Entrepreneurship Development through the promotion of SSIs has been the strategy for achieving the objectives of reducing unemployment and rapid growth of economy. There is a growing appreciation of the fact all over the world that SSIs play a catalytic role and are the driving force behind economic development of nations. They contribute substantially in generation of employment, output, balanced regional development and alleviation of poverty. The Small Scale Sector is also a major source of revenue to the Government. The Small Scale Sector all around the world, has been serving has a ‘nursery’ for nurturing the entrepreneurial talent. Many of the Small Scale units have grown over a period of time and ultimately have become large entities.

There is a feeling everywhere that in today’s world, it is Small Industries that holds the key to growth and development of economy. Even the American economy is witnessing a shift from the managerial to the entrepreneurial, the later now embodying all traditional American values. In Canada, over 50 per cent of the labour force work for small industry. In Japan, Korea and Indonesia, it is the same phenomenon.

The contributions of Small Industries constitute a major part of industrial structure of most of the nations irrespective of their level of development. For instance, during mid-eighties and early nineties, the proportion of small industries in the manufacturing sector was 61 percent in United States, 72 Percent in Japan, 73 percent in France and 80 Percent in Italy. More or less similar pattern has been observed in many of the developing countries.

The contribution of SSIs both in terms of generating employment output and exports are same for both developed and developing countries. SSIs in India contribute 40 percent out of manufacturing sector, and 36 percent of the national exports. As at the end of March 2008, 40 million strong work forces were employed in the sector, which accounted for second largest manpower employer in the country.
IMPORTANCE OF SMALL SCALE SECTOR IN ENTREPRENEURIAL DEVELOPMENT:

The success of entrepreneurs, then competencies, entrepreneurship requires effective and dynamic organisational support. In entrepreneurial activities, self-employment is the key driving force. The entrepreneur’s experience serious difficulties in developing and sustaining effective organisational arrangements, particularly external threats such as new technology and fluctuations in the macroeconomic environment and global competition. The entrepreneurs also require financial, marketing support. These requirements of entrepreneurs are expected to be fully satisfied by promoting the SSIs.

The promotion of SSIs in developing economies is advocated for a variety of reasons. Small Scale Enterprises possesses certain welcome characteristics like labour intensity and the associated positive distribution effects, flexibility and potential contribution to decentralisation and promotion of entrepreneurship. The role of Small Scale enterprises particularly is broadening the industrial base, spatial, and in terms of output composition and creating a wide spectrum of entrepreneurs is of great significance. The strategic importance of Small Scale Sector in the economy in terms of contribution of GDP and employment and its impact on income distribution is well recognised. It is no exaggeration to say that the overall health of the economy depends to a large extent on the health of the small industrial sector.

ROLE OF GOVERNMENT IN PROMOTION OF SSIS AND ENTREPRENEURSHIP DEVELOPMENT:

In India, Government is playing a vital role in promoting SSIs and thereby entrepreneurship development. Entrepreneurship development is associated with the establishment of large number of industries. The entrepreneurship development was considered to be one of the methods of reducing poverty, insecurity, over population, unemployment etc. As such the Government assumed the role of promoter of SSI with specific policies and programmes.

POLICIES AND PROGRAMMES IN THE PRE-LIBERALISATION PERIOD

Traditional small scale and cottage industries had played an important role in the Indian economy before the industrial revolution. Manufactured goods such as calicoes, muslin, metal ware etc. had reached a high level of excellence and were in demand outside the
Indian boundary also. The British rule, which exposed these industries to unfair competition from the budding mill sector of the west, saw their decline. Interest in the handloom and other traditional industries again reviewed with the Swaraj movement and the patronage given to the ‘Charkha’ by Mahatma Gandhi. The II world war saw the growth of the mill sector in India, with the result the ‘small’ sector was exposed to competition from within the country also.

After independence under Government Patronage such industrial units again got a fillip. However, the policy towards the Small Scale Sector seen has a dichotomy of opinion about the concept in the early stages of planning and even in early forties. In his introduction to the volume on rural and village industries prepared by the National Planning Committee, T.K.Shah defined Small Scale Industries as, “An enterprise of a series of operations carried on by a work man, skilled in the craft, on his own responsibility the finished product of which the market himself. He works in his own home with his own tools and materials. These workers work mostly by hand labour and personal skill. He works finally for a market in the immediate neighbourhood, which is to say in response to known demand, with reference to quality as well as quantity”.

In contrast Pandit Jawaharlal Nehru, in a note to the NPC suggested in 1940 a three tiers definition of cottage, small scale and large industries, thus laying the foundation of the Small Scale Industry as a distinct entity from the traditional cottage industry. The concept of the SSI was to include hired labour and/or mechanical power. He thus provided for capital intensity in the Small Scale Industry. The distinction between cottage and Small Scale Sector later became the basis for differences in policy approaches towards the Small Scale Units.

Soon after independence the Small Scale Industries came to be divided into three categories (i) those which are auxiliary to large scale industries (ii) those which are engaged in repairs and services and (iii) those which are engaged in the production of finished goods. The small scale sector thus came to be visualised as a modern mechanical sector. Though this was in conflict with the concept of the Small Scale Sectors as envisioned by the Gandhians, in effect the post-independence era saw recognition being accorded to both traditional and modern Small Scale Industry.
Industrial policy-1948

The industrial policy resolution of 1948 saw the emergence of a dualist approach, Viz., emphasis on traditional as well as modern Small Scale Sector. The same has continued to form the basis of industrial policy towards the Small Scale Sector in this day. The 50’s saw the development of another seeming contradiction in industrial policy. While emphasis on traditional Small Scale Industry continued, there also emerged the Nehruvian view that capital intensive heavy industries was an essential concomitant for the economic growth.

The two get reconciled in the theoretical model of Prof. Mahalanobis. In this model the small sector was accorded the function of maintain an elastic supply of consumer goods to meet the expanding demand generated by the large scale capital goods sector.

The industrial policy resolution of 1948 stated that these industries were particularly suited for better utilisation of local resources and for the achievement of self-sufficiency in respect of certain types of consumer goods.

As a follow up to this approach in the industrial policy resolution an All India Cottage Industries Board was set up. Subsequently six other All India Board was set up- the All India Handloom Board, the All Indian Handicrafts Board, the Coir Board, the All India Khadi and Village Industries Board, and the Central Silk Board for traditional industries while Small Scale Industries Board (SSIB) was set up for giving impetus to the urban small scale sector.

Government policy on industry was further elaborated in the Industries Development and Regulation Act (IDRA) of 1951, it provided for registration of units employing more than 50 workers employing power or more than 100 workers when not using power in industries listed in Schedule I of the Act. Besides, it also required a licence to be obtained for setting up any new units or expansion in existing capacity of any unit above the minimum size, in the industries listed in the Schedule. It thus automatically gave preferential treatment to the small scale sector by exempting them from the requirement of registration and licence.
VII Plan

The VII plan gave a boost to the small scale development programme by adopting a number of programmes, which included:

- The number of items exclusively, reserved for the SSI were increased progressively;
- Procedures for obtaining financial assistance from banks and other institutions were liberalised;
- Tiny units with investment limit of Rs.2 lakhs and located in towns with population less than 50,000 were identified for special assistance and incentives;
- Raw material availability for small scale units was enhanced;
- Value of import licence to small scale units were increased Government’s purchases from SSUs were increased and the policy of reservation of items for purchases from these units was strengthened;
- A comprehensive range of consultancy services and technical managerial, economic and marketing assistance was provided to the SSUs by the small industries development organisation (SIDO) through its network of service and branch institutions;
- A council for Advancement of Rural Technology (CART) was set up to provide necessary technical assistance to the rural industries.

