APPENDIX - ONE

INTRODUCTORY NOTES
ON MAJOR
FINANCIAL INSTITUTIONS
INTRODUCTORY NOTES

[ 1 ] MINISTRY OF SMALL SCALE INDUSTRIES

The responsibility of promotion and development of small scale industries (SSI) lays primarily with the State/Union Territory (UT) Governments. However, in recognition of the role of this sector in both creation of wealth and widespread employment and of the need for country-wide framework of policies and measures to facilitate its promotion and development, the Government of India has always supplemented the efforts of the States and UTs in several ways. Over the years, the Central Government has thus formulated policy packages and implemented a number of schemes and programmes, to mainly provide infrastructural, technological, credit, marketing and entrepreneurial development support to the SSI sector.

VISION AND ACTION PLAN OF THE MINISTRY

The vision of the Ministry of SSI is to create an enabling policy environment and put in place corresponding support measures to help the sector meet the emerging challenges of competition and also harness the opportunities, in tandem with the accelerating pace of liberalisation and globalisation of the Indian economy. The agenda of the Ministry, therefore, includes steps to develop an appropriate policy framework within which supply of credit is improved, better infrastructural facilities are provided and targeted incentives are designed and extended to the enterprises in the sector for their modernisation and technology upgradation, improved market access, entrepreneurship development, skill upgradation and capacity building, both at the level of individual firms and their clusters. The agenda takes cognisance of the significant role played by information technology, sunrise, hi-tech and export potent industries, on the one hand, and, the special needs of the tiny/ micro-enterprises, on the other, as they constitute over 95 per cent of the total population of small scale industrial units in the country. The action plan thus includes, inter alia, the following measures:

• New legislation for micro, small and medium enterprises.
• Strengthening credit delivery systems and rehabilitation of potentially viable sick units.
• Fiscal support.
• Technology upgradation for modernising micro and small enterprises, including IT support.
• Bridging critical infrastructural gaps.
• Extending comprehensive marketing support.
• Promoting cluster development with wide-ranging measures for comprehensive
development and capacity building.
• Promoting entrepreneurship development and encouraging skill improvement.
• Redefining the role of existing implementation mechanisms to make them more
responsive.
• Strengthening bilateral and international cooperation.

[ I I ] A NOTE ON MAJOR FINANCIAL INSTITUTIONS

[ 1 ] NATIONAL BANK FOR AGRICULTURE AND RURAL
DEVELOPMENT (NABARD)

NABARD, an apex development bank, was set up on the recommendations of
CRAFCARD Committee on July 12, 1982 under NABARD Act 1981 with a
capital of Rs.100 crore contributed by Central Govt. and RBI, with its main
office in Mumbai, by merging the Agriculture Credit Deptt and Rural Planning
and Credit Cell of RBI and took over the entire functions of Agriculture
Refinance and Development Corporation (ARDC).

NABARD is managed by Board of Directors consisting of Chairman, Managing
Director other directors.

NABARD raises funds through National Rural Credit - Long Term operations,
National Rural Credit-Establishment fund, through bonds and debentures
guaranteed by Central Govt, borrowing from RBI, Central Govt. or any other
organisation approved by Central Govt and funds from external sources.

It credit functions include providing credit to agriculture, small and village and
cottage industries through banks by way of refinance facilities to commercial
banks, RRBs, Coop Banks, Land Development Banks and other Financial
Institutions like KVIC. Its developmental functions are co-ordination of various
institutions, acting as agent of Govt. and RBI, providing training and research
facilities. The regulatory functions include inspection of RRBs and Coop Banks,
receipt of returns and making of recommendations for opening new branches.

[ 2 ] EXPORT IMPORT BANK OF INDIA

It is apex institution for co-ordinating the working of institutions in India engaged in financing exports and import of goods and services. With initial authorized capital of Rs. 200 crore (increased to Rs.500 and then to Rs.2000 crore) Exim Bank was established on Jan 01, 1982 (and started functioning wef March 01, 1982) under Export Import Bank of India Act 1982, which took over the export finance activities of IDBI. It raises funds by way of bonds and debentures, borrowing from RBI or other institutions, raising foreign deposits.

It undertakes following kind of functions:
- direct finance to exporter of goods.
- direct finance to software exports and consultancy services.
- finance for overseas joint ventures and turnkey construction project
- finance for import and export of machinery and equipment on lease basis
- finance for deferred payment facility
- issue of guarantees
- multi-currency financing facility to project exporters.
- export bills re-discounting
- refinance to commercial banks in India
- guaranteeing the obligations.

