CHAPTER V

CONCESSIONS, INCENTIVES, ASSISTANCE ETC. AVAILABLE TO SSI
Concessions, Incentives, Assistance etc. available to small scale industries

In order to increase the competitive strength of small scale industries and to enable them to overcome their weaknesses, the Government of India has set up various Institutions / Boards for assisting SSI units. The Government of India has also taken several measures for providing institutional support and services at the Central and State levels for accelerating development of small industries. The Government has reserved many goods for exclusive manufacture in the small scale sector. Government, banks, and other institutions are giving various concessions/assistance/incentives to SSI units right from supply of finance, infrastructural facilities, raw materials etc. to marketing of their products. Some of the important concessions, incentives / assistance given to SSI units are given below.

Reservation of Industries / Items for Small Scale Sector

The policy of reservation of items for exclusive manufacture in the small scale sector was initiated in 1967, primarily as a promotional and protective measure vis-a-vis the large scale sector. Under this policy, once an item is
reserved for the small scale sector, no unit in the large or medium scale sector is licenced to manufacture that item except in such cases where the large unit undertakes to export atleast 75% of its total production. The capacity of the existing medium and large scale units is pegged on the basis of their best annual production in any of the three years ending with a specified date as notified by the Government from time to time. By preventing fresh entry of large units and also by prohibiting further expansion of existing units in the large scale sector, all future expansion of capacity is reserved for the small scale sector. This is how reservation is expected to protect small scale sector against competition from the large units.

Over the years, a large number of items have been reserved for the small scale sector and these items were 872 at the end of March 1984.(1) The reserved items include ice-creams, pickles, bread, biscuits, corrugated paper, readymade garments, leather shoes, plastic tubes, soap cases, buckets, combs, some chemicals and dyes, electronic equipments, components etc. Recently with a view to giving a boost to the SSI units in the country, the Government

has reserved seven more items for production in the small scale sector and has deleted fourteen items from the list.\(^{(2)}\)

Besides, in the case of 18 items, the nomenclature has been changed.

**Credit Facilities**

Credit facilities at concessional rates are given to SSI units by commercial banks and State Financial Corporations. State Financial Corporations (SFCs) extend financial assistance by way of granting medium and long term loans to SSI units for acquisition of fixed assets. However considering that very small units have limited organisational strength to deal with more than one institution, SFCs and SIDCs would now provide both term loan and working capital assistance to new small industrial concerns. This is under a new refinancing scheme of Industrial Development Bank of India (with effect from February 1, 1986) where IDBI would extend 100 per cent refinance at 9 per cent rate of interest to SFCs and SIDCs, for integrated term loans upto Rs.1.00 lakh to very small units.\(^{(3)}\) SFCs and SIDCs would charge interest at a rate not more than 12.5 per cent to the borrowers.

\(^{(2)}\) Indian Express dated 4.6.1986.

Commercial banks extend financial assistance both for the acquisition of fixed assets and working capital requirements. While sanctioning term loans to SSI units for acquisition of fixed assets, commercial banks normally insist from small entrepreneurs a minimum contribution of 25 per cent of the cost of project. However, when term loan is granted under the refinancing scheme of IDBI, the norms for minimum contribution from promoter are as under. (4)

<table>
<thead>
<tr>
<th>Promoters’ Contribution (% of project cost)</th>
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<tbody>
<tr>
<td>i) Projects sponsored by technician</td>
</tr>
<tr>
<td>ii) Projects set up in</td>
</tr>
<tr>
<td>(a) 'A' category districts/regions</td>
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<tr>
<td>(b) 'B' &quot;</td>
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<tr>
<td>(c) 'C' &quot;</td>
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<tr>
<td>iii) Others</td>
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</tbody>
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Banks and SFCs accept a minimum debt-equity ratio of 2.5 : 1 in the case of SSI units, as against minimum debt-equity ratio of 1.5 : 1 ordinarily insisted on in the case of medium & large scale units. (5)

(4) Circular of IDBI dated 22.11.85.
The Industrial Development Bank of India gives refinance assistance to the extent of 60 per cent to 75 per cent to commercial banks and SFCs, in respect of term loans granted by them to SSI units for acquisition of fixed assets. Besides, IDBI also extends assistance under its Bills Rediscounting Scheme to the extent of 85 percent of the cost of machinery, to enable the SSI units to set up new projects. Recently imported machinery has also become eligible for assistance under the Bills Rediscounting Scheme, provided the machinery is purchased from a local agent of the foreign supplier. For taking advantage of the Bills Rediscounting Scheme of IDBI, a small scale unit has to approach a commercial bank for issuance of a Deferred Payment Guarantee.

In the case of working capital facilities, where the total working capital limits (present and proposed) exceed Rs.10.00 lakhs, the commercial banks appraise the requests of small scale units, as per recommendations of Tandon and Chope Committees.

