CHAPTER – VII
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INDUSTRIAL SICKNESS AND GOVERNMENT POLICIES

7.1 Introductions

7.2 The various causes of industrial sickness

7.3 Classification of Industries.

7.4 Brief History of Gov.Poli.&Support Measure

7.5 Present poly.Famework &focus Area.

7.6 Indian MSME: Area of Co-Operation.

7.7 Various Schemes for SSI
7.1 Introduction

The small scale industries have worked as an engine of growth in both developed and developing countries. Despite the extraordinary synchronized global slump, small scale industries acted as a prime mover in slipping up industrial growth, enhancing poverty alleviation and bringing about sustainability. There has been an increasing realization of a need to introduce the concept of Small and Medium Enterprises (SMEs) in place of Small Scale Industries (SSIs). SMEs represent over 80 per cent of the industrial base of most of the developed countries and so most of these countries have a concept of SMEs rather than SSIs.

There is growing recognition worldwide that SMEs have an important role to play in the present context given their greatest resource use efficiency, capacity for employment generation, technological innovation, promoting inter–sectoral linkages, raising exports and developing entrepreneurship skills. Their lavational flexibility is an important advantage in reducing regional imbalances. The future of SMEs is a major policy concern given their strategic importance in any discussion of reshaping the industrial sector. In case of India, government support to the small scale industrial sector since independence has been a serious concern since in the competitive
environment posed by economic liberalization and globalization has compelled government to shift its policy.

**Industrial Sickness**

The development of small-scale industries is hampered by a diversity of problems. There are certain problems common to all types of cottage and small scale industrial units. In this context, the present chapter is devoted to a detailed study of the problems of the small-scale industrial sector. It also seeks to suggest remedial measures. The basic requirement for the industrial development of a region is the presence of entrepreneurship in that area. The non-availability of adequate finance, paucity of raw materials, absence of technical and managerial guidance, and non-availability of industrial accommodation and marketing facilities are the other major problems facing the small-scale sector.

The slow growth industries in Tamil Nadu have been due to lack of entrepreneurship, which performs the function of initiating, establishing and organizing industries. The people of Tamil Nadu, in fact lack enterprising character as compared with people in other states. Under the circumstances, the state Government entered the economic field and established important industries in the public sector. Without private participation, it is very difficult for an under-developed state to active industrialization. Therefore, the development of local private talent is highly essential. In this connection, it should be
kept in view that entrepreneurship talent is not the monopoly of any particular race.

Entrepreneurship can be developed by proper education, training, and provision of necessary cost and market data. It also requires complete reorientation of the curriculum so that young persons are provided with opportunities to develop new skills and attitudes that would turn them into entrepreneurs. The provision of proper training facilities helps in the development of entrepreneurship. Proper training, persuasion, guidance and assistance can bring about radical change. The self-employment schemes in the state can be made successful by the formulation of gainful schemes of industries mainly based on local factors, endowments and demand conditions.

Industrial sickness is the key event of modern industrial age; and incidence of sickness has been growing in such a large proportions that, in the wake of industrial development, a large number of new units covering all types of units in small, large and medium sectors are added in this category. The rapid growth and magnitude of industrial sickness is puzzling issue not only for present but also for all time to come, especially for India coming into 21st Century. It has become a matter of great concern for all; concerned directly or indirectly with the industrial units and policy makers. The society is also affected by the phenomenon, of sickness as unemployment in the wake of retrenchment of workers, spreads widely leading to them out of job. It also affects availability of goods and services and
price soar up. The share holders loss their hard earned savings creditors lose their cash and future prospect of business, Besides entrepreneurs, managers face numerous problems, difficulties in wake of closing down their units or at low productivity that leads financial loss.

Industrial sickness has not come up overnight but it is spreading like silent cancer in all sectors of industrial economy. Various views has been expressed by experts and social scientists on the causes of industrial sickness. Before analyzing the various causes, it is worthwhile to discuss in brief the criteria for identification of sickness. The main Parameters are:

(A). A unit may be considered sick if it has incurred cash loss for one year and in the judgment of the bank it is likely to continue to incur cash losses for the current year as well as the following year and the unit has an imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt equity ratio. A SSI unit may be identified as sick unit, according to the definition of sick SSI unit, if it has at the end of any accounting year accumulated losses equal to or exceeding 50 percent of its peak net worth in the immediately preceding five accounting years.

(B). Term lending Institutions identify a sick unit on the following grounds,

- Continuous default in meeting for consecutive half yearly installments of interest of Principal of institutional loans;
- Continuous cash loss for a period or two years of continued erosion in the net worth by 50 percent or more;
- Mounting arrears on account of statutory or other liabilities for period of one or two years, and
- There are consisting irregularities in operation of credit limits.

(C). According to the Sick Industrial Companies Act, 1985, sick industrial company means an industrial company which has at the end of financial year accumulated losses equal to or exceeding its entire net worth and has also sustained cash losses in such financial year and the financial year immediately preceding such financial year. But small scale industries and some other industries do not come under the purview of the said Act.

7.2 The various causes of industrial sickness:

The various causes of industrial sickness have been analyzed but in the bring there are:

**External factors**

- Unexpected adverse market conditions for a prolonged period;
Changes on Government Policies in respect of excise duty, import/export restriction and subsidies;

Industrial sickness not always originated by the parent companies;

Disequilibrium between demand and supply

Recessionary trend

Rise in cost of production, not compensated by corresponding increase in prices because of Government control and

Scarcity of critical resources like raw material, power and skilled labour.

Internal factors

- Management Structure and Prevailing work culture
- Economically enviable price structure
- Level of capacity utilization
- Technological up gradation
- Resource mobilization
- Socio–economic factors related to workers, management and business environment.
- Global Competition.
- Environmental Degradation
Therefore the strategy for attacking sickness may be classified in two category; (i) preventive and (ii) the other curative for the eradication of sickness. These measures can be considered at several stages and levels are institutional finance, entrepreneurs, Government, management and workers.

