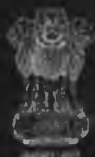




**REPORT
OF
THE STUDY GROUP
ON
DEVELOPMENT
OF
SMALL SCALE ENTERPRISES**



**PLANNING COMMISSION
GOVERNMENT OF INDIA
NEW DELHI
MARCH, 2001**

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**REPORT
OF
THE STUDY GROUP
ON DEVELOPMENT OF
SMALL SCALE ENTERPRISES**



Chairman
Dr. S.P. Gupta
Member,
Planning Commission

New Delhi
March, 2001

कृष्ण चन्द्र पन्त
K.C. PANT



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February 19, 2001

FOREWORD

The Indian economy has been on an accelerating growth path since the past two decades. There is need to carry this trend further and aim for even faster growth by taking advantage of all available opportunities, both internal and external. The WTO regime has thrown up a number of opportunities which need to be exploited by increasing our competitiveness and focusing on our core competencies. At the same time, globalisation poses a challenge, particularly to the small enterprises, and the traditional segment of manufacturing or the unorganised sector.

The Small Scale Industries (SSI) sector is a vibrant segment of the economy, contributing substantially in the form of production, export and employment. This sector accounts for 95 per cent of industrial units, contributing about 40 per cent of value addition in the manufacturing sector, 80 per cent of manufacturing employment and about 35 per cent of exports (both direct and indirect). Of late, sickness in the SSI Sector has been increasing. It was, therefore, felt necessary to study the constraints on the SSI sector and formulate appropriate policy changes to strengthen it. For this purpose the Planning Commission set up a Study Group on the Development of Small Scale Enterprises under the chairmanship of Dr. S.P. Gupta, Member, Planning Commission.

An Interim Report was presented by the Study Group in July, 2000, which was considered by a Group of Ministers (GOM) on the SSI sector, set up by the Prime Minister, under the chairmanship of Shri L.K. Advani, Home Minister, to recommend suitable policy measures for strengthening the SSI sector.

Based on the recommendations of this Interim Report the GOM suggested new policy initiatives, which were announced by the Prime Minister on 30/8/2000 at the National Convocation of Small Industries. The Ministry of Small Scale Industries and Agro & Rural Industries followed this up by announcing additional new policy measures.

While the Government is making all efforts to help and strengthen the SSI sector to enable it to show better performance; it is also necessary for the SSI sector to be aware of the new responsibilities and challenges and to

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respond to them appropriately. The sector has to focus on improving efficiency and productivity, manufacturing of standard and quality products, adopting best management and accounting practices to attract larger investments, being cost competitive and taking up market oriented production and diversifying into products having niche market, etc. Unless the SSI sector acts on the above lines, the new policy initiatives started by the Government would not fructify.

The report of the Study Group has now been finalised and is ready. The Study Group's Report contains a number of valuable recommendations, taking into account both future challenges to be faced by the SSI sector and India's present development strategy. The Study Group has worked hard to discharge the onerous responsibility assigned to it. I hope that this associated institutions such as RBI, SIDBI, and other banks as well as R&D institutions to implement new policy measures and modify the existing policies to enhance productive employment in the economy and ensure the healthy growth and development of this sector.

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PREFACE

Planning Commission has constituted a Group under my chairmanship for looking into the problems of the Small Scale Industries (SSI) sector and to suggest policy modifications as well as new policy initiatives.

In general, Small Scale Industries in India have performed better than the large ones almost in all areas, e.g., in output, employment and in their contribution to exports, i.e., international competitiveness. Why then there is a need for a fresh look at the small scale sector policies? Is this because there have been significant changes in India's domestic and international economic environment since early nineties? The answer is 'yes'. Consequently, the incidence of sickness and closure among SSI units has increased with a sizable displacement of the workforce. This has become a matter of concern, especially when the recent NSSO Survey on employment for the year 1999-2000 shows a less than one per cent growth in employment against a population growth of around 1.8 – 1.9 per cent between 1993-94 and 1999-2000. The major economic environmental changes are (i) opening up of the Indian economy with competition from abroad and the initial impacts related to commitments to WTO; (ii) increasing reliance at home on the market economy with freer competition in prices and for qualities and lowering of several existing support systems like subsidies and other forms of protection; and (iii) the need for an accelerated growth in India, much higher compared to the past to reduce poverty and unemployment.

As to the competition from abroad, it is expected that it will reach a peak within the next 2-3 years i.e. by the year 2003, when all major WTO commitments on tariffs and quantitative restrictions are to be complied with. It has been the finding of this Group that against these changing circumstances, the SSI sector in India is suffering from certain handicaps to meet the new competitive environment. There is an immediate need for a suitable policy package to enable SSI sector to enjoy a level playing field in order to be competitive with their trading partners by upgrading their technology, quality of products and improving their marketing organizations in order to maintain the tempo of their past record in growth and generation of employment. In this context, with "capital shortage and abundant labour and skill" and scarce resource base, the comparative advantage enjoyed by



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SSI for growth, needs no special focus. Hopefully, the new policy now recommended for this sector will provide this opportunity. But the success of this strategy will depend on efficient implementation of the present recommended policies and a reciprocal response with awareness from the small scale sector for modernizing and increasing their cost competitiveness.

Further, this report attempts to give a holistic approach to India's industrial development by bringing the small and large industries working in synergy, to optimize their output by combining respectively flexibility, adaptability, innovative capability, of the small with scale of operation, networking and financial strength of the large.

While constituting the Study Group on Development of Small Scale Enterprises (SSEs) in May, 1999 (hereinafter referred to as the Study Group), due representation was given to the federations of associations of small scale industries, along with SSI experts, government officials, representatives of the Reserve Bank of India (Small Industry Credit), Indian Institute of Management, Ahmedabad, and large industry representatives.

The Study Group held a total of seven meetings. In June 2000, the Government had set up a Group of Ministers under the chairmanship of Shri L.K. Advani, Union Home Minister to consider also the recommendations of the interim report of this Group. The GOM had other members: the Deputy Chairman, Planning Commission, Ministers of Finance, Textiles, Commerce & Industry and MOS (SSIA&RI). The GOM was to recommend new policy measures to the Prime Minister for the SSI sector. Accordingly, the GOM considered the Interim Report of the Study Group released in July, 2000, alongwith other suggestions from Ministers of Textiles, Commerce and Industries and SSIA&RI. At the National Convention of the Small Scale Industries held at Vigyan Bhawan on 30/8/2000, the Prime Minister announced a number of Policy initiatives for the SSI sector, followed by more announcements made by the Ministry of SSI, A&RI.

I am very glad to state that the Government has accepted most of the recommendations of the interim report of the Study Group and already

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initiated implementation of these. A committee under the chairmanship of AS&DC (SSI) has also been set up to monitor the implementation of the announcements made so far, for the SSI sector.

I feel very happy now to present the final report of the Study Group which gives more comprehensive recommendations and also the rationale behind these recommendations. I am also happy to acknowledge the cooperation given by all members of the Study Group and also for the valuable suggestions made by them.

On behalf of the Study Group, I wish to offer my special thanks to Shri V.S. Narasimhan, the then President, FASII, who had made special efforts to organize a seminar of SSI units at Chennai, which was preceded by the third meeting of the Study Group. I am thankful to him for all the arrangements made by him and FASII to arrange for the visits of the Study Group to a number of SSI units around Chennai where we discussed the problems faced by SSI and tiny units' entrepreneurs in running their units.

I would also like to thank the Chairman and members of the different Sub-Groups constituted by the Study Group, without whom this report could not have been completed.

The reports of all Sub-Groups turned out to be very useful for the Study Group in making their final recommendations. I also thank all the participants, small industry representatives, SSI entrepreneurs, Ms. Usha Monari of IFC, Washington DC, Shri Shekhar Bajaj, President of ASSOCHAM, and others who were co-opted as members of the Study Group, as well as those who attended the meetings of the Study Group as special invitees and contributed substantially in shaping the final recommendations.

I would like to especially mention the efforts and contributions made by Shri V.S.Narasimhan, Shri S.S. Singhania, Prof. Rudder Dutt, Dr. Sailendra Narain, ex-Chairman and M.D., SIDBI, Shri S.S. Kohli Chairman and Managing Director, SIDBI, Shri G.K. Saxena, E.D., SIDBI, Dr. N.K. Madan, G.M., SIDBI, Dr. C.S. Prasad, Addl. DC (SSI), who have all helped us in preparing the final report of the Study Group.



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I also wish to place on record my thanks to Shri S.G. Raoot, Deputy Adviser, Planning Commission and his colleagues, as well as other staff of the Planning Commission who have helped the Study Group in organizing the meetings, for making all arrangements to make these useful and in preparing drafts of this report. Last but not the least, my sincerest thanks to Shri B.D. Jethra, Adviser, Planning Commission and Convenor of the Study Group for his contribution throughout in making this report so meaningful.

In submitting the final report of the Study Group to the Planning Commission, I feel very happy to record my personal gratitude to the Government and also on behalf of all members of the Study Group, for considering most of our recommendations in letter and spirit; in fact some of them have already been announced for implementation.

I hope that this report would be useful to the Government, to planners, officials of the Ministry of SSIA&RI, RBI, Ministry of Finance, financial agencies, especially SIDBI, and other agencies in implementing new policy measures for development and growth of small scale enterprises and in enhancing their contribution to the economy in terms of employment, production, value addition and exports.

(Dr. S.P. Gupta)

Member, Planning Commission and
Chairman of the Study Group

New Delhi
Dated 27/2/2001

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EXECUTIVE SUMMARY

The Small Scale Industry (SSI) sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. Today, this sector accounts for about 95 per cent of the industrial units and is contributing about 40 per cent of value addition in the manufacturing sector, nearly 80 per cent of manufacturing employment and about 35 per cent of exports (both direct and indirect). More than 32 lakh units are spread all over the country producing over 7,500 items and providing employment to more than 178 lakh persons.

2. Small enterprises, i.e., small scale units, not only play a crucial role in providing large scale employment opportunities at lower capital cost than large scale industries, but also help in industrialisation of rural and backward areas, thereby reducing regional imbalance, assuring more equitable distribution of national income and wealth. SSI units are supplementing and complimentary to large and medium scale units as ancillary units. Considering the large employment level and backlog of creation of new jobs to provide employment to all able hands today hopes are pinned on the small scale sector. The Government is making all efforts to provide conducive atmosphere, level playing ground and policy support to enable the SSI sector to achieve higher levels of production, exports and employment.

3. The Government of India has helped the small scale sector through supportive policy measures since adoption of planned economy model. The basic policy support for SSI sector has its roots in the Industrial Policy Resolution of 1956. Further, the Industrial Policy Statement, 1977, laid emphasis on reservation of items. The reservation of economically viable and technologically feasible products to be exclusively manufactured by SSIs began with a list of 47 items which was gradually extended to many products. Presently, 811 items are on the reserved list. Other policy supports which could be listed are excise exemption, credit under priority sector lending from banks and financial institutions, marketing support through reservation of items for products from SSI sector for government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technological support, new management techniques, training and entrepreneurship development.

4. Performance of the SSI sector in terms of number of units, production, employment and exports from 1973-74 to 1999-2000 has been indicated in Chapter-1 (Tables 1.1 to 1.10). These Tables show the high performance and growth achieved by the SSI sector.

5. Though this sector has shown substantial progress, a number of major problems like inadequate credit flow from banks and financial institutions (FIs), inadequate infrastructure facilities, low quality standards of products, use of obsolete technology, plant, machinery and equipment, inefficient management techniques, etc, are inhibiting the sector. Besides, this sector has to face challenges of competition from opening up of the economy, globalisation, need for increasing exports, and WTO commitments.

6. The policy support provided so far has acted as a catalyst in promoting this sector. However, the Planning Commission felt an urgent need to review the policy measures so as to make this sector more growth oriented and enable it to withstand the pressures of global competition.

7. At the instance of the Deputy Chairman, Planning Commission, a Study Group on Development of Small Enterprises (hereafter expressed as Study Group) was set up vide O.M. No. VSI/8(10)/99 dated 20th May 1999 (Annexure. II) under the chairmanship of Dr. S.P. Gupta, Member, Planning Commission. While constituting the Study Group, wide representation was given to SSI associations, economists, Indian Institute of Management, Ahmedabad, SSI entrepreneurs, representatives of various departments/institutions like SSIA&RI and Banking, RBI, SIDBI, FICCI, etc.

8. The Study Group had submitted an Interim Report on 6th July, 2000 to the Deputy Chairman, Planning Commission. A Press Conference was held by the Chairman of the Study Group in which the main recommendations given in the Interim Report were explained to the Press and the media. The Press Conference was also attended by Secretary (SSI, A&RI), President (FASSII), President (ICSI), etc.

9. In July, 2000 the Government had set up a Group of Ministers (GOM) on SSI under the chairmanship of Shri L.K. Advani, Union Home Minister. The GOM had other high level members like the Deputy Chairman (Planning Commission), Ministers of Finance, Textiles, Industry & Commerce, and Minister of State (Independent Charge), Ministry of SSIA&RI. The GOM was to recommend new policy measures to the Prime Minister for the SSI sector.

10. Based on the Interim Report of the Study Group and discussions held by GOM in their meetings, the Prime Minister had announced a number of new policy initiatives at Vigyan Bhawan on 30th September, 2000 at the National Convention of Small Scale Industries. These announcements were followed by more announcements made by the Ministry of SSIA&RI. The new package announced by the Prime Minister and the Ministry of SSIA&RI, based on the recommendations of the Study Group is given at Annexure-4.

11. The final report of the Study Group consists of nine chapters along with four annexures. First chapter gives the present status of small scale sector in Indian economy. This includes the number of SSI units, break-up of units registered with different agencies, ownership pattern, industry group-wise distribution, concept and definition of tiny units, production, employment, exports, comparison of real growth rate of SSI sector with overall industry sector, credit availability from SIDBI, banks, SFCs and other financial institutions, sickness, estimates of labour and capital productivity and relative productivity of SSI sector compared to large scale and total factory sector.

12. Chapter-2 relates to the existing policy framework and organisational support to the SSI sector. This chapter describes central as well as state government policies and organisations.

13. Chapter-3 deals with recommendations made by the earlier important committees, their constitution, terms of reference, key findings and steps taken for their implementation. The committees which have been included are (i) Committee to Examine the Adequacy of Institutional Credit to the SSI Sector (commonly known as Nayak Committee), 1991, (ii) Expert Committee on Small Enterprises (Abid Hussain Committee), 1997, (iii) High Level Committee on Credit to SSIs (S.L. Kapur Committee), 1998, and (iv) Working Groups for Harmonising the Operations of Developmental Role of Financial Institutions and Banks (Khan Working Group), 1998.

14. Chapter-4 indicates brief account of implications of WTO regime on SSI sector. This chapter also deals with the implications of removal of QRs on SSI sector.

15. Chapters-5, 6, 7 and 8 focus upon the recommendations made by the Study Group with respect to (a) policy, legal framework, reservation and other issues, (b) financial and fiscal matters, (c) technology upgradation and modernisation, and (d) marketing and exports.

16. Some of the important recommendations of the Study Group are*:

(a) A three-tier definition of SSEs covering tiny, small and medium sector. Medium sector definition has been brought in for the first time to help SSI units to graduate to medium and then to large scale. Medium scale units (Rs.1 crore to Rs.10 crore) would not be provided fiscal and other policy support as available to SSI units. However, these units would be helped by providing credit for technology up-gradation and modernisation from a separate fund.

(b) Need of bringing awareness in small industries sector about WTO implications and its impact on SSI sector, particularly due to bringing more items under OGL as per WTO obligation. Setting up of a new cell in the office of DC(SSI) for matters relating to WTO and its implications on SSI sector.

(c) Need for a single comprehensive law for SSI sector, like Small Business Administration (SBA) Act of United States.

(d) This Study Group has recommended that presently reservation should be continued for SSE sector. However, to enhance exports, the Study Group has recommended that non-SSI units can take up production of reserved items with 30 per cent export obligation to be completed over three years. Presently, this limit is 50 per cent.

(e) The Study Group has recommended to raise investment ceiling from Rs.1 crore to Rs.5 crore for plant and machinery for export-oriented industries like leather products, garments, hosiery, hand tools, toys, packaging materials, auto components, pharmaceuticals, food processing, etc.

(f) For infrastructure development, the Study Group has recommended a corpus of Rs.2,000 crore so that adequate infrastructure facilities are available to the SSI sector.

(g) To encourage technocrat entrepreneurs in high-tech industries like electronics, information technology, bio-technology, pharmaceuticals, an Incubation Infrastructure Development Fund with a corpus Rs.1,000 crore has been recommended by the Study Group for setting up of Incubation Centres (ICs) in the Tenth Plan. These ICs would provide all facilities and finance, technical consultancy, etc. to encourage technocrats and first generation entrepreneurs to successfully take up production based on recent technologies having potential, but not tried so far. Such incubation centres have given good results in developed countries as well as South East Asian countries.

*Details are given in Chapter-5 through Chapter-8.

(h) With a view to encourage large units to make prompt payment to SSI units against deliveries made by SSI units, the Study Group has recommended:

- Lead role of associations as done by CII by issuing a code of ethics on prompt payment to its members.
- Denial of MODVAT credit to defaulters in respect of payment to SSI units for more than 120 days' delay.
- Amendment of Income Tax Act to disallow unpaid SSI bills from business expenditure.
- Strengthening of factoring services, and
- Monitoring of implementation of Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings Act, 1993, by DC(SSI).

(i) To encourage better linkages between large and medium units, the Study Group has recommended:

- FDI to be encouraged in SSI's for better technology transfer (within the permitted ceiling of equity participation by large scale units in the equity of SSI units).
- Allowing excise exemption on SSI manufactured goods for large units under brand name in urban areas as is presently allowed for rural areas.

(j) The Study Group has recommended enactment of Limited Partnership Act to bring in more risk capital in SSI sector and the concept of limited liability. SAMADHAN scheme for one time settlement of dues of sick SSI units so that assets could be reutilised. Sick units to make one time payment including interest not more than double of the credit/ loan amount. This would provide an exit route to entrepreneurs of sick units.

(k) To free the SSI sector from rigid and harassing regulatory laws applicable to the SSI sector and to reduce inspectors' visits, the Study Group has recommended a number of measures, like (i) need for a single unified Act for small enterprises, (ii) replacement of inspection by self-certification, (iii) simplification of regulatory laws, etc.

(l) To enhance the data base for the SSI sector, the Study Group has recommended (i) conduction of fresh census for SSI sector, (ii) collection of detailed data on clusters, (iii) sample surveys by the office of DC(SSI) to be conducted annually, and (iv) involvement of SSI associations in the census and other data collection activities.

(m) The Study Group has made a number of recommendations for human resource development of SSI sector which includes inputs like training, skill upgradation, new management practices, etc.

(n) The Study Group has also made a number of recommendations on fiscal and financial measures covering:

- Setting up of targets for tiny and SSI units for credit from banks and FIs under priority sector lending.
- Need for reduction of cost of credit for SSI sector.
- Setting up of more specialized bank branches for SSI sector.
- Measures for strengthening resource support to SIDBI and to make available cheaper resources for on-lending at low interest rates to SSI sector.
- Venture capital for SSIs.
- Setting up of a special venture capital type fund of Rs.500 crore to be named as Laghu Udyog Nirman Nidhi for equity support.
- Standardisation of procedure and simplification of forms by banks.
- Statutory backing to State Level Inter-Institutional Committees (SLIICs).
- Raising of present excise exemption limit from Rs.50 lakh to Rs.100 lakh.
- Five per cent notional MODVAT credit to large units buying components, etc, from SSI units.
- Exemption from excise registration and visits of excise inspectors until the turnover reaches a limit of Rs.50 lakh with a system of self-declaration.
- Extension of Credit Guarantee Fund Scheme with a corpus of Rs.2,500 crore.
- Allowing additional 10 percentage point abatement over and above the existing rate of abatement under Maximum Retail Price (MRP) based assessment to levy excise duty on SSI products. Presently large and small units are allowed 30 to 50 percentage point abatement on MRP for levying excise duty.
- More effective monitoring of credit flow to SSI sector by the Monitoring Committee of Reserve Bank of India.

- To make available credit to SSI sector at a reasonable cost, viz, PLR plus three per cent.
- Raising the limit of composite loans from Rs.10 lakh to Rs.25 lakh to encourage tiny units to get term loan and working capital from same bank/FI.
- Not to cover all future fixed assets of assisted units for securing its advances.
- Need for restructuring of SFCs.
- Measures to enhance resource support to SIDBI.
- Measures for time-bound disposal of loan applications and easy documentation.

(o) The Study Group has recommended following measures for technology up-gradation and modernisation of SSI units:

for

- Setting up of a Technology Bank for collection and dissemination of information about technology sources.
- A Technology Up-gradation & Modernisation Fund of Rs.5,000 crore with an interest subsidy of five per cent.
- Accelerated depreciation on plant and machinery installed for technology up-gradation and modernisation.
- Five per cent custom duty on capital goods with import obligation and five per cent interest subsidy as recommended for technology modernisation.

(p) To provide increased marketing support to the SSI sector, the Study Group has recommended that:

- Statutory backing and continuation of the Price Preference (up to 15 per cent to SSI products) under Government Purchase Programme and Purchase Preference Scheme in respect of 358 items on purchases made by government departments.
- Up to 33 per cent of government purchases may be done from SSI sector on the lines of USA.
- Industry status to all types of consortium industries so that they can avail finance from banks and FIs.
- Subsidisation of participation of SSI units up to 50 per cent in

- **air fare for export related buyer-seller meets.**
• **Timely release of institutional finance for export orders of SSI units.**

17. The recommendations made by the Study Group are far-ranging and important. But it is more important that these are accepted and implemented in letter and spirit, so as to provide maximum possible benefits to the SSI sector. It is also important to get a reciprocal response from the SSI sector. The Study Group has made a few suggestions in this regard, which are given in Chapter-9.



CHAPTER - 1

STATUS OF SMALL SCALE SECTOR IN INDIAN ECONOMY

Evolution

1.1 The Small Scale Industries (SSI) Sector in India plays a crucial role in the growth of the economy. The sector has emerged as a dynamic and vibrant partner in the process of development by consistently recording higher levels of growth as compared to overall industrial growth. Over the past five decades, a number of policy initiatives have been taken by the Government to develop cottage, tiny and modern small scale industries in the country. In order to determine the type of support needed by different categories of units in the small scale industries sector, definition of SSI unit was evolved in terms of size of investment in fixed assets as well as strength of work-force engaged in the unit concerned. The conceptual and legal framework for small scale and ancillary undertakings is derived from the Industries (Development and Regulation) Act, 1951. Section 11 B of the Act specifies the general requirements that are to be complied with by the small scale units. The classificatory definition, as initially given under the IDR Act, 1951, has undergone modifications from time to time. Periodical changes brought out in the definition of SSI units are detailed in Annexure-1.

1.2 Small scale industry evokes different meanings for different agencies and the financial institutions. In broader terms, currently, an SSI unit is defined in terms of investment ceilings on the original value of installed plant and machinery. As per the present definition, an industrial undertaking in which investment in plant and machinery, whether held on ownership terms or on lease/hire purchase basis, does not exceed Rs.1 crore, is regarded as a small scale industrial undertaking. There is no separate limit for ancillary undertakings.

1.3 The Industries (Development and Regulation) (IDR) Act, 1951 specifically refers to only two categories of small scale sector :

- **Small Scale Industrial Undertaking**
- **Ancillary Industrial Undertaking**

1.4 Over the years, however, some sub-sectors have been identified within the overall small scale sector. These are :

- **Tiny Enterprises**
- **Women's Enterprises**
- **Export Oriented Units**
- **Small Scale Service and Business Enterprises (SSSBEs)**

1.5 In other words, the small scale sector comprises small scale and ancillary industrial undertakings. The small scale units are further categorised as tiny enterprises, Export Oriented Units, SSSBEs and women enterprises. The small scale sector is a part of the larger Village and Small Industries (VSI) sector, which consists of modern small scale industries and traditional small industries located in rural as well as urban areas.

1.6 The classification of the size of companies by employment levels is implicit in the registration requirements of the Factories Act as well as labour laws. Enterprises are obliged to register themselves with the Department of Industry of a State government if they employ more than 50 persons and use power or employ 100 persons but do not use power. Small Industries below these levels of employment can choose to register but they do not have to. Other social legislations relating to various labour laws, social security and medical insurance apply for firms employing more than 10 workers with power and 20 without power. By implication, household enterprises are defined as ones with less than 10 workers with power and 20 without power and are not subjected to social legislation.

1.7 For the purpose of Excise and Sales Tax Exemption, different norms are adopted to define SSI units. For example, for availing full excise exemption under General Excise Exemption Scheme for SSIs, the turnover alone is the determining criterion. The National Sample Survey Organisation (NSSO) under the Central Statistical Organisation (CSO) defines the entire industry sector in terms of organised and unorganised segments, as well as in terms of industrial enterprises run by households and non-households. The Reserve Bank of India (RBI) adopts an expanded definition of SSIs, which includes traditional industries as well.

1.8 The definition criteria of small scale industry are closely linked to the ownership status and pattern since the small scale industrial units can neither be controlled nor owned or be a subsidiary of any other industrial undertaking. As per the extant guidelines, equity investment by other companies in an SSI unit should not exceed 24 per cent of the total equity.

1.9 Adoption of different norms for defining a unit as an SSI is one of the major constraints for SSIs availing facilities and incentives from the Government on account of a wide spectrum of norms for SSI definition.

1.10 It may be pertinent to mention here that in India there exists no separate definition of medium enterprises and as such there is no specific definition for small and medium enterprises. What prevails is the concept of small scale (including ancillary) and tiny industries, which are classified in terms of historical value of investment in plant and machinery, whereas the world over, the phrase generally used is "Small and Medium Enterprises" and the criteria mostly includes the number of employees.

Present Status

Number of Units

1.11 In the Indian context, industry sector is segmented into factory sector large scale units, factory sector small scale units and the village and small industries. The village and small industries cover a wide range of units that differ from one another in terms of nature of products manufactured, techniques used, scale of production, location, etc. The VSI sector comprises (a) modern small scale industries and (b) traditional industries. Small Scale Industries (both factory and non-factory sector) and powerloom units are covered under modern small scale industries, while traditional industries include segments like handlooms, khadi and village industries, handicrafts, sericulture, silk, coir, etc. Modern SSIs are mostly units that use power-driven machinery and possess relatively better production techniques as compared to traditional units.

1.12 The Office of Development Commissioner (SSI), under the Ministry of Small Scale Industries, Agro & Rural Industries (SSIA&RI), also known as Small Industries Development Organisation (SIDO), prepares estimates of registered SSI units annually. Further, the number of units under SIDO estimates take into account the residual industrial units that are not covered by any assistance programme of the sector-specific statutory bodies viz., handicrafts, handlooms, sericulture, coir, etc. and as such form part of SIDO estimates. Some of the units under Khadi and Village Industries Commission (KVIC) too are registered with the State Directorates of Industries as SIDO units.

1.13 The cumulative number of units as per SIDO estimates from 1974 onwards is given below:-

TABLE - 1.1
NUMBER OF SSI UNITS

Year (as at end-March)	Cumulative no. of units (lakh)
1974	4.2
1975	5.0
1976	5.5
1977	5.9
1978	6.7
1979	7.3
1980	8.1
1981	8.7
1982	9.6
1983	10.6
1984	11.6
1985	12.4
1986	13.5
1987	14.6
1988	15.8
1989	17.1
1990	18.2
1991	19.5
1992	20.8
1993	22.5
1994	23.9
1995	25.7
1996	27.2
1997	28.6
1998	30.1
1999 (P)	31.2
2000 (E)	32.3

(P) : Provisional. (E) : Estimated,
Source : DC(SS), Ministry of SSI, A&RI

Organised/Unorganised Sector Units

1.14 The classification of units in the organised and unorganised sectors is based on the criteria of employment in combination with use/ non-use of electric power. Units in the factory sector registered under the Factories Act, 1948 are termed as organised units. The segment of SSI sector not covered under the Factories Act, 1948 is treated as unorganised sector. Such units are also classified on the basis of work-force employed in terms of units - either less than 20 workers (if power is not used) or less than 10 workers (if the unit is using power). Information on the factory sector units is brought out by Central Statistical Organisation (CSO) in the Annual Survey of Industries (ASI). As regard unorganised sector, Manufacturing Enterprises Surveys are carried out after a gap of 5 years to update the statistics. The Survey of Manufacturing Enterprises is carried out separately for the following categories of establishments that comprise unorganised sector:

- (i) Directory Manufacturing Establishments (DME) employing less than ten but more than five workers, of whom at least one is hired;
- (ii) Non-Directory Manufacturing Establishments (NDME) employing between one and five workers, of whom at least one is hired; and
- (iii) Own Account Enterprises (OAE) - not employing any paid workers.

1.15 As per Manufacturing Enterprises Survey (MES) 1994-95, industry-wise details of number of units are given below:-

TABLE - 1.2

ENTERPRISES REGISTERED WITH DIFFERENT AGENCIES

(In '000)

Industry	Rural	Urban	Total	% to Total
Factories Act / Bidi and Cigar Act	7.50	9.01	16.51	0.11
State Department of Industry	68.25	108.56	176.81	1.22
Khadi and Village Industries Commission	87.93	2.38	90.31	0.62
Development Commissioner (Handicrafts)	0.69	0.90	1.59	0.01
Development Commissioner (Handlooms)	12.45	1.35	13.80	0.10

Industry	Rural	Urban	Total	% to Total
Powerloom	2.31	11.52	13.83	0.10
Coir Board	5.85	0.19	6.04	0.04
Silk Board	0.43	0.03	0.47	neg.
Jute Commissioner	0.00	0.00	0.00	0.00
Others	442.35	821.98	1,264.33	8.71
No Agency	9,821.12	2,992.69	12,813.81	88.35
Multiple Agencies	32.93	52.25	85.18	0.59
Not Reported	15.26	6.17	21.43	0.15
Total	10,497.08	4,007.03	14,504.11	100.00
Percentage share	72.37	27.63	100.00	

Neg. : negligible
Source : CSO : Manufacturing Enterprises Survey 1994-95

1.16 As per the MES 1994-95, more than 72 per cent of enterprises were located in rural areas and the balance in urban areas. A further analysis of the above data based on Manufacturing Enterprises Survey 1994-95 reveals that majority of the units were owned by individual proprietors and a nominal number was in the category of partnership firms.

1.17 A comparative position of ownership pattern of SSI units in the unorganised sector based on the MES 1994-95 and second All India Census of SSI units 1987-88 is given in the following Table 1.3:-

TABLE 1.3

OWNERSHIP PATTERN OF THE UNORGANISED SECTOR

(in lakh)

Ownership	Manufacturing Enterprises Survey 1994-95		Second All India Census 1987-88	
	Enterprises Total	Percentage to Total	SIDO Units*	Percentage to Total
Proprietary	141.50	97.65	4.70	81.03
Partnership	2.70	1.86	1.00	17.24
Cooperatives	0.00	0.00	0.00	0.00
Public Sector	0.00	0.00	0.00	0.00

Ownership	Enterprises Total	Percentage to Total	SIDO Units*	Percentage to Total
Limited Cos	0.00	0.00	0.10	1.73
Others	0.00	0.00	0.00	0.00
Not Reported	0.80	0.49	0.00	0.00
Total	145.00	100.00	5.80	100.00

Note : * Includes SSI units registered under the Factories Act.

Source: CSO - Manufacturing Enterprise Survey 1994-96; DC(SS I) - Second All India SSI Census 1987-88.

Industry - Groupwise Distribution

1.18 The availability of local raw-materials, traditional skills and the demand for products are some of the basic determinants for location of small scale industries, particularly in the tiny sector. Information on industry group-wise distribution of units is available from the surveys conducted by the office of DC (SSI) and Manufacturing Enterprises Survey by CSO. Based on the survey conducted for the period 1988-1992 by the Office of the DC (SSI), it is observed that food products (17.5 per cent) and metal products (11.5 per cent) had a predominant share in the Industry Group-wise Distribution of SSI units.

1.19 According to Manufacturing Enterprises Survey 1994-95, almost one fifth of the small scale units (19.8 per cent) in the unorganised sector in respect of which survey was conducted, were engaged in manufacture of wood products, followed by food products (16.5 per cent).

1.20 A comparative position of the Industry Group-wise Distribution of SSIs as per survey conducted by the Office of DC(SS I) and Manufacturing Enterprises Survey (MES) 1994-95 is furnished in Table 1.4 below:

TABLE - 1.4

INDUSTRY GROUP WISE DISTRIBUTION OF SSI UNITS

(in '000)

Industry Groups	Second All India SSI Census 1987-1988		DC (SSI) 1988-1992		Manufacturing Enterprises Survey 1994-1995	
	Units	%age to total	Units	%age to total	Enterprises	%age to total
Total						
Food Products	96.12	16.50	200.75	17.46	2394.32	16.50
Beverages, Tobacco & Tobacco Products	3.67	0.63	6.38	0.56	1426.56	9.84
Cotton Textiles	1.45	0.25	3.96	0.34	818.51	5.64
Wool, Silk & Synthetic, Fibre	1.16	0.20	2.66	0.23	340.19	2.35
Jute, Hemp, and Mesta Textiles	0.22	0.04	0.53	0.05	95.00	0.65
Hosiery and Garments, etc.	39.78	6.83	91.55	7.96	1093.60	7.54
Wood Products	54.97	9.44	107.03	9.31	2872.71	19.81
Paper Products & Printing	33.32	5.72	53.77	4.68	174.93	1.21
Leather and Leather Products	24.03	4.13	44.02	3.83	211.31	1.46
Rubber & Plastic Products	25.82	4.43	46.40	4.04	143.32	0.99
Chemical & Chemical Products	25.94	4.45	49.69	4.32	84.64	0.58
Non-Metallic Mineral Products	31.59	5.42	59.88	5.21	853.15	5.88
Basic Metal Industries	14.94	2.57	28.58	2.49	34.12	0.24
Metal Products	65.87	11.31	131.75	11.46	449.66	3.10
Machinery & Parts Except Electrical	40.80	7.01	76.50	6.66	95.03	0.66
Electrical Machinery & Parts	12.28	2.11	26.63	2.32	28.89	0.20
Transport Equipment & Parts	11.33	1.95	20.97	1.82	28.23	0.19
Miscellaneous Mfg. Industries	8.85	1.52	19.56	1.70	1159.41	7.99
Other Repair Services	89.62	15.39	177.87	15.47	2186.85	15.08
Services (not elsewhere classified)	0.61	0.10	1.05	0.09	13.68	0.09
Total	582.37	100.00	1149.53	100.00	14504.11	100.00

Source : DC(SSI) - Small Scale Industries Census; CSO - Enterprise Survey 1994-95

Data Limitations

1.21 It may be worthwhile to mention here that complete information on the entire ambit of small scale industries sector is not available from any one single agency. What is available from any single source is information of partial nature. Data on small scale industries sector are brought out from time to time by SIDO and CSO. The data released by SIDO covers factory sector SSI units registered with State/ Union Territory Directorates of Industries and also includes estimates of unregistered SIDO units. These estimates are subject to certain limitations as these are based on partial returns. Information on unregistered units is also based on estimates. For arriving at current estimates, necessary adjustments are made with SSI census data for the reference years 1972 and 1987-88 on the basis of annual sample surveys.

1.22 CSO provides coverage of Village and Small Industries sector through regular surveys of enterprises. The size of small scale industries units in these surveys is determined on the basis of employment criteria and not on investment in plant and machinery. The database of unorganised sector units has limitations in terms of the establishments using power and those not using power. Furthermore, these surveys are conducted at an interval of 5 years and the estimates for the intervening periods are essentially extrapolations. Currently CSO has undertaken work of 56th round of unorganised enterprises.

1.23 Since 1999, Small Industries Development Bank of India (SIDBI) is coming out with an annual publication on small scale industries sector, namely "SIDBI Report on Small Scale Industries Sector", covering various important facets of the SSI sector. The document furnishes information culled out from both the above mentioned primary sources and presents it at one place. SIDBI has also taken initiative to collect information from State Directorates of Industries and other sources to give state-wise desegregated data/profile on number of units, employment, fixed investment etc. The Report, *inter-alia*, also covers in detail the status of credit dispensation in the sector and emerging issues as well as prospects.

1.24 The small scale industries sector has been making rapid strides and there has been a shift in the concentration of units within different industry groups. There are instances of extensive differentiation in different lines of production and on the contrary in certain cases there have been closures of production lines. These shifts and changing pattern need to be taken into

consideration in assessing the changes impacting the small scale industries sector. Coverage of gaps and inconsistencies in the data on the sector need to be addressed through regular system of collection and updating important data.

