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## Impacts of special industrial incentive package on the development of industrialization in Himachal Pradesh

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### Abstract

This study is an attempt to examine the impacts of special industrial incentive package on the industrial development in Himachal Pradesh. It further unearths the growth of industrialization with neighboring states, getting special package and inequalities in industrialization within the state. The industrial development has been analyzed by considering small, medium and large-scale industries in the state. To accomplish the objectives, study utilizes secondary data collected from Annual survey of industries, Directorate of industries, Govt. of H.P. and EPWRF dataset and covers the period from 1991-92 to 2019-20. This period is further divided into three groups: (1) before special industrial incentive packages (2) after the special industrial incentive package and (3) the overall period. Overall, study found statistically significant impacts of special industrial incentive package on the development of industries in Himachal Pradesh while industries located in B and C category i.e. industrially backward districts are least effected by the package. Therefore, in order to ensure comprehensive industrial development in the state periodic review of disbursal of the package, district specific policy to attract more investment in the districts lagging industrial spread, maintenance of data and effective monitoring system should be established by the competent authority.

**Keywords:** Himachal Pradesh, Industrialization, special industrial incentive package, Freight subsidy

### Introduction

Many countries in the world have massive economic disparities across regions. To reduce these regional inequalities, state and local governments often use place-based policies that seek to generate employment and productivity in particular and industrialization in general (Chaurey, 2017) <sup>[1]</sup>. The various policies of the Government, particularly the industrial policies, can play an imperative role in the reduction of regional imbalances prevailing in the economy. Industrial policies ensure industrial disbursal across different parts of the country and indirectly ensure the development of other sectors of the economy like agriculture, infrastructure, service, etc. (Tanzi, 1998) <sup>[2]</sup>. In India, both Union and State govt. are committed in this context and has framed suitable industrial policies to curb imbalances prevailing in the economy since the declaration of its first industrial policy in 1948. The industrial policy of 1956 was the initial step towards the disbursal of industries to rural and remote areas of India including Himachal Pradesh. The industrial policy of 1991 has enlarged industrialization within and across the border by adopting privatization, liberalization, and globalization. Govt of India has also declared a special industrial package to eleven states with the motive to spread industrialization, reduce regional imbalances, and ensure overall development in backward and remote areas of the country. This package includes capital investment subsidy, central comprehensive insurance incentive, tax exemptions, concessional land and loan availability, concessional raw materials, tax holidays, transport subsidy, subsidy on feasibility report etc. This incentive package is also notified to the state of Himachal Pradesh on 7 January, 2003 and accompanied by the state government in the industrial policy & incentive rules, 2004. These concessions and tax incentives attract industrial investment and ensure development of industrialization in the state; thus, effective tax incentives scheme should be part of the industrial policy of developing countries (Klemm & Van Parys, 2012) <sup>[9]</sup>.

Himachal has ample deposits of resources for its advancement, including raw material, forest, and hydro-electric, which could be utilized for the development of industries and removal of imbalances in the state (Matoo, 1976) <sup>[5]</sup>.

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Shifting of the contribution of the agriculture sector to industrial sector can remove the problems of unemployment and regional imbalances, and such a process of societal and economic change that transforms a human from agrarian to an industrial one is an essential and useful indicator of overall development (Sullivan and Sheffrin, 2007) [6]. Himachal Pradesh has experienced such transformation also, and statistics show that percentage contribution of agriculture in total State Domestic Product has declined from 57.9 percent in 1950-51 to 55.5 percent in 1967-68, 26.5 percent in 1990-91 and to 8.4 percent in 2018-19. This decline is substituted by the share of industrial and services sectors in gross state domestic product as it increased from 1.1 & 5.9 percent in 1950-51 to 5.6 and 12.4 percent in 1967-68, 9.4 & 19.8 percent in 1990-91 and to 29.8 and 44.0 percent in 2018-19 (Economic survey, 2019-20) [8].

Thus, industrialization is a tool of sustainable development of the economy, but the growth of industrialization is not possible without the availability of quality infrastructure, strong institutional support and focus on state-specific policy which is essential to attract investment in the state (Kinda, 2014; Kumar and Pattanaik, 2020) [10, 28]. Hence, high-quality infrastructure matching with international standards is indispensable to facilitate unhindered investment in the state. Therefore, Central and state govt. is highly committed to develop of infrastructure in the state, and to make it internationally matched DIPP under the Ministry of Commerce & Industry has declared two projects under the Modified Industrial Infrastructure Upgradation Scheme (MIUS) in Himachal Pradesh at industrial area Kandauri in Distt. Kangra and Pandoga in Distt. Una with the cost of 139.60 Crs and 121.94 Crs. Respectively. District industries Centers (DIC's) have also been established in all districts of the state. Besides, it 5 Single Window Clearance Agencies have been setup in industrial areas of Parwanoo, Baddi, Kala Amb, Paonta Sahib, Kala Amb & Golthai, which provide services and facilities required by the industries under the single roof. State Level Single Window Clearance and Monitoring Authority (SLSWC&MA) has been set up in the state with a view to provide umbrella support to existing and new ventures. At present, the state has about 41 industrial areas and 15 industrial estates. As per the statistics, industries contribute approximately 47 percent in the gross state domestic product. As of 31.12.2019, 54123 registered Small-Scale Industries are having an investment of about Rs. 31249.21 lakh and have provided employment to 369810 persons. Besides, 779 Medium & Large-Scale Industries registered in the state having an investment of Rs. 19359.55 lakh and have provided employment to 88726 persons. (Directorate of industries, H.P, 2019-20).