Several schemes of financial assistance especially to the smallest segment of SSI were introduced. The Small Industries Development Fund (SIDF), the National Equity Fund (NEF) and the Single Window Scheme (SWS) were introduced. The SIDF provides refinancing assistance for development, expansion, diversification and rehabilitation of new projects in tiny/small sector and also assistance for rehabilitation of viable sick units. SWS provides working capital loans along with term loans for fixed capital to new tiny and small scale units having project cost up to Rs. 5 lakhs and working capital requirement up to Rs.2.5 lakhs. For meeting the long standing demand for the small scale industries for a separate Apex Bank providing assistance to them, the Government set up the Small Industries Development Bank of India in 1989. In 1979 theDistrict
Industries Centres were set up in each district to arrange and provide a package of assistance and facilities for credit guidance, raw materials, training marketing etc. including the necessary help to unemployed educated young entrepreneurs. The Government also initiated the nucleus industry programmes which involved development of a core unit around which a number of small units can grow in each area which was not industrially developed. The core units were to off load at least 50 per cent of their manufacturing programmes to ancillaries.

**VIII Plan**

To impart more vitality and growth impetus to this sector the Government announced policy package for small, tiny and village industries in August 1991.

The policy statement recognised the fact that the SSI sector had emerged as a dynamic and vibrant sector of the economy during eighties. In view of this fact the primary objective of the Small Scale Industrial policy during the nineties aimed at imparting more vitality and growth impetus of the sector to enable it. To contribute substantially to the economy particularly, in terms of output, employment, exports etc. Efforts were made to deregulate and de-bureaucratise the sector with a view to remove all fetters on its growth potential reposing greater faith in small and young entrepreneurs.

The investment limit for the ‘Tiny’ enterprises was raised from Rs.2 lakhs to Rs.5 lakhs irrespective of location of the unit. All industry related services and business enterprises irrespective of their location were recognized as small scale industries and their investment ceilings were corresponding to those of ‘Tiny’ enterprises.

A separate package of incentives for the tiny sector was introduced. While the small sector (other than tiny enterprises) were mainly entitled to one time benefits the tiny enterprise were also became eligible for additional support on a continuous basis including easier access to institutional finance, priority purchase programme and relaxation from certain provision of labour laws.

It was decided to widen the scope of the National Equity Fund scheme. The coverage of the single window loan scheme was widened to facilitate access to large number of entrepreneurs.
In the field of finance emphasis has shifted from subsidised cheap credit, except for specified target groups and efforts were made to ensure both adequate flow of credit on a normative basis and quality of delivery for viable operations of this sector. A special monitoring agency was set up to oversee that the genuine credit needs of small scale sector are fully met.

Equity participation by other industrial undertakings in SSI to the extent of 24 per cent of the total shareholdings was allowed. This was expected to boost ancillarisation and subcontracting, leading to expansion of employment opportunities. It was also expected to encourage modernisation and technological upgradation.

Regulatory provisions relating to the management of private limited companies were liberalised. To enhance the supply of risk capital to the small scale sector, limited partnership was allowed.

A beginning was made towards solving the problems of delayed payments to small industries by setting up of factoring services through small Industries Development Bank of India (SIDBI)

To facilitate location of industries in rural / backward areas and to promote stronger linkages between agriculture and industry, a new scheme of integrated development for the SSI was implemented.

A Technology Development Cell (TDC) was set up in the Small Industries Development Organisation (SIDO) which provided inputs to improve productivity and competitiveness of the products of the small scale sector. The TDC is to co-ordinate the activities of all other Technology aiding cells.

To expand the share of the SSI in the vat domestic market, market promotion was planned through co-operative/public sector institutions other specialised /professional marketing agencies and consortia approach.

The policy also provided for the establishment of an export development centre in SIDO to serve the Small Scale Industries, though its network of field offices for the augmentation of exports of the SSI.
Modernisation and technological upgradation was encouraged by creating greater awareness, supporting setting up of quality counselling and common testing facilities etc.

An orientation programme of modernisation and technological upgradation was pursued. Specific industries in large concentration were to be identified for studies in conjunction with SIDBI and other banks, and support provided for modernisation of these industries on a priority basis.

To promote entrepreneurship, Entrepreneurship Development Programme (EDP) was significantly expanded. Industry Association were encouraged participate in the venture effectively.

EDP was built into the curriculum of vocational and other degree level courses. Women entrepreneurship was being specially encouraged and enterprises in which women entrepreneurs have a majority shareholding and management control were being defined as “Women enterprises”.

**MAJOR AREAS OF ASSISTANCE FOR THIS SECTOR OFFERED WERE:**

i. Improving access of raw material by encouraging industry associations to come forwards;

ii. Timely and adequate availability of credit by strengthening SIDBI and NABARD;

iii. Laying more emphasis on establishment of tool rooms and training facilities, to upgrade technology.

iv. Simplification of rules and procedures;

v. Proper monitoring of projects by SFCs and commercial banks to prevent sickness at the incipient stage;

vi. Improving marketability by inducing better technology.

vii. Encouraging industry association to form marketing organisation in a bid to improve the marketing infrastructure of small scale units.
In addition to the above, the eight plans aimed to earmark a certain percentage of developed industrial area for small industries in the 70 growth centres during the plan period. Integrated infrastructure development centres (for tiny units in rural and backward areas) were opened. Various procedural simplifications were introduced in 1993.

The Nayak Committee was set up to examine the problems of credit, sickness and other related issues in the SSI sector. The committee submitted its report in September 1992. The RBI announced a special package of measures to ensure adequate and timely credit to SSI sector. The salient feature of this package is:

a) Bank to give preference to village industries, tiny industries and other small scale units in that order, while meeting credit requirements of the small scale sector.

b) Banks to step up the credit flow to meet the legitimate requirements of the SSI sector in full during the eight five year plan.

c) Effective grievance redressal machinery for the SSI in each bank.

d) Banks to adopt the single window clearance scheme for SIDBI for meeting the credit requirement of SSI.

