SIXTY-NINTH REPORT
ESTIMATES COMMITTEE
(1983-84)

(SEVENTH LOK SABHA)

MINISTRY OF INDUSTRY
PRODUCTIVITY IN INDUSTRY

Action taken by Government on the Recommendation contained in the Fifty-Second Report

Presented to Lok Sabha on ....

LOK SABHA SECRETARIAT
NEW DELHI

April, 1984/Chaitra 1906 (S)

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(1983-84)

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INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Sixty-Ninth Report on action taken by Government on the recommendations contained in the Fifty-Second Report of the Estimates Committee (Seventh Lok Sabha) on the Ministry of Industry (Department of Industrial Development)—Industrial Policy—Productivity in Industry.

2. The Fifty-Second Report was presented to Lok Sabha on 26 April, 1983. Government furnished their replies indicating action taken on the recommendations contained in that Report by 31 January, 1984. The replies were examined by Study Group of Estimates Committee on Action Taken Reports at their sitting held on April 6, 1984. The draft Report was adopted by the Committee on April 10, 1984.

3. The Report has been divided into following Chapters :—

(i) Report.

(ii) Recommendations/Observations that have been accepted by Government.

(iii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies.

(iv) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee.

(v) Recommendations/Observations in respect of which final replies of Government are still awaited.

4. An analysis of action taken by Government on the recommendations contained in Fifty-Second Report of Estimates Committee (Seventh Lok Sabha) is given in Appendix. It would be observed that out of 25 recommendations made in the Report, 20 recommendations i.e. about

80 percent have been accepted by Government, and the Committee do not desire to pursue 1 recommendation i.e. about 4 percent in view of Government's replies. Replies have not been accepted in respect of 4 recommendations i.e. about 16 percent.

NEW DELHI;
April 11, 1984
Chaitra 22, 1906 (S)

BANSI LAL,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

1.1 This Report of the Estimates Committee deals with action taken by Government (Ministry of Industry—Department of Industrial Development) on the recommendations contained in their Fifty-Second Report on the Ministry of Industry (Department of Industrial Development)—Industrial Policy—Productivity in Industry which was presented to Lok Sabha on the 26th April, 1983.

1.2 Action Taken notes have been received from Government in respect of all the 25 recommendations contained in the Report.

1.3 Action Taken notes on the recommendations of the Committee have been categorised as follows :—

(i) Recommendations/Observations that have been accepted by Government (Chapter II)

Sl. Nos. 1, 2, 3, 5 to 10, 13 to 17, 19 and 21 to 25.

(Total—20)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies (Chapter III). Sl. No. 4.

(Total—1)

(iii) Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee (Chapter IV).

Sl. Nos. 11, 12, 18 and 20.

(Total—4)

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited (Chapter V).

Nil.

1.4 The Committee will now deal with the action taken by Government in some of their recommendations.

Industrial Regulations

Recommendation (Sl. No. 11, Para 2.46)

1.5 In their Original Report the Estimates Committee had recommended that a critical review might be undertaken in the context of the accent on improving productivity to see if any provisions of MRTP, IDRA, FERA etc. and the rules or regulations made by Government thereunder had acted as a constraint on productivity, and if so, to what extent, and in the light of such a study, the relevant provisions may be suitably modified without sacrificing the essential socio-economic objectives underlying these regulations.

1.6 The three satutes referred to in the Recommendations are the concern of different Departments/Ministries.

1.7 The I (D & R) Act 1951 is the concern of the Deptt. of Industrial Development, the MRTP Act, 1969 is the concern of the Deptt. of Company Affairs and the FERA, 1973 is the concern of the Ministry of Finance, Deptt. of Economic Affairs.

I (D & R) Act :

1.8 In regard to Industries (Dev: & Reg:) Act the Ministry of Industry have stated that :—

> "There are no provisions in this Act which militate against improvement or increase in productivity. In any case, the policies regarding licensing of industries and associated matters are kept under constant review so as to ensure that they do not constraint the industrialisation process. Not only have the licensing procedures been liberalised and simplified but positive steps have also been taken to maximise production from installed capacity, e.g. the scheme of reendorsement of capacities referred to in recommendation No. 12."

MRTP Act :

1.9 In regard to the Monopolies and Restrictive Trade Practices Act the Deptt. of Company Affairs have stated as under :—

"The provisions of the MRTP Act 1969 do not act as a constraint in improving productivity. With the amendments carried out in August, 1982 in the MRTP Act, 1969 a new Section 21(4) has been introduced which takes into account, the need for the industries to modernise themselves and make way for exemption from the provisions of the said act for modernisation. The area of operation of MRTP undertakings has been clearly demarcated now (viz. Appendix I Industries). Moreover, the undertakings in the Free Trade Zones and 100% export oriented undertakings have now been freed from the need for obtaining clearance under the MRTP Act if they fulfil certain minimum conditions. In the same way a list of 'high national priority' Industries has been identified and the provisions of Section 21 and Section 22 of the MRTP Act shall not apply to any proposals from the MRTP undertakings in respect of these industries, subject to certain conditions.

From the position stated above, it would be seen that action has already been taken recently to amend the MRTP Act, 1969 with the object of facilitating more production and enhancing productivity."

FERA

With regard to FERA, the Deptt. of Economic Affairs have stated that : "FERA seeks to regulate the activities of foreign companies, i.e. these having more than 40% foreign equity. It is the policy of the Government that such foreign companies should operate in high priority and high technology areas. The foreign exchange outgo arising out of their operations in the country has to be related to the contribution made by these companies in the core sectors, like Appendix I items, industries involving sophisticated technology and exports of own product.

"When FERA came into force i.e. on 1.1.74, there were many companies which were holding substantial foreign equity and operating in low priority areas. FERA Guidelines sought to regulate the equity of these companies with reference to contribution made by them in the core sectors. Practically all companies with some exception, found it possible to restructure their foreign equity in terms of FERA. It can also be added that many companies restructured their turnover and increased contribution in the core sectors. FERA has pushed these companies to bring in latter day technology."

1.10 The Department of Economic Affairs have further stated that looking into the objective behind the legislation, it is not considered feasible to make any amendment purely in relation to increase in productivity.

1.11 From the reply of the Govt. the Committee note that the provisions of the I (D & R) Act, 1951 and the MRTP Act have been reviewed and ad hoc changes effected to meet the situation as they arise from time to time. What the Estimates Committee had in their recommendation emphasised was the need to make an integrated critical review of all the statutory provisions in the relevant Acts and regulations made thereunder, to see if any of them had acted as a constraint on productivity, and if so, to what extent and in the light of such a study to suitably modify them without sacrificing the essential socio-economie objectives underlying these regulations. As the Govt.'s reply does not fully meet the intention of the Committee in making their recommendation, the Committee reiterate the recommendation and urge the Govt. to undertake such a study.

Regularisation of Excess Capacity

Recommendation (Sl. No. 12, Paragraph No. 2.54)

1.12 The Estimates Committee had recommended that the endorsing in the licence the higher capacity level over and above the best production of a unit during the last 5 years and further re-endorsement of enhanced capacities at the end of March, 1983, though welcome, had not been able to attract a significant response. This was because the scheme suffered from a number of deficiencies. First the scheme of automatic expansion was at present restricted to 34 industries. No specific reasons were assigned for this restriction. Secondly, the scheme being restricted to one year lacked a sense of continuity which inhabited the enthusiam on the part of Industrial units to avail themselves of this facility. Thirdly, and most important, for want of adequate infrastructure, it would be extremely difficult for all the industrial units to make the best of this offer. In some state like U.P. the industrial units had not availed of the benefit of the scheme on account of persistent shortage of power and coal. While the Committee had urged the government to review the scheme in the light of the aforesaid deficiences they had strongly recommended specifically to relax, if not remove, the condition of limiting the scheme to only 34 industries. The Committee saw no reason for disagreeing to the suggestion that it should be extended atleast to such industries where shortage in respect of related commodities existed. They had, therefore, expected government to review the scheme from this angle and allow atomatic expansions in all such cases.

1.13 The Committee had suggested further that in all applications under automatic expansion scheme, due consideration should be given to lack of infrastructure facilities in specific areas so that the units did not stand to lose due to reasons beyond the control of the units compared to those which are better placed in this respect.

1.14 The Department of Industrial Development has stated in reply that : "There appears to be a misunderstanding in this matter. Evidentally this recommendation refers to separate schemes. The first is about automatic growth allowed to 35 industries and the second relates to endorsement of higher capacities on the basic of best production achieved in the past. In regard to the scheme of automatic growth, it has been recommended by the Committee that this scheme may be extended to all industries where shortages exist. It may be clarified that the scheme was announced for the firt time in 1975 to cover 15 Engineering Industries. The Industrial Policy Statement, July 1980 stated that the scheme may be extended to all industries included in Appendix I. This has been done. There does not appear to be any need for extension of the scheme to any other industry for the present.

The Scheme of re-endorement of capacities, which was announced in April, 1982, covers all industries, except those engaged in the manufacture of items reserved for small scale sector or subject to special regulations or other capaaity constraints. The applicability of this scheme to MRTP/FERA companies is confined to the items included in Appendix I. According to this scheme, the licences/registration certificates of eligible industrial undertakings would be re-endorsed on the basis of their best production during the five years preceding 31st March, 1982 plus 1/3rd thereof. The scheme has been extended for another year vide press note dated 8th April, 1983. In other words the re-endorsement of capacities would be based on the highest production achieved during five year prior to 31st March, 1983. It has been decided to extend the scheme for the 3rd year to encourage industrial undertakings to continue their efforts to maximise production.

As regards the suggestion to have different norms for different units and different areas, it is felt that this would entail many administrative difficulties in implementation. In any case, when a five year period is being taken into account for purposes of re-determining the capacity to be endorsed, it should be possible for any unit in any region to utilise its capacity to the full extent and claim the benefits of the scheme".

1.15 The Committee had recommended that the Scheme for Automatic Expansion which is at present restricted to only certain industries specified

in Appendix I of the Industrial Policies Statement of July, 1980, should be extended atleast to such industries where shortages in respect of related commodities exist. They are unable to agree with the view of the government that "there does not appear to be any need for extension of the Scheme to any other industries for the present" and reiterate the recommendation.

