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IV. COMPREHENSIVE POLICY PACKAGE FOR SMALL SCALE INDUSTRIES

Comprehensive policy package for Small Scale Industries and Tiny Sector

(Announced on 30th and 31st August, 2000)

1.0 Introduction

1.1 The Small Scale Industry Sector has emerged as India's engine of growth in the New Millennium. By the end of March 2000, the MSME sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of total exports from the country. Through over 32 lakh units, the sector provided employment to about 18 million people.

1.2 The ongoing programme of Economic Reforms based upon the principle of liberalization, globalisation and privatisation and the changes at the international economic scene including the emergence of World Trade Organisation (WTO), have brought certain challenges and several new opportunities before the MSME Sector. The most important challenge faced by the sector is that of growing competition both globally and domestically. At the same time sector has also been facing some problems which relate to credit, infrastructure, technology, marketing, delayed payment hassles on account of so many rules and regulations etc. In order to enable this sector to avail the opportunities and play its role as an engine of growth, it is essential to address to these problems effectively and urgently.

1.3 With a view to provide more focused attention on the development of MSME, the Government of India created a new Ministry of Small Scale Industries & Agro and Rural Industries in October 1999. Immediately after the formation of
the Ministry, a Mission for the Millennium giving a blueprint for small scale and village industries was announced. To carve out a road map for this sector in the New Millennium, the Hon’ble Prime Minister constituted a Group of Ministers under the Chairmanship of Shri L.K. Advani the Home Minister of India in June 2000. The background material for the consideration of the Group of Ministers was provided by the Interim Report of the S.P. Gupta Study Team constituted by the Planning Commission.

1.4 The Group of Ministers considered the recommendations and came out with a Comprehensive Policy Package for the Small Scale and Tiny Sector which was announced by the Hon’ble Prime Minister Shri AtalBihari Vajpayee at first ever National Conference on the Small Scale Industries organised by the Ministry of MSME & ARI at VigyanBhavan, New Delhi on 30th August 2000. (Copy of Speech at Annexure-I). A copy of Speech of the Hon’ble Minister of State (Independent Charge) MSME & ARI, Smt. VasundharaRaje on the occasion of National Conference on Small Scale Industries is placed at Annexure-II. While some components of the policy package were announced by the Hon’ble Prime Minister on 30th August 2000, some others including the Tiny Sector Policy Package were announced by the Ministry of MSME & ARI on 31st August 2000 in the meeting of the MSME Board.

SMALL SCALE SECTOR

2.0 Policy Support

2.1 The investment limit for the Tiny Sector will continue to be Rs. 25 lakhs.

2.2 The investment limit for the MSME sector will continue to be at Rs. 1 crore.

2.3 The Ministry of MSME & ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised up to Rs. 5 crores to admit of suitable technology upgradation and to enable them to maintain their competitive edge.

2.4 The Limited Partnership Act will be drafted quickly and got enacted. Attempt will be made to bring the Bill before the next session of the Parliament.
3.0 Fiscal Support

3.1 To improve the competitiveness of Small Scale Sector, the exemption for excise duty limit raised from Rs. 50 lakhs to Rs. 1 crore.

4.0 Credit Support

4.1 The composite loans limit raised from Rs. 10 lakhs to Rs. 25 lakhs.

4.2 The Small Scale Service and Business (Industry Related) Enterprises (SSSBEs) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.

4.3 In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakhs. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Rs. 10 lakhs per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum.

4.4 The eligibility limit for coverage under the recently launched (August 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakhs from the present limit of Rs. 10 lakhs.

4.5 The Department of Economic Affairs will appoint a Task Force to suggest revitalisation/restructuring of the State Finance Corporations.

4.6 The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks. *(Annexure-XI)*

5.0 Infrastructural Support

5.1 The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas.

5.2 Regarding upgrading the Industrial Estates, which are languishing, the Ministry of MSME & ARI will draw up a detailed scheme for the consideration of the Planning Commission.
5.3 A Plan Scheme for Cluster Development will be drawn up.

5.4 The funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centres, for Cluster Development and for setting up of IIDs in the North-East including Sikkim.

6.0 Technological Support and Quality Improvement

6.1 Capital Subsidy of 12 per cent for investment in technology in select sectors. An inter ministerial Committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.

6.2 To encourage Total Quality Management, the Scheme of granting Rs.75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e. till the end of the 10th plan.