Policy Measures to Promote Small Scale Enterprises

The policy instruments designed to encourage small scale units fell under the following broad categories:

i. Fiscal incentives - Under this category are excise tax exemption and sale tax exemptions, primarily sales taxes and turnover taxes on purchase of inputs. Other Incentives included preferential pricing policies and various subsidies like Central Government to provide capital subsidy for new projects and rehabilitation and expansion project in specified backward areas. State and local Governments to provide subsidies consisting of interest rate and capital subsidies, water and electricity subsidies and Subsidies for acquisition of land.
ii. **Quantitative restrictions on the output of large scale firms;** - under this category came the reservations of the items for production by small scale firms with the introduction of reservations in a product kind all expansion in the particular line were limited to small scale Enterprises.

iii. **Infrastructure, marketing and industrial extension services:** - These consist of the provision of infrastructure primarily in the form of industrial estates, marketing services, including export marketing and other industrial services, including technology development, extension and training.

iv. Creation of a separate department of small scale and agro and rural industries under the Ministry of the industry in the central government to evolve co-ordinate and implement the schemes and programmes on the growth and promotion of small industry.

v. Creation of broadly based institutional set up the organisations created Include; Small Industries Development Organizations (SIDO) in the union ministry if Industry as the nodal agency : 27 Small Industries Service Institute (SISI) to provide technical advice and managerial counselling 4 regional testing centres National Small Industries Corporations (NSIC) District Industries Centres (DICs) in almost all the districts 4 product-cum –process development centres 20 field testing stations Khadi and village technologies and National Institute of Small Industry Extension Training (NISIET) and National Institute of Entrepreneurship and Small Business Development (NIESBUD) to co-ordinate entrepreneurship development activities like sponsoring training programmes train trainers conduct surveys develop course materials.

vi. Reservation of items for exclusive production by small scale industrial (SSI) units

vii. Making available on easy terms and providing other fiscal incentives.

viii. Infrastructural facilities such as allotment of plots shed, setting up of industrial estates and growth centres.

ix. Providing basic facilities of procurement of plant and machinery on hire purchase and raw material technical consultancy, dissemination of
economic information, market research modernisation and technological upgradation, sub-contracting etc.

x. Reservation of certain items for exclusive purchase from SSI by government departments.

xi. Entrepreneurship and managerial training.

SMALL SCALE INDUSTRIES IN POST LIBERALISATION PERIOD:

The new economic policy initiated in 1991 with the objectives of liberalisation, globalisation and privatisation of Indian economy heralded an era of new opportunities and challenges of SSIs. The post liberalisation period comprising eight, ninth and tenth plan periods indicated almost 9 percent annual growth in Small Scale Industries sector with sustained employment generates at nearly 4 percent. Employment targets set for the terminal years of the eighth, and the ninth plan is reported to have exceeded the target.

The success of Small Scale Industries during this period could be attributed to new policy direction that the Government undertook for the development of Small Scale Enterprises (SSE). The Government brought about required changes on the basis of report of the Expert Committee on Small Enterprises head by Mr. Abid Hussain.

The Abid Hussain committee was constituted in December 1995 to address many of the extremely important issues related to the Small Scale Sectors (SSS). The committee felt that the economic future of the country depends on the success of the entrepreneurial spirit which is found in plenty across the land. The committee was of the view that the objectives of the Government should be to encourage and support entrepreneurship in its infant’s phases and to promote the growth of small enterprises so that can prosper.

The abstract of the Abid Hussain committee report on small enterprises reveal that the SSE development policy requires reorientation. The accelerated growth and competitiveness should be the guiding principle of the policy in future. The policy of protection assumed that the new enterprises cannot withstand predatory competition from large companies. The committee felt that the principle of protecting the Small Scale Industries is very much valid. However, it felt that SSEs beyond the initial stage
of development are capable of tackling competition from large companies in India and abroad. Their strengths are flexible managements promote response to market demands, and customised products. Further the committee covered following issues:

**Mechanisms of promotion:** In view of the new goals of growth and competitiveness, the committee recommended that protection be replaced by promotion as the cornerstone of future policy. Adequate supply credit, services, technology assistance, infrastructure and low transactions are the hallmarks of the strategy for promotion. This has to be achieved by developing variety of linkages between enterprises and their support institutions, partnership between the private sector and the Government, greater information flows, and by streamlining the legal and institutional framework.

Focus on clusters: The pivot of the new approach is an increasing public-private partnership in setting up support systems for SSEs, which would thrive ideally in clusters. Agglomerations of SSEs help nurture accretion of skills and economies in information and infrastructure development. Unaided by the state and fuelled by access to domestic and international markets and cheap labour, spontaneous growth of over 300 clusters has already taken place. But their further progress is hamstrung by decrepit infrastructure, environmental degradation, technological obsolescence and meagre skills of the workforce. Global experience confirms that growth in clusters can be strengthened by institutional development, and aided by abundant provision of services and infrastructure development.

The committee felt that the thrust of the future policy for SSEs should be bolster growth in existing clusters by redirecting current investment in regional development (i.e. backward areas) to such centres of growth which is spreading to less developed regions. The committee therefore recommended that state government identify the existing clusters and promote joint ventures between themselves/local authorities and business associations in these clusters.

**Development roles for central and state governments:** The Expert committee wanted policy support to be broadened from only small-scale industries now to all SSEs. The centre has already set up and promoted range institutions to cater to the needs of SSIs, supported by an administrative infrastructure created by the state governments. But future development of SSEs according to committee should be largely the responsibility of state government. The centre should confine itself to policy formulation, and legal
institutional development. The committee also recommended that the responsibilities of the Department of Small Scale Industries and Agro and Rural Industries should cover all SSEs.

**Revitalising District Industry Centres**: District Industry Centres, which have been quite ineffective due to administrative overload, are expected to play a pivotal and promotional role on account of the regional focus in SSE development. The committee recommended that DICs be redesigned as autonomous District Enterprise Promotion Agencies (DEPAs) with participation from business associations, government agencies, banks, etc. They should be weave a web of relationships between clusters and their support institutions and channel the flow of information to SSEs.

**Corporatisation of government extension agencies**: SSEs prefer private companies which provide costly services but speedy response over cheaper but slower central government institutions. The committee recommended that government extension agencies be corporatized and they specialise in a few core activities to develop their competitiveness. Government should facilitate the transition by part funding the corporatized institutions. Similarly, SSEs should have the option of sourcing services from the private sector with part funding from the state. SIDBI should open a special window for the funding of technical consultancy organisations and other business support services.

**Abolish reservations**: The reservation policy has provided an illusion to the government and the country that adequate protection/promotion was being provided to SSIs. According to the committee, it has actually done precious little for their promotion, and succeeded only in keeping out large enterprises. This policy is inconsistent with trade reforms which allow either free import or import under special import licence of all consumer goods. For one, most of the items manufactured by the small sector are not reversed. Conversely, a large number of reserved products are either not manufactured at all by the sector or their sales turnover is insignificant. For another, the opportunity cost of the policy is extremely high. It has hampered the growth of important sectors like light engineering and food processing and also exports from sectors like textiles and leather, where India is unable to supply large volumes of adequate quality in time. This problem will increase when quantitative restrictions on imports in developed countries, such as those under the MFA, are withdrawn. This, the Committee believed
is the most powerful argument for promote abolition of all reservations. SSIs must have the opportunity to invest in appropriate size and technology to be able to compete with imports in the coming years. It is therefore, imperative for future export growth to remove reservations so that adequate new investment and technology upgradation takes place in these industries.

The committee had considered the option of a phased abolition to give time to industry to adjust. But in view of the overwhelming evidence of the ineffectiveness of reservation, the committee recommended a total abolition. However it was suggested that the government must make simultaneous transitional arrangements to assist the unit affected by de-reservation.

**Transitional arrangements for SSIs affected by de-reservation:** The Committee recommended that the Ministry of Industry immediately set up a joint mechanism between the government and industry representatives to identify specific industries/items where SSIs might be affected and their geographical locations.