[ 3 ] SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

SIDBI was established under SIDBI Act 1988 and commenced its operations w.e.f. April 02, 1990 with head quarters in Lucknow and branches all over the country, as a subsidiary of IDBI. It took over the IDBI business relating to small scale industries including National Equity Scheme and Small Industrial Development fund. The objective of establishment of SIDBI, in particular, is to strengthen and broad-base the existing institutional arrangement to meet the requirement of SSI and tiny industries.

Its functions include:
- administration of SIDF and NEF for development and equity support to small
and tiny industry.

- providing working capital through single window scheme
- providing refinance support to banks/development finance institutions.
- undertaking direct financing of SSI units.
- coordination of functions of various institutions engaged in finance to SSI and tiny units.

[4] NATIONAL HOUSING BANK (NHB)

NHB, the apex bank for Housing, was established on July 09, 1988 under NHB Act 1987, as a wholly owned subsidiary of RBI with head quarters in New Delhi. The bank was set up with the main purpose of setting up of an institution to operate as a principal agency to promote housing finance institutions and to provide financial and other support to these institutions.

NHB can raise sources by issue of bonds and debentures, borrowing from RBI under short term loans and long term operations, borrowing from Central govt and other approved institutions.

Its functions are:
- promotion and development of housing finance institutions.
- refinance to banks and other housing finance institutions for credit facilities granted by them for housing.
- inspection of books of accounts of housing finance institutions
- technical, administrative and advisory assistance to housing finance institutions.
- providing underwriting and guarantee facilities to housing finance institutions.
- arranging financing and resources for institutions engaged in housing facilities.
- advising Central and other govt. in the matter of housing and housing finance.
- collection and publication of information and data relating to housing finance.
- maintaining control over corporate housing finance institutions.

[5] INDUSTRIAL INVESTMENT BANK OF INDIA (formerly IRBI)

IIBI was initially set up as Industrial Reconstruction Corporation Limited during 1971 when it was renamed Indl Reconstruction bank of India wef Mar 20, 1985 under IRBI Act 1984 to take over the function of IRC. During 1997 the bank was converted to a joint stock company by naming it Industrial
Investment Bank of India.
Its earlier functions were to provide finance for industrial rehabilitation and revival of sick industrial units by way of rationalisation, expansion, diversification and modernisation and also to co-ordinate the work of other institutions for this purpose. agricultural and rural requirements.

[ 6 ] INDUSTRIAL FINANCE CORPORATION OF INDIA Ltd (IFCI)

IFCI was established under IFCI Act 1948 during July 1948 as India’s first development bank. The main objective for which IFCI was established, are to make medium and long term credit available to the industrial undertakings and to assist them in creation of industrial facilities.
Its functions include:
- direct financial support (by way of rupee term loans as well as foreign currency loans) to industrial units for undertaking new projects, expansion, modernisation, diversification etc.
- subscription and underwriting of public issues of shares and debentures.
- guaranteeing of foreign currency loans and also deferred payment guarantees.
- merchant banking, leasing and equipment finance

During 1994, IFCI was converted into a joint-stock company and came out with a public issue of shares. It is managed by a Board of Directors. It floated institutions such as TFCI, ICRA etc.

[ 7 ] INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

ICICI was set up during 1955 as a private company with a view to provide support to industry in India by way of rupee and foreign currency loans, particularly the private international investment and World Bank funds to assist the industry in the country in private sector.
It functions include:
- assistance to industrial undertakings for new projects, expansion, modernisation, diversification etc. in the shape of rupee loans or foreign currency loans.
- subscription and underwriting of capital issues
guaranteeing the payment for credits.
merchant banking, equipment leasing and project counselling.

It floated a number of institutions successfully which include credit rating agency CRISIL, ICICI Banking Corporation, SCICI (since merged with it) a Mutual Fund etc. During Sept 1998 it changed its name to ICICI Ltd. Of late, it has started providing working capital support to industrial undertakings.

[8] INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

IDBI is the apex institution in the area of long term industrial finance. It was established under the IDBI Act 1964 as a wholly owned subsidiary of RBI and started functioning on July 01, 1964. Under Public Financial Institutions Laws (Amendment) Act 1976, it was delinked from RBI. IDBI is engaged in direct financing of the industrial activities as well as in re-finance and re-discounting of bills against finance made available by commercial banks under their various schemes.

