THE NEW INDUSTRIAL POLICY 1991

The New Industrial Policy, of 1991 had the main **objective** of

The primary objectives of the New Industrial Policy of 1991 were to promote efficiency and provide facilities for market forces. The bigger roles were played by ○ L – Liberalization (Reduction in Government Control.) ○ P – Privatization (Increasing the Private Sector's Role & Scope.) ○ G – Globalization (Economic Integration between India and the rest of the world)

- Providing facilities to market forces and increasing efficiency.
- The government undertook it to take measures to improve the competitiveness and capabilities of various industries.
- The government undertook various measures to boost the growth of industries such as it allowed domestic firms to import better technology to improve efficiency and to have access to better technology.
- The Foreign Direct Investment ceiling was increased from 40% to 51% in specific sectors.

Need for New Industrial Policy

In 1991 India was forced to implement a New Industrial Policy in 1991, including privatization, liberalization, and globalization for the following reasons:

● Mounting Fiscal Deficit: As our planned economy developed, expected spending constantly exceeded expected revenue, leading to a growing fiscal deficit. Compared to 5% in 1981–1982, it climbed to 8.5% of GDP in 1991. Government has to undertake interest-bearing public borrowings to cover this shortfall.

● Adverse Balance of Payment: A deficit in the balance of payments occurs when foreign payments exceed foreign receipts. It increased from Rs. 2214 crores in India in 1980–81 to Rs. 17367 crores in 1990–91. Thus, the government was forced to borrow money from outside to cover this deficit.

● Gulf Crisis: The Gulf Crisis refers to the 1990–1991 Iran–Iraq war. The result was a dramatic increase in petrol prices in the global market. Despite a dramatic decline in exports to Gulf countries, import costs increased significantly. ● The status of the balance of payments became much more severe. The government was obligated to announce the new industrial plan at this time.

● Fall in Foreign Reserves: Foreign exchange reserves briefly dipped at that time, there was just enough money to cover three weeks' worth of imports. Due to the severity of the situation, Chandra Shekhar's government was forced to mortgage its gold reserves to pay off the interest and international debts. India was compelled to implement a fresh set of policies to build up its foreign exchange reserves.

● Rise in Prices: When the inflation rate increased from 6.7% to 16.7%, the situation deteriorated significantly. Poor performance of public sector enterprises: From 1951 to 1991, the Government of India greatly enlarged the public sector, yet the results were insignificant. So, moving it to the private sector from the public sector was necessary.

Features of New Industrial Policy 1991

● Reduction in Government's Monopoly: Government monopoly was reduced by decreasing the number of industries reserved for the public sector from 17 (as per 1956 policy) to 8 industries such as arms and ammunition, atomic energy, coal, mineral oil, mining of iron ore, manganese ore, gold, silver, mining of copper, lead, etc.

● Abolition of Industrial Licensing: The Industrial Licensing Policy abolished the industrial licensing given to all industries except for the 18 industries, which was further reduced to 6 industries in 1999. These included drugs and pharmaceuticals, hazardous chemicals, explosives such as gunpowder and detonating fuses, etc.

● Provision of Foreign Companies as a Major Stake: It allowed foreign companies to have a majority stake in India. For example, in 47 high-priority industries, up to 51% of FDI was allowed.

● Provision to Non-Residential Indians (NRIs): Non-Resident Indians (NRIs) were allowed 100% equity investments on a non-repatriation basis in all activities except the negative list.

● Restructuring of Portfolio Public Sector Investments: Restructuring the portfolio of public sector investments, for example, the PSUs which were unlikely to be turned around were to be referred to the Board for Industrial and Financial Reconstruction (BIFR).

● Removal of Prior Approval from Central Government: To remove the requirement of prior approval of the Central Government for the establishment of new undertakings, expansion of undertakings, merger, amalgamation, etc MRTP act was to be amended.

● Changes in the Standard for Small Units: The criteria for a tiny unit was changed to a unit having an investment limit of Less than Rs. 5 Lakh.

● Establishment of National Renewal Fund: As per this policy, the government announced the establishment of a National Renewal Fund (NRF) to ensure a social safety net for labor.