**Raising investment limits:** According to the committee the definition of the small-scale sector must be broadened from SSIs to SSEs, allowing incentives, credit facilities, and promotional facilities to flow to all small enterprises. It was suggested that the investment limit for SSEs should be immediately raised from Rs.25 lakhs to 3 crore.

**Excise incentive for graduating tiny and small-scale units:** Some modifications were suggested to remove the disincentive for tiny units to grow beyond their investment limits. Tiny units which graduate beyond the investment limit of Rs. 25 lakhs may be permitted a higher total exemption limit of turnover to Rs 50 lakhs for a period of five years. Similarly, the total turnover limit of Rs. 3 crore may be expanded to Rs. 5 crore after the Small Scale Industries crosses the proposed new investment limit of Rs.3 crore, for a period of three years. To encourage, franchising and ancillarisation in order to promote closer complementary links, between small and large enterprises. The committee suggested the excise exemption taken away from branded goods should be restored.

**Restructuring of financial support:** The financial system was reformed to increase access of SSEs to term loans, working capital and lower the costs of credit. Available evidence suggests that the SSEs access to credit is inadequate and the existing
institutional structure needs a thorough overhaul. State Finance Corporation (SFCs) and State Industrial Development Corporation (SIDCs) suffer from very low recovery rates and heavy political and bureaucratic interference. As a result of this and interest rate deregulation, the cost of credit for SSEs has risen as they are considered risky propositions. The government had appointed the Nayak Committee to review the credit requirements of SSEs. The Committee endorsed the recommendations of the Nayak committee and urged the RBI to implement them. It was suggested to achieve the prescribed target of providing working capital of a minimum of 20 percent of the projected turnover of SSEs.

**Restructuring SFCs and SIDCs:** The distinction between term lending and working capital institutions required to be changed and banks and SFCs should increasingly get into composite loans. The committee recommended that IDBI in association with SIDBI device a new scheme revitalise SFCs and SIDCs. These bodies are made autonomous by reducing government equity to less than 50 percent in favour of other financial institutions, banks, industries and private bodies having interest in the specific states.

**Specialised commercial bank branches and local area banks:** The committee endorsed the plan for Local Area Banks (LABs) and specialised branches of commercial banks for SSEs. Special training for appraisal, evaluation and monitoring could be given to the staff so that LABs can become the storehouse of information about credit risk of investment in their region. The mechanisms for credit recovery should be strengthened by community guarantees, credit rating and creation of databases on the credit record of companies. Now that commercial banks are also allowed to term lend, these special branches must provide term loans and working capital to SSEs within their jurisdiction. The recommended that RBI promote the speedy establishment of Labs in the district where Small Scale Industries clusters have been identified and initiate action to provide support for special training schemes. The board composition of these LABs would benefit from the participation of representatives from local business association.

**Reducing credit costs and extending credit rating services:** The Expert Committee recommended that SIDBI along with national credit rating agencies should promote setting up of local credit rating agencies in the identified clusters. This would require
equity participation by financial institutions including commercial banks and the national credit rating agencies. The government could provide a small seed fund to kick start the process with cluster associations standing guarantee.

Other funding sources: Other sources can be tapped if the 24 percent ceiling on equity participation by large companies and foreign direct investments in SSEs is removed. The National Equity Fund would function much better if disbursed by LABs; SIDBI should also be allowed to raise funds in international markets. Finally, the fund base of venture capital funds can be increased considerably if FIIs are allowed to invest in them and private pension funds and insurance companies are allowed in the country. The Limited Partnership Act, if implemented should also enable access to an additional source of fund and skills brought forth by management partnerships. The Delayed Payments Act has not been too effective in helping SSEs collect their dues. A more practical approach would be to encourage a bills culture and expand factoring services. The committee recommended that in the annual accounts of large companies, information be provided o a statutory basis on the extent of accounts payable to small enterprises. The Department of Company Affairs should explore this possibility.

Addressing the credit needs of tiny enterprises: To ensure that the tiny sector is one bypassed by commercial banks, the Committee proposes that it earmarks a minimum of 70 percent of the priority lending allocated to the small scale sector and to the tiny sector. To help these entrepreneurs without sufficient collateral towards procuring bank loans, a Revolving Collateral Reserves should be created at the intermediary level.

Integrated support services: International experience suggests that technical assistance, market assistance and information have to be available as a package to have the desired results. Moreover, enterprises should have the choice to access services from the source most suited for them. Government should withdraw from direct deliver and partly fund the cost of services accessed from the most efficient source. Clusters, which have so far survived on the strength of low prices but have no access to infrastructure for testing or quality control, need technological support. It is suggested that registered societies be formed, financed jointly by industry and government, to create technical assistance and research institutions. New technology can be effectively commercialised in incubation centres and science parks. East Asian countries have successfully experimented with training schools jointly sponsored by large and small companies and the Government. Private participation is a more effective means to
transfer skills from one form to another. Tax waivers should, therefore, be available for private sector investments in training institutes.

**Support for technology development in SSEs:** The Expert Committee recommended that the Government allocate resources to the Bureau of Industrial Standards (BIS) to fund the special exercise for providing technology support to achieve prescribed standards.

**Financing for Technology upgradation:** The Committee proposed that, the scope of SIDBI’s Technology Development and Modernisation Fund which is linked to be a 25 percent export obligation, can be extended to all modernisation proposals. The fund should help support service institutions/enterprises engaged in technology transfer, technology-oriented R&D etc. To make the scheme popular, the funds could be provided cheap. SIDBI and other soft lending schemes could be sanctioned under a Special Revamped Scheme for Technology Development and Modernisation of SSEs.

**Support for R&D:** The Committee felt that such services could be provided most effectively through institutions based around clusters so that they are able to specialise and reap economies of scale. The committee recommended that the government should establish fund(s) at both central and state level to design schemes which provide matching grants as incentives to cluster associations to establish the required technology support institutions. It also recommended a new Department of Science and Technology scheme to form R&D associations based around identified clusters. At least 10 such clusters could be identified in the first year and the aim should be to establish at least 50 such industrial R&D associations within five years. Links between the existing technical institutions and industries, and with the new technology support institutions could best be forged by the national-level industry associations through their regional members. The Committee recommended that a National Research Institute for Small Scale Industries be established jointly by the central government and apex industry associations.

**Training:** Technology upgradation will throw up large requirement for training of entrepreneurs, managers and employees. The Ministries of Industry, Labour and Education could be set up a special Task Force to work out the modalities for a special training scheme for SSEs. The central governments provide for the seed capital of this scheme which must be designed to elicit matching contributions from the private sector.
The Committee also wanted state governments to provide matching funds to establish skill development centres.

**Marketing Assistance:** The Expert Committee suggested that, on the lines of Marketing Development Assistance Fund set up earlier in EXIM Bank with World Bank assistance, a fund be created and operated through SIDBI for assisting around 5,000 SSE exporting units. The Committee also recommended that outlets specialising in marketing tiny sector products be promoted and common brand names developed for such products. Franchising must be promoted as a concept.