The objectives of this institution are to create a principal institution for long term finance, to coordinate the institutions working in this field for planned development of industrial sector, to provide technical and administrative support to the industries and to conduct research and development activities for the benefit of industrial sector.

It raises funds by way of market borrowing by way of bonds and deposits, borrowing from Govt. and RBI, borrowing abroad in foreign currency and lines of credit.

Its functions include:
direct loans (rupee as well as foreign currency) to industrial undertakings as defined in the Act to finance their new projects, expansion, modernisation etc.
soft loans for various purposes including modernisation and under equipment finance scheme
underwriting and direct subscription to shares/debentures of the industrial companies.
sanction of foreign currency loans for import of equipment or capital goods.
- short term working capital loans to the corporates for meeting their working capital requirements.
- refinance to banks and other institutions against loans granted by them.

Of late, with the reforms in the financial sector, IDBI has taken steps to re-shape its role from a development finance institution to a commercial institution. It has floated its own bank IDBI Bank as also a Mutual Fund.

During the financial year 1999-2000 IDBI’s total sanctions were Rs.28308 cr (19.2% increase), the total assets were Rs.72169 cr, net worth at Rs.9025 cr, capital adequacy ratio of 14.5%, DER 6.8:1 and PBT Rs.1027 cr (1301 cr previous years). To meet emerging challenges, it has been introducing new products, setting up Mergers & Acquistions Divn, increasing fee based business such as corporate advisory services, credit syndication, debenture-trusheet ship etc., setting up of IT sector subsidiary-IDBI Intech Ltd, venture capital fund, joint ventures and transfer of not less than 51% of IDBI’s share capital in SIDBI to PSBs as a result of SIDBI (Amendment) Act 2000 effective from 27.03.2000.

[III] A NOTE ON
Small Industries Development Bank of India (SIDBI)

Origin & Objectives

Small Industries Development Bank of India (SIDBI) was established in April 2, 1990 under an Act of Indian Parliament (i.e. SIDBI Act 1989) as the principal financial institution for:

- Promotion
- Financing
- Development of industry in the small scale sector
Co-ordinating the functions of other institutions engaged in similar activities

The role of Small Industries Development Bank of India (SIDBI) is envisaged as "the principal financial institution for the promotion, financing and development of industry in the Small Scale Sector and to coordinate the functions of the Institutions engaged in similar activities. SIDBI is headquartered at Lucknow with networking of 5 Zonal Offices, 1 Regional office and 59 Branch offices covering all the states and important industrial locations in the country.

Since its inception, SIDBI has been assisting the entire spectrum of SSI Sector including the tiny, village and cottage industries through suitable schemes tailored to meet the requirement of setting up of new projects, expansion, diversification, modernisation and rehabilitation of existing units.

**Domain of Service**

The Small Scale Industries (SSIs) sector is a vibrant and dynamic sector of the Indian economy. The sector presently occupies an important place and its contribution in terms of generation of employment, output and exports is quite significant. The Small Scale Industries sector including tiny units, comprises the domain of SIDBI's business. Besides, the projects in the services sector with total cost upto Rs.250 million are also taken within the area of SIDBI's operations. The Bank also finances industrial infrastructure projects for the development of SSI sector.

**Channels of Assistance**

SIDBI's financial assistance to small scale sector have three major dimensions:

1. Indirect assistance to primary lending institutions (PLIs);
2. Direct assistance to small units; and
3. Development and Support Services

**Indirect Assistance**

SIDBI's Schemes of indirect assistance envisages credit to SSIs through a large network of 913 PLIs spread across the country with a branch network of over 65000. The assistance is provided by way of refinance, bills rediscounting, and resource support in the form of short term loans/Line of Credit (LoC) in lieu of refinance, etc.
Direct Assistance

The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries. Direct assistance is provided under several tailor made schemes through SIDBI's 41 Regional/Branch offices spread across the country.

Development And Support Services

The Bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas:

- Enterprise Promotion with emphasis on Rural Industrialisation
- Human Resource Development to suit the SSI sector needs
- Technology Upgradation
- Quality and Environment Management
- Marketing and Promotion and
- Information Dissemination.

SIDBI Schemes

The SIDBI offers both direct as well as re-finance schemes. The bank was initially functioning primarily as a refinancing institution, but has since diversified its activities and introduced several new schemes to meet the various needs of the small-scale sector. Schemes are as

1. Foreign currency loan for purchase of imported machinery.
2. Pre-shipment credit in foreign currency for export oriented units, export houses and trading houses.
3. Short-term loan to well run SSI units for execution of bulk orders.
4. For acquisition of ISO-9000 series of certification.
5. Venture capital fund.
6. Equity assistance to SSI projects.