The Scheme for Re-endorsement of capacities announced in April, 1982, provides for re-endorsement of the capacities of eligible industries on the basis of their best production during the preceding five years plus one-third thereof. The Committee had observed that for want of infrastructure, it was extremely difficult for all the industrial units to make the best use of this offer. Pointing out the example of U.P. where the industrial units had not availed of the benefits of the scheme on account of persistent shortages of power and coal, the Committee had desired that the Ministry should review the Scheme. In reply the Ministry have stated : "As regards the suggestion to have different norms for different units and different areas, it is felt that this would entail many administrative difficulties in implementation". The Committee are disappointed that the Ministry have entirely brushed aside the genuine problems being faced by the industrial units in certain States on account of factors entirely outside their control. The Committee trust that government will give a fresh look to their recommendation and try to so modify the Scheme that a larger number of Industrial Units are able to take benefit thereunder. This would be in the interest of increasing the productivity in industry.

Industrial Sickness

Recommendation (Sl. No. 18 & 20, **paras 4.13 & 4.15**)

1.16 In their original Report (Para 4.13) the Estimates Committee had observed :

> "The Committee feel concerned over the growing sickness among industrial units leading to gross under utilisation of industrial capacity and manpower resources in the existing enterprises and contributing to growing imbalances and shortages in the economy. According to the Reserve Bank statistics the number of large units had gone up from 289 in December, 1977 to 420 in March 1981, the number of sick medium units from 1013 in June, 1979 to 1026 in June 1980 and sick small units from 20, 326 in June 1979 to 22, 235 in June, 1980. Reasons leading to Industrial sickness have been

identified. The main reason of sickness among large units as identified by Reserve Bank of India study of 378 units, is mismanagement due to which as many as 197 out of 378 units (52%) are sick. Another 52 units (14%) have gone sick due to faulty initial planning; 34 units have fallen sick due to power cut and shortage of raw materials. In addition 86 (34%) units have gone sick owing to market recession. It is clear, therefore, that if there were an adequate monitoring and early Warning System in the industry, in a large majority of cases the correctives could have been applied in the very beginning and the units could have been saved from falling sick".

1.17 The Ministry of Finance (Banking Division) have in reply stated as under :—

"It has been mentioned by Reserve Bank of India that the number of sick medium units (non-small scale industrial units individually enjoying bank credit of less than Rs. 1 crore) given in paragraph 4.13 as 1013 in June, 1979 related to December, 1979 and the number of sick small scale units in December, 1979 was 20975. In respect of 86 units becoming sick owing to market recession, the percentage is 23 and not 34 as mentioned in para 4.13.

The banks and financial institutions have monitoring system to detect sickness in their assisted units at the incipient stage itself. Whenever an industrial unit shows signs of incipient sickness, the banks and financial institution take necessary corrective measures. The banks and institutions for this purpose undertake periodical inspections and also call for regular progress reports/operational data from their assisted concerns. Necessary follow up action is taken on the findings of such inspections/progress reports. The directors nominated by the banks and institutions on the Boards of assisted concerns also monitor closely the affairs of the concerns and report any major development of sickness immediately to the institutions who take appropriate measures thereafter. With the experience gained over the years, the banks and financial institutions have evolved systems and procedures for monitoring problems cases and the present system appears to be working fairly satisfactorily. The suggestion of the Estimates Committee is that there should be adequate monitoring and early warning system in the industry. In the view of banks and Institutions, it would be desirable for the Industrial

Units to have proper 'Management Accounting System' and 'Management Information system". The former can help the units to take timely and appropriate decision about production, budgetary control etc. While the latter system will equip the industrial units with the knowledge about what is happening where existence of such systems can help the management in a majority of cases to save the units from falling sick. The banks and institutions insist wherever possible on the managemento f the industrial units to instal such system."

1.18 It has also been mentioned in this connection that industrial sickness cannot be said to be growing. Figures of increase in the number of sick units or in outstanding bank dues might not give a proper perspective of the problem. A more appropriate indicator would be a year to year comparison of outstanding credits to sick industrial units as a percentage of total bank advances. The figures for December, 1981 (last year for which data is available) and the two previous years i.e. December, 1980 and December, 1979 are stated to be the following :—

December, 1979	7.86%
December, 1980	7.64%
December, 1981	7.07%

1.19 This, it has been pointed out, shows a declining trend in finances tied up in sick units.

1.20 In Para 4.15 of the Report the Committee had noted that the Department of Industrial Development had evolved a detailed proposal to set up centralised Authority to deal with the phenomenon of industrial sickness and that the matter was to be placed before the Cabinet soon. The Committee desired it to be finalised early.

1.21 Government have stated in reply in order to combat industrial sickness, the Ministry of Finance is considering the possibility of evolving a package of policy measures to meet the situation, The guidelines on sick industries dated 6.10.1981 are only the first step in this direction. The problem is said to be have been discussed in a meeting taken in the Ministry of Finance in July, 1981 and it had been decided that the Committee earlier appointed by the Reserve Bank of India under the Chairmanship of Shri T. Tiwari, Chairman, IRCI to look into problems faced by banks and financial institutions in rehabilitating sick units, should also consider the different aspects of the proposal for a comprehensive legislation for revival of sick units. The Committee is stated to have submitted its interim report to the Reserve Bank of India, a copy of which had been received by the Ministry of Finance. The Committee have been informed that the report is under process by the Ministry.

1.22 The Committee are unable to agree fully to the suggestion that increase in the number of sick units should not be regarded as an indication of growing industrial sickness. While an year to year comparison of outstanding credits to sick industrial units as a percentage of total bank advances might indicate the intensity of sickness among the Industry as a whole, the growing number of sick units should cause concern. In this connection the Committee might mention that the monitoring systems in the banks and financial institutions leave much to be desired as would be clear from the growth in the number of sick units. The number of sick non-small scale units in December, 1979 was 1013 and of the sick small scale units in December, 1979 was 20975. These numbers have shown rising trends. The number of sick small units rose to 22,325 in June, 1980. The Committee might add that the efforts of the banks in identifying sickness at early stages and helping the industrial units in setting up the requisite systems for proper and timely decisions to avoid sickness would not go far unless supported by adequate authority in this behalf. It is in this context that the Committee had recommended the setting up of a centralised authority to deal with the phenomenon of industrial sickness. The Committee note in this connection that Government are seized of the problem. In order to combat industrial sickness, the Ministry of Finance are considering the possibility of evolving a package of policy measures to meet the situation. An interim Report of the Committee appointed under the Chairmanship of Shri T. Tiwari, Chairman, IRCI is already under consideration, and comprehensive legislation for revival of sick units is contemplated. These measures are welcome. However, there is no indication in Government's reply regarding the proposal to set up a centralised authority which was to be placed before the Cabinet Committee. The Committee are of the view that positive results of these efforts could not be expected without the help of a monitoring mechanism of a centralised authority as already suggested. They would therefore, reiterate their earlier recommendation in this regard and hope that this important aspect of the matter will not be lost sight of while formulating the proposed legislation.

Industrial sickness among small units

Recommendation (Sl. No. 19, paragraph 4.14)

1.23 The Estimates Committee had expressed surprise over the fact that no study had been made of the phenomenon of growing sickness among small scale industrial units. The Committee had been informed that such survey had been taken up and the results were expected within a few months. The Committee had expressed hope that the results of study would be available early and Government would take the follow up measures to detect sickness among small units at the initial stage of sickness and take speedy measures for rehabilitation of such units where possible.

The Ministry have, in their reply reported that the DC (SSI) has stated as follows : "In order to provide more realistic estimate of sickness in the small scale sector, the office of the Development Commissioner (Small Scale Industries) carried out Diagnostic Survey of Small Scale Units in 1982-83 with the following objectives :—

(*a*) To assess the incidence af sickness in the small scale sector.

(*b*) To indentify various causes of sickness of the units.

(*c*) To suggest measures for rehabilitating the sick units.

Criteria for sickness

1.24 There is no acceptable definition of sickness in the small scale sector. In fact, the Surveys conducted in the past by most financial institutions have sought to define sickness from entirely financial angle. For the purpose of this Survey a sick unit has been defined as the one which satisfied any one of the following criteria :—

(*i*) Utilisation of capacity less than 50% of the highest achieved by the Unit during the last five years making allowance for any additional capacity installed during the last year :

(*ii*) 50 per cent erosion of net worth of the unit and ;

(*iii*) Units being closed for a total period of 6 months and more during the last year.

Frame and Sample Size

After striking balance between the margin of accuracy and availability of resources, it was adecided to select about 8,000 units on stratified random sampling basis from the list of SIDO units registered with the State Directors of Industries as on 31st March, 1981. The sample size is expected to provide all India estimates of incidence of sickness at broad industry group level. This survey would not be able to provide estimates state-wide due to the limited size of the sample.

Progress of Work

The collection of information from the selected units was completed in all the the States and Union Territories by March, 1983. The Survey could not be conducted in Andaman and Nicobar Islands, Sikkim, Arunachal Pradesh and Lakshadweep due to various reasons. The processing of data on computer has been completed and the report is under preparation."

1.25 The Committee attach great importance to the health of the small scale industries in view of the share of this sector in national industrial production and the possible impact of weakness of this sector on the overall industrial productivity. The Committee note that a Diagnostic Survey of Small Scale Units was carried out in 1982-83 with a view to assess the incidence and causes of sickness among small units and to suggest measures for rehabilitation thereof. Data and information collected in this behalf is stated to be under process.

The Committee hope that Government would in the light of this Survey, evolve systems to detect sickness among the Small Scale units at the incipient stage and take appropriate preventive measures and corrective steps to restore the health of such units.

Implementation of Recommendations

1.26 The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by Government. They would, therefore, urge that Government should ensure expeditions implementation of the recommendations accepted by them. In case where it is not possible to implement the recommendation in letter and spirit for any reason the matter should be reported to the Committee in time with reasons for non-implementation.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para 1.10)

The Committee are happy to note that the Year 1982 was declared by Government as the Year of Productivity. This naturally raised high expectations that Government and the industries in the public and private sectors would strive to raise their productivity levels. It, however, transpired in evidence that the Ministry of Industry have taken "Productivity to mean higher production by optimal utilisation of the production assets installed." The Secretary, Deptt. of Industrial Development admitted in evidence that the definition of productivity followed at present by the Ministry was what According to the Secretary, Deptt. of Indl. Development there cannot be industrywise measurement of productivity in the sense of "Inter-factor utilisation" because apart from efficient mangement productivity was dependent on a number of factors like labour-mangement relations, state of plant and machinery availability of raw materials, etc. The Committee are unable to share this view, because, as pointed out by National Productivity Council, it is a distortion to say that Productivity is synonymous with higher production. Higher production can be easily achieved by adding new capacities but that is not higher productivity. The Committee urge Government to evolve and follow a scientific definition of productivity in consultation with the National Productivity Council and Planning Commission.

Reply of Government

There can be no single definition of productivity. From the technical point of view, productivity can be defined as ratio of out put of goods and services to input of resources. However, in its broader sense, productivity is a combination of efficiency and effectiveness of any system. It implies efficient and effective use of available and scarece resources such as capital, materials, energy and other factors of production.

The above definition has been framed in consultation with the National Productivity Council and the Planning Commission.

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C dated 31/1/1984]

Recommendation (Sl. Nos. 2, Para No. 1.18 & 1.19)

The Committee find that no system of measurement of productivity industrywise has been evolved as yet. Ministries which oversee industries in public and private Sector do not have an agreed index to reflect productivity. Central Statistical Organisation is presently the main source of data for carring out exercise on productivity measurement but there is time lag of 4 to 5 years in compilation of such data, the latest data available being for 1977. About the data compiled by CSO, the Secretary expressed grave doubts, in evidenee and wondered if such data really could serve the purpose of productivity measurement. The Committee cannot but deplore a complete lack of system of measurement of productivity.

The Committee, however, note that recently the National Productivity Council has selected 8 important industries viz Cement, Coal, Paper, Fertilisers, Thermal Power Generation, Road Transport (Passenger), Sugar and Heavy Engineering for undertaking "Productivity normative studies through inter firm comparision methods." The Committee understands that there is also a move to set up tripartite boards for these industries. The Committee recommed that once this system is set in motion, it may be extended to more and more industries so that in not too distant a future all the major industries are covered.

Reply of Government.

The Central Statistical Organisation have stated that they have carried out some exercise on productivity Index using the data available from the Annual Survey of Industry in the context of brining out profiles of various industries. The Labour Bureau of the Ministry of Labour is engaged in compiling industrywise Productivity indices and has compiled labour and capital productivity as well as total factor productivity indices upto the year 1970 (base : 1960) on the basis of the Annual Survey of Industry (ASI) data. Detailed data are not available for further years so as to compile the indices beyond 1970.

As the methodoly for the measurement of productivity adopted by the different Ministries/institutions is not uniform, the Department of Statistics is now taking measures to evolve a standard methodology for the purpose.

A technical Advisory Committee on Productivity and Wages, with representative from the concerned Ministries, the National Productivity

Council and academic institutions is being set up in consultation with Ministry of Labour to go into the question of measurement of Productivity and devise suitable productivity indices.

In pursuance of the decision of the Central Advisory Council of Industries, 7 Productivity Boards (industrywise) have been set up for Cement, Paper, Pulp and Allied Industries. Leather and Leather goods, Automobiles and Ancillaries, Machine Tools, Industrial Machines and Power Generation, Transmission and distribution equipment. These boards are tripartite in character with equal representation of employers, labour and the Government. The NPC provide the Secretariat for these Boards, whose life is initially for 2 years. After wacthing the working of these Boards, the question of setting up of more Boards will be considered.

[Deptt. of I.D. O.M. No. 2(25)/83-PP & C dated 31-1-1984]

Recommendation (S.L. No. 3, Para 1.29)

The Committee note that the National Productivity Council, an autonomous body, under the Ministry of Industry is, through its net work of 14 regional officices and 48 local Productivity Councils, engaged in the promotion of Productivity consciousness in the country. The Committee are concerned to find that the Council is feeling handicapped in moving faster and undertaking expansion of its activities in this vital field because of paucity of funds. The Committee feel that unless the State Governments extend their whole hearted cooperation, efforts for generation of productivity consciousness in the industries cannot succeed. The Committee would urge that Productivity Councils should be provided with adequate funds to carry on their activities aimed at raising productivity levels in the industries.

Reply of Government

Noted.

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C dated 31/1/1984]

Recommendation (Sl. No. 5, Para 2.11)

As would be seen from the data furnished to the Committee in respect of 48 industries the capacity utilisation was less than 70 per cent in 20 industries during 1982 as against 19 Industries during 1981. In the case of basic industries like Cement, zinc and fertilizers distinct downward trends are noticed compared to some earlier years. Downward trend is also seen in case of tractors. Similarly in case of industries like rubber. machinery, sugar machinary and Diesel engines, capacity utilisation has been poor being just around 50 per cent in all these cases. What concerns the Commitee is that unsatisfactory or poor performance is noticed in the basic and machinery industries which have a vital bearing on the economy of the country. The Committee would, therefore, urge Government to look into the demand and production constraints in regard to fuller utilisation of capacities in these industries and initiate measures to atleast halt the downward trend.

Reply of Government

Optimal capacity utilisation is dependent on o number of factors, all or any of which may be of relevance at a point of time, like availability of infrastructural inputs, raw material, market demand (both domestic and export), a consumer preference, harmonious labour relations, etc. It is the constant endeavour of Government to ensure that the economic environment is conducive to optimal capacity untilisation in industry as a whole.

2. The position in a respect of the industries specifically mentioned in this paragraph is briefly as under :—

Cement : Under utilisation of capacity is mainly on account of shortage of power and coal. The Government is making every effort to overcome these constraints. Increase in production during the last three years has been encouraging viz. 1980-81—18.56 MTs 1981-82—21.06 Million tonnes and 1982-83—23.30 Million tonnes.

Zinc : The shortfall in production was mainly due to power cuts. Steps have been taken to maximise utilisation of installed capacity by :—

(a) Providing captive generation sets both for the smelters and mines located in Rajasthan ; and

(b) Ensuring better operation and maintenance of plant and machinery.

Fertilizers : The shortfall in production was mainly due to shortage of power and problems with equipment. The State Electricity Boards have been requested to supply adequate power and ensure continued supplies without power cuts, voltage fluctuations, power failures, etc. Project authorities have also been advised to keep a close watch on performance of equipment so that timely action can be taken to attend to any failures. Similarly steps have been taken to ensure continuous supply of raw material in adequate quantities and of proper quality.

Tractors : Various measures taken by the Deptt. of Heavy Industry in consultation with the Ministry of Finance and Reserve Bank of India have led to an improvement in production. During April-July 1983 ; production was 26.2% over the production in the corresponding period in the previous year.

Rubber Machinery and sugar machinery : The Deptt. of Heavy Industry has indicated that both industries have reported satisfactory performance during 1982-83. The rubber machinery industry is comparatively young and has, therefore, received the full support of the Government particulary in the matter of import of technology and equipment. As for the sugar machinery industry, it is likely to show better results in future because of the establishment of new sugar manufacturing capacity. The Import Policy has also been re-oriented to give maximum support to indigenous machine manufacturers.

Diesel engines : During 1982 there was a fall in production in all categories of diesel engines. In the 1-15 HP range, production in the organised sector has been stagnating for a number of years because of competition from small scale units which enjoy several fiscal concessions. In the 16-100 HP range, the demand is mainly from tractor and light commercial vehicle manufacturers. The fall in tractor production during 1981-82 also affected the diesel engine manufacturers. In the case of light commercial vehicles, some units have established captive diesel engine manufacturing facilities and, as a consequence, they have stopped market purchases. For diesel engines of over 100 HP capacity the fall in production can be attributed to lack of demand from one particular commercial vehicle manufacturer.

During 1983 there has been an improvement in production of diesel engines of above 100 HP capacity due to a spurt in demand for diesel generating sets.

As an overall policy for fuller utilisation of capacity in industry, the Government has taken several measures from 1980 which includes schemes like automatic growth in 35 selected industries, regularisation of excess capacity for 34 industries, re-endorsement of capacity with reference to higher production, etc.

[Deptt. of ID, O.M. No. 2 (25)/83-PP & C dated 31/1/1984]

Recommendation (Sl. No. 6, Para 2.22)

The Industrial Policy Statement of July, 1980 had acknowledged the fact that our economy is "presently inhibited by infrastucture gaps and inadequacies in performance". It was stated that to normalise the sitution, Government are working on "war footing". The Committee were informed in evidence that there is now a Cabinet Sub-committee on infrastucture which monitors the production and distribution of the essential infrastructure, viz. Power, Coal or Transport. It is however, a matter of concern that power situation continues to be critical if notg rave. The Plant Load Factor which is an index of capacity utilisation in the power sector shows a deteriorating trend. The PLF of thermal Power stations has declined from about 56 per cent in 1976-77 to 46.8 per cent in 1981-82. This deterioration in the utilisation of capacity in thermal power stations has been the major contributing factor to the power shortage experienced in the country during the last five years. Needless to point out that this results in colossal wastage of investments in this sector as also consequent production losses in the Industrial sector. The loss in industrial production due to power shortage in 1980-81 is estimated to be Rs. 2,500 crores as against Rs. 400 crores in 1978-79 and Rs. 2,000 crores in 1979-80. The Committee, therefore, are of the considered view that nothing short of total reorientation of the policies and programmes aimed at optimal utilisation of capacity of power plants and exploitation of alternative sources of energy would help improve our economy.

Reply of Government

The Ministry of Energy, Department of Power have stated as follows :-

"The Ministry is aware of the unsatisfactory power position in the country. The declining trend of overall P.L.F. of the thermal station was a cause of concern. Consequently remedial measures were taken which succeeded in reversing the trend in 1981-82. The P.L.F. in 1982-83 has been 49.8% as compared to 44.6% in 1980-81. During 1983-84 the performance of T.P.S. is expected to further improve and a P.L.F. of 51% is likely to be achieved.

