sum of Rs.815.22 lakhs had been reimbursed to various States till 20.11.75. However, there was really a spurt in the utilisation of subsidy in the year 1974-75 when

the amount of subsidy reimbursement increased to Rs.400.27 lakhs.

Table II below shows the Statewise and yearwise breakup of amount of subsidy reimbursed by the Central Government from 1972-73 to 1974-75.

TABLE - II

STATEWISE AND YEARWISE BREAK UP
OF AMOUNT OF SUBSIDY REIMBURSED.

State	1972-73		1973-74		1974-75		Total of Cols. 2 to 4.	Per- centa- ge of Total
	Amount	% of Total	Amount	% of Total	Amount	% of Total		
1.	2.		3.		4.		5.	6.
Andhra Pradesh	-	-	-	-	61.47	15	61.47	13
Assam	-	-	2.50	4	2.30	1	4.80	1
Bihar	-	-	-	-	12.74	3	12.74	3
Gujarat	-	-	0.56	1	15.26	4	15.82	3
Haryana	-	-	-	-	-	-	-	-
Himachal Pradesh	-	-	-	-	23.67	6	23.67	5
Jammu & Kashmir	-	-	-	-	-	-	-	-
Karnataka	10.25	87	-	-	18.35	5	28.60	6
Kerala	-	-	-	-	29.84	7	29.84	6
Madhya Pradesh	-	-	-	-	12.76	3	12.76	3
Maharashtra	-	-	48.11	82	83.08	21	131.19	28
Manipur	0.18	2	-	-	-	-	0.18	-
Meghalaya	-	-	-	-	5.95	2	5.95	1
Nagaland	-	-	-	-	3.77	1	3.77	1
Orissa	-	-	-	-	9.84	2	9.84	2
Rajasthan	1.33	11	2.31	4	35.67	9	39.31	8
Punjab	-	-	0.59	1	11.11	3	11.70	3
Tamil Nadu	-	-	4.57	8	44.65	11	49.22	11
Tripura	-	-	-	-	-	-	-	-
Uttar Pradesh	-	-	-	-	28.39	7	28.39	6
West Bengal	-	-	0.18	-	1.40	-	1.58	-
Pondicherry	-	-	0.08	-	-	-	0.08	-
Total:	11.76	100	58.90	100	400.27	100	470.93	100

3.6 It would be seen from Table II that reimbursement of subsidy was made only to three

States during the first year of the scheme, i.e. 1972-73; to the States of Karnatka, Manipur and Rajasthan. Even out of these States, Karnataka accounted for Rs.10.25 lakhs against the total of Rs.11.76 lakhs. During 1973-74 the number of States claiming the subsidy increased to eight and during 1974-75 it rose to seventeen.

3.7 Table-II also reveals that the largest percentage of assistance in terms of reimbursement went to Maharashtra. During 1973-74 as much as 82% of the total amount reimbursed by the Centre was claimed by Maharashtra. Though this percentage came down to 21% in 1974-75, Maharashtra still occupied the first position. Similarly, the share of Maharashtra in the total amount of subsidy re-imbursed upto ~~1974-75~~ 1974-75 was the highest, i.e., 28%. Tamil Nadu was the second largest beneficiary in 1973-74, its share being 8% of the total amount re-imbursed in that year. However, during 1974-75 and in respect of total reimbursements made upto 1974-75, Andhra Pradesh, an industrially backward State, emerged as the second largest beneficiary, having acquired 15% and 13% of the amount re-imbursed respectively for this period. On the other hand, Tamil Nadu shifted its position from second to third, its share being 11% for these periods.

3.8 Rajasthan was another industrially backward State which maintained its position as fourth

beneficiary during 1973-74 and in regard to amount reimbursed upto 1974-75. The percentage share of Rajasthan on this account registered an increase from 4% in 1973-74 to 9% in 1974-75 whereas in regard to overall reimbursements made till 1974-75, its share was 8%.

3.9 Twelve backward States together accounted for 43% of the total amount of subsidy reimbursed till 1974-75. These States are Andhra Pradesh, Assam, Bihar, Himachal Pradesh, Rajasthan, Uttar Pradesh, Madhya Pradesh, Meghalaya, Manipur, Nagaland, Orissa and the Union Territory of Pondicherry. As regards yearwise breakup, it increased from 8% in 1973-74 to 50% in 1974-75. However, the share of Union Territories was almost negligible i.e. 0.1% of amount reimburse had gone to Pondicherry in 1973-74.