The large number of SSI units were also closed down due to non–compliance of environmental laws. About 135 units were closed down while 1269 units complied the environmental laws but 147 units become defaulters. Most of the defaulter units were related to sugar, copper and pulp and paper while closed units were mainly refinery, petroleum and copper units. Again, out of total industrial units closed down, most of the units are situated in Andhra Pradesh, Maharashtra and Uttar Pradesh. Similarly, number of units which become defaulter were found situated in Uttar Pradesh, Maharashtra, Punjab and Bihar.
Table 7.1:

State wise Sick Industrial Units in India

<table>
<thead>
<tr>
<th>States</th>
<th>No. of Sick Units SSI</th>
<th>Percentage of total</th>
<th>No. of Sick Units Non–SSI</th>
<th>No. of Sick Units Total</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>12074</td>
<td>9.08</td>
<td>295</td>
<td>12369</td>
<td>5.52</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>456</td>
<td>9.78</td>
<td>2</td>
<td>458</td>
<td>0.20</td>
</tr>
<tr>
<td>Assam</td>
<td>15774</td>
<td>52.86</td>
<td>44</td>
<td>15818</td>
<td>7.06</td>
</tr>
<tr>
<td>Bihar</td>
<td>24395</td>
<td>8.56</td>
<td>63</td>
<td>24998</td>
<td>11.15</td>
</tr>
<tr>
<td>Goa</td>
<td>670</td>
<td>11.63</td>
<td>13</td>
<td>683</td>
<td>0.30</td>
</tr>
<tr>
<td>Gujarat</td>
<td>6808</td>
<td>4.97</td>
<td>215</td>
<td>7023</td>
<td>3.13</td>
</tr>
<tr>
<td>Haryana</td>
<td>2149</td>
<td>2.40</td>
<td>86</td>
<td>2235</td>
<td>0.99</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>735</td>
<td>2.69</td>
<td>32</td>
<td>767</td>
<td>0.34</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>1627</td>
<td>6.23</td>
<td>7</td>
<td>1634</td>
<td>0.72</td>
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<tr>
<td>Karnataka</td>
<td>6680</td>
<td>3.20</td>
<td>171</td>
<td>6851</td>
<td>3.05</td>
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<tr>
<td>Kerala</td>
<td>8969</td>
<td>4.90</td>
<td>85</td>
<td>9054</td>
<td>4.04</td>
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<tr>
<td>Madhya Pradesh</td>
<td>8348</td>
<td>2.91</td>
<td>116</td>
<td>8464</td>
<td>3.77</td>
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<tr>
<td>Maharashtra</td>
<td>17925</td>
<td>7.62</td>
<td>410</td>
<td>18335</td>
<td>8.18</td>
</tr>
<tr>
<td>Manipur</td>
<td>1919</td>
<td>31.51</td>
<td>2</td>
<td>1921</td>
<td>0.85</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>4076</td>
<td>NA</td>
<td>2</td>
<td>4078</td>
<td>1.82</td>
</tr>
<tr>
<td>Mizoram</td>
<td>615</td>
<td>15.76</td>
<td>–</td>
<td>615</td>
<td>0.27</td>
</tr>
<tr>
<td>Nagaland</td>
<td>1386</td>
<td>NA</td>
<td>2</td>
<td>1388</td>
<td>0.61</td>
</tr>
<tr>
<td>Orissa</td>
<td>1889</td>
<td>5.82</td>
<td>57</td>
<td>1946</td>
<td>0.86</td>
</tr>
<tr>
<td>Punjab</td>
<td>2376</td>
<td>1.20</td>
<td>69</td>
<td>2445</td>
<td>1.09</td>
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<tr>
<td>Rajasthan</td>
<td>15655</td>
<td>16.60</td>
<td>87</td>
<td>15742</td>
<td>7.02</td>
</tr>
<tr>
<td>Sikkim</td>
<td>33</td>
<td>10.0</td>
<td>1</td>
<td>34</td>
<td>0.01</td>
</tr>
<tr>
<td>Tamilnadu</td>
<td>12289</td>
<td>3.78</td>
<td>198</td>
<td>12487</td>
<td>5.57</td>
</tr>
<tr>
<td>Tripura</td>
<td>2011</td>
<td>NA</td>
<td>6</td>
<td>2017</td>
<td>0.90</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>14294</td>
<td>3.99</td>
<td>208</td>
<td>14502</td>
<td>6.47</td>
</tr>
<tr>
<td>West Bengal</td>
<td>53617</td>
<td>32.08</td>
<td>240</td>
<td>53857</td>
<td>24.04</td>
</tr>
<tr>
<td>Delhi</td>
<td>3580</td>
<td>2.74</td>
<td>34</td>
<td>3614</td>
<td>1.61</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>221536</strong></td>
<td><strong>7.37</strong></td>
<td><strong>2476</strong></td>
<td><strong>224012</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Estimates from All India Census of SSIs, 2010-11
While the causes of sickness may vary from industry to industry and unit to unit in any particular industry, some of the general causes of sickness in the SSI sector are given as under and it is observed that a unit falling sick may be attributed to a combination of the following factors rather than any specific one.

i. Inadequacy of raw material inputs

ii. Deficiency in management of the units

iii. Delayed inadequate availability of financial assistance, particularly working capital

iv. Low quality standards adopted by SSI units.

v. Delayed payments of receivables from large other units.

vi. Obsolescence of technology

vii. Inadequate infrastructure

viii. Marketing problems

ix. Labour–related issues

Sickness and increasing NPAs in small and medium/large enterprises are a phenomenon which is not unique only to India. Everywhere in the world industries are facing tough competition which is taking its toll. The increasing sickness has been causing concern to policy makers because of the production assets lying unutilized/ underutilized, the huge assistance from financial institutions/ banks locked up in these
units, and the adverse impact on employment in the event of their closure. A small–scale unit is considered as sick when either the principal or the interest in respect of any of its borrowal accounts has remained overdue or has become doubtful advance for a period exceeding two and half years and there is erosion of networth due to accumulated cash losses to the extent of 50 per cent or more of its peak networth during the preceding two accounting years. In case of tiny and decentralized sectors also a unit may be considered as sick if it satisfies the above definition. However in the case of such units it is difficult to get data on financial particulars. Accordingly, a unit may be considered as sick if it defaults continuously for a period of one year in payment of interest or installments of principal, and there are persistent irregularities in the operations of its cash credit account with the bank. Based on these criteria, the RBI has made available data on advances to sick SSI units.


a) The Working Group suggested to propose ways of facilitating credit flow and availability of timely finance to the sector at the right price. Major focus to expedite support to assist the viable units.

b) The focus should be on facilitating rather than subsidizing finance. In order to make the SSI sector competitive
and efficient, dependence on subsidy by the sector needs to be reduced.

c) For healthy and sustainable growth of the SSI sector, strong linkage between large corporate and small-scale units is vital for the sector. The Working Group should examine how successful linkages work.

d) Definition of SSI needs to be revisited. It could be based on capital/turnover.

e) A shift from the traditional credit delivery mechanism (based on preconceived ideas) to a system based on risk assessment mechanism may be looked into. Pricing or quantum of assistance should not be subjective.

f) Proper risk mitigation mechanism can be achieved, for example, by creation of hedge funds, sharing of risk etc.

g) Similarly, Bank-funded Non Bank Finance Companies (NBFCs) (not collecting public deposit) may be considered for undertaking risk assessment and SSI financing.

h) Tiny sector should be major focus for micro finance.