6.3 Setting up of incubation Centers in Sunrise Industries will be supported.

6.4 The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.

6.5 SIDO, SIDBI and NSIC will jointly prepare a Compendium of available technologies for the R&D institutions in India and abroad and circulate it among the industry associations for the dissemination of the latest technology related information.

6.6 Commercial Banks are being requested to develop Schemes to encourage investment in technology upgradation and harmonise the same with SIDBI.

6.7 One time Capital Grant of 50% will be given to Small Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.
7.0 Marketing Support

7.1 SIDO will have a Market Development Assistance (MDA) Programme, similar to one obtaining in the Ministry of Commerce & Industry. It will be a Plan Scheme.

7.2 The Vendor Development Programme, Buyer-Seller Meets and Exhibitions will take place more often and at dispersed locations.

8.0 Streamlining Inspections/Rules and Regulations

8.1 To minimise harassment to Small Scale Sector a Group will be set up to recommend within 3 months, means of streamlining inspections. This will include repeal of laws and regulations applicable to the sector that have since become redundant.

8.2 Self-certification will be progressively encouraged in lieu of inspections, which should be prescribed under the three following conditions:
   - On receipt of specific complaint;
   - Selection of unit for sample check (Say 10 per cent of total units); and
   - For audit and safety purposes.

9.0 Entrepreneurship Development

9.1 Capacity building in the MSME sector, both for entrepreneurs as well as workers, will be given top priority. The Ministry of MSME & ARI and Ministry of Labour will work out the strategy jointly.

10.0 Facilitating Prompt Payment

10.1 The Reserve Bank of India is being requested to appoint a Task Force to go into the question of strengthening and popularising factoring services, without recourse to the MSME suppliers. The Task Force shall give its report within six months of its constitution.
10.2 RBI is being requested to take up with the banks, the question of sub-allocating overall limits to the large borrowers specifically for meeting the payment obligations in respect of purchases from the MSMEs, either on case basis or on bills basis.

11.0 Rehabilitation of sick units

11.1 RBI is being requested to draw up revised guidelines for the rehabilitation of currently sick but potentially viable MSME units. Such guidelines should be detailed, transparent and non-discretionary.

12.0 Promoting Rural Industries

12.1 To support the Handloom Sector "Deendayal Hathkarga Protsahan Yojna" has been announced. The scheme has a total financial implication of Rs. 447 crores and will provide comprehensive financial and infrastructural support to weavers.

12.2 The Government is working out new comprehensive package to strengthen Khadi and Village Industries that will further upgrade the skills of Khadi Workers.

13.0 Improving Data Base

13.1 A fresh Census of Small Scale Industries will be conducted covering inter-alia, the incidence of sickness and its causes.

TINY SECTOR

14.0 Policy Support

14.1 The investment limit for the tiny sector will continue to be Rs. 25 lakhs.

14.2 Under the Prime Minister's Rozgar Yojna, which finances setting up of micro enterprises and generates employment for the educated unemployed, the
family income eligibility limit of Rs. 24,000 per annum being revised to Rs. 40,000 per annum.

15.0 Credit Support

15.1 The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to the Financial Institutions and Banks. In respect of Tiny units also 20 per cent of the projected annual turnover would qualify for working capital loan.

15.2 The National Small Industries Corporation will continue to give composite loans upto Rs. 25 lakhs to the Tiny Sector and continue to charge one per cent concessional interest rate.

15.3 SIDBI will continue to give concessional rate of refinance to the tiny sector which is now at 10.5 per cent as compared to 12 per cent for the MSME sector. This policy will continue.

15.4 In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakhs. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Rs. 10 lakhs per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum. Under the National Equity Fund Scheme, 30 per cent of the investment will be earmarked for the Tiny Sector.

16.0 Infrastructure Support

16.1 The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas. Under this Scheme, 50 per cent of the plots will be earmarked for the tiny sector (as against 40 per cent done earlier). (Annexure-VII)

16.2 Under the National Programme for Rural Industrialisation, cluster development is being taken up by KVIC, SIDO, SIDBI and NABARD. The major beneficiaries of Cluster Development Programme will be Tiny Sector Units. The sponsoring organisation for each cluster will provide for design
development, capacity building, technology intervention and consortium marketing. A Cluster Development Fund will be created under the Plan.

17.0 Technological Support

17.1 Under the Scheme of Capital Subsidy of 12 per cent for investment in technology up-gradation in select sectors, preference will be given to the Tiny Sector.

18.0 Marketing Support

18.1 Preference will be given to the Tiny Sector while organising Buyer-Seller Meets, Vendor Development Programmes and Exhibitions.