Other Definitions

Tiny Sector

1.25 The tiny sector forms an important sub-sector within the village and small industries sector. Tiny units are mostly household types and village based with small investments in fixed assets. The concept of tiny sector enunciated in 1977, has undergone changes over the period of time. The initial investment limit of Rs.1 lakh in plant and machinery as given in 1977, was increased to Rs.2 lakh in 1980 and further to Rs.5 lakh in 1991. The current limit effective from December 1997 is Rs.25 lakh based on the recommendations of the Expert Committee on Small Enterprises. Enterprises in the tiny sector are labour intensive, require low capital investment and use locally available skills and technology in manufacture. An analysis of the data based on second All India SSI Census 1987-88 reveals that 90 per cent of units in the small scale sector were centered at the lower end of the investment scale with investment in plant and machinery not exceeding Rs.2 lakh. This pre-ponderant number of units contributed relatively major portion in employment (65 per cent) and substantial part in production (over 40 per cent). In August 1998, the Government of India announced a separate package of facilities and incentives for promotion of tiny industries. The thrust of the policy is directed at flow of adequate credit to the tiny sector, technology upgradation, enhancing the excise exemption limit and earmarking facilities under the scheme of Integrated Infrastructural Development, exports development and promotion of entrepreneurship.

Women Entrepreneurs' Enterprise

1.26 In 1988, for the first time, the definition of Women Entrepreneurs' Enterprise was evolved that termed an SSI unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51 per cent as partners/ share holders/ directors of private limited company/ members of a cooperative society, as a Woman Enterprise.

1.27 Women entrepreneurs have been on the Indian business scene for quite some time now and have achieved remarkable success. However, their number in relation to the overall number of small scale enterprises is still very small. One of the reasons for this is the initial hesitation and inhibition, both familial and social, due to the traditional perceptions of the women's role. Moreover, like any other entrepreneur, any first generation woman entrepreneur has to compete in the business against those already well established.

1.28 Women entrepreneurs, as a group, came into prominence in the late 1970s. The information contained in the Second All India SSI Census 1987-88 shows that about 7.7 per cent of the small enterprises were owned by women. Industry group-wise most popular activity of woman entrepreneurs was food processing, followed by garment making. Realising the great untapped potential, the Government has been making concerted efforts to channelise the skills and talent of women towards economic and business generating activities. The Small Industries Development Organisation (SIDO), the various state Small Industries Development Corporations (SIDCs), SIDBI, the nationalised banks and select Non-Governmental Organisations (NGOs) are actively engaged in conducting various programmes for promotion of women entrepreneurs including Entrepreneurship Development Programmes.

Export Oriented Unit

1.29 A unit with an obligation to export at least 50 per cent of its annual production by the end of the third year of commencement of production and having an investment ceiling as prescribed for small scale undertakings, i.e., up to Rs.1 crore in plant and machinery, is termed an export oriented SSI unit.

Service Sector Establishment

1.30 The Department of Industrial Development, Ministry of Industry, Government of India, issued guidelines in 1982 to register service-oriented enterprises as small scale service establishments. These establishments with investment in plant and machinery not exceeding Rs.2 lakh, were to be located in rural areas. The definition was revised in 1991 and all small scale services and business enterprises (industry related) with an investment upto Rs.5 lakh in fixed assets (excluding land and building) were considered

as service enterprises and were eligible for the benefits/concessions as were admissible to the SSI sector. The investment ceiling has since been enhanced to Rs.10 lakh in September, 2000. For the purpose of definition, location-specific criterion was withdrawn in 1991.

1.31 A survey conducted on service sector enterprises by CSO in 1991-92 points out that the service sector comprised units in the following categories :

- Own Account Enterprises (OAEs),
- Non-Directory Establishments (NDEs), and
- Directory Establishments (DEs).

The rural urban break-up of enterprises in the service sector is given in Table 1.5:

TABLE - 1.5

DISTRIBUTION OF SERVICE SECTOR ESTABLISHMENTS

(In '000)

Category	Rural	Urban	Total
OAE	3,192.20 (61.4)	1121.60 (21.6)	4313.80 (83.0)
NDE	347.70 (6.7)	377.60 (7.2)	725.30 (13.9)
DE	77.70 (1.5)	81.90 (1.6)	159.60 (3.1)
Total	3617.60 (69.6)	1581.10 (30.4)	5198.70 (100.0)

Note : Figures in parenthesis show percentage share.

Source : CSO - Service Sector Enterprise Survey Report 1991-92.

1.32 From the above data, it is observed that 83 per cent of the units were own account enterprises and NDEs constituted 13.9 per cent of the total number of units surveyed. The balance 3.1 per cent units were Directory Establishments. In the rural/urban distribution, more than two-thirds (69.6 per cent) of the units were located in rural areas and the remaining units (30.4 per cent) were in urban areas.

Performance of SSI Sector

1.33 The village and small scale industries (VSI) sector, including traditional/rural industries, is an important segment of the Indian economy accounting for around 95 per cent of the industrial units, 49 per cent of the output of the manufacturing sector and around 50 per cent of the country's total exports. Out of the above, the modern SSIs account for 40 per cent of the output of the manufacturing sector and 35 per cent of the country's total exports. The sector, covering a wide spectrum of industries categorised under small, tiny and ancillary units, provides direct employment to around 180 lakh persons. The SSI sector encompasses continuum of the artisans/handicrafts on the one hand and modern production units on the other, producing more than 7,500 products. The products manufactured by the sector range from traditional handicrafts to high precision instruments for "sun-rise" industries.

1.34 From the point of view of nurturance of the entrepreneurial talent, the sector serves as a nursery, enabling the small scale units to graduate into medium scale. The small scale sector has received substantial attention from the policy makers in appraising its requirements, be it fiscal, financial, marketing, technology, entrepreneurship development or infrastructure. Over the period of time, the control measures have been relaxed to enable the sector to march ahead on a high growth path.

Production

1.35 The share of manufacturing sector in the overall National Domestic Product of the country in the last five decades has been on increase. An analysis of the net domestic product estimates, according to economic activities, shows that the share of manufacturing sector in Net Domestic Product of the country for the period 1980-81 to 1996-97, at constant 1980-81 prices, has increased from 17.7 per cent to 22.5 per cent. The share of unregistered manufacturing sector, at constant prices, has remained more or less stable in the total economic activity.

1.36 To analyse the contribution of SSI sector in the overall industrial growth, it is important to link and understand the growth pattern of both the sectors. On the basis of advance estimates released by CSO from time to time, a comparative position of the real growth of the overall industry sector and SSI sector has been shown in the Table 1.6. It will be seen that the SSI sector has shown a better performance in relation to the overall industry sector and increase in the manufacturing sector output, barring once in the last ten years. The higher rate of growth of the SSI sector has helped in pushing the growth rate of manufacturing as well as overall industry sector.

TABLE - 1.6

**COMPARATIVE REAL GROWTH OF OVERALL
INDUSTRIAL SECTOR & SSI SECTOR**

(per cent)

Year	Overall Industry	Manufacturing Sector	SSI Sector
1990-91	8.2	9.0	9.1
1991-92	0.6	-0.8	3.1
1992-93	2.3	2.2	5.6
1993-94	6.0	6.1	7.1
1994-95	8.4	8.5	10.1
1995-96	12.8	13.8	11.4
1996-97	5.6	6.7	11.3
1997-98	6.6	6.7	8.4
1998-99	4.0	4.4	7.7
1999-00 (E)	6.4	7.0	8.1

(E) : Estimated

Estimated figures of growth for industry and manufacturing sector based on advance estimates released by CSO. Growth rates from 1994-95 onwards are as per the IIP base 1993-94 = 100 and those for earlier years are as per IIP base : 1980-81 = 100.

Estimation for the SSI sector for 1999-2000 made by SIDBI.

Source : Economic Survey 1998-99, Ministry of Finance, GoI.

1.37 Labour and capital productivity are partial measures of efficiency. Labour productivity is measured as the net value added per employee. Similarly, capital productivity is measured as the net value added per unit of capital invested. The relative labour productivity of the SSI sector has been calculated by dividing the labour productivity of the SSI sector by the labour productivity of the large scale sector. Relative capital productivity of the SSI sector has also been calculated in a similar manner. The Table 1.7 below indicates labour and capital productivities and relative productivities of capital and labour for SSI sector as compared to the large scale sector.

TABLE 1.7

**LABOUR AND CAPITAL PRODUCTIVITY
AND RELATIVE PRODUCTIVITY
SSI, LARGE SCALE AND TOTAL FACTORY SECTOR**

Year	Labour Productivity*			Relative Labour Productivity (S/L)	Capital Productivity**			Relative Capital Productivity
	Small	Large	Total		Small	Large	Total	
1980-81	7814	20067	15462	0.39	0.48	0.23	0.25	2.09
1981-82	7696	23090	17168	0.33	0.49	0.25	0.28	1.92
1982-83	7917	24548	18231	0.32	0.52	0.26	0.28	2.01
1983-84	10384	27120	21075	0.38	0.59	0.28	0.31	2.12
1984-85	10099	25761	20488	0.39	0.59	0.27	0.30	2.19
1985-86	11118	29758	22267	0.37	0.59	0.28	0.31	2.12
1986-87	11189	31555	23723	0.35	0.59	0.28	0.31	2.09
1987-88	11106	31294	23618	0.35	0.56	0.26	0.29	2.12
1988-89	12282	35382	26489	0.35	0.55	0.28	0.31	1.95
1989-90	13014	38694	29003	0.34	0.67	0.30	0.33	2.27
1990-91	12721	41532	31420	0.31	0.62	0.30	0.32	2.11
1991-92	14958	39517	29721	0.38	0.65	0.27	0.31	2.41
1992-93	13016	46188	33116	0.28	0.61	0.29	0.31	2.09
1993-94	17065	52539	38845	0.32	0.69	0.30	0.33	2.28
1994-95	15882	55819	40942	0.28	0.65	0.30	0.33	2.16
1995-96	15334	59048	43899	0.26	0.54	0.31	0.33	1.75
1996-97	16390	59610	44341	0.27	0.59	0.29	0.31	2.02
Growth in Labour and Capital Productivity (CAGR %)								
1980-89	6.2	6.7	6.5		2.6	2.0	2.9	
1990-96	3.7	7.7	7.5		-1.6	1.0	0.4	
1980-96	5.0	7.0	6.7		1.3	1.3	1.1	
* Value added In Rupees/per employee.								
**Net Value added per unit of capital invested.								
Source: Annual Survey of Industries, CSO (various issues)								

1.38 From the above Table, it could be observed that the relative labour productivity of SSI sector, which is less than one, indicates that the labour productivity of SSI sector is lower than that of the large scale sector, i.e., the SSI sector is more employment intensive. The SSI sector employs as much as 5 times more workforce than the large scale sector for the same output (1996-97) On the other hand, the relative capital productivity of SSI sector, which is more than one, shows that the capital productivity of SSI sector is higher than the capital productivity of the large scale sector and total factory sector, i.e. the large scale sector is more capital intensive. The capital input in large scale sector is 2 times more than the SSI sector (1996-97). In a capital scarce and labour surplus economy like that of India, obviously SSI sector would be preferable to large scale sector, where-ever the overall cost difference is not substantial.

1.39 A detailed analysis of the statistics for the period 1973-74 to 1998-99, as given in Table 1.6, reveals that the production of the SSI sector registered an increase from a level of Rs.7200 crore in 1973-74 to Rs.5,27,515 crore in 1998-99 at current prices. Advance estimates of production for Financial Year (FY) 2000 put the SSI sector output at over Rs. 5,87,000 crore. When deflated at 1993-94 prices, the increase was more than ten fold during the said period.

TABLE - 1.8
PRODUCTION OF SSI SECTOR AT CURRENT PRICES
(1973-74 TO 1999-2000)

Year	Production at Current prices (Rs/crore)
1973-74	7,200
1974-75	9,200
1975-76	11,000
1976-77	12,400
1977-78	14,300
1978-79	15,790
1979-80	21,635
1980-81	28,060
1981-82	32,600

Year	Production at Current prices (Rs/crore)
1982-83	35,000
1983-84	41,620
1984-85	50,520
1985-86	61,228
1986-87	72,250
1987-88	87,300
1988-89	106,400
1989-90	132,320
1990-91	155,340
1991-92	178,699
1992-93	209,300
1993-94	241,648
1994-95	293,990
1995-96	356,213
1996-97	412,636
1997-98	465,171
1998-99 (P)	527,515
1999-00 (E)	587,000
(P) : Provisional. (E) : Estimated	
Source : DC(SSSI), Ministry of SSI, A&RI for figure 1973-74 to 1999-2000.	

Employment

1.40 Small scale industries sector in India is the second largest manpower employer in the country, next only to agriculture. High employment generating potential of small enterprises is one of the most important aspects of the sector, as recognised worldwide. This feature gains added importance in a labour surplus economy like India. The number of persons employed in the sector, as per SIDO estimates, increased from 39.7 lakh at end-March, 1974 to 171.6 lakh at end-March 1999, showing more than four fold rise in

the level of employment. As at end-March 2000, the estimated number of work-force employed was 178.5 lakh. Details of year-wise employment are furnished in Table 1.9

TABLE - 1.9
EMPLOYMENT IN SSI SECTOR

Year (As on 31 st March)	Employment (Lakh Persons)
1974	39.7
1975	40.4
1976	45.9
1977	49.8
1978	54.0
1979	63.8
1980	67.0
1981	71.0
1982	75.0
1983	79.0
1984	84.2
1985	90.0
1986	96.0
1987	101.4
1988	107.0
1989	113.0
1990	119.6
1991	125.3
1992	129.8
1993	134.1
1994	139.4
1995	146.6
1996	152.6
1997	160.0
1998	167.2
1999 (P)	171.6
2000 (E)	178.5

(P) : Provisional
(E) : Estimated

Source : DC(SSl), Ministry of SSI, A&RI

Exports

1.41 The most significant achievement of the SSI sector has been its performance in the field of exports. The share of SSI exports in overall exports of the country increased rapidly from 15.6 per cent in 1973-74 to 34.9 per cent in 1998-99. The Financial Year 1999-2000 experienced an excellent growth in overall exports as well as SSI exports from the country at a rate of around 13 per cent in dollar terms. Details of exports from the SSI sector for the period 1973-74 to 1999-00 are furnished in the following Table 1.10.

TABLE - 1.10

**EXPORTS FROM SSI SECTOR AT CURRENT PRICES
(1990-91 TO 1999-2000)**

Year	Exports at current prices		SSI Exports as percentage of Total Exports	SSI Exports as percentage of Production in
	(US \$ Million)	(Rs/crore)	Rs/Crore (%)	(%)
1973-74	500	393	15.6	5.5
1974-75	678	541	16.2	5.9
1975-76	615	532	13.2	4.8
1976-77	857	766	14.9	6.2
1977-78	987	845	15.6	5.9
1978-79	1,303	1,069	18.7	6.8
1979-80	1,518	1,226	19.1	5.7
1980-81	2,078	1,643	24.5	5.9
1981-82	2,309	2,071	26.5	6.4
1982-83	2,116	2,045	23.2	5.8
1983-84	2,093	2,160	22.2	5.2
1984-85	2,137	2,541	21.6	5.0
1985-86	2,263	2,769	25.4	4.5
1986-87	2,851	3,643	29.3	5.0
1987-88	3,372	4,372	27.9	5.0
1988-89	3,790	5,489	27.1	5.2
1989-90	4,579	7,625	27.6	5.8
1990-91	5,386	9,664	29.7	6.2
1991-92	5,632	13,883	31.5	7.8
1992-93	6,141	17,785	33.1	8.5
1993-94	8,068	25,307	36.3	10.5

Year	Exports at current prices		SSI Exports as percentage of Total Exports	SSI Exports as percentage of Production in
	(US \$ Million)	(Rs/crore)	Rs/Crore (%)	(%)
1994-95	9,258	29,068	35.2	9.9
1995-96	10,904	36,470	34.3	10.2
1996-97	11,560	39,248	33.0	9.5
1997-98	11,893	44,442	34.2	9.6
1998-99 (P)	11,660	48,979	35.0	9.3
1999-00	N.A.	53,975	33.0	9.2

(P) : Provisional. (E) : Estimated
Source : DC(SS), Ministry of SSI, A&RI

1.42 The resilience and inherent strength of the SSI sector is reflected not only in the absolute increase in production and exports, but also in the comparison of important financial ratios for the SSI sector and the large scale industrial sector.

1.43 While the SSI sector has been maintaining a consistent rate of growth in production as well as exports, of late, the sector is confronted with competition from the domestic segment of the large scale sector and multinational companies from overseas. In order to ensure that the growth of the sector continues to remain on a rising trajectory, as noted by the Economic Survey 1999-2000, the sector needs promotional support to keep pace with changing times.

Credit Dispensation to the SSI Sector

1.44 The Government of India and Reserve Bank of India have been instrumental in devising a multi-agency system for credit flow to the SSI sector. The distinctive feature of the multi-agency set up is that the financial institutions have been extending term loans and banks are catering to the working capital requirements of the small scale units. Of late, the distinction between the banks and FIs is gradually getting blurred and their roles overlapping.

1.45 At the apex level, Small Industries Development Bank of India provides refinance to state level institutions such as State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs), besides extending direct assistance to the small scale industries. At the state level, SFCs provide assistance to small and medium industries in their respective areas of operation. Position of financial assistance extended by SIDBI and SFCs is given in Tables 1.11 & 1.12 below:

TABLE - 1.11**SANCTIONS, DISBURSEMENTS & OUTSTANDING PORTFOLIO OF SIDBI****(Rs. Crore)**

Year	Sanctions	Disbursements	Outstanding as at end-March
1990-91	2410	1839	5177
1991-92	2847	2028	6476
1992-93	2909	2146	7253
1993-94	3356	2673	8801
1994-95	4706	3390	9701
1995-96	6066	4801	10872
1996-97	6485	4585	12185
1997-98	7484	5241	12862
1998-99	8880	6285	14209
1999-00	10265	6964	15194

Source: SIDBI Report on SSI, 2000

TABLE 1.12**ASSISTANCE SANCTIONED BY SFCs TO SMALL SCALE SECTOR****(Rs. crore)**

As at end-March	No. of Units	Amount Sanctioned to small scale sector	Sanctions to small scale sector as % of total sanctions
1991	45092	1492	80.00
1992	42554	1872	85.50
1993	36713	1686	83.60
1994	28279	1561	81.80
1995	28331	1920	71.10
1996	30224	2513	60.00
1997	26473	2115	59.70
1998	NA	1760	67.00
1999 (P)	NA	1365	73.20

Source: SIDBI Report on SSI, 2000.

1.46 Commercial banks play an important role in extension of financial assistance, particularly for meeting the working capital requirements of the sector. As per the extant policy, the SSI sector is accorded priority status for grant of loans. The position of balance outstanding by Public Sector Banks (PSBs), Foreign banks and private sector banks is furnished in tables 1.13 and 1.14 below:

TABLE - 1.13

**NET BANK CREDIT AND OUTSTANDING ADVANCES
TO SSIs BY PSBs**

(Rs. crore)

As at end March	Net Bank-Credit	Total SSI	Loans outstanding to SSI sector as % of NBC
1991	105632	16783	15.90
1992	112160	17398	15.50
1993	132782	19388	14.60
1994	140714	21561	15.30
1995	169038	25843	15.30
1996	184391	29482	16.00
1997	189684	31542	16.60
1998	218219	38109	17.50
1999 (P)	246203	42674	17.30
2000 (P)	292943	45788	15.63

(P) : Provisional. Source : RBI Report on Trend & Progress of Banking in India.

TABLE - 1.14

**FLOW OF CREDIT TO SSI SECTOR BY PUBLIC,
PRIVATE SECTOR AND FOREIGN BANKS**

(Rs. Crore)

Banks	1997 Amt.	1998 Amt.	1999(P) Amt.	2000(P) Amt.
Public Sector Banks	31542 (82.7)	38109 (82.8)	42674 (82.7)	45788 (81.8)
Indian Private Banks	4754 (12.5)	5848 (12.7)	6451 (12.5)	7313 (13.1)
Foreign Banks	1836 (4.8)	2084 (4.5)	2460 (4.8)	2871 (5.2)
Total	38132 (100.0)	46041 (100.0)	51585 (100.0)	55973 (100.0)

1.47 As can be seen from Table 1.13 the net bank credit flow to SSI sector has increased in absolute terms. However, its percentage to the total net bank credit has been fluctuating around 15 to 16 per cent during 1991-2000 (a period of 10 years).

Sickness in the SSI Sector

1.48 The issue of non-performing assets has engaged continual attention of the banks, FIs and all others concerned. The amount locked up in the sick SSI units has gradually gone up from around Rs. 2792 crore in 1991 to over Rs. 4313 crore in 1999. The position during the current year is no better. Status of sickness in SSI and Non-SSI units in terms of the number of units and amount outstanding for the period 1991-98 is presented below in Tables 1.15 and 1.16.

TABLE - 1.15

OVERALL INDUSTRIAL SICKNESS 1991-99

(Rs. Crore)

As at end - March	No. of Sick/Weak Units			Outstanding Amount (O/S)		
	Both SSI & Non-SSI	SSI	Non-SSI	Both SSI & Non-SSI	SSI	Non-SSI
1991	223,809	221,472	2,337	10768 (100.0)	2792 (25.9)	7976 (74.1)
1992	247,924	245,575	2,349	11533 (100.0)	3101 (26.9)	8432 (73.1)
1993	240,700	238,176	2,524	13134 (100.0)	3443 (26.2)	9691 (73.8)
1994	258,952	256,452	2,500	13696 (100.0)	3680 (26.9)	10016 (73.1)
1995	271,206	268,815	2,391	13739 (100.0)	3547 (25.8)	10192 (74.2)
1996	264,750	262,376	2,374	13748 (100.0)	3722 (27.1)	10026 (72.9)
1997	237,400	235,032	2,368	13787 (100.0)	3609 (26.2)	10178 (73.8)
1998	224,012	221,536	2,476	15682 (100.0)	3857 (24.6)	11825 (75.4)
1999	309,013	306,221	2,792	19464 (100.0)	4313 (22.2)	15151 (77.8)

Source : RBI Report on Trend and Progress of Banking in India

TABLE - 1.16

**IDENTIFICATION OF POTENTIALLY VIABLE,
NON-VIABLE UNITS AND OUTSTANDING AMOUNTS
(SICK/WEAK SSI UNITS 1991-98)**

(Rs. Crore)

As at end-March	Potentially Viable		Non-Viable		Viability yet to be decided		Total		Of viable units those put under nursing	
	Units	O/S Amt	Units	O/S Amt	Units	O/S Amt	Units	O/S Amt	Units	O/S Amt
1991	16,140	693	202,998	1,997	2,334	102	221,472	2,792	13,224	550
1992	19,210	729	223,336	2,256	3,029	116	245,575	3,101	13,289	539
1993	21,649	799	213,804	2,507	2,723	137	238,176	3,443	12,218	582
1994	16,580	686	234,265	2,842	5,607	152	256,452	3,680	11,376	522
1995	15,539	598	249,375	2,842	3,901	107	268,815	3,547	10,371	449
1996	16,424	636	240,168	2,944	5,784	142	262,376	3,722	11,026	422
1997	16,220	479	213,014	3,032	5,798	98	235,032	3,609	10,539	322
1998	18,686	456	199,634	3,297	3,216	104	221,536	3,857	13,063	281
1999	18,692	377	271,193	3,746	16,336	190	306,221	4,313	12,759	195

O/S - Outstanding
Amt - Amount
Source : RBI Report on Trend and Progress of Banking in India

1.49 A number of initiatives like setting up of Debt Recovery Tribunals and One Time Settlement Norms have been taken to curb the growth of NPAs. To have better sharing of credit related information on borrowers, RBI is examining the possibility of setting up of a Credit Information Bureau. For tackling the problems of industrial sickness in the SSI sector and for rehabilitation of sick units, the Reserve Bank of India issued revised guidelines to commercial banks in 1993 containing, inter-alia, definition of sick SSI units, viability norms, incipient sickness, as also reliefs/concessions from banks/ financial institutions for implementation of packages in the case of potentially viable sick SSI units. RBI has advised its regional offices (conveners of SLIIC) to consider setting up of a Sub-Committee of the Forum where individual cases can be discussed. States have set up Sub-Committees of SLIICs under the Chairmanship of Director (Industries).

CHAPTER - 2

EXISTING POLICIES* AND ORGANISATIONAL SUPPORT

Central and State Government Policies

2.1 The primary responsibility to develop village and small industries rests with the State Governments concerned. However, the Central Government announces from time to time various incentive schemes/concessions and support services for promotion and development of industries, particularly in industrially backward areas and other special regions. These incentives are provided to promote growth, employment and exports and reduce regional imbalances. The State/Central Government schemes/incentives are reviewed from time to time and some of the concessions are discontinued and fresh incentives are provided keeping in view the performance and changing needs of the industries. While some incentives provided to the sector accord protection to the small scale industries, other measures, fiscal in nature, are intended to promote the existing as well as prospective enterprises.

2.2 So far, six industrial policy resolutions/ statements have been formulated to promote industrial growth and also to determine the pattern of State assistance to small industries for fulfilling various socio-economic objectives under different Plans. The incentives in the form of financial, fiscal and infrastructural measures are targeted at achieving a rapid pace of growth of the sector. Some of the incentives extended to the SSIs are on "one-time" basis and are offered in the form of support for a specific period (protectionist measures, subsidies, etc.). While some incentives are made available to all type of industrial units, including the large ones, others are earmarked exclusively for the small scale industries. Important features of the different industrial policy resolutions/statements are given below :-

* Existing Policies before 30th June,2000 (before submission of the Interim Report of the Study Group).

2.3 The Industrial Policy Resolution of 1948 spelt out the details of some basic and strategic industries to be established by the State in addition to those, in which the private sector could be permitted to play a role, subject to control and regulation. The Policy aimed at balanced growth of different manufacturing segments and focused on the co-existence of large, cottage and small industries. An emphasis was put on the promotion of cottage and small scale industries to achieve industrialisation of rural and backward areas through establishment of individual/ co-operative enterprises.

2.4 Industrial Policy Resolution of 1956 supported initiation of measures to improve competitive strength of the small enterprises while recognising the role of SSI sector in providing employment opportunities, mobilising local skills and capital resources, and integration with the large scale sector. Emphasis was placed on the creation of facilities, such as, Industrial Estates and rural community workshops to provide better production technologies, other amenities and incentives.

2.5 The Industrial Policy Statement of 1977 stressed wider dispersal of cottage and small industries in rural areas and small towns. It emphasised that "whatever could be produced by small and cottage industries must only be so produced". This led to the expansion of the list of reserved items for exclusive production by the SSI sector. Within SSI sector, the concept of tiny sector was introduced giving special consideration and extending help by way of provision for margin money assistance. The concept of District Industries Centre was also mooted so that one agency in each district could be created to meet the major requirements of village and small industries under one roof.

2.6 The Industrial Policy Statement of 1980 focused on integrated industrial development and suggested setting up of nucleus plants in districts which were identified industrially backward with the expectation that these would help spatial dispersal of small ancillary units and the existing net work of SSI units would grow faster. SSI units were redefined by raising the ceiling of investment in plant and machinery.

2.7 The Industrial Policy of 1990 pronounced important measures like raising investment ceilings in plant and machinery for SSIs, export oriented and tiny units, introducing Central investment subsidy exclusively for SSI sector in rural and backward areas, assisting women entrepreneurs with the objective of widening entrepreneurial base, etc.

2.8 The Industrial Policy of 1991 announced "New Policy Measures for Small, Tiny and Village Enterprises" with the objective of imparting vitality and growth impetus to the sector. It was done in the wake of the policy of delicensing, decontrol, deregulation, overall liberalisation and structural reforms of the economy in general and industrial and trade policies in particular, initiated in July 1991. Small scale and ancillary undertakings were exempted from licensing for all articles of manufacture which were not covered by the reserved list for Public Sector and those kept under compulsory licensing. Investment limit for tiny enterprises was raised to Rs.5 lakh and locational conditions were withdrawn. All industry related service and business enterprises (with investment ceiling as that of tiny enterprises) Irrespective of location, were recognised as SSIs. Equity participation by other industrial undertakings was permitted up to a limit of 24 per cent of shareholding in SSIs to boost ancillarisation and strengthen the capital base. A new scheme of Integrated Infrastructural Development Centres (including technological back up services) for SSIs was provided for with the participation of State Governments and financial institutions. Subsequent to the Industrial Policy of 1991, the SSI sector has been provided with a number of fiscal, financial and other incentives which are described below.

Fiscal Incentives

2.9 Fiscal incentives provided to small scale enterprises are in the nature of tax concessions granted in the form of exemptions, rebates, refund or postponement of direct or indirect taxes leviable on production or profit, besides special tax concessions. Following are the major fiscal incentives available to the SSIs :

Tax Incentives/Concessions/Deduction from profits and gains : (i) Twenty per cent (Income Tax Section 80HH) for 10 years for industries to be set up under Factories Act in backward areas. (ii) 20 percent (IT Section 80HHA) for 10 years for SSI units to be set up in rural areas. (iii) 20 percent (IT Section 80I) for 7 to 9 years for industries to be set up under Factories Act, 25 percent for 11 years in case of Co-operative Societies, 35 percent for Companies. (iv) 25 percent (IT Section 80IA) for 10 years for industries to be set up under Factories Act, 100 percent for 5 years & 25 percent for next 5 years for backward areas only.

2.10 Incentives for Exports including duty drawbacks : In addition to the incentives offered through the foreign trade policies and the Foreign Exchange Regulation Act (FERA), [now replaced by Foreign Exchange Management

Act (FEMA)], the Government offers various tax incentives in the form of deduction in respect of profits and gains from projects outside India (Section 80 HHB), Export Turnover (Section 80 HHC), earnings in convertible foreign exchange (80 HHD), Computer Software (Section 80 HHE), Consultancy Exports (Section 80-O), initial tax holiday for newly established industrial undertaking in the Free Trade Zones (FTZs), or Electronics Hardware Technology Parks (EHTPs) and Software Technology Parks (STPs) (Section 10 A), for newly established 100 percent Export Orient Undertakings (EOUs) (Section 10B). Duty drawback facilities are provided in two forms : (a) drawback of the whole of import duty on imported articles, components and raw materials and excise duty paid on excisable components used in manufacture of the product when it is exported and (b) drawback of 90 percent of duty paid on imported article when it is re-exported.

2.11 Exemption and preferential treatment from Excise duties : The General Excise Exemption was codified and rationalised in 1978, vide Notification No.71/78-CE, dated 1/3/1978 which covered 69 items, providing full duty exemption upto Rs.5 lakh turnover. The exemption limit and number of items covered under this scheme have been revised/expanded from time to time. For SSIs having clearances in the preceding financial year not exceeding Rs.3 crore excise exemption upto annual turnover of Rs.30 lakh were available upto 1998-99. In 1998-99 Budget, it was enhanced to Rs.50 lakh. Excise concessions are now available upto annual turnover of Rs.100 lakh. MODVAT Credit is allowed at the rate of 100 per cent of duty paid on inputs, be it excise duty or special duty or additional duty of customs. It also covers capital goods purchased and used by the manufacturers.

2.12 Exemption from Sales Tax: (i) No liability under State Sales Tax Law for import of the goods into or export of goods out of the territory of India and (ii) Export sales have been exempted from the levy of sales tax under Central Sales Tax Act, 1956.

2.13 Other Incentives : (i) Capital Investment Subsidy : Fifteen per cent of the project cost with a ceiling of Rs 7,500 per beneficiary under Prime Minister's Rozgar Yojana. This limit for North Eastern Region (NER) States is Rs. 15,000. (ii)Transport Subsidy : Ranges from 75 per cent to 90 per cent in Himachal Pradesh, 8 hill districts of Uttar Pradesh, Darjeeling district in West Bengal, Sikkim, J&K, Lakshadweep and A&N Islands permissible only till 31-3-2002. For NER States, the facility has been extended upto 31-3-2007.

2.14 In order to promote growth of industries including small scale industries in the North Eastern region, fiscal incentives to the industrial units like capital subsidy, transport subsidies, creation of tax free zones, reduction in excise duties, insurance benefits and interest subsidy on working capital are available to the units in the North Eastern Region of the country.

Financial Incentives

2.15 The share of small scale industries sector's output in the manufacturing sector has been on the increase ever since the commencement of the Plan process. In the Central and State Plan outlays, the outlays for village and small industries sector are earmarked and the Central and State Governments are implementing a number of developmental/ promotional schemes for the SSI sector.

2.16 For the purpose of granting credit, the banks/financial institutions accord priority status to the small scale industries sector. Financial requirements of the SSIs are basically of two types, viz. long term loans and working capital. The Working Group on SSI sector for the Ninth Five Year Plan (1997-2002) had estimated the total additional long term credit requirement for the sector at Rs. 34,500 - 36,500 crore and working capital funds at a level of Rs. 1,42,000 - 1,46,000 crore, at 1997-98 prices. While the requirement of term loans for the sector is, by and large, being met by the financial institutions, the need for adequate working capital remains to be fulfilled. The dynamics of the development process has, over the period, led to some changes in the role and perception of banks and financial institutions. With the onset of financial sector reforms, while the quantum of concessional funds for the sector has decreased, the availability of market related funds has expanded with the distinction between the banks and the financial institutions gradually getting blurred. Some of the major schemes with incentives of financial nature for the development of SSIs are briefly given below:

Technology Upgradation Fund Scheme for Textile Industry

2.17 With the objective of bringing in technological upgradation and modernisation in textile and jute industry, the Government of India has launched a focused time bound Technology Upgradation Fund Scheme (TUFS). The scheme effective from April 01, 1999 envisages interest incentive of 5 per cent and/or cover for foreign exchange fluctuation up to a level of 5 per cent on the loans availed of by textile and jute sectors, including small scale

units for eligible purposes. For the purpose of implementation of the scheme, technology levels have been specified in terms of machinery for each sector of the industry. Eligibility requirements, *inter alia*, entail management capabilities, availability of working capital funds and other specific criteria, such as, cleaner production and quality control. While Industrial Development Bank of India (IDBI) and Industrial Finance Corporation of India Limited (IFCI) have been nominated as the nodal agencies for textile industry (other than SSI sector) and jute industry respectively, SIDBI has been designated by the Government of India as nodal agency for operation of the scheme in respect of SSI units in textile, cotton ginning & pressing sectors. SIDBI has been operating the scheme both through direct finance and refinance routes.

2.18 The scheme is expected to facilitate to clear the backlog of modernisation in the textile industry to a great extent. The scheme presents the industry an opportunity to raise its productivity, quality and cost competitiveness to contemporary levels.

Venture Capital Funds for Software and IT Industry

2.19 With a view to meeting the needs of emerging areas and help small scale units in Software/Information Technology (IT) sector, major initiatives have been taken by the State Governments in association with SIDBI in launching State/Regional Level Venture Capital Funds. Such efforts have fructified in about a dozen States. At the apex level, a National Venture Fund for Software and IT Industry (NFSIT), exclusively dedicated to the Software and IT has been promoted by SIDBI jointly with the Ministry of Information Technology, Government of India and IDBI. The fund floated in December 1999 with an initial corpus of Rs. 100 crore, aims at meeting fund requirements of Software and IT companies particularly small enterprises to enable them to improve their competitiveness, both in domestic and international markets and achieve high growth. The fund is expected to assist new incubation projects and development of new products.

Credit Guarantee Scheme

2.20 Based on the recommendations of the S.S. Shirodkar Group to give boost to the lending programmes for SSI sector, a credit guarantee scheme for small industries was launched by Deposit Insurance and Credit Guarantee Corporation (DICGC) in 1981. The scheme was not a success owing to cumbersome procedures in settlement of claims. DICGC also could not

make the scheme self-sustaining. In order to tackle the problems of collaterals and inadequate flow of funds to the sector, the Union Budget 1999-2000 proposed an exclusive Credit Guarantee Scheme for small scale industries and Union Budget 2000-01 made a provision of Rs.100 crore for implementing the new Central scheme (also recommended by the Study Group). For this purpose, Credit Guarantee Fund Trust for Small Industries (CGFTSI) was set up by GOI and SIDBI with an initial corpus of Rs.125 crore contributed by GOI and SIDBI in the ratio of 4:1. The scheme being implemented by CGFTSI covers loans upto Rs.25 lakh from scheduled commercial banks, Regional Rural Banks, in 'sustainable viability' category, National Small Industries Corporation Limited and such of those institutions as may be directed by the Government from time to time. At a later date, the guaranteed loans are proposed to be securitised and traded in the secondary debt market.

Promotional Policies/Schemes

Reservation of Items for Exclusive Manufacture in the SSI Sector

2.21 The policy of reservation of items for exclusive manufacture by SSIs was formulated in order to ensure development of the SSI sector and to expand employment opportunities through setting up of SSI units. Reservation as a policy instrument is primarily intended to protect the interest of SSIs keeping in view their vulnerability when viewed against the competition from large units and foreign companies. This policy has been made applicable to the product lines that are techno-economically suitable for manufacture by SSIs.