i) Therefore, emphasis is on the need for new vehicles and instruments viz. bank promoted (non-deposit taking) NBFCs, micro credit intermediaries dedicated to SME financing, etc.

j) Such micro credit intermediaries (funded by individual or a group of banks) would be able to credit-rate and risk assess
and serve as instruments for extending quick credit to SME clusters, accredited to them.

k) The importance of SIDBI’s Technology Bank for SME up gradation in order to facilitate technology transfer, provide services such as project evaluation, risk assessment and risk mitigation measures for the SMEs exploring and adopting new technologies.

l) A dedicated, National level SME Development Fund, promoted by SIDBI /banks, to fund export oriented, high technology SMEs and accredited clusters can play catalytic role in the advancement of the SME sector.

m) The role of SME rating agencies and CGTSI needs to be proactive in order to protect the bank advances and publicized widely.

n) Special plea for novel funding for SMEs, especially in North East and other backward regions/areas, in order to remove regional imbalances by promoting and developing SMEs, needs to be pursued actively.

o) Highly successful micro finance models working in southern states should be actively publicized and replicated, as best practices in other parts of the country.

p) Given the potential opportunities, banks may consider adopting Micro Finance Intermediaries (MFIs) to extend their business.
q) Since many SFCs have good infrastructure, trained personnel, etc., revival of some of the more active SFCs as state level NBFCs needs to be explored.

II. RBI Circular – Policy Package for Stepping up Credit to Small and Medium Enterprises (RBI/2005-06/131RPCD.PLNFS. BC.No.31/ 06.02.31/ 2005-06 – August 19, 2005)

a) At present, a small scale industrial unit is an industrial undertaking in which investment in plant and machinery, does not exceed Rs.1 crore except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods where this investment limit has been enhanced to Rs.5 crore.

b) Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as Medium Enterprises (ME).

c) Only SSI financing will be included in Priority Sector. All banks may fix self-targets for financing to SME sector so as to reflect a higher disbursement over the immediately preceding year, while the sub-targets for financing tiny units and smaller units to the extent of 40% and 20% respectively may continue.

d) Banks may initiate necessary steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise.
e) SIDBI has developed a Credit Appraisal & Rating Tool (CART) as well as a Risk Assessment Model (RAM) and a comprehensive rating model for risk assessment of proposals for SMEs.

f) The banks may consider to take advantage of these models as appropriate and reduce their transaction costs.

g) Reserve Bank had issued a master circular on lending to SSI sector vide circular RPCD.PLNFS.BC.No.03/06.02.31/2005-06 dated July 1, 2005 incorporating instructions on the time to be taken for disposing of loan applications of SSI units, the limit up to which banks are obliged to grant collateral-free loans, etc.

h) Cluster based approach for financing SME sector offers possibilities of reduction in transaction costs, mitigation of risk and also provide an appropriate scale for improvement in infrastructure. About 388 clusters have already been identified.

i) In the meantime, SIDBI has already initiated the process of establishing Small Enterprises. Financial Centres (SEFCs) in select clusters.

j) A debt restructuring mechanism for nursing of sick units in SME sector and a One Time Settlement (OTS) Scheme for small scale NPA accounts in the books of the banks as on March 31, 2004 are being introduced. Necessary circulars are being issued in this regard separately.
k) The existing institutional arrangements for review of credit to SSI sector like the Standing Advisory Committee in Reserve Bank and cells at the bank head office level as also at important regional centres will review periodically flow of credit to SME, including tiny sector as whole.


a) The revised guidelines will cover all NPAs in SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs.10 crore and below.

b) These guidelines will cover cases on which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.

c) Cases of willful default, fraud and malfeasance will not be covered.

d) Settlement Formula – amount – NPAs classified as Doubtful or Loss as on March 31, 2004, will be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs.
e) NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date on which the account was categorised as doubtful NPAs, plus interest at existing Prime Lending Rate from April 1, 2004 till the date of final payment.

f) Payment– The amount of settlement arrived at in both the above cases, shall preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement shall be paid up front.

g) Sanctioning Authority– The decision on the one-time settlement shall be taken by the competent authority under the delegated powers.

h) Non-discretionary treatment Banks shall follow the above guidelines for one-time settlement of all NPAs covered under the scheme, without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office.


a) These guidelines are being issued to ensure restructuring of debt of all eligible small and medium enterprises at terms which are, at least, as
favourable as the Corporate Debt Restructuring mechanism in the banking sector.

b) All non-corporate SMEs irrespective of the level of dues to banks.

c) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.

d) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/consortium banking arrangement.

e) Accounts involving willful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.

f) Accounts classified by banks as “Loss Assets” will not be eligible for restructuring.

g) In respect of BIFR cases banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

h) Banks may decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

i) Prudential Norms for restructured accounts.

j) Treatment of ‘standard’ accounts subjected to restructuring.

k) Treatment of ‘sub-standard’/‘doubtful’ accounts subjected to restructuring.
l) Additional finance, if any, may be treated as ‘standard asset’ in all accounts viz; standard, sub-standard, and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal.

m) Up gradation of restructured accounts

V. RBI/2008-09/352– Collateral Free Loans - Micro and Small Enterprises (RPCD.SME&NFS.BC.No 84A/06.02.31(P)/2008-09, January 20, 2009)

a) The High Level Committee appointed by Reserve Bank to suggest measures for improving the delivery system and simplification of procedures for credit to the SSI sector (Chairman: Shri S.L.Kapur) had, inter alia, recommended that the exemption limit for objection of collateral security/third party guarantee be raised from Rs 25,000 to Rs. 1 lakh. Accordingly instructions were issued to banks on October 5, 1999 raising the limits from Rs 25,000 to Rs. 1 lakh.

b) This exemption limit was further raised from Rs.1 lakh to Rs.5 lakh for the tiny sector; vide circular PCD/PLNFS/No.BC.65/06.02.31/99-2000 dated March 3, 2000.
There is growing recognition worldwide that SMEs have an important role to play in the present context given their greatest resource use efficiency, capacity for employment generation, technological innovation, promoting inter-sectoral linkages, raising exports and developing entrepreneurship skills. Their location flexibility is an important advantage in reducing regional imbalances. The future of SMEs is a major policy concern given their strategic importance in any discussion of reshaping the industrial sector. In case of India, government support to the small scale industrial sector since independence has been a serious concern since in the competitive environment posed by economic liberalization and globalization has compelled government to shift its policy.

7.3 Classification of industries:

Enterprises are broadly classified into two categories: Manufacturing; and those engaged in providing / rendering of services.