3.10 Another alarming feature about the utilisation of the subsidy scheme is that in respect of the three States of Haryana, Jammu & Kashmir and Tripura and six Union Territories viz., Andaman and Nicobar Islands, Arunachal Pradesh, Dadra & Nagar Haveli, Goa, Daman & Diu, Lakshdweep and Mizoram, reimbursement had been nil during the period under review.

3.11 Table III gives the Statewise reimbursement of subsidy made to the various states during 1975-75 upto the 20th November, 1975:

TABLE III.

(Rs. in lakhs)			
Sl. No.	State	Amount Re-imbursed from 1.4.75 to 31.11.75	% To the Total
1.	Andhra Pradesh	79.67	23.1
2.	Assam.	7.28	2.1
3.	Bihar	-	-
4.	Gujrat.	44.81	13.0
5.	Haryana	7.60	2.2
6.	Himanchal Pradesh.	12.27	3.6
7.	Jammu & Kashmir.	1.83	0.5
8.	Karnataka	1.74	0.5
9.	Kerala.	-	-
10.	Madhya Pradesh.	22.24	6.5
11.	Maharashtra	72.49	21.1
12.	Manipur.	-	-
13.	Meghalaya	3.62	1.0
14.	Nagaland	-	-
15.	Orissa.	1.68	0.5
16.	Punjab.	15.81	4.6
17.	Rajasthan.	31.51	9.2
18.	Tamil Nadu	27.16	7.9
19.	Tripura.	-	-
20.	Uttar Pradesh.	7.58	2.2
21.	West Bengal.	5.44	1.6
22.	Goa, Daman & Diu.	1.46	0.4
		<u>344.29</u>	<u>100.0</u>

3.12 It may be seen from Table III that so far only 5 States have not come forward for claiming the subsidy during 1975-76 and Maharashtra occupies the second position after Andhra Pradesh so far as reimbursement of subsidy is concerned.

3.13 Table IV below gives the Statewise position of amount reimbursed and the number of units in the small scale and large scale sectors benefitted during 1974-75.

Contd..(19)

TABLE IV

Statewise position of reimbursement of investment subsidy to industrial units in small scale sector as compared with the Total during 1974-75 (Rs. in lakhs)

State	No. of units			Total fixed invest-			Amount Reimbursed		
	Small S.S.	To-1% of total 1&2	% of 1 to 2	Small S.S.	Total 4 to 5	% of 1 to 5	Small S.S.	Total	% of 1 to 8
Andhra Pradesh.	124	132	94	156.97	1550.29	10	17.08	61.47	28
Assam.	35	35	100	30.10	30.10	100	2.30	2.30	100
Bihar.	329	331	99	-	-	-	11.52	12.74	90
Gujrat.	89	91	98	124.40	274.48	46	10.49	15.26	69
Himanchal Pradesh.	-	-	-	-	-	-	-	23.67	-
Karnataka	51	54	94	54.62	214.74	25	4.53	18.35	25
Kerala	164	168	98	145.34	306.90	47	16.56	29.84	56
Madhya Pradesh	43	45	96	-	-	-	3.26	12.76	26
Maharashtra	21	36	58	11.96	256.64	5	2.64	83.08	3
Meghalaya	-	2	-	-	64.19	-	-	5.96	-
Nagaland.	134	134	100	53.02	53.02	100	3.77	3.77	100
Orissa.	42	44	95	37.00	88.23	43	3.60	9.84	37
Punjab.	80	80	100	104.23	104.23	100	11.11	11.11	100
Rajasthan.	67	72	93	100.15	408.61	25	9.19	35.67	26
Tamil Nadu.	89	104	86	219.94	593.71	37	17.53	44.65	39
Uttar Pradesh	18	23	78	42.42	841.15	5	3.49	28.40	12
W. Bengal.	2	3	67	11.44	21.97	52	1.00	1.41	71
Total:	1288	1354	95	1091.58	4806.56	23	118.07	400.27	29

3.14 It may be seen from Table IV that a total of 1354 industrial units, involving an investment of Rs.4806.56 lakhs in fixed assets, has availed a subsidy of the order of Rs.400.27 lakhs which forms about 8 per cent of the total fixed investment. This is due to the fact that certain instalments of subsidy might have been carried over to 1975-76. It will be very important to mention that 95% of the industrial units who get the subsidy belong to the small scale sector, whose total investment in fixed capital was as much as Rs.1091.58 lakhs. Out of the total sum

of Rs.400.27 lakhs given as subsidy in 1974-75 about 29%, i.e. Rs.118.07 lakhs, went to small scale industries. This shows that while the small scale units accounted for only 1/3rd of the total amount of subsidy, they represented nearly 95 of the units to which the subsidy was given. In all the States except Maharashtra, West Bengal and Meghalaya percentage assistance in terms of number of units in the small scale sector varied between 78 to 100 per cent. This implies that in the two advanced industrial States of Maharashtra and West Bengal, relatively higher number of large and medium scale units got the subsidy.

3.15 The percentage of small industries in terms of number in these two States was as low as 58% and 66% against 78% to 100% in all other States. In Meghalaya only two industrial units of medium scale were provided subsidy. On the other hand, in Punjab, another advanced State, 100% assistance in terms of number and amount went to small industries. Working of the scheme in West Bengal was below average so far the number of units is concerned, though in terms of fixed investment and amount of subsidy disbursed, their performance was quite upto the mark, the percentage share being 52% or fourth with regard to fixed investment and 71% in respect of amount of subsidy.

3.16 An attempt has been made in Table V to indicate the types of industries which have come up in backward areas and have taken the benefit of the subsidy.

Information is not available in respect of all the 1354 units which have been given the subsidy during 1974-75. It is available in respect of only 674 small scale units which accounts for about 50% of the total number of units.

317 Table V below gives the names of the States and the number of units in broad category of industries. This indicates that the large number of units which are coming up in these areas belong to the Mechanical Group of Industries followed by agro-based industries like food processing etc.

Table V.

Types of Small Scale Industries in respect of which subsidy was re-imbursed during 1974-75.

State	* 1	2	3	4	5	6	7	8	9	Total
Andhra Pradesh.	18	28	1	51	8	2	-	2	14	124
Assam.	6	7	1	9	1	3	1	2	5	35
Bihar.	6	-	-	5	-	-	-	-	2	13
Gujarat.	3	5	1	39	3	1	2	4	12	68
Karnataka	5	9	2	19	5	-	1	1	8	59
Madhya Pradesh.	8	5	1	18	-	1	8	2	3	37
Maharashtra.	5	2	-	7	2	-	-	1	2	19
Nagaland.	105	6	6	10	-	-	-	-	7	134
Orissa.	20	5	1	6	-	1	-	-	9	42
Rajasthan.	6	11	-	43	-	2	1	2	6	51
Tamil Nadu	4	14	2	43	1	-	20	-	5	89
Uttar Pradesh.	2	-	-	4	-	-	-	4	2	12
Total:-	188	103	15	231	20	10	27	18	75	674

- * 1. Food Processing Industries.
- 2. Chemical Industries.
- 3. Furniture.
- 4. Mechanical Engg. Industries.
- 5. Paints products.
- 6. Textiles & Handlooms etc.
- 7. Paper.
- 8. Electrical Engg. Industries.
- 9. Miscellaneous.

3.18 An analysis of the subsidy reimbursed to the various States shows that the backward States have received comparatively less subsidy as compared to certain advanced States. Similarly, the data on subsidy reimbursed to the small scale industry as compared to the large and medium industry is also meagre and small scale industry has not really got its due share as compared to the medium and large scale sector.

3.19 Lack of knowledge on the part of the State Govts. and the units setting up industries is one of the most important factors in their not getting the subsidy. There is need for training of the State Govt. officers dealing with subsidy so that they could get the subsidy speedily.

3.20 Delay at the Central level in reimbursement of subsidy is another inhibiting factor. The reason has been that the subsidy cell in the Ministry of Industry has not been provided with adequate and efficient staff. A special cell should be created immediately in the Ministry to speedily deal with the reimbursement of subsidy to the States and efficient staff should be appointed because the delay in reimbursement causes financial strain particularly to the backward States.

3.21 A quarterly review should also be conducted by the Ministry about the reimbursement of subsidy and the review should be circulated to various States so that any state could know its position as compared to others.

CHAPTER - IV

AUTHORITY FOR BACKWARD AREA DEVELOPMENT.

4.1 An Authority for Backward Area

Development (ABAD) should be set up at the national level to plan, sponsor and promote a co-ordinated programme for expeditious establishment and growth of industry at selected growth centres in backward areas. This would primarily be a promotional and developmental organisation which will concentrate its activities on growth centres in the backward areas with a promise for industrial development.

4.2 The objectives of this Authority should be the following:-

- 1) A rapid development of the backward areas.
- 2) Preparation of project reports of propulsive industries based on local resources leading to rapid development of backward areas.
- 3) Dissemination of information to investors of the facilities and incentives available for promotion of their projects in backward areas.
- 4) To provide technical assistance for development of backward areas.
- 5) To actively develop, promote and sponsor programmes of industrial development of backward areas.
- 6) To administer as an agent of the Government of India schemes on incentives, subsidies and facilities for development of backward areas.
- 7) To raise additional resources from the market for promotion of industrial development of backward areas.

4.3 ABAD should be headed by a high level Board of Ministers and Secretaries to Government of India concerned with the establishment of industry viz., Minister for Industries, Minister for Finance, Deputy Chairman, Planning Commission, Minister for Company Law, Concerned Minister of State for Industries, Secretary, Industrial Development, Secretary, Banking, Secretary, Planning Commissioner, Secretary, Company Law, Development Commissioner, Small Scale Industries etc., and should have as its Member-Secretary the Joint Secretary in the Industry Ministry dealing with the development of backward areas.

4.4 Our Committee attaches considerable importance to ABAD and feels that the Prime Minister herself may be requested to be its Chairman; for its day-to-day functioning the Authority may have an Executive Committee presided over by the Minister for Industries/Minister of State for Industries.

4.5 ABAL, if it so desires, could also set up a compact Advisory Council of experts to assist it in its work.

4.6 ABAD should be set up as a non-profit making service organisation under the Societies Registration Act. Its Memorandum and Articles of Association should allow it to raise funds from the open market with or without Government

guarantee. This would make it possible for more funds to be drawn from the market for development of backward areas.

4.7 The provisions of the Industries (Dev. and Reg.) Act 1951 should be used as a positive tool by ABAD for promotion of industries in backward areas. ABAD should prepare or assist the State Level Corporations to prepare preliminary feasibility reports for establishment of large units, based mainly on locally available natural resources. The exact location within the backward area should be selected purely on techno-economic grounds. Licensing capacities for such units fixed to a particular location in the backward areas should then be frozen and kept at the disposal of ABAD. ABAD should also be authorised under the Industries (Development & Regulation) Act as the Licensing authority for such capacities. ABAD should then 'tender' out such projects by calling for public applications from intending industrialists both local as well as foreign. The applicants could state the terms and conditions on which they are willing to undertake these projects, mentioning the percentage of equity they would like to hold, the terms and conditions of foreign collaboration, relaxation of M.R.T.F., if required, etc.' ABAD could then consider these various applications and take a decision on allocation of the licensing

capacity kept at its disposal to the best applicant chosen on merits. This would ensure that location of large projects based on locally available natural resources in backward areas do not get shut out as has happened in the past for want of licensing capacity. In this way resources and skills of large or monopoly houses or foreign majority enterprises could also be effectively channalised into the development of backward areas. One of the terms and conditions to be prescribed by ABAD should be a time-bound programme for implementation of the project, after all the permissions are given, with penalty clauses, backed by suitable bank guarantees, for any unjustifiable delays in implementation. Since ABAD will have to take such high level decisions, it is absolutely essential that the composition of ABAD, as already suggested, should consist of a high level Board of Ministers and Secretaries to the Government of India concerned with the establishment of large industries.

4.8 The Industrial Development Bank of India has already formulated a refinance scheme for development of physical infrastructure in industrial areas. This scheme unfortunately has not actively been put into operation. It has not been fully utilised by the nationalised banks and the State Infrastructure Development Corporations.

It would be advantageous for IDBI to streamline its procedures to remove existing and identified constraints in the operation of this scheme. The IDBI should also prepare a detailed booklet on this subject and circulate it to all State Governments, nationalised banks and especially to infrastructural development corporations at the State Level. The IDBI should organise a training course for the officers from infrastructure development corporations. Officers from nationalised banks should also be invited for this training course. I.D.B.I. should conduct a quarterly review of the progress of the Scheme and keep the Government of India and the State Governments informed. Since this existing I.D.B.I. Scheme would meet the requirements of funds for development of physical infrastructure at growth centres in the backward areas, it is not necessary for ABAD to duplicate these efforts. ABAD should, however, keep a pool of officers who could be deputed for short durations to the backward areas to assist such States to prepare and formulate bankable projects for infrastructure development through the IDBI refinance scheme.

4.9 ABAD as a promotional organisation should first concentrate its activities on most backward areas which hold a promise for industrial development. Under the present system of facilities

and incentives, there is no safeguard that the most backward States get their due share. In the present set-up, advanced States have accounted for a large share of the available incentives and facilities. Suitable promotional and development measures should, therefore, be initiated in the backward areas by ABAD to ensure that they get an increased share.

4.10 The executive organisation of ABAD should have close linkages with the Banking and industrial development Ministries. It should ensure that the existing schemes of IDBI concessional finance, nationalised bank assistance to educated unemployed as well as the facilities of the differential interest rate schemes are made available in full measure, especially to small scale industries in backward areas.

4.11 ABAD should also operate a subsidy scheme for assisting large industries which want to shift from congested metropolitan areas to approved locations in backward areas.

CHAPTER - V

RECOMMENDATIONS

5.1 Growth Centre approach:

For developing any backward area industrially it is not enough that industrial infra-structure alone is available. Before any significant industrial development can take place, development of social infra-structure will have to be properly co-ordinated and co-related. Merely an industrial site, railway and power lines are not enough. The area should have a school, a technical school, a hospital, bus-route, telex, telegraph and telephone facilities, etc. For achieving this, a growth centre approach will have to be adopted. Growth Centres selected for the purpose of industrial development should, in fact, be taken up for development in all the above spheres. Development, therefore, of these facilities in so far as they concern the States will have to be provided for by the respective departments of the State Governments and in so far as they concern the Central Government, by the respective departments of the Central Government. In these areas there will have to be definite complementarity in terms of the plan outlays and the desired physical targets.

5.2 An urban core for social infrastructure:

While backward areas everywhere have to be developed, the Committee feels that best results can be achieved by a certain amount of

selectivity in the choice of growth centres. It would be desirable to initially concentrate on growth centres where social infra-structure facilities are available at least to some extent. The urban core of such growth centres selected for concentrated attention for industrial promotion activities should have a population not exceeding 3 lakhs. These growth centres should also be at a reasonable distance from large cities and metropolitan areas. The provision of the missing links in the existing social infrastructure such as hospitals, educational institutions etc. will have to be given priority at the growth centres. Since provision of social infrastructure is a costly proposition, only a limited number of growth centres, especially the most promising among them, should be first selected for the provision of comprehensive development of social infrastructure. After the first-ranking growth centres are completed, the second-ranking growth centres may be taken up in a similar fashion.

5.3

Dis-incentives for industrial development in Metropolitan and other large cities.

There should be a commitment to the industrial development of backward areas at all levels political, administrative and social. Though a

large number of financial and fiscal incentives have been provided for development of backward areas, the results have not been gratifying. This system of incentives for backward areas will, therefore, need to be coupled with a system of disincentives for industrial development in metropolitan cities and large cities. A start should be made initially with metropolitan cities having more than 2 million population. In such metropolitan cities there should be positive dis-incentives for setting up of new industries. No industrial licence should be issued by the Central Government for location of industries within the area of influence of metropolitan cities with a population of more than two million. Similarly, the Central Scheme of 15 per cent subsidy should not be operative within the influence region of large cities with more than 1 million population. If such steps are not taken, industries will not move into backward areas, but will cluster round large cities, leading to unmanageable urban sprawls and industrial slums.

5.4

Development of local entrepreneurship.

A backward area can be largely developed only if local entrepreneurship is stimulated. This should not lead to a rigid approach barring outsiders. While entrepreneurship from outside

should be welcomed, especially in the medium and large sectors and given all encouragement, the Small Scale industries development programme in backward areas has to be a priority programme which will bring out latent local entrepreneurial talents and provide them guidance, assistance, training and infrastructure.

5.5 Development of local resources:

The industries selected for development in backward areas, especially in the large and medium sectors, should be propulsive industries with backward and forward linkages so that their impact is felt widely in the local hinterland of the growth centre. Such an approach underlines the importance of concentrating on local natural resources ——— agricultural, mineral, marine, livestock-based and forest-based ——— in the promotion of industries in the backward area.

5.6 Concentration on local markets:

New entrepreneurs, especially in the Small Scale Industries Sector, are likely to be deficient in marketing capabilities. It is, therefore, necessary for them to concentrate on products which have got local markets. Thus, the Small Scale Industrial programme for backward areas should largely centre round local natural resources, local market, local skills and local entrepreneurship. Scarce raw materials cannot be the basis for

industrial development in the backward areas nor can products for which the market is already somewhat saturated be encouraged. The Committee would, however, like to stress that, if there is any scope for setting up even a few small scale industries with scarce raw materials to meet priority needs, such small scale industries should be invariably set up in backward areas.

5.7 Training of Local personnel:

It is very necessary that industrial units which come up in backward areas provide employment opportunities for the local population, at least in the semi-skilled and artisan categories. For this purpose, large industries should be persuaded to arrange for training schemes for the local population so that the fruits of such development go to the local population also. For this purpose, the expenditure incurred by such industries in designated backward areas for training of local population for jobs in their industry on approved schemes should be entitled to the same income tax concessions^{as} available for R&D expenditure.

Industries in developed areas should also be persuaded to provide inplant training facilities to candidates from backward areas.

5.8 Selectivity for Subsidies:

There is an urgent need for selectivity of

industries while providing incentives, especially capital subsidy. It is essential that such incentives should be employment-oriented or at least have some relation to employment potential. While the Committee agrees that it may not be practicable to directly relate the subsidy to the number of job places created, the emphasis on employment potential can be indirectly achieved by the subsidy policy favouring industries which are known to be employment-incentive. While some ready examples are local natural resources-based industries, ancillaries and industries set up under self-employment scheme by educated unemployed, the list will have to be carefully worked out by a panel of experts.

5.9 Re-demarkation of 15% capital subsidy area:

The States should be given the option to re-demarkate the existing capital subsidy districts, if they so desire, for re-orienting existing district areas to fit into the concept of growth centres. However, the size of the areas selected by the States should at least be a tehsil or a block and such areas should also be part of the existing backward districts. Such a re-demarkation of the area of the capital subsidy district should be allowed by the Government of India subject to such terms and conditions as may be prescribed.

5.10 Central Subsidy for Small Scale Units:

Till now the lion's share of the central

subsidy scheme has gone to large and medium units. The Committee would, therefore, like to recommend that there should be a special scheme of capital subsidy, limited only to small scale units in all backward districts which do not get capital subsidy today. Such subsidy should be given to small scale units at the rate of 15 per cent of their expenditure on machinery and equipment restricted to a maximum of Rs. 30,000/-. This additional facility in backward districts other than those which get the normal 15 per cent capital subsidy under the existing scheme would give a boost to development of small scale industries in backward areas.

5.11 Growth Centres in all Backward Districts.

In each Backward district which is today eligible for concessional finance but is not a capital subsidy District, the Government of India should sanction at least one Growth Centre of the size of a Tehsil/Block. In such Growth Centres, which should, of course, have an urban core, the 15 per cent capital subsidy scheme as it exists today should be made applicable.

5.12 Location of Public Sector Projects:

The Committee wholeheartedly recommends that new public sector undertakings, as far as possible,

should be located in growth centres in backward areas. These projects many a time catalyse further development in backward areas. While choosing the exact location, of course, techno-economic considerations should prevail.

5.13. R.I.P. Districts.

In the remaining period of the Fifth Five Year Plan the State Governments may be allowed to use the staff specifically given by the Central Government to the existing rural industrialisation projects districts for work in all the backward districts of the State. In future only backward dist districts may be taken up under the rural industries programme since such districts have a greater claim. The period of the R.I.P. project should also be co-terminus with a Five Year Plan Period.

5.14 Electricity on Priority:

Electric power should be utilised as an effective tool for taking industry to backward areas. Electric connections should be given on a priority basis in these areas. In times of power shortages, when power-cuts are applied, at least small scale industries in Backward areas should be exempted.

For development of backward areas it is very essential that electricity should reach such areas on priority. In order to encourage its easy availability in backward areas, Financing Institutions, including the Rural Electrification

Corporation, should consider further reducing the interest rate on investment in such projects and revising their viability norms by spreading the investment over a period of 30 years in backward areas. Rationalisation of tariff in backward areas is also called for and it should not be more than the tariff in developed areas.

5.15 Bank credit in full

Nationalised banks have now established their branches in rural and semi-urban areas. The Committee considered it desirable to suggest that nationalised banks should not divert deposits from backward areas to developed areas but should plough back these funds for the development of industries in backward areas. In the backward districts/areas all the credit needs of small scale industries should be fully met by the Nationalised Banks.

5.16 Preferential treatment of allocation of raw material.

In the allotment of scarce raw material/ controlled commodities, the needs of small scale units located in backward district should be given priority.

5.17 Special Exemptions from Legal constraints.

Legal constraints like MRTP, dominant house etc., may not be invoked in the case of growth centres in backward areas. Development of small scale industry especially in the ancillary

sector is greatly facilitated if there is cluster of both large and medium-scale projects as the nucleus. Approach to licensing even big business houses for setting up projects in these areas should be more liberal. It should be stipulated as a condition of the licence that a specified number of ancillary industries will have to be developed by such units. To ensure that capacities are not pre-empted, a time-bound programme with sufficient penalty clauses/guarantees should also be stipulated.

5.18 Coordinated action at the local level:

In the industrialisation of backward areas a major weakness hitherto has been that energy and resources of different organisations and institutional agencies have been dissipated by their working in isolation from each other. Considering the dimension of the task, the Committee feels that unless all the agencies and institutions in the field of development of Industries work in a cohesive manner and pool their resources, quick results can hardly be achieved. The Committee, therefore, recommends that in each State an Executive Committee should be constituted consisting of various heads of State level organisations, including banking institutions. This Executive Committee should inter-alia—

- (a) identify industries, small, medium and large ones, which hold prospects for each backward area.
- (b) Procure project outlines and feasibility reports for industries identified.
- (c) Coordinate industrial development programmes and remove all possible constraints like power, finance, infrastructure etc.
- (d) Review progress of each selected backward area and take follow up measures accordingly.

It would also be desirable if District/area wise Committees are also constituted on the lines indicated above. The District level Committees would receive guidance, expertise and direction in respect of industries to be developed in each area and in turn refer their problems to the State level committee.

In most of the States the Industries Department has staff at the district level. Instead of creating separate organisations at the District level it may be necessary to utilise the existing personnel. The District industries staff should function as the focal point for all promotional organisations. As such it would be necessary to strengthen adequately the industries department at the district level especially in

the backward areas.

If new entrepreneurship has to be promoted in required numbers, more so in backward areas, the public organisations should go to the prospective entrepreneurs instead of the other way round. This can be achieved by the district level personnel who, along with technical experts and bank officials, should jointly visit growth centres in each backward area, approve and give joint clearances to small projects on the spot. New local entrepreneurship can be encouraged only if such quick on the spot clearances are given and follow-up action, such as sanction of loans etc., is completed expeditiously, say, within three months.

5.19 Need for Training:

Need for training in entrepreneurship cannot be over-emphasised. The Committee finds that the main cause of the failure of a number of small entrepreneurs relates to financial disorders and improper cash flow management. Another area which deserves considerable attention is of marketing and marketing management. The Committee, therefore, recommends that suitable curriculum should be drawn for training of entrepreneurs setting up Small industries in the backward areas. While organising training courses it would be necessary to associate the banking institutions

and other financial agencies operating in the concerned areas.

The Committee also recommends that the personnel deployed for promotion and development of small scale industries in the backward areas, upto the level of say, Joint Directors, should be trained adequately in various aspects of industrial promotion, motivation of entrepreneurs, project appraisal, banking procedures, etc. through short-term training courses in institutions which are properly equipped to impart the type of training envisaged.

5.20 Concessional finance from financing institutions.

Though the national financing institutions, such as IDBI, IFCI and ICICI, have announced a long time back a large number of concessions in their financing schemes for industries coming up in backward areas, the desirable progress has not yet been achieved. These institutions should streamline their operations so that these concessions, which have been accepted in principle, are available in practice too.

There is also an information gap which has prevented industrialists, especially small scale industrialists, from backward areas from getting the full benefit of these schemes. The Committee would, therefore, recommend that these financing

institutions bring out attractive booklets giving full details of these schemes and widely circulate them to voluntary associations especially those catering to the needs of small scale industry.

It may also be worthwhile for the IDBI to arrange suitable training programme for officers of the rank of Joint Directors of Industries from all the States to brief them fully on the modalities of getting concessional finance for small-scale units coming up in backward areas.

5.21 Relaxation in Debt-Equity Ratio

To attract industries in backward areas, the Committee recommends that the financing institutions, especially IDBI, ICICI and IFCI, should further lower their requirements for the debt-equity ratio. This would give a greater leverage to entrepreneurs who invest in backward areas.

5.22 Relaxation of the policy of converting loans into equity.

Government should also consider giving relaxation in the existing policy of the financial institutions of converting their loans into equity for large and medium industries, in appropriate cases, for units being set up in the backward areas.

5.23 IDBI Refinance:

Today refinancing by the IDBI is limited

only to loans made by State Financial Corporations. The Committee recommends that this re-financing facility of the IDBI should be extended to loans given by State Level Corporations in Backward areas.

5.24 Marketing Assistance in Government Purchase Programme

The State Governments should reserve a certain portion of all purchases made, say, 15 per cent, for purchases from units set up by technical entrepreneurs and ex-servicemen in backward areas. Such orders should be placed on these units with the price fixed at the lowest acceptable tendered rate, provided such units have quoted in the tender.

5.25 Easier Procedures:

The State Finance Corporations, when they give loans to small scale units in backward districts, should accept equitable mortgage with deposit of title deeds instead of legal mortgage so as to make the procedure simpler and cheaper.

5.26 Concessional rate for working capital finance:

Under the IDBI Refinance Scheme, Small Scale units get a concessional rate of interest for term-loans. For working capital they are at a constant disadvantage as compared to units in developed areas. Small Scale units in backward areas should also get working capital at concessional

rates from nationalised banks as compared to small scale units in developed areas.

5.27 Tax Concessions:

The following concessions may be considered by the Government of India for small scale units coming up in backward areas:-

i) Accelerated depreciation for purposes of taxation. This rate should be double of that allowed for other industries. This will amount only to a temporary deferment of taxation, but will help the industry considerably in cash flow and will make units more viable for term-financing. A higher rate of depreciation can also be justified by the fact that wear and tear of machinery in backward areas is higher due to lack of technical assistance and other services.

ii) For some selected industries Government are already giving 20 per cent initial depreciation. For the purposes of getting this benefit all small scale industries in backward districts should be considered as select industries. There is a precedent for this. All small scale units coming up in backward areas are today considered as select industries for import licences for raw materials.

iii) For small units coming up in backward areas revival of development rebate should be considered. This is justifiable since replacement cost of machinery is much higher than the original

one. This will give a great fillip to the development of small scale industries in backward areas. Development rebate can be used as an effective tool to develop small scale industries in backward areas. This would also decrease their dependence for term loan financing on State Finance Corporations especially for expansions.

5.28 Exemption from Wealth Tax

When individual entrepreneurs set up medium industries in backward areas, many-a- time they do not get any returns in the gestation period, but during this time some of them are liable to pay wealth tax on the amount invested in the project. This Committee would recommend that at least medium sector projects should get some concession in wealth tax, for those who venture out to backward areas, in the gestation period of 3-5 years, or till dividends are declared, whichever is earlier.

5.29: Exemption from Labour Laws:

The Committee would like to suggest that at all growth centres selected in backward areas should get some concessions under labour laws and factory legislation at least for an initial period of -say- about five years. For example, the exemption limits for number of workers could be slightly higher than in developed areas. New industries, specially set up by technical entrepreneurs would get relief by such a measure, thus assisting their natural development. The new entrepreneurs, instead of spending time on promotional measures, has otherwise to spend most of his time in filling up forms under the factory and labour legislation. The State Government's Labour Departments could undertake the additional responsibility of ensuring that labour employed in such units is not exploited.

5.30: Labour Housing:

It is extremely essential to provide adequate labour housing for growth centres. This can itself provide an incentive for large and medium industries to locate themselves at growth centres. In this connection, the Housing and Urban Development Corporation set up by the Government of India should give priority for allocation of funds for provision of labour housing at growth centres.

Conclusion:

We have already spelt out the strategy for industrial development of backward areas and given detailed recommendations for the implementation of this strategy. However, we would like to stress that nothing succeeds like success, and successful results can be obtained only if there is a commitment at all levels- political, administrative and social- for the development of backward areas, coupled with all-out concentrated efforts at a manageable number of carefully selected centres within a given time frame.

It is extremely desirable to ensure that the programme for development of backward areas is accepted by the Government at the highest levels as a part of the core sector of the Plan, so that it receives an appropriately high priority in the Plan allocations. Unless this is done, essential financial and other inputs so necessary for the speedy implementation of a time-bound programme may not be available in a continuous manner in the right quantities at the right time. While it is, no doubt, difficult to initiate a programme for the development of backward areas, it would be still more difficult to get concrete results if such a programme, once initiated, is implemented in a halting manner due to lack of insufficient budget provisions. It would indeed be sad if such a programme is starved of adequate funds once it has gone off the ground.

The Committee would also like to sound a note of caution. It is too facile to presume that anyone can

formulate an industrial development plan which would be equally applicable to all backward areas. A realistic development plan for a backward region will become meaningful and gainful only if the peculiarities of that region are given their due weightage and productive policies are combined with a viable time-bound programme to reach desirable targets. Such a plan should aim at mobilising all the resources in the region and the sectoral programme for industrial development which is prepared should fit in as an integral part of the total regional development plan. It should not be forgotten that a major instrument of such development programme should be the development of the people themselves in the backward areas. A suitable programme for technical training for manning jobs in industry becomes important in this context. Truly, the key to the solution of development of backward areas lies in the development of local resources, both material and human, available in such backward areas.