2.22 The policy of product reservations initiated with 47 items in 1967, has continued over the years and has been reviewed from time to time by including additional items and excluding certain items already reserved. In 1984, the reserved items numbered 863. As of 1996, the total number of reserved items stood at 836. With effect from April 1997, when 15 items were de-reserved, the net number of reserved items came down to 821. In February 1999, nine more items have been de-reserved thereby bringing the total number of reserved items to 812. The Industrial Development and Regulation (IDR) Act, 1951 amended in 1984 gave statutory backing to the policy of reservation, thereby empowering the Government to reserve selected items for exclusive production in the SSI sector (Under Section 29-B). The amendment provided Central Government the power to constitute an Advisory Committee to determine the nature of any article or class of

articles that might be reserved for production by ancillary or SSI undertakings. Accordingly, an Advisory Committee on reservation was constituted on 30 March, 1984 under the Chairmanship of Secretary (Industrial Development) and is now headed by the Secretary (SSI, A&RI). The Committee periodically reviews the list of reserved items with respect to : (i) de-reservation of items, which are already reserved; (ii) reservation of additional items; and (iii) change in the nomenclature of items.

2.23 According to industrial policy guidelines, product reservation is applicable only to the manufacturing sector and the creation of new capacity is permitted only in the SSI sector. The capacities of existing large scale units (which had already been manufacturing such reserved items as on the date of reservation) are pegged at the highest production level achieved by the individual large scale unit during 3 years preceding the date of reservation of the product.

2.24 With a view to expanding exports of such items which fall in the reserved category, a policy change was announced in December, 1997, according to which, non-SSI units manufacturing reserved items have been allowed to manufacture items under the reserved category, with an export obligation of a minimum of 50 per cent of the new or additional production (to be achieved within a maximum period of 3 years). Those SSIs growing in size by crossing the investment ceiling prescribed for SSI have to obtain a licence from the Secretariat of Industrial Approvals.

Price and Purchase Preference Scheme for SSI Products

2.25 In order to provide marketing support to SSIs, a policy of granting preference in Government purchases for SSI products, both in terms of quantity and price, was initiated by the Government in 1956. The National Small Industries Corporation (NSIC) has been designated as the nodal agency to promote marketing of SSI products to the Government under the preferential Purchase Policy. Under the Government Stores Purchase Programme, the Director General of Supplies and Disposal (DGS&D) is responsible for arranging purchases and delivery to the Government of India and attached offices. The Government has duly emphasised an increase in the quantum of purchases of various items from SSIs.

2.26 NSIC enlists SSIs under a single point registration programme with a view to avoiding multiplicity in the registration of SSIs with various

Government agencies. The units so registered, are treated at par with those registered with the DGS&D and do not require any separate registration with any other Central Government department or public enterprise. Special concessions are provided to SSI units to participate in the Government's Stores Purchase Programme and include free supply of tender forms, exemption from registration fees and security deposit, etc.

2.27 Protection from competition is available to SSIs in the form of purchases of different products by the DGS&D. Store Purchase Policy of the Government prior to 1989 categorised various items in six major groups as detailed below :

Group I. Items, which are of no interest to SSI units and could be solely procured only from large scale units (128 items).

Group II. Items, which could be purchased solely from large scale units but where it is possible for the large scale units to award job contract accessories and components to SSI units (159 items).

Group III. Items, which could be purchased both from small scale and large scale industrial units.

Group IV. Items, which were reserved for exclusive purchase from SSI units (409 items)

Group V. Items, which were to be purchased from SSI to the extent of 75 per cent of the requirement (13 items).

Group VI. Items that were to be procured exclusively from the SSI units to the extent of 50 per cent of the requirement (28 items).

2.28 However, with effect from 28th July, 1989, the Purchase Policy of the Government changed in a major way and the categorisation of items was reduced to the following two major groups:

- (i) Items of stores reserved for exclusive purchase from KVIC/Women's Development Corporations/Small Scale units; and
- (ii) Others not so reserved.

2.29 The first group comprised of 409 items earlier reserved for exclusive

purchase from the small scale sector. The list of 409 items reserved for purchase from the SSI sector has since been reviewed and at present there are 358 items (including 8 Handicraft items) reserved for preferential purchase. The remaining items (not falling under the Reserved list) are provided a price preference up to 15 per cent over quotations from units in the large scale sector.

Foreign Direct Investment (FDI) in the SSI Sector

2.30 The objective of the new Industrial Policy, 1991, is to invite and facilitate foreign investments in different sectors of the economy and simplified mechanisms have been put in place for providing expeditious approvals. Under the policy, all foreign investments and returns on these investments, are fully repatriable, except where the condition of dividend balancing is applicable. Foreign investments are approved through two routes viz. Automatic and the Government. The Reserve Bank of India accords automatic approvals; while proposals not covered under the automatic route, are considered by the Government. To provide access to the capital market and to encourage modernisation and technological upgradation in the small scale industries sector, equity participation upto 24 percent of the total shareholding is allowed in the SSI units by other industrial undertakings, including foreign collaborators, in 1991. Further, the SSI units seeking foreign equity beyond 24 percent have an option of relinquishing SSI status and obtaining an industrial licence/filing an Industrial Entrepreneurs Memorandum (IEM), as applicable. In respect of items exclusively reserved for the small scale sector, higher equity participation i.e. beyond 24 percent is considered for approval if there is commitment to export 75 percent of production. This policy initiative has opened up opportunities for SSIs to expand their investment base to improve performance. With a view to injecting the desired level of technological dynamism in Indian industry and for promoting an industrial environment where acquisition of technological capability receives priority, simplified approval mechanism has been provided for foreign technology agreements. No permission is necessary for hiring foreign technicians and hence no application needs to be made to the Government for this purpose. Use of foreign brand names /trade marks on goods for sale within the country has been permitted. Procedure has been simplified for investments by Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs), which are predominantly owned by NRIs.

Infrastructural Facilities

(For the entire industries sector,
which could also be used by the SSI sector)

2.31 Industrial Estates : The concept of industrial areas and development of plots and industrial sheds for allotment to the SSI entrepreneurs was initiated in 1955, as a Centrally Sponsored Programme to be implemented through State/UT Governments. The objective has been to attract entrepreneurs to set up small industries or to shift existing units to industrial areas provided with infrastructural facilities like water, electricity, developed roads, banks, canteens, watch and ward, communication facilities, etc. The other aim for creation of industrial estates was to encourage decentralised development in rural areas, develop sub-contracting relationships and establish common facility centres. This programme continued till 1979 with the assistance from Government of India and 796 industrial estates were established by then throughout the country. Thereafter, the States took over the activity of promoting industrial infrastructure and inducing SSIs to shift out of non-conforming areas to such developed areas. Additional facilities were extended by the different States for setting up new units as well as to those units which were moving out of non-conforming areas and relocating in the developed Industrial Estates/Areas. These facilities included subsidy on rent for factory accommodation, allotment of sheds on hire-purchase or outright sale basis and other incentives like concessional charges for water and power, exemption from Sales Tax and Octroi Duty, etc.

2.32 Industrial Growth Centres : From the experience gained and feedback obtained from the industrial estates programme, there has been an increasing realisation that in addition to industrial area development, there should be supporting facilities, social infrastructure and suitable environment to achieve dispersed industrial growth. A selective approach was adopted to identify areas where economic and industrial activity was visible and where improving the existing infrastructure facilities could boost the pace of growth of SSI units further. Accordingly, Growth Centre approach was envisaged. The identification of growth centres was to be made on techno-economic considerations and new industrial areas/estates were to be located at growth centres. In 1988, Central Government formulated a scheme of setting up of Growth Centres in different parts of the country to be implemented in collaboration with the State governments and financial institutions. The growth centres were to accommodate both small scale and large scale industries. Locational conditions have been prescribed for establishment of Growth Centres.

2.33 The financing pattern for each Growth Centre comprises Central Government equity of Rs. 10 crore, State Government equity of Rs 5 crore, financial institutions' share at (including Rs. 2 crore as equity) Rs.4 crore, Nationalised banks Rs.1 crore and market borrowings of Rs 10 crore. The total cost for the establishment of one such Centre has been stipulated at

Rs. 30 crore. In the states of Arunachal Pradesh, Goa, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Pondicherry and Tripura, the investment required may be different and could be determined taking into account special conditions in these states. 71 growth centres are to be set up, out of which 68 centres have so far been approved.

2.34 Export Processing Zones : Export Processing Zones (EPZs) are special areas designated for providing export production or the processing of manufactured products at a low cost. Each EPZ has basic infrastructural facilities at reduced rates and other incentives like developed land sites, standard designed factory buildings, roads, power, water and drainage. Other provisions include banking, post offices and custom clearing agents. Units located in EPZs are permitted to sell upto 25 percent of their value of production in the Domestic Tariff Area. The Government of India has established seven EPZs across the country. The Kandla Free Trade Zone, the Santacruz Electronics Export Processing Zone and the Falta EPZ were set up in 1965, 1974 and 1984, respectively. The EPZs set up at Chennai, Cochin, Vishakapatnam and Noida are of more recent origin.

2.35 Industrial Parks: The new focus on specialised industrial clusters, both for domestic and export markets, is on the development of Industrial or Technology Parks. In the year 1984, the Government of India formulated a policy for computer hardware development, which led to the promotion of Electronics Hardware Technology Parks (EHTPs). In 1986, the thrust shifted towards computer software development, which resulted in a policy for the establishment of Software Technology Parks (STPs). The EHTPs and STPs operate under the Ministry of Information Technology, Government of India.

2.36 Integrated Infrastructure Development Centres : The scheme of setting up of Integrated Infrastructure Development Centres (IIDCs) being pursued since 1994, aims at augmenting infrastructural facilities in the rural and backward areas with special emphasis on linkages between agriculture and industry. The scheme covers Centrally developed backward districts other than those covered under the Growth Centres Scheme. The selection of site for an IID Centre is preceded by a comprehensive Industrial Potential Survey indicating proximity to the rail head and road links, availability of water, telecommunication facilities and potential for SSIs and tiny units. Thirty two IID Centres have been so far approved by the Government in various States/UTs.

2.37 Cluster Development Programme : SIDO has established technical support services through Product-cum-Process Development Centres to assist

select clusters of SSI units for different specialised product lines. These Centres are located at Ranchi (ceramic and glass industries); Agra (foundry); Meerut (sports goods); Mumbai (household electrical appliances); Ramnagar in Uttar Pradesh (electronic industries); Firozabad (glass industry); Kannauj (essential oils and perfume industry). Services of following nature are available at these centres : (i) Research and development in the areas of dense industry clusters. (ii) Product design and innovation. (iii) Product and process improvements and development of improved packaging techniques. (iv) Common facility services, and (v) Manpower development/ training.

2.38 SIDBI also gives due emphasis on identifying the needs of the industry in terms of process technology, environment management, quality management, Common Facilities Centres, etc., and at initiating efforts to address these needs. The Bank identifies an implementing agency for each Cluster which, in turn, examines the specific aspects and provides Escort Services. SIDBI has so far extended assistance in about two dozen clusters and the product groups include locks, textile processing, bicycle/bicycle parts, scientific instruments, salt and salt-based chemicals, powerlooms, machine tools, rubber products, sea food products, glassware, gem & jewellery, brass and bell metal, blacksmithy, leather & leather products, foundries and hand tools.

2.39 *National Programme for Rural Industrialisation* : A National Programme for Rural Industrialisation (NPRI) has been announced in the Union Budget of 1999-2000 with a mission to set up 100 rural clusters every year to give a boost to rural industrialisation, in order to benefit the rural artisans and unemployed youth and reduce rural urban disparities. The programme is coordinated by SIDO. KVIC is expected to play an active role in marketing so that infrastructure available with KVIC could be optimally utilised for this programme.

Marketing Support

2.40 The SSI sector generally experiences lack of resources for sales promotion and advertising. Marketing of SSI products is an important form of assistance to the sector. The marketing infrastructure, as available for SSIs, consists of a combination of agencies and incentive schemes such as:

2.41 *National Small Industries Corporation* : The NSIC registers SSI and

tiny units under a single point registration scheme and secures orders for supply of various stores tendered by the DGS&D on preferential terms.

2.42 Sub-Contracting Exchanges: The scheme of Sub Contracting Exchanges was started in 1974-75. Presently, there are 29 such Exchanges operating through the Small Industries Service Institutes (SISIs). These Exchanges enlist SSIs and identify items for ancillarisation from various Public Sector Undertakings. These Offices promote contacts between large and medium scale industries on the one hand and SSI ancillary units on the other to secure sub-contracting jobs.

2.43 Quality Certification : SSI units are provided quality certification facilities through Bureau of Indian Standards, testing and quality certification laboratories set up by SIDO, state governments, etc. The Bureau of Indian Standards (BIS) has been developing standards for different manufactured products and it registers SSIs for adoption of quality standards as a measure of marketing support. SIDO has set up 4 Regional Testing Centres (RTCs) that provide testing facilities to SSI units as per BIS standards. In addition, there are 10 field-testing stations extending testing facilities and assistance to SSIs. SIDO is operating a scheme to reimburse (upto 75 percent subject to a maximum of Rs.75,000) the cost of acquiring ISO 9000 Series quality certification. This scheme was taken up during the 9th Plan period and also to be continued during the 10th Plan period also.

2.44 Marketing Development Assistance Scheme : Ministry of Commerce, Government of India reimburses the expenditure incurred by SSI delegations that visit foreign countries (60 percent of the expenditure incurred by the delegation) for exploring marketing possibilities. This incentive is extended to admissible items only.

2.45 Training Programmes for Export Packaging: SIDO, in partnership with the Indian Institute of Packaging, organises training programmes for SSI exporters on packaging for exports. Exporters are provided information on the latest packaging standards and techniques in order to boost exports.

2.46 Organising Exhibitions and International Trade Fairs: For promoting exports, SIDO participates in selected international Trade Fairs and Exhibitions held abroad by the India Trade Promotion Organisation (ITPO). All expenses on space charges, display, shipment, insurance, handling and clearance, publicity etc. are borne by the SIDO. Expenses incurred on transportation of

SSI products (to and from Mumbai) are to be met by the participating SSI units.

2.47 Export Promotion Councils: The existence of export promotion councils for specific industries provides the SSI member units with a platform for export marketing. A number of Export Promotion Councils are providing marketing support through procurement of direct orders and distribution of items among member units for production and sale. These Councils also arrange for testing quality of products, pre-shipment inspection, packaging and sales transactions assistance. Besides, these bodies arrange for participation of member units in various Exhibitions and Trade Fairs.

2.48 SIDBI's Marketing Finance & Development Department : SIDBI established its Marketing Finance and Development Department (MFDD) in January 1996 to focus attention on marketing-related activities undertaken by the SSI sector. A special Marketing Assistance Development Fund, with sub-allocations for women entrepreneurs has also been set up. In addition to above marketing inputs, a number of development and support services have also been undertaken by the Department to assist the marketing efforts of SSI units.

Legal Regulations

2.49 The regulation and promotion of industries constitutionally is envisaged in such a manner that the industries sector forms a part of the concurrent list of the Constitution. The Industries (Development and Regulation) Act of 1951 is a Central Act under which small scale industries have been defined. The Act/rules and regulations are formulated by various authorities at the Central Government level, State Government level and by local authorities. These legal regulations are further classified into :

- labour related issues,
- tax related issues,
- finance related issues,
- location related issues,
- product related issues,
- environment related issues, and
- safety, security, hygiene, health and welfare related issues, etc.

Environmental Policies

2.50 Environmental pollution in many cities and larger towns has been increasing rapidly. Pollution affects river water and land, besides polluting air and posing health risks to the inhabitants. Industrial units contribute to pollution through solid wastes, liquid effluents and gases. The inappropriate handling of industrial wastes creates problems for the human and natural environment. Increasing industrialisation without proper treatment of effluents has been considered a major cause of pollution. Further, poor working conditions in the SSIs are often cause of occupational health hazards. Small industries tend to cause more pollution due to inefficient production methods, inferior equipment, poor housekeeping and inability to adopt proper treatment technologies. In order to encourage cleaner production, the Government of India extends incentives like custom duty waiver, soft loans, etc. and provides other concessions for installation of pollution control equipment in industrial units.

Pollution Control Acts

2.51 There are two major statutes that govern water and air pollution control. The majority of SSI units in the country do not fall within the ambit of these pollution control laws. However, certain highly polluting industries are required to obtain a No Objection Certificate (NOC) prior to establishing a unit, even in the SSI sector.

2.52 *The Water (Prevention and Control of Water Pollution) Act, 1974* : The Act applies to all establishments discharging effluents into water or on land. A unit while making the project report is required to meet pollution control requirements and obtain an NOC (from State Pollution Control Board) before setting up the unit. The effluents so discharged have to be managed at all times or else there are penalty provisions under the Act for violations. Further, the unit is not permitted to install any new or altered outlet for discharge of effluents/ sewage into a stream or well, without prior consent of the Board. In a major initiative to reduce industrial waste pollution, the Government of India in partnership with the World Bank (WB), Washington, has launched an Industrial Pollution Control Project for assisting clusters in setting up common effluent treatment plants.

2.53 *The Air (Prevention and Control of Pollution) Act, 1981* : The Act applies to all industries, which have to declare air pollution control points and install necessary equipment. At the time of making the project report, provision has to be made for pollution control requirements and an NOC is to be obtained before establishing the unit. During operation of the unit,

discharges into the air are to be managed within prescribed standards at all times, failing which penalty provisions are applicable.

2.54 In the case of SSIs, the SSI Board in its meeting held on 24 August, 1992, had decided to petition the Ministry of Environment and Forests for relaxation of provisions of the two Acts on pollution prevention and control. Consequently, SSIs have to obtain consent from the Central Pollution Control Board (CPCB) only in the case of 17 industries listed below which have been categorised as highly polluting: (i) Fertilisers (Nitrogen/Phosphate) (ii) Sugar (iii) Cement (iv) Fermentation and Distillery (v) Aluminum (vi) Petrochemicals (vii) Thermal Power (viii) Oil Refining (ix) Sulphuric Acid (x) Tanneries (xi) Copper Smelter (xii) Zinc Smelter (xiii) Iron & Steel (xiv) Pulp & Paper (xv) Dye & Dye Intermediates (xvi) Pesticides Manufacture and Formulation (xvii) Basic Drugs and Pharmaceuticals.

Relocation Schemes

2.55 For the purpose of relocating industries operating in residential/non-conforming areas and creating pollution, relocation schemes have been launched in some of the metropolitan cities like Delhi and Calcutta. These initiatives are expected to help improve environment management. During past years, entrepreneurs of small and tiny units started their units in metro cities even in non-conforming areas without obtaining statutory permissions from local authorities. These units have prospered due to vicinity of large markets, adequate transport and communication facilities, etc. Staff of local bodies also allowed to run these units either by overlooking them or sometimes going hand in gloves with the entrepreneurs. Because of substantial numbers of such units and their increasing pollution effect, use of electric power, etc, some environmental activists drew attention of the Supreme Court. The Supreme Court gave decision of relocating these polluting units to other industrial areas equipped with pollution control facilities.

2.56 The Govt. of Delhi had to seal a large number of such polluting units resulting in closure of these units and displacement of labour, etc. The Govt. of Delhi has now made arrangements to make available industrial land in adjoining states for relocation of these units. Financial assistance is also provided to entrepreneurs. Such problems could also come up in other metros as well as large towns having concentration of SSI units. There is a need for taking corrective measures by state governments and local bodies so that Delhi episode is not repeated elsewhere. Such extreme positions

disturb the SSI units, entrepreneurs, labour, etc. Both entrepreneurs and labour suffer, probably labour suffer more.

Organisational Support

2.57 For giving focused attention to the development of small scale and village industries, the Department of Small Scale Industries and Agro & Rural Industries (SSI, A&RI) was created within the Ministry of Industry at the Central level in 1990. This Department was converted into a Ministry under the independent charge of the Minister of State for SSI, A&RI in 1999. The ministry monitors the growth and development of small scale, khadi, village and coir industries in the country by formulating appropriate policies for their sustained growth. The Ministry also initiates appropriate steps for setting up of a network of institutions at the field level to render assistance and to provide a comprehensive range of services to the SSI sector. The services cover consultancy in techno-economic and managerial aspects, training, testing facilities, marketing assistance, etc. These activities are carried out through attached offices/organisations of the Government, viz. Development Commissioner (SSI), Khadi and Village Industries Commission, National Small Industries Corporation, Coir Board, etc. These agencies are supported by a host of other Central/State Government Departments, promotional agencies, autonomous institutions, NGOs, etc, for providing support to SSIs in different ways.

Central Government Network

Small Scale Industries Board

2.58 The Small Scale Industries (SSI) Board was constituted in 1954 to facilitate coordination and inter-institutional linkages and to render advice to the Government on various policy matters and other related issues concerning promotion and development of the small scale sector. The term of the SSI Board is for two years. The Board was last reconstituted in September 1998 with Union Minister of SSIA&RI as the chairperson and Additional Secretary & Development Commissioner (SSI) as the Member Secretary. The other members of the Board comprise, inter alia, Central Ministers, Members of Parliament, Secretaries of various Departments of the Central Government, financial institutions, public sector undertakings, State Industry Ministers, prominent industry associations and eminent experts in the field.

Small Industries Development Organisation

2.59 The office of the Development Commissioner (Small Scale Industries) also known as Small Industries Development Organisation (SIDO) is an attached office of the Department of SSI, A&RI. SIDO, set up in 1954, functions through a network of 28 Small Industries Service Institutes (SISIs), 30 Branch SISIs, 4 Regional Testing Centres, 8 Field Testing Stations, 10 Tool Rooms, 2 Central Footwear Training Institutes, one Production Centre, 6 Product-cum Process Development Centres, and 3 Training Institutes.

2.60 The major activities of SIDO include (i) evolving an all India policy and programme for the development of SSIs; (ii) coordinating the policies and programmes of various State Governments; (iii) maintaining liaison with different State and Central Ministries, Planning Commission, Reserve Bank of India and Financial Institutions and dissemination of economic information; (iv) providing a comprehensive range of extension services through allied institutions; (v) providing facilities for technology upgradation, modernisation, quality improvement, etc.; (vi) monitoring the Prime Minister's Rozgar Yojana (PMRY) Scheme; and (vii) offering services such as consultancy in technical and managerial aspects, training, common facility centres, testing and tool room facilities and marketing assistance for SSI.

Small Industries Service Institutes

2.61 Twenty eight Small Industries Service Institutes (SISIs) and 30 Branch SISIs are operational through out the country and their respective performance is overseen by the office of the DC (SSI). The main functions performed by SISIs are interface between Central and State Governments, dissemination of economic information, technical support services and consultancy services, entrepreneurship development programmes, etc. SISIs prepare reports covering, among others, implementation of programmes on modernisation, energy conservation, quality control/upgradation and pollution control for the benefit of entrepreneurs.

Product-cum-Process Development Centres (PPDCs)

2.62 Six PPDCs have been established and are providing services to SSIs at Firozabad (for glass industry), Kannauj (for essential oils), Meerut (for sports goods), Ramnagar (for electronic industry), Mumbai (for electrical measuring instruments), and Agra (for foundry and forging). In addition, there is SITARC Pump Institute at Coimbatore. The main functions of PPDCs

include serving as research and development institutions in areas of industry clusters, looking into specific problems of industry product design and innovation, developing new processes and upgrading the existing level of technology, acting as centres of excellence in the concerned field and rendering technical support services, etc.

Regional Testing Centres

2.63 Four Regional Testing Centres (RTCs) at Chennai, New Delhi, Mumbai and Calcutta have been established for spreading quality awareness amongst industrial units through systematic testing and by rendering technical consultancy services. These centres are equipped with modern sophisticated machinery and equipment for testing mechanical, electrical, chemical and metrological products. They are accredited to the Bureau of Indian Standards, Pollution Control Board, etc. RTCs have been supporting 7 Field Testing Stations that provide testing services to SSI units in different product lines and are located at Bangalore, Bhopal, Changancherry, Hyderabad, Jaipur, Kolhapur and Pondicherry.

Training Institutes

2.64 National Institute of Small Industries Extension & Training (NISJET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, and Integrated Training Centre (Industries), Nilokheri, are the main training institutes which function under the administrative control of SIDO and organise a variety of training courses for entrepreneurial development.

National Small Industries Corporation

2.65 The National Small Industries Corporation Limited (NSIC) is a public sector undertaking set up by the Government of India in February 1955 to promote, aid and foster the growth of small scale industries in the country. The Corporation provides support to small scale industries in the form of (i) supplying indigenous and imported machines on easy hire-purchase and lease term basis; (ii) enlisting competent units and facilitating their participation in Government Stores Purchase Programme and providing diversified marketing support through Marketing Assistance Scheme; (iii) assisting in export of small industries products and developing export

worthiness of small scale units; (iv) developing prototypes of machines, equipment and tools which are subsequently passed on to small scale units for commercial production; (v) providing training in industrial trades; (vi) extending assistance to SSIs through financial centres operating at New Delhi, Mumbai, Ahmedabad and Goa for marketing, bills discounting, raw materials purchases and exports; (vii) assisting SSIs in technology acquisition, adaption and upgradation through its Technology Transfer Centre at New Delhi.

Khadi and Village Industries Commission

2.66 The Khadi and Village Industries Commission (KVIC) is a statutory organisation established in 1957 under an Act of the Parliament. KVIC assists in promotion and development of khadi and village industries. The main objectives of KVIC include rural industrialisation, promotion of self-reliance among the people and to build up strong rural community base, skill development, creation of employment opportunities in rural areas and transfer of technology. For development of khadi and village industries, KVIC plans, promotes, organises and implements programmes and provides financial assistance to the eligible agencies. The corporation arranges training for persons employed in the sector or desirous of seeking employment in khadi and village industries, besides supervisors and other functionaries. KVIC also holds stocks of raw materials and supplies them at such rates as may be decided from time to time. It undertakes R&D activities in khadi and village industries sector and encourages promotion of cooperative efforts among persons engaged in khadi and village industries.

Coir Board

2.67 The Coir Board is an autonomous body established by the Government of India under Coir Industry Act, 1953 for overall development of the coir industry. The activities pursued by the Board include undertaking scientific, technological and economic research and development activities, collection of statistics relating to exports and domestic consumption of coir and coir products, development of new products and designs, policy formulation to promote exports and domestic sales, marketing of coir and coir products in India and abroad, preventing unfair competition among producers and exporters, carrying out training for grooming skills, assisting in setting up of factories for manufacture of products, promoting cooperative organisations among producers of husk, coir fibre, coir yarn and manufacturers of coir products and ensuring remunerative returns to producers and manufacturers.

State Government Agencies

2.68 The State Governments have their own policies for promotion and development of small scale, cottage, medium and large scale industries. In each State, the Commissioner/Director of Industries implements the State government policies and directives for promoting industrial development. The Central policies for SSI sector serve as guidelines for framing State level policies and package of incentives. The Commissioner/Director of Industries also oversees the activities of the field offices, viz. District Industries Centres (DICs), at the district level which are mostly engaged in extension activities, besides administrative and regulatory work.

District Industries Centres

2.69 The District Industries Centres (DICs) Programme was initiated in May 1978, as a Centrally-sponsored scheme, with the objective of developing small, tiny and cottage industries in the country and to generate more employment opportunities especially among rural and backward areas. The establishment of offices of DICs at district level aimed at providing support facilities/concessions/ services in dispersed rural areas and other small towns. There were 430 centrally approved DICs, which covered almost all parts of the country except the metropolitan cities at the time of the withdrawal of the Central sponsorship in 1993-94. At present, DICs are being operated under respective State budgetary provisions. The extension services provided by DIC include (i) dissemination of information, (ii) supply of machinery and equipment, (iii) provision of raw materials and quality inputs, (iv) arrangements for credit facilities, (v) marketing, and (vi) consultancy.

State Financial Corporations

2.70 State Financial Corporations (SFCs) came into being under the provision of the SFCs Act, 1951. At present, there are 18 SFCs, of which 17 were set up under SFCs Act and one viz. Tamil Nadu Industrial and Investment Corporation (TIIC) Ltd. under the Companies Act. The main objectives of SFCs are to finance and promote small and medium enterprises in their respective States for achieving balanced regional growth, catalyse investment, generate employment and widen the ownership base of industry. Financial assistance to small and medium enterprises is provided by way of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed capital assistance. They also provide financial

assistance for small road transport operators, hotels, tourism-related activities, hospitals, nursing homes, etc.

State Industrial Development Corporations/State Industrial Investment Corporations

2.71 State Industrial Development Corporations/ State Industrial Investment Corporations (SIDCs/SIICs) were set up under the Companies Act, 1956 as wholly-owned undertakings of the State Governments to act as catalysts for industrial development in their respective States. At present, there are 28 SIDCs in the country, of which eleven also function as SFCs and are, therefore, termed as Twin-Function IDCs. SIDCs develop land and provide industrial infrastructure facilities in the form of factory sheds and/or developed plots together with facilities like roads, power, water supply, drainage and other amenities. Set up primarily for providing assistance to medium and large scale industries, SIDCs/SIICs also extend assistance to the small scale sector by way of term loans, subscription to equity and promotional services.

State Small Industrial Development Corporations

2.72 State Small Industries Development Corporations (SSIDCs) were established under the Companies Act 1956 as State Government undertakings to cater to the needs of the small, tiny and village industries in the respective States/Union Territories. Being operationally flexible, SSIDCs undertake a variety of activities for benefit of the SSI sector, the important ones are: Procurement and distribution of scarce raw materials; supply of machinery to SSI units on hire-purchase basis; providing assistance for marketing of products; construction of industrial estates, provision of allied infrastructure facilities and their maintenance; extending seed capital assistance on behalf of State Government; providing management assistance to production units.

Other Agencies

2.73 Other State-level agencies that extend facilities for promotion of SSIs are State Infrastructure Development Corporations, State Co-operative Banks, Regional Rural Banks, State Export Corporations, State Agro Industries Corporations and State Handloom & Handicrafts Corporations.

Financial Institutions

2.74 The Government of India and Reserve Bank of India (RBI) have been instrumental in devising a multi agency approach/system to ensure credit dispensation to different sectors of the economy, including SSI. The distinctive feature of multi agency set up is that each of the major institutions cater to the needs of a particular segment of the economy, e.g., agriculture, industry, export, housing, etc. Prior to setting up of Industrial Development Bank of India (IDBI) and Small Industries Development Bank of India (SIDBI), banks availed of refinance from RBI against their eligible loans to SSIs. IDBI and SIDBI have been the main providers of refinance to State Level Institutions such as SFCs and SIDCs.

2.75 For the purpose of credit dispensation to the SSI sector, the following major national and state level institutions are operating in the country:

Apex Level Financial Institution

Small Industries Development Bank of India

Banks

- Commercial Banks
- Regional Rural Banks
- Co-operative Banks

State Level Institutions

- State Financial Corporations
- State Industrial Development Corporations
- State Industrial Investment Corporations
- State Small Industries Development Corporations

Other Financial Institutions & Agencies

- National Bank for Agriculture and Rural Development
- Khadi and Village Industries Commission
- National Small Industries Corporation
- North Eastern Development Finance Corporation Ltd.

2.76 Small Industries Development Bank of India (SIDBI) was set up in April 1990, as the principal financial institution for promotion, financing and development of industries in the small scale sector and to coordinate the functions of the institutions engaged in similar activities. SIDBI initially set up as a wholly owned subsidiary of IDBI, has since been de-linked from IDBI with effect from March 27, 2000 and is presently working as an independent autonomous body for financing of Small Scale Industries Sector. SIDBI's major operations cover three main areas: (i) Indirect Assistance, (ii) Direct Assistance, and (iii) Development and Support Services.

Industry Associations

2.77 In addition to the Central and State Government agencies, industry associations also provide institutional support to the small-scale sector. Industry associations provide SSIs with a common platform to raise industry-related issues and to initiate co-operative efforts for promoting SSIs. Government's policies, in recent years, have stressed the increasing role of industry associations in setting up common facilities and other co-operative ventures in areas of technology, marketing and other support services. Some of the major industry associations providing services are:

- Federation of Tiny & Small Industries of India
- Indian Council of Small Industries
- Laghu Udyog Bharti
- Federation of Indian Export Organisations
- World Association for Small & Medium Enterprises
- Federation of Associations of Small Industries of India
- Consortium of Women Enterprises of India
- Manufacturers' Association for Information Technology
- Electronic Component Industries Association
- Federation of Indian Micro and Small & Medium Enterprises
- National Association of Software & Service Companies
- Hand Tool Manufacturers' Association
- Self-Employed Women's Association
- All-India Women's Association of Karnataka
- Tamil Nadu Small Industries Association
- Small Industries Association of Orissa

- **Small Industries Association of Gujarat**
- **Confederation of Indian Industry***
- **Federation of Indian Chambers of Commerce and Industry***
- **PHD Chamber of Commerce and Industry***
- **Associated Chambers of Commerce & Industry of India***

(*These organisations are catering to large scale industries and also have special cells for SSI units)

Non-Governmental Organisations

2.78 Non-Government Organisations (NGOs) are an important link in the implementation of various developmental programmes of the Government. There is a team effort in the working of the NGOs and these organisations develop and apply new techniques and ways of working to achieve success. NGOs are registered under the Society's Registration Act and/or under Foreign Contribution Regulation Act and are generally non-profit organisations.

Specialised Institutes for Human Resource Development

2.79 There are a number of specialised institutes associated with SIDO for training, research, and development of product design and processes. The activities of these institutes/training centres are briefly given in the following table :

TABLE - 2.1

SPECIALISED TRAINING INSTITUTES

Name of Institutes/Organisations	Location	Major activities
National Institute of Small Industry Extension Training	Hyderabad	Training, Research and Consultancy activities
National Institute for Entrepreneurship & Small Business Development	New Delhi	Coordination & overseeing activities of various institutes / agencies engaged in entrepreneurship development
Indian Institute of Entrepreneurship	Guwahati	Training and entrepreneurship development with focus on North East
Integrated Training Centre (Industries)	Nilokheri	Integrated training in different trades
Institute for Design of Electrical Measuring Instruments	Mumbai	Services to the Instrument Industry
Central Institute of Hand Tools	Jalandhar	Aims at rapid growth of the Hand Tools Sector
Hand Tool Design Development and Training Centre	Nagaur	Assistance for improvement in productivity, betterment in quality, high value addition
Central Tool Room	Ludhiana	Provide services in the area of consultancy, tool design and manufacture and technical training
Central Tool Room & Training Centre	Calcutta	Training, design & manufacture of complicated precision tools for telecom industry and other Common Facility services
Central Institute of Tool Design	Hyderabad	Training, CAD/CAM Centre for post graduate trainees, automatic process control unit, etc.
Product-cum-Process Development Centre for Sports Goods	Meerut	Training, process & product development of sports goods, R&D
Product-cum-Process Development Centre for Essential Oils	Kannauj	Modernise and upgrade technology status for essential oils & perfumery industry
Product-cum-Process Development Centre	Agra	Provide better technology to small scale foundry & forging units, process & product development, provision of design for melting equipment, testing facilities
Electronic Service & Training Centre	Ramnagar	Training, technical & consultancy services
Centre for Improvement of Glass Industry	Firozabad	Development & adoption of new technologies & products
National Small Industries Corporation	New Delhi	Supply of machinery, marketing assistance, training

Export Promotion Councils

2.80 In order to overcome the problems in marketing of SSI products in foreign markets, it has been considered desirable to adopt a consortium approach. The export promotion councils for different industries make efforts to promote exports of their member units through direct marketing, developing vendor relations, opening respective sales outlets abroad as a collective export marketing strategy. The activities of different Councils are targeted to increase exports from the sector. The Export Promotion Councils (EPCs) are registered as non-profit organisations under the Companies Act / Societies Registration Act. SSI units get access to export-related services from the Councils. Some of the Councils obtain bulk purchase orders from foreign buyers and distribute them among member units for supply to the Council for onward export. The EPCs also offer a package of other services to members and others by way of information dissemination, Export-Import policies and procedures, customs and excise duty rules etc. Besides, trade enquiries, tender notices are circulated among members in order to assist them to avail of business opportunities for augmenting overall exports.

Institutions to assist exporters

2.81 The following important agencies are available for assistance of exporters in their endeavour to increase exports from the country :

- Indian Institute of Foreign Trade
- Indian Institute Of Packaging
- Export Houses, Trading Houses & Star Houses and Super Star Trading Houses
- Export Credit Guarantee Corporation of India Ltd.
- Export Inspection Council

Industry-related Research Institutes

2.82 There are a number of industry-related research institutes which undertake research in various aspects connected with growth of industry, including SSI sector. Important industry-related research institutes include :

- **Central Manufacturing Technology Institute**
- **Central Pulp & Paper Research Institute**
- **National Council For Cement & Building Materials**
- **Automotive Research Association Of India**
- **Indian Rubber Manufacturers Research Association**
- **National Institute Of Design**
- **Quality Council of India**
- **Central Leather Research Institute**
- **Council of Scientific & Industrial Research**



CHAPTER - 3

OVERVIEW OF RECOMMENDATIONS OF EARLIER COMMITTEES RELATING TO SMALL SCALE ENTERPRISES

3.1 To encourage the spread of industrialisation and entrepreneurship in the country, it is essential that the small scale industries are provided with growth-oriented environment and adequate infrastructure facilities. To ensure this objective, a number of policy initiatives have been taken by the Government and the financial system at large in the last five decades. The framework of policy support for small scale sector evolved in 1950s has been in existence with required modifications/changes from time to time till initiation of the economic reforms. In 1990-91, the country embarked upon a stabilisation programme whereby various structural reforms were taken up to increase efficiency and achieve a sound economic base. The reform initiatives included abolition of industrial licensing except in the case of some industries of strategic importance, liberal import licensing, easing of restrictions under Monopolies and Restrictive Trade Practices (MRTP) Act, permission for Foreign Direct Investment (FDI), etc. These developments marked a significant shift in the role of Government from a regulator to that of a developer and facilitator.