Both categories of enterprises have been classified into micro, small, medium and large enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:
Table : 7.2

Classification of industries on the Basis of Investments

| Classification | Investment Ceiling for Plant, Machinery or Equipments*@
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Manufacturing Enterprises</strong></td>
</tr>
<tr>
<td>Micro</td>
<td>Up to $ 62,500</td>
</tr>
<tr>
<td>Small</td>
<td>Between $ 60,000 &amp; $ 1.25 mn</td>
</tr>
<tr>
<td>Medium</td>
<td>Between $ 1.25 mn &amp; $ 2.50 mn</td>
</tr>
</tbody>
</table>

* Fixed Costs are obviously higher

Definitions before 2nd October 2006

Table : 7.3

Classification of industries on the Basis of Investments
(After October 2006)

| Classification | Investment Ceiling for Plant& Machinery or Fixed Assets*@
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Manufacturing Enterprises</strong></td>
</tr>
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</tr>
<tr>
<td>Small</td>
<td>Between $ 60,000 &amp; $ 1.25 mn</td>
</tr>
<tr>
<td>Medium</td>
<td>Not Defined</td>
</tr>
</tbody>
</table>

* Excluding land and building

@ $1=Rs. 40 (October 2007)

The small scale sector, over the years has grown steadily and occupied an importance place in the economy. The contribution of the sector in terms of generation of employment, output and exports is quite significant. The number of registered units in
SSI sector has increased from 0.42 million at the end of March 1974 to 3.37 million at the end of March 2001. The Small Scale Industry sector accounts for 95 per cent of the industrial units; 40 per cent of output of the manufacturing sector, 35 per cent of the total exports and provides employment to around 17 million persons. The sector covers a wide spectrum of industries categorized under small, tiny and ancillary segments. In fact, it encompasses the continuum of the artisans, handicrafts units at one end and modern production units; with significant investments, on the other, producing a wide range of over 7,500 products. The sector acts as a nursery for the development of entrepreneurship talent. The SSI sector has been receiving special attention from the policy makers in addressing its requirements, but in audit, marketing, and technology, and entrepreneurship development, fiscal or infrastructural support.

The industry sector in India is broadly segmented into three categories namely: (i) large scale industry (factory) sector, (ii) small scale factory sector; and (iii) village and small industries sector. The units in the large scale factory sector and small scale factory are classified on the basis of an upper limit on investment in plant and machinery. The village and small industries sector has been further divided into two broad categories namely, the modern small scale industries and traditional industries. The modern small scale industries cover SSI units and power loom units. The traditional industries subsector comprises tiny and cottage industries segment, like
handloom, khadi and village industries, handicrafts, sericulture, silk and coir. The SSI sector consists of different segments such as SSIs ancillary undertakings, tiny units, export oriented units, women enterprises and small scale services and business enterprises.

Table 7.4

Micro, Small And Medium Enterprises (Msme) Sector: Profile

<table>
<thead>
<tr>
<th></th>
<th>Old Definition</th>
<th>New Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Micro and small enterprises</td>
<td>12.8 million</td>
<td>13 million*</td>
</tr>
<tr>
<td>Employment</td>
<td>31.0 million</td>
<td>41.0 million**</td>
</tr>
<tr>
<td>Production (at current prices)</td>
<td>$140 billion</td>
<td>N.A.</td>
</tr>
<tr>
<td>Exports $</td>
<td>33 billion</td>
<td>N.A.</td>
</tr>
<tr>
<td>Share in GDP</td>
<td>6%</td>
<td>8.9%*</td>
</tr>
<tr>
<td>Share in manufacturing output</td>
<td>39%</td>
<td>45%*</td>
</tr>
<tr>
<td>Share in exports</td>
<td>33%</td>
<td>40%*</td>
</tr>
</tbody>
</table>

‘*’ The statistics relating to micro and small enterprises are based on 3rd All-India Census conducted during 2001-02 when the old definition was in vogue. The statistics relating to new definition are based on unofficial sources. Final picture will emerge from the 4th All-India Census to be Conducted/completed during 2007-09.
Table: 7.5

Annual Flow of Credit 2009-10

<table>
<thead>
<tr>
<th>Indicator</th>
<th>MSEs(former SSIs)</th>
<th>MSME Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>$ 5.4 billion</td>
<td>$ 9.5 billion</td>
</tr>
<tr>
<td>Other Banks (Private/foreign Banks, SIDBI,SFCs,etc.)</td>
<td>$ 2.4 billion</td>
<td>$ 3.5 billion</td>
</tr>
<tr>
<td>Emerging Sources (VC/PE, ECBs,Factoring,etc.)</td>
<td>–</td>
<td>$ 3.0 billion*</td>
</tr>
<tr>
<td>Total</td>
<td>$ 7.8 billion</td>
<td>$ 12.0 billion*</td>
</tr>
</tbody>
</table>

* Estimates based on certain broad assumption.

Exchange rate used for conversion. Rs. 40 = 1 US $

7.4 Brief History of Government Policies and Support Measures

The development of the government policy framework and support measures can be broadly grouped into three periods which are as follows:

1948-1991:- During this period recognition was given to the micro and small enterprises and considered them as an effective tool to expand and generate employment opportunities, facilitate effective mobilization of skills and resources of private sector and help to ensure equitable distribution of national income, in all the policy resolutions of the government.
The Micro, Small and Medium Enterprises Development Organization earlier as small Industries Development Organization SIDO was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provide the supportive measures that were required to nurture MSEs, in the from of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial bank excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institute for entrepreneurial Service Institute for entrepreneurial and skill development. MSME- Development Institute earlier knows as Small Industries Service SISI were set up all over India to train youth in skill/ entrepreneurship and tool Rooms were established with German and Danish assistance for providing technical service essential to MSEs as also for skill-training. At the state level, District Industries Centers were set up all over the country.

1991-1999:- From August 1991 under the new policy for smell, Timer and Village Enterprises framework for government support was laid in the context of liberalization, which sought to replace protection with competitiveness in order to inform
more vitality and growth to MSES in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new tool Rooms as well as Sub-Contracting Exchange was established. The Small Industries Development and Modernization Fund were created to accelerate finance and technical service to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industries Infrastructure Development IID scheme was launched to set mini industrial estate for small industries.

1999 onwards:- From the year 1999 the ministry MSME earlier known as Ministry of small scale Industries and agro & Rural Industries (SSI & ARI) came into being to provide specific attention to the promotion and development of the sector. The new Policy Package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, and technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology up gradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs. 1 crore ($0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were
with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long awaited enactment for this sector finally becomes a reality with the passage of the Micro, Small Medium Enterprises Act. In March 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.