An important step in the direction of achieving optimum results from existing investment has been introduction of incentive awards scheme. If the goals envisaged in the scheme are achieved, the P.L.F. will achieve new heights.

"In the field of new sources of energy, large scale programmes in energy forestry and bio-gas have been taken up in the 6th Plan. Field testing and demonstration on a country-wide basis of other renewable technologies like solar and wind energy are being carried out on an accelerated basis. Research and development of other renewable technologies have been intensified. A pilot project for examining feasibility for tidal power generation in the Gulf of Kutch has been sanctioned and investigations have started".

[Deptt. of I.D.O.M. No. 2(25)/83-PP & C, dated the 31st January, 1984.]

Recommendation (Sl. No. 7, Para 2.23)

The Committee have already examined the subject in great detail and submitted their 13th Report (1980-81) on generation of Power and made a number of recommendations. They are confident that implementation of thes recommendations could help in administering the power sector in a better way.

Reply of Government

Ministry of Energy have stated as follows :—

"An advisory Board on Energy has since been set up. Its main function will be to review the energy situation and propose future energy options on an integrated and coordinated basis. The Board will assess the likely demand and availability of different form of energy and suggst appropriate arrangements to meet the country's energy needs on an optimal basis. An important function of the Board will be to propose measures for energy conservation, energy substitution ond more efficient use of different form of energy"

[Deptt. of I.D.O.M. No. 2(25)/83-PP & C, dated the 31st January, 1984.]

Recommendation (Sl. No. 8, Para 2.27)

It has been reported that capacity underutilisation in 8 industries, namely BHC (Tech), DDT, Industrial Explosives, Viscose Tyre Cord, Viscose Filament Yarn, PVC Resins, Polystyrene and Synthetic Rubber is due to sluggishness of demand. There are two ways to fight this trend *viz.* diversification and export, The Secretary, Department of Industrial Development pointed out that Government had been so liberal in allowing diversification that hardly any area had been left out. As regards exports, he stated that it was a continuous process. The Committee recommend that reasons for recession in these 8 industries may be probed further and suitable remedial measures taken.

Reply of Government

The DGTD have indicated the position in relation to each of the industries mentioned in this paragraph as under :—

BHC & DDT : Capacity utilisation during 1980-81 has been low mainly due to poor off-take. Capacity utilisation during 1982 has been satisfactory and, therefore, it does not appear necessary that any long term planning for export is required for the present.

Industrial Explosives :—While production has gradually increased from 1980 onwards, during the first quarter of 1983 production has again been low compared to the first quarter of 1982 because of labour unrest in some units. Thereafter production has again picked up. One unit which has gone into production recently, is still facing teething problems.

Viscose Tyre Cord and Viscose Filament Yarn :—Production of Viscose tyre cord has been gradually declining mainly due to lower off take of this product by tyre companies who have switched over to Nylon Tyre Cord because of its superior qualities. The capacity utilisation in this Industry is not likely to improve. The Export potential for this item is also not very encouraging, as demand in the international market has gone down. Manufacturers are, however, making attempts to diversify to other items. In any case, import of rayon tyre cord has been stopped from the current licensing period of 1983. This may help the viscose tyre cord industry to some extent.

Production of viscose filament yarn has been going down because of closure of some units in 1982 and 1983, increased availability of superior synthetic yarn, sluggishness in demand, imports, decrease in the price of rayon filament yarn in the international market and free availability of rayon filament yarn which is under OGL. The Deptt. of Textiles have indicated that the industry is kept under constant review, and corrective measures are initiated whenever necessary to ensure that the price of imported materials is higher then the indigenous product. Recently, import of second quality viscose filament yarn (including Acetate filament yarn) has been canalised through the STC.

PVC Resins :—Decline in production is due to the closure of one large unit in Rajasthan for the last two years because of the power problems in the State and large scale import of PVC Resins (which is under OGL) as international prices have come down. To meet the situation, import duty on PVC was increased in October, 1982 thereby bringing the landed price of the imported product to the level of the indigenous price. This has shown good results by way of increased production since June, 1983.

Polystyrene :—The decrease in production during 1980-82 was partly because of closure of one of the major units and partly due to the higher price of polystyrene resin compared to other thermoplastic resins. Consequent upon the resumption of production by the closed units, steps have been taken to ban the import of the ploystyrene, by the actual users under automatic licences. As a result, production in 1983 is expected to be higher than the earlier years and this trend should continue in the subsequent years.

Synthetic Rubber Industry :—The only manufacturer of S.D.R. synthetic rubber based on Alcohol and Benzene, viz. M/s Synthetic and Chemicals Ltd, Bareily has been experiencing difficulties in the availability of alcohol as well as coal. Also, imported synthetic rubber is cheaper for the user industry. Although, the availability of alcohol during the last two years has been comfortable, the user industry has preferred to import their requirement. To meet this situation, the duty structure has been recently revised to make the indigenous product more competitive vis-a vis the imported product.

[Deptt. of I.D.O.M. No. 2(25)/83—PP & C, dated the 31st January, 1984.]

Recommendation (Sl. No. 9, Para No. 2.33)

The Committee note that Government so far have rightly followed a cautious approach in regard to exposing indigenous industry to competition from outside. We are now having industries some of which exclusively in the Public Sector spread all over the country producing a variety of goods of varying qualities. This has, however also created a sense of complacency at least in certain industries where there is virtually no competition both from within and outside. Costs and afficiencies have consequently been affected adversely. Automobile is an outstanding example of this state of affairs. No worthwhile progress is seen in automobile industry in the matter of quality or design for the last 3 decades while costs have gone up considerably. The Committee feel that there is greater need to selectively relax the industrial economic and fiscal policies gradually in non-strategic sectors so that at least in the long run the economy can derive the benefits of international competition and within the country there is healthy competition between the Public and Private Sectors.

Reply of Government

Ministry of Finance (Deptt. of Economic Affairs) has indicated as follows :—

"Keeping the Industrial Policy Resolution 1956, as primary guide, the multi-dimensional efforts by the Government of India including adequate protection both in quantum and time aspects to the domestic industry based on the universally accepted infant industry argument, have resulted in the establishment of a strong and well diversified industrial base in the country. At the same time, Government is very much conscious of the high costs and inefficiencies prevailing in certain industries for reasons like old machinery, obsolete technology, lack of modernisation etc. The Government has already initiated several steps for cost reduction and increasing efficiency in several industries. In the Budget 1983-84, to quicken the pace of replacement and modernisation, the general rate of depreciation in respect of plant and machinery has been stepped up from 10 per cent to 15 per cent and the monetary limit for 100 per cent write-off has been raised from the present level of Rs. 750 to Rs. 5000 in respect of small items of plant and machinery.

"In order to increase the efficiency and competitiveness of the automobile industry, excise concessions have been extended to the three axled commercial vehicles. Foreign collaborations has also been allowed recently in this sector with a view to inject advanced technology".

"Recently, Government has announced a considerable reduction in excise and customs duties on electronic goods with musical system, record players and T.V. etc.) ranges from 5 per cent to 20 per cent *ad valorem*. They are also exempted from payment of special excise duty presently charged at the rate of 5 per cent of the basic excise duties and also complete exemption from countervailing duty. Import of specified inputs in electronic industry have also been given considerable relief. Project imports and specified inputs were exempted from auxillary duty of customs".

[Deptt. of I.D, O.M. No. 2(25)/83—PP & C. dated 31/1/1984]

Recommendation (Sl. No. 10, Para No. 2.39)

The objective of keeping prices of imported Soda Ash at 10% lower than the local price so that there was an incentive to reduce the price to that level particularly when this commodity was being used by weaker sections of the people was laudable. The Committee, are, however, concerned at a considerable fall in the indigenous capacity utilisation from 94% in 1981 to 49% in January-September, 1982. They would, therefore, urge Government to examine the matter in this context and also ensure that this opportunity is not utilised by foreign companies to dump their excess production into the country to the detriment of local industry. Other indigenous industries like Steel, aluminium and polyster fibre are also reported to have suffered from this policy of Government. Government would do well to review their import policy in respect of these industries as well.

Reply of Government

Soda Ash

As regards capacity utilisation of soda-ash, the Ministry of Chemicals & Fertilisers have stated as follows :—

"There are five units engaged in the manufacture of Soda Ash in the country with a total installed capacity of 7,60,600 tonnes per annum. The total production of Soda Ash during 1980-81, 1981-82 and 1982-83 was 5.63 lakh tonnes, 6.32 lakh tonnes and 6.35 lakh tonnes respectively. The capacity utilisation during these years was 81%, 91% and 88% respectively.

"Production during the calendar years 1981 and 1982 was 6.40 lakh tonnes and 6.11 lakh tonnes respectively and capacity utilisation during these years was 92% and 88% respectively.

"Production and capacity utilisation during the period January to

September 1982 and the corresponding period of 1981 were as follows :—

Period	Installed Capacity (Annual) (Tonnes)	Production capacity. (Tonnes) (Utilisation) Pro-rata	
Jan-Sept. 1981	6,94,600 (5,21,000 Pro-rata for 9 months)	4,81,323	92%
Jan-Sept., 1982	6,94,600 (5,21,000 pro-rata for 9 months).	4,22,465	81%

As will be seen from the above statement the capacity utilisation of Soda-Ash during January to September, 1982 was 81% and not 49% as indicated in the Committee's recommendation.

Steel

As regards Import Policy for Steel, the Department of Steel have stated as follows :—

"The Metal Scrap Trade Corporation Limited imports shredded scrap, sponge iron, melting scrap of stainless steel category AISI 304. Other items of scrap, viz. re-rollable scrap, pig iron chips and cast iron scrap are not imported by the MSTC. The comparative prices of imported and indigenous categories are as under :—

		Imported	(Rs. Per Tonne) Indigenous
1.	Shredded scrap	1684	1700
2.	Sponge Iron	1664	1432
3.	Melting scrap of stainless steel AISI 304	11930	13000

"It may be seen from the above that the difference in the prices of imported and indigenous materials is marginal and this does not appear to be the cause of a considerable fall in indigenous capacity utilisation in the country as has been pointed out in para 2.39 of the Estimates Committee's Recommendations.

"Regarding Iron and Steel it is stated that the import policy is formulated on annual basis taking into account total demand, indigenous availability, imports in the past and scope for import substitution. During the operational year also, the policy and the situation obtaining in the country are closely watched and reviewed from time to time. Whenever the stiuation warrants the policy is amended. However, it has been a regular principle to see that what is adequately produced in the country to match the demands is not imported."

Aluminium

As regards capacity utilisation and Import Policy of Aluminium the Deptt. of Mines have stated as follows :—

"The demand for aluminium which has been rising steeply in the past, started declining from the beginning of 1981. This happened mainly due to low off-take by State Electricity Boards. Consequently considerable inventory piled up with the primary producers as well as the canalising agency *i.e.* MMTC during 1981-82 and 1982-83. Hence imports were reduced in 1981-82 and no imports were planned in 1982-83. However, from February, 1983 production of aluminium slumped to very low levels on account of (i) severe power cuts experienced by M/s Indian Aluminium Company; (ii) virtual closure of the smelter of M/s Madras Aluminium Company, another primary producer in the country, due to 100% power cuts and (iii) two of the three generating sets of M/s Hindustran Aluminium Corporation having been under repairs for some time. Production during the period February-July 1983 was of the order of 14,000 tonnes approximately, as against the normal monthly production of over 17,000 tonnes. Hence, it has been decided to make some marginal imports in the current year, the actual quantum being dependent on the level of indigenous production and the tempo off-takes which are closely monitored.

"Thus it may be seen from the above that the imports of aluminium are allowed to be made by the canalising agency in order to meet the gap between indigenous production and the demand thereof, without detriment to the indigenous industry."

Polyester Fibre

As regards capacity utilisation and import policy on Polyester Fibre Industry, the Deptt. of Petroleum have stated as follows :—

"The installed capacity to manufacture polyester staple fibre, production, and import are given in the table below :—

Year	Installed Capacity (tonnes/ annum)	Production (tonnes)	Import (tonnes)	Total (apparent consumption (tonnes)
1980-81	34,300	22,333	4018	26,351
1981-82	34,300	29,703	1770	31,473
1982-83	34,300	25,775	6483	32,258

"From the above statement it can be seen that capacity utilisation of the domestic industry has been to the extent af 65.11%, 86.60% and 75.15% respectively.

Taking into account the recessionary conditions abroad, the import duty on polyester fibre was suitably adjusted by the Finance Ministry in March, 1983.

"There are Committees in the Ministry of Commerce (under the Chief Controller of Imports and Exports as well as under the Chairmanship of Commerce Secretary) who periodically review the situation and consider whether any changes in import policy are required.

"The price of imported polyester fibre is at present not lower than the price of the domestic fibre."

[Deptt. of I.D, O.M. No. 2(25)/83-PP & C, dated 18.2.84]

Recommendation (Sl. No. 13, Para No. 3.30)

Labour Productivity has grown in the manufacturing Sector at the rate of about 2 per cent per annum during the period 1960-77. However, the growth of productivity fell from 2.7 per cent in 1960-65 to 1.36 per cent during 1970-76. The Committee are surprised to learn that no study has been done by the Ministry of Labour with a view to analysing the reasons for the decline in labour productivity in any industry. The Committee feel that such a study should be undertaken soon so that based on the study appropriate measures to boost labour productivity could be evolved.

Reply of Government

The Ministry of Labour have stated as under :—

"Productivity is generally understood to represent the relationship between the output and all the resource input. Labour productivity, in the studies made by the Central Statistical Organisation and the Labour Bureau, is taken as value added/output per unit of labour input. The labour productivity so defined does not exclusively relate to the efficiency of labour because increase in output or value added cannot be attributed to a single factor such as labour. Productivity varies from industry to industry and within the same industry from unit to unit, depending on various factors. Therefore, direct corelation between manpower and productivity would be rather tenuous and determination of any policy based on such studies will be beset with practical problems.

"However, the recommendation of the Estimates Committee that a study be undertaken to analyse the reasons for decline in labour productivity cannot be ignored. Realising the importance of this subject, this Ministry has already taken initiative to have certain studies on productivity. In a meeting of the representative of the Central Statistical Organisation, the National Productivity Council, the Labour Bureau, the National Labour Institute and the Ministry of Industry, it was emphasised that in view of the importance of the subject, some critical sector should be taken up on a sample basis and a study made thereon. The Central Statistical Organisation was requested to set up a Technical Advisory Committee on Productivity to go into the various aspects of the subject. The C.S.O. has already taken action to set up a Technical Committee".

[Deptt. of I.D., O.M. No. 2 (25)/83-PP & C, dated 31.1.1984].

Recommendation (Sl. No. 14, Para No. 3.31)

The Committee find that out of 32 million mandays lost in 1980 and 26 million mandays lost in 1981 in the industries, the share of industries in the Central sphere accounted for only 2.16 million mandays in 1980 and 2.76 million mandays in 1981. The Committee find that although a monitoring unit has been set up in the Department of Labour in October, 1981 with a view to monitoring information on industrial relations throughout the country for timely intervention, this unit is unable to function for want of feed-back relating to industrial unrest from the States due to lack of mechanism with the States for the purpose.

The Committee need hardly emphasise the need for adequate flow of information. The Committee have no doubt that the States will gear up their machinery and provide adequate feed-back in the interest of development of harmoniours labour-management relations.

Reply of Government

Ministry of Labour have stated as follows :—

"The question of strengthening the monitoring arrangement both at the Centre and in the States was taken up in the Labour Ministers' Conference held in September, 1983. The consensus at the Ministers' Conference was that the monitoring arrangements in the States need to be strengthened. The State Governments are being requested to take necessary steps for strengthening the set up at the state level. A Plan Scheme is also being prepared for strengthening the monitoring arrangements both at the Centre and in the States to be included in the 7th Five Year Plan".

[Deptt. of I.D., O.M. No. 2 (25)/83-PP & C, dated 31.1.84]

Recommendation (Sl. No. 15, Para No. 3.32)

The Committee understand that there has been dissatisfaction among the workers about the delays involved in the adjudication of industrial disputes by labour courts and industrial tribunals. To improve the situation a norm of disposal of 6 industrial dispute cases per month by each Central Government Industrial Tribunal-cum-Labour Court is stated to have been fixed. The Committee would expect Government to keep the position under review so that the machinery is enabled to dispose of the cases expeditiously.

Reply of Government

Ministry of Labour have stated as follows :—

"*Delay in the adjudication of industrial disputes by labour courts and industrial tribunals*".

With a view to reduce the pendency of cases in the Central Government Industrial Tribunals-cum-Labour Court, a norm of disposal of six cases per month per Tribunal-cum-Labour Court has been fixed in a meeting with Presiding Officers. The position of disposal is reviewed from the monthly progress reports furnished by the Presiding Officers. Wherever it is found that the disposal is below the norm, the Presiding Officer concerned is requested to take suitable action in the matter.

"Besides, one Central Government Industrial Tribunal-cum-Labour Court has been set up in Chandigarh. It has also been decided to set up another Central Government Industrial Tribunal-cum-Labour Court at Kanpur.

"Through the Industrial Disputes (Amendment) Act, 1982 a new sub-section 10(2A) has been introduced so that in respect of Industrial Disputes in connection with the individual workman awards are given within a period of three months.

"Section 15 of the Act has been amended so that the Government can specify a period in the order referring Industrial Dispute to Tribunals for submission of awards.

"Also an amendment has been carried out to Section 33(C) of the Act. As a result applications under Section 33(C) (2) have to be decided by the Labour Courts within a period not exceeding three months. If any extension is granted the Presiding Officer of the Labour Court has to give reasons which have to be recorded in writing.

"Section 33 of the Industrial Disputes Act has also been amended so as to ensure the orders on applications under section 35(5) of the Act are also delivered within a period of three months from the date of receipt of such an application.

"Further, the Industrial Disputes Rules are being amended to lay down a time frame for disposal of cases by the Labour Courts, Tribunals or National Tribunals. Accordingly, there will be a specific pattern for disposal of cases, references and applications by the Labour Courts. It is also proposed to consider an amendment so that references under Section 24 shall ordinarily be disposed of by the Labour Courts, Tribunals within a period of three months, and any further extension can be done only after the reasons are recorded by the concerned court or Tribunal".

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C, dated 31.1.1984]

Recommendation (Sl. No. 16, Para 3.33)

The Committee find that efforts to promote industrial harmony through effective implementation of the schemes of workers' participation in management have so far been confined mainly to the public sector. The Committee were informed in evidence that no headway had so far been made in this direction in the private sector and a proposal to bring forward legislation to regulate the workers' participation in management was under active consideration of Government. The Committee hope the proposal will be finalised and necessary legislation brought forward soon.

Reply of Government

Ministry of Labour have stated as follows :—

"*Worker's participation in Management.*

The voluntary schemes of workers' participation in Management, one of 1975 and the other of 1977, are presently in operation. The 1975 scheme is applicable to mining and manufacturing industries in the Public, Private and Cooperative Sectors employing 500 or more workers. The 1977 scheme applies to commercial and service organisations in the public sector having large scale public dealings and employing 100 or more persons.

"The schemes are being implemented in about 1348 units in 14 States and 3 Union Territories according to latest reports. In the Central Public Sector Undertakings, the Schemes are being implemented in 124 undertakings".

"The Deptt. of Labour being aware of the tardy progress of the voluntary schemes and the need for workers participation in management, has prepared a comprehensive scheme incorporating the recommendations of the 21 Member Committee on Worker's Participation in Management. The proposal is under consideration of the Government."

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C, dated the 31st January, 1984.]

Recommendation (Sl. No. 17, Para 3.34)

The Committee wish to strongly emphasise that wages of industrial employees should be *linked* to productivity which would be in their interest as well as in the interest of the economy. This question brooks no delay. While Government are convinced that linkage af wages to productivity is unexceptionable in principle, unfortunately a difference of opinion is stated to prevail as to the manner and stage at which the linkage should be established. The Committee would urge that it is time that this and other issues such as formulation of a national wage policy, evolving productivity agreements, etc. including those of wage disparities prevailing in the organised sector between one industry and the other are thrashed out in consultation with the representatives of labour and managements.