**Infrastructure development in clusters:** In future, integrated development of infrastructure was considered to be essential in industrial estates. The Committee therefore recommended that both central and state governments redirect their schemes for growth centre and infrastructure development to the infrastructure development of SSE clusters. The private sector to be encouraged to develop industrial estates as infrastructure projects and the states should form State Industrial Park Authorities to facilitate and regulate is entry. The government could also share the risks of large investments in infrastructure, by reusing the decayed industrial centres in major industrial cities for SSEs. Acquisition and sale of land is a major source delay in the implementation of infrastructure projects. This problem, it was felt could be solved if landlords and granted development rights to benefit from the upside potential of project development. Instead of equity, the Government could also contribute land to such projects.

Infrastructure needs the participation of business associations to avert conflict of interest. Some business associations have shown an inclination to participate in social projects and this could be encouraged by the Government. The Government, particularly at the state level, must initiate action to activate the city/cluster-level business associations. For this, the Expert Committee wanted the Ministry of Industry to initiate a programme of technical assistance from the European Union or other bilateral sources.

**Institutional and legal innovation:** The Expert Committee recommended a separate law for small enterprises, defining the sector and outlining the broad framework for its promotion. A new single business law called the Basic Law for Small Enterprises could be enacted. A major restructuring of social legislation was felt essential to lower the
transaction costs of SSEs. The single law could help to reduce the number of officials visiting factories. Employers could have the option of voluntarily paying a charge for medical insurance and public provident fund in return of a waiver from corresponding public schemes. Similarly, the labour laws could be waived for SSEs employing upto 50 workers with power and 100 without power if employers agree to pay for unemployment insurance. A certain amount of inspection necessary for social welfare can continue. The Committee recommended that transparency be introduced in inspection. Inspectors for different laws could be “clustered” and inspection be made on a random basics, based on random drawing of units in defined clusters. Finally, environmental targets could be determined for an entire cluster and business associations held responsible for implementing them.

**Monitoring of the new policy approach:** The Committee recommended that the Ministry could set up a Steering Committee under the chairmanship of the Minister to oversee the evolution of the new policy approach.

**Ninth Plan (1997-2002)**

The Government’s action during the ninth plan were clearly indicated a clear shift of focus from the protection to promotion to enhance competitiveness of the sector. It was felt that an annual growth of 12 percent could be achieved only through competitive entities and not through Government doles or hand-outs. The anticipated growth required improvement in host of exogenous factors such as the amount of credit flowing to the sector, reliable power supply, improvement in infrastructure, increased marketing avenues etc.

**The new initiatives for the sector during this period include:-**

- A Technology Development and Modernisation Fund by SIDBI.
- Integrated Infrastructure Development (IID) Scheme for setting up industrial estates exclusively of SSI units.
- Prime Minister’s RozgarYojana for Educated Unemployed Youth.
- Enactment of a Delayed Payment Act.
- Setting up of Testing Centres by Government and Industries Associations.
- Setting up and upgradation of Tools rooms.

- Reimbursement scheme in respect of ISO 9000 Quality Certification for individual SSI units.

- Technology upgradation in industry specific clusters.

- Focus on the tiny sector.

- IT based initiatives for informing sourcing.

- Setting up of Sub-Contracting Exchanges to facilitate buyer-seller interaction.

- Strengthening of entrepreneurship development institutes.

- Training programmes on export packaging.

The establishment of an independent Ministry of SSI & ARI in 1999 and the setting up of a Study Group under Dr. S.P. Gupta had far reaching consequences. The interim recommendations of the Study Group were considered by the Group of Ministers on the SSI sector and saw the light of day through the Comprehensive Policy Package. For the first time, the focus was very clearly on enhancing global and domestic competitiveness. This necessitated interventions on the fiscal front, credit, technology, marketing, and infrastructure as well as SSI policy. The specific measures included:

- Exercise exemption upto Rs. 100 lakhs

- Technological upgradation- 12% Capital Subsidy Scheme.

- Credit Guarantee Scheme upto Rs. 25 lakhs

- Rising of limit of composite loans to Rs. 25 lakhs.

- Rising of project cost limits under National Equity Fund to Rs. 50 lakhs.

- Extension of Infrastructure Development Schemes to all areas.

- New scheme for upgradation of industrial estates.

- Marketing Development Assistance Scheme for SSIs.
Flow of credit to SSI sector:

The process of liberalisation has significantly influenced the growth of SSI sector in India. It has outstripped the individual growth since 1991-92. The sector has been registering a rate of growth consistently higher than that of overall growth of the Industry sector and in fact, contributing to the country’s GDP growth rate.

The Small Scale Industries required financial support for faster growth. Credit availability, the cost, the timeliness and adequacy influenced competitive edge. Inadequate Working Capital is one of that has continuously plagued the SSI sector. The deregulation of the interest rates and reforms in banking sector helped SSI. The working group on Small Scale Industries stressed on ‘without recourse’ factoring, venture capital, limited partnership, rejuvenates of SFCs and an Honourable exit route for sick units.

Tenth Plan (2002-2007)

During this period the entire policy of Government focused on financially supported small scale industries through credit guarantee schemes, credit link capital subsidy and development of appropriate infrastructure. The plan aimed at e-commerce and the strengthening the IT support to small scale industries. Technology up gradation raising market development assistance was given highest importance. The Government also focused on credit flow to micro and small enterprises. During this plan period the Government announced policy package for stepping up credit to small and medium enterprises through the commercial banks and Reserve Bank of India.

Comprehensive Policy Package of 2000 and Tenth plan Policies and Programmes

A comprehensive policy package for the small-scale sector was announced by the Prime Minister on August 30, 2000. The main elements in these packages are: (1) conducting the third census of small-scale industries; (2) raising the exemption for excise duty limit from Rs. 50 lakhs to Rs. 1 crore to improve the competitiveness of small-scale sector; (3) providing credit linked capital subsidy of 12 percent against loans for technology up gradation in specified industries; (4) raising the limit of investment in industry related
services and business enterprises from Rs. 5 lakhs to Rs. 10 lakhs; (5) raising the limit of composite loans from Rs. 10 lakhs to Rs. 25 lakhs; (6) encouraging SSIs associations to develop and operate testing laboratories; (7) constitution of group under the Cabinet Secretary to suggest/recommend streamlining of inspection and repeal of redundant laws and regulations applicable to the sector; (8) increasing the coverage of Integrated Infrastructure Development (IID) Scheme to progressively cover all areas in the country with 50 percent reservation for rural areas and 50 percent of plots-earmarked for tiny sector, etc.,

As stated earlier, the third census of the small scale sector covering both registered and unregistered units was conducted during the year 2001-02. This has provided valuable information regarding small scale industries sector. Other important steps undertaken in recent years are as follows;

1. **Raising of investment limit:** While the investment limit for the small scale industries sector continuous to be Rs. 1 crore, a specific list of hi-tech and export-oriented units has been brought out for which the investment limit has been raised to Rs. 5 crore to facilitate their suitable technology upgradation so that they can maintain their competitive edge.

2. **Enhancing the excise exemption limit:** with effect from September 20, 2000 the excise exemption limit for SSIs has been enhanced from Rs. 50 lakhs to Rs. 1 crore.

3. **Scheme to address the problem of collaterals:** to address the problem of collateral faced by the SSIs units, a Credit Guarantee Fund (Scheme) has been launched to provide guarantee for loans upto Rs. 25 lakhs extended by commercial banks, selected well performing Regional Rural Banks and other Financial Institutions without any collateral including third party guarantee. A Credit Guarantee Trust Fund has been created to implement the scheme.