**Institutional Arrangement:** - The SIDBI as the principal financial institution for financing, promotion and development of the MSE sector. The Ministry of MSEME is also implementing the following major schemer to ensure letter flow of credit to, MSES. Apart from extending financial assistance to the sector, it coordinates the function of institute engaged in similar activities. SIDBI’s major operational are in the areas of (i) refinance assistance (ii) direct lending and (iii) development and support services. Commercial bank are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing terms loans (in the form of composite loans). At the State level, State financial Corporation (SFCs) and twin-function State Industrial Development Corporation SIDCs are the main source of long-term finance for the MSE sector.
Recognizing the importance of easy and adequate availability of credit sustainable growth of the MSE, the Government has announced a policy package for Stepping up Credit to Small and Medium Enterprises (SMSs)’, with the objective of doubling the flow of credit of this sector within a period of five years to ensure better flow of credit to MSEs, the Ministry of MSEME is also implementing the following major scheme:

**Emerging Sources of finance:**- Increased competition due to globalization, MSME have started to more from blank credit the various other specialized financial services and alternating sources. In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowing, factoring service etc. More advanced MSMEs have started realizing the importance of this alternative source of funding to raise resources and the need for adopting better government norms to take advantage of these funding sources. Efforts are on to put in place Limited Liability partnership Act so as to provide a thrust to the MSMEs in their move towards corporatization. At the end of March 2007, the loan outstanding against the MSE sector from scheduled commercial banks is estimated at over Rs. 90,000 crore ($ 22.5 billion). The incremental credit from scheduled commercial banks to the MSME sector during 2006-2007 is estimated at around Rs 45000 crore (over 11). In addition the MSME sector is estimated to have received funds from emerging source like
venture capital and private equity external commercial borrowing, factoring services etc, to the tune of Rs. 12000 crore ($ 3 billion).

7.5 Present Policy Framework And Focus Areas

Policy –Micro, Small and Medium Enterprises Development Act, 2006

The MSMED Act, 2006 focused to encourage the development of these enterprises and also enhance their competitiveness. It provides the first- ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and sees to integrate the three fires of these, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmers for this purpose. Progressive credit policies and practices. Preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and
small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The ministry of Micro, Small and Medium Enterprise has been holding detailed Consultation with stakeholders and has drown up a road mop the generate consensus on further trimming their list.

The Ministry of MSME has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) should pave the way for greater corporatization of the Small and Medium Enterprises- there by enhancing their access to equity and other funds from the market of these products in keeping with the global standards. The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate condenses on further trimming this list.

**Credit / finance:-**

For the promotion and development of micro and small enterprise credit is some of the features of existing credit policy for the MSE are as follows:-
**Priority sector Lending:** Give credit to the MSES comes under the priority sector lending policy of the bank. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the priority Sector, of which 10% is earmarked for the MSE sector. Any shortfall in such lending by the foreign bands has to be deposited in the small Enterprise Development Fund (SEDF) to be set up by the Small industries Development Bank of India (SIDBI).

**Credit Guarantee Scheme:** The government launched credit guarantee fund scheme for micro and small enterprise in August 2000 to ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/financial institutions in lending without collateral security. The scheme covers collateral free credit facility extended by eligible lending institution to new exiting micro and small enterprises for loans up to Rs. 50 lakh ($12,000) per borrowing unit. The guarantee cover is up to 7 per cent of the credit sanctioned 80% in respect of loans up to Rs. Lakh ($12,500), loans provided to MSEs owns/operated by women and all loans in the North-East Region.

**Performance & Credit Rating Scheme:** In April, 2005 the performance and credit rating scheme manufacturing MSES was launched, with the objective of assisting the MSE s with obtaining performance-cum-credit rating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme
(implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs. 40,000 ($1,000).

**Competitive Technology:** - In the present competitive world technology is of prime indolence. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the –art Tool Rooms and Training Center. These Tool Rooms provide invaluable service to the Indian industry by way of precision tooling and providing well trained craftsman in the area of tool and die making. The tool Room are highly proficient in mould and die making technology and promote precision and quality in the development and manufacture of sophisticated moulds, dies and tools. The tool Rooms are not only equipped with the best technology but are also abreast with the latest advancements like CAD/CAM, CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping, etc. The Tool Room & Training Centers also offer various training programmers to meet the wide spectrum of technical manpower required in the manufacture sector. The training programmers are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. The Tool Rooms have also developed special training programmers to meet the requirement at international level, which are attended by participants from all over the globe. The Ministry of MSME
implements the following scheme and programmes for the upgradation of technology of the MSMEs:

**ISO 9000/14001 Certification Fee Reimbursement Scheme:**
- The government introduced a scheme to enhance the competitive strength of the MSES, to incendiaries technological upgradation, quality improvement by the MSES. The scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000 ($2000), for acquiring Quality Management System (QMS) ISO 9000 certification and/ or Environment Management System (EMS) ISO 14001 certification by the MSES.

**Micro and small Enterprises Cluster Development Programme:** - For the holistic development of clusters of MSES, the Micro and small enterprises cluster development programme (MSECDP) is implemented. The Programme envisages measures for capacity building, skill development, technology upgradation of the enterprises improved credit delivery, marketing support, setting up of common facility centers etc, based on diagnostic studies carried out in consultation with cluster units and their collectives and management of cluster of cluster-wide facilities by the cluster (in phases) all or most of the “Clusters of Micro & Small Enterprises” scattered throughout the country. It aims at a focused programme of upgrading skills and technology that exist in these clusters through various stages, like proper diagnostic studies; interaction with the existing enterprises (on
the recommendations of the study); exposing the entrepreneurs/workers to better products, process & practices; upgrading the existing skills available that finally lead to the creation of ‘Common Facility Centers’ (CFCs) that these enterprises could utilize. These CFCs can be in the form of processing facilities, finishing or packaging centers, tool rooms, testing/certifying laboratories, training centers and so on. Till October 2007, the Ministry of MSME has undertaken the development of over 400 clusters of village, micro and small enterprises; while 8 other Ministries and agencies of the federal government have also undertaken similar interactions in about 800 more clusters. India has now acquired considerable expertise in “Cluster Development Programme” and UNIDO as well as many developing countries are eager to learn about the Indian success story.

**Credit Linked Capital Subsidy Scheme (CLCSS):**- The aim of the credit linked capital Subsidy scheme is to assist individual micro small enterprises to replace their existing machinery with more modern and efficient ones, with state assistance of 15% of the bank credit required to finance new purchases. The federal government in the Ministry of MSME has assisted hundreds of micro enterprises in India and over $50 million has already been committed to this scheme, with more in the pipeline.