COMPETITION ACT 2003

Commercial competition within India is regulated under the Competition Act 2003. It replaced the previous Monopolies & Restrictive Trade Practices Act (MRTP Act) 1969. The Competition Act was enacted to encourage and preserve market competition, protect consumer interests, and guarantee trade freedom for other Indian market participants. In October 1999, the Central Government appointed high-level committee under the chairmanship of Mr. S. V. S. Raghavan (popularly known as Raghavan Committee). The aim of the committee was to formulate the competition law in tune with economic reforms and international development. The committee presented its report on May 2000. The draft of the competition law was presented on November 2000. After certain amendments, the Parliament passed the new law, called Competition Act 2002. The Act came into force on January 2003. In 2007, the act was amended called as "ANTI TRUST LAW"

Objectives of the Act

a. Facilitate & foster fair competition in the market.
b. Establish a commission to prevent practices having an adverse effect on competition in the market.
c. Promote and sustain competition in markets.
d. Protect the interests of consumers.
e. Ensure freedom of trade in the Indian markets.
f. To regulate activities of Combinations (Mergers, Acquisitions and Amalgamations)

Features of Competition Act 2002

The Competition Act 2002 has the following features:

● Anti-Agreements: No person or business may participate in production, supply, or distribution activities that would have a detrimental effect on India's competitive environment. Such agreements are considered illegal in any form.

● Abuse of dominating position: If a business or a connected person is discovered to have engaged in unfair or discriminatory actions, this is seen as an abuse of a dominant position under the Competition Act 2002. A party will be the subject of an inquiry by the relevant authorities if it is discovered that they have abused their position.

● Combinations: According to the act, a combination is a set of conditions that result in mergers or acquisitions. The Competition Commission of India would examine the parties concerned if such combinations exceeded the restrictions set forth by the Competition Act 2002.

● Competition Commission of India (CCI) : This independent organization has the authority to enter into contracts and, if such contracts are broken, to bring legal action against the violators. The Commission, which has a maximum of six members, is in charge of upholding and advancing consumer interests to establish the optimum conditions for economic competition. Under the Competition Act 2002, the Commission's other responsibility is to provide advice to the Indian government on matters related to economic competition and to raise public awareness of the problem. A Mergers Bench looks into the Agreement of the Mergers. The aim of CCI was to enforce he provision of objectives of the Competition Act.The CCI has Quasi-judicial powers to impose penalties on companies working against the provisions of the act. It took over all cases pending under MRTP Act while all cases pending over Unfair Trade Practices were forwarded to concerned consumer Courts.

Disinvestment

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary. Absent the sale of an asset, disinvestment also refers to capital expenditure (CapEx) reductions, which can facilitate the re-allocation of resources to more productive areas within an organization or government-funded project. Whether disinvestment results in the divestiture or the reduction of funding, the primary objective is to maximize the return on investment (ROI) related to capital goods, labor, and infrastructure.

Salient features of disinvestment policy are as follows
1. PSUs are the wealth of the nation and this wealth should remain in the hands of the people.
2. Citizens had every right to own a part of the shares of PSU while following the process of disinvestment.
3. Government had to retain majority shareholding that is at least 51% along with its management control.

The main **objectives** of disinvestment policy are as follows

● Reducing fiscal deficit: to reduce the financial burden of the government as part of the proceeds from disinvestment could be used for retiring public debts by purchasing back Treasury bills from the bank.

● Restructuring public sector enterprises: The proceeds from disinvestment would be used to restrict and restructure PSUs which are chronically sick but can be revived. These enterprises would be given additional capital after ensuring that their management accountability system based on MoUs(memorandum of understanding) is in place.

● To fund growth and raise productive efficiency: It includes measures to reduce cost, improve product quality, innovate production management and marketing practices and encourage investments.

● To Depoliticize non essential services: The disinvestment policy aims to eliminate political interference in PSUs, increase efficiency and make them more accountable.

● Modernizing and technological upgradation: Through disinvestment, the government could modernize the public sector units and upgrade technology with the help of resources generated.

● Rehabilitation of dispersed personnel: The disinvestment proceeds could be used for retraining and rehabilitation of displaced workers on account of closure or internal restructuring.

● Raising resources: Disinvestment of PSUs resulted in expenses related to VRS. These resources could be used to create social and economic infrastructure, build basic health, infrastructure, primary education and family welfare schemes.

Disinvestment Policy in India

Focus on public sector enterprises began from the second five-year plan and Industrial Policy Resolution, 1956. Disinvestment as a policy initiative began in the wake of economic liberalization, globalization, and structural reforms launched in 1991. PV Narasimha Rao government in 1991 initiated a disinvestment policy and announced that the government would disinvest up to 20% of its equity in selected PSUs mainly through mutual funds and FIIs (Financial institutions investors). The next phase of disinvestment allowed more individuals like FII, Employees of the Company etc.

C Rangarajan Committee was appointed that recommended 49% of disinvestment. Major changes associated with disinvestment occurred during the regime of Atal Bihari Vajpayee that involved stake sale in Paradeep Phosphates, Hindustan Zinc and BALCO.