3.2 To analyse the impact of policy initiatives taken by the Government and flow of funds to the sector, including complexities of the system and procedures relating thereto, the Government of India / RBI have constituted various committees in the decade of nineties. Prominent among these are Nayak Committee, Abid Hussain Committee and S.L. Kapur Committee. These committees have given a number of recommendations covering various aspects relating to the sector. A number of recommendations of these committees have been translated into policy prescription by the RBI and the Government of India for players in the financial system and support service institutions engaged in the development of SSI sector. Some of the important recommendations relating to SSI sector, especially those pertaining to the credit dispensation, are summarised below:

Committee to Examine the Adequacy of Institutional Credit to the SSI Sector and Related Issues (Nayak Committee), 1991

3.3 The Committee was constituted by Reserve Bank of India in 1991, under the chairmanship of Shri P. R. Nayak, the then Deputy Governor of Reserve Bank of India (RBI) to examine the adequacy of institutional credit to the SSI sector and related issues. The Committee submitted its report in 1992.

Terms of Reference

The terms of reference of the Committee were as under:

1. To examine the adequacy of institutional credit for the SSI sector, particularly with reference to the increase in the cost of raw materials and locking up of the available resources due to delay in the realisation of sale proceeds from large companies and Government agencies.
2. To examine the adequacy of institutional credit for term finance to the SSI sector.
3. To examine the need for making any modifications/ relaxations in the norms prescribed by the Tandon / Chore Committee in respect of SSI units.
4. To examine whether any revision is required in the present RBI guidelines for the rehabilitation of sick SSI units.
5. In the light of the above, to suggest – [a] suitable arrangements for ensuring adequate flow of institutional credit for working capital and term finance to the SSI sector; [b] modifications / relaxations, if any, required in the norms prescribed by the Tandon / Chore Committee in respect of SSI units; [c] methods by which the locking up of resources on account of delay in realisation of bills can be minimised; [d] changes, if any, required in the present guidelines for rehabilitation of sick SSI units.

Key Findings of Nayak Committee

- Banks have Insufficiently serviced the working capital needs of the SSI sector and in particular, village and tiny enterprises. The SSI sector has been getting 8.1 per cent of its annual turnover by way of working capital advances from the banks. Of this, the tiny units, village industries and artisan units were receiving only 2.7 per cent of their annual turnover by way of working capital advances from the banks.
- The need for specialised bank branches for SSIs, the absence of which, in the past, has led to serious bottlenecks viz., (a) arbitrary reductions in credit limits applied for, (b) Inordinate delays and irregularity in the sanction of working capital, and (c) scarce availability of the assistance for start-ups, expansions and diversifications.
- The system of providing term credit and working capital by two kinds of institutions viz., Banks and SFCs has given rise to a host of problems of co-ordination between them.

Major Recommendations of Nayak Committee:

1. The entire SSI sector (investment in plant & machinery upto Rs.60 lakh) is entitled to priority sector lending of banks. Village Industries and smaller tiny units with credit limits upto Re.1 lakh should have first claim on the priority sector credit to the SSI.
2. Bank branches should give priority to those Village Industries and smaller tiny industries which can use working capital efficiently, having established production successfully but are unable to make further progress for lack of working capital.
3. The working capital loan to existing and new SSI units should correspond to a minimum of 20 per cent of projected annual turnover but not exceeding Rs.100 lakh of their fund-based needs.
4. State Financial Corporations [SFCs] to serve as principal financing agencies for SSIs in 40 out of 85 districts with significantly high small scale industry density. In the remaining 45 districts having concentration of SSI units as well as in the rest of the country, the Commercial Banks should act as the principal financing agency of SSI.

5. Commercial Banks to open specialised or dedicated branches in other areas of high small industry density ranging between 1,000 and 2,000 registered SSI units.
6. The Branch Managers be vested with adequate discretionary powers to enable them to grant 'ad hoc' increases upto 10 per cent over the sanctioned limits to meet unforeseen contingencies including escalation in raw materials/input costs, etc.
7. Banks to adopt and implement Single Window Scheme (SWS) in full earnest.
8. An effective grievance redressal machinery to be established within each bank to take care of SSI problems.
9. For ensuring higher flow of term finance to the small scale sector, SIDBI's share of the SLR bonds could be increased and at the same time, SIDBI should be allowed to tap resources from alternative sources.
10. The enactment of Limited Partnership Act should be expedited to facilitate the flow of equity to the SSIs.
11. The Committee recommends that an SSI unit may be classified as sick, when [a] any of its borrowal accounts has become a doubtful advance i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for periods exceeding 2 1/2 years, and [b] there is erosion in net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.
12. Further, it is necessary that rehabilitation packages for alleviating sickness of potentially viable small units are made more effective.

Recommendations Accepted and Implemented by the Government & Reserve Bank of India

3.4 The Government announced a seven point action plan in 1995-96 Budget for effective implementation of the Nayak Committee Report. The important features of this action plan were : (i) time bound action of setting

up of specialised SSI branches in 85 identified districts and at least 100 such dedicated branches to be opened before the end of 1995-96. (389 specialised SSI branches of banks have been set up) (ii) adequate delegation of power at the branch and regional level; (iii) banks to conduct sample surveys of their performing SSI accounts to find out whether SSI units were getting adequate credit; (iv) steps to be taken to see that as far as possible, composite loans were sanctioned to SSI entrepreneurs; (v) regular meeting by banks at zonal and regional levels with SSI entrepreneurs (vi) need to sensitise bank managers and re-orient them regarding working of the SSI sector; (vii) simplification of the procedural formalities by banks for SSI entrepreneurs.

3.5 RBI issued guidelines to the Commercial Banks to grant working capital credit limits to SSI units computed on the basis of minimum 20 per cent of their estimated annual turnover, whose limit in individual cases is upto Rs.200 lakh (recently, the limit has been raised to Rs.500 lakh).

3.6 Banks were advised to extend assistance under Single Window Scheme [SWS] of SIDBI in all the districts to meet the credit requirements of SSIs. (To promote credit flow to small borrowers, the composite loan limit under the Scheme has been raised to Rs. 100 lakh).

3.7 Banks were similarly, not to insist on compulsory deposit as a '*quid pro-quo*' for sanctioning credit limit to SSIs. Banks have been advised not to insist for collateral security for loans upto Rs.5 lakh.

3.8 RBI accepted the definition of sick SSI unit as suggested by the Nayak Committee and asked the banks to identify sick SSI units and take urgent action to put them under nursing programme. Recently, revised guidelines for One Time Settlement have been issued vide RBI circular of 27th July, 2000 for rehabilitation of sick SSI units which are potentially viable.

3.9 Banks were advised to ensure that there should not be any delay in the sanction and disbursement of credit. In the case of rejection/curtailment of credit limit for the loan proposal, a reference to the higher authority should be made.

3.10 The standard loan application forms for SSI borrowers were devised.

3.11 Banks were advised to impart training to the staff working at specialised branches so as to bring about attitudinal changes in them.

Expert Committee on Small Enterprises (Abid Hussain Committee), 1997

3.12 The introduction of economic reforms and opening up of the economy posed new challenges for SSIs. In order to examine the relevance and impact of small industry policies and to suggest measures to make the SSI sector more vibrant and competitive, an expert Committee under the Chairmanship of Shri Abid Hussain, former Member, Planning Commission, was appointed by the Government of India in 1995. The Committee, *inter alia*, examined and suggested institutional arrangements, and policies and programmes for meeting long-term and short-term requirements of the small enterprises. The Committee submitted its report in 1997.

Terms of Reference:

3.13 The terms of reference of the Committee were as follows :

- To examine the promotional and protective policies and direct assistance programmes for small industry development, assess their impact and efficacy and in the light of international experience and recent economic policy reforms, suggest appropriate changes with the objective of creating an efficient, viable and dynamic small enterprise sector in the Indian economy.
- To review the definitions, legal framework and the heterogeneous composition of the small industry sector and make recommendations for bringing about changes as may be appropriate for realisation of the objectives outlined above, and in particular, advise if the different segments of small firms (such as village industries and modern small industries) may be covered by the same policy package or whether separate sets of policies may be prescribed keeping in view their different characteristics and requirements.
- To examine the efficacy and desirability of the small industry reservation policy, assess its impact on the growth of small enterprises from the point of view of viability, efficiency, competitiveness and exposure to technical change and progress, and make appropriate recommendations.
- To advise, in the light of international experience, if the small enterprise development policies should be restricted to the manufacturing sector

or whether these should also cover small enterprises in the business and service activities.

- To examine the present arrangements and sources for collection, compilation, dissemination and analysis of data on small enterprises with a view to assessing their quality, consistency and reliability and make appropriate recommendations.
- To review the present institutional arrangements for the transfer and dissemination of technological and technical information to small and medium enterprises (SMEs), assess the quality of the available advisory and extension services, examine the necessity and possibility of placing these more and more with non-governmental organisations and private service (consultancy) sector and make appropriate recommendations.
- To examine the existing institutional arrangements and the policies and programmes for meeting the long-term and short-term financial requirements of the small enterprises, examine their effectiveness, particularly in meeting the requirements of innovative and technology-oriented firms and first generation entrepreneurs and in the light of the practices followed and instruments adopted in other successful economies, make appropriate recommendations.
- To view the impact of various fiscal policies and tax concessions on small enterprise development, examine their role in enabling small firms to explore their potential and grow into medium and large enterprises and make suitable recommendations.
- To examine the impact of various regulatory laws and procedures such as the labour laws, the Factories Act, the Industrial Disputes Act and the Environment Protection Act on the small firms and the ability of these enterprises to meet with the various requirements under these laws and procedures and make appropriate recommendations.
- To consider and make recommendations on such other matters as the Committee may consider relevant for small enterprise development, including changes in legislation where necessary.

Key Findings:

3.14 Major key findings of the Expert Committee are given below:

The reservation policy of specific products for exclusive manufacture by SSI did not serve much purpose, as most production has occurred in items not reserved for the SSI.

The reservation policy has resulted in low efficiency and productivity and restricted the expansion and export potential of important industries viz., light engineering, food processing, textiles and others.

Credit to SSIs became more expensive after interest rate deregulation.

Institutions and regulatory policies responsible for technical assistance, human resources development, standardisation, etc. expected to play a proactive role in halting technological obsolescence (particularly among tiny units) did not prove effective.

The clusters needed modernisation through integrated infrastructure development through joint efforts by Government and the private sector.

Major Recommendations:

3.15 Some of the major recommendations of the Expert Committee are indicated below:

To abolish reservation of all 836 items for SSI production and transitional arrangement of Rs.50 crore per annum be made for rehabilitation of units affected by de-reservation.

To raise investment ceiling of small and tiny units to Rs.300 lakh and Rs.25 lakh from the then ceilings of Rs.60 lakh and Rs.5 lakh, respectively.

To earmark 70 per cent of priority sector credit going to the SSI sector for tiny units.

Separate laws be enacted for the small enterprises and Inspector Raj be removed.

To restructure and strengthen the District Industries Centres, State Financial Corporations and Small Industries Development Corporations as necessary.

Financial incentives to be given to the exporting units including the creation of a fund to assist exporting SSIs.

Policy should focus on the economies of agglomeration by providing integrated infrastructure support services through private institutions organised around clusters.

Excise incentives for graduating SSI and tiny units into medium-scale units by raising the exemption limit of excise duties for the SSI sector as a whole and permitting exemption from excise duty on the manufacture of other companies' brand name products.

Recommendations accepted and implemented by the Government/ RBI

3.16 The recommendations of the Expert Committee which are accepted by the Government/RBI and implemented, are given below:

The Government of India raised the investment ceiling in Plant and Machinery in respect of small and ancillary enterprises from Rs.60 lakh and Rs. 75 lakh respectively to a common limit of Rs.300 lakh. The limit in respect of tiny units was been raised from Rs.5 lakh to Rs.25 lakh. The investment limits in the case of small and ancillary units have, however, again been lowered to Rs.100 lakh with effect from December, 1999. The upper ceiling of investment in plant and machinery for tiny sector units, however, continues to be at Rs.25 lakh.

The Government dereserved 15 items, out of 836 items reserved for SSI production in April, 1997. Nine more items have further been dereserved in February, 1999 and the nomenclature of two items has been changed facilitating partial dereservation in them. Though, the Expert Committee had recommended total abolition of reservation, the Government has decided to go in only for phased and selective dereservation.

The export obligation for setting up new units or expanding the existing capacity in the non-SSI units in the reserved products has been lowered to 50 per cent from 75 per cent.

The Government set up an inter-ministerial committee under the Chairmanship of Secretary [SSI, A&RI] to examine the other recommendations of the expert Committee so as to implement many more of them.

RBI has issued directives to banks for allocating 60 per cent of the SSI credit deployment for the tiny sector.

3.17 With regard to restructuring of State Financial Corporations, amendments in the SFC Act are being considered by the Parliament.

The High Level Committee on Credit to SSIs (S.L. Kapur Committee), 1998

3.18 In order to examine whether the banks were adhering to the recommendations made by Nayak Committee and implementing the seven point Action Plan for availability of credit to SSI units, several studies were instituted. These studies revealed that despite the instructions / guidelines issued by RBI from time to time, deficiencies continued to exist with regard to compliance with guidelines at the operational level. Consequently, SSIs faced various problems in getting adequate and timely credit.

3.19 Taking these facts into consideration, the RBI appointed a one-man Committee under the Chairmanship of Shri S.L. Kapur, Member, BIFR and former Secretary (SSI, A&RI), Government of India, to look into various problems germane to credit flow to the SSI sector and to suggest appropriate measures for their redressal. The Committee submitted its report in June, 1998.

Terms of Reference

3.20 The terms of reference of the S.L. Kapur Committee are given below:

To review the working of credit delivery system for small scale industries with a view to making the system more effective, simple and efficient to administer.

To make suggestions for simplification and improvements in systems and procedures.

To consider the ways and means of strengthening existing internal mechanism in banks for redressal of customer grievances.

Key Findings

3.21 Major key findings of the S.L. Kapur Committee are:

An unsatisfactory performance by Commercial Banks in respect of SSI financing persisted with regard to : (a) non-adherence to working capital norms suggested by Nayak Committee; and (ii) poor flow of credit to tiny units.

The loan application forms prescribed by banks for small loans were very complicated.

There was no separate earmarking of funds by banks for working capital loans.

Bank staff / Management was not well-trained in the task of appraising the SSI projects.

Major Recommendations

3.22 Some of the major recommendations of the S.L. Kapur Committee are indicated below in brief:

As SIDBI, the apex financial institution for financing, promotion and development of the SSI sector found it difficult in the post-liberalisation period to cross-subsidise its credit to SSI sector, Primary Lending Institutions seek refinance from SIDBI at a rate which is below the average cost of

funds of SIDBI. SIDBI should get assured funds at a lower rate of interest to help the SSIs in meeting their credit requirements.

SIDBI should be accorded the status of nodal/coordinating agency for financing of small industries as is available to NABARD in the field of agricultural development.

SIDBI might consider launching industry-specific Venture Funds. It might set up immediately a few Software Venture Capital Funds in collaboration with Software Professionals Associations or their expert bodies. It should consider setting up of such funds for other sub-sectors like food processing and industry-related export services.

A new fund called the "Reconstruction Fund" might be set up in SIDBI and initiative thereof be taken by the Government/RBI. The initial corpus should also be provided by the Government/RBI. This should be linked with all the Public Sector Banks through appropriate lines of credit.

RBI might set up a task force consisting of SIDBI, Bankers, experts and export-oriented SSIs to outline new credit policies and procedures for SSI exporters.

The linkages which bind SIDBI with IDBI should be loosened/snapped since SIDBI has come of age.

Consequent upon revision in the definition of SSIs, the 40 per cent allocation of SSI credit for units having investment in Plant & Machinery upto Rs.5 lakh may continue. However, the allocation of 20 per cent for units having investment between Rs.5 lakh and Rs.25 lakh should be raised to 30 per cent.

The limit of composite loans should be enhanced to Rs.5 lakh so that the entire requirement of small units is met by single documentation, security and charge creation process. This facility should also be extended to all SSI units requiring loans upto Rs.5 lakh irrespective of their location.

Banks should open more specialised SSI branches or shift / restructure some of the existing branches and convert them into specialised branches for financing the small scale sector.

With regard to simplification of application forms, it was recommended that the application form prescribed for facilities upto Rs.2 lakh could straight away be permitted to be used for facilities upto Rs.10 lakh and that prescribed for facilities upto Rs.15 lakh could be used for such facilities upto Rs.50 lakh. Similarly, the form for limits upto Rs.100 lakh could be prescribed for facilities beyond Rs.50 lakh and upto Rs.200 lakh. The fourth category of proforma could be used by any SSI unit requiring facilities beyond Rs.200 lakh.

The loan application forms for SSI entrepreneurs should be tri-lingual i.e. in Hindi, English and local language.

Loan applications should be sanctioned promptly and normally within one month.

The SFCs and other state-level institutions should be restructured as per recommendations made by the Khan Working Group.

SSIs should get special treatment in the matter of interest rates and they should normally get credit at Primary Lending Rate (PLR).

The existing Credit Guarantee Scheme being operated by Deposit Insurance and Credit Guarantee Corporation (DICGC) should be scrapped and be replaced by a more objective and suitable scheme to be operated by a new Guarantee Corporation. The Reserve Bank of India should take the initiative for setting it up in SIDBI. The proposed corporation should cover only those loans which are sanctioned by Public Sector Banks/Financial Institutions and where the principal amount sanctioned does not exceed Rs.10 lakh.

The Reserve Bank of India might consider, in consultation with the Government of India, the need to set up a Small Industries Infrastructure Development Fund, for development of industrial areas in/around metropolitan cities, urban and semi-urban areas which were not covered by RIDF of NABARD. To start with, a corpus of such funds, say Rs.100 crore,

be kept with SIDBI for lending to the State Government.

The banks had been directed to ensure that not less than 25 per cent of the total credit purchases are through bills drawn by the seller so as to develop a bills culture. RBI might examine the possibility of increasing this percentage to 50 in the next year depending on the experience gained.

Credit rating for SSI units could help in augmenting the flow of credit to SSIs. SIDBI should assist in the formation of new credit rating agencies which could be set up by professionals having experience in SSI financing. For rating SSI units, all relevant factors may be taken into consideration. While lending, the banks should take into consideration the rating provided by such agencies.

The Small Scale Companies who wished to have an overseas presence should be allowed to invest upto US \$20,000 based on a simple procedure and the banks should assist them for this purpose. This would help the SSI units to increase exports and upgrade technology.

Recommendations accepted and implemented by RBI

3.23 The Reserve Bank of India accepted 48 recommendations out of 126 recommendations made by the High Level Committee on Credit to SSIs. Accordingly, RBI also issued necessary guidelines to Commercial Banks. In addition, 16 recommendations of the Committee pertaining to SIDBI and NABARD have been implemented by the respective institutions. The major recommendations accepted by the RBI are :

Banks are to delegate powers of sanctioning *ad hoc* limits upto the extent of 20 per cent of sanctioned loan limits by the branch manager.

Banks have been directed to take note of the norms of fixing eligible working capital limits.

Banks have been instructed to open more specialised SSI branches or as the case may demand, to convert the existing branches at clusters having a high concentration of SSI units. (As per Union Budget 2000-2001, public sector banks are to accelerate their programme of SSI branches to ensure that every district and SSI cluster within districts is served by at least one

specialised SSI bank branch. Furthermore, to improve the quality of banking services, SSI branches are being asked to obtain ISO Certification).

Banks have been advised to implement recommendations pertaining to loan application forms.

Banks have been instructed that loan applications upto Rs.25,000 be disposed off in a fortnight and those above Rs.25,000 within 8 - 9 weeks.

Sponsor bank/SIDBI may provide crash training programmes for the staff of Regional Rural Banks for servicing the SSIs in a more effective manner.

Banks have been advised to introduce applications in tri-lingual forms.

The flow of credit to the SSIs should be assessed on the basis of disbursement rather than outstanding balance.

To promote credit flow to the small borrowers, the composite loan limit under the SIDBI scheme has been increased to Rs.10 lakh.

To further ease the flow of credit, Union Budget 2000-2001 has provided for enhancement of limit from Rs.1 lakh to Rs.5 lakh loans from banks without any collateral security.

A new Central Government Credit Guarantee Scheme to cover SSI loans upto Rs.10 lakh from the banking sector, as announced in Union Budget 1999-2000, has been operationalised by SIDBI, with an initial corpus of Rs.12.5 crore with contributions by the Central Government and SIDBI in proportion of 4:1.

For computation of working capital limits, the limit of aggregate annual turnover for SSI units has been increased to Rs.500 lakh.

In order to equip SIDBI to play its apex role in SSI credit provision more effectively, SIDBI has been de-linked from IDBI with effect from March 27, 2000. The SIDBI (Amendment) Act, 2000, *inter alia*, has changed the

provisions relating to capital structure, shareholding, management, business, borrowings, acceptance of deposits and investments.

The matter of transfer of ownership of SFCs and their restructuring is under consideration as per the proposed amendments to SFCs Act placed before the Parliament.

Report of the Working Group for Harmonising the Operations of Developmental Financial Institutions (DFIs) and Banks - Khan Working Group Report, 1998

3.24 For growth of the small scale industrial sector, commercial banks and DFIs play a very important role. In view of the banking sector reforms and deregulation of interest rates, the traditional difference in the operational domain of DFIs and banks has been increasingly getting blurred. In view of the eventual transition and commitment of World Trade Organisation (WTO) towards a freer movement of goods and services, a need was felt to deal with the complexity of the global economy. Besides, a consolidation of domestic financial institutions to facilitate support to the industry sector was equally important. Keeping in view the above requirements, RBI constituted a seven member Working Group in December, 1997 under the Chairmanship of Shri S.H. Khan, the then Chairman and Managing Director of IDBI. The Group presented its report in May, 1998.

Terms of Reference

3.25 The terms of reference of the Group were as follows :

To review the role, structure and operations of DFIs and commercial banks in the emerging operating environment and suggest changes.

To suggest measures for bringing about harmonisation in the lending and working capital finance by banks and DFIs.

To examine whether DFIs could be given an increased access to short-term funds and setting up of the regulatory framework needed for the purpose.

To suggest measures for strengthening of organisation, human resources, risk management practices and other related issues in DFIs and commercial banks in the wake of capital account convertibility.

To make such other recommendations as the Working Group may deem appropriate to the subject.

Major Recommendations

3.26 Khan Working Group has given a number of suggestions pertaining to SIDBI and re-organisation of State Level Institutions (SL Is). The suggestions of the Group are given below :

The present shareholding of Industrial Development Bank of India in SLIs be transferred to SIDBI. SIDBI should be vested with the overall responsibility for enacting policy and procedural guidelines with regard to the operations of SFCs.

SIDBI should be accorded the same role and status as the nodal/ coordinating agency for financing small (and medium) industries as is now available to NABARD in agricultural development. Ownership in SIDBI should, as a logical corollary, stand transferred to RBI/Government on the same lines as NABARD.

SIDBI's role in the SLIs be both as a stake holder as well as resource provider. For this purpose, SIDBI to have access to assured sources of concessional funding from RBI.

Eventual merger of SFCs, SIDCs and SSIDCs into a single entity in each State. Corporatisation of these entities to improve their competitiveness.

Strong SFCs to be encouraged to go public by making initial public offerings. In the process, the State Governments holding may be brought down to below 50 per cent.

Chief Executive Officers of SLIs should ideally be professionals/ technocrats appointed by the Board and the shareholders (for a fixed term).

The CEO to draw expert advice from an autonomous and professional board of directors, elected by shareholders.

3.27 The recommendations of Khan Working Group in respect to harmonising role, operations and regulatory framework of DFIs & banks are given below:

Given the need for the large amount of funding required by SSIs, both Banks and DFIs (and/or their subsidiaries) could play a role in the provision of working capital finance and long-term funding with different levels of emphasis for each segment

Emphasis on proper supervision of accounts and mechanism to detect incipient sickness and take prompt remedial measures.

To achieve close co-ordination and harmonisation between DFIs and Banks on various issues of mutual interest, a Standing (Co-ordination) Committee be set up on which Banks and DFIs would be represented.

The Capital Reserve Ratio should not be applicable to DFIs under the present structure where they are not permitted to access cash and cash-like instruments.

The need for activating the term money market is emphasised which would in turn assist in the rapid development of the rupee derivative market. Inter-bank/DFI investments and deposits to be freed from reserve requirements.

In order to manage their foreign currency fund efficiently, the DFIs should be granted a full Authorised Dealer's Licence.

3.28 As may be observed from the foregoing, based on the recommendations given by the different expert groups, the Government and the RBI have taken various measures to mitigate the problems faced by the SSI sector. While the sector continues to grow at a good pace, the number of problems also keep multiplying which constrain the realisation of full potential of the sector.

3.29 The recent developments taking place in international arena and their likely impact on the SSI sector call for a much greater attention from all concerned. It is in appreciation of this requirement and to take a view of the existing policies and programmes in a holistic manner, examine the pace of implementation of recommendations made by the earlier committees and to identify the gaps, if any, that the Planning Commission, Government of India, appointed a Study Group on Development of Small Enterprises on 20th May 1999, under the chairmanship of Dr. S.P.Gupta, member, Planning Commission. The Study Group consisted of representatives of the concerned departments, financial institutions, SSI associations, economists, Management Institute, SSI entrepreneurs, etc.

3.30 In order to examine the different issues comprehensively four sub-groups were formed:

- Policy and Legal Framework, Reservation of items and other measures for SSEs Development.
- Financial and Fiscal Measures for SSEs
- Technology Upgradation and Modernisation, R & D and Quality Testing Facilities for SSEs.
- Marketing Inputs and Exports.

3.31 Terms of Reference, Constitution of the Study Group and the background, etc., are given at Annexure-II.

CHAPTER - 4

IMPLICATIONS OF WORLD TRADE ORGANISATION (WTO) ON SMALL SCALE SECTOR

4.1 The World Trade Organisation (WTO) came into existence on 1st January, 1995 under Marrakesh Agreement, following the Uruguay Round of Negotiations under the aegis of General Agreement on Tariffs and Trade (GATT).

4.2 As regulatory body for the world trade, WTO's objective is to ensure freer, more transparent and more predictable trading regime in the world. WTO's agreements cover all the original treaty provisions of GATT relating to trade in goods. It also covers new areas like trade in services, trade related intellectual property issues and trade related investment measures. The ultimate objective of WTO is to expand production and trade and allow optimal use of world resources. Its procedures are based on the principles of transparency, predictability and certainty. It has an effective dispute settlement mechanism with built-in cross retaliatory provisions. The ministerial conference is the forum for discussion and is an apex body for decision making. The conference meets every two years. So far, three conferences have been held, the 1st in Singapore (1996), 2nd in Geneva (1998) and 3rd in Seattle (1999).

4.3 Under the GATT, phasing out of Quantitative Restrictions (QRs) has been envisaged by the WTO. Overnight elimination of QRs is not possible and hence flexibility is granted for eliminating QRs in specific time frame. Developing countries like India have been provided more time to adjust. The countries having Balance of Payment problems are allowed to restrict imports. The developing countries have to take price based measures (such as import surcharge) instead of quantitative restrictions (like restrictive import licensing). The members of the WTO have abolished QRs in agriculture and in its place tariffs have been applied, thereby making the process more transparent. For textiles, quotas levied by many developed countries on import of textile products from developed countries are to be phased out in specific time frame by 1st January, 2005.

4.4 Agreement on Textiles and Clothing (ATC): World trade in textiles and clothing has been subject to an array of bilateral agreements over the

past three decades known as the Multi-Fibre Agreement (MFA). The ATC prescribes removal of these restrictions in four phases within 10 years ending in January, 2005.

4.5 Under GATT, subsidies are not allowed (Prohibited Subsidies). However, there are a few subsidies which have been listed as permissible (Actionable Subsidies). There are other permissible (Non-Actionable Subsidies) which are called Green Subsidies. Prohibited Subsidies: Two categories of subsidies are prohibited by Article 3 of the agreement on Subsidies and Countervailing Measures (SCM). These are Exports Subsidies and Local Content Subsidies based on the use of domestic instead of imported goods.

4.6 Permissible Non-Actionable Subsidies: Subsidies which are granted on the basis of objective criteria, economic in nature and horizontal in application, not favouring certain enterprises over others, etc, come under this category. There are three main subsidies in this category: (a) basic research and pre-competitive development subsidies, (b) assistance to backward regions, and (c) assistance provided to existing facilities, for adjusting to new environmental requirements. The last subsidy should be on one-time basis and limited to 20 per cent of adaptation cost.

4.7 Permissible Actionable Subsidies: These subsidies are permissible as long as they do not hurt the interest of other members. These subsidies could be specific to an enterprise, group of enterprises, industrial sector or designated geographical location, etc. Normally they are production subsidies and subject to challenge in either multilateral dispute settlement mechanism or through countervailing action if they have adverse effects on the interest of any other member country.

4.8 Unfair Practices: GATT rules deal with two types of unfair practices which distort conditions of competition: (i) if the goods benefit from subsidies, and (ii) if goods are dumped in foreign markets. The Agreement on Anti-Dumping Practices and Agreement on Subsidies and Countervailing Measures (ASCM) authorise countries to levy compensatory duties on import of products benefited from "unfair trade practices". The criteria and procedures employed under both these agreements for determining injury are similar.

4.9 Labour Standards: The issue relating to trade and labour standards is

highly sensitive. There is no mention of inclusion of social clause or labour standards in WTO. However, some industrialised nations have raised this issue now and are insisting that the subject should be studied by WTO to bring the matter of labour standards into the organisation's purview. There is a great divide between most of the industrialised nations on the one hand and developing countries on the other. The developing countries like India are looking at it as a ploy of developed nations to annihilate their comparative advantage of labour cost and argue that International Labour Organisation (ILO) is the right forum to discuss these issues. This issue is of great concern to unorganised sector where sometimes use of child labour is alleged in some activities.

4.10 World Trade and Environment: The WTO has no specific agreement dealing with environment but a number of agreements have provisions dealing with environmental concerns, e.g., (i) GATT Agreement Article, (ii) Agreement relating to Technical Barriers to Trade and Sanitary and Phytosanitary measures, (iii) Agreement on Agriculture, (iv) Subsidies and Countervailing Measures, and (v) Intellectual Properties.

4.11 The TRIPs agreement is more significant for small and medium enterprises (SMEs) which have to readjust to globalised economy and to establish their competitiveness. Considerable controversy has already been generated in the case of pharmaceuticals and agro-chemical sectors. India has complied with its obligations relating to copyrights, trade marks and patents in respect of transitional arrangements by amending the existing legislations. The Patent Act, 1970 has been amended in March, 1999 and a Sui-generis legislation to provide for protection of geographical indication of goods has been passed by the Indian Parliament. Legislation relating to industrial designs is also expected to be modified by the Parliament. Amendments to the Patents Act to meet the next phase of WTO obligations starting from 1st January, 2000 are under consideration.

4.12 Government Procurement: In almost all countries, governments and agencies controlled by them are procuring goods and services to the tune of 10 to 15 per cent of the GNP. The rules of GATT specifically exempt products procured by the government through MFN and National Treatment Principle. This means that the purchasing agencies can buy their requirement from a domestic manufacturer even at higher prices. However, there is a plurilateral Agreement on Government Procurement which requires the signatories to accord MFN and National Treatment to government's purchases as well as on agreed purchases. India is not a party to this agreement.

4.13 The government is a substantially large buyer and the price support mechanism for purchases of products from the small scale sector helps the Indian SSIs. If this provision is challenged, the SSIs would be adversely affected. In the event of a multilateral agreement, the market provided by the government purchases would have to be opened up to foreign competition and the system will have to be made more transparent.

4.14 The umbrella of the WTO is likely to have some far reaching implications for the SMEs in India, especially with regard to their competitive ability and integration with the global markets against the opportunities of an expanding global market. Most of the problems arise due to the unorganised nature, lack of data and information, use of low technology and poor infrastructure in the country. WTO will affect all types of SSI units whether producing goods for the domestic market or for the International market. Besides these limitations, the SSI sector is rather weak in the following areas: (i) protection of environment, (ii) ability to meet competition from imports, (iii) dependence on conventional schemes like DEPB, income tax benefit under section 80 HHC, EPCG etc. which can be challenged as actionable subsidies, (iv) quality and standards gap between SSI products and imports, (v) knowledge base and technology gaps, (vi) inability to meet the prescribed hygiene and health standards, especially sanitary and phyto-sanitary, e.g., in the case of food processing, animal and plant diseases, etc, (vii) lack of awareness and information on WTO provisions.

4.15 India is maintaining QRs on import of certain agricultural, textile and other industrial products under Article XVIII-B of GATT. As per the Govt. of India's agreement with WTO, these restrictions were to be removed in a phased manner over seven years. In response to an appeal of USA, WTO has asked India to remove these restrictions by March, 2001. With the removal of QRs the policy of reservation of products for exclusive manufacture in the SSI sector would eventually become redundant. It is seen that out of 811 items reserved for SSI sector, imports of 576 items were under Open General Licence (OGL) prior to the current EXIM Policy (March, 2000); an additional 58 tariff lines comprising 67 items of SSI reserved list have been put under OGL in the latest EXIM Policy. Thus, bulk of the SSI reserved items are now under OGL. Due to removal of QRs, many of the SSI units, especially in the consumer goods sector, will find it difficult to survive unless cost and quality improves as more imported products will find easy access to the Indian market. There will be stiff competition from low cost producers in the neighbouring LDCs such as Nepal, Bangladesh, Sri Lanka and China.

4.16 Under the South Asia Preferential Trading Arrangement (SAPTA), trade preferences are given to neighbouring SAARC countries. Tariff concessions have already been exchanged on 2459 tariff lines during the negotiations of SAPTA held in December, 1995 and November, 1996. India has already lifted QRs for SAARC countries w.e.f. 1st August, 1998. These developments would provide stiff competition to the SSI sector.

4.17 The Indian SSIs will have to be cautious against possible dumping by their competitors from abroad. The cost of anti-dumping investigations may be prohibitive for the SSIs. There are provisions (special and differential provisions) intended to help developing countries. Article 5.8 of the Agreement provides that the volume of dumped imports shall normally be considered negligible if dumped import from a particular country is found to be less than three per cent of import of like products, unless countries which individually account for less than 3 per cent of import of like products collectively account for more than seven per cent of the imports. Due to lack of necessary data and problem of accessibility to information, NGOs, Ministry of SSIA&RI and NSIC, etc, will need to play a pivotal role in this regard.

4.18 Under the Marrakesh Protocol to GATT (1994), member nations have submitted schedules indicating their commitments on tariff bindings. The import duties were required to be brought down in six equated instalments to the committed bound level by 1st March, 2000. For textiles items, the phase out extends to 1st March, 2005. There is now pressure for a fresh round of negotiations on reduction of Industrial Tariffs for industrial as well as textile items. India is committed to a tariff bound rate of 40 per cent on finished goods and 25 per cent on intermediate goods, machinery and equipment, etc.

4.19 Although, the tariff levels have been reduced by India to a substantial extent over the last two years, yet there is a general perception in many circles that India has high tariff levels. Indian SSIs are uncompetitive even at the prevailing tariff levels and any further reduction may pose a serious challenge to them. It is imperative to devise effective measures to protect the SSI units. The developing countries will need to effectively mobilise support and resist attempts of developed countries to bring down bound rates as per pre-determined slabs or fixing the bound rates at the existing applied rates.

4.20 There are empirical studies to show that tariff escalation and peak tariffs are used by developed countries to impede market access while presenting a picture of being WTO compliant. On the other hand, the developing countries often go by the letter and spirit of the agreements, e.g., in the case of chemical industry in India tariff barriers were lowered drastically without any improvement in infrastructure like power and port facilities. Simultaneously, this industry has been exposed to price volatility and unequal international competition, creating serious problems. It is imperative to be vigilant and take timely remedial measures to safeguard the domestic industries.

4.21 It has been noticed that Japan levies specific duties, while USA levies a combination of ad valorem and specific and/or differential duties depending on the nature of distribution for protecting their industries. Given the uncompetitiveness of our industries, it is important to regulate and adjust the tariffs so as to provide reasonable protection to the domestic industries from external competition - often enough unfair as well as non-tariff barriers - on the one hand and gradually improve their competitiveness on the other.