**Infrastructure Development:**- The integrated infrastructural development (IID) scheme was launched in 1994, for setting up
of industrial estates and to develop infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, road, banks, raw, materials, storage and marketing outlets, common service facilities and technological back up services etc, for MSMEs. The schemes covers rural as well as urban areas with a provision of 50 percent reservation for rural areas and 50 percent industrial plots are to be reserved for the micro enterprises. The scheme also provides for up gradation/strengthening of the infrastructural facilities in the existing industrial estates. The estimated cost (excluding cost of land) to setup an IID Centre is Rs. 5 crore ($ 1.25 million). Central Government provides 40 percent in case of general States and up to 80% for North East Region (including Sikkim), J&K, H.P. and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institution or the state funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Programme (MSECDP). All the features of the IID Scheme have been retained and will be covered as “New Clusters” under MSECDP.

**National Manufacturing Competitiveness Programme:**-The government has also launched the national Manufacturing competitiveness programme (NMCP) to help the MSMEs improve their competitiveness. The Scheme under this Programme is aimed of addressing the technology, marketing
and skill up gradation needs of the sector, mainly in the Public-Private Partnership mode. One of the components under this programme is the application of lean Manufacturing Technology for increasing competitiveness of firms by systematically identifying and eliminating waste throughout the entire business cycle. This world tackle the factors inhibiting growth such as, inefficient use of resources resulting in product quality accompanied by hidden high cost due to rejection and rework in the course of manufacturing, building up inventory at the various stages in the form of raw materials, work-in-process, finished components, finished products, etc. another component of the NMCP is the Design Intervention through Design Clinic model for SMEs with the main objective of bringing the SME sector and Design expertise onto a common platform and to provide expert advice and solutions on real time design problems, resulting in continuous improvement and value addition for existing products. Other interventions under the NMCP include assistance for attaining Quality Standards and Certification, improving use of ICT, enhancing familiarity with Intellectual Property Rights (IPRs) compulsions and benefits in the manufacturing sectors and so on.

**Technology Mission:** With the objectives of promoting new and appropriate technologies for MSMEs, assessing present levels of technology and their forecasting, setting up technology information centers/data banks and an IT portal for information dissemination, carrying out detailed technology audits, the
Ministry is also in the process of establishing a technology mission. This would also encourage research and development, create incubator infrastructure facilities in various technical institutions, motive MSMEs to obtain BIS/ISO certification and organize awareness campaigns among the MSMEs for quality, standardization and customer satisfaction.

**Skill Development:** To develop skills in different trades/disciplines, the Ministry of MSME has taken up several initiatives. For skill development of the entrepreneurs and their employee, the MSME- Development Institutes, Regional Testing Centers, Field Stations and autonomous bodies like tool Rooms, product-cum-process Development Centers (PPDCs) and Central Footwear Training institutes (CFTIs) of the Ministry conduct long term, short term, Trade/field-specific and industry-specific tailor-made courses as well as vocational training programmes. The efforts help in skill development and in creation of self-employment opportunities. A good number of trainees have set up their own enterprises in creating employment opportunities. The Ministry is at present training more than 1, 10,000 persons per annum both for business and technical skill development, which is among the largest programme by any single Ministry in India. The ministry is also focusing on socially backward groups and on least developed areas under its’ Outreach Programme’. The package for Promotion of Micro and Small Enterprises announced recently provides for training of 50,000 entrepreneurs through
specialized courses run by MSME-Development Institutes for new as well as existing micro and small entrepreneurs, formulation of a new scheme to provide financial assistance to select management/business schools and technical institutes to conduct tailor-made courses for new as well as existing micro and small entrepreneurs and provide financial assistance to 5 select universities/colleges to run 1200 entrepreneurial clubs.

**Marketing and Procurement:** Various facilities are provided is enterpriser registered with national small industries corporation (NSIC) in order to assist them for marketing their products in competitive environment, under the government stores purchase programme. These facilities are issue of Tender sets free of cost; exemption from payment of Earnest Money Deposit; Waiver of Security Deposit up to the Monetary Limit for which the unit is registered; and Price preference up to 15% over the quotation of large-scale units.

In addition to these facilities/benefits, 358 items has also been reserved for exclusive purchase from the MSE sector. However, as these guidelines were/ are not of a mandatory nature, the same has failed to achieve the desired results. To assist the MSEs in marketing of their products, Section 12 of the new MSMED Act enjoins the formulation of a scheme of preferential procurement of goods/service produced/rendered by MSEs both of the Central and State/UT levels. Once formulated, the procurement scheme may be more effective in providing the much-needed marketing support that MSEs seek
so desperately. Each Ministry/ Department, CPSU, etc., would have to specific mention of the compliance of the preference policy in its Annual Reports to be tabled in Parliament.

**Export Promotion:**- A high priority has given to exports from MSE sector. To help MSEs in exporting their products, the following facilities/ incentives are provided:

Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government; To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organized I various parts of the country in association with the Indian Institute of Packaging;

Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individual for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individual as member of a trade delegation going abroad.

The scheme also offers assistance for Sector specific market study by MSE Associations/ Export Promotion Council / Federation of Indian Export Organization; Initiating / contesting anti-dumping cases by MSE Associations; and Reimbursement of 75 percent of the onetime registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

**Strengthening of Database:**- For any policy decision- making process, a reliable database is the key input. This is more so for
the MSME sector in view of its large size and wide disparity among the enterprises within the sector. The Ministry has so far conducted three Census in the year 1971-72, 1992-93 and 2002-03 for strengthening / updating the database on MSE sector. However, the long gap between the Census has limited the reliability of the MSE database. To strengthen the data base for the MSME sector, Statistics and information will now be collected in respect of number of units, employment, rate of growth, share of GDP, value of Production, extent of Sickness/Closure, exports and all other relevant parameters of micro, small and medium enterprises, including Khadi and village industry, through annual sample surveys and quinquennial census. The quinquennial census and annual sample surveys of MSMEs will also collect data on women-owned and / or managed enterprises.

Inclusiveness:- In September 2006, the ministry of MSME launched a special programme, namely “Outreach Programme for skill Development in Less Developed areas. “Under this programme, the field offices of the Ministry organize short-term skill development programmes in the less developed areas. Such short-term courses are tailor-made for these areas so as to enable trainees to get employment or start self-employment ventures. These programmes are of short duration of 1-3 weeks and the activity selected for trainees are relevant to the local requirement. The target grow up consist wholly or partly of disadvantaged sections. Further, under the recently announced
Promotional Package for MSEs, 20 % of skill Development Programmes have been reserved for weaker sections along with the provision of a stipend of Rs.500 per capita per month exclusively for SCs/STs, women and physically handicapped. In case of the regular EDP/MDP/ skill Development programmes, a nominal fee of Rs. 100 is charged. However, there is no fee for SCs/STs, women and physically handicapped candidates.