National Investment Fund (2005) was formed to which the funds raised from disinvestment were channeled. A new disinvestment policy was envisioned to utilize the investments in new projects. The Department of Disinvestment was renamed the “Department of Investment and Public Asset Management” (DIPAM).Department of Investment and Public Asset Management (DIPAM) deals with all matters relating to management of Central Government investments in

equity including disinvestment of equity in Central Public Sector Undertakings. The Four major areas of its work relates to Strategic Disinvestment, Minority Stake Sales, Asset Monetisation and Capital Restructuring. It also deals with all matters relating to sale of Central Government equity through offer for sale or private placement or any other mode.

Currently, the following method of disinvestment or Being pursued by the government

1. Initial public offering IPO: It refers to offer of shares for the first time to the public by an unlisted CPSE or the government out of its shareholding or both.
2. Further public offering FPO: It is an offer of shares by listed CPSE or the government out of his shareholding or a combination of both.
3. Offer for sale OFS: This method has been pursued by the government since 2012. It allows promoters to auction shares through a stock exchange mechanism.
4. Strategic sale: It involves sale of a large portion up to 50% or more of the shareholding of a CPSE along with its management control.
5. Institutional placement programme IBP:This is restricted to participation of only financial institutions.
6. Exchange traded fund, ETF: It allows simultaneous sale of the government shareholding in various CPSC is across diverse sectors through single offering on the stock exchange programme platform.
7. Policy of a Safetynet for the displaced workers: This provides for a policy of non-retrenchment of an employee for a period of one year after privatization thereafter, VRS scheme or voluntary separation scheme had to be followed.

Recent Trends in Disinvestment Policy

- The government has revised its disinvestment estimate for the current financial year to ₹78,000 crores, down from ₹1.75 lakh crore envisaged in the budget estimate (BE) on February 1 last year, which is a 55.4% reduction
- The disinvestment target for 2022-23 is Rs 65,000 crore. This is 17% lower than the revised estimate of 2021-22 (Rs 78,000 crore).

● So far, the total disinvestment government proceeds is ₹12,029.9 crore, which includes ₹2,700 crore receipt from Air India privatization and a balance of ₹9,330 crores through the sale of minority stakes in CPSEs.
● In the current financial year (2022), major disinvestments planned include the IPO of LIC, Bharat Petroleum Corporation Ltd (BPCL), RINL and Pawan Hans.

Micro, Small, Medium Enterprises (MSME's)

Micro, Small, Medium Enterprises (MSME's) are entities that are involved in production, manufacturing and processing of goods and commodities. The concept of MSME was first introduced by the government of India through the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.
The Ministry of Micro, Small and Medium Enterprises, a branch of the Government of India, is the apex executive body for the formulation and administration of rules, regulations and laws relating to micro, small and medium enterprises in India. The Minister of Micro, Small and Medium Enterprises is Nitin Gadkari and the Minister of State is Pratap Chandra Sarangi since 31 May 2019.
Under the Micro, Small and Medium Enterprises Development Act, 2006, the Government of India established The National Board for Micro, Small and Medium Enterprises (NBMSME) to examine the factors affecting promotion and development of MSME. This board also reviews the existing policies and suggests recommendations to the Government for the growth of the MSME sector.

The services provided by the Ministry of MSME are as follows:

- Facilities for testing, training for entrepreneurship development
- Preparation of project and product profiles
- Technical and managerial consultancy
- Assistance for exports
- Pollution and energy audits.

The MSME sector is considered the backbone of the Indian economy that has contributed substantially to the economic development of the nation. It generates employment opportunities and works in the development of backward and rural areas. India has approximately 6.3 crore MSMEs. In addition, due to the following features, they are considered a viable source of income for those looking to venture into the manufacturing industry. MSMEs contribute to approximately 8% of India's GDP, employ over 60 million people, have an enormous share of 40% in the exports market and 45% in the manufacturing sector. Hence, they are of paramount importance for the overall economic development of India. New Definition of

MSMEs As per the new definition of MSMEs announced in May 2020, the investment limit has been revised upwards and an additional criterion of turnover introduced.

ROLE OF MSMEs IN INDIA

1. Generates Large Scale Employment: In India, capital is scarce and labor abundant. MSMEs are thought to have lower capital-output and capital-labor ratios than large-scale industries, and therefore, better serve growth and employment objectives. The MSME sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4% in the number of units and 4.62% in employment (currently employing 30 million). Not only do MSMEs generate the highest employment per capita investment, but they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment.