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The present interest rate structure of commercial banks is given below.

<table>
<thead>
<tr>
<th>Rate of Interest applicable to SSL Unit</th>
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<tbody>
<tr>
<td>Term loans for acquisition of fixed assets. (The rate is reduced to 12.5% p.a. if unit is situated in backward districts).</td>
</tr>
<tr>
<td>Deferred Payment Guarantees under IDBI’s Bills Rediscounting Scheme for repayment period upto 5 years.</td>
</tr>
<tr>
<td>(* Includes 1% bank guarantee commission and cost of stamp duty on bills.)</td>
</tr>
<tr>
<td>Working capital limits upto and inclusive of Rs. 2.00 lakhs.</td>
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<tr>
<td>Over Rs. 2.00 lakhs and upto Rs. 25.00 lakhs.</td>
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<tr>
<td>Above Rs. 25.00 lakhs.</td>
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<tr>
<td>13.5 %</td>
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<tr>
<td>14.75 % *</td>
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<tr>
<td>14 %</td>
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<tr>
<td>16.5 %</td>
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<tr>
<td>18 %</td>
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</tbody>
</table>

Besides, with the object of encouraging commercial banks and other credit institutions to grant loans to small scale industries, the Government of India has promoted credit guarantee scheme (now known as DICGC 1981 for SSI units). The scheme provides for reimbursing losses suffered by the lending institutions.

**Interest subsidy scheme**

In the case of small scale units (which are situated in towns having population of less than 50,000) whose requirements of loans are up to Rs.2.00 lakhs and below, the Government has offered interest subsidy (i.e. difference between 7% and normal rate of interest charged on loan) for reducing the burden of interest on small scale units. (9)

**Seed Capital Scheme**

Seed / margin money assistance is provided, as loan component, under the programme of District Industries Centres, to SSI units. The Regional Development Corporations and SFCs are entrusted with the job of sanctioning and disbursing seed capital assistance. Educated unemployed persons get seed capital assistance ranging from 10% to 22.1/2% for projects up to Rs.1.00 lakh. Assistance under this scheme is treated as a secured loan carrying 4% interest per annum, repayable after full repayment of loans obtained from financial institutions.

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Under the central scheme of margin/seed money, margin money assistance is provided to 10% of total fixed capital investment of small units, with investment on plant and machinery not exceeding Rs.1.00 lakh and located in towns and villages having less than 50,000 population. SC/ST entrepreneurs are eligible for seed money assistance up to 15% of total fixed capital investment or Rs.20,000/- whichever is lower.

Under seed capital scheme of State Financial Corporations (SFCs) known as special Capital Scheme the maximum assistance that can be sanctioned out of special capital to meet the gap in the equity contribution is 20% of the project cost or Rs.2.00 lakhs whichever is lower. As against this, under seed capital scheme administered through the 21 State Industrial Development Corporations (SIDCs/SIDCs) the amount of seed capital assistance will not normally exceed Rs.10.00 lakhs or 10% of project cost, whichever is lower. (10)

The Risk Capital Foundation (RCF) sponsored by the IFCI (Industrial Finance Corporation of India) also operates a scheme with the main objective of extending supplementary financial assistance to new entrepreneurs, particularly technologists and professionals. Under the scheme of Risk

(10) IIBI Pamphlet/Booklet "IIBI Seed Capital Assistance Scheme" Page 6.
Capital Foundation interest free loan is made available to small and medium sized units, limited to 50 per cent of promoter's contribution to the equity of a project, and subject to an upper limit of Rs.10.00 lakhs in respect of a single project, where there is only one borrower and Rs.15 lakhs where there are two or more borrowers.\(^{(11)}\)

The State Bank of India has also started in 1976 an Equity Fund Scheme for SSI units to assist entrepreneurs setting up new SSI units in need of equity support through interest free loans, repayable on soft terms.

IFCI's Scheme of subsidy to small entrepreneurs for meeting cost of feasibility studies, etc.

Under the Scheme, IFCI subsidises the fees for consultancy assignments relating to feasibility studies, project reports, etc. paid by a small entrepreneur to a TCO (Technical Consultancy Organisation) normally to the extent of 80 per cent of fees for the assignment or Rs.5,000/- whichever is less.\(^{(12)}\)

Scheme of outright grant or subsidy

Since 1971, the Government of India is providing an outright grant or subsidy on fixed capital investment to new industrial units in selected backward areas as also for

\(^{(11)}\) RBI "Report of the study group to examine the issues relating to the setting up of Soft Loan Assistance Fund for rehabilitation of sick small scale industrial units" 1985, Page 30.
\(^{(12)}\) Ibid, Page 34.
expansion, diversification and modernisation programmes of existing industrial units. The maximum subsidy admissible to an industrial unit will be 15% of the fixed capital investment made on or after 1st March 1973 or Rs.15.00 lakhs, whichever is less. The DICs, SFCs, SICOM, IDBI, IFCI, ICICI are agencies for disbursal of this subsidy.

Besides, State Governments are providing other incentives to newly established industrial units, e.g. under the Package Scheme of Incentives the Government of Maharashtra is offering certain special incentives to industries which are prepared to function in less industrialised sections / parts of the State of Maharashtra. Under this scheme, the eligible SSI unit gets benefit of deferred sales tax amount upto 100 percent of fixed capital investment for a period of 12 years and to be paid thereafter in a lumpsum or in instalments.

Line of credit scheme of IRCI for assistance of SSI units

The assistance under this scheme of IRCI (Industrial Reconstruction Corporation of India Ltd., now IRBI) is routed through a state level corporation which has to prepare a scheme for revival of the units in co-ordination

(14) Ibid - Page 140.
with the IRCI and the concerned commercial bank. The assistance is subject to the funding of past liabilities, undertaking by an agency for meeting future cash losses of the unit and the tie-up arrangement for working capital requirements. The loan is at present provided at 7.5 per cent (p.a.) rate of interest. (15)

Government of India's margin money scheme for rehabilitation of sick units

The scheme provides margin money up to a maximum amount of Rs.20,000 per unit, on a long term basis only to those registered SSI units, which have been set up in the preceding 7 years. This margin money will enable the sick units to obtain additional institutional finance for their revival. (16)

Land for industrial use

To facilitate small entrepreneurs in setting up their industries at minimum initial cost, readymade accommodations are provided by the State Industrial Development Corporations. Facilities in the form of hire purchase schemes are extended by SIDCs so that even after making payment of 20 per cent to 30 per cent of the total cost of the shed, an entrepreneur

(15) RBI "Report of the Study Group on Soft Loan Assistance Fund"
(16) Ibid - Page 31
can take possession of the shed and start industry and make the balance payment in suitable instalments. (17) For getting allotment of land/shed an entrepreneur is required to apply to the Regional Manager of State Industrial Development Corporation, along with a certificate of approval of the scheme and probable requirement of land for his unit from General Manager, District Industries Centre.

**Plant & Machinery**

A SSI unit can acquire plant and machinery from anywhere by raising finance from its own sources, or from SFCs, Banks, etc. by way of term loans or by obtaining Deferred Payment Guarantees from Commercial banks under IDBI's Bills Rediscounting Scheme.

Alternatively a small scale unit can procure machinery from National Small Industries Corporation Ltd. on hire-purchase basis. NSIC normally charges interest at 13.1/2% to 15% p.a. depending on the location and quantum of the loan, plus 2 to 4% administrative charges are also levied. The full value of machinery is to be repaid by 13 half yearly instalments after the initial moratorium of 12 to 18 months. (18)

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Raw Materials

In the case of items of raw materials in short supply from indigenous sources, the SSI units are either allowed to import the same on a restricted basis or the available quantities are distributed through Small Industrial Development Corporations, (MSSIDC in the case of Maharashtra State) to the possible extent. Some of the items are imported through the State Trading Corporation (STC) or Minerals & Metal Trading Corporation (MMTC) and are given to the states on a prorata basis. These supplies are more or less uncertain and the SSI unit has to plan a year's production programme on open market rates so as to avoid the risk of fluctuations. This has been confirmed by many SSI entrepreneurs during my survey and has been mentioned in subsequent Chapters.

As regards procurement of steel also, a SSI unit can procure it either from SIDC or from open market. However it cannot purchase steel directly from the Steel Authority of India Ltd. (SAIL) as SAIL is totally prohibited to sell steel directly to SSI units. (The Economic Times dated 21.12.81, letter from P.K.N. Panicker, Madras). This policy is strange. If SAIL is having stock of steel items, it can sell to big industries or other actual users or traders, but not to small industries. During my survey also, many entrepreneurs expressed their dissatisfaction over this policy of SAIL.
Marketing Support to SSI Units

The success of SSI units greatly depends upon the ability and efficiency of these units in marketing their products. Various agencies help SSI units in marketing their products. One of such agencies is the National Small Industries Corporation. NSIC assists SSI units in effecting supplies to the Central Government Departments through the Directorate General of Supplies and Disposals (DSG&D). It has, since a few years now, been nominated as the apex agency for registering units of the small scale sector on behalf of DSG&D.