4. **Scheme for technology upgradation:** to encourage technology upgradation, a credit linked capital subsidy scheme for technology upgradation has been launched. Under this scheme, 15 percent capital subsidy is admissible on loans upto Rs. 1 crore, advanced by scheduled commercial banks/ State Finance
corporations/ National Small Industries Corporations to small scale industries for technology up gradation.

5. **Extension of IID**: the Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50 percent reservation for rural areas.

6. **Market development assistance**: a new scheme named Market Development Assistance (MDA) was launched exclusively for small scale industries sector.

7. **De-reservation**: in recent years, the government has been following the policy of de-reservation as it believes that this will help the small scale industries units to upgrade their technology and improve the quality of their products. As a result of this policy, the number of items reserved for the small scale industries sector came down from 816 to 605 prior to the Union Budget 2005-06. This Budget has de-reserved another 108 items. Thus, the number of items reserved for the small scale industries sector has come down to 497.

8. **Credit delivery to small scale industries sector**: to ensure credit delivery to the small scale industries sector, a number of steps have been undertaken in recent years: (i) the composite loan limit has been raised from Rs. 50 lakhs to Rs. 1 crore; (ii) the limit of collateral free loans has been raised from Rs. 5 lakhs to 15 lakhs and upto Rs. 25 lakhs in case of small scale industries with a good track record: (iii) Laghu Udyami Credit Card (LUCC) scheme has been liberalised by enhancing the credit limit from Rs. 2 lakhs to Rs. 10 lakhs, for borrowers having a satisfactory track record; (iv) the Small and Medium Enterprises (SME) Fund of Rs. 10,000 crore was operationalized by the SIDBI since April 2004. Eight percent of the lending from this fund will be for small scale industries units, at interest rate of 2 percent below the prevailing PLR (Prime Lending Rate) of the SIDBI.

**STATUS OF SSI IN JANUARY 2007:**

The SSIs, in India have become darling of banks, venture capitalists, private equity players and hedge funds. These institutions want to capitalise the success of small companies. Between 2001 and 2008 companies with net turnover of Rs. 1 crore- 50 crore saw rise of 701 percent in net profit compared to 169 percent for companies with
turnover of 1000 crore. Companies with a turnover of Rs. 50 crore-100 crore have done even better, saving in profit growth of 961 percent over five years. Smaller companies have outperformed larger ones in the growth of net sales and operating profit.

The small companies were written off as a causality of economic liberalisation. The consensus that the sector’s under-capitalised, technology-deficient, skill starved companies would not face the global competition and would not survive. However, the SME sector has grown by leaps and bounds since 200-01. The economic survey indicates that during 200-01 to 2004-05, the SSI sector registered continuous growth in the number of units, production, employment and even exports. The average annual growth in the number of units was around 4.1 percent, while employment grew at 4.4 percent. Further, the average annual growth in production, at current and constant price was 10.6 percent and 7.6 percent respectively. This growth was achieved over a period that has seen a steady dismantling of reservations for the same.

The Policies and Programmes of the Government have made the small and medium enterprises to be different breed. Today, the Indian SME have acquired companies abroad, become part and parcel of global supply chain and are even convincing foreign manufacturers to outsource patented design work to them. Two main trends—ancillarisation and export orientation—have been responsible for the change. These industries have adopted themselves to the needs of large local manufacturers and have also become suppliers to global manufacturers, the auto ancillaries industry being a prime example.

**Important Policies for Development of SSIs**

Recognising the distinctly positive impact of small industry economy the governments of many industrially advanced countries have taken several policy initiatives not only for the growth and expansion of this sector but also for improving its technological capability. Among the developing countries India is an extremely successful example for an unparalleled growth of Small Scale Industry. Some steps have also been taken in India to promote technology based small industry and encourage small units to introduce new products and processes.

Some of the important steps taken by the government of India in rapid and sustained development of SSIs could be grouped under the following heads.
1. Reservation of items for exclusive manufacture in the SSI (product reservation).

2. Incentives – tax concessions.


4. Establishment of specialised agencies for development of SSIs.

5. State policies and programmes

**Product Reservation**

The policy of reservation was primarily initiated in 1967 as a promotional and protective measure for the small scale sector vis-à-vis the large scale sector. Selected products are identified for exclusive production in the small scale sector. The overwhelming considerations for reservation are whether the item is economically viable and technically feasible for manufacture in the small-scale. The manufacturing process is of a simple nature i.e. is essentially labour-intensive and whether the small-scale units can meet the requirements of the consumers both in term of quantity and quality.

**Rationale**

The rationale behind the reservation was advantages of SSI like labour intensity and adaptability to semi urban and rural environment as well as to make their product competitive with those of the large scale which have access to mass scale production, economics of scale, wider marketing network, better credit availability and publicity, through the mass media. The industrial policy resolution, 1956 had stressed the role of the small scale sector in the development of the national economy, large scale employment opportunities at lower capital cost, the establishment of a wider entrepreneurial, base and an equitable distribution of national income and wealth.

**Special features**

The special features of the reservation policy are described as under

- The policy applicable only to the manufacturing sector. It does not take into account the service sector including repairs of products.
No new unit in the medium or large scale sector is allowed to be set up after the date of neither reservation nor any further capacity expansion permitted for them.

The medium or large scale industrial unit can continue to manufacture reserved items in cases as mentioned below:

- He existing medium or large unit which has already been manufacturing an item when it is put on then reserved list has to obtain a carry on business (COB) License from the Ministry of Industry. The capacity is pegged at the highest production level achieved by the unit in the three years preceding the data of reservation of the product.

- If existing SSI units manufacturing reserved items graduate by their process of growth into medium/large scale, they have to obtain a COB license wherein the capacity is pegged with respect to the date when it became incumbent on the unit to apply for and obtain a COB license.

- Certain of new capacity in the reserved areas are permitted among medium/large scale units if they undertake to export a minimum of 75 percent of their production (50 percent in case of readymade garments).

- There is no restriction on the marketing of products reserved of manufacture in the SSI sector by large units or big companies.

- The policy does not prohibit other types of linkages between large/medium and small industrial units in the field of technology tie-ups etc.

The Industries Development and Regulation Act, 1951, was amended in 1984 to give statutory backing to the policy of reservation empowering the Government to reserve selected items for production by the ancillary or small-scale industrial undertaking. The amendment also provided that the central Government would constitute an advisory committee to determine the nature of any article or classes of articles that may be reserved for production by the ancillary or small-scale industrial undertaking.

An advisory committee on reservation with the Secretary (Industrial Development) as chairman was constituted under notification dated March 30th 1984, under the Industries
Development and Regulation (ID&R) Act to review the reservation policy from time to time. Items are also de-reserved wherever justified. This committee is now headed by Secretary (SSI&ARI).

The statutory advisory committee on Reservation can undertake the review of items from time to time for:

- De-reservation of items which are already reserved.
- Reservation of new additional items, and
- Change of items nomenclature violation of reservation policy is punishable under section 24 of the ID&R Act, 1951.

Government has constituted a committee in the Ministry of Industry to check entry/expansion of large and medium scale enterprises into areas reserved for small-scale sector.