Reply of Government

Ministry of Labour have stated as follows :—

"*Linking of Wages of Industrial employees to Productivity Need for formulation of a National Wage Policy*

Government's view on the matter of linking wages with Productivity has been reflected in the Sixth Plan Document in which it has been mentioned that criteria would have to be evolved by means of tripartite consultations for allowing increases in wages on the basis of productivity and measures should be considered to ensure that some portion of wages be linked to minimum productivity norms in case of factories, mines and plantation and in case of financial institutions and establishments these be linked to agreed norms of works standard and work performance.

"The question of having a policy regarding linking wages with productivity will have to be considered while evolving a National Wage Policy. The various issues involved in the formulation of Wage Policy were discussed in the Tripartite Labour Conference held in Sept., 1982. The conference recommended that in view of the importance of the subject and its complicated nature a Tripartite Committee with experts on it might be constituted which should go into the various aspects of wage policy. The constitution of such a Committee is presently under active consideration of the Government."

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C, dated the 31s January, 1984.]

Recommendation (Sl. No. 19, Para 4.14)

The Committee are surprised to know that no study has been made of the phenomenon of growing sickness among small scale industrial units. The Committee have been informed that such survey has now been taken up and the results are expected within a few months. The Committee hope that the results of study will be available early and Government will take the follow up measures to detect sickness among small units at the initial stage of sickness and take speedy measures for rehabilitation of such units where possible.

Reply of Government

The DC (SSI) has stated as follows :

"In order to provide more realistic estimates of sickness in the small scale sector, the Office of Development Commissioner (Small Scale Industries) carried out Diagnostic Survey of Small Scale Units in 1982-83 with the following objectives :—

(a) To assess the incidence of sickness in the Small Scale Sector.

(b) To identify various causes of sickness of the units.

(c) To suggest measures for rehabilitating the sick units.

Criteria for sickness

There is no acceptable definition of sickness in the small scale sector. In fact, the Surveys conducted in the past by most financial institutions have sought to define sickness from entirely financial angle. For the purpose of this Survey a sick unit has been defined as the one which satisfied any one of the following criteria :—

(i) Utilisation of capacity less than 50% of the highest achieved by the Units during the last five years making allowance for any additional capacity installed during the last year ;

(ii) 50 per cent erosion of net worth of the unit and ;

(iii) Units being closed for a total period of 6 months and more during the last year.

Frame and Sample Size

After striking a balance between the margin of accuracy availability of resources, it was decided to select about 8,000 units on stratified random sampling basis from the list of SIDO units registered with the State Directors of Industries as on 31st March, 1981. The sample size is expected to provide all India estimates of incidence of sickness at broad industry group level. This survey would not be able to provide estimates state-wise due to the limited size of the sample.

Progress of Work

The collection of information from the selected units was completed in all the State and Union Territories by March, 1983. The Survey could not be conducted in Andaman and Nicobar Islands, Sikkim, Arunachal Pradesh and Lakshadweep due to various reasons. The processing of data on computer has been completed and the report is under preparation."

(Deptt. of I.D., O.M. No. 2(25)/83-PP & C, dated the 31st January, 1984).

Comments of the Committee

Pl. see Chapter I Para 1.25.

Recommendation (Sl. No. 21, Para No. 4.16)

The Committee understand that very often industries take money out of one particular line and put in other lines where profitability at a particular time is higher and neglect the original one. Such behaviour tends to be encouraged by the hope that Government would do something to rehabilitate the sick unit. The Committee have been informed by the Department of Industrial Development that in such cases, banks and financial institutions not only stop further financing of the unit but also may resort to recall of advances. The Committee recommend that in cases where these measures fail to yield results, Government should take sterner action against the dishonest proprietors or managers.

Reply of Government

Noted. In this connection, it may be stated that banks and financial institutions take a serious view of assisted concerns where promoters indulge in diversion of funds to the detriment of the interests of the share holders. They may consider refusal of further assistance to recalcitrant units or recall the dues, if considered necessary. They also consider the possibility of bringing about a change in management. In regard to the recommendations of the Estimates Committee that Government should take stern action against dishonest promoters, the Government have, from time to time, received a number of suggestions in this regard. These are under consideration.

[Deptt. of I.D., O.M. No. 2(25)/83-PP & C dated 31.1.84]

Recommendation (Serial No. 22) Para No. 5.17.

According to an assessment made by the Federation of India Chamber of Commerce and Industry, in 1981, an investment of Rs. 3,682 crores would be needed to modernise the five industries namely, Textiles, Cement, Sugar, Jute and Engineering. If the programme in executed in 7 years, it will need an annual investment of Rs. 526 crores. A total amount of Rs. 458.4 crores has already been loaned to these industries upto 31-5-1982. As for the future, the Secretary, Department of Industrial Development indicated in evidence that to speed up modernisation, it would be possible for Industrial Development Bank of India to offer to these industries soft loans to the tune of Rs. 300 to Rs. 400 crores a year provided the industrial enterprises themselves come forward with requests for loans. The Committee feel that one reason for this apathy on the part of enterprises may be that the soft loan offered by IDBI really may not be that soft as to attract enterprises. The Committee feel that terms attached to soft loans may be reviewed and made more attractive.

Reply of Government

Department of Banking, Ministry of Finance have stated as follows :—

"Industrywise details of assistance sanctioned and disbursed by IDRI, IFCI and ICICI under the Soft Loan Scheme, since inception upto and June 1983 are set out in the Table attached. As may be seen from the Table that availment of assistance under the Scheme has shown variations between the given industries covered, and from year to year. These variations can be explained by the circumstances and factors relating to the particular industry. For instance, in the case of Cotton Textile industry, recessionary conditions explain the decline in sanctions in 1980-81 and 1982-83. In the latter year, the prolonged textile strike in Bombay also contributed to lower availment of assistance by industry. In the jute industry, there have been large year to year variations in the profitability of the Industry. Owing to these variations and also due to uncertainties regarding long term prospects, the industry has not undertaken large scale investment in modernisation.

"Regarding the terms of Soft Loan assistance, apart from the rate of interest, such assistance has carried several concessional features such as exemption from convertibility stipulation, reduced promoters' contribution and relaxed norms for debt-equity ratio. Although begining with September, 1980, the institutions have been charging the normal rate of inserest on loans under the Soft Loan Scheme, except in the case of units requiring a package of rehabilitations assistance (including concessional rate of interest), all the other concession features of soft loan assistance have continued to be applicable.

"The IDBI had recently reviewed the Soft Loan Scheme and prepared a modified scheme integrating the Soft Loan and Modernisation assistance Scheme into a new Soft Loan Scheme for Modernisation. The salient features of the modified scheme which provides for concessional rate of lending as before are :

(i) Enlargement of the scope of the scheme to cover deserving units in all industries instead of only 5 selected industries as hitherto.

(ii) Revival of concessional rates of interest ranging between 10.5%

to 12.5% to financially weak units. (Assistance to better off units having dividend paying capacity of more than 12.5% would however, carry interest at the normal rate.

(iii) Continuance of all the other concessions available under the present Soft Loan Scheme including exemption from convertibitity clause.

Government had since conveyed its approval to the liberalised Soft Loan Scheme as formulated by IDBI subject to the following conditions :—

(i) it would be desirable to keep interest rate at 12.5% for all units and not to differentiate according to the scale of assistance or strength of the units.

(ii) The institutions should adopt an appropriate definition of modernisation which placed emphasis on increasing productivity and reducing costs. Substantial expansion would need to be excluded from the Scheme."

[Department of I.D.O.M. No. 2(25)/83-PP & C dated 31.1.1984.]

ANNEXURE

Industry-Wise Assistance Sanctioned and disbursed under the Soft Loan Scheme (IDBI, IFCI & ICICI).

S—Sanctions
D—Disbnrsements

(Period : July—June)

(Rs. Crores)

Industry	1976-77			1977-78			1978-79			1979-80		
		S	D		S	D		S	D		S	D
	No.	Amount Rs.	Amount Rs.	No.	Amount Rs.	Amount Rs.	No.	Amount Rs.	Amount Rs.	No.	Amount Rs.	Amount Rs.
Textiles	33	21.59	—	42	48.37	5.83	70	110·12	32.17	61	114.82	51.92
Cement	5	22.17	—	1	5.15	4.36	2	26.00	8.34	4	11.68	26.37
Sugar	4	7.55	—	13	19.16	6.11	2	5.82	7.62	4	5.46	7.14
Jute	2	4.92	—	11	22·03	0.65	5	10.62	1·21	—	—	2.08
Engineering	9	9.40	—	11	13.82	2.69	22	44.39	9.24	35	44.59	24.15
Total :	53	65.53	—	78	101.53	19.64	101	196.95	58.58	104	176.55	111.66

Industry	1980-81			1981-82			1982-83			Feb. 1977—June 1983		
	No.	S Amount Rs.	D Amount Rs.	No.	S Amount Rs.	D Amount Rs.	No.	S Amount Rs.	D Amount Rs.	No.	S Amount Rs.	D Amount Rs.
Textiles	45	69.60	89.68	73	108.37	87.27	40	44.50	58.92	364	516.92	325.79
Cement	5	10.90	10.73	4	61.16	10.42	2	7.11	9.58	23	144.17	69.86
Sugar	7	9.41	3.03	8	15.34	13.45	—	—	11.11	37	62.74	48.46
Jute	4	6.53	2.76	4	7.24	5.59	—	—	2.15	26	51.34	14.48
Engineering	26	51.30	27.42	17	31.45	30.58	22	54.33	21.48	142	249.28	115.50
Total :	86	147-74	133.62	106	223.55	147.31	64	105.49	103.24	592	1024.45	574·09

Recommendation (Sl. No. 23) Para No. 5.18.