2. To sustain Economic Growth: Non-traditional products account for more than 95% of the MSME exports (dominating in the export of sports goods, readymade garments, plastic products etc.). Since these products are mostly handcrafted and hence eco-friendly, there exists a tremendous potential to expand the quantum of MSME led exports. Also, MSMEs act as ancillary industries for Large Scale Industries providing them with raw materials, vital components and backward linkages e.g. large scale cycle manufacturers of Ludhiana rely heavily on the MSMEs of Malerkotla which produce cycle parts.

3. Making Growth Inclusive: MSMEs are instruments of inclusive growth which touch upon the lives of the most vulnerable and marginalized. For many families, it is the only source of livelihood. Thus, instead of taking a welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people's skills and agency. However, different segments of the MSME sector are dominated by different social groups.

4. Contribution to GDP: The number of MSME's have increased from 105.21 lakh units in 2001-02 to 311.52 lakh units in 2010-11. As per the all Indian senses of

MSME 2006-07, the service sector of M SMEs contribute for 68.2% and manufacturing account for 31.8%.

5. Contribution to inputs: The value of exports from this sector at current prices increased from Rs.71,244 crores in 2001-02 to 2,02,017 crores in 2007-08 The exports from the sector comprises traditional and non-traditional items. About 93% of his exports are from non-traditional items like spare parts, goods, processed food, leather products, ready-made garments et cetera

6. Support to the agricultural sector: MSMEs provide import processing facilities,Consumers goods for consumption in rural areas. Rural cottage industry provides employment to surplus labor from agriculture. They also help to reduce seasonal unemployment in rural areas.

7. Support to large-scale industries: A large number of small-scale units are ancillary units for consumption that produce products which directly or indirectly assist large scale industries, MSMEs, supply, spare parts, intermediate goods, processing and maintenance facilities and provide support systems like maintenance and processing units.

8. Regional dispersion of industries. The small scale industries are much more widely spread across the country when compared to large-scale industries they make use of locally available resources and satisfy local needs. Such units help to develop industry in backward areas. About 55% of registered MSMEs are located in rural areas.

9. Efficiency of small scale industries: The SIDBI small scale small industry development bank of India and NCAER National Council of applied economic research study of 1999 revealed the following

a.the capital productivity of SIS is greater than large-scale industry.
b.Total factor productivity at all India levels shows that the SSI sector is more efficient than large-scale sector.
c. SSIs are found to be more profitable than a large-scale sector.

10. Mobilization of capital and entrepreneurial skills of exercise due to regional dispersion, the MSMEs in a better position to mobilize unused Savings.

PROBLEMS OF MSME's

1. Shortage of Funds: Lack of finance is one of the major problems faced by small businesses, especially cottage and village industries as they have a very weak financial base. This is because they are operated by either single owners or partnership firms. Small businesses depend on institutional sources like State Finance Corporation, SIDBI, Commercial & Cooperative banks and non-institutional sources like money lenders, traders, agents, relatives and friends for meeting their financial needs. Although it is mandatory for banks to provide 40% of its lending to priority sector, they are reluctant to lend to small businesses due to low recovery rates and high costs of lending. Thus, small businesses are forced to borrow from the non-institutionalized sources at high rates of interest which leads to their exploitation.

2. Lack of Latest Technology: Apart from a few small industries, many do not use the latest and advanced technology as they cannot afford to upgrade it. Also, they do not have easy access to such technology. Use of such low grade technology, lack of technical know-how & skills affect the quality and productivity of the finished products. Moreover, small businesses make use of traditional methods of production. This reduces productivity and increases the cost of production. Also, small businesses often do not give importance to the changing tastes and preferences of the people.

3. Shortage of Raw Materials: Small businesses source their raw materials from local areas. The traders and agents supplying the raw materials often exploit the small businesses by selling the raw materials at higher prices. Many traders supply raw material on the condition that the finished product should be sold to them. They buy the finished products at a lower rate. Thus, the small business owners become victims of double exploitation. For e.g., Cotton traders supply cotton on the condition that the weavers will sell the cloth to them at lower rates. Small scale units also face problems of shortage of raw materials due to various reasons like

natural calamities, transport problems and industrial strikes. It is difficult for small units to import raw materials as they may find it difficult to obtain permissions due to import restrictions, foreign exchange crisis, rise in international prices etc. Also, poor quality raw materials, lack of standardization and high cost affect the productivity and profitability of small businesses.

4. Shortage of Power: Because of shortage of power, the small business enterprises are not able to use the full capacity of the plant at their disposal. They cannot afford to have their own power generators.