**Items are considered for de-reservation mostly for the following reasons**

- In case adequate additional capacity is not generated in the existing small-scale units.
- No new units have been set up for creation of new capacity.
- Production in the small-scale items has not shown substantial increase in relation to the demand.
- Procurement of necessary technology means crossing prescribed investment limits for small scale sector.
- It is not economical to manufacture the product it is a low demand as compared to the minimum capacity for a single unit.

**Coverage**

In April 1967, the reservation policy was made effective for 47 items only. The net number of reserved items reached the highest at 873 in October 1984 and thereafter began declining. From July 1989 to December 1996, the reservation policy has
remained stagnant even though the number of products manufacture in the small scale sector has gone up from 2,400 to 8,000 from 1972 to 1996.

**FNS-NCAER Study**

Six hundred and fifty seven units were covered in the study undertaken in 1993 by the National Council of Applied Economics Research, New Delhi in collaboration with Friedrich, Neumannsifting. Among the responding units, 8 percent reported to be producing reserved items, the remaining were not aware of the reservation list. An opinion survey showed that 32 percent of the associations favoured reservation policy and 57 percent were in favour of a phased de-reservation process. The inference was drawn that outright abolition of reservation might not be popular, but a phased programme would not cause any problems. In most of the reserved items, large-scale undertakings whose capacities have been pegged continue to enjoy the fruits as they do not have competition from other large-scale sector players. The reservation policy as such becomes questionable.

**NIPFP Study**

Twelve districts and 648 SSI units surveyed by the National Institute of Public Finance and Policy, New Delhi in 1994-95 to assess the impact of reservation showed that 40 percent of the sampled units were manufacturing reserved items. The pattern of distribution of units producing reserved and unreserved items were almost similar.

Performance indicators in terms of size of employment, capital and output and also in terms of productivity of labour and capital showed that units producing unreserved items were better particularly those with investment in plant and machinery of Rs. 10 lakhs and above. Even in terms of profitability, inventory burden and capacity utilisation, units producing unreserved items and with output levels greater than 30 lakhs were found to be superior to those producing reserved items. With increasing output levels, a decreasing proportion of units in the reserved category were higher in district centres as compared to the major cities; reservation was found to have an impact only on the smallest of units which probably cater to local needs. The NIPFP study has suggested that items which can be manufactured economically with investment in plant and machinery up to Rs. 10 lakhs may be retained in the reserved list.
Vijayaraghvan Committee (Recommendations on Reserved Items)

An advisory committee on reservation was appointed in August 1995 under the chairmanship of Mr.T.S. Vijayaraghvan, Additional Secretary, and Ministry of Commerce, to review the reservation list and submit recommendations. The committee, while examining the reserved list, kept in view the following aspects:

- Interest of small industries
- The minimum economic scale of production
- The need for technological up gradation
- National and international competitiveness
- Productivity
- Serving consumer interests
- The import and export policy, particularly export orientation of small enterprises
- Labour intensity.

In November 96 the committee gave its report recommending that 1995 products be considered for de-reservation and 63 for change in nomenclature/modifications. De-reservation has been recommended on the following grounds:

- That is not technically feasible to manufacture quality products within the specified investment ceiling of Rs.60 lakhs.
- There, has been a product innovation as a result of which the scope of producing new items has emerged and they require higher investment.
- On the grounds of safety, hygiene and production of quality goods and to meet the changed demand of consumers.
- On the ground of export potential and export promotion.
- Better utilization of available resources.
Monopoly-like situations have been created in some products by large-scale units under the cover of COB license.

The modification/change in nomenclature has been recommended in order to bring:

- Harmony and clarity in description and avoid confusion.
- To reflect existing situations more accurately.
- Change in technology of production.
- To provide for integrated production wherever possible.

**Import policy liberalisation and reserved items**

The office of the Director General Foreign Trade (DGFT) has followed ITC (HS) codes for classification of individual items under the import policy. Imports have been allowed under four categories; free, special import license, canalized and restricted. In particular cases, the HS code has been further sub-classified at 10-digit level and different policy indicators given against different sub-classifications. This process has resulted in more than one policy option for some of the reserved items.

When the reserved items list containing 1045 products is compared with the import policy for items given under ITC (HS) classification, it is found that 563 products enjoy free imports. This could be seen from the categorization of reserved items under various norms of import policy followed by the Ministry of Commerce.

**Export policy and reserved products**

To increase production capacity for various export items which fall in the SSI reservation list, the ministry of commerce has been supporting the proposal that larger units may be allowed to be set up in such reserved areas provided such units accept a 50 percent export obligation. This would enable India to cater more efficiently to large volume orders placed for reserve items such as garments, footwear and plastic products, which cannot be met from many separate units in the SSI sector with the same standard of uniformity and quality assurance. Many items currently reserved for the SSI sector have also identified as having sound export potential and have been termed “extreme focus products”. Thirty four such products have been identified and targeted for achieving a 30 percent growth in value/volume. In the reserved list, there extreme focus
products which are concentrated around the dyes group covering basic, direct, acid, reactive dyes, napthol and fast colour bases accounting for about 150 products.

**Non-enforcement of reservation policy**

- Nominal penalties prescribed for violation.
- Absence of powers given to the encroachment committee.
- Lack of effective monitoring of cases of violation by concerned agencies and departments.
- Non-observance of export obligations.
- Orders and press notes issued on the reservation policy lacked legal validity.

**Status of reserved products**

In the light of liberalisation of Import policy, export promotion strategy and the recommendations of the Vijayaraghavan committee on de-reservation it may be useful to review the entire list of reserved areas and make it more in time with the times. At present there are 563 products which fall under the category of free imports, while among other categories-restricted/canalised/other combinations 46 products are extreme-focus, 41 are among non-free and non-focus and 48 have been recommended for change of nomenclature by the committee. Thus 698 products are exposed to de-reservation.

**Current Views on Reservation Policy**

Economic reforms have permitted foreign direct investment automatic approvals of technology transfer agreement as well as 51 percent foreign equity proposals. In this changed scenario, views and suggestions of various associations and department were sought on the SSI reservation policy. These views can be categorised as follows:

**Non de-reservation:** United cycle and parts manufacturers association Ludhiana, Ph.D chamber of commerce and industry, New Delhi, Tamil Nadu Association of cottage, Tiny and SSI, Chennai and Maratha Chamber of Commerce and Industry, Pune, have suggested that 836 items reserved for exclusive manufacture in the small sector should not be reviewed for de-reservation. Many tiny and small units would close down if
investment limits are raised for SSI and imported automotive plants are installed, reservation is beneficial to the sector.

The Development Commissioner (SSI) New Delhi is of the view that reservation can help enact special plans to develop SSIs in hi-tech areas such as electronics and software. The list of reserved items may not be changed till the sub-committee report is available and considered by the Advisory committee. Out of 8000 products only 1045 products (836 items) 13 percent are reserved. The SSI sector is able to manufacture internationally competitive products, and in several areas, their exports are substantial. Medium/large/MNC sector is already permitted to enter the reserved areas with a 75 percent export obligation. DC (SSI) is of the view that De-Reservation should be done in phases, as recommended by the Vijayaraghavan committee.