India’s pioneering policies for the development of MSEs offers case studies for the developing world. Government has moved away, though not yet fully, from its role of direct interventions to that of a friend and facilitator. There is growing realization that protection in the form of reservation needs to be replaced with easy access to capital, technology and skill development to integrate the MSMEs more firmly with the domestic and global economy. And these are now the specific target areas of the Ministry of MSME.

7.6 Indian MSMEs: Areas Of Cooperation

Initially, India had benefited from the experience of several countries especially in the field of technology. However, the rich Indian experience in the last sixty years in the MSME sector could also be of equal use for both developing as well as developed countries. Some of the areas that offer ample opportunities for cooperation in the MSME sector are:
- Consultancy services and training in Capacity Building of Entrepreneurs and Technical Manpower of SMEs;

- Policy & Institutional Framework for SME promotion, development and Enhancing Competitiveness;

- Entrepreneurship Development; and Business Development Services

- Establishment of Turnkey Projects for settings up Manufacturing MSMEs on commercial terms.

- Skill up gradation programmes in selected areas such as CNC Machining, Sheet-Metal Technologies, CAD & CAM designing, Wool Processing & Weaving, Leather Technology, Plastic Technology, Wood Working, etc.

- Conducting surveys and studies to identify the tooling and related skill requirements in specific areas or regions like / backward / indigenous.

- Providing turnkey assistance to setup Tool Room & training Centers.

- Providing consultancy to existing manufacturing SME in upgrading their production facilities, selection of machine tools, design consultancy for tools, moulds, dies, jigs & fixtures, etc.

- Providing specialized/ tailor-made training institutes in course design and curriculum development including trainers training programmes.
- Assistance in product design, tool design and manufacturing of intricate tooling.

- High precision tools, moulds, dies, jigs & fixture etc. as per design / specifications of local industry.

- Product development & rapid prototyping services.

### 7.7 Various schemes for SSI:

- **Credit Guarantee Fund Scheme For Small Industries**

  Government introduced the Credit Guarantee Fund Scheme for small Industries in May 2000, with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 10 lakh without collateral / third party guarantees. The scheme is being operated by the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up jointly by the Government of India and SIDBI. The loan limit under the scheme has been enhanced to Rs. 25 lakh per borrower in terms of the comprehensive Policy Package on SSI announced by the Hon’ble Prime Minister on 30th August, 2000, when the Scheme was formally launched.

  The scheme covers collateral-free credit facility (term loan and / or working capital including non fund based working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 25 lakh per borrowing unit. The guarantee limit of Rs. 18.75 lakh. However, the member lending institutions (MLIs) are allowed to extend
additional credit facilities against collateral security and / or third party guarantee to the borrowers already covered under the scheme in those cases where the credit facility already covered under the scheme has reached the ceiling or Rs. 25 lakh. The MLIs availing guarantee from the Trust have to pay on time Guarantee Fee of 1.5 %(reduced from 2.5 % to 1.5 % w.e.f. 1 April 2006) and service free of .75 % per annum of the credit facility sanctioned by the lending institution to be borrower.

The credit Guarantee scheme was initially approved for one year with a corpus of Rs. 125 crore contributed by the Government of India and SIDBI in the ratio of 4:1. Subsequently, Government decided to continue the scheme beyond on year and the Finance Minister in the Budget 2006-07 has announced that the corpus fund will be raised to Rs. 2500 crore by 2010-11.

The CGTSI has been enhanced to Rs. 1336.55 crore with the contribution of Rs. 1069.25 crore from the Gol and Rs. 267.30 crore from SIDBI.

As on 31st December 2006, 59 eligible institutions comprising 28 public Sector Banks, 13 Private Sector Banks, 15 Regional Rural Banks (RRBs), National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFi) and Small Industries Development Bank of India (SIDBI) have become Member Lending Institutions (MLIs) of
CGTSI for participating under the Credit Guarantee Scheme. Under the scheme 61,312 proposals amounting to Rs. 1543.63 crore have been approved guarantee cover up to 31st December 2006.

- **Micro Finance Programme**

Government has launched a revised Scheme under the Micro Finance Programme of SIDBI in 2003-04. The government of India provides funds for Micro-Finance Programme to SIDBI under a ‘Portfolio Risk Fund’ (PRF), which is used for security deposit requirement of the loan amount from the MFIs / NGOs. At present, SIDBI takes fixed deposit equal to 10% of the loan amount. Under the PRF, the share of MFIs/ NGO is 2.5% of the loan amount (i.e. 25% of security deposit) and balance 7.5% (i.e. 75% of security deposit) is adjusted from the funds provided by the order to harmonies divergences in the concept as well as content of cluster development programmes, an Empowered Group of Ministers (EGom) has been constituted very recently under the Chairmanship of the External Affairs Minister. Minister of SSI has been nominated for servicing of the EGom.

The policy perception on the role and relevance of SSI sector has not undergone any radical changes since independence. While the Nehruvian emphasis under the Mahalanobis models gave way to the target group oriented approaches during the subsequent decades, and finally to the liberalization paradigm
since 1991, there have been few quantitative changes in the policy. However, the policy needs to classify: (i) policy perception; (ii) reservation; (iii) role of government, (iv) centre and state relations; (v) technology and competitiveness and (vi) legal framework.

In the post liberalization era, there have been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated to introduce product specific incentives and concessions to small enterprises for product standardization, technology upgradation and modernization. The policy measures announced during the years 1992 to 1999 for the promotion and development of SSIs are briefly given below (SIDBI, 2000):

- SSI units engaged in manufacturing delicensed items were exempted from carry on business license on their graduation to medium scale.
- Development of Software Technology Parks in private sector was remitted.
- A National Renewal Fund was set up to project workers affected by technological upgradation and modernization.
- The interest on Delayed Payments to small scale and Ancillary Industrial Undertakings Act, 1993 was promulgated.
- The provisions of FERA for foreign owned corporations were eased.
• A single window scheme of SIDBI for project upto Rs. 5 million was implemented.

• An integrated infrastructural development scheme was launched.

• Financial assistance for the quality ratification scheme was launched to enable small industries to acquire ISO 9000 or similar international quality standards.

• A Technology Development Fund scheme to promote modernization and upgradation of technology and capital goods import was modified by raising the ceiling to Rs. 50 million per unit.

• The eligibility limit for availing of the SSI excise duty exemption scheme as rose from Rs. 20 million to Rs. 30 million.

• A Technological Development and Modernization Fund with an initial corpus of Rs. 2 billion were set up in SIDBI.

• Entrepreneurship Development Institutes were set up in some of the states.

• The Expert Committee on small enterprises recommended new policy directions, investment limits in plant and machinery were increased to Rs. 30 million for SSI and Rs. 2.5 million for tiny enterprises.

• Fifteen items were de–reserved out of 836 items reserved for exclusive manufacturing in SSI sector.
• Measures were recommended to tackle the problems resulting from the Inspector Raj by reducing the contact points and restricting the factory visits by Inspectors.