4.22 Developed countries were required to cut tariffs by 40 per cent and developing countries by 30 per cent in five equal stages so as to reach the agreed rate by 1st January, 2000 under Binding of Tariffs. Bound tariff rates are those which represent commitments and the tariffs cannot be increased beyond these rates. These tariff rates serve as a ceiling. Bound rates in India have been fixed by and large at 40 per cent for finished goods and 25 per cent for intermediates. However, the bound rates are 100 per cent for agriculture goods, 150 per cent for processed foods and 300 per cent for edible oils. In the Union Budget for 2000-01, the highest import duty has been fixed at 35 per cent with 10 per cent additional duty, thus the maximum bound rate on manufactured goods can go up to 38.5 per cent.

4.23 To face competition from overseas markets, SSI sector needs to upgrade its technology and management skills; for this technology transfer from developed countries without any technical and trade barriers is a pre-requisite. India should push for bringing down tariff and non-tariff barriers in other countries so that Indian exports could have unhindered access to the markets of developed countries.

4.24 As a developing country, India had a five year transition period, which expired on 31st December, 1999. An additional period of five years, i.e., upto 31st December, 2004 is available for extending product patent protection in areas of technology not protected so far. The provisions of patents have to be both TRIPs compliant as well as provide safeguards for protection of public interest, national security, bio-diversity, traditional knowledge, etc. A new legislation called Geographical Indications of Goods (Registration & Protection) Act, 1999 has been enacted by the government. Till now, geographical indications were not registerable in India. Due to the absence of statutory protection in India, Indian geographical indications could be misused by persons outside India to indicate goods not originating from geographical locations in India.

4.25 The Agreement on Technical Barriers to Trade and Sanitary and Phyto-sanitary Measures is of great concern for small enterprises. The Agreement on Technical Barriers to Trade implies that mandatory standards adopted by the governments to protect health and safety of the people and environment should not be applied so as to cause unnecessary obstacles to trade. This agreement visualises that standards should not create unnecessary barriers if they are uniform and based on internationally agreed standards. For non-voluntary standards, the code of Good Practices preparation, adoption and application of standards is an integral part of TBT Agreements. It also covers processes and production methods having special relevance to agro-industries, food processing and chemicals.

4.26 The agreement on the application of sanitary and phyto-sanitary measures specifies the principles and rules which member countries must use in regulating import of agriculture and food products to protect human, animal or plant life or maintain health. These agreements allow discrimination owing to differences in climate, incidence of pests or diseases in different countries. The emphasis of this agreement is on adoption of international standards.

4.27 The SSI units would have to take note of the growing Technical Barriers to Trade (TBT) in view of the high technical standards set by the developed countries. Though the arrangement on TBT provides for differential and more favourable treatment to the developing country members it is hardly respected by the developed countries. In the case of the SMEs main problem would be technological weakness.

4.28 All major schemes, e.g., Duty Entitlement Pass Book (DEPB) scheme, export promotion of capital goods (EPCG) scheme, income tax benefits under Sec.80 HHC, etc, can be challenged as 'actionable subsidies'. The importing country can take action by imposing countervailing duty if it is established that these subsidies are causing injury to its domestic industry.

4.29 The export promotion policies of India, e.g., tax exemptions under Section 80 HHC, EPCG, DEPB, etc, are being targeted by other countries. India has some time cushion in this regard as its per capita income is less than \$ 1,000 per annum and it can give prohibited subsidies presently. However, these could be subject to countervailing action by other member countries. The EU has imposed anti-subsidy duties against some Indian exports on the above principle and some other countries are also contemplating similar action.

WTO And The Role India Should Play

4.30 WTO is a reality and India besides being a founder member is committed to act within the parameters set by the WTO. However, there is enough scope within the WTO framework and India should make use of it to protect her legitimate interests. For this purpose, the following efforts should be made.

4.31 Adequate preparedness for WTO Meetings : It has been observed that the level of preparedness required to participate in WTO meetings and safeguard the country's interest has been far from satisfactory. Since the WTO legislation is highly detailed and complex, it is very necessary that in WTO negotiations, India must demonstrate three basic qualities : (i) a clear understanding of our strategic options, (ii) identification of bargaining points, and (iii) effective coordination with like-minded developing countries and even developed countries so as to effectively work at the negotiation table. There has been some improvement in this direction in the more recent past, but a lot more needs to be done.

4.32 Increasing Awareness about WTO : It was really shocking that India came out of its slumber only when news of the patenting of Neem, Turmeric, Basmati rice and Darjeeling Tea came from abroad. Lack of awareness results in not challenging such actions in good time. India should,

therefore, improve its information system and also learn to take speedy action to counter such moves. With great advances in information technology, it is not difficult to acquire such information, but bureaucratic delays in taking action have to be cut down.

4.33 Strengthening Anti-dumping Measures: More recently, dumping activities have been noticed and some countries, especially China have been making concerted efforts to capture the Indian market through dumping. To prove dumping requires collection and presentation of evidence on the following issues : (i) the existence of dumping, (ii) injury to domestic industry, and (iii) the establishment of causal link between dumping and industrial injury. All these require meticulous collection of information, making a cogent analysis from the data collected and then its presentation before the WTO to justify the imposition of anti-dumping duty, if challenged.

4.34 Development of Legal Expertise : WTO is equipped with legal authority and has the power to enforce the rules and the discipline of the new trading regime. Obviously, when cases are brought before the WTO either by India as a complainant or by others against India, they have to be argued at the legal level. For this purpose the development of Legal Expertise is very essential. It would be, therefore, appropriate to introduce WTO as a subject in our Law Institutes so that over a period of time, legal expertise on WTO is developed. At present, such expertise is hardly available. Since most of WTO cases have to be fought in USA, it is essential that such expertise should be able to counter foreign legal experts hired by MNCs. The Government should even subsidise the expenses involved in fighting legal cases since costs involved are rather very heavy.

4.35 Opening up of Indian Markets Keeping Domestic Economic Agents in view : It has been observed that India has been opening up its markets to a much greater extent than others are opening up their markets. In other words, India has been unilaterally trying to 'over-comply' with its tariff reduction commitments. For example, in dairy products, in 1999, the peak rate for milk powder, granules, etc. (fats \leq 1.5 per cent) was 99 per cent in European Union, 336 per cent in Japan, 213 per cent in Canada, 211 per cent in Korea as against zero per cent in India. India is only one of the five countries in the world which are maintaining QRs; others are Nepal, Pakistan, Bangladesh and Tunisia. India has already withdrawn QRs on 714 items (out of 1,429) with effect from April 1, 2000, while those on the remaining items would be withdrawn by March 31, 2001. Moreover, as

many as 576 of the items reserved for small scale sector industry, that were earlier protected through QRs are already under OGL. While the developed countries have been putting pressure on developing countries like India to remove QRs and provide free entry for their goods, they have themselves been consistently expanding the network of non-tariff barriers by raising issues like environmental concerns, labour standards, child labour etc. For instance, in 1998, according to UNCTAD estimates, as many as 22 non-tariff barriers were operative in Japan, 16 in European Union, 9 in Australia and 4 in USA.

India should strengthen the domestic industry, more especially small scale industry, to enable it to face competition. It may be noted that the small scale industry is likely to be hit the most by the unbridled opening up of the economy. A policy of gradual withdrawal of QRs and other tariff and non-tariff barriers would be in the interest of small industry. Simultaneously, the country has to provide infrastructural and credit support to SSI sector to enable it to squarely face the competition of world imports. In selected cases, it may be desirable to take advantage of the permissible limits to which tariff barriers can be raised in the interest of the domestic industry. This shall provide breathing time to the domestic industry. The subject matter of the present report pertains to this area of policy changes.

4.36 WTO, Opening up of the Economy and Impact on Employment and Output of Small Scale Industries: Often, there is a debate whether removal of quantitative restrictions and lowering tariffs are affecting the small scale industries. This issue is very important when by April this year, the quantitative restrictions are to be completely removed and the tariff rates will also be lowered in another 2-3 years. This could have a serious impact on the small scale industries, leading to the closure of some units and consequential displacement of labour. Goods coming from East Asia in general and China in particular are mainly in the consumer goods sector; this is precisely the sector dominated by the small scale industries. In general these imported goods are much cheaper than goods produced in India and have the potential of displacing demands for Indian products. This would be aggravated by the fact that the large industries have started sourcing their products from abroad instead of from SSI's, e.g., from China or the neighbouring countries. The manufacturers whose brands are familiar with our traders, who procure their goods from the small scale sector and put their logos on them, could shift from Indian to Chinese or South Asian goods, resulting in loss of employment and more load on India's foreign exchange reserves. The position would be aggravated by dumping of such

products. It is also well known that implementation of anti-dumping measures is too expensive for the small scale industries. According to Directorate General of Foreign Trade (DGFT), so far there has not been a big surge in the imports, but there is a real danger of this.

So far as illegal channels are concerned, the problem is more acute. It has been observed that low cost Chinese products including tyres, bicycles, dry cell batteries, fibres, ferrous alloys, edible oils, chemicals, toys, cheap electronic goods, textiles and some of the engineering goods are illegally getting floated in the domestic market. Also some of the cheap products are coming via Nepal or Bangladesh or through North Eastern States either through smuggling or by taking advantage of SAPTA treaty. According to a FICCI study, the textiles will be affected even more severely than engineering. No fewer than 322 of the 714 items, which are on QRs today, belong to this sector. Of this, 151 belong to ready-made garments and 14 to carpets. A rough calculation shows that nearly 100 lakh jobs in these sectors may be lost unless some prompt remedial action is taken.

The recent Economic Census of 1998 has provided information about employment. Comparing it with the data for 1990, it becomes evident that globalisation and liberalisation have resulted in job losses of the order of 7 million during 1990-98 – about 4 million in the rural areas and 3 million in the urban areas. The growth rate of employment during 1990-98 has become negative to the extent of 1.27 per cent for the country as a whole, 1.58 per cent for rural areas and 1.0 per cent for urban areas. Considering the average growth of labour force work age population to be of the order of 2.4 per cent per annum, this appears to be the most challenging aspect as a consequence of the WTO impact. Most of these job losses are occurring in small industry sector. According to an estimate, as many as 4,00,000 small and medium units have been closed. This is a grim scenario and merits urgent attention.

4.37 Improving the Quality of Workforce: In the new economy, it is the knowledge-based workers who will be able to improve the quality and competitiveness of products and thus help to face competition from imports. According to NSS survey, in 1993-94, 36 per cent of rural males and 80 per cent of rural females were totally illiterate; the corresponding figures for urban areas were 19 per cent and 48 per cent respectively. At the other end, rather distressingly, only about 13 per cent of rural male and 2.5 per cent of rural female workers had secondary and higher level of schooling, against 40 per cent for urban male and 26 per cent of urban female workers. The situation in terms of the quality of human capital base is really

disappointing. The Table given below indicates employment situation in India (1990-98) and also average growth rate of employment during 1980-90 and 1990-98.

TABLE 4.1

EMPLOYMENT SITUATION IN INDIA (1990-1998)

(in millions)

Sector	Agriculture and allied activities*	Non - agriculture Activities	Total
Rural			
1980	2.45	22.02	24.47
1990	4.23	29.06	33.29
1998	6.1	33.86	39.96
Absolute 1980-90 Change	+1.78	+7.04	+8.82
1990-98	+1.87	+4.80	+6.67
Urban			
1980	0.40	28.80	29.20
1990	0.53	38.25	38.78
1998	0.62	42.78	43.40
Absolute 1980-90 change	+0.13	+9.45	+9.58
1990-98	+0.09	+4.53	+4.62
Total (Rural & Urban)			
1980	2.85	50.82	53.67
1990	4.76	67.31	72.07
1998	6.70	76.68	83.38
Absolute 1980-90 change	+1.91	+16.49	+18.40
1990-98	+1.94	+9.37	+11.31

Note: * Includes activities other than crop production and plantations.

** Includes only non-agriculture enterprises employing at least one hired worker.

Source : Compiled and computed from Government of India, Economic Census 1990 and 1998.

CHAPTER - 5

POLICY, LEGAL FRAMEWORK, RESERVATION AND OTHER ISSUES OF SSI SECTOR

Role of Small Scale Enterprises in the Twenty-First Century

5.1 The Small Scale Enterprises (SSE) sector has emerged as an engine of growth in most of the developed and newly industrialized countries. In fact, the SME sector is the sector of the Millennium. The role that small scale enterprises sector has to play in the next ten years must be viewed in the dynamic context of a changing world. It must address to the requirements of time and the changes which are taking place both within and outside the country.

5.2 Liberalisation and globalisation are the order of the day. Market forces will determine the system and manner of production. The allocation of resources within the sector must be governed by the criteria of efficiency, productivity and competitiveness. The SSEs will have to move from a regime of a protective environment to a competitive environment. The role of the Government has to be that of a facilitator.

5.3 India is a member of the WTO. Thus the policies of SSE Sector in India will have to be WTO compliant. The policies must be in tune with the provisions of the WTO on all issues including the basic issues like actionable and non-actionable subsidies, patents, tariff and non-tariff barriers, sanitary and phytosanitary measures etc. Subsidies, support and incentives to the SME sector do not come under the category of 'actionable subsidies as long as they are horizontal in their application.

5.4 The government should take up adequate measures to increase awareness of WTO provisions among the SSI entrepreneurs and take appropriate measures to protect the Indian SSI sector through bound rates, information/data to prove dumping and introduction of anti-dumping measures, creating a legal cell to take care of legal problems faced by the SSI units on account of WTO conditions, etc. The DC(SSSI) should create a separate division on WTO supported adequately by experts in various disciplines.

5.5 The concept of market is changing very fast. The term 'domestic market' is gradually vanishing. For that matter the term 'international market' also may become irrelevant soon. There will be only one market and hence the products of the SSI sector must be competitive within the country as well as outside. The products are to be sold with 'brand names'. In future, SSE development must focus on promoting brands for SSI products.

5.6 Rapid technological changes in information technology, telecommunication and internet services have made the world like a village. On account of internet connections, fast telecommunication channels and availability of personal computers, global market has become like a local market. Today, any standard quality product of a small company can be sourced by a multinational company across the globe. The products of SSI sector must have quality standards and also brand names to create a niche market of their own.

5.7 The industrial sector is moving away from the traditional products to knowledge-based products. The services sector has emerged as the major segment of the economy everywhere. The SSE sector in India must take note of these developments.

5.8 Rapid scientific and technological advancements are taking place in the developed world. The developing countries experience problems relating to technology, raw materials and capital. Besides, these countries are under severe pressure to brace up for global competition and to upgrade their skills, competence and technology. More focused attention needs to be placed on these three areas. Information technology should be utilised to the fullest at all levels.

5.9 The role of the entrepreneur has to change. He has to address to the needs of the changing environment. The entrepreneurs have to hasten transition to higher standards in terms of quality, design, innovation and market penetration in order to become internationally competitive. This entails internalising the latest technologies, forging strategic business alliances, effective financial management, deployment of modern scientific management capabilities, etc.

5.10 While formulating policies and programmes for development of the small scale enterprises, the following points would need to be borne in mind:

- (a) At a time when employment in the agricultural sector is stagnant and large industry sector is passing through 'zero employment growth', it is only in the small enterprises, besides the service sector, where employment has been growing. In a labour surplus economy like India, the need for policies and programmes to promote employment generation is of prime importance.
- (b) The SSE Sector suffer from certain handicaps and as such would need special support. The SME sector does get special attention and support all the world over even in the developed countries.

5.11 The SSI sector (SSE and SSI are synonymous in India) has added nearly 46.3 lakh new jobs during 1990-98 at 4 per cent growth per year. There has been an addition of around 5.2 lakh new jobs in the organised manufacturing sector during the same period, indicating a growth rate of only one per cent per annum. The employment elasticity of the organised manufacturing sector has come down to 0.166 indicating practically jobless growth.

Recommendations/Definition and Scope

The Study Group has made the following recommendations, keeping in view the changing economic scenario, economic liberalisation and implications of WTO regime on SSI/SSE sector:

5.12 Three tier definition is recommended for Tiny sector, SSI sector and Medium sector separately which is as under:

- I Tiny Unit: Upto Rs 25 Lakh investment in Plant & Machinery;**
- IIA. SSI unit: Above Rs.25 Lakh upto Rs.100 lakh Investment in Plant & Machinery; and**
- IIB. SSI Units with Technology and Export Intensity: Upto Rs.500 lakh Investment in Plant and Machinery.**
- III. Medium unit: From Rs.1 crore to Rs.10 crore Investment in Plant & Machinery.**

5.13 The supportive measures to be made available to the four sectors (taking IIA and IIB separately) will have to be decided by the Government from time to time. The endeavour should be to provide maximum support and protection to tiny units, somewhat lesser support to the SSI units and no facilities/support to the Medium Enterprises, except credit for modernisation from a separate fund. The policy should aim at vertical growth of SSI units and inducement for units graduating to medium scale units.

5.14 The investment ceilings indicated above should be revised upwards every three years, to account for inflation. For this purpose, the wholesale price index of the Government of India should be used.

5.15 Industry related service and business enterprises upto investment of Rs.10 lakh in fixed capital including land and buildings should also be included, and should be treated at par with tiny industries for priority sector lending excepting for financing of truck operators, cars, heavy vehicles, taxis, auto-rickshaws and tempos .

5.16 The Study Group recommends that the term small scale industry should be replaced by "Small Enterprises" which will consist of the following segments:.

- (i) Tiny industrial units,**
- (ii) Small Scale Industrial Units and**
- (iii) Service and Business enterprises**

5.17 All over the world, the concept of Small and Medium Enterprises (SMEs) is well accepted and while defining the SMEs, turnover and employment criteria are being used. In India, since beginning, we have adopted the definition of small scale industries in terms of ceiling on investments in plant and machinery.

5.18 The Study Group has retained this definition and for the first time defined the investment ceilings for plant and machinery for medium scale units. This was felt necessary as this would lay down a direction for SSI units to graduate to medium scale units. The Study Group also felt that no fiscal or other concessions available to SSI units need be provided to medium scale units. Only a credit line could be made available to the medium scale

units for modernisation and technology upgradation by establishing a separate modernisation fund, as and when required.

5.19 The Industrial Policy of 1991 stated that all industry-related services and business enterprises with investment ceilings in plant and machinery at par with tiny units, irrespective of location, would be recognised as SSIs. The Study Group has reiterated this aspect and included business enterprises under the category of SSI units.

Regulatory Laws for SSI Units

5.20 The vision for the 21st century for SSEs cannot be realised with plethora of laws and rules and regulations governing this sector and there is need for a Single Unified Act governing promotion and development of Small Scale Enterprises in the country.

5.21 There should be a separate Small Enterprises Development Act for SSEs similar to the Industrial Development and Regulation (IDR) Act. This comprehensive Act may cover all aspects relating to regulation and growth of SSEs.

5.22 The Small Business Administration (SBA) of United States have a comprehensive single law governing SMEs. On the same lines, there should be a separate comprehensive law for SSI units, which has been long pending demand of SSI units.

5.23 The SSE units should be free from laws/procedures which cause undue harassment. As far as possible, inspection should be replaced by self-certification and procedures should be transparent and hassle-free. Broadly, the existing laws could be classified in three categories: (a) Laws governing setting up of industries; (b) Laws governing working of the industry; and (c) Laws relating to Labour and their Welfare.

5.24 The laws relating to labour and welfare have been found more deterrent and troublesome because the small entrepreneurs are not able to comply with the requirement of maintaining a large number of registers, forms, returns, etc. Further, the labour strength of small enterprises may vary as per availability of orders, which increases difficulties of small enterprises to

comply with the labour laws. In view of the above difficulties experienced by the SSI entrepreneurs, especially tiny units, it is felt necessary to recommend exemption from all laws/regulations to tiny units. This would leave more time for entrepreneurs to pay attention to their work and make efforts for increasing productivity and profitability.

In view of the above, the Study Group recommends that:

5.25 Tiny units should be exempted from all laws/regulations excepting those which relate to safety of human beings and the environment.

5.26 It was noted that the system of Inspection on fiscal matters such as Income Tax, Excise Duty, Sales Tax etc., have been greatly simplified in recent years. There is need for similar simplifications in other fields as well.

5.27 Inspections carried out for SSEs could be prescribed under three conditions: (i) on receipt of complaint(s), (ii) selection of unit for sample check (10% of total units), and (iii) for audit purposes. The study Group feels that self-certification and voluntary declarations would help the SSEs and it has recommended as under:

5.28 The Study Group recommends that a system of self-certification be introduced, which will obviate the need for regular inspections. Electronic transmission of data should be encouraged to make the system more transparent and hassle-free.

5.29 The regulatory laws/procedures for SSI units should be further simplified. Number of visits by Inspectors should be so programmed that all inspections could be held on only one day within a quarter as far as possible, so that the entrepreneurs are not harassed frequently. The day of inspections should be communicated in advance.

5.30 For new units, single window clearances should be arranged irrespective of whether they relate to clearances from Central Authorities or State Authorities or Local Authorities.

5.31 The regulatory laws/procedures for SSEs should be clubbed together wherever possible.

5.32 The jurisdiction of various Sections/Clauses and Departments should be clubbed so that minimum possible Inspectors are required to visit the SSE units.

5.33 A study of Laws/Rules/Procedures and how they affect the SSEs could be entrusted to a Research Institute urgently.

5.34 The Ministry of SSI, A&RI has already entrusted the study to the Administrative Staff College of India(ASCI), Hyderabad. The Sub-Group felt that the ASCI may visit some selected SSI units and elicit views of National, State level and product specific SSI Associations and also visit selected clusters in order to have first hand information in this regard.

Reservation of Products for SSI Sector

5.35 The reservation of products for exclusive manufacture in the SSI sector should continue because the reserved components of the SSI sector are making significant contribution to employment, output and exports.

5.36 Reservation of products to be exclusively manufactured in the SSI sector is statutorily provided for in the Industries (Development and Regulation) Act. Reservation was brought in to ensure bulk of production of consumer products in the SSI sector and to enhance employment generation by setting up large number of SSI units. Presently, there are 811 items in the reservation list. However, due to WTO obligation 643 items in the reservation list have been brought on Open General Licence (OGL), thereby increasing competition for SSI sector from imports. In view of this, a debate is going on regarding relevance of reservation of products for SSI sector particularly due to opening up of the economy, globalisation and bringing a large number of items on OGL as per WTO agreements. The Study Group has discussed all issues related to the policy of reservation and recommends that:

5.37 The Study Group strongly feels that inspite of the present scenario of economic liberalisation and WTO regime the policy of

reservation should continue. However, position could be reviewed periodically to take stock of the changing economic scenario.

5.38 In the context of Quantitative Restrictions (QRs) getting removed by April, 2001 which may affect the SSI units manufacturing reserved items, the endeavour of the government should be to make the sector WTO compliant and more competitive during the transition period by way of sensitization to WTO provisions, keeping import duty at bound rates, maintenance of duty differential on raw materials and finished goods, providing interest support for technology upgradation and easy access to credit for them

5.39 In order to make SSI products competitive in both the internal and international markets, it is necessary to adopt State-of-the-Art technologies. Hence the investment ceiling for those items which are important from the angle of exports and also play an important role in employment generation, could be suitably enhanced to Rs. 5 crore, e.g., for leather products, readymade garments, hosiery, hand tools, toys, packaging materials, auto components, pharmaceuticals etc. These industries are technology/export intensive and also open to international competition. A separate category of small industries may be created to allow them to become modern and technologically competitive. These units/category should be called as SSI with technology and export intensity. These industries may be allowed excise duty exemption upto Rs.100 lakh turnover, at par with other SSI units.

5.40 Presently any non-SSI unit can take up production of items reserved for SSI sector with 50 per cent export of its production to be achieved in three years, and to continue export after that.

5.41 The Study Group feels that dereservation of some selected export thrust items could be considered by a committee including representatives of SSI associations. Production of reserved items could be allowed to be taken up by non-SSI units, subject to minimum export obligation of 30 per cent to be achieved in first three years. Thereafter 30 per cent export each year, which is at present pegged at 50 per cent. This measure would make available better quality products to the domestic customers and would also enhance exports of these products. Higher level of consumer satisfaction would be achieved.

Data Gaps

5.42 The data base of the SSI sector is rather inadequate, particularly to judge the impact of economic reforms and liberalisation process on the SSI sector. This prevents the Government from taking timely remedial measures and responding quickly to the developments and making appropriate and quick policy changes and thus acts as a constraint on making the SSI sector more competitive and resilient. The Study Group is very keen to overcome this handicap and to make the SSI sector more vibrant and responsive and enable it to increase its contribution in production, exports, employment and reduction of regional imbalances in industrial progress.

5.43 For streamlining data collection, the Study Group suggests that in order to collect data on the entire unorganised manufacturing sector (registered and unregistered) the scope of Economic Census conducted by the Central Statistical Organisation (CSO), be widened. At present, they are collecting data only on employment criteria. They may be asked to collect data on SSI units, based on SSI definition as accepted by the Government of India i.e., investment in plant and machinery upto Rs.100 lakh. This will help to have a comprehensive frame. The Office of DC(SS I) can utilise this frame to conduct and collect detailed data through census and samples surveys.

5.44 The CSO is conducting Economic Census regularly at intervals of five years. The focus of this census is on employment created. The CSO covers a large sample. If the parameters of census could include information/data with respect to SSI units/definition, the office of DC(SS I) will have a large sample base and also the expenditure incurred would not be higher than that required by the office of DC(SS I) to carry out a separate census.

5.45 The Study Group also recommends that sample surveys should be carried out more frequently by the Office of the DC(SS I), preferably on annual basis. The Office of DC(SS I) should also collect detailed data on Clusters at five year intervals on regular basis.

5.46 The Study Group felt that multiple efforts being made by different departments for data collection need to be reduced to a minimum to make efficient use of resources.

5.47 The Study Group recommends that the forms used at various levels and submitted to different organisations/authorities need to be modified suitably to cover data gaps. For example, forms submitted by the individual units/export houses to Director General of Commercial Intelligence (DGCI) should indicate type of unit like SSI unit, large & medium unit, KVIC unit etc, so that export data can be sorted out and compiled.

5.48 As regards export data, the Study Group recommends that a Committee may be set up by the Office of DC(SSI) to study the DGCI format of collecting export statistics and suggest appropriate changes so that data on exports from the SSI sector are captured. Capital cost of changing the format could be provided to the DGCI, as a one time measure.

5.49 The Study Group recommends that the Office of DC(SSI) should conduct the Third Census of Registered SSI units urgently. The data of last census are 12 years old. Adequate Plan provision should be made for this purpose. The new census should capture the impact of liberalisation/ globalisation on the growth of the SSI sector. The Census should also cover issues like sickness, closure, impact of reservation/dereservation, the units engaged in exports etc. The DC(SSI) should conduct census of registered SSI Units regularly at 10 year intervals.

5.50 The Study Group recommends that the SSI Associations should also be involved in the census and for this purpose, adequate support should be given to them. A committee may be constituted to work out details including the methodology.

5.51 The Study Group recommends that data collected should be put to wider use and should be made available to researchers, institutions, etc. The information on individual units can also be provided except for their names and addresses, for research studies.

Infrastructure Development

5.52 The existing financial provisions for infrastructure development are grossly inadequate. Most of the industrial estates have degenerated into

industrial slums due to improper upkeep. New industrial estates also need to be set up in potential areas but they should be equipped with the required infrastructure. While some infrastructure like roads, water supply, banks, telecommunications, etc., could be arranged, other facilities like power could be coordinated with the State Electricity Boards

5.53 Non-availability of adequate and proper infrastructure facilities makes it difficult for entrepreneurs to set up new SSI units. This can be observed from the fact that industrially progressive states and regions are facing congestion while industrially backward states and regions are unable to attract SSI entrepreneurs in spite of giving attractive fiscal and other incentives. Creation of new state-of-the-art industrial estates is a prime need. The Study Group has also expressed its concern about the improper maintenance of existing industrial estates and shortage of funds for the same.

5.54 To overcome this constraint the Study Group recommends setting up of an Infrastructure Development Fund of the order of Rs.2000 crore for SSEs. This Fund should be utilised to help the States/UTs in creating, revamping and upgrading the industrial infrastructure for SMEs including upgrading the infrastructure in the existing industrial estates. The size of the Corpus should be based on the requirement on the one hand and the availability of money from budgetary sources of the Central and the State/UT Governments for this purpose on the other.

5.55 The Study Group recommends that the Integrated Infrastructure Development Centres (IIDC) Scheme should cover all areas of the country with 50 per cent reservation for backward and rural areas.

5.56 New industrial estates should be opened where industries are already existing so that the facilities can be optimally utilised.

5.57 The Industrial estates need to be managed by levying user charges on the concerned units so that maintenance of these industrial estates becomes self-sustaining in the long run.

5.58 Establishment of incubation centres in some of the South-East Asian countries like Korea, Malaysia, etc, has been a rewarding experience and it has contributed a lot in the development of high-tech industries, particularly in SME sector. Some of the industries so developed are computer hardware and information technology. The Study Group has noted the progress of our IT industry, contribution of SSI units in IT exports and hence it has recommended setting up of such incubation centres in the country. SIDBI has already set up one incubation centre in the Indian Institute of Technology, Kanpur, for SSI entrepreneurs.

5.59 The Study Group recommends that an Incubation Infrastructure Development Fund of Rs.1000 crore should be created aimed at setting up adequate number of Centres in the Tenth Five Year Plan to help the skilled young entrepreneurs to start their own ventures with all required facilities including computers, video conferencing and e-commerce facilities etc. being available at one place. These centres should aim at providing an 'address' to the entrepreneurs for a period of three years. These Centres would cater to sunrise industries like electronics, information technology, bio-technology, pharmaceuticals or any activity which is coming up and for which commercial viability is yet to be established. These can be set up within the existing IITs and Regional Engineering Colleges. If the entrepreneur succeeds, he should move out and set up his own unit elsewhere and if he fails, he should quit. The facilities, including a place to work, should be available at a very nominal charge.

5.60 The corpus may be created with assistance from the Government of India, the SIDBI, the NGOs, the IITs/Engineering Colleges and the State Government.

Human Resource Development and Training

5.61 Human resource development and training is an important area for the SSI sector. The Study Group has gone into details and feels that manpower development in SSI units has not been taken up the way in which it is required. Progress of SSI units very much depends upon trained and motivated manpower. Entrepreneurship development needs to be taken up in industrially backward states and regions along with provision of appropriate economically viable and bankable projects, escorting and counselling services to the first generation entrepreneurs for setting up of

new SSI units. In view of this, the Study Group makes following recommendations:

5.62 The Study Group recommends that training should cover both entrepreneurs as well as workers (labour) and future programmes should be built up at the Central and State Government levels through EDIs.

5.63 Various Institutes providing training for small scale entrepreneurs should be brought under the umbrella of the National Entrepreneurship Development Board (NEDB) to provide uniformity in training and to avoid duplication of efforts.

5.64 The Study Group recommends that training programmes for the SSI sector should be forward looking in order to be compatible with the fast changing economic, technological and global scenario and should also address the requirements of the 'services sector'.

5.65 Adequate funds should be provided for upgrading training institutes, demonstration equipment, particularly the latest machines being used by the industry, so that workers/ entrepreneurs can update their knowledge and SSI units can be benefited.

5.66 The Study Group recommends that the syllabus of various training courses/modules should be regularly updated. For this purpose, Standing Committees should be constituted by the institutes and Industry Associations should also be given a role.

5.67 The Study Group recommends that trainers training the SSI entrepreneurs should be regularly given refresher training, preferably every two years.

5.68 The Study Group recommends that efforts should be made by the Government to avail of external sources of funding for Training and Entrepreneurship Development programmes. Training for self-employed persons should be encouraged.

Interest on Delayed Payments to Small Scale and Ancillary Undertakings Act, 1993

5.69 The Interest on Delayed Payments Act, 1993, which was enacted to provide prompt payments to SSI units against their supplies made to large units, State/Central Government Departments/PSUs, etc, has not provided the intended relief to SSI units. The Study Group finds that the Act does not have sufficient teeth and also due to lax implementation it has not proved efficient and useful. The following recommendations, if implemented properly, may help the SSI units in getting prompt payment. The Study Group also feels that not only the enactment of the law but the spirit behind the law needs to be understood and followed by the large scale units while making payments to SSI units against their supplies. The Reserve Bank of India, with a view to develop bills culture and encourage recovery of SSI's dues from Corporations, has directed the banks to ensure that at least 25 per cent of the total credit purchases should be through bills drawn by the sellers. Gradual increase of this percentage would help the SSI units to get adequate working capital from bill discounting.

5.70 The Study Group recommends that all States/UTs should set up Industry Facilitation Councils (IFCs) expeditiously. There should be constant monitoring of the working of the IFCs by the office of DC(SSI).

5.71 The Large Scale Industries Associations, region or industry specific, should take a lead role, the way Confederation of Indian Industries (CII) has done, by issuing a code of ethics on Prompt Payment, to its members. This may prove more effective than the Act itself as fair dealing and friendly relations are key to success of the business. If the same course of action is followed by other Associations, the large ones in particular, the problem can be mitigated to a great extent.

5.72 The Study Group recommends that a provision should be made in the Interest on Delayed Payments Act to deny MODVAT Credit to those buyers who have defaulted in payment for more than 120 days and making it incumbent on the buyers to reverse the MODVAT Credit earlier taken, unless the supplies received from SSI units have been paid for by the due date.

5.73 The Study Group recommends that the Income Tax Act should be amended to disallow unpaid bills from being treated as business expenditure. Payments to SSI units should be ensured by the Bankers of the buyer organisations within 30 days of supply of goods/services to the banks of the supplier and in case of delay it should be with stipulated interest as indicated in the Interest on Delayed Payments Act.

5.74 It is also recommended that Factoring Services should be strengthened further and popularised and should be encouraged 'without recourse' to the SSI suppliers, and the Office of DC(SSI) should also monitor the implementation of the Interest on Delayed Payment Act.

Providing Better Linkages And Harmonious Relationship Between Large and Small Units

5.75 The SSI units and large scale units are complementary to each other. Due to the flexibility of management, lower overheads, small number of personnel and labour involved in operations and facility of taking quick decisions and modifications in the decisions taken, SSI units are ideal for ancillary jobs. Further, the SSI units can develop expertise in specific areas and can be more cost efficient than the large scale units. The large scale units can choose a number of SSI units as vendors and thereby can effectively place orders for a large number of products. For smooth functioning of large and SSI units, there needs to be perfect harmony and understanding between them. The Study Group has considered all such aspects involved in better linkages and harmonious relationship of SSI units with large scale units and makes the following recommendations:

5.76 The Study Group recommends that excise exemption on manufacture of goods by SSI units on the brand name of other units should be extended to urban areas also, as against only for rural areas at present. Names of manufacturers/SSI units should also be indicated on the branded products.

5.77 Notional MODVAT(CENVAT) credit of 5 per cent which was available to units purchasing their raw materials/ intermediates from the SSI units till 1994-95, should be restored; this will help in

marketing of SSI products, apart from providing the necessary linkages.

5.78 The Study Group recommends that organisation of more buyer-seller meets, setting up of more sub-contracting exchanges, vendor development programmes and ancillarisation should be encouraged. Large scale units may be pursued for enhancing their participation with respect to above aspects. The office of DC(SSI), which is having a separate division of ancillary units, should strengthen this unit and intensify its activities.

5.79 It is also recommended that in the case of ancillaries, the 'mother units' should frequently review the pricing formula and the prices should be fixed taking into consideration the cost of production of raw materials of the finished goods and the final selling price in the market. This should be done at least once every six months. Large scale/mother units should also give proper technological support to their ancillaries.

Limited Partnership Act

5.80 Presently, the partners of partnership SSI units have unlimited liabilities resulting from the activities and liabilities of the SSI units. Sometimes, liabilities and responsibilities fall upon the entrepreneurs from events beyond their control, like natural calamities, workers' strikes, changes in government regulations, laws, rules, procedures, etc. The SSI associations have been pleading for a Limited Partnership Act which will limit liability of the partners to their equity contribution to the unit and thus facilitate bringing in equity contribution from relatives, friends, etc. The Study Group has considered all the aspects in detail and makes the following recommendation.

5.81 The Study Group recommends that the government should expedite enactment of the Limited Partnership Act for injecting new equity into the SSI sector.

Women Entrepreneurs

5.82 The Study-Group recommends that a separate Division be created in the Office of DC(SSI) for women entrepreneurs. It is also

recommended that Special programmes for women entrepreneurs should be formulated for credit and marketing and for export promotion of their products.

Miscellaneous Issues

5.83 One of the major problems faced by the SSI units, particularly tiny units, is technological obsolescence. Technology upgradation is the need of the hour. The Government should provide financial incentives to the SSI units for technology upgradation and modernisation. The financial incentives can be in the form of interest subsidy; on the pattern of a similar scheme being operated by the Ministry of Textiles.

5.84 The Study Group recommends that the Government should create a fund of Rs.1000 crores for this purpose. The benefit of this fund, however, should be made available primarily to tiny units and should be confined to selected products having export potential and those of high-tech nature.

(Note: The Government has approved a Credit Linked Capital Subsidy Scheme for modernisation of SSI sector, based on the above recommendation of the Study Group).

5.85 The Study Group recommends that the existing Product-cum-Process Development Centres (PPDCs) under the Small Industries Development Organisation should be strengthened and new Centres should be set up for products like neem, agro products, ceramics, toys, hosiery, etc. Five such new PPDCs could be set up during the Tenth Five Year Plan. Availability of external/institutional funds may also be explored for these PPDCs.