**Partial de-reservation:** Karnataka small-scale industries Association, Bangalore, confederation of Indian Industry, New Delhi, Department of Science and Technology, New Delhi, Associated chamber of commerce and industry, New Delhi, Department of Economic Affairs, New Delhi, have suggested partial de-reservation. It is proposed that the list be scrutinized item by item and reservation retained only where necessary. De-reserve initially items which are not being manufactured by SSIs those whose output accounts for an insignificant part of the total and items with export potential. Products which can be manufactured economically in the small scale sector may continue in the reserved list.

**Tax incentives:**

There is no direct tax exemption for SSIs. There is a general exemption available to industry under section 80 IA but most SSI units do not qualify since they do not employ more than 10 persons. But since 1986, registered or unregistered SSIs can avail of excise reliefs depending on their annual turnover. No duty is charged up to a sales turnover Rs. 30 lakhs. A concession of 10 percent of normal duty (subject to a minimum tax of 5 percent for sales value of Rs. 30-50 lakhs) and 5 percent for turnover of Rs. 50-75 lakhs (subject to a minimum of 5 percent) is also available. These exemptions are available up to an annual turnover ceiling of Rs. 30 crore. The 1993-94 budgets withdrew the following concessions:
• Excise exemption for products manufactured, under a brand license, for another company.

• National credit of 10 percent subsequently reduced to 5 percent, on purchases of SSI products by other units.

• Full excise exemption of 389 products.

GANGULY COMMITTEE:

Committee submitted their report of the Working Group on Flow of Credit to SSI Sector, as per the announcement made by the Governor, Reserve Bank of India, in the Mid-term review of the Monetary and Credit Policy 2003-2004, a “Working Group on Flow of Credit to SSI Sector” was constituted under the Chairmanship of Dr.A.S.Ganguly the committee made 31 recommendations covering wide range of areas pertaining to financing of SSI Sector. The recommendation pertaining to RBI and banks have been examined and has accepted 8 recommendations so far and commended to banks for implementation which are as under:

• Adoption of cluster based approach for financing SME sector;

• Sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs.

• Sanctioning of higher working capital limits by banks operating in the North East region to SSIs based on their commercial judgement due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system.

• Exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs.

• Revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending’s
Problems of Small Scale Industries:

Small enterprises because of their smallness have a set of inbuilt problems. Although entrepreneurship problems are not recent phenomenon, yet they are continuing to trouble the entrepreneurs because of web of problems like inadequate finance, labour shortage, marketing difficulties, lack of technical and managerial skills etc. these problems faced from the initial stage to expansion and modernisation stage. The degree and intensity of the problems, however, are varied, some being very acute in the initial stage than at other times.

An understanding of the nature of the problem encountered by entrepreneurs would facilitate not only in identifying the problem areas but also in reducing them by devising special programmes and streamlining the existing ones.

Finance

The primary problem encountered by the entrepreneurs in all the countries is that of finance. This general lack of capital creates a whole group of problems relating to size and site of the enterprise, the quality of labour, market coverage, purchase of raw materials and machinery, all these lending to low and poor quality of production. Thus, it is obvious that, financial inadequacy at the initial crisis, thus making them sick units.

Majority of entrepreneurs in the countries face inadequacy of capital, fixed or working or both. This inadequacy of capital leaves little choice for the entrepreneurs, but to seek finance elsewhere. By and large, all organised financial institutions including commercial banks generally extended loans to entrepreneurs either against collateral or against a guarantor. This not being available, the access to organised finance sector is limited and therefore very often entrepreneurs are driven to approach the unorganised sector for loans which are available at exorbitant rates of interest.

Very often, the entrepreneurs are unable to present a collateral or guarantor of such a level that would enable them to secure the required amount of capital from the organised sector. In view of this, the loans sanctioned by the organised sector are often inadequate. Even this, the entrepreneurs invest in the initial stages and face financial difficulties in running them subsequently.
The fact that financial institutions which have sanctioned loans expect very early repayment this pose problems to the entrepreneurs.

**Land and Building**

The next important problem faced by small entrepreneurs relates to land and buildings. Entrepreneurs are forced, many a time, to take up rented land/building either because of lack of capital to purchase and own premises or because of non-availability of appropriate land and building. These rented buildings are usually in a highly unsatisfactory condition. They are often congested and lack of amenities and therefore are not congenial for work. In many cases, work is carried out near the roadside, on the pavement or makes shift work-sheds; some entrepreneurs occupy land/buildings on temporary occupation licence and a few others on lease. In case where lease expires, the entrepreneurs face problems because of demand for higher rent by land lords. Hence there would be stoppage of work till they find an alternate place of work. Though the entrepreneurs are eager to move into the industrial estates the cost of the land act as a deterrent, expansion and modernisation of enterprises is not possible, particularly of those units situated in urban areas because of insufficient space.

**Labour**

Labour is another area in which entrepreneurs face a number of problems. Very often the entrepreneurs face labour shortage the entrepreneurs have to resort to payment of higher wages to the available labour. The entrepreneurs have problems in recruiting workers and even more problems in holding on to these workers particularly those who have had the training and experience. Apparently this problem often arises in the operation of all small enterprises because such enterprises generally offer relative low wages and fringe benefits compared to large scale enterprises all the time. Even those entrepreneurs relying on family help, face labour problems because their off springs are unwilling to follow their trade.

**Marketing**

In the area of marketing, effective market promotion measures which invariably incur heavy expenditure are often not undertaken by entrepreneurs because of inadequacy of capital. This crates low market potential for products manufactured. The performance of the organisations intended to give marketing support is generally unsatisfactory
which makes the entrepreneurs look for markets on their own. Such a situation is common to the entrepreneurs. Many of the entrepreneurs feel that they are pressurised to extend credit facilities to the customers even to hold on to the existing market let alone expanding. The problems of marketing the products become more acute when they are sold to government and semi-government organisations as reported by entrepreneurs.

Another serious problem in the area of marketing as faced by entrepreneurs is the excessive cut-throat competition among small business. This severity of the problem increases with the large firms also encroaching on the markets of the small enterprises making it extremely difficult for the small enterprises to survive.

The inadequacy of the information regarding marketing process and prospects hampers the entrepreneurs in widening their market. This has been reported as one of the major problems faced by the entrepreneurs of India.

**Raw Materials**

The most frequently mentioned problem in the area of production process relates to poor-quality of raw materials supplied and the increased cost of raw materials. The entrepreneurs depending on the imported raw materials frequently, faced difficulties in processing imported inputs adequately. This kind of problem arose even in the case of items of indigenous origin due to lack of communication and well-developed links with large scale enterprises. This has often led to low capacity utilisation and low operational efficiency of the small enterprises.

**Miscellaneous**

Some other problems with respect to management, technical know-how, financing and extension activities, and quality control have been reported by entrepreneurs in the collaborating countries. Lack of technical know-how, lack of training and extension activities, management and managerial problems have been found to be common. Lack of quality control measures affects the marketability of the products, often posing a problem for the entrepreneurs in the collaborating countries.

Frequently power failures, machine breakdowns have been reported by entrepreneurs. Red-tapism and complex administrative procedures to obtain assistance from
assistance-giving organisations, inadequate transport, ware housing facilities and management guidance are reported to be other problems.

The nature of problems is almost the same in almost all the countries though the degree of the intensity varies from country to country depending on the situational factors in each country.