5. Labour Problem: The labor is mostly unskilled. Small businesses don't have resources to provide good training. Labour are also not paid well. There is no motivation for professional growth. Small businesses are incapable of bargaining with powerful trade unions. A small scale unit located in a remote backward area may not have problems with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers. Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labor turnover, indiscipline, strike etc. These labor related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

6. Marketing Problem: Any business unit needs to have a deep understanding of customer's needs and requirements for effective marketing of goods. Small businesses due to limited capital, cannot implement effective marketing strategies. They face additional marketing problems as they deal in limited products. Further small businesses depend excessively on middlemen who exploit them by paying low prices for their products and delaying their payments. Due to lack of proper infrastructure facilities, small units cannot undertake direct marketing activities. Additionally, small business units cannot compete with large scale units in the areas of marketing and product promotion and thus they are forced to sell their products in the local markets. They also face tough competition from cheap imports. Thus, the marketing problems faced by small businesses can be summarized as under:

a. Lack of advertising,
b. Non-branding of products,
c. Poor quality of products,
d. Location difficulties,
e. Increased competition from large scale industries,
f. Complicated marketing procedures, etc.

7. Managerial Skills: Only individuals or a small group of people own and operate the small business units. They don’t possess professional managerial skills required to run a business successfully.

8. Quality: Small business finds it difficult to come upto global standards of the quality. They also don’t have funds for research in order to improve upon the quality. The product quality is their weakest point as compared to the standards of the large scale units.

9. Sickness: It is painful to see most of the small units going sick. There is a lack of planning. Skilled and trained personnel is another hurdle. They have to sell on credit. Their customers do not pay them in time. There are large scale bad debts. Thus, they fall short of working capital to keep the production process going. This leads to sickness.

10.Inadequate Infrastructure: Insufficient quality and quantity of transportation, communications and other basic services particularly in backward areas is another problem. Infrastructural gap results in underutilisation of capacity and wastages. For example, instability of voltage, unscheduled power cuts and long delays in getting power connections are common. Poor communication and transportation, low quality of civic services, etc., are detrimental to efficient and time bound production so essential in a competitive world.

POLICY INITIATIVES

The economic reforms of 1991 information of the world trade organization exposed the MSME sector to various challenges. Since then the government of India has

been initiating measures to promote the sector and make it this policy initiatives are given below This policy initiatives are given below

1. Small scale small industries development bank of India SIDBI: It was set up on April 2, 1990 to assist the growth of MSME sector. It established Credit guarantee fund trust for micro and small enterprises to provide guarantee to banks for collateral, free loans given to MSME.

2. The Ministry of small-scale industries and Agro and rural industries was created in 1999 and a mission for the millennium was announced to provide a future plan for the development of the sector. In 2007 it was renamed as the Ministry of micro small and medium enterprises.

3. Micro and small enterprises- Cluster development programme, MSE-CDP: It was applicable to collection of enterprises which are producing same or similar products or services. It covered areas like marketing, export promotion, skill, upgradation and infrastructure for development of clusters.

4. My MSME was set up to facilitate enterprise to take advantage of various skills in India of bees application namely my MSME was launched to facilitate quick and easy tracking of applications on mobile by entrepreneurs.

5. Udyog Aadhaar memorandum UAM: The Ministry of MSME has notified a simple 1 page registration form, Udyog Aadhaar memorandum on 18 September 2015. It was a pathbreaking step to promote ease of doing business for MSME.

6. MSME-SAMBANDH the ministry launched the public procurement portal titled MSME-SAMBANDH on 8 December 2017, which allows 20% of annual procurement from MSME including 4% from enterprises on my SC or ST Entrepreneurs.

7. MSME-SAMADHAN: to address the issue of delayed payments to MSME by the buyers to the MSME supplier in case of payment which are delayed beyond 45 days MSME facilitation Centre was authorized to charge compound interest at three times the bank rate. 8. ASPIRE, a scheme for promoting innovation and rural

entrepreneurs was launched on 16 March 2015 to set up a network of technology centers to accelerate entrepreneurship.

9. Credit guarantee trust fund for micro and small entrepreneurs was launched in 2000 to provide collateral, free credit to micro and small enterprises. Scheme of Fund Regeneration traditional Industries (sfurti) The scheme aims at establishing the traditional artisans and industries into clusters in order to support them towards competitive long- term sustainability goals.Enables traditional artisans to deliver sustainable employment. Government of India provides Financial support up to INR 5 cr. for more than 500 artisans and INR 2.5 cr. up to 500 artisans.