5.86 The Study Group recommends that accelerated depreciation for plant and machinery installed for technology upgradation/modernisation should be provided to the SSI units on the pattern of similar facilities as available for environment/pollution control

measures under the Income Tax Act. This will attract more investment in technology upgradation and modernisation of SSI units.

5.87 It is recommended that a Common Facility Support Fund for clusters may be created with support from the Central Government, the Small Industries Development Bank of India and SSI Associations. The responsibility for running the same may be given to NGOs/SSI Associations. Private Sector may be encouraged to set up CAD/CAM centres at clusters having concentration of SSI units.

5.88 The Study Group recommends that SSI Associations should be represented in the Boards of Directors of all Public Sector Banks. Twenty to twenty five per cent in the Board of Directors of SIDBI should come from the SSI Associations at national and state level and experts associated with SSI sector. The government may also consider, wherever possible, to strengthen the SSI Associations and involve them in various committees, etc, so as to take their views before taking major policy decisions.

5.89 The Study Group recommends that thirty-three per cent of purchases by the Government Departments and Public Sector Undertakings, both at Central and State Levels, should be made from the small scale sector and a report to this effect should be placed in the Parliament and the State legislatures every year. This statutory support would be similar to that available to SMEs in USA under SBA.

5.90 The Study Group recommends that a Committee to monitor all the provisions announced for the promotion and development of SSIs by the Government and other institutions should be set up in the Ministry of SSI, A&RI on the pattern of the Advocacy Organisation in USA which ensures compliance of guidelines, instructions, provisions, etc, for the SSI sector. This committee should include representatives of concerned Ministries and Departments of Govt.

of India, RBI, selected federations of SSI associations, Planning Commission, SIDBI, State Bank of India, private sector banks, etc.

5.91 The Study Group also recommends that a separate Division should be created in the Office of DC(SSI) for empowering, assisting and facilitating NGOs/SSI Federations/ Associations by providing Finance, Information on Rules/Regulation, relevant to SSE Sector, and other support instruments.

5.92 It is recommended by the Study Group that the government should come out with a comprehensive bold, effective and meaningful TINY SECTOR PACKAGE - a package which ensures support to tiny units on continuous basis such as excise exemption, priority sector lending, reservation and earmarking of plots, and earmarking of share in various factories and incentives by the government. The Group recognises the Prime Minister Rozgar Yojana (PMRY) as a bold scheme for promotion of self-employment through micro enterprises/ tiny units, etc.

5.93 This package may ensure that tiny units have better and easier access to critical inputs like credit and raw materials. Government should make special arrangement for marketing of their products. Relatively lesser support should be provided to non-tiny SSI enterprises. Medium enterprises should get only one time support such as those relating to Technology Upgradation, Export Promotion, Pollution Control and Common Facility Services.

5.94 The problem of SSI sickness is a matter of great concern. The data on sickness do not tell the entire story as these relate to only those units which have obtained bank finance. In order to have a complete picture of sickness, the Study Group recommends that the Government should evolve a practical definition of sickness and conduct a sample survey on sickness in the SSI sector urgently, so as to provide an effective package for rehabilitation of potentially viable sick SSI units.

5.95 With a view to enable rehabilitation of sick SSI units, the Study Group recommends that the State Level Inter-Institutional Committees (SLIICs) may be given statutory powers so that they emerge as an effective instrument in rehabilitation of potentially viable units.

5.96 The Study Group is of the opinion that for the large number of non-viable units, it is essential to provide an EXIT route. There are instances of sick units fighting legal battles for 15 to 20 years and the total liability exceeding the principal by several times. The Study Group recommends that for such sick SSI units, the Government should come out with a SAMADHAN Scheme to facilitate one time settlement. The liability of sick units, including the interest, could be limited to double the principal amount and the recovery process for realising dues of financial institutions, workers, creditors, etc, could be expedited and if possible within a fixed time period all the recoveries may be realised. This would help entrepreneurs of sick SSI units to be free from liabilities of sick units and start their careers afresh, if necessary as an employee.

CHAPTER - 6

RECOMMENDATIONS ON FINANCIAL AND FISCAL MATTERS

6.1 In India, there exists a well structured multi-agency system to ensure credit dispensation to different sectors of the economy, including small scale industries sector. Reserve Bank of India has issued a number of policy guidelines to ensure adequate availability of credit to SSI sector. While Small Industries Development Bank of India (SIDBI) at apex level is the principal financial institution for SSIs, at the state level, State Financial Corporations and State Industrial Development Corporations cater to the needs of small and medium enterprises. Commercial banks with their wide network of branches play a dominant role in the country in mobilisation of public savings and deployment of credit, especially short term, to enterprises including small enterprises.

6.2 The flow of credit from SIDBI and State Financial Corporations (SFCs) and banks has been presented in detail in Chapter 1 (Please refer to Tables 1.11, 1.12 , 1.13 & 1.14).

6.3 One of the major terms of reference of the study group was to review the pace at which the recommendations of the Nayak Committee and the Kapur Committee were being implemented, to examine the gaps, if any, and suggest appropriate changes. In order to help the SSI sector in obtaining sufficient credit facilities from the financial sector, a number of suggestions have come up before the Study Group. Recommendations of the Group relating to financial and fiscal matters are given in the following paragraphs.

Financial Measures

Priority Sector Lending

6.4 The Small Scale Industries Sector has been accorded status of priority sector for the purpose of credit dispensation from the Banks/FIs on the lines of similar status provided to agricultural sector. Public Sector Banks are expected to earmark 40 per cent of their credit to the priority sectors viz.,

Agriculture, SSI and Services Sector, including housing. While there is a sub-target for extending financial assistance to the agriculture sector, no similar sub-targets is earmarked for lending to the small scale industries.

6.5 In order to fulfill the priority sector lending targets, banks have been permitted to adopt soft approaches like subscription to the Bonds of SFCs, National Bank for Agriculture & Rural Development (NABARD), National Housing Bank (NHB), Rural Electrification Corporation (REC) and Housing & Urban Development Corporation (HUDCO) etc., instead of undertaking retail lending to the SSI sector. In view of this flexibility, there is a tendency amongst the banks to go in for placement of bulk funds in the debt instruments floated by the above named institutions.

The Study Group has made the following recommendations:

6.6 Small scale industries sector should be given an equal treatment with the agricultural sector with regard to credit allocation under priority sector, particularly in the light of the sector's increasing contribution in the Gross Domestic Product (GDP). Within the amount earmarked for SSIs, sub-targets might continue to be fixed for lending on incremental basis to micro, tiny and other SSI units. Micro units, having investments in plant and machinery upto Rs.5 lakh could be made entitled to 40 per cent of the total bank credit flowing to SSIs. Another 20 per cent of credit to SSI sector could be earmarked for units having investment between Rs.5 lakh and Rs.25 lakh. The Reserve Bank of India may advise commercial banks to ensure compliance of these targets within the overall credit targets to SSI sector, as per limits prescribed by RBI. The position may be reviewed at the Board level of banks at regular intervals.

6.7 Banks should fulfil the above targets by lending directly to the SSI sector instead of adopting soft approaches like subscription to bonds/debt instruments of SFCs, NABARD, HUDCO, REC, NHB etc.

6.8 The limit of waiver of collateral for loans upto Rs.5 lakh implemented in pursuance of budget announcement for FY 2001-02 may be raised to Rs.10 lakh.

6.9 There exists a committee in the Reserve Bank of India for monitoring credit flow to the SSI sector. It is recommended that the committee be reconstituted, meetings of the said Committee be

held frequently (say at half-yearly intervals), to monitor the flow of credit to the SSI sector and proceedings of its meetings may be circulated among banks/financial institutions. These proceedings may also be put on RBI's web site for increasing awareness.

Cost of Credit

6.10 With the financial sector reforms and deregulation of interest rates, the cost of resources for Banks / FIs plays a very important role in determining the cost of credit. Unlike commercial banks, access to cheaper sources of funds is limited for the DFIs and their cost of raising resources is high. Because of the high cost and long maturity financing pattern, lending rates of DFIs are normally a little higher than the rates at which banks can provide working finance to the small scale industrial units. On the contrary, in line with the global trend which necessitates availability of short maturity working funds at finer rates vis-a-vis long tenor capital investments, the ideal situation would be that banks are able to lend at a rate not exceeding 3 per cent over the Bank Rate. Such a scenario would enable the Bank Rate to truly emerge as the ultimate reference rate.

The Study Group makes the following recommendations:

6.11 There is a need for a special package for financing tiny and village industries at a reasonable rate viz., primary lending rate plus 3 per cent (to be eventually brought down to PLR plus 2 per cent for loans up to Rs.10 lakh). In order to appreciate the ground realities of the SSI sector, the IBA should hold consultations with SSI associations at periodical intervals.

Blurring of Distinction Between DFIs and Commercial Banks

6.12 Traditionally, the Development Financial Institutions (DFIs) and commercial banks have been providing financial assistance in the nature of long term loans and working capital funds respectively. However, of late, with the introduction of financial sector reforms, the distinction between these two types of institutions is getting blurred and their roles overlapping. While the banks are entering the arena of medium to long term funding, DFIs provide assistance for shorter maturities along with long duration loans.

6.13 While the phenomenon of blurring of distinction and overlapping roles is evident, the policy prescriptions have not been quite clear as to the distinct roles of DFIs and banks. In the name of free competition, two distinctly different organisational set-ups with different costs of funds at their command, are expected to compete on uneven level-playing fields. Banks, while sanctioning loans, normally take security of all present and future assets, thus restricting the scope of security creation in favour of DFIs for providing assistance for technology upgradation, modernisation, expansion, etc. Often enough, there is no co-ordination between banks and DFIs with regard to security aspects and creation of charge on assets in favour of DFIs.

It is recommended by the Study Group that:

6.14 In order to encourage tiny sector to avail both investment assistance and working finance from a single institution, the existing limit of composite loans should be increased from Rs.10 lakh to Rs.25 lakh.

6.15 Commercial banks may be instructed by RBI not to take all future fixed assets of assisted units for securing its existing advances. This will help units going in for technology upgradation, modernisation etc. to avail assistance from FIs for such programmes without difficulties.

6.16 A special working group may be set up by RBI with representatives from Small Industries Development Bank of India, State Financial Corporations, Banks and SSI associations to work out modalities for ensuring better co-ordination between DFIs and banks.

Restructuring of State Financial Corporations (SFCs)

6.17 State Financial Corporations have played a major role in the development of SSI sector. However, for various reasons, most of the SFCs have become financially weak and are not in a position to perform their tasks properly. Kapur Committee and Khan Working Group have made significant recommendations for rejuvenating the SFCs. As per an estimate, about Rs.2,500 crore are required for re-structuring of weak SFCs. Amendments in SFCs Act, which are under consideration of the Parliament,

are expected to facilitate environment for financial and operational restructuring of the SFCs.

It is recommended by the Study Group that:

6.18 SFCs urgently need financial restructuring so as to clean up their balance sheet. The respective State Governments, SIDBI and Industrial Development Bank of India (IDBI) will have to play a major role in revamping the SFCs in their States. On the whole, financial restructuring of SFCs calls for active participation of the State Governments, SIDBI and IDBI. Expedient action may be taken for recapitalisation/ restructuring of SFCs.

6.19 SFCs would need significant structural and organisational changes in a holistic manner, which, among others, calls for broad-basing of share-holding pattern and strengthening of management set up etc. SFCs should be made Board Managed professionally run organisations. The concerned state governments will have to find ways and means in consultation with the Govt. of India and SIDBI for funding the restructuring programme. Banks may be encouraged to take substantial stake in the equity share capital of SFCs. Major shareholding in an SFC in that event could be that of the sponsoring bank followed by the state government and SIDBI. This will resolve many problems of credit and lead to professional management of SFCs.

6.20 Under the Chairmanship of Chairman and Managing Director, Industrial Development Bank of India (IDBI) a committee has been set up by the Govt. of India, Ministry of Finance to look into restructuring and recapitalisation of the SFCs. This committee has since finalised its report.

Specialised Branches of Banks for SSIs

6.21 SSI specialised branches of banks are a critical link in enhancing the flow of credit to the SSI sector especially in extending required assistance and there is need for increasing such specialised branches in all clusters, industrial estates and district headquarters in the country. As of March, 1999, there were only 389 SSI specialised branches in the country. Kapur

Committee had advocated setting up of another 1,000 specialised branches over the next three years. The staff posted in these branches should be specialised to cater to the needs of the SSI/ tiny sector. Setting up of such branches by private sector banks should be encouraged.

It is recommended by the Study Group that:

6.22 As announced in the Union Budget 1999-2000, the banks should set up more SSI specialised branches in the clusters/ districts having concentration of SSI units. Specialised SSI branches should be set up in every district and important SSI cluster. Private sector banks should also be encouraged to set up specialised branches to cater to this sector.

6.23 Endeavour should be made by these specialised branches to obtain ISO certification in pursuance of the Budget announcements. These branches should be manned by specially trained and well-sensitised staff.

6.24 In the State Level Bankers' Committee meetings, there should be a regular agenda item regarding review of bank-wise achievement vis-a-vis target for lending to SSI sector in the state and also review of flow of credit from specialised SSI branches of the banks. These achievements should also be discussed by these banks in their Board meetings and suitable instructions may be issued for making available adequate credit to SSI units.

Micro Credit

6.25 Micro credit has emerged as a powerful tool in poverty alleviation programmes and creation of new jobs. SIDBI has taken a lead by putting in place a micro credit scheme since 1994 and has scaled up its operations in November 1998 by launching a Rs.100 crore 'SIDBI Foundation for Micro Credit'. The objective is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal as well as formal financial sector to provide micro finance services to the poor, especially women. Local area banks, Co-operative banks and Regional Rural Banks (RRBs) are ideally suited for financing micro credit to tiny units. RRBs could learn from MFIs / NGOs and transform themselves into Micro Finance Institutions.

It is recommended by the Study Group that:

6.26 The Government/ RBI should create a conducive environment and appropriate self-regulatory framework for orderly growth and development of micro credit movement in the country. The Small Business Administration (SBA) model of United States of America regarding franchising village/ district level co-operative banks may be studied in this regard.

6.27 To enable SIDBI to have access to funds from international institutions for capacity building of MFIs, the Government of India may consider providing guarantee without guarantee fee keeping in view the ultimate use of funds.

National Equity Fund Scheme

6.28 The National Equity Fund (NEF) Scheme launched by Govt. of India through SIDBI is a potent tool for setting up tiny enterprises by providing equity type assistance through Primary Lending Institutions (PLIs). There is a need to look into policy aspects of the Scheme by suitably revising the limit of project cost and extending the scope by providing assistance through more intermediaries. While in the 2000-01 Budget, the project cost ceiling has been raised to Rs.25 lakh, it is expected that this may not be able to meet the growing demand of equity type support emanating from the tiny sector as also for meeting requirements of knowledge based projects.

It is recommended by the Study Group that:

6.29 The project cost limit under NEF has since been enhanced to Rs.25 lakh. The Government may consider increasing the said NEF limit to Rs.50 lakh and soft loan limit may be retained at 25 per cent of the project cost subject to a maximum of Rs.10 lakh per project. Assistance under the NEF may be provided at a service charge of 5 per cent per annum. For operating the NEF scheme, a fund has been set up in SIDBI with matching contributions from GOI and SIDBI in the ratio of 50:50. In order to effectively implement the NEF scheme, the Government should ensure that its share of contribution is released in time.

Direct Lending by SIDBI

6.30 The general perception is that while SIDBI has a number of good schemes, their reach is inadequate as most of the schemes are routed through primary lending institutions. There has been mixed response whether SIDBI, an Apex institution, as hitherto, should confine largely to providing resource support to intermediaries for implementation of various schemes and programmes, or should do more of direct retail lending. Given the structure and stature of SIDBI, it is largely expected to play the role of an Apex Bank providing resource support to the PLIs and initiating appropriate developmental programmes for the healthy growth of SSIs. Its direct lending has been specifically in those areas where PLIs have not been able to meet the needs of units in areas such as infrastructure, marketing, venture financing etc. Nevertheless, there is a felt-need for expanding the reach of SIDBI's schemes more effectively through the existing network of PLIs or wherever possible, directly through SIDBI's offices.

It is recommended by the Study Group that:

6.31 SIDBI may enter into a working arrangement with the Lead Bank in each State for meeting the credit requirements as also extending the reach of specialised programmes aimed at strengthening clients of the specialised branches of the banks concerned. This would go a long way in strengthening the SSI units in the various clusters.

6.32 SIDBI should promote financial intermediaries such as Venture Capital Funds, equity funds, marketing consortia, co-operative industrial banks, incubators, consultancy services, at national, state and district levels to be operated by different agencies including industry associations.

6.33 SIDBI may expand its network in 85 identified districts where there is large concentration of SSI units and adopt universal banking concept in these areas. This could be achieved either by direct intervention or through modalities to be worked out with the commercial bank branches in the districts.

Resource Support to SIDBI

6.34 The Nayak Committee and Kapur Committee have strongly advocated provision of low-cost resources to SIDBI. These recommendations, however, remain to be implemented. The post-liberalisation era has brought about a number of changes in the financial system, squeezing the spread available to development institutions like SIDBI which find it difficult to continue cross subsidisation of credit to the sector, particularly to the tiny sector. Moreover, SIDBI has a major role to play in undertaking promotional and developmental activities which involve subsidisation. Primary Lending Institutions (PLIs) expect SIDBI to extend refinance at a rate which is even below the average cost of funds of SIDBI. Therefore, SIDBI would need to be supported by the Government by facilitating it to mobilise low cost funds both in the domestic market as well as abroad.

6.35 The Study Group endorses the recommendations of the Nayak and Kapur Committees for providing low cost funds to SIDBI to enable it to play the Apex role enshrined to it in its charter more effectively, allocations out of the National Industrial Corporation (Long Term Operation) Fund for meeting the specific funds created / to be created by SIDBI for on-lending at concessional rate, permitting SIDBI to float tax free bonds, infrastructure bonds etc. and Govt. of India (GOI) subsidy towards interest differential between the LTO Fund rate and the bond rate.

6.36 SIDBI may be given increased share of Statutory Liquidity Ratio (SLR) bonds to enable it to get institutional funds at lower interest rate, for on-lending to the SSI sector. The SIDBI may also be encouraged to mobilise deposits with suitable tax incentives to the depositors.

6.37 Life Insurance Corporation (LIC), General Insurance Corporation (GIC) and the private insurance companies may be encouraged to lend a portion of their funds to SIDBI for on-lending to intermediaries/ SSI units. The Government may also provide exchange risk cover for SIDBI's international borrowings.

6.38 To enable the SIDBI to provide more funds for development of infrastructure, particularly in rural and backward areas, SIDBI may be given adequate resource support, besides launching

Infrastructure Bonds. Commercial banks may be encouraged to contribute to these bonds, which may be taken into account for meeting the SLR requirements. SIDBI may also be provided access to the Rural Infrastructure Development Fund (RIDF) for utilisation towards development of industrial infrastructure in rural areas.

6.39 Indian and foreign banks were earlier advised by RBI to deposit amounts equivalent to the shortfall in respect of their priority sector lending targets with NABARD / SIDBI. However, the access of SIDBI to these funds has now been restricted to foreign banks only. It is recommended that the facility of SIDBI's access to deposits on account of Indian banks' shortfall in meeting the priority sector targets, be restored.

Venture Capital

6.40 Venture capital financing, has contributed immensely in the growth of the developed countries and can become an effective instrument in fostering entrepreneurship development in India too. There is tremendous scope and potential for development of venture capital assistance for the SSI sector in India. While SIDBI has already taken a number of initiatives in this regard, banks need to be encouraged to entertain venture capital funding to SSI units by providing appropriate policy framework and incentives.

It is recommended by the Study Group that:

6.41 The policy measures required for popularising venture capital concept in the SSI sector may be initiated by the Ministry of Small Scale Industries and Agro & Rural Industries. A separate legislation may be enacted to promote the growth of venture capital in the country, particularly for tiny and SSI units.

6.42 There is a need to set up more venture funds in high-growth sectors such as information technology, biotechnology and food-processing. The Government of India/SEBI may design suitable policy framework expeditiously to promote setting up of such funds in the public as well as private sector.

Equity Assistance for SSI Units

6.43 Currently there are certain schemes viz. National Equity Fund (NEF) / Mahila Udyami Nidhi (MUN) Schemes of SIDBI and Margin Money Scheme of KVIC which take care of equity type support for tiny enterprises. However, these schemes have been able to achieve their objectives only to a very limited extent. There is a need for setting up a special fund for providing equity type assistance on a much larger scale.

6.44 Fund availability from capital markets for SSI sector is virtually non-existent. SIDBI had set up a Committee under the Chairmanship of Shri R H Patil, Managing Director, National Stock Exchange (NSE) to look into the various issues relating to opening up of capital markets to the SSIs as a viable means for tapping capital and debt in various forms as also for providing a safe exit route for equity providers to the sector. While Over the Counter Exchange of India (OTCEI) has been set up with laudable objectives of supporting these small companies to access capital markets, measures are required for revival of the Exchange on a priority basis. Patil Committee has already given its recommendations for necessary action by the Government, Securities & Exchange Board of India (SEBI), RBI and SIDBI, which need to be accorded due consideration.

It is recommended by the Study Group that :

6.45 In order to provide a special thrust for entry of first generation entrepreneurs preferably by educated youth and technocrats, a special venture type fund of Rs.500 crore for equity support viz. Laghu Udyog Nirman Nidhi with initial contribution from Government of India and All-India Financial / Investment Institutions may be set up in SIDBI.

6.46 The Study Group also recommends that action points suggested by the Patil Committee may be suitably looked into by the Ministry of SSIA&RI and action may be taken within a given time frame in consultation with RBI and SEBI, so that SSI sector can raise funds from capital markets.

Disposal of Loan Applications

6.47 As per RBI instructions, sanction or otherwise, in respect of applications for loans upto Rs.25,000 should be conveyed to the entrepreneur within 2 weeks from the date of receipt of application. Decisions on applications for loans above Rs.2 lakh should be conveyed within 8-9 weeks. However, according to a large number of entrepreneurs, the Banks are stated to be not following these guidelines meticulously.

It is recommended by the Study Group that :

6.48 RBI may prescribe a time schedule of one month to banks/ DFIs for disposal of loans upto Rs.5 lakh.

6.49 Owing to large scale complaints received from the sector such as non-availability of information, application forms, loan processing beyond the RBI stipulated time schedule contrary to the instructions of RBI, insistence on furnishing of collaterals, inordinate delays in processing of rehabilitation proposals, etc, the Study Group recommends that the RBI should assign the job of verification to its field level formations for reporting to the central office of RBI for further action, instead of the present arrangement of this being done by the Lead Bank. RBI may, after due consideration, take up the matter with the bank concerned for redressal of the grievances.

Documentation

6.50 It is felt that there are often undue delays in disbursement of amounts sanctioned on account of lengthy documentation, legal procedures including title search etc., promoters' inability to bring-in in full their required contribution for the project prior to disbursement of term loan and inability to tie up working capital finance, compliance of statutory requirements such as pollution control etc. There is need to standardise and simplify the procedural requirements before availing the disbursements and cooperation of both lender and borrower is warranted in this regard.

The Study Group recommends that:

The Study Group recommends that:

6.51 In the case of loans above Rs.2 lakh, disbursement should be effected on the basis of matching contribution of the promoter instead of insisting on entire promoter's contribution being brought-in before disbursement, at least in deserving cases.

RBI/IBA may constitute a multi-disciplinary task force comprising experts from FIs, banks, PLIs, etc, to simplify the documentation and other legal aspects including title search, security creation, obtaining No Objection Certificates (NOCs) from various agencies, etc. Such requirements as are to be complied with by the entrepreneurs/SSI units, could be given to them in the form of a check list so that they are able to prepare and arrange all documents even before applying for the loan. SSI Associations should organise awareness campaigns with respect to bank's requirements, procedures, documents, NOCs, etc.

Security Related Issues

6.52 The flow of credit to SSIs, particularly in rural and hilly areas has been affected on account of legal problems relating to mortgage of land. Issues relating to mortgage of lands need deliberation by various state governments for evolving a coordinated national strategy for providing credit to the SSIs in rural areas. Legal and procedural difficulties faced by the SSIs relating to such advances need to be removed. At times, there is lack of co-ordination in respect of creation of *pari-passu* charge in favour of DFIs in the event of financing of a unit by both sets of organisations.

It is recommended by the Study Group that :

6.53 Equitable mortgage principle needs to be encouraged to ensure a simplified procedure for mortgage of assets including land with the financing institutions to minimise the cost of lending and stamp duty/registration charges etc. (which are quite substantial). This will enable the SSI units to obtain credit from the banks/FIs against mortgage and simplify the procedure of pledging of titles/deeds in favour of banks/FIs.

6.54 The security provided for the loan should be confined to the assets financed therefrom and the lenders/banks/DFIs should not insist on securing the loans from future fixed assets to be acquired by the enterprise out of its own resources, unless there is dilution in the minimum margin requirement.

Working Capital Requirements of SSIs

6.55 While the Reserve Bank of India has advised banks to provide working capital limits to SSI units on the basis of Nayak Committee norms, it appears that the guidelines of RBI in this regard are not being adhered to by the banks. Even if the guidelines are followed, the bankers insist on providing the working capital only to the extent of a maximum of 20 per cent of the projected turnover whereas guidelines specify a minimum of 20 per cent. This approach of the banks needs to be changed. Even in respect of deserving cases, the working capital limit in excess of 20 per cent of the projected turnover is denied and the prospering SSI units suffer on account of non-availability of working capital required for their growing orders/business.

It is recommended by the Study Group that :

6.56 The Nayak Committee norms should be made applicable as a rule rather than as a guiding factor. Any deviation should be explicitly spelt out in the appraisal memorandum and justified with reasons for non-compliance.

Working Capital Limits to Cover SSI Supplies

6.57 As per RBI instructions, banks are to encourage bills culture among their bigger clients by covering at least 25 per cent of purchases made from SSIs under drawee bills scheme. Keeping in view the delayed payment problem of SSIs and reluctance of the large clients covering SSI suppliers under the bills route, there is need for sub-allocation in the overall limits sanctioned by banks to such large borrowers specifically for meeting the payment obligations in respect of SSI supplies either on cash basis or bills basis. Such an allocation would generate an environment for an early settlement of dues through an inbuilt system on account of purchases made from the SSIs.

It is recommended by the Study Group that :

6.58 RBI may take up the matter with the banks for sub-allocating the overall limits sanctioned by the banks to such large borrowers specifically for making timely payments in respect of purchases from SSIs either on cash basis or bills basis.

Factoring Services

6.59 Factoring is one of the important instrument for mitigating post-sale problems of SSIs. Though efforts have been made by SIDBI, SBI and Canara Bank, the results achieved are not satisfactory and the factors are very selective in the customer profile. Factoring companies have been given Non-Banking Financial Companies (NBFCs) status with restrictions to approach Debt Recovery Tribunals. In the absence of clear-cut policy guidelines, there are various problems relating to assignment of debt, stamp duties etc. There is an urgent need to develop factoring services for SSIs through suitable policy/ legislative prescriptions.

It is recommended by the Study Group that :

6.60 In order to mitigate the post sale problems of SSIs there is a need to encourage bills culture without recourse to SSI. In this context, the Government of India may help in creating conducive climate for development of 'factoring services' without recourse through appropriate policy prescriptions/legislative changes to ease the problems relating to stamp duty, registration fee, assignment of debt etc. A Task Force comprising Government, RBI, SIDBI, SSI Associations, etc, may be appointed to look into these problems. The provisions of Delayed Payments Act should also be extended to factors.

Recovery Aspects

6.61 There is a need for overhauling the existing laws and procedures for recovery of dues from defaulting entrepreneurs. Banks experience difficulties in not only taking over possession of the movable assets of borrowers, but also their timely disposal due to lengthy procedures, as a result, the movable

assets of the borrowing units get depreciated impairing their saleable value.

It is recommended by the Study Group that :

6.62 The Government should enact a legislation to simplify recovery procedures without resorting to civil courts after making exhaustive efforts in the State Level Inter-Institutional Committees (SLIICs). This will result in recycling of funds held up irretrievably in sick industrial units.

There is a need to enhance awareness about settlement Advisory Committees set up in the states. The Study Group recommends that there should be at least one Debt Recovery Tribunal (DRT) in each state and quick disposal of cases by DRTs may be ensured. Since DRTs are covering loans above Rs.10 lakh, the 'Ombudsman' set up is necessary to deal with SSI cases with loans below Rs.10 lakh. RBI/Banks may take necessary steps to appoint Ombudsman for SSIs in all states.

Sickness related issues

6.63 There is a need for comprehensive and integrated policy for arresting sickness in SSI sector so that the assets already created are put to more effective use. To arrest sickness at the incipient stage itself, relief and concessions should be granted by banks and FIs in a time bound manner to the potentially viable sick units as per the norms of RBI, adhering to strict time discipline in dealing with the various aspects of rehabilitation. To achieve this goal, the organisational arrangements at the branch levels should be fully geared up for early detection of sickness and prompt remedial action. A mechanism may also be evolved to liquidate the idle assets of sick units with a responsive and flexible system for out of court settlement.

6.64 There is a need for a Bankruptcy Law, so that an entrepreneur who has not been successful in one venture could have an exit route and start afresh another venture, where he may be successful.

It is recommended by the Study Group that :

6.65 Wherever an SSI unit is not in a position to be rehabilitated, it should be allowed to be closed down. There is an urgent need to have Exit Policy which should not only focus on labour but should also take care of interests of entrepreneur as well as the nation.

6.66 State Level Inter Institutional Committees (SLIICs) should be revitalised and scope of SLIICs should be expanded. The Ministry of SSI, A&RI should take steps in this direction in consultation with RBI and Banking Division, Ministry of Finance.

6.67 There is a need to provide finance for rehabilitation to potentially viable sick SSI units and banks should do away with the distance lending approach. All rehabilitation proposals should be duly registered and monitored at the board level of FIs and banks.

6.68 When a unit is categorised as sick, merely making provisions for NPA would not suffice but the FIs / banks concerned should continue operational facilities for the unit which would help recovery of loan. Rehabilitation measures need to be taken in a specified time bound manner.

6.69 To arrest sickness at the incipient stage itself, reliefs and concessions should be given by the banks and financial institutions to the potentially viable sick SSI units as per norms of RBI, adhering to strict time discipline. Banks should gear up organisational arrangements at the branch level for early detection of sickness and prompt remedial action. Bank branches may carry out viability studies of SSI units under their cover regularly to identify incipient sickness.

6.70 The current definition of sick units, as adopted by the RBI, needs to be revised as recommended by S.L. Kapur Committee which is as under:

(a) If any of the borrowal account of the unit remains sub-standard for six months, i.e., the principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding one year;

(b) There is erosion in net worth due to accumulated cash losses to the extent of minimum 50 per cent of peak net worth during previous accounting year; and

(c) The unit has been in commercial production for at least three years.

This definition will help to take timely action for revival of sick units.

Fiscal Measures

Excise Exemption Limit

6.71 The changing economic scenario has exposed the small industry to global competition necessitating provision of better fiscal support to enable this sector to become more competitive and also achieve economies of scale. The exemption limit for excise was enhanced from Rs.30 lakh to Rs.50 lakh in the Union Budget 1998-99. However, it has been pointed out by the Industry Associations at various fora that the increase was made after 12 years and was inadequate keeping in view the inflation during the period and the present high costs of raw materials, labour and other inputs. A number of SSI units deliberately restrict their production so as not to cross the exemption limit and lose tax benefits. It may be mentioned that the department related Parliamentary Standing Committee on Industry in its 17th Report had also, inter alia, recommended increasing the excise exemption limit (to Rs.70 lakh) way back in 1996.

6.72 Though SSI units are exempted from payment of excise duty upto Rs.50 lakh, they are required to obtain excise registration, once their annual turnover reaches Rs.40 lakh. Various SSI Associations have expressed their concern that this provision leads to harassment of their units by excise officials and lower capacity utilisation. The SSI units are managed by limited staff who neither understand the intricate excise problems nor are able to

maintain excise records, particularly when their production is within the excise exemption limit. Abid Hussain Committee has also recommended that the Inspector Raj has to be done away with.

It is recommended by the Study Group that :

6.73 The present limit of excise exemption may be enhanced from Rs.50 lakh to Rs.100 lakh, so as to compensate for hike in costs of production and encourage the SSI units to improve their capacity utilisation and make them more competitive and enable them to market their products in competition with large scale units. It may affect revenue generation initially, but this will be compensated by higher production and employment generation by SSI in the years to come.

(NOTE: The Prime Minister has already announced this fiscal concession for the SSI sector on 30/8/2000, based on the interim recommendations of the Study Group).

6.74 Government may consider exemption to SSI units from registration as also visits by Excise Inspectors till their turnover reaches the exemption limit of Rs.100 lakhs. A system of self declaration may be put in place to ensure compliance of various regulations by SSIs.

Special Policy Packages for Underdeveloped States

6.75 In view of the difficult topography of hilly states and north-eastern region of the country, there is a need for adopting liberal approach in extending credit to the entrepreneurs and industry friendly policies for promoting investment, particularly for the small scale industries sector. There is need for special provisions in the Central Excise laws to give exemption from Central Excise Duties on raw materials produced in the N.E. Region and used by SSI units in this region. As things stand today, raw materials produced in this region are taken outside this region for further processing. Grant of ten year income tax holiday has proved quite ineffective since incomes derived from SSI units in the N.E. Region are at best marginal. This additional incentive would ensure that raw materials produced in the N.E. Region are processed in this region itself as the concessions available for the industries would be substantial.

It is recommended by the Study Group that :

6.76 Keeping in view the problems faced by the industries in underdeveloped regions such as North Eastern Region, J&K, Himachal Pradesh, Uttaranchal, etc, there is need to devise liberal policy packages incorporating both fiscal and financial measures. The Government has earmarked 10 per cent of the total Plan outlay of all Ministries/Departments for the North-East region. Consistent with this allocation, FIs/Banks should also ensure earmarking suitable percentage of funds for these regions in conformity with the requirement of the regions.

Credit Guarantee

6.77 The Union Minister of Finance, while introducing Budget for 1999-2000 had indicated launching of a new Credit Guarantee Fund Scheme for SSIs. Accordingly, the scheme has been implemented from 1st August, 2000 and is expected to alleviate the problem of security for the banks and low recovery, often cited as major reasons for low credit flow to SSIs / tiny sector. To operate the scheme a Credit Guarantee Fund Trust for Small Industries (CGFTSI) has been set up by the GOI and SIDBI.

6.78 While the Credit Guarantee Scheme would initially cover loans upto Rs.10 lakh, there has been demand for increasing the coverage of loans upto Rs.25 lakh, so as to serve the entire tiny sector. In order to enlarge the canvas of the scheme, there is need for substantially enhancing the corpus to at least Rs.2,500 Crore, to be contributed by the Government and SIDBI.

It is recommended by the Study Group that :

6.79 The Credit Guarantee Fund Scheme for the SSI sector as approved by the Government on pilot basis for a period of one year may be extended with a corpus of Rs.2,500 crore to be contributed by the Government of India and SIDBI in the ratio of 4:1. With this size of corpus, the operations of the scheme are expected to be self-sustainable.

6.80 In order to implement the Scheme effectively, it is recommended that it should be made compulsory for all the banks to participate in the proposed Guarantee Scheme covering the eligible loans. SIDBI, the apex Bank for SSIs should initially devise instruments for securitisation of guaranteed loans and trading of instruments in the secondary market. Such a measure would enhance the credit flow from banks to the SSI sector, besides improving the comfort level of banks in assisting small borrowers.

Corporatisation of SSI Sector

6.81 Of the total population of over 32 lakh modern SSI units, over 97 per cent are either proprietary or partnership firms. Even the modern SSIs prefer to remain as partnership firms for various reasons. Corporatisation will help the Sector to become more market oriented, financially disciplined, transparent and also make them eligible to tap funds from Capital Markets. Efforts should be made to build up equity and financial strength of the SSI sector on the lines of tax incentives being extended to corporate sector.

It is recommended by the Study Group that :

6.82 Efforts should be made to build up equity and financial strength of the SSI sector on the lines of tax incentives being extended to corporate sector. The required encouragement should be provided to SSI units for transforming them to limited companies through suitable enactments, policies and procedures. The Government may also design suitable policy packages including legal enactments for encouraging SSIs to convert themselves into limited companies.

6.83 Taking into consideration the views of industries associations, the Government may consider certain relaxations/exemptions under the Companies Act specifically for small companies with capital base of say, less than Rs.50 lakh for facilitating corporatisation of the units, if necessary by providing a separate chapter to the Act.

Other Issues

Credit Rating for SSI Units

6.84 Credit rating services for SSIs would help in bringing greater financial discipline and would enable them to raise resources at finer rates and through alternate sources. SIDBI is assisting SSI units and providing grant support for obtaining credit rating by any of the national credit rating agencies such as Credit Rating & Information Services of India Limited (CRISIL), Credit Analysis & Research Limited (CARE) and Investment & Credit Rating Agency (ICRA). SIDBI also assists units engaged in exports with grant support for taking up rating from Dun and Bradstreet. There is a need for setting up a separate rating agency exclusively for SSIs for encouraging large number of units to obtain credit rating.

It is recommended by the Study Group that :

6.85 Credit Rating of small scale industries particularly the modern SSIs would greatly facilitate enhancement of credit availability while seeking assistance from the banks/FIs. SSIs may be encouraged and motivated to obtain credit rating. FIs and banks may consider to provide financial assistance to such credit rated units at finer rates.

Settlement of SSI Overdues by Large Scale Industries/PSUs

6.86 Delayed payments have often been cited as a major problem faced by SSIs. Though a Central Statute viz., Interest on Delayed Payments to Small Scale Industrial Undertakings Act 1993, is in place to redress this problem, the same has not proved to be effective despite amendments carried out in the Act in 1998.

It is recommended by the Study Group that :

6.87 The enforcement of Interest on Delayed Payments Act needs to be stricter. If no communication is sent to the SSI supplier with

regard to acceptance/ rejection of goods within 15 days of receipt, the goods should be deemed to have been accepted by the purchaser, and payment thereof be made within 30 days, failing which interest should be payable to the SSI supplier at 150 per cent of the PLR of State Bank of India by the purchaser.

6.88 In the existing format of Balance Sheet under Companies Act large units may be stipulated to give information about delayed payments to SSIs. Department of Company Affairs and Institute of Chartered Accountants of India may look into this matter and all companies may be asked to ensure compliance.

Plan Outlays for Village and Small Industries Sector

6.89 Notwithstanding to the growing contribution of VSI sector in the Indian economy, the allocation of Plan outlays for VSIs vis-à-vis overall Plan Outlay has gradually gone down over the years. The Plan allocation for VSI sector was 4.0 per cent of total Plan allocation during the Second Plan period (1956-61) and gradually declined to as low as 0.9 per cent during 1998-99. This needs to be examined and corrected.

It is recommended by the Study Group that :

6.90 The share of Village and Small Industries Sector in Plan outlays ought to be commensurate with the growth achieved by the sector and the contribution made to the national economy. It should be at least 2 per cent of the total Plan outlay.

Research and Development

6.91 There is need for reorientation of national policies on R&D with strategic intervention by the Government in identifying and supporting emerging areas of technology. Besides the contribution of the government, the industries should develop strength in R&D for adaptation of transferred technology

from their foreign collaborators to suit the local situation. Encouragement should also be given for outsourcing of Research & Development (R&D) efforts to competent Research Institutions which will ultimately provide the required technology backup at reduced cost.

It is recommended by the Study Group that :

6.92 Exemption may be granted from payment of excise duty on goods manufactured, based on indigenously developed know-how and patented in any country of the European Union (EU), Japan or US for more than three years; which is the stipulated maximum period.

6.93 High weighted tax deduction to companies for sponsoring research in national R&D labs, the Indian Institutes of Technology (IITs) and universities, etc;

6.94 Higher accelerated depreciation may be permitted in respect of fixed assets and expenses on technology transfer used for of R&D.

6.95 Concessional financial assistance to such research and development institutions engaged in developing indigenous technology or adaptation of imported technology for commercial application may be considered.

CHAPTER - 7

TECHNOLOGY UPGRADATION AND MODERNISATION OF SMALL SCALE INDUSTRIES (SSI) SECTOR

7.1 The SSI sector in India is widely dispersed and heterogeneous in character having units ranging from household to modern enterprises using latest technology, sound managerial practices and good infrastructural facilities. SSI units have major concentration in industries like food processing, chemicals, hosiery, garments, plastics, paper, leather and leather products, wood, metal, non-electrical machinery parts, software and service oriented sector. Clusters of SSI units have emerged over the years, which are manufacturing a range of products and having strong forward and backward linkage.

7.2 The SSI units can remain competitive in the era of globalisation and liberalisation only through adoption of state-of-the-art technologies. The sources of technologies for SSIs are (i) indigenous (government sponsored R&D or in-house R&D – which is very rare) and (ii) acquisition, adoption and assimilation of imported technologies. The SSI units import technology only when there is a wide gap between indigenous technologies and contemporary technologies abroad. The import of new technologies is constrained due to royalty payments, commitments of patents, unsuitability of local skills/raw materials, difficulties in sourcing cheap and useful technologies abroad, etc.

7.3 SSI units normally go in for new technologies in the following cases:

- Introduction of new machine tools/equipment used in production.
- Use of alternative/new raw materials.
- Introduction of new products/designs.
- More efficient methods of production.
- Changes in the manufacturing processes leading to improvement in quality.
- Demand of the parent organisation for new products/ sub-assemblies/parts with high standards and specifications.

7.4 Technology is not a static concept but is of dynamic nature. Continuous upgradation goes on in improvement of level of technology. Introduction of new energy efficient, cost reducing manufacturing processes, alternative raw materials, upgradation of quality parameters, specifications, etc, bring changes in technology.

7.5 Technology changes critically depend upon the user's ability to respond dynamically to changes in domestic skills, production needs, demands, market, etc. The techniques and technologies of production at the shop-floor are becoming more and more skill and knowledge based. Unlike the large scale units, SSIs are afraid to adopt new technologies due to factors like uncertainty of use of new technology in an untested market and fear of adjustments in production process, marketing, input supply and profits. Further, the SSI units do not have sufficient financial resources (either accrued from internal resources or capability of borrowing from banks/financial institutions) for technology upgradation and modernisation. Absence of venture capital funds for SSIs also inhibits technology upgradation and modernisation.

7.6 The SSI units are lacking knowledge about technology sourcing, evaluation and demonstration facilities, absence of design centres, non-availability of specific surveys and feasibility studies, non-availability of pilot plants for trials and absence of insurance cover in case of failure, etc. A number of R&D results developed by national scientific laboratories involve huge investment and most of the time, these are not successfully established through demonstration.

7.7 The Study Group feels that to commercialise process/product know-how, it is necessary to have first demonstration followed by feasibility studies, plant layout, detailed engineering, streamlining of production processes, etc. The Study Group has also felt that cluster approach would be the best for adopting new technologies. In the clusters of SSIs, demonstration of new technologies would start a chain reaction and as success is seen by other units, they would follow the line to adopt new technologies.

7.8 Many SSEs acquire the needed technology displaying ingenuity in adopting the technology to local conditions. On a broad estimate, about 70 to 80 per cent of the SSI units have acquired or developed technology/know-how not through any formal contracts but on their own and only 20 to 30 per cent SSI units have acquired technology through external sources. Direct dependence of SSI units on foreign sources for technology is minimal.

7.9 The Study Group has reviewed the existing schemes of technology modernisation. These are:

- SIDO Assistance from Modernisation Funds.
- Financial Assistance for Acquiring ISO-9000 Standards.
- Tech Marts of NSIC.
- Commercialisation of R&D Results of CSIR Laboratories through National Research Development Corporation.
- Work studies by National Productivity Council.
- Cluster Programme with UNDP Assistance.
- Technology Modernisation Fund of SIDBI.

7.10 The observations and recommendations of the Study Group with respect to technology upgradation and modernisation SSIs are given below:

Observations and Recommendations of the Study Group

7.11 In order that Small Scale Enterprises (SSEs) remain competitive in the era of globalisation, it is imperative that Indian SSEs upgrade their technology and adopt new technologies which may involve:

- (i) Introduction of new tools and equipment for production,
- (ii) changes in the manufacturing process,
- (iii) improvement in the quality of products and quality assurance,
- (iv) introduction of new designs & diversification,
- (v) use of new raw materials and
- (vi) usage of modern management and I.T. tools. This requires an integrated approach encompassing identification, technology transfer, adaptation and absorption.

7.12 The following are the salient observations and recommendations of the Study Group involving the above integrated approach :

Technology Information

7.13 Basic problems for SSEs is the lack of awareness and absence of reliable sources of information on available technologies and institutions that will facilitate transfer of technology and their adoption.

7.14 The Study Group recommends setting up of a Technology Bank which will have information on technologies available and their sources. In addition, it could provide information on technology policy, technologies for different sectors and their applications, institutional infrastructure, sources of finance for acquiring technology within the country and from abroad, etc. Similarly, it will disseminate information on upgradation of technology, process know-how and design along with institutions & consultancy services or any other inputs required to support this endeavour.

7.15 The information can be retrieved by the regional centres located at Chennai, Bangalore, Calcutta, Mumbai, Guwahati, initially in the first phase. Subsequently, all the state capitals and major industry clusters be linked and in the third phase all the district headquarters could be networked and SSEs and entrepreneurs could have easy access through an IT Portal. Lot of information on technologies is available with R&D institutions, CSIR and its laboratories, NRDC, DC(SSSI) and its centres, NSIC, SIDBI, APCTT and several other institutions which should be networked.

7.16 Similarly, Technology Banks of several other countries may also be linked, so that networking could facilitate users to access technology of their choice. In the meantime a compendium of available technologies from R & D institutions in India and abroad could be brought out on sectoral basis and circulated amongst the facilitating institutions, industry associations and SSEs.

Financing for Technology Modernisation Program

7.17 The sector has no ready access to funding at affordable rates for technology acquisition, procurement of capital goods, jigs & fixtures, payment

of know-how fees as well as to cater to various aspects of modernisation to meet the challenge of rapidly changing global scenario. Majority of the units are not able to modernise owing to heavy investments required and their inability to secure funds at reasonable rates to meet their requirements.

7.18 It is recommended by the Study Group that funds should be made available for modernisation of SSEs at a concessional rate of interest on easy terms. The concessional rate of interest be made applicable as is available for modernisation of textile sector. It is estimated that Rs. 1000 crore annually may be required to meet the needs of the SSEs. Encouragement through this facility for a period of at least five years should bring perceptible changes and will have a large multiplier impact with a total investment of Rs. 5000 crore over a period of five years at a concession of 5% in interest rates.

(NOTE: The Government has sanctioned a Credit Linked Capital Subsidy Scheme for Technology Upgradation of SSI sector, based on the above recommendation of the Study Group)

7.19 The Study Group is of the view that financing may also be provided to units entering into collaboration for technical know-how and technology upgradation with a view to enhance the marketability of their products or enter into buy back arrangements for exports.

7.20 It is recommended by the Study Group that Concessional rate of customs duty of 5% may be applicable for importing equipment for technology upgradation for SSEs as is applicable to export oriented units, so that small scale enterprises may be encouraged to enhance exports.

Industry Clusters Having SSI Concentrations

7.21 There are about 350 modern SSE clusters in addition to 2000 artisan based rural clusters in existence in India. Amongst them are 138 product specific clusters and 100 industry intensive clusters. A few studies have been made by UNIDO on cluster development and some clusters are being developed. SIDBI, SBI, Exim Bank, Central Silk Board, KVIC, DC(SSI), NSIC

have undertaken some cluster development programs but in a very limited way.

7.22 Worldwide studies indicate that technology upgradation with focus on specific clusters does have a big multiplier effect on the enterprises in the clusters. Intensive efforts need to be made to upgrade the technology of SSEs in these clusters taking into account their substantial contribution to exports and also to enhance their competitiveness in the domestic market. It is estimated that around 60% of exports of SSEs emerge from industrial clusters.

7.23 A massive program needs to be launched to modernise export oriented industrial clusters in the first phase. The program should include information dissemination, setting up of design centres, quality awareness programs, testing facilities, common effluent treatment plants, common facility centres etc. The programme may also include skill development and upgradation and backward linkages for sustenance.

R & D and Innovations

7.24 A lot of innovations take place amongst the small enterprises but there is not enough support mechanism to transform their innovations into practical propositions. In order to sustain themselves in the highly competitive international market, SSEs require R & D support as they cannot afford to carry out research and development activity on their own and translate the developments and innovations into viable commercial propositions. SIDBI has initiated work on incubator concept and its first venture is being set up in collaboration with IIT Kanpur.

It is recommended by the Study Group that :

7.25 There is a need to encourage cooperation among SSEs and R&D institutions. Specific schemes should be evolved for long term cooperation and linkages should be strengthened. In addition, concessional finance may be provided through soft loans to SSEs engaged in R & D on their own or in collaboration with engineering colleges, technical Institutions etc.

7.26 In order that the innovative talent of entrepreneurs is harnessed properly, the Study Group recommends that incubation facilities to be created in the technical institutions and engineering colleges such as IITs, Regional Engineering Colleges and specialised institutions. To start with, such incubation facilities may be set up in about 50 technical institutions in the country in first instance. Direct financial assistance could be provided to these institutions to set up these facilities, which could be of the order of Rs. 3-4 crore in each case.

Technology Mission Mode

7.27 The Study Group strongly recommends the establishment of a Technology Mission.

7.28 The proposed Technology Mission may have following objectives:

- (i) To promote introduction of new and emerging technologies for SMEs.**
- (ii) To assess the present level of technology in the various sectors and to forecast technology level to be achieved.**
- (iii) To set up Information Centres / Data Bank for sourcing technologies from India and abroad and support institutions for facilitating technology transfer and upgradation. An I.T. Portal be set up for information dissemination and creating awareness.**
- (iv) To coordinate the efforts of various agencies, technical centres and institutions engaged in technology management.**
- (v) To carry out detailed technology audit studies.**
- (vi) To encourage Research & Development of indigenous technologies which would help the SSEs.**
- (vii) To create incubator infrastructure facilities in various technical institutions.**
- (viii) To motivate SSEs to obtain BIS /ISO certification.**

- (ix) To organise awareness campaigns among the SSEs pertaining to quality, standardisation and customer satisfaction.**
- (x) With a view to give focused attention, technology mission in the first instance may give priority to selected sectors such as garments, leather and leather products including footwear and leather garments, gems & jewellery, auto components, toys, food processing, drugs and pharmaceuticals, information technology (hardware), dyes and intermediates, glass and ceramic items including tiles, electronic industry related to design and measurement, tyres, hand tools, bicycle parts and ferrous and cast iron foundries. To work out a detailed work plan for five years for each of these sectors to be competitive in the domestic as well as international market with appropriate inputs resulting in increased exports. Other sectors may be added in a phased manner.**
- (xi) The Mission should promote environment friendly technologies and address issues relating to pollution control by SSEs, including common effluent treatment plants.**
- (xii) Similarly the technology mission should promote energy conservation by SSEs.**

7.29 The Board of Governors of the proposed Technology Mission may have eminent persons as members of the Board. These could be technology experts, users (associations' representatives), consultants, technology providers / banks (for example CSIR, APCTT), financial institutions (like SIDBI, SBI), Adviser, Planning Commission, Officers of the Ministry (DCSSI, Joint Secretary, etc), representatives of other important ministries (Science and Technology) etc. It may be chaired by the Minister of SSI, A&RI for effective implementation of its objectives with Secretary (SSI, A&RI) as Vice Chairman.

7.30 The Study Group recommends that the Board of the Technology Mission may approve the action plan, direct its implementation and monitor the progress as well as approve its budget. The Board should meet at least once in three months and may constitute an Executive Committee to take decisions on issues not within the

delegation of powers of the Director General that cannot await board meeting.

7.31 The Study Group also recommends that medium scale enterprises may be encouraged to get benefits from the services of the Technology Mission since many products and components cannot be manufactured within the specified plant and machinery investment limit of SSIs, particularly for exports or to meet the global competition.

Quality Assurance and Testing Laboratories

7.32 Apart from encouraging SSEs to set up their own laboratories and secure BIS/ISO certification, there is need to set up testing centres for SSEs in almost every cluster / industry concentration district/major industrial area. It is heartening to note that so far 742 SSE units have already obtained ISO 9000 availing government grant.

7.33 The Study Group recommends:

- **That more number of SSEs should be encouraged to obtain ISO 9000 certification so that it gains momentum and become a movement**
- **Strengthening of existing testing facilities in technical institutions.**
- **Encouragement to associations through 50 per cent grant/incentives to set up and operate testing laboratories.**
- **That the existing scheme of grant of Rs. 75,000 to each SSE who has obtained ISO 9000 may be continued for a period of another five years or till the Tenth Five Year Plan.**
- **To have at least one testing facility for each major SSI cluster. At least 100 such testing centres may be set up in the next five years.**

- **Ten per cent excise duty concession for SSEs that have acquired ISO 9000 and Certification under BIS specifications.**
- **Accelerated depreciation for all investments in testing labs for a period of one year after their establishment.**

Export Thrust for SSI Sector

7.34 Presently, the contribution of SSEs to overall exports constitutes less than 10% of the total manufacturing output of SSEs. This is mainly due to the fact that the technologies adopted by SSEs are old and sometimes obsolete. This makes them uncompetitive in the international market in terms of quality, price and timely delivery.

7.35 Taking into consideration the above weakness of the SSEs, the Study Group recommends that SSEs should be encouraged to switch over to new and cost effective technologies by providing information on new technologies through data banks. Tech Marts should continue to be organised at regular intervals in specified thrust sectors in various centres in the country. Tech-Missions need to be organised in developed and newly industrialised countries for acquainting the SSEs with new technologies and the entrepreneurs may be exposed suitably. Participants of these Missions may be provided financial assistance under Market Development Assistance (MDA) programme.

7.36 The Study Group recommends that joint ventures for obtaining new technologies should be encouraged. As per the present the EXIM POLICY, SSEs can import capital goods on payment of 5 five per cent customs duty with export obligation. In addition to this, they may be provided with five per cent interest subsidy in line with the Technology Upgradation Fund Scheme of the textile industry.

CHAPTER - 8

MARKETING AND EXPORTS

8.1 Marketing is an essential input for the success of any sector, particularly the small scale industries sector, which produces a wide range of products numbering more than 7500. In the Indian context, the producers of intermediate and consumer goods in the small scale industry sector have to face a number of difficulties in marketing their products.

8.2 Small business, the world over, offers very small proportion of resources allocation for marketing of products. The Governments of even the developed countries have some programmes to promote sales of items produced by the small enterprises. For instance, in United States of America, a business support programme is in operation under which a minimum of 23 per cent of the total value of prime contract awards must go to small business and a report to this effect is required to be placed before the House of Representatives and the Senate. Likewise, other countries have similar support programmes for the promotion of marketing of products of small scale industries.

8.3 With the removal of Quantitative Restrictions (QRs) and other trade barriers with the emergence of globalised markets, the inflow of foreign direct investment and availability of a wide array of goods at competitive prices have made consumers' choice limitless. Such a development has not only affected the demand for domestic products but necessitated a general upgradation in the quality of products and also allocation of more resources for marketing.

8.4 The Indian small scale industries sector, besides facing problems in the domestic market, is also affected in export markets. This is more so in the case of traditional sector of SSI. While the traditional sector mainly caters to the high priced niche overseas markets, the modern SSI units compete with their counter-parts from the world over. These units do not possess the benefit of a distinctive geographical identity and appeal that may ensure them a receptive market. Hence, there has been a felt-need for increasing international marketing efforts for the small units with increasing competition. There are various other issues affecting the small scale sector that need to be addressed on the domestic front as well as marketing abroad.

8.5 In the above context, Government support for marketing of products of small units is a *sine qua non*. A few schemes for this purpose currently in vogue need suitable reorientation and effective implementation.

8.6 A Price and Purchase Preference Policy has been in existence since long, under which a specific number of items have been reserved for exclusive purchase from the SSI sector. Additionally, more items have been specified for partial/graded purchase to the extent of 50 per cent to 75 per cent from the SSIs. Under price preference scheme, the SSIs are allowed a price preference of upto 15 per cent over the lowest rate quoted by large units. The policy is implemented through the Directorate General of Supply & Disposals, Railways, Defence, various other Departments, and the State Governments. A total number of 358 items of SSI sector, if procured by the Government Departments and organisations, enjoy purchase preference.

8.7 To further help the small scale units to participate in Government tenders, the National Small Industries Corporation provides a single point registration facility which enables the units, if registered under the facility, to obtain tender papers free of cost. They also get exemption from earnest money and security deposit. The Price and Purchase Preference Policy, announced in the form of policy guidelines, has no statutory backing but is followed to a large extent. The decreasing role of the Director General of Supplies & Disposals (DGS&D) in Government procurement has led to declining share of the SSI products in Government purchases. Currently, the Government purchases routed through DGS&D are hardly 10 per cent of the total purchases made by them.

Exports from SSI Sector

8.8 Exports from the SSI sector over a period of time have acquired great significance in India's foreign trade. What was considered as an exclusive domain of the large scale industries and monopolistic units has now assumed a more challenging proportion, requiring greater contribution from all sectors of the economy, including from SSI sector. The share of SSI sector in overall exports from the country has increased in the last 25 years from 15 per cent in 1973-74 to around 33 per cent in 1999-2000. The small scale industries sector is one of the large contributors of foreign exchange earning of the country. With the passage of time the sector has shown resilience and strength to meet the challenging responsibilities of boosting country's exports and improving the overall trade balance.

8.9 In the early years, the small scale units were been mainly catering to the domestic requirements and also manufacturing import substitutes. With the expansion and diversification of the sector as well as development of favourable international trading environment, the contribution from SSI sector in overall exports has increased significantly as indicated in the following Table:

TABLE - 8.1

GROWTH OF SSI EXPORTS

Year	Total Exports (Rs. Crores)	Exports from SSI Sector (Rs. Crores)	Percentage Share
1951-52	716	Negligible	—
1952-53	660	Negligible	—
1971-72	1608	155	9.6
1976-77	5142	766	14.9
1981-82	7800	2071	26.5
1986-87	12567	3644	29.0
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	25307	36.3
1994-95	82674	29068	35.2
1995-96	106353	364700	34.3
1996-97	118817	39248	33.0
1997-98	126286	44442	34.2
1998-99(E)*	141604	48979	35.0
*Subject to change based on final figures emerging from Export Promotion Councils			

8.10 An analysis of the above data reveals that the present share of 35 per cent in national exports from the SSI sector is quite significant when viewed in the light of the fact that the sector accounts for 40 per cent of the

manufacturing sector output. In the case the exports from the traditional sector of SSI, like handicrafts, handlooms, coir, sericulture, etc are added, the share of SSI sector in the country's total exports increases to around 50 per cent.

8.11 Some exports from the small scale industries sector are routed through trading houses and other indirect sources by way of ancillarisation and sub-components of products of large scale industries. If this is taken into account, the share of SSI sector in the overall exports is estimated to further increase by around 10 per cent.

8.12 A study of the product-wise de-segregated data shows that in respect of some items, bulk exports are made exclusively from the small scale sector. Some of these items are hosiery, garments, leather and leather products, marine products, cashew kernels, etc. Further, the share of SSI exports in the country's overall exports of engineering goods, chemical and chemical products, plastic products and electronics is substantial. It is encouraging to find that the share of SSI sector in the country's software/information technology exports, presently assessed at a level of around 40 per cent is growing at a very fast pace. The relative position of exports from the SSI sector as share of overall exports in respect of select product groups is furnished in Table 8.2, given below:

Contd...

TABLE - 8.2

**SHARE OF SSI EXPORTS IN TOTAL EXPORTS
PRODUCT-WISE (1992-93 TO 1997-98)**

Product Group	Total Exports (Rs. Crore)		Share of SSI Sector (Rs. Crore)		Percentage share of SSI Sector	
	1992-93	1997-98	1992-93	1997-98	1992-93	1997-98
Non-Traditional Products						
Engineering Goods including electrical and electronics	6450	16376	1950	4400	30.23	26.86
Basic Chemicals, Pharmaceuticals Cosmetics	3623	10838	1992	6502	55.00	59.99
Chemicals & Allied Products	4299	8574	119	480	2.81	5.59
Plastic Products	389	2339	175	985	45.02	42.11
Finished Leather & Leather Products	3692	5875	2954	3263	80.00	55.52
Marine Products	1767	4697	507	2692	28.67	57.31
Processed Foods	1293	7108	840	4620	65.00	64.99
Woolen Garments & Knitwear	595	1948	208	1353	35.00	69.45
Sports Goods	94	241	94	241	100.00	100.00
Readymade Garments	8840	18389	7957	16551	90.00	90.00
Rayon & Synthetic Products	N.A.	3750	15	13.65	N.A.	36.40
Processed Tobacco, Snuff & Bidi	508	1062	240	358	47.30	33.75
Traditional Products Cashew Kernel and Cashew nut shell liquid	749.23	1427	642.46	1427	85.75	100.00
Lac	53	65	51	64	97.85	99.00
Spices, Spice Oils, Oleoresins,	382	1408	10	14	2.61	10.00
Total	32666	84097	17751	44442	54.44	52.84

Institutional Set-up and Export Promotion Schemes

8.13 Exports are governed by Export Import Policies announced by the Ministry of Commerce, Govt. of India, from time to time. Currently the EXIM Policy of India 1997-2002 is in vogue, which is revised annually. The Ministry of Commerce also formulates policies, implements promotional programmes and regulates export/imports in tune with the changing requirements and priorities. Important schemes implemented for export promotion from the SSI sector, inter alia, include Market Development Fund, weightage to SSI units in recognition as Export House, etc.

8.14 The Office of the Development Commissioner (SSI) in the Ministry of SSI, A&RI is the apex body and the nodal agency for formulating and implementing policies and programmes for promotion and development of SSIs in the country. Some of the important schemes relating to marketing and promotion of exports run by SIDO, include participation in trade fairs and exhibitions abroad, conduct of training programmes for exporters and liaison with export promotion organizations and Ministry of Commerce.

8.15 National Small Industries Corporation Limited (NSIC) operates a few export promotion schemes covering both products and project exports. In respect of product exports, NSIC is a recognized export house and provides export assistance, pre-shipment and post-shipment credit facilities, testing facilities, etc. NSIC's project exports comprise assistance for preparation of Industry Profiles, Project Reports, Selection and Supply of Plant & Machinery for commissioning of units and initial management of SSIs by setting up turnkey projects in the developing countries.

8.16 Small Industries Development Bank of India (SIDBI) provides financial assistance to small exporters in the form of pre-shipment credit in foreign currency. SIDBI also has a scheme for opening of Foreign Letters of Credit. Further, financial assistance is provided for Market Research, Advertisement, Production of Audio-Visual Aids and assistance in participation in trade fairs, exhibitions and delegations abroad of marketing consortia by the Bank. SIDBI has set up ware-housing facilities for small exporters overseas.

Imperatives for Small Scale Exporters

8.17 In view of the changed economic environment and increasing emphasis

on quality, standardization and strict delivery schedules, there are certain imperatives which need to be implemented scrupulously to achieve higher rate of growth in exports:

- A well planned strategy at the National Level for developing exports from small scale industries sector, including identification of sub-sectors with high export potential.
- Greater coordination between different Ministries/ Departments/ organisations of the Government looking after production of small scale industries sector and those providing export marketing services.
- Need for close linkages between small exporters and merchant export houses, export development organisations, joint marketing arrangements, export consortia, etc.
- Need to comprehend the issues of concern at macro level and their relevance to small exporters, including the difficulties faced by them in the export endeavour.
- Need for infrastructural support.

8.18 As stated earlier, though the small scale industries sector accounts for 35 per cent of the total exports, within the SSI sector, if exports are viewed in relation to the overall production of SSI sector, the former is abysmally low in comparison to many other countries. For instance, the production from SSI sector in 1997-98 was of the order of Rs.465171crore and the SSI exports totaled Rs.44442 crore, accounting for less than 10 per cent of the sectoral output. Similarly, there is lack of diversification within the SSI exports as five major items account for 3/4th of the total exports from the sector. These items are readymade garments, leather products, basic chemicals, marine and processed foods and engineering goods. This leaves a vast scope for increasing exports from the sector, especially in the light of the new trading environment.

8.19 In the above background, changed environment, and with an objective to upscale the contribution of SSI exports in the country's overall exports, the Study Group makes the following recommendations.

Marketing

Price and Purchase Preference Policy

8.20 As stated earlier, in order to promote marketing of small-scale industries' products, the Government has been operating two schemes viz., (i) Price preference upto 15 per cent to SSI products under Government purchase scheme, and (ii) Purchase preference in respect of 358 items on purchases by the Government Departments (Central State and PSUs). Besides the Government's support through Price Preference and Purchase Preference Schemes, NSIC is providing single point registration facility that extends certain other benefits to the SSI units for marketing of their products.

8.21 It has, however, been observed that in the absence of any statutory backing and general lack of enthusiasm of the operating departments, there has been dilution in the price and purchase policy implementation. There are instances of conditionalities being attached by the procuring agencies to deny purchase preference to small scale units. Such conditionalities are constraining SSIs both in terms of purchase preference as well as price preference.

8.22 On the contrary, some of the small scale units have managed to create a monopoly like situation with the price preference scheme and managed to corner huge contracts which at times they are not able to honour. At State level, there is a general apathy towards helping small scale units through the above schemes. The reach of NSIC, on the other hand, is not pervasive and many parts of the country remain uncovered from its marketing facilities.

It is recommended by the Study Group that :

8.23 The price preference and purchase preference scheme should be given statutory backing to make it more effective. All over the world, Governments are the single largest buyers of products and services; so is the case in India. A minimum of 33 per cent of the Government purchases (by Central Govt, State/Union Territory Governments and Urban Local Authorities in Metros and Cities) should be mandatorily obtained from the small scale industries sector and a report to this effect should be placed before the Parliament every year, as done by the Small Business Administration (SBA) of USA.

8.24 The Development Commissioner (SSI) should monitor and enforce these provisions through a special cell. The Government Departments (Central, State, Union Territories and Local Authorities) who, for some technical or economic reasons, are not able to meet the stipulated purchase requirements or if it is found that the goods required are not available in the SSI sector, should get a permission from the DC(SSSI) in writing in this regard.

8.25 In view of the limited spread of NSIC and in the absence of its wide network, it is recommended that the marketing efforts may be supplemented by the State Industrial Development Corporations or other marketing bodies, set up at the regional level. NSIC should also expand its activities and network and start working as a Central Marketing Agency for all kinds of SSI products.

Fiscal Incentives for Branded Products

8.26 There exist a number of anomalies in the excise benefits being provided for branded products. The excise benefits earlier extended to the SSI units for manufacture of products using third party brand name had been withdrawn in the early nineties. Later, this facility was partially restored in respect of production of select items by SSI units located in rural areas, while the 'rural area' remained undefined.

It is recommended by the Study Group that :

8.27 The excise benefits should be made available to SSI units manufacturing products using third party brand name, irrespective of the location of the units. Such a policy would not only facilitate marketing but also lead to much more efficient production, quality upgradation and modernisation.

8.28 Given the limited capacity of the small units to produce and qualify as a supplier for bigger contracts, a cluster approach of small units needs to be encouraged to produce under a common brand name, such units may be provided excise duty exemption for their individual production. Some of the State Corporations which have initiated marketing efforts need to be suitably given encouragement by provision of financial assistance as well as fiscal incentives.

Recognising a Consortium as an Industrial Unit

8.29 An important issue in terms of availing financial assistance is that of recognising a consortium as an industrial unit. While individual units belonging to a consortium of industries do qualify as entities for availing bank credit facilities, the same may not be true when they join together and undertake production for the consortium, and do not receive direct orders.

8.30 On the other hand, a consortium may not be accepted as an entity possessing tangible assets which could be recognised by the banks and qualifies for financing. As a result, there are lots of constraints in the flow of funds from the financial system to such entities and they are unable to play the role expected of them.

It is recommended by the Study Group that :

8.31 All types of consortia of industries i.e. single discipline or multi discipline which have a legal entity, should be given the status of an industry for the purpose of credit facilities from the banks and other financial institutions.

8.32 The Government should promote/encourage setting up of more consortia for SSI marketing and should also provide them financial and other support.

Participation in Trade Fairs

8.33 For providing exposure to goods produced by the SSI sector in domestic as well as overseas markets, participation in trade fairs and buyer-seller meets is a highly effective medium. Industry has been generally doing it on its own by hiring space in India International Trade Fairs or product specific trade fairs, both in the metropolitan cities and other parts of the country. The space rentals in such fairs are quite high and not many SSIs are able to afford such an expenditure. Above all, they do not have the wherewithal to participate in such trade fairs and are, therefore, not able to fully exploit the market/potentials.

8.34 The existing facilities for SSI units for participation in trade fairs are not adequate in relation to their requirement. NSIC provides support to such units by charging lower rates for space hired by it in Indian and International Trade Fairs. Small Industries Development Bank of India (SIDBI) also subsidise their participation to a considerable extent. The KVIC too plays a part in various events. However, this is not enough and much more needs to be done.

It is recommended by the Study Group that :

8.35 The scope of participation by SSI units in domestic trade fairs should be expanded. The DC (SSI) should formulate a Plan scheme for subsidising participation in major trade fairs all over the country and also help the State Governments and the SSI Associations to organise these fairs right up to District level having clusters of industries. Similarly, the state governments, NSIC, SIDBI and SSI Associations should also have programmes/schemes to assist the SSI units for participation in domestic fairs.

8.36 The number of buyer-seller meets should be increased. Apart from the meets organised by the DC (SSI), financial help be provided to major industry associations and chambers of commerce and other organisations for this purpose.

8.37 A Market Development Authority may be created to deal with the problem of information dissemination on products, technology, demand and supply, prices and deal with the issues of captive marketing, brand development, consortium development and undertake export marketing directly and indirectly. It is imperative that a large and exclusive organisation develops brand names of SSI products.

8.38 It is further recommended that a Marketing Development Fund may be created with an initial contribution of at least Rs.50 crore for promoting marketing activities/ventures of small scale industrial units. The operations of the Fund may be assigned to a Financial Institution like SIDBI. The Fund may be utilized for participation in

trade fairs and subsidizing the interest component of the financial assistance extended for marketing activities.

Ancillarisation

8.39 Sub-contracting activities help small scale units utilise their installed capacities and also mitigate marketing problems to a great extent. Effective sub-contracting also helps small units in forging permanent linkages with large units which are beneficial to both the small and the large units. This way the larger units can concentrate on areas of their core competence and small units benefit by getting orders for this products, improved capacity utilisation and technology upgradation in tandem with the requirement of large units.

8.40 The success of sub-contracting activity, however, depends upon the availability and dissemination of information about requirements of both large and small sector and availability of capacity with the small scale units and their technical capabilities.

8.41 Information for sub-contracting is provided by functional sub-contracting exchanges. DC(SSI) has established 29 such Sub-Contracting Exchanges (SCX) in SISIs and their branches and also provided funds to 20 NGOs for setting up SCXs. Besides, with United Nations Industrial Development Organisation (UNIDO) assistance, five more SCXs are being set up, one of which is already functional at SISI. Chennai and two with CII at Delhi and NSIC at Ludhiana are likely to be operational soon. However, there is a felt need for expanding such facilities and effective utilization of the existing network.

It is recommended by the Study Group that :

8.42 Subcontracting facilities should be augmented and strengthened suitably. The DC (SSI) should fix annual targets and sufficient funds be provided for this purpose. The system for grant of sub-contracting exchanges should be simplified. Special measures should be taken to create authentic database for the purpose. There should be specific programmes for technical upgradation of the

vendors/sub-contractors to enable them to meet the required quality standards. The progress of the scheme should be monitored continuously. A time limit may be fixed for clearing the applications, preferably three months.

8.43 The Institution of Udyog Bandhu (working at State Government level) should be strengthened and modernised so as to provide one stop shop for information and match making activities. It should also network with the DC (SSI), the NSIC, the SIDBI and Industry Associations.

8.44 Major industrial centres and head offices of the SSI associations should have permanent display windows for SSI products.

Export Promotion and International Linkages in the Organisation of Production

8.45 In the post-reform era, there has been emphasis on building international competitiveness and achieving high export growth, mostly through focusing on policies with respect to trade, exchange rate and macroeconomic stability. An important aspect, which has not found much attention is that of international linkages of industrial firms and organisation of production in a system of networks.

8.46 On the other hand, the superior export performance of East Asian countries is partly attributable to their strategic use of cross-national production network that organises across national borders, production, procurement, distribution, Research & Development, design and support services in the given industry.

8.47 India's share in global exports continues to be at a very low level of 0.60 per cent, of which the share of manufactured goods has remained stagnant at around 74-75 per cent during the nineties. Given the fact that the SSI Sector contributes about 40 per cent of India's gross manufacture, there is enough scope to increase manufactured exports from the small scale units. One of the means by which such units can be helped to be truly global is by participation at specific stage of production in the multi-layered production process. This would be in tandem with geographically separated

steps of production. In this regard, the example of Indian Auto components sector is a success story that can be emulated by many other sectors.

8.48 In the Global Commodity Markets, networks of business units, involving both forward and backward linkages are involved. The concept highlights the fact that cross-border inter-firm relationships are not necessarily based on ownership by a single multi-national company or trans-national company but more on linkages through foreign direct investment and occasionally coordinated efforts of buyers and intermediaries, apart from established producers. In the case of capital and technology-intensive industries, the commodity chain is largely producer driven. Examples of such industries are aircrafts, computers, semi-conductors, heavy machinery, etc.