The present study has examined the impact of special industrial incentive package on the development of industries by taking into account the numbers of industrial units set up, investment and employment in small, medium and large-scale industries in the state of Himachal Pradesh. Sections two and three of the paper describes the review of the literature and research design. The fourth and fifth sections explained the various incentive and contributions of industries to GSDP. Section six and seven deals with the growth pattern of industrialization in the state. The eighth section has investigated industrialization at the district level,

followed by relative performance and summary and conclusion.

### Review of Literature

There are very studies in the literature that have discussed the impact of special industrial packages incentives on the growth.

Owens (2004) [12] stated that tax incentives increase the after-tax profits on investments, and usually, an investor will prefer a location with a lower tax liability in cases where locations have similar resource characteristics. Devereux (2006) [13] and Tavares-Lehmann *et al.* (2012) [14] shows that taxation has played a crucial role in affecting MNEs' choices pertaining to the selection of business place. Further, they stated that efficiency-seeking investment was found to be more sensitive to tax incentives than resource-seeking FDI. James (2010) [11] pointed out that policy makers employ both tax and non-tax incentives to lure investment across their countries' borders. He concluded that the economy's investment environment is critical to the effectiveness of tax incentives.

Wilson & Wildasin (2004) [18], Alfano (2001) [19], and Rendon-Garza (2006) [20] highlighted the movement of MNCs due to various tax incentives competition and also opined the harmonization of tax policies to avoid unnecessary tax complications among regional economic cooperation. In this way, incentives play an inevitable role regarding the movements of the location of MNCs.

Easson & Zolt (2002) [21] and Shah (1995) [16], after analyzing the various cost-effectiveness of various incentives and concluded that tax incentives and concessions distort investment decisions and lead to revenue and encourage corruption. They further found little justification for incentives in attracting investment. Glaeser (2001) [22] and Zelekha & Sharabi (2012) [23] also pointed out that tax incentive leads to significant corruption after analysis conducted on a broad cross-section of European countries by two-stage least square analysis. Thus, policymakers should pay due attention to curb this and should establish an adequate monitoring system. There may be different kinds of tax rigidity across the world and can affect industrialization.

To counter this, Gagné & Riou (2004) and Fourcans & Warin (2001) [24] pointed out the needs of tax harmonization to attract investment in the state and to counter the effects of harmful tax competition. Gagné & Riou (2004) opined that when countries do not adopt tax harmonization strategies, this leads to suboptimal taxation. Amendola *et al.* (2018) [25] stated that uneven tax treatment might distort healthy competition in the industrial sector, so this thing should be the concern of the regime. Kumar & Pattanaik (2019) analyzed the growth and structural changes in the economy of Himachal Pradesh and concluded the significant positive impact of the special industrial incentive package on the growth of industrial and service sectors in the state. Thus, incentives in the form of tax incentives have dominated the policy formulation of developing nations and also useful in attracting investment in the state.

Siyanbola *et al.*, (2017) [26], Yanikkaya and Karaboga (2017) & Kumar and Pattanaik (2020) [27, 28] have pointed out the importance of infrastructure, human capital, and institutions support to lure investment instead of tax

incentives and suggested stable environment, improved infrastructure and effective monitoring of business policy affect investment in the state. Thus, a good economic environment and infrastructure are the leveraging elements of industrialization and should be an integral part of industrial policy formulation.

#### Data Sources and Time Period

This study is primarily based on secondary data collected from 'Directorate of industries Himachal Pradesh', 'Annual Survey of Industries (ASI)', published by 'Central Statistical Organization (CSO)', 'Economic and Political Weekly Research Foundation' (EPWRF). Data of ASI has been used at the current price. Data collected has been analyzed by estimating the average annual growth rate, percentage, and compound annual growth rate. Time period is considered from 1991-92 to 2018-19, which is further divided into two-part: (1) pre-packages period (1991-92 - 2002-03) and (2) post packages period (2003-04 to 2019-20).