Indirect Assistance

Refinances

The main objective of SIDBI's refinance schemes being enhancement of flow of credit to the SSI sector and augmenting the resources of PLIs, the Bank provides refinance to
PLIs against the term loan granted by them for:

- Setting up of new SSI projects and for expansion, technology upgradation, modernisation, quality promotion, diversification by existing units and rehabilitation of sick SSI units.
- Small road transport operators, qualified professionals for self-employment, small hospitals and nursing homes, cyber cafes, marketing, industrial infrastructure and to promote hotels and tourism-related activities.

SIDBI extends Financial Support (Short Term Loans) to scheduled banks in respect of their outstanding portfolio relating to SSI sector against which no financial support has been availed of from other institutions.

**Rediscounting**

In order to help the machinery manufacturers in the SSI sector and to maximise their sales by offering deferred payment credit to the prospective purchaser-users, the Bank operates a Bills Rediscounting Scheme where bills arising out of sale/purchase of machinery discounted by the scheduled commercial banks are rediscounted by SIDBI. Facilities under the scheme are also extended to cover purchases of machinery by Small Scale Industries.

**Direct Assistance**

The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries. Direct assistance is provided under several tailor made schemes through SIDBI's 41 Regional/Branch offices spread across the country.

**Assistance is provided directly for**

- Setting up of new SSI units, small hotels, hospitals/nursing homes
- Technology upgradation and modernisation, expansion, diversification
- Quality Up gradation/acquiring of ISO - 9000 Series Certification
- Development of markets for SSI products
- Development infrastructure of SSI sector
- Pre-shipment and Post-shipment credit and Export Bill Finance
- Discounting of Bills of manufacturer-seller in SSI sector, selling either equipment or components
- Factoring Services.

- Financial assistance to SSI units under Technology Development and Modernisation Fund (TDMF) Scheme
- Financial assistance to SSI units in the textile and cotton ginning and pressing sectors for taking up technology upgradation and modernisation under Technology Up gradation Fund Scheme (TUFS)
- Financial assistance to tanneries in SSI sector for taking up modernisation under the Tannery Modernisation Scheme (TMS)
- 12 per cent capital subsidy on loans advanced to SSI units engaged in select product sub-sectors for technology up gradation by scheduled commercial banks, State Financial Corporations (SFCs) and National Small Industries Corporation Ltd. (NSIC) under Credit Linked Capital Subsidy Scheme (CLCSS)
- Short term loans to State Electricity Boards to facilitate their purchases from SSIs and effect payment in time. Discounting of invoice of SSIs supplying their
products to large purchaser companies in the public/private sector

- Interest subsidy in respect of certain Hotel projects under one, two and three star and heritage category, where loans are sanctioned after approval of projects from the Department of Tourism
- Support to obtain credit rating from accredited credit rating agencies.

**Foreign Currency Assistance Includes**

- Foreign currency loans to import equipment by existing export-oriented SSI units and new units having definite plans for entering export markets.
- Foreign currency loans to execute confirmed export orders by way of pre-shipment credit/letter of credit and post-shipment credit facilities
- Pre-shipment and Post-shipment Credit in Rupees terms to exporting SSIs for greater flexibility.
- Export bills financing in foreign currency.

**Venture Capital Support Includes**

- Assistance to small scale entrepreneurs using innovative indigenous technology and expertise.
- Contribution to corpus of other venture funds.
- Promotion of State level venture capital funds and a National Venture Fund for Software and IT Industry (NFSIT), dedicated to small scale units in Software/IT industry.
- SIDBI has entered into a Memorandum of Understanding (MOU) with Small Enterprise Assistance Funds of United States of America.

**Lines of Credit are Established by SIDBI in Favour of:**

- State Financial Corporations (SFCs)
- State Industrial Development Corporations (SIDCs)
- State Small Industries Development Corporations (SSIDCs)
- Factoring Companies (to factor receivables of SSIs)
- National Small Industries Corporation Ltd. (NSIC)

**Development and Support Services**

The Bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas:

- Enterprise Promotion with emphasis on Rural Industrialisation
- Human Resource Development to suit the SSI sector needs
- Technology Upgradation
- Quality and Environment Management
- Marketing and Promotion and
- Information Dissemination.

**Enterprise Promotion is Supported through**

**Micro Credit Scheme**
Having encouraged by the results and to accord focused attention for increasing flