ROLE OF INCENTIVE PACKAGE ON INDUSTRIALIZATION IN HIMACHAL PRADESH

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ABSTRACT

Industrialization is treated as a process in which the economic gains of industrial progress are continuously created and realized. Before independence, India was a largely agriculture-based country in the post independence regime; the Indian private sector began to expand. Although Himachal Pradesh is not industrially developed so far, the Government has taken bold steps to boost-up industries in the State. The industry department had developed 50 industrial areas and 15 industrial estates by March 31 2009 To accelerate the pace of industrialization and to generate more employment opportunities in the industrial sector in the state, the Govt. of India has notified a new package of Incentives for Himachal Pradesh on 7th January, 2003. The objective of this paper is to find out the role of incentive package on the development of industrialization in Himachal Pradesh. In the year 2000-01 number of industrial units set up during the year were only 3,244, while due to incentive package in 2012-13 these numbers were 9,637 which is almost the three times of previous units. In this paper we are try to find out the nature and extent of industrialization and infrastructural development in Himachal Pradesh with special reference to Solan, Sirmour and Una districts.

Keywords:- Industrialization, Development, Incentive Package, Industrial Growth.

Introduction:-

Industrialization is the main spring of the economic growth of developing countries and the catalyst of their technological financial and socio economic development. The industrial development affects agriculture due to which, economic life of rural people
Industrialization is the result of long-term process of development of industrial activities in a particular region. Every country in the world is striving to achieve maximum industrialization, because it is essential for not only stability and security of every country, but also plays an important role in the overall development.

Himachal Pradesh Government has set up industrial estates in different towns of the state for the purpose of rapid industrialization. In the industrial estates all the infrastructural facilities like road, water supply, sewerage and power up to the plot are provided to the potential entrepreneurs. There are 50 developed industrial areas in the state. These areas have been classified into ‘A’, ‘B’ categories depending on industrial backwardness and extent of potential for employment generation in that area.

With a view to accelerate the pace of industrialization and to generate more employment opportunities in the industrial sector in the state, the Govt. of India has notified a new package of Incentives for Himachal Pradesh on 7th January, 2003.

**Industrialization in India: An Overview**

Before independence, India was a largely agriculture-based country. Although, there was a relatively large manufacturing sector in some parts of the country, it was mainly in the form of small-scale local enterprises such as spinning, weaving and woodwork industries. These businesses served their local markets, which meant that large-scale expansion of an industry was very difficult at that time. In the post independence regime, the Indian private sector began to expand. However, it was faced with foreign competition, including the threat of cheaper Chinese imports. The city of Bangalore has become to be known as the 'Silicon Valley' of India. Over 250 high-tech industries have been set up there including IBM, Intel and HP. These companies are part of India’s growing IT sector and are being involved in software manufacturing. This growing IT and technology sector has spread to most of India’s other large cities such as Chennai, Mumbai and Kolkata and in 2009, the Information Technology sector accounted for 5.9% GDP. Mining and other energy industries have also been one of the main areas, which have pushed the industrialization of India since independence. India has the third largest coal reserves in the world and full-scale exploitation of the coal resources began in the mid-1960s. As of January 2007, India had 5.6 billion barrels of proven oil reserves. However, the most interesting area of energy development in the country in recent years has been the move towards renewable and nuclear energy research and production. India has recently developed many hydroelectric power stations in the north of the country along the foothills of the Himalayas. Nuclear power is a very large source of electrical consumption in India. As of 2010, India has 19 nuclear power plants in operation generating 4,560 MW while four other are under construction and are expected to generate an additional 2,720 MW. This recent development has coincided with further industrialization of many of India’s cities.

**Industrial Infrastructure in Himachal Pradesh**

High quality of industrial infrastructure in different industrial areas is essential for sustaining and accelerating industrial growth. The industry department of the state had developed 50 industrial areas and 15 industrial estates by March 31 2009 providing basic amenities as roads, power, sewerage, water and communication besides more areas
that are industrial and estates are proposed to be developed during the eleventh five-year plan.

The existing industrial areas and estates provide the basic infrastructure, but modern and technological infrastructure is highly inadequate. In the present era of globalization and world trade organization agreements, the technological capabilities of the industrial sector have been to be enhanced to make it competitive in the international market in terms of quality and price.

National Bank of Agriculture and Rural Development (NABARD) has approved an additional loan of Rs. 112.35 crores under Rural Infrastructure Development Fund for a major water supply scheme, 21 minor irrigation project and 32 road and Bridges Project with the sanction of Rs. 112.35 crores the apex rural bank had sanctioned a total of Rs. 403.27 crores in 2010-11 in Himachal Pradesh.

Himachal Pradesh has rich natural resources with diverse agro climate conditions and geographical features, horticulture, floriculture, sericulture forestry, hydropower generation, handi-crafts, handlooms, herbs, minerals and wool-based industries are comparatively better developed. These industries have been identified as thrust industries; therefore, to reap the full advantage of resources, it is essential that modern and appropriate infrastructure is created at a faster pace.

Review of literature

Lal (2006) concluded in his study that per capita income of Himachal Pradesh has continuously increased and is higher than the national income; the higher per capita income in Himachal Pradesh is the result of continuous increase in the income generated by the secondary and tertiary sectors. Study further reveals that industrialization has provided better market for local agricultural product, though there is uneven and unbalanced industrial development in Himachal.

Neeti (2011) analyzes the role of infrastructure in the context of development of a nation particularly in the case of third world countries. It examines the nature and extent of infrastructural development that has taken place in Andhra Pradesh and its three regions as a result of the concerted efforts of the Government of Andhra Pradesh. Study concludes that coastal Andhra has registered highest level of infrastructural development compared to that of Telangana and Rayalaseema regions. Government should identify the backward areas in terms of infrastructural development and provide them all there required infrastructural facilities on priority basis to achieve rapid balanced development in Andhra Pradesh.
Objectives of the Study

Present study is based upon the following pin pointed objectives:

(i) To examine the nature and extent of industrialization and infrastructural development in Himachal Pradesh.
(ii) To analyze the role of incentive package on the development of industrialization in Himachal Pradesh

Research Methodology

The present study is a descriptive and analytical research aiming at answering ‘what’ and ‘why’ of the current state of industrialization in Himachal Pradesh, with special reference to Solan, Sirmour and Una districts. The study is based on secondary data i.e. annual reports/Published accounts

Tools and Techniques

The data collected from the primary and secondary sources have been properly classified, analyzed and interpreted by applying various statistical, mathematical and accounting tools. The tools used are:

Mathematical Tools

The information collected from the sampled respondents has been analyzed by applying mathematical tools like simple average, percentage etc.

Incentives to industries in Himachal Pradesh

Both Govt. of India as well as Govt. of Himachal Pradesh has given number of incentives/facilities for developing small scale industries in the state which are given below:

New Industrial Package announced by Central Govt. to Himachal Pradesh

Fiscal Incentives

New industrial units and existing industrial units on their substantial expansion are entitled to the following incentives

100% outright excise duty exemption for a period of 10 years from the date of commencement of commercial production.

100% income tax exemption for initial period of 5 years and thereafter 30% for companies and 25% for other than companies for a further period of 5 years from the date of commencement of commercial production.
All new industries in the notified location would be eligible for capital investment subsidy @ 15% of their investment in plant and machinery subject to a calling of Rs. 30 Lakh. The existing units will also be entitled to this subsidy on their substantial expansion.

**Other Incentives/Schemes offered by Central Govt.**

The Central Govt. is offering the following incentives/Schemes to SMEs units in Himachal Pradesh:-

Central transport subsidy @ 75% on transportation cost of raw material and finished good from nearest recognized railway head to factory site and vice versa. This subsidy is available for a period of 5 years from the commencement of production.

MSMEs registered with ‘NSIC for participation in Govt. Store Purchase Programme are entitled for exemption from payment of earnest money, security deposits and fee for tender documents.

Registered MSEs get 15% price preference in Central Government purchases made through DGS&D.

Capital Subsidy under the Credit Linked Capital Subsidy scheme for Technology Upgradation has been raised from 12% to 15% w.e.f. 29.09.2005 and the maximum limit of eligible loan for calculation of subsidy under the revised scheme has also been raised from Rs. 40 Lakhs to Rs 100 Lakh.

The Credit facility limit eligible to be covered under the Credit Guarantee Fund Scheme for Micro and Small Enterprises in terms of both term loan and working capital is up to Rs 100 Lakh per borrowing unit, extended without any collateral security or third party guarantee to new as well as existing Micro and Small Enterprises. The guarantee cover under the scheme is to the extent of 75% of the sanctioned amount of the credit facility. The extent of guarantee cover is 80% for i) micro enterprises (for loans up to Rs.5 Lakh) ii) MSEs operated and/or owned by women iii) and all loans in the north east region.

Under the ISO 9000/14001 Certification Reimbursement Scheme, there is a provision for reimbursement of expenses for acquiring ISO- 9000(QMS) , ISO -14001 (EMS) certification to the extent of 75% or Rs. 75000/- whichever is less.

To strengthen the role and increase the efficiency of the associations of Micro and Small Enterprises, financial assistance for the Secretarial and Advisory/extension services related to selected associations may be provided up to a maximum of Rs.5 Lakh, depending upon the size and reach of the association. For organizing Seminars/Symposium/Workshops, maximum of Rs. 2 Lakh would be provided to National Level MSE Associations and Rs. 1 Lakh to Regional/State/Local Level MSE associations.
Impact of Incentives

Special industrials package has made a positive impact on the industrial growth of the state. But if we analyze the data, it would be revealed that only small percentage of these jobs have gone to the Bonafide Himachalis which is a gross contravention of the H.P. industrial policy which mandates that 70% of industrial employment must go to the Bonafide Himachalis.

In Himachal Pradesh, there were very few spontaneous growth centers i.e. places where industry developed without the benefit of subsidies and incentives) however, science the grant of special industrial package certain induced growth centers in the industrially backward state of H.P. have come up. The dispersal of industrial units in Himachal Pradesh is highly uneven. This unbalanced growth of industries is reflected in the number of industrial workers (Directorate of economic and statistics; 2006) states District level indicators, Solan (66.17%) of the total industrial workers in the state is ranked first, Sirmour (2.98) second, Hamirpur has only 0.55% of the industrial workers while Lahaul Spiti has no industrial worker at all. The major portion of the new industrial investment in H.P. has gone to the areas that are bordering the neighboring states and are plains or valley areas. Only such areas like Parwanoo, Baddi, and Nalagarh in Solan, Kala Amb and Paonta Sahib in Sirmour have developed as the induced industrial centers in H.P.

1.11 Growth Pattern of Industrialization in Himachal Pradesh

Widespread and deep-rooted poverty has been the single biggest challenge for sustainable development of mountain areas in the Himalayas, and India has recorded notable successes in this endeavor. While the hitherto-targeted improvements in agricultural productivity and employment are critical, the rapidly growing labour force in mountain areas cannot be absorbed by agriculture alone, and substantial efforts are needed to diversify the mountain economy and enhance the living standards of the mountain population. Industrialization is a comparatively recent phenomenon in Himachal Pradesh. It gained momentum during the last two decades. Monetary and fiscal benefits as incentives and subsidies to industry, provided by the State as well as the Central Government, and the availability of quality industrial infrastructure in the form of developed plots, and sheds equipped with basic amenities, have played a key role in the industrial development of the state. Industries in Himachal Pradesh are now producing from traditional to a wide spectrum of high-tech products like computer monitors, magnetic components, high quality precision components, tele-communication equipments, electronics, drugs and pharmaceuticals, processed food, textiles, and spinning products.

It is a disheartening fact that industrialization in Himachal Pradesh is not older than two decades. Government incentives and concessions have played a key role in the industrial development of the state. The specific climatic and agricultural features and rich natural resources determine the kind of productive economic activities in Himachal Pradesh. Dust-free and cool climate, power supply in abundance at a comparatively low cost, conducive environment of the state, makes it suitable for the growth of light and precision engineering industry, electronics, horticulture, food processing and power based industries. The pattern of industrial development of the state is based on its division into industrially developed and backward areas. Most of the large and medium industries are located in developed areas, while micro, small; khadi and village industries are located in backward areas/districts. Number of industrial units registered, investment made and employment generated in the state during the period 1991-92 to 2012-13 is given table 1.1
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<tr>
<th>Year</th>
<th>Micro &amp; Small scale units</th>
<th>Large &amp; Medium scale units</th>
<th>Total</th>
<th>Micro &amp; Small scale units</th>
<th>Large &amp; Medium scale units</th>
<th>Total</th>
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**Source:** Annual Administration Reports, Industries Department, Government of Himachal Pradesh

**Note:** Figures in parentheses denote percentages
Figure 1.1

Role of Incentive Package on Number of Units

![Graph showing the number of units](image)

- **Micro & Small scale units**
- **Large & Medium units**
- **Total**

Figure 1.2

Role of Incentive Package on Investment

![Graph showing investment](image)

- **Micro & Small scale units**
- **Large & Medium units**
- **Total**
Table 1.1, figure1.1, figure1.2 and 1.3 reveal that numbers of micro and small-scale units are increasing continuously after incentive package in Himachal. The number of large and medium units, which were negligible up to 2000-01, increased to 64 in 2005-06. In comparison to 2000-01 in 2009-10 there is 52 percent increase in industrial units set up during the year. Employment in different micro, small, medium and large units was increased with 234 percent from 2000-01 to 2012-13. There is 3117 percent increase in investment in micro and small scale industries in 2012-13 in comparison to 2000-01. There is 30 times increase in investment in medium and large industries. Although there is slight decrease in establishment of new industries and their employment generation because incentive package finished in January 2013.

**Conclusion**

Industrialization plays a crucial and dynamic role in growth of national economy. Effective industrial growth is essential for successful economic development. It is primarily a means of improving the conditions of work and living standard of downtrodden masses. Industrialization in Himachal Pradesh, in fact is not more than a decade old. Availability of basic and industrial infrastructure has been improved considerably. Successful implementation of various incentives and concessions has recently made a dent in industrial development of the State. The State Government has been generally following the planning strategies evolved by the central Government. There are a number of incentives in form of subsidies and tariffs concessions provided by State Government and Government of India. The main objective of their incentives has been to encourage investment in the State to enable the units to become more competitive and to establish them at the initial stage of production. The special package of incentives granted by the Government of India in January, 2003 was supplemented by the Industrial Policy and Incentive Rules, 2004 which provide more incentives to the potential and existing entrepreneurs in the State such as; tax concessions, concessional rates of electricity duty, special incentives for establishing industrial units in the backward and tribal areas of the State, incentives for training and development of man power etc.
2000-01 to 2012-13, the number of industrial units increased from 28227 to 38640 (36.9%), employment from 148548 persons to 264577 (78.10%) and investment from Rs. 264984 lakhs to Rs. 1466715 lakhs (453%). This highlights the impact of incentive package on the development of economy and also for future endeavors.

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