#### Incentives to industries in Himachal Pradesh

This section deals with various incentive schemes to industries in Himachal Pradesh announced by central and state govt.

#### Special industrial incentive package

The special industrial incentive package was notified in India to spread industrialization across the industrially backward region of the country in the years of 2002. Himachal has got this package the first time on 7 January 2003 for ten years ending on 06-01-2013 and then get two extensions to date upto 31-03-2017 and 31-03-2022, respectively. Under this scheme, all the new industrial units and existing industrial units on their substantial expansion in the manufacture, service sector, including biotechnology and hydel power generation units up to 10 M.W., are eligible. This scheme covers the following: 1) Central capital investment incentive for access to credit (CCIIAC) @ 30percent of the investment in plant and machinery with an upper limit of Rs.5.00 crore2). Interest rate incentives @ 3percent on working capital credit advanced by the scheduled bank or central or state financial institutions for the first five years from the date of commencement of business, but preference is given to MSMEs. 3) reimbursement of 100 percent insurance premium on insurance of the building and Plant & Machinery for a maximum period of 5 years from the date of commencement of commercial production/ operation. To get the benefits under this package units has to fulfill the specific requirements notified by Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Govt. of India, through the DIPP portal, units should start commercial production within 18 months of approval

The Himachal Pradesh State Industrial Development Corporation Ltd.(HPSIDC) is the nodal agency for the disbursal of incentives under this package. Claims under this package received in DIPP will be pre-scrutinized by a recognized independent audit agency. Further, the Government reserves the right to modify any part of the Scheme in the public interest. However, few industrial units are not eligible under this package after amendments

incorporated on 23 April 2018 by Ministry of Commerce and Industry Govt. of India; now the followings business units do not qualify for the said package:

- a. All goods are falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986), which pertains to tobacco and manufactured tobacco substitutes.
- b. Pan Masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986).
- c. The plastic carries bags of less than 20 microns as specified by the Ministry of Environment and Forests Notification No. S.O. 705 (E) dated 02.09.1999 and S.O. 698 (E) dated 17.6.2003.
- d. Goods are falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986) produced by Petroleum or Gas refineries.
- e. Power generating, Plantation and Refineries Units above 10 M.W.
- f. Coke including Calcined Petroleum Coke, Fly Ash, Cement, Steel Rolling Mills
- g. Units are not complying with environmental standards.
- h. Low value addition activities like preservation during storage, cleaning, operations, packing, etc.
- i. Any other industry/activity placed in negative list through a separate notification as and when considered necessary by the Government.
- j. Gold and gold ore.

#### Other incentives

**Industrial Infrastructure Upgradation Scheme: (IIUS)** was launched in 2003 with the view of enhancing industrial competitiveness of indigenous industries by providing quality infrastructure on public-private partnership mode. This scheme was renamed as Modified Industrial Infrastructure Upgradation Scheme (MIUS) in 2013. Under this scheme, projects have been undertaken to upgrade infrastructure in existing Industrial Estates/ Areas/ Parks, and Greenfield Projects have also been undertaken in backward areas and North Eastern Region (NER). Central Grant upto 50percent of the project cost with an upper ceiling of Rs.50 crore is provided under this scheme with at least 25percent contribution of State Implementing Agency.

**Transport subsidy scheme:** Was launched in 23-03-1971 and renamed as Freight Subsidy Scheme on 22-01-2013 with the motive of development of industrialization in remote and hilly industrial states/ areas. Since the inception of this scheme, an amount worth Rs.5201.08 crore (approx.) has been released to the eligible States/U.T.s. In the FY 2018-19, Rs. 932.26 crore has already been released by Govt. of India.

**The national manufacturing competitiveness programme (NMCP):** Was initiated in 2007-08 to develop global competitiveness among MSME. There are eight components of the programme; Building awareness on Intellectual Property Rights, Quality Management Standards (QMS) and Quality Technology Tools (QTT) for the advancement of manufacturing sector, Bar Code to popularize bar code registration, Lean Manufacturing Competitiveness Programme for the reduction of

manufacturing costs, Promotion of Information and Technology, Design Clinic Scheme, Marketing Assistance and Technology Upgradation Scheme and Technology and Quality Upgradation support for the development of MSMEs in the state.

**Credit linked capital subsidy scheme (CLCSS):** Has been initiated for technology up gradation of industrial units raised to 15 percent w.e.f 29-09-2005 with maximum limit of eligible loan for the calculation of subsidy under the revised scheme has been increased to 1 crore from 40 lakhs. A provision for the reimbursement of expenses for acquiring ISO-9000 (QMS), ISO-14001 (EMS) certification to the extent of 75 percent or Rs. 75000 whichever is less is available under ISO 900/14001 Certification Reimbursement Scheme, and Credit Guarantee Fund Scheme is available for MSMEs. In terms of both term loan and working capital, up to 1 crore per borrowing unit and there is no need for collateral security or third-party guarantee to new as well as existing Micro and Small units. (MSME Solan).

**Scheme of Budgetary Support under GST 2017:** Was notified on 05-10-2017 and is valid up to 30-06-2027. Total 11 states/U.T.s are covered under this, and Himachal Pradesh is one of them. Total outlay sanction under the scheme worth Rs. 27413 Cr. Under this scheme, reimbursement of Goods and Services tax is provided. Amount worth Rs. 71.45 Cr, Rs. 271.80 Cr. and Rs.204.78 Cr has been disbursed during 2017-18, 2018-19, and 2019-20 respectively.

Central Govt. is offering the following incentives to small and medium-size industries in the state registered with National Small Industries Corporation (NSIC) for participation in Govt. store purchase and are eligible for exemption from payment of earnest money, fee for tender documents and security deposits, 15 percent price preference in Central Govt. purchase made through DGS&D., further NSIC(National Small Industries Corporation) provides machinery on hire purchase as assistance to new as well as existing small scale units, Deputy Commissioner (MSME) provides financial support for the reimbursement of 75percent of total registration fees and also 75 percent annual recurring fees for maximum first three years with the objective to increase marketing competitiveness, Central assistance of 15 Cr per centre even admissible under Growth Centre Scheme and for setting up of Mini Tools Room, an assistance up to 90 percent or 9 Cr whichever is less is provided by central Govt. and for the up-gradation of mini tool room, assistance is 75 percent or Rs. 7.5 Cr. whichever is less is provided to MSMEs in the state.

Business units engaged in export of products and services are entitled to additional incentives which include: free import of capital goods / raw material and other necessary inputs, duty-free and concessional rate of customs duty, the refund of duty paid on the raw material used in export

production, pre and post-shipment credit to the exporter at concessional rate of interest, duty drawback, etc.

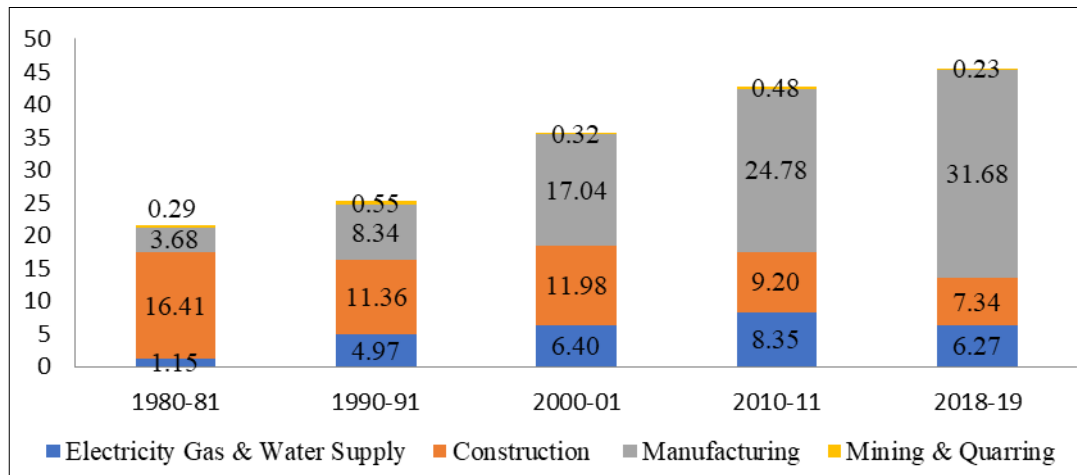
Entrepreneurs belonging to the Scheduled Castes, Ex-servicemen, Schedule Tribes, Women, Physically Handicapped persons (with a disability of more than 50percent), BPL family category who set up new industrial units themselves. Such existing and prospect entrepreneurs are entitled to additional concessions/ facilities of reimbursement of 90percent expenditure incurred with a ceiling of Rs.25, 000/- in each case towards the cost of preparation of feasibility report, 100 percent subsidy on the carriage and installation cost of the plant and machinery. Further, 5 percent Interest subsidy on term loan availed from the Financial Institutions as per the original repayment schedule with a ceiling of Rs. 50,000 p.a. for a period of 3 years. This interest subsidy will be made available for "Specified Category of Activities" (as listed in Annexure-IV) with FCI upto Rs. 25 lakhs.

Many package of concessions, incentives and facilities are further available to Small Scale industries in thrust sector located in "B" and "C" category areas such as out of turn allotment of plot/ land/ industrial sheds, allotment of/plot/ land/ industrial sheds @50percent of the normally applicable premium as may be determined by the Government from time to time for the general category of industries and exemption from the payment of State Excise Duty for 7 years to new thrust industrial Enterprises manufacturing wine/cider by using locally produced fruits.

## Results and Discussion

### Industrial sector in Himachal Pradesh: Some stylized facts

This section demonstrates the overall picture of industrial contribution in the state domestic product of Himachal Pradesh. The contribution of the industrial sector concerning different period has been shown in Fig. 1. It shows that the contribution of the industrial sector in gross state domestic of the state has been gradually over the period. It has increased consecutively from 21.52 percent in 1980-81 to 25.23 percent in 1990-91, 42.80 percent in 2010-11 as against 35.74 percent in 2000-01 and further increased to 45.51percent in 2018-19. However, sub-sectors of the industrial sector have not grown with the same pattern. The manufacturing sector is contributing the highest share in the state domestic product since 1980-81 with a significant increase over a period by 3.68, 8.34, 17.04, 24.78 and 31.68 percent during 1980-81, 1990-91, 2000-01, 2010-11 and 2018-19 respectively. Electricity gas and water supply show an increasing trend from 1980-81 to 2010-11 after that it has lost momentum and declined to 6.27 percent in 2018-19 from 8.35 percent in 2010-11. The mining and quarrying sector has contributed less than 1 percent over the period in state gross domestic product. Nonetheless, it is interesting to note that, after 2010-11, all sub-sectors have shown a declining trends in the state gross domestic product except manufacturing.



Source: Computation based on EPWRF dataset 2018-19

Fig 1: Share of industrial sector in GSDP (in percent)

**Growth of Small-scale industries in Himachal Pradesh**

This section exhibits the growth of small-scale industries in Himachal Pradesh. It has analyzed using three key variables, namely, the number of units set up, investment, and employment. The result of the study clearly shows that over the period, small-scale industries in the state have grown with a negative rate in all three indicators during the overall period (1991/92 to 2002/03), as shown in Table 1. The small-scale industries in the state have also shown a negative growth rate in all the sub-periods (1991-92 to 1995-96, 1999-00 to 2002-03) except for the period 1996-97 to 1998-99 in which it has shown impressive growth rate in all three indicators. Between three variables, investment has grown at the highest rate from 1996-97 to 1998-99. The possible explanation may be the impact of economic reform undertaken by the country (Table 1).

Table 1: Growth of Small-Scale Industries before the special package of incentive in Himachal Pradesh (in CAGR)

Years	Units	Investment	Employment
1991-92 -1995-96	-7.12	-7.45	-4.39
1996-97 - 1998-99	6.46	50.18	13.55
1999-00 -2002-03	-4.17	-20.92	-13.86
1991-92 -2002-03	-2.98	-9.38	-1.26

Source: Computation based on Directorate of Industries, H.P.

Table 2 indicates the growth pattern of small-scale industries after the announcement of the special industrial incentives package. It depicts tremendous growth in the second phase of the package (2013-14 to 2016-17), with an annual increase in units, investment, and employment by 44.88 percent, 80.59 percent, and by 73.60 percent, respectively.

The last phase of the package consists of 2017-18 to 2019-20 also shows remarkable growth in the number of units set up (34.37 percent) and investment (92.33 percent). However, employment has shown declining trends in the growth rate. It fell to 3.28 percent in 2017-18 to 2019-20 from 73.60 percent in 2013-14 to 2016-17. It may happen due to the adoption of capital-intensive techniques than labour intensive. It is worthwhile to note that the overall growth of industries during 2003-04 to 2019-20 also increased by a significant percentage to 13.01 percent, 43.18 percent, and 14.19 percent annually in terms of units, investment, and employment respectively.

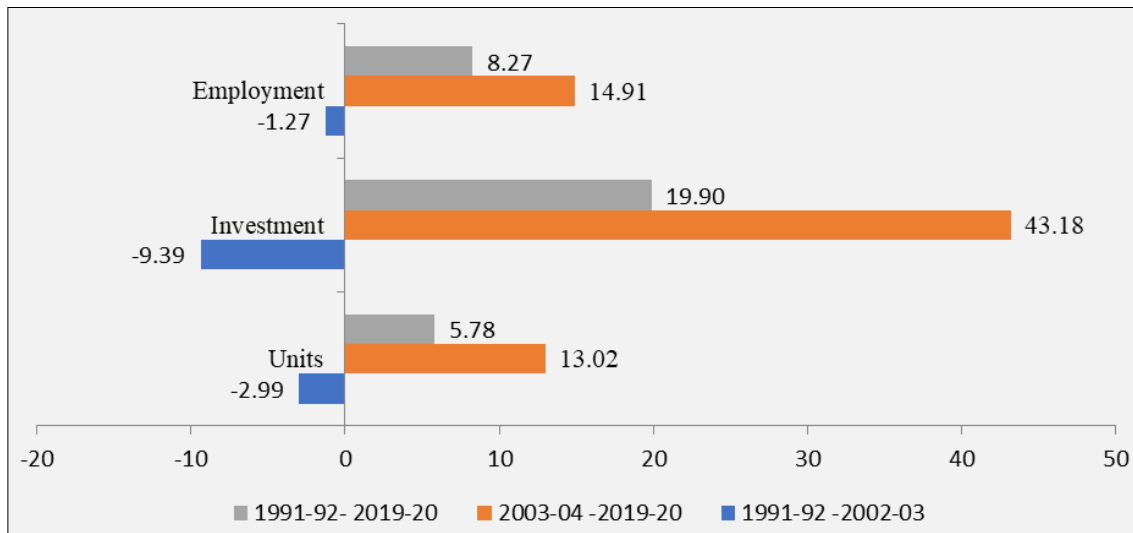
Table 2: Growth of small-scale industries after special industrial incentive package in Himachal Pradesh (in CAGR)