The process of registration involves inspection of the unit's capabilities and management, the quality of its products, its financial status, its credibility etc. by a team of experts. Once registered, the unit gets tender documents free of cost. It also gets the benefit of not having to pay any security deposit or earnest money within the specified monetary limits. (19)

NSIC is also trying to persuade public sector undertakings and State Governments to extend similar facilities in the matter of their purchases. Besides Government purchases, NSIC has in recent years, taken on a few product

(19) "Laghu Udyog Samachar" - (April 1985)
lines for direct marketing assistance to the small scale sector e.g. hosiery products, handmade paper, starch, sewing thread, elastic bands, rigid PVC pipes, TVs etc. Thus by selling their products through NSIC, SSI units can save considerable marketing headaches and do not have to dish out substantial commissions to middle men. Besides the registered units also get price preference upto 15% over the lowest quotation received from a large scale unit for the same item.

Another institution which helps SSI units in marketing is Small Scale Industrial Development Corporation (SSIDC). In Maharashtra it is MSSIDC. The MSSIDC secures orders in its own name from CSPQ, DGS&D, State Electricity Boards, Food Corporation of India, Coal Mining Authority and then these orders are given to SSI units for execution. State Governments also give preference to the products of SSI units without any compromise on the quality of the item required.

On the export front, apart from usual concessions/incentives for exporters like cash assistance/incentives, liberalised export credit by commercial banks/EXIM bank, duty draw back, guarantee cover by Export Credit Guarantee Corporation (ECGC), income tax benefits etc, special facilities and assistance are given by the State Trading Corporation (STC) to small scale exporters for development
and export of selected products. Besides, training is also given to small scale entrepreneurs in export marketing by SIDO (Small Industry Development Organisation) and Indian Institute of Foreign Trade.

Export House certificates are also granted to every consortium of SSI exporters. The Government of India has also approved a scheme under which export consortia of SSI may get financial assistance in the initial years to the extent of Rs.50,000/- p.a. from Government of India for meeting their expenditure on selected items for establishment and market promotion activities. The implementing agency of this scheme is Development Commissioner (SSI) through Small Industries Service Institutes. (20)

Training /Consultancy & other Services

With a view to providing various services and support to SSI units (like preparation of project report, registration of unit as SSI, registration with NSIC, Export Promotion Councils, Central Store Purchase Organisation, marketing through MSSIDC etc.) under a single roof, the Government has set up District Industries Centres.

Besides, for providing technical and managerial support to SSI entrepreneurs SIDO (Small Industries Development Organisation) has established a network of 26 Small Industries Service Institutes (SISIS), 32 branch institutes, 41 extension centres, one tool room and training centre etc. These sections of SIDO are equipped and manned to render institutional assistance to the entrepreneurs in the sphere of their technological input needs. The workshops attached to these institutes provide training to workers of SSI units and also provide common facility services.

It may here be mentioned that according to a booklet released by SIDO, its role is policy formulation, co-ordination and monitoring at the apex level. However at present the organisational net work of SIDO is not contributing to the role spelt out for it in its own booklet and is oriented towards technological support to individual entrepreneurs. (21)

SISI represents SIDO in each State and its activities are grouped in four broad categories as under.

1. Technical advisory services.
2. Management consultancy services.
3. Economic / Statistical services, and
4. Other miscellaneous work.

Besides, the Government of India has also set up an autonomous institute SIET (Small Industry Extension Training Institute) at Hyderabad in 1962. The SIET gives training in industrial management and other aspects of small industries development and also undertakes feasibility and research studies and collects and disseminates technical information through its documentation centre.

**Income Tax Benefits to Small Scale Industries**

Apart from income tax benefits to industries (both small scale and large) like complete exemption of entire amount of profit derived from new industrial undertaking for 5 years under Section 10 A of Income Tax Act, certain special tax benefits like additional depreciation allowance, investment allowance etc. are available to small scale industries, which are 100 per cent export oriented.

Under Section 80 HHA of Income Tax Act, a new SSI unit established in rural area is entitled to a deduction equal to 20 per cent of profits and gains derived by it, in computing total income in respect of each of the ten assessment years, beginning with the first year of manufacturing.\(^{(22)}\)

**Excise Duty Concessions**

The latest Union budget 1986-87 announced a new scheme of excise concessions under which full exemption was made.

available to SSI units upto turnover of Rs. 7.5 lakhs as against earlier limit of Rs. 20.00 lakhs. On receiving representations/ and protests from large number of SSI units to increase the exemption limit, the Union Finance Minister ultimately increased the full exemption limit upto Rs. 15.00 lakhs. (23)

Apart from increasing the excise exemption limit upto Rs.15.00 lakhs, the Government also gave various concessions like increase in the excise licensing limit upto Rs.10.00 lakhs from earlier Rs.5.00 lakhs, one unit one licence policy, restricting the visit of inspectors etc. While increasing the full exemption limit from Rs.7.50 lakhs to Rs.15.00 lakhs in the case of one tariff heading and to Rs.30.00 lakhs in the case of different tariff headings, the duty incidence has been increased for those SSI units, who opt for MODVAT. Now such units will have to pay a minimum of 5 per cent ad valorem duty on their products. (24)