• Forty per cent of the industrial plots developed under the IIDC scheme were reserved for allotment to the tiny units. NSIC was advised to earmark 40 per cent of the amount of assistance to tiny units in respect of supply of machinery on a hire purchase basis.

• The definition of SSI was revised on December 24, 1999 by reducing the investment ceiling in plant and machinery from Rs. 30 million to Rs. 10 million.

• All industrial units in the north eastern region were exempted from excise duty for 10 years.

   The small scale sector which accounts for a substantial quantity of goods and products employment has been uniformly affected by the new economic policies. The present policies are also oblivious to the problems of small farmers and other primary sector producers, especially in the semi arid regions. The presence of MNCs is being increasingly felt and is undermining local manufacturing capabilities as well as research and development. The rising capital intensity is also affecting employment adversely (Kumar, 1996). Several large companies often of multinational origin have begun to buy food for processing, for sale in local as well as export markets. In some cases, contract farming too is
practiced. In most of agri–export processes, modern biotechnology seeds are provided from external sources. In the coastal regions of Andhra Pradesh and Tamil Nadu, small scale paddy farmers are being displaced from their land to give away to prawn farming by large companies for export. These prawn farms not only absorb labour, they ecologically degrade the earth by inlet of blackish waters. Importantly, fishing by MNCs in the coastal region has threatened to traditional fishermen (Acharya, 1995: 16).

The small scale sector, with its limited productivity and elementary technology, produces a substantial quantity of production and provides an even larger proportion of employment. The entry of MNCs in Agri–business, readymade garments, electronics etc. has adversely impacted on indigenous industries and employment in the sector.

- **The small scale industrial policy of 1991 highlighted in the following areas (SIDBI, 2003):**
  - A separate package for the promotion of tiny enterprises was introduced. This constituted the main thrust of government’s new policy. The tiny enterprises were also made eligible for additional support on a continuing basis, including easier access to institutional finance, priority in government purchase programmes and relaxation from certain provisions of labour laws.
• The scope of the National Equity Fund scheme was widened to cover projects up to Rs. 1 million for equity support (up to 15 per cent). Single window loan scheme was enlarged to cover projects up to Rs. 2 million with working capital margin up to Rs. 1 million. Composite loans under single window scheme, which was previously available only through State Financial Corporations and twin function state Small Industries Development Corporations, were channelized through commercial banks to facilitate access to a large number of entrepreneurs.

• Emphasis was shifted from subsidies/cheap credit, except for specified target groups and efforts were made to ensure both adequate flow of credit on a normative base, and the quality of its delivery for viable operations of this sector.

• To provide access to the capital markets and to encourage modernization and technological upgradation, equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding was allowed. This was done to give an impetus to ancillaryization and subcontracting, leading to expansion of employment opportunities.

• 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. Network of such services was setup throughout the country and operated through commercial banks.
• The small industries development organization has been recognized as a nodal agency to support the small scale industries in export promotion. An export development centre has been set up in SIDO to serve the small scale industries through its network of field officers to further augment export activities of this sector.

• Industry associations were encouraged and supported to establish quality counseling and common testing facilities. Technology Information Centres to provide updated knowledge on technology and markets were proposed to be established. It was decided to enforce compulsory quality control, and public health.

• A reoriented programme of modernization and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector was intended to be pursued. Specific industries in large concentration/ clusters were identified for studies in conjunction with SIDBI and other banks. Such studies were supposed to establish commercial viability of modernization prescriptions, and financial support was to be provided for modernization of these industries on a priority basis.

• A Technology Development Cell (TDC) was set up in Small Industries Development Organization to provide technology inputs to improve productivity and competitiveness of the products of the small scale sector.
• Adequacy and equitable distribution of indigenous and imported raw materials was to be ensured to the small scale sector, particularly the tiny sub-sector. It was decided to give priority to the tiny/small scale units in allocation of indigenous raw materials based on the capacity needs.

• Need for developing a strong Entrepreneurship Development Programme and development of a pool of trainers for EDP was also felt.

Small scale units in India have assumed significance not only for their contribution to the economy, especially in the creation of employment, but also for the special patronage they enjoy from the government. Despite numerous policy measures during the past four decades, Indian small scale units have remained mostly tiny, technologically backward and lacking in competitive strength. Notwithstanding their lack of competitive strength, small scale industrial units in India could survive due to product and geographical market segmentation and policy protection (Tendulkar et.al. 1997). The business environment has been changing drastically in the recent times. It is to be noted that protection is a transitory measure and can be used only to give time to industrial units to improve their competitive strength. All industrial units, small or large have to sustain themselves in their own competitive strength by successfully facing competitive in market economies. Industrial units have to be competitive and commercially viable. In the process of globalization, Indian enterprises, small or large,
whether exporting or serving the domestic market has to face competition. The process has already been initiated for small scale units by placing 586 of the 812 reserved items on the open general license list of imports. It is to be noted that toys and garments that have been reserved till recent past are already hit by imports (Business Today, July 6, 2001). In addition, changes in the trade policies have taken away the special advantage of small scale units in their supply of imported materials through government agencies at nominal prices.

In the electronic industry, where numerous small scale units are engaged in manual assembly of imported kits/ components of goods like tape recorders have already been hit by the presence of multinationals such as Sony.

Increasing internationalization of production, distribution and marketing of goods and services has given rise to global commodity chains. These chains are the network of business units of various sizes beginning from the stage of raw material supply to production, marketing and retail of any product being located across countries. These commodity chains can either be producer driven or buyer driven. Producer driven commodity chains can be seen for capital and technology intensive products like automobiles and electronics (Gereffi, 1995 : 113). To get into the international production and trade networks, individual units have to satisfy the buyers standards in terms of price, quality and delivery schedules (Gereffi, 1995 : 119). The Indian electronics industry is undergoing transformation due to the
new economic policy of the 1990s and the rapid technological developments in electronics. With the de–licensing of the entire consumer electronics industry and the removal of restrictions on foreign investments, almost all important global players like Thompson, Sony, and Goldstar have entered the Indian industry either directly or through collaborations with the local companies. These multinationals brought in well known global brands and offer consumer wider choice in terms of product features, quality and competitive prices. In addition, all the components, raw materials and capital goods relating to the industry are made free to import and duties on these imports are reduced (Hindu Survey of Indian Industries, 1999 : 121).

Liberalization has exposed all industrial units including small units to market competition to a greater extent; globalization intensifies market competition by allowing imports and MNCs into India relatively early. In order to withstand competition, Indian industries, especially the small industries need to improve their productivity, quality, efficiency and reducing cost of production and marketing.

REFERENCE