Years	Units	Investment	Employment
2003-04 to 2012-13	2.08	43.61	10.55
2013-14 to 2016-17	44.88	80.59	73.60
2017-18 to 2019-20*	34.37	92.33	3.28
2003-04 to 2019-20*	13.02	43.18	14.91

\*Available for the calendar year.

Source: Same as in Table 1.

Figure 2 shows the growth of industries during pre, post, and overall and exhibits that industries have grown in the state by 5.78 percent, 19.90 percent, and 8.27 percent over the period 1991-92- 2019-20 and has mitigated the negative growth of prepackage period. It shows that special incentive industrial package has significantly affected the growth of small-scale industries in the state in terms of units set up, investment and employment in particular and industrial growth in general.



Source: Same as in table 1.

Fig 2: The overall growth of Small-Scale Industries in Himachal Pradesh (in CAGR)

**Growth of Medium and large-scale industries in Himachal Pradesh**

This section has investigated the growth pattern of medium and large-scale industries and the impact of special industrial incentive package on it. Table 3. indicates significant annual increase in units set up, Investment and employment by 73.21 percent, 133.30 percent, and 105.68 percent respectively during the period of 1991-92 -1995-96. This tremendous annual jump may be due to new economic reforms taken by govt. of India in 1991. But it is shocking to note that this tremendous growth lost its momentum and get negative in the rest of the period consisting before the package. During 1999-2000 -2002-03no. of units set up grew -27.89percent which shows more than two-time recovery from the previous period 1996-97– 1998- 1999 but is still negative, and investment declined to -44.56 percent during 1999-2000 – 2002 -03 as against -39.50percent in1995-96-1998-99. Growth in investment declined to - 39.50percent during 1996-97 – 1998-99 from 133.30 percent and employments growth rate is also decreased with a significant rate to -71.62 percent from the previous period 1991-92 – 1995-96 in which it was increasing annually by 105.68 percent. Overall period consisting before the package indicates slow positive compound annual growth rate in no. of units and employment except employment provided, which still -2.23percent during the1991-92- 2003-04. It is further interesting to note that the employment provided remained negative over the period except 1991-92 -1995-96. It means workers have lost their jobs during these periods. Table 4. exhibit growth pattern of Medium and Large-Scale industries after special industrial incentive package. The total period has been divided into three sub-period by considering the phases of the package. Figure 3. Depicts the overall increase in growth in all three valuable, no. of units set up, investment and employment over the period after the package by 14.13 percent, 20.82 percent, and 13.85 percent respectively consisting 1991-92 -2019-20. It demonstrates a significant positive impact of the package over industrial development in the state. Table 4 shows tremendous growth in no.of units set up and employment

except investment, which has declined sharply to 44.78 percent during 2013-14 -2016-17 from 122.16 percent during 2003-04 -2012-13. In the period 2017-18 to 2019-20, investment registers significant annual growth to 110.348 percent as against the previous period 2013-14 to 2016-17. However, it is worthwhile to note that workers have lost their job during this period, and employment has registered to -11.44percent annual growth rate.

Furthermore, it is interesting to note that from 2017-18 to 2019-20, there is an inverse relationship between investment and jobs provided, which attract attention. Figure 3. shows the overall growth of industries over the whole period after the package in all three variables by 11.12, 35.70, and 13.85 percent, respectively. Figure 3. also exhibits a remarkable annual increase in all three variables, no. of units, investment, and employed provided by 14.13, 20.82, and 13,85, respectively, during the overall period1991-92 – 2019-20. Thus, the above results of the study indicate a significant impact of the package on the development of medium and large-scale industries in particular and industrialization in general.

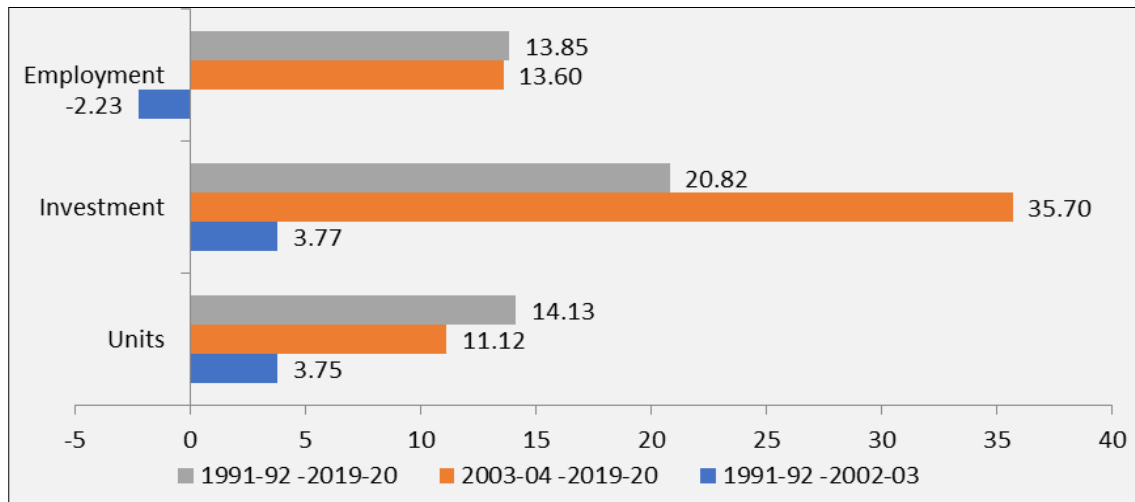
**Table 3:** Growth of medium and Large-Scale industries before Special Industrial Incentive Package (in CAGR)

Years	Units	Investment	Employment
1991-92 - 1995-96	73.21	133.30	105.68
1996-97 -1998-99	-72.26	-39.50	-71.62
1999-00-2002-03	-27.89	-44.46	-65.02
1991-92- 2002-03	3.75	3.77	-2.23

**Table 4:** Growth of medium and Large-Scale industries after Special Industrial Incentive Package and overall (in CAGR)

Years	Units	Investment	Employment
2003-04- 2012-13	91.88	122.16	91.39
2013-14 - 2016-17	158.80	44.78	112.11
2017-18 - 2019-20	23.63	110.35	-11.44
2003-04 – 2019-20	11.12	35.70	13.85
1991-92 2019-20	14.13	20.82	13.85

\*Available for the calendar year.  
Source Same as 1.



Source: Same as in table 1.

Fig 3: The overall medium and Large-Scale industries in Himachal Pradesh (in CAGR)

**The growth pattern of industries at the district level in Himachal Pradesh**

In this section share of the small, medium, and large scale has been analyzed at the district level in the state. Analysis has been made at two points of time, one considering period at the announcement of the package but mostly belongs to prepackage period (as the package has been announced to state as on 7 January 2003) and second consisting of post package period. 2002-03 is the period of the announcement, and 2019-20 is the period consists of after the package. Furthermore, all the twelve districts of the state have been grouped into two parts, advanced and backward, by considering no. of units set up based on UAM 31 December 2019. Table 5. Shows that district Solan has emerged the biggest gainer of the package and depicts a phenomenal increase in the share of no. of units set up and employment to 16.72 percent and 40.83 percent respectively in 2019-20 as against 9.44 percent and 7.15 percent in 2002-03. Table 5 shows the disparity in industrial growth across the districts also. It is worthwhile to note that there is a decrease in job provided in all the districts, whether in advanced or

backward except Solan and Sirmour, and it may be due to the adoption of capital-intensive production than labour intensive. Among the backward districts, Kullu shows a steady increase in no. of the unit set up and employment, and rest variables show mixed performance to all three variables by 6.83 and 5.58 percent in 2019-20 as against 2002-03. It is interesting to quote that share of advanced districts has been slightly increased to 73.88 percent in terms of units set up and 85.08 percent in terms of job provided in 2019-20 as against 70.73 percent and 77.93 percent in 2002-03. Share of backward districts shows marginal decline in terms of no. of units, the job provided but tremendous increase in investment by approximately 10 percent over the period. Increase in investment in backward districts may be investment enlarged by existing industrial units because of the grant released under the package available to the state. Thus, it can be concluded that industrial growth has been affected at districts level due to the said package, but there is a need of more attention to backward districts in the state also.

Table 5: District wise Share of industries in Himachal Pradesh (in percent)

District	2002-03			2019-20		
	No. of Units	Investment	Employment	No. of Units	Investment	Employment
<b>Advanced</b>						
Kangra	26.33	5.47	22.17	20.20	2.06	11.79
Solan	9.44	59.33	7.15	16.72	53.67	40.83
Mandi	9.90	2.20	7.68	9.81	4.45	6.13
Shimla	9.22	2.40	6.79	9.65	2.27	7.61
Una	8.04	2.87	24.87	8.99	4.60	7.33
Sirmour	7.81	11.16	9.28	8.50	6.77	11.39
Total (i)	70.73	83.43	77.93	73.88	73.82	85.08
<b>Backward</b>						
Harmirpur	7.65	1.17	5.31	6.46	3.43	3.30
Bilaspur	6.33	13.39	5.15	6.02	10.52	3.16
Kullu	6.78	1.13	6.37	6.83	5.58	5.02
Chamba	5.01	0.69	3.35	4.27	6.40	2.41
Kinnaur	1.68	0.11	0.98	1.45	0.13	0.68
Lahaul-Spiti	1.80	0.08	0.92	1.07	0.13	0.36
Total(ii)	29.27	16.57	22.07	26.12	26.18	14.92
Himachal Pradesh	30374	309158.84	159710	55496	52089.78	463151

Source: Same as in table 1.

**Relative performance of industries**

In this section concise analysis has been done on industrial growth in Himachal Pradesh, its neighboring states, Uttarakhand and Jammu and Kashmir and all India level on three selected parameters, no. of factories, investment and employment provided. Selection of neighboring states has been made due to availability of special industrial incentive to these states. Table 6. clearly indicates that factories grew in the state of Himachal Pradesh by 10.47 percent followed by Uttarakhand by 9.11 percent and Jammu and Kashmir by 6.17 percent over the period and it’s also phenomenally higher than all India. On the parameter of Investment Jammu and Kashmir shows extraordinary performance by winning race from neighboring state Himachal Pradesh and Uttarakhand and grew annually by 19.30 percent followed

by Uttarakhand by 19.26 percent and 15.17 percent by Himachal Pradesh over the period of 2001-02 to 2017-18. It is interesting to note that all three states getting package are performing significantly above than national average. In case of employment Uttarakhand is the best performer grew annually by 14.66 percent followed by Himachal Pradesh and Jammu and Kashmir by 10.85 percent and 6.87 percent respectively. It’s again interesting to note that all the selected states are growing approximately two times more than all India Level. As a whole all the three states getting package are showing coalition response in the sub periods of the study but all are performing phenomenally than all India Level. Thus, it can be concluded that states are significantly affected by special industrial incentive package because all are performing significantly above than national average

**Table 6:** Average annual growth rate of industries in Himachal Pradesh with neighboring states and India (in percent)

Year	Factories				Investment				Employment			
	HP	UK	JK	India	HP	UK	JK	India	HP	UK	JK	India
2001-02 to 2004-05	8.90	2.48	6.58	1.96	12.04	12.01	24.73	7.53	6.66	7.86	7.98	2.90
2005-06 to 2008-09	15.70	25.03	7.45	3.42	32.49	52.01	24.29	17.74	22.08	39.09	9.86	7.26
2009-10 to 2012-13	18.03	7.22	14.08	11.17	15.26	16.48	22.59	16.21	12.07	11.31	4.48	3.12
2013-14 to 2017-18	-1.64	0.70	2.58	1.89	-1.97	1.79	10.00	9.20	1.86	3.28	3.17	4.76
2001-02 to 2017-18	10.47	9.11	6.71	3.84	15.17	19.26	19.30	12.48	10.85	14.66	6.87	4.38

Source: Computation based on Annual Survey of Industries data set

**Summary and conclusion**

This paper has examined the growth pattern of small-scale and medium and large industries of Himachal Pradesh. It also provides comparative analysis of industries with neighboring states namely Uttarakhand and Jammu & Kashmir and all India level. Industries performance has also been examined at district level to know about the penetration of the industries with in the state. This study is partly descriptive and partly exploratory in nature and focused on the impact of special industrial incentive package on the industrial development in Himachal Pradesh by considering three variables, no. of units, investment and employment. This paper shows significant increase in no. of units set up, investment made and job provided after the announcement of the package in the state. Factory sector has also shown high growth rate as compared to neighboring states and all India level. It has shown annual growth rate of 10.47 percent, 9.11 percent and 6.71 percent in no. of factories over the period 2001-02 to 2017-18 in Himachal Pradesh, Uttarakhand and Jammu and Kashmir respectively which is phenomenally higher than all India. Package has affected the industrialization across the state but it is matter of anxiety that backward districts are least effected by the package. Therefore, govt. should take review of disbursal of the package regarding backward districts and should develop effective monitoring system in the state.

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