The Committee find that in India depreciation is based on historical Cost as distinct from replacement cost. It has been represented to the Committee that depreciation provided in this manner is not enough to enable replacement of obsolete machinery. It has been urged that we should provide for a higher rate of depreciation and see that the amount was spent by the industry only for replacement of obsolete machinery or modernisation. According to the Secretary, Department of Industrial Development, however "accelerated depreciation perse is not a solution in the Indian situation at all," He pointed out that industries in India did not have adequate turnover against which higher depreciation could be provided, The Committee recommend that this problem may be examined in depth by a Committee of Experts consisting of eminent economists and representatives of industry and Government for finding a satisfactory solution to the problem.

Reply of Government

The Department of Revenue have stated as follows :—

"Under the existing provisions of the Income-tax Act, 1961 the following types of depreciation allowances are admissible in respect of machinery and plant used for the purposes of business or professson :—

(a) Normal depreciation.

(b) Extra Shift allowance for double or triple shift working of certain items of machinery or plant.

(c) Extra depreciation in respect of plant and machinery installed in approved hotels owned by Indian companies.

(d) Additional depreciated equal to 50 per cent of normal depreciation in the initial year in respect of plant and machinery installed after 31.3.80 but before 1.4.85.

(e) Terminal allowance equal to the amount by which the scrap value of asset falls short of its written down value in the year in which the asset is sold, discarded, demolished or destroyed.

Apart from depreciation allowance, machinery or plant owned by the assessee and wholy used for the purpose of business is entitled to investment allowance at the rate of 25 per cent of the actual cost in the initial year Investment allowances is allowed at a higher rate of 35 per cent in certain cases. The schedule of rates of depreciation has been revised w.e.f. 2.4.83.

Under the revised schedule, general rate of depreciation applicable to machinery and plant (not being a ship) is 15 per cent. Special rates of 20 per cent, 30 per cent, 40 per cent and 100 per cent have been prescribed in relation to certain specified items of machinery and plant. These rates are meant for computing the normal depreciation available to machinery or plant. However, if we take into account additional depreciation, extra depreciation extra shift allowance and investment allowance, it will be seen that a substantial percentage of the cost of machinery or plant can be written off in the first year itself.

It may be noted that in a large number of cases, investment in machinery and plant is financed through term loans from public financial institutions and such loans are repaid by tax payers in depreciated currency over a period of years. It will, thus be found that the tax payers have not been put to disadvantage because of computation of depreciation on the basis of historical cost.

It may be further noted that keeping in view the increase in capital cost of assets due to inflation, the general rate of normal depreciation allowance has been increased from 10 per cent to 15 per cent w.e.f. 2.4,83. The measure will result in substantial benefits to taxpayers because, the major portion of machinery and plant installation in various industries qualify for normal depreciation at the general rate.

The Finance Act, 1903 has amended the first provision to section 32(9) of the Income-Tax Act which provides for deduction in the computation of taxable profits of the actual cost of machinery or plant by raising the monetary ceiling specified therein from Rs. 750 to Rs. 5000. This should also result in substantial benefit to taxpayers".

[Department of I.D.M.O. No. 2(25)/83-PP & C, dated 31.1.1984.]

Recommendation (Serial No. 24) Para No. 6.12

The Committee find that there are 767 recognised Research & Development Units. Of these 71 units are affiliated to the public sector. Total expenditure incurred by these 767 R & D units in 1981-82 was of the order of Rs. 200 crores which is barely one per cent of the total annual turn over of the related industries. While, it may not be possible for our country to spend as much as advanced countries like U.S.A., JAPAN, West Germany, France etc. do on research and development, the existing outlay cannot be said to be adequate. There is need to earmark, more funds for

R&D activities. The Committee would stress the need to see that in order to put our scarce resources to optimum use, thrust areas calling for research are identified with care so as to avoid duplication of effort in areas which have already been successfully explored.

Reply of Government

The Department of Science & Technology has stated that towards the end of 1981-82 that Department had recognised 767 R&D Units within the industry ; the number of R&D units recognised at present is 860 approximately. These units normally take up research work for new product and process parameters, quality improvements, import substitution etc. The Department does not intervene as far as type of research is concerned. However, in order to stimulate research in certain directions, the Department has evolved another Scheme of weighted tax deduction benefit @ 125% towards Income Tax. Thrust areas have also been identified in physical, chemical, life and engineering sciences.

The CSIR have stated that they formulate an Annual Plan Document indicating areas of thrust and major R&D Programmes to be undertaken in various national laboratories in the following years. This plan document is submitted to the Planning Commission well in advance in accordance with stipulated time frame. This obviates chances of duplication of efforts. The Research Advisory Councils and Executive Councils of the Laboratories comprise peers of the academic, industrial and manufacturing sectors, besides nominees of various Departments/Ministries. The Research Plan/Programme is projected to these forms to elicit their opinions/suggestions as to relevance and the possibilities of complementarity with other ongoing programmes in different institutions. Based on such feed back, the programmes are approved for implementation in the National Laboratories. This is also expected to eliminate avoidable duplication of the work in the National Laboratories.

[Department of I.D., O.M. No. 2 (25)/83-PP&C, dated 31.1.1984.]

Recommendation (Serial No. 25, Para No. 6.20)

It is gratifying to note the assurance given to the Committee by the Secretary, Industry that the country is self-sufficient in regard to technical personnel for the industry and that there is no lack of availability of technical personnel in any field of Industry. The Secretary, Ministry of Industry however conceded in evidence that the management education which is now being imparted "is not suited to the small enterprises management as such" and that "Most of the small enterprises are not professionally managed".

The Committee consider that with more and more items being reserved exclusively for the small scale sector and consequent expansion of that Sector's contribution to the economy, there is an urgent need to train and develop managerial talent in adequate numbers, linked to the requirements of the small scale industries sector.

Reply of Government

The Ministry of Education have stated that they have already identified "Management of Small Enterprises" as a weak areas for Central Assistance in the Sixth Five Year Plan. They have brought to the notice of the Indian Institutes of Management at Calcutta, Bangalore and Ahmedabad the need to create manpower in this area and to run special programmes for this purpose. Other Management Institutes have also been requested to take suitable action. However, the recommendations of the Estimates Committee are also being placed before the forthcoming meeting of All India Board of Management Studies for necessary directions.

In this connection, it may be further started that the SIET Institute, Hyderabad is functioning since 1960 and is imparting Management Education to Small Scale Entrepreneurs. In order to encourage further training in the field, the National Institute for Entrepreneurship and Small Business Development has been set up on 6th July, 1983 to provide for Management Education of Small Enterprises Development.

[Department of I.D., O.M. No. 2 (25)/83-PP&C, dated 31.1.1984.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 4, Para No. 1.39)

The Committee note that a Control Room has been set up in the Department of Industrial Development to deal with problems relating to production constraints. They find, however, that this arrangement for monitoring productivity in a limited number of industries had not met with much success as productivity had not increased in all the selected industries. The aim of control room in fact is limited to removing various constraints with Ministry's intervention at various levels. While the Committee do concede the usefulness of the machanism of a control room they feel that this machanism needs to be mademore broadbased to cover a larger number industries with a view to cover gradually the complete gamut of industries for centralised monitoring. Furthermore while the existing mechanism provides a framework for implementation on policies and removal of constraints in production as experience shows, it cannot go far enough in monitoring and achieving higher productivity in various industries unless such efforts are supplemented by an inter-disciplinary approach to the formulation of policies, fiscal, economic, monetary etc., calculated to step up productivity. Government might, therefore, consider the desirability of setting up of an inter-disciplinary group for policy formulation to achieve positive results.

Reply of Government

As regards the observation of the Committee to the effect that the control-room mechanism needs to be more broadbased to cover a larger number of industries with a view to gradually encompassing the entire gamut of industries for centralised monitoring, it may be mentioned that besides the steps taken in individual Ministries/Departments to deal effectively with production constraints, there is Cabinet Committee for Infra-structure Industries, which specifically looks into the problems of infra-structure industries in view of their crucial importance to the economy. It does not, therefore, appear necessary to have any other mechanism for Central Monitoring.

As for the suggestion for setting up an Inter-Disciplinary group for policy formulation, it may be mentioned that the Cabinet Committee for Infrastructure Industries, which seeks to ensure the optimal functioning and development of the infrastructure industries has, of necessity, to look into associated policy aspects. There does not, therefore, appear to be any need for setting up any other group for policy formulation as this may be a duplication of effort, more particularly because these matters are already receiving attention at the highest level.

[Deptt. of I.D., O.M. No. 2 (25)/83-PP & C, dated 31.1.1984].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 11, Para 2.46)

The Committee recommend that a critical review may be undertaken in the context of the account on improving productivity to see if any provisions of MRTP, IDRT, FERA etc. and the rules or regulations made by Government thereunder had acted as a constraint on productivity, and if so, to what extent and in the light of such a study, the relevant provisions may be suitably modified without sacrificing the essential socio-economic objectives underlying these regulations.

Reply of Government

The three statutes referred to in the Recommendations are the concern of different Departments/Ministries.

The I(D & R) Act, 1951 is the concern of the Deptt. of Industrial Department, the MRTP Act, 1969 is the concern of the Deptt. of Company Affairs and the FERA, 1973 is the concern of the Ministry of Finance, Deptt. of Economic Affairs.

I(D & R) Act :

There are no provisions in this Act which militate against improvement or increase in productivity. In any case, the policies regarding licensing of industries and associated matters are kept under constant review so as to ensure that they do not constrain the industrialisation process. Not only have the licensing precedures been liberalised and simplified but positive steps have been taken to maximise production from installed capacity, *e.g.* the scheme of re-endorsement of capacities referred to in recommendation No. 12.

MRTP Act : The Deptt. of Company Affairs have stated as under :—

"The provisions of the MRTP Act, 1969 do not act as a constraint in improving productivity. With the amendments carried out in August, 1982 in the MRTP Act, 1969, a new Section 21(4) has been introduced which takes into account the need for the industries to modernised themselves and makes way for exemption from the provisions of the said act for modernisation. The area of operation of MRTP undertakings has been clearly demarcated now (*viz*. Appendix I Industries). Moreover, the undertakings in the Free Trade Zone and 100% export oriented undertakings have now been freed from the need for obtaining clearance under the MRTP Act if they fulfil certain minimum conditions. In the same way a list of 'high national priority' Industries has been identified and the provisions of Section 21 and Section 22 of the MRTP Act shall not apply to any proposals from the MRTP undertakings in respect of these industries, subject to certain conditions.