8.49 The future of exports from India, particularly from the small scale sector, hinges on their concentrating as sub-contractors and vendors, in addition to encouraging those exporting traditional items to niche markets. For growth of exports, a large number of issues are involved, prominent among them being technological upgradation, exposure to foreign markets, buyers & manufacturers, and geographical brand building which basically implies confidence creation about quality of a product and reliability through on-time delivery.

It is recommended by the Study Group that :

8.50 An important aspect that has been neglected by the reforms and liberalisation is that of international linkages and organisation of production in a system of networks. The office of DC (SSI) should have a scheme of Market Development Assistance (MDA) on the lines of a scheme similar to that of Ministry of Commerce to help small-scale units in the area of Marketing and Export Promotion.

8.51 There is further need to undertake/encourage brand building to create a distinct geographical identity of items coming from India. This will help highlighting the strengths of the SSI sector to the rest of the world.

8.52 The Vendor Development Programme and Buyer-Seller Meets should be organised in target markets in the form of small scale

enterprises partneriates in selected countries. The participation of the units may be subsidised to the extent of 50 per cent including airfare. The DC (SSI) should formuiate a scheme to help the industry in this direction.

8.53 Plant iever intervention for technology upgradation either through sub-contracting mechanism or by deputing national/international experts directly to exporting and potentially exporting units may be undertaken. Financial assistance may be provided to SSI units for obtaining such expertise and meeting their costs partially, say about 50 per cent.

8.54 The small units lack capability to meet bulk orders in a short period. For boosting exports, consortia approach should be encouraged and consortia should be in selected clusters be formed. The Industry Associations, NSIC, etc, could provide support for facilitating setting up of such consortia.

8.55 Product design should be focus of attention. Latest market information, changes in demand, preferences, latest fashions, etc. could be captured through free flow of information, visits of international missions, participation in national and international exhibitions, etc.

8.56 Indian trade missions abroad need to play an active role in popularising Indian products in international markets through publication and distribution of product specific brochures, setting up product display centres and having direct linkages with organisations like DC(SSl), NSIC, State Directorates of Industries, SIDBI, industry associations, etc.

8.57 One of the major problems being faced in timely execution of orders is delay in release of institutional credit. For want of funds many a time the SSI units to lose orders. The Small Industries Development Bank of India (SIDBI) should evolve suitable facilities in co-ordination with the banks and financial institutions to ensure that the eligible borrowers/units are not deprived of funds.

8.58 The Government should take adequate measures to increase awareness of the provisions of World Trade Organisation among the SSI entrepreneurs and take appropriate measures to protect Indian SSIs, facilitate information/data dissemination, help in introduction of anti-dumping measures and create a legal cell to take care of legal problems faced by the SSI units on account of WTO agreement provisions. The DC (SSI) may create a separate Division on WTO supported by adequate experts in required disciplines.

8.59 It may be made mandatory for the Export Promotion Councils to maintain data separately for exports originating from the SSI Sector and the same should be applicable to the export houses also. The building up of data base is imperative for effective policy formulation.

8.60 The Bill of Lading at the Customs should be modified to indicate the origin of items so that it is specifically known whether an item has originated from the SSI sector. This would help in actual/close assessment of the exports emanating from and contribution of the SSI sector.

8.61 The mechanism of exports should be examined in detail and appropriate steps taken to streamline the procedures, to reduce the time taken in execution of orders and also to make the activities hassle free.

8.62 Plethora of laws, rules, regulations hamper the SSI sector in general and execution of export orders in particular. The rules/regulations need to be streamlined. The number of visits of inspectors need to be reduced and procedures of verification of records may be simplified.

CHAPTER – 9

IMPLEMENTATION OF THE REPORT OF THE STUDY GROUP

9.1 The Study Group has representatives from the Ministry of SSIA&RI, Department of Banking, Ministry of Finance, Planning Commission, SSI associations (federations like FASSII and ICSI), NCAER, Indian Institute of Management, Ahmedabad, Economists, SSI experts, etc. The recommendations given by the Study Group have been discussed in the Chapters 4, 5, 6, and 7.

9.2 The Government had set up a Group of Ministers on SSI sector on 28th June, 2000, to consider urgently the policy issues pertaining to measures designed to strengthen the SSI sector and to consider the need for selective de-reservation in respect of some products presently reserved for the SSI sector.

9.3 The composition and terms of reference of the Group of Ministers (GOM) on SSI is as given below:

Composition of the Group of Ministers on SSI

- Shri L.K. Advani, Minister of Home Affairs (Chairman)
- Shri Murasoli Maran, Minister of Commerce & Industry
- Shri Kashiram Rana, Minister of Textiles
- Shri Yashwant Sinha, Minister of Finance
- Shri K.C. Pant, Deputy Chairman, Planning Commission
- Smt. Vasundhara Raje, Minister of State (Independent Charge) in the Ministry of SSI, A&RI

Terms of Reference of the GOM

- After considering the various recommendations, including the specific suggestions made by the Ministry of SSIA&RI, to formulate an integrated and balanced package of policy measures to strengthen the SSI sector, particularly in the context of dismantling of QRs and consequent increase in international competition, and
- To consider and evolve a road map for selective de-reservation in respect of certain products presently reserved for the SSI sector, as may be considered necessary for enabling a phased and orderly transition and increasing national competitiveness.

9.4 The GOM held several meetings to discuss the Interim Report of the Study Group. Detailed discussions were also held with representatives of all concerned ministries and Planning Commission; a large number of recommendations made in the Interim Report of the Study Group were accepted by the GOM.

9.5 The Ministry of SSI, A&RI organised a National Convention of SSI Associations on 30th August, 2000. This Convention was addressed by the Prime Minister and some important policy announcements for SSI sector were made. This was followed by a meeting of the SSI Board the next day, where some more announcements were made by the Government.

9.6 The recommendations made by any group/committee are very important, but what is more important is the extent to which these recommendations are accepted by the Government and the manner in which these are implemented. The Study Group suggests the following for consideration of the Government to achieve purposeful and successful implementation of these recommendations:

- The Ministry of SSI, A&RI may bring out a paper on the acceptance of the recommendations of the Study Group, and
- The Ministry of SSI, A&RI may form a small committee to monitor the implementation of these recommendations.

- The composition of the suggested committee may be as under:

1. MOS (SSI, A&RI) ... Chairman
2. Secretary (SSI, A&RI)
3. Special Secretary (Banking)
4. Adviser(VSI), Planning Commission
5. Deputy Governor (Priority Sector Lending), Reserve Bank of India
6. Secretaries of Departments of Industries In the State Govts. like Maharashtra, Gujarat, Karnataka
7. Representatives of SSI associations like FASSII, ICSI, Laghu Udyog Bharati, etc.
8. Representatives of Financial Institutions, like SIDBI, SBI, PNB, etc.
9. Experts from SSI sector.
10. DC(SSI) ... Member-Secretary

9.7 The recommendations of the Study Group cover aspects like: (i) availability of adequate credit at reasonable cost, (ii) enhancing infrastructural facilities for SSI sector, (iii) establishment of Incubation Fund, (iv) establishment of Laghu Udyog Nirman Nidhi for providing equity to SSI units, (v) enhancement of marketing support and assistance for exports, (vi) provision of credit guarantee to tiny units for credit/loans from financial institutions and banks, (vii) simplification of rules, laws, forms, returns, etc, (viii) replacement of stringent labour laws by flexible and friendly laws; and (ix) gradual replacement of inspectors' visits by voluntary declarations and self-certification and need to be implemented in the most effective manner in a specific time bound period for helping the SSI sector to achieve high growth and become more competitive.

9.8 The members of the Study Group also decided in the seventh meeting that a Committee comprising major federations of SSI associations may be set up by the Ministry of SSI, A&RI along with the concerned Ministries/

Departments of Central and State Governments, RBI, SIDBI, financial institutions and other organisations. The Ministry of SSIA&RI may hold consultations with this Committee for smooth and fast implementation of the recommendations of the Study Group. This Committee of could also help the banks and financial institutions in assessing credit requirements of the SSI sector and suggest measures and remedies for rehabilitation of potentially viable sick SSI units. The Committee could form a forum where problems of SSI sector regarding taxation, labour laws, marketing inputs, etc, could be discussed for possible solutions. The Study Group also observed that though good planning was important, proper implementation of the plans was more important for achieving good results.

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ANNEXURE - 1

DEFINITION OF SSI UNITS

Year	SSI	AMC	TINY	EOU	SSSE	SSSE	Remarks
1950	Capital Assets not exceeding Rs.5 lakh						Employment less than 50 workers per day (with the use of power) or less than 100 workers per day (without the use of power)
1958	Capital investment of less than Rs.5 lakh						Same as above except that the per day employment criteria was replaced by a "per shift" provision.
1959	In capital investment, value of machinery to be taken at original price paid irrespective of it being new or old.						— Do —
1960	Gross value of fixed assets up to Rs.5 lakh.	Gross Value of fixed assets upto Rs.10 lakh					Employment condition was dropped.
Original Value of Plant and Machinery Only.							
1966	Up to Rs.7.5 lakh	Upto Rs.10 lakh					
1975	Upto Rs.10 lakh	Up to Rs.15 lakh					
1977			Upto Rs.1 lakh*				* Units located in rural areas/towns with a maximum population of up to 50,000 as per 1971 census.
1980	Upto Rs.20 lakh	Upto Rs.25 lakh	Upto Rs.2 lakh*				* Units located in rural areas/towns with a maximum population of up to 50,000 as per 1971 census.

Year	SSI	ANC	TINY	EOU	SSSE	SSSBE	Remarks
1985	Upto Rs.35 lakh	Upto Rs.45 lakh			Upto Rs.2 lakh**		** Units located in rural areas and towns with maximum population of up to 5 lakh as per 1981 census. The SSSE classification suspended from 1991 and replaced by SSSBEs.
1991	Upto Rs. 60 lakh	Upto Rs.75 lakh	Upto Rs.5 lakh @	Upto Rs.75 lakh		Upto Rs.5 lakh @	@ The location-specific condition was removed.
1997	Upto Rs.300 lakh\$	Upto Rs.300 lakh	Upto Rs.25 lakh				
1999	Upto Rs.100 lakh	Upto Rs.10 lakh	Upto Rs.25 lakh			Upto Rs. 10 lakh	

Notes : SSI - Small scale industries, ANC - Ancillary Industry, TINY - Tiny Unit, EOU - Export Oriented Unit, SSSE - Small Scale Service Establishment, SSSBE - Small Scale Service Business Oriental Establishment : \$ Government of India has since decided to lower the ceiling from Rs.300 lakh to Rs.100 lakh.

1. Women Entrepreneurs' Enterprise as defined, for the first time, in 1988 laid down that an enterprise owned and administered by a woman entrepreneur, with a minimum financial interest of 51 per cent in the share capital and giving at least 50 per cent employment to women would be treated as Women's Enterprise. The investment ceilings were kept at par with the limits specified in 1985 for other units, i.e., upto Rs.35 lakh for small scale industry units and upto Rs.45 lakh for ANC. This definition was revised in August 1991, by dispensing with the employment criterion for women workers. Currently, the Women's Enterprise is defined as a small scale industrial unit/industry related service or business enterprise managed by one or more women entrepreneurs in proprietary concerns in which she / they individually or jointly have a share of capital of not less than 51 per cent as partners / shareholders / directors of private limited companies / members of co-operative societies..
2. For an ancillary unit there was a requirement to supply at least 50 per cent of its production/ services to other undertakings, which got modified to a limit of 30 per cent in 1988 and again raised to 50 per cent in 1991.
3. Export-oriented units are under obligation to export at least 30 per cent of the annual production by the end of the third year and onward from the year of commencement of production.
4. As small scale Industry unit cannot be controlled or owned by or be a subsidiary industrial undertaking.

Source : Derived from various publications of the Ministry of Industry, Govt. of India.

**SETTING UP OF THE STUDY GROUP ON
DEVELOPMENT OF SMALL SCALE ENTERPRISES****Background**

1. The Government accords high priority to generation of new job opportunities in view of high employment scenario. The Ninth Five Year Plan approved by the National Development Council (NDC) for the period 1997-2002 has envisaged to face the most daunting challenge to provide employment not only for additions to the labour force during the Plan period but also to substantially reduce the backlog of employment accumulated from the past. Despite the expected reduction in the growth rate of population to 1.58 per cent per annum by the end of the Ninth Plan, it is expected that the labour force to be provided suitable jobs would pose a major challenge. Keeping this situation in view, employment generation it has been one of the key objectives of the Ninth Plan.

2. The small scale industry (SSI) has immense potential to generate new jobs with comparatively lower investments than required to create new jobs in large and medium scale units. This sector also helps in regional dispersal and thus reducing imbalances in industrial development of different regions of the country. The SSI sector is not only providing jobs to more than 177 lakh people but also manufacturing goods worth Rs.527,515 crores (1998-99). The contribution of SSI sector in value addition of the manufacturing sector is about 40 per cent and its contribution in exports is of the level of 35 per cent. Thus, the small scale sector has been making excellent contribution in nationally important objectives of contribution to national production, employment and exports. Planning Commission has accorded high priority to the SSI sector taking into account its potential in the above areas.

3. Small enterprises, i.e., small scale units, not only play a crucial role in providing large scale employment opportunities at lower capital cost than large scale industries, but also help in industrialization of rural and backward areas, thereby reducing regional imbalance, assuring more equitable distribution of national income and wealth. SSI units are also supplementary and complimentary to large and medium scale units as ancillary units.

4. The SSI sector has emerged over four decades as a highly vibrant and dynamic sector of the Indian economy. The SSI sector has normally registered one or two percentage points higher growth rate than the entire industry sector.

5. Though this sector has made substantial progress, it faces a number of major problems like inadequate credit flow from banks and financial institutions (FIs), inadequate infrastructure facilities, low quality of products, use of obsolete technology, plant and machinery and equipment, inefficient management techniques, etc, which are still inhibiting the sector. Besides, this sector has to face the challenge of competition from opening up of the economy to globalisation and WTO commitments.

6. The policy support provided so far has acted as a catalyst in promoting this sector. However, the Planning Commission felt an urgent need to review the policy measures to make the sector more growth oriented and enable it to withstand the pressure of global competition.

Setting up of the Study Group

7. At the instance of the Deputy Chairman, Planning Commission, a Study Group on Development of Small Enterprises (hereafter expressed as Study Group) was set up vide O.M. No. VSI/8(10)/99 dated 20th May 1999, under the chairmanship of Dr. S.P. Gupta, Member, Planning Commission.

8. The composition of the Study Group is given below:

Composition

- | | |
|--|--------------|
| <p>1. Dr. S.P. Gupta
Member
Planning Commission
Yojana Bhawan, Sansad Marg
New Delhi-110 001</p> | ... Chairman |
|--|--------------|

2. **Shri C.T. Benjamin**
Secretary (SSIA&RI)
Dept. of SSIA&RI
Udyog Bhawan
New Delhi-110 011 ... Member
3. **Shri Rakesh Mohan**
Director General
N.C.A.E.R.
I.P. Estate
New Delhi-110 002 ... Member
4. **Dr. Sailendra Narain**
Managing Director
Small Industries Development
Bank of India
10/10, Madan Mohan Malviya Marg
Lucknow-226 001 ... Member
5. **Prof. Rudder Dutt**
225, Vishali, Pitampura
New Delhi-110 034 ... Member
6. **Dr. P.M. Mathew**
Director
Institute of Small Enterprises
and Development, ISED House,
Vennala, Cochin-682 028 ... Member
7. **Dr. J.S. Juneja**
Chairman
Global Projects & Services (P) Ltd
707-708, Ansal Chambers.II
Bhikaji Cama Place
New Delhi-110 066 ... Member
8. **Shri S.S. Singhania**
President
Indian Council of Small Industries
1A, S.N. Banerjee Road
Calcutta-700 013 ... Member

9. **President**
Federation of Association of Small
Scale Industries of India (FASSI)
23-B/2, Govind Singh Marg
New Delhi-110 005 ... Member
10. **Chairman**
All India SSI Committee
FICCI, Tansen Marg
New Delhi-110 001 ... Member
11. **President**
Tamil Nadu Small & Tiny Industries
Association, 10-G.S.T. Road,
Guindy, Chennai-600 032 ... Member
12. **Dr. (Ms) T. Roy**
Economist
P.O. Madhyagram
PIN-743 298 ... Member
13. **Prof. Sabestian Morris**
Indian Institute of Management
Vastrapur
Ahmedabad-380 015 ... Member
14. **Shri B.D. Jethra**
Adviser
Planning Commission
Yojana Bhawan, Sansad Marg
New Delhi-110 001 ... Convenor

9. Besides the above members, three more members could be co-opted by the Study Group as and when required. It would be seen that while constituting the Study Group, wide representation has been given to all interest groups like SSI associations, economists, Management Institute, Ahmedabad, SSI entrepreneurs, Secretaries of various Departments like SSI, A&RI and Banking, RBI, SIDBI, FICCI, etc.

10. The terms of reference of the Study Group are given below:

Terms of Reference

1. To examine the existing policies and programmes for SSI development, assess their impact and efficacy and in the light of international experience and recent economic policy reforms, suggest appropriate changes.
2. To review the definitions, legal framework keeping in view the heterogeneous composition of the SSI sector and advise if the different segments of the small firms may be covered by the same policy package or separate sets of policies may be prescribed.
3. To examine the necessity, utility and desirability of the small industry reservation policy in the context of jobless growth, assess its impact on the growth of small enterprises and make recommendations.
4. To review the place of implementation of the recommendations of the Nayak Committee and the Kapur Committee, to examine the gaps, if there is any, and suggest appropriate changes. This would go a long way to help the SSI sector in meeting its credit requirements.
5. The group may also suggest innovative instruments and institutions to build up the equity base and financial strength of the SSI sector.
6. To review the impact of the fiscal policies and tax incentives on small enterprises development.
7. To examine the impact of various regulatory laws and procedures on small enterprises and make recommendations.
8. To review the problems and prospects of marketing for SSI sector and suggest appropriate measures.
9. To examine the export and employment potentialities of small scale industries, its constraints and policy support.
10. To consider and make recommendations on any other matters as are considered appropriate.
11. It was stipulated that the Study Group should preferably meet once every two months and complete its study within six months. The term of the Study Group was extended in stages upto 31.1.2001.

ANNEXURE-3**BRIEF ACCOUNT OF THE MEETINGS OF THE STUDY GROUP
AND CONSTITUTION OF THE SUB-GROUPS****First Meeting of the Study Group**

1. The Study Group held its first meeting on 2/7/1999 at New Delhi under the chairmanship of Dr. S.P. Gupta, Member, Planning Commission, to consider various issues related to development and growth of the SSI sector, taking into account the Terms of Reference of the Study Group.
2. The first meeting of the Study Group was also attended by the Deputy Chairman, Planning Commission, along with other Members of the Planning Commission like Dr. D.N. Tiwari and Prof. S.R. Hashim. This meeting was also attended by Special Invitees like Dr. N.S. Sastry, DG & CEO, NSSO, and Dr. N.R. Samdria, President FIEO, besides the members of the Study Group.
3. The Study Group, after discussing relevant issues threadbare, decided to set up three sub-groups: Sub-Group I on Policy and Legal Framework, Reservation of Items and other measures for SSI development, Sub-Group II on Financial and Fiscal Measures for SSEs and Sub-Group III on Technology and Modernisation, R&D and Quality Testing Facilities for SSEs. The first sub-group was chaired Secretary (SSIA&RI), the second by Special Secretary (Banking) and the third by Dr. J.S. Juneja, Ex-Chairman, National Small Industries Corporation, New Delhi, and presently Chairman & Managing Director of Global Projects Pvt. Ltd.
4. The constitution of these three sub-groups is given below. All the sub-groups were to work under the Terms of Reference of the main Study Group and submit their reports within a period of two months.

Constitution of Sub-Groups

SUB GROUP-I

POLICY AND LEGAL FRAMEWORK, RESERVATION OF ITEMS AND OTHER MEASURES FOR SSE DEVELOPMENT

- | | | | |
|----|---|---|------------------|
| 1. | SHRI C.T. BENJAMIN
SECRETARY (SSIA&RI)
MIN. OF SSIA&RI, NEW DELHI | — | CHAIRMAN |
| 2. | PROF. SEBASTIAN MORRIS
IIM, AHMEDABAD | — | MEMBER |
| 3. | VICE-PRESIDENT, TANSIA
CHENNAI | — | MEMBER |
| 4. | PRESIDENT, FASSI, CHENNAI | — | MEMBER |
| 5. | SHRI S.S. SINGHANIA
PRESIDENT, ICSI, CALCUTTA | — | MEMBER |
| 6. | SHRI B.D. JETHRA
ADVISER, PLANNING COMMISSION
NEW DELHI | — | MEMBER |
| 7. | SHRI RAKESH MOHAN
D.G., NCAER, NEW DELHI | — | MEMBER |
| 8. | PROF. RUDDER DUTT
ECONOMIST, NEW DELHI | — | MEMBER |
| 9. | SHRI BRAHM DUTT
JT. SECRETARY (SSI)
DEPT. OF SSIA&RI, NEW DELHI | — | MEMBER-SECRETARY |

SUB GROUP-II**FIANACIAL AND FISCAL MEASURES FOR SSEs**

- | | | | |
|----|---|---|------------------|
| 1. | SPECIAL SECRETARY (BANKING)
MINISTRY OF FINANCE, NEW DELHI | — | CHAIRMAN |
| 2. | SHRI S.S. SINGHANIA
PRESIDENT, ICSI, CALCUTTA | — | MEMBER |
| 3. | DY. GOVERNOR
(PRIORITY SECTOR LENDING)
RESERVE BANK OF INDIA, MUMBAI | — | MEMBER |
| 4. | CHIEF GEN. MANAGER
DEVELOPMENT BANKING & SSI
STATE BANK OF INDIA, MUMBAI | — | MEMBER |
| 5. | PRESIDENT, FEDERATION OF
ASSOCIATION OF SMALL SCALE
INDUSTRIES OF INDIA (FASSI),
NEW DELHI/CHENNAI | — | MEMBER |
| 6. | DR. SAILENDRA NARAIN
M.D., SIDBI, LUCKNOW | — | MEMBER-SECRETARY |

SUB GROUP-III**TECHNOLOGY AND MODERNISATION, R&D AND
QUALITY TESTING FACILITIES FOR SSEs:**

- | | | | |
|----|---|---|----------|
| 1. | DR. J.S. JUNEJA
M.D., GLOBAL PROJECTS, NEW DELHI | — | CHAIRMAN |
| 2. | VICE-PRESIDENT, TANSIA
CHENNAI | — | MEMBER |
| 3. | PRESIDENT, FASSI, CHENNAI | — | MEMBER |
| 4. | SHRI M. AHMAD, CMD
N.S.I.C., NEW DELHI | — | MEMBER |

5. DR. H.R. BHOJWANI, HEAD — MEMBER-SECRETARY
RESEARCH PLANNING & BUSINESS
DEVELOPMENT, CSIR, NEW DELHI

Second Meeting of the Study Group

5. The second meeting of the Study Group was held on 1/9/1999 at New Delhi under the chairmanship of Dr. S.P. Gupta. In this meeting Ms. Usha Rao Monari, Manager (SMG), International Finance Corporation, an associate organisation of the World Bank was also present. She shared the experience of other countries like Canada, USA, Taiwan, Eastern European countries, Latin American countries, Chile, Malaysia, Thailand, Japan, etc., regarding various policy measures for small and medium enterprises (SMEs) The measures adopted by Small Business Administration (SBA) of USA were also indicated.

6. This meeting of the Study Group was also attended by Dr. M.S. Ahluwalia, Member, Planning Commission. Shri O.N. Sharma, a Small Scale Industrialist, also gave his views on policy measures for the development of SSEs. Sub-Group IV on Marketing and Exports of SSEs was constituted under the chairmanship of Additional Secretary and Development Commissioner (Small Scale Industries). The constitution of the Sub-Group IV is given below:

SUB GROUP-IV

MARKETING INPUTS AND EXPORTS

- | | | | |
|----|--|---|----------|
| 1. | SHRI K.V. IRNIRAYA
SECRETARY & DC(SSI) | — | CHAIRMAN |
| 2. | SHRI S.B. MOHAPATRA
AS&FA, MINISTRY OF COMMERCE | — | MEMBER |
| 3. | SHRI R.K. BHARGAVA
CEO, KVIC, MUMBAI | — | MEMBER |
| 4. | SHRI M. AHMAD
CMD, NSIC, NEW DELHI | — | MEMBER |

- | | | |
|----|--|--------------------|
| 5. | SHRI SHEKHAR BAJAJ
VICE-CHAIRMAN, ASSOCHAM
NEW DELHI | — MEMBER |
| 6. | DR. N.R. SAMDRIA
PRESIDENT, FIEO, NEW DELHI | — MEMBER |
| 7. | DR. C.S. PRASAD
ADDL. DC (SSI), NEW DELHI | — MEMBER-SECRETARY |

7. Sub Group-IV was to submit its report to the Study Group within a period of two months and to work under the Terms of Reference of the main Study Group, as was decided for other Sub Groups.

8. It was also decided that the 3rd meeting of the Study Group would be held on 30/9/1999 in Chennai. This meeting was to be preceded by a Seminar on Development of Small Scale Enterprises to be held on 29/9/1999 and to be organised by the Federation of Associations of Small Scale Industries of India (FASSII). This seminar would provide an opportunity to the members of the Study Group to interact with the associations of small scale industries and tiny industries situated in and around Chennai.

Third Meeting of the Study Group:

9. The third meeting of the Study Group was held at Hotel Taj Coromandel, Chennai, on 30/9/1999 under the chairmanship of Dr. S.P. Gupta. On 29/9/1999, the Study Group members and the Chairman visited a number of tiny and SSI units to discuss their problems and constraints faced by these units. A seminar was organised by the FASSII on 29/9/1999 at Taj Coromandel. A number of SSI and tiny units' associations participated in the seminar, narrating their problems and constraints. The Chairmen of the sub-groups also apprised the Study Group about the progress of work of the sub-groups.

10. The Chairman of Sub-Group III, Dr. Juneja, also had a meeting of Sub-Group III at Chennai and discussed measures for modernisation and technological upgradation of the SSI sector.

Fourth Meeting of the Study Group

11. Fourth meeting of the Study Group was held in New Delhi on 8/3/2000 under the chairmanship of Dr. S.P. Gupta, Member, Planning Commission. In this meeting the Study Group members had interaction with two experts on WTO implications on SSI sector. Dr. Vishwajeet Dhar, Senior Fellow, Research Information System, New Delhi, and Dr. Neela Mukherjee of Delhi University made their presentation on WTO regime and its implications on SSI sector, particularly with reference to bringing a number of items reserved for exclusive manufacture in SSI sector on Open General Licence (OGL). The experts also presented their views regarding WTO compliance of existing SSI policies, subsidies, reservation list, etc.

12. The Study Group also considered various other important aspects like sickness in SSI sector, delayed payments to SSI units, availability of venture capital, labour laws and their implementation with respect to SSI units, etc.

Fifth Meeting of the Study Group

13. The fifth meeting of the Study Group was held on 30/5/2000 which was presided by the Chairman, Dr. S.P. Gupta. In this meeting the Chairmen of the sub-groups appraised the Study Group regarding the work carried out by each sub-group and the status of preparation of their reports. The sub-groups had held a number of meetings by this time and their reports were at various stages of finalisation. The Chairman of Sub-Group I made a presentation about the recommendations made by the sub-group which were discussed threadbare by the Study Group and all the recommendations made by the sub-group were accepted by the Study Group.

Sixth Meeting of the Study Group

14. The sixth meeting of the Study Group, under the chairmanship of Dr. S.P. Gupta, was held on 9/6/2000 to discuss the reports of the sub-groups II, III and IV. The Chairmen/Member-Secretaries of Sub-Groups II, III and IV made presentations explaining in detail, the recommendations made in their respective reports. These recommendations were discussed in detail and most of them were accepted by the Study Group with/without some modifications.

15. Besides the above meetings of the Study Group, the Chairman of the Study Group held a number of meetings with the Chairmen of the sub-groups to review the progress of work of preparation of the reports by the sub-groups. The meetings resulted in harmonisation of the working of the sub-groups.

Seventh Meeting of the Study Group

16. The seventh meeting of the Study Group, under the chairmanship of Dr. S.P. Gupta, was held on 19/12/2000. The draft final report of the Study Group was circulated to the members. In this meeting detailed discussions were held on the draft final report.

17. The Members of the Study Group discussed in detail, the recommendations of the final report. Most of the recommendations were accepted by the members of the Study Group and a few modifications were suggested. Most of the modifications were regarding proper and effective implementation of the recommendations given in the final report and the Chairman agreed to incorporate these valuable suggestions in the final report. The members of the Study Group also agreed that the Chairman may set up an Editing Committee for editing and carrying out modifications in the final report as decided in this meeting and to print and submit the final report of the Study Group to the Deputy Chairman, Planning Commission.

18. The Editing Committee included Shri V.S. Narasimhan, Shri S. S. Singhania, Dr. Shailendra Narain, Prof. Rudder Dutt, Dr. C.S. Prasad, Shri B.D. Jethra and Shri S.G. Raoot. The Committee was to be chaired by Dr. S.P. Gupta, Chairman of the Study Group. Members of the Study Group had unanimously agreed and authorised Dr. S.P. Gupta to send copies of the final report of the Study Group to all concerned Ministries, Departments, RBI, and other organisations, including major federations of SSI associations, etc.

19. The representatives of SSI federations expressed their sincere thanks to the Chairman for conducting all the meetings in an excellent manner and also providing guidance to the Study Group in arriving at the consensus on the recommendations of the Study Group. The members also expressed their feelings of gratitude to the Deputy Chairman, Planning Commission, for constituting the Study Group and giving them an opportunity to serve on the Study Group as members. The members also expressed their thanks to

the Secretary (SSI,A&RI), AS&DC (SSI), all officers of the Ministry of SSIA&RI, Adviser (VSI) and his team of officers for their valuable contributions.

20. The members of the Study Group expressed satisfaction regarding quick announcements of policy measures by the Prime Minister and MOS (SSIA&RI) and for taking immediate steps for implementation of some of the recommendations. The Members also expressed their happiness that this was probably one of groups/committees set up by the government whose more than 80 per cent of the recommendations had been accepted by the government and implementation had started even before the submission of the final report.

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NEW PACKAGE FOR SSI SECTOR**MAJOR ANNOUNCEMENTS BY THE PRIME MINISTER
AT THE NATIONAL CONFERENCE OF SSI UNITS HELD IN
NEW DELHI ON 30TH AUGUST 2000 AND OTHER DECISIONS
ANNOUNCED BY THE MINISTRY OF SSI, A&RI*****Policy Support**

- The investment limit for the tiny sector will continue to be Rs.25 lakh and for the SSI sector it will be Rs.100 lakh.
- The Ministry of SSI, A&RI will bring out a specific list of high-tech and export oriented industries which would require the investment limit to be raised up to Rs.5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.
- The Limited Partnership Act will be drafted quickly and got enacted.

Fiscal Support

- To improve the competitiveness of Small Scale Sector the exemption on excise duty limit raised from Rs.50 lakh to Rs.1 crore.

Credit Support

- Composite loans limit raised from Rs.10 lakh to Rs.25 lakh.
- The Small Scale Service and Business (Industry Related) Enterprises (SSSBs) with a maximum investment of Rs.10 lakh will qualify for priority lending.

* These announcements and decisions are based on the recommendations of the Group of Ministers, which had examined in depth the recommendations made in the Interim Report of the Study Group.

- In the National Equity Fund Scheme, the project cost limit will be revised from Rs.25 lakh to Rs.50 lakh. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Rs.10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum.
- The eligibility limit for coverage under the Credit Guarantee Scheme has been revised to Rs.25 lakh from the present limit of Rs.10 lakh.
- The Department of Economic Affairs will appoint a Task Force to suggest revitalisation/restructuring of the State Finance Corporations.
- The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks.

Infrastructural Support

- The Integrated Infrastructure Development Centre (IIDC) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas.
- Regarding upgrading the industrial estates, which are languishing, SSI Ministry will draw up a detailed scheme for consideration of the Planning Commission.
- A Plan scheme for cluster development will be drawn up.
- The funds available under the non-lapsable pool for the North East will be made use of for industrial infrastructure development, setting up of incubation centres, for cluster development and for setting up of IIDCs in the North East including Sikkim.

Technological Support and Quality Improvement

- Capital Subsidy of 12 per cent for investment in modernisation and upgradation technology in selected sectors. An inter-ministerial committee of experts will be set up to define the scope of technology upgradation and sectoral priorities.

- To encourage total quality management, the scheme of granting Rs.75,000/- to each unit forgetting ISO 9000 certification will continue for the next six years, i.e., till the end of the 10th Plan.
- Setting up of incubation centres in sunrise industries will be supported.
- The Technology Bank for Small Enterprises (TBSE) set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be networked with NSIC and SIDO. SIDO's Small Enterprises for Information Resource Centre Network (SENET) Programme and Asia Pacific Council for Technology Transfer (APCTT) in association with NSIC would be utilised for this.
- SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies from R&D institutions in India and abroad and circulate among the industry associations for dissemination of the latest technology related information.
- Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonise the same with SIDBI.
- One time capital grant of 50 per cent will be given to small scale associations who wish to develop and operate testing laboratories, provided they are of international standards.

Marketing Support

- SIDO will have a Market Development Assistance (MDA) programme, similar to the one obtaining in the Ministry of Commerce. It will be a Plan scheme.
- The vendor development programme, buyer-seller meets and exhibitions would be organised more often and in dispersed locations.

Streamlining Inspections/Rules and Regulations

- To minimise harassment to small scale sector a Group will be set up to recommend within three months, means of streamlining inspections. This will include repeal of laws and regulations applicable to the sector that have since become redundant.
- Self-certification will be progressively encouraged in lieu of inspections, which should be prescribed under the following three conditions: (i) On receipt of a specific complaint, (ii) Selection of unit for sample check (say, 10 per cent of total units), and (iii) For audit and safety purposes.

Entrepreneurship Development

- Capacity building in the SSI sector, both for entrepreneurs as well as workers will be given top priority. SSI Ministry and Labour Ministry will jointly work out a strategy.

Facilitating Prompt Payment

- The Reserve Bank of India is being requested to appoint a Task Force to go into the question of how to strengthen and popularise factoring services and how to encourage bills culture, without recourse to the SSI suppliers. The Task Force shall give its report within six months of its constitution.
- RBI is being requested to take up with the banks the question of sub-allocating overall limits to large borrowers specifically for meeting the payment obligations in respect of purchases from the SSIs, either on cash basis or on bills basis.

Rehabilitation of Sick Units

- RBI is being requested to draw up revised guidelines for rehabilitation of currently sick but potentially viable SSI units. Such guidelines should be detailed, transparent and non-discretionary.

Promoting Rural Industries

- To support the Handloom Sector "Deendayal Hathkargha Protsahan Yojana" has been announced. The scheme has a total financial implication of Rs.447 crores and will provide comprehensive financial & infrastructural support to the weavers.
- The Government is working out a new comprehensive package to strengthen Khadi and Village Industry that will further upgrade the skills of khadi workers.

Improving Data Base

- A fresh census of small scale industries will be conducted covering, inter-alia, the incidence of sickness and its causes.

Policy Package for Tiny Sector

- The investment limit for the tiny sector will continue to be Rs.25 lakh.
- Under the Prime Minister's Rozgar Yojana, which finances setting up of micro enterprises and generate employment for educated unemployed youths, the family income eligibility limit has been revised from Rs.24,000 to Rs.40,000 per annum.

Credit Support

- The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks. In respect of tiny units also twenty per cent of the projected annual turnover of the tiny units would qualify for working capital loan, as indicated for SSI units.
- The National Small Industries Corporation will continue to give composite loans upto Rs.25 lakh to the tiny sector and continue to charge one per cent concessional interest rate.
- SIDBI will continue to give concessional rate of refinance to the tiny

sector which is now at 10.5 per cent, as compared to 12 per cent for the SSI sector. This policy will continue.

- In the National Equity Fund (NEF) scheme, the project cost limit will be raised from Rs.25 lakh to Rs.50 lakh. The soft loan limit will be retained at 25 per cent of the project cost, subject to a maximum of Rs.10 lakh per project. Assistance under the NEF will be provide at a service charge of 5 per cent per annum and 30 per cent of the investment will be earmarked for the tiny sector.

Infrastructural Support

- The IID scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas. Under this scheme, 50 per cent of the plots will be earmarked for the tiny sector (as against 40 per cent at present).
- Under the National Programme for Rural Industrialisation (NPRI), cluster development is being taken up by KVIC, SIDO, SIDBI and NABARD. The major beneficiaries of cluster development programme will be tiny sector units. The sponsoring organisation for each cluster will provide for design development capacity building, technology intervention and consortium marketing. A cluster development fund will be created under the Plan.

Technological Support

- Capital Subsidy of 12 per cent for investment in technology in select sectors, preference will be given to the tiny sector for loans for technology upgradation.

Marketing Support

- Preference will be given to the tiny sector while organising buyer-seller meets, vendor development programmes and exhibitions.