"From the position stated above, it would be seen that action has already been taken recently to amend the MRTP Act, 1969 with the object of facilitating more production and enhancing productivity."

The Deptt. of Economic Affairs have stated that :—

"FERA seeks to regulate the activities of foreign companies, *i.e.* these having more than 40% foreign equity. It is the policy of the Government that such foreign companies should operate in high priority and high technology areas. The foreign exchange out go arising out of their operations in the country has to be related to the contribution made by these companies in the core sectors, like Appendix I items, industries involving sophisticated technology and exports of own product.

"When FERA came into force *i.e.* on 1.1.74, there were many companies which were holding substantial foreign equity and operating in low priority areas. FERA Guidelines sought to regulate the equity of these companies with reference to contribution made by them in the core sectors. Practically all companies with some exception, found it possible to restructure their foreign equity in terms of FERA. It can also be added that many companies restructured their turnover and increased contribution in the core sectors. FERA has pushed these companies to bring in latter day technology.

The Department of Economic Affairs have further stated that looking into the objective behind the legislation, it is not considered feasible to make any amendment purely in relation to increase in productivity.

[(Deptt. of ID, O.M. No. 2(25)/83—PP & C dated 31.1.1984].

Comments of the Committee

For comments please see Chapter I, Para 1.11.

Recommendation (Sl. No. 12, Para No. 2.54)

The incentive announced by Government by way of endorsing in the licence the Higher capacity level over and above the best production of a unit during the last 5 years and further re-endorsement of enhanced capacities at the end of March, 1983 though welcome, have not been able to attract a significant response. This is because the scheme suffers from a number of deficiencies. First the scheme of automatic expansion is at present restricted to 34 industries. No specific reasons have been assigned for this restriction. Secondly, the scheme being restricted to one year lack a sense of continutity which inhibits the enthusia on the part of Industrial units to avail themselves of this facility. Thirdly, and most important, for want of adequate infrastructure, it will be extremely difficult for all the industrial units to make the best of this offer. In some state like U.P. the industrial units have not availed of the benefit of the scheme on account of persistent shortage of power and coal. While the Committee would urge the government to review the scheme in the light of the aforesaid deficiencies they would strongly recommend specifically to relax, if not remove, the condition of limiting the scheme to only 34 industries. The Committee see no reason for disagreeing to the suggestion shat it should be extended atleast to such industries where shortage in respect of related commodities exist they would, therefore expect Government to review the scheme from this angle and allow automatic expansions in all such cases.

The Committee would suggest further that in all applicatiohs under automatic expansion scheme, due consideration should be given to lack of infrastructure facilities in specific areas so that the units do not stand to lose due to reasons beyond the control of the units compared to those which are better placed in this respect.

Reply of Government

There appears to be a misunderstanding in this matter. Evidently this recommendation refers to separate schemes. The first is about automatic growth allowed to 35 industries and the second relates to endorsement of higher capacities on the basis of best production achieved in the past. In regard to the scheme of automatic growth, it has been recommended by the Committeet hat this scheme may be extended to all industries where shortages exist. It may be clarified that the scheme was announced for the first time in 1975 to cover 15 Engineering Industries.

The Industrial Policy Statement, July 1980 stated that the scheme may be extended to all Industries included in Appendix I. This has been done. There does not appear to be any need for extension of the scheme to any any other industry for the present.

The Scheme of re-endorsement of capacities, which was announced in April, 1982, covers all industries, except those engaged in the manufacture of items reserved for small scale sector or subject to special regulations or other capacity constraints. The applicability of this scheme to MRTP/FERA Companies is confined to the items included in Appendix I. According to this Scheme, the licences/registeration certificates of eligible industrial undertakings would be re-endorsed on the basis of their best production during the five years preceding 31st March, 1982 plus 1/3rd thereof. The scheme has been extended for another year *vide* press note dated 8th April, 1983. In other words the re-endorsement of capacities would be based on the highest production achieved during five year prior to 31st March, 1983. It has been decided to extend the scheme for the 3rd year to encourage industrial undertakings to continue their efforts to maximise production.

As regards the suggestion to have different norms for different units and different areas, it is felt that this would entail may administrative difficulties in implementation. In any case, when a five year period is being taken into account for purposes of redetermining the capacity to be endorsed, it should be possible for any unit in any region to utilise its capacity to the full extent and claim the benefits of the scheme.

[Deptt. of I.D.O.M. No 2 (25)/83-PP & C, dt. 31.1.84].

Comments of the Committee

For comments please see Chapter I, para 1.15.

Recommendation (Sl. No. 18, para 4.13)

The Committee feel concerned over the growing sickness among industrial units leading to gross under utilisation of industrial capacity and manpower resources in the existing enterprises and contributing to growing imbalances and shortages in the economy. According to the Reserve Bank statistics the number of large units has gone up from 289 in December, 1977 to 420 in March, 1981, the number of sick medium units from 1013 in

June 1979 to 1026 in June, 1980 and sick small units from 20,326 in June, 1979 to 22,325 in June, 1980. Reasons leading to Industrial sickness have been identified. The main réason of sickness among large units as identified by Reserve Bank of India study of 378 units, is mismanagement due to which as many as 197 out of 378 units (52%) are sick. Another 52 units (14%) have gone sick due to faulty initial planning; 34 units have fallen sick due to power cut and shortage of raw materials. In addition 86 (34%) units have gone sick owing to market recession. It is clear, therefore, that if there were an adequate monitoring and Early Warning System in the industry, in a large majority of cases the correctives could have been applied in the very beginning and the units could have been saved from falling sick.

Reply of Government

The Ministry of Finance (Banking Division) have stated as under :—

"It has been mentioned by Reserve Bank of India that the number of sick medium units (non-small scale industrial units individually enjoying bank credit of less than Rs. 1 crore) given in paragraph 4.13 as 1013 in June, 1979 related to December, 1979 and the number of sick small scale units in December, 1979 was 20975. In respect of 86 units becoming sick owing to market recession, the percentage is 23 and not 34 as mentioned in para 4.13".

"The banks and financial institutions have a monitoring system to detect sickness is their assisted units at the incipient stage itself. Whenever an industrial unit shows signs of incipient sickness, the banks and financial institutions take necessary corrective measures. The banks and institutions for this purpose undertake periodical inspections and also call for regular progress reports/operational data from their assisted concerns Necessary follow up action is taken on the findings of such inspections/progress reports. The directors nominated by the banks and institutions on the Boards of assisted concerns also monitor closely the affairs of the concerns and report any major development of sickness immediately to the institutions who take appropriate measures thereafter. With the experience gained over the years, the banks and financial institutions have evolved systems and procedures for monitoring problem cases and the present system appears to be working fairly satisfactorily. The suggestion of the Estimates Committee is that there should be adequate monitoring and early warning system in the industry, In the view of banks and Institutions, it would be desirable for the Industrial Units to have proper Management Accounting System' and 'Management Information System.' The former can help the units to take timely and appropriate decision about production, budgetary control etc. While the latter system will equip the industrial units with the knowledge about what is happening where. Existence of such systems can help the mangement in majority of cases to have the units from falling sick. The banks and institutions insist wherever possible on the management of the industrial units to instal such systems."

It may be also mentioned in this connection that industrial sickness cannot be said to be growing. Figures of increase in the number of sick units or in outstanding bank dues may not give a proper perspective of the problem. A more appropriate indicator would be a year comparison of outstanding credits to sick industrial units as a percentage of total bank advances. The figures for December, 1981 (last year for which data is available) and two previous years *i.e.* December, 1980 and December, 1979 are the following :—

December, 1979	7.86%
December, 1980	7.64%
December, 1981	7.07%

This, it will be noted, shows a declining trend finances tied up in sick units.

[Deptt. of I.D.O.M. No. 2(25)/83-PP & C dated 31.1.84.]

Recommendation (Sl. No. 20, Para No. 4.15)

The Committee not that the Department of Industrial Development have evolved a detailed proposal to set up a centralised Authority to deal with the phenomenan of industrial sickness and that the matter is to be placed before the Cabinet soon. The Committee would like it to be finalised early.

Reply of Government

In order to combat industrial sickness, the Ministry of Finance is considering the possibility of evolving a package of policy measures to meet the situation. The guidelines on sick industries dated 6.10.1981 are only the first step in this direction. The problem was discussed in a meeting taken in the Ministry of Finance in July, 1981 and it was decided that the Committee earlier appointed by the Reserve Bank of India under the Chairmanship of Shri T. Tiwari, Chairman, IRCI to look into problems faced by banks and financial institutions in rehabilitating sick units, should also consider the different aspects of the proposal for a comprehensive legislation for revival of sick units. The Committee has submitted its interim report to the Reserve Bank of India, a copy of which has been received by the Ministry of Finance. The report is under process by that Ministry.

[Deptt. of I.D.O.M. No. 2(25)/83-PP & C, dated the 31.1.84.]

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CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES ARE STILL AWAITED

NIL

BANSI LAL,
Chairman,
Estimates Committee.

NEW DELHI :
April, 11, 1984
Chaitra 22, 1906

APPENDIX

(*Vide* Introduction to the Report)

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE 52ND REPORT OF ESTIMATES COMMITTEE (SEVENTH LOK SABHA)

I.	Total No. of recommendations.	25
II.	Recommendations/observations that have been accepted by Government	
	Nos. 1, 2, 3, 5 to 10, 13 to 17, 19 and 21 to 25.	
	Number :	20
	Percentage to total :	80
III.	Recommendations/observations which the Committee do not desire to pursue in view of Government's replies	
	No. 4.	
	Number :	1
	Percentage to total :	4
IV.	Recommendations/observations in respect of which replies of Government have not been accepted	
	Nos. 11, 12, 18 and 20.	
	Number :	4
	Percentage to total :	16
V.	Recommendations/observations in respect of which final replies of Government are still awaited	
	Nos. Nil.	
	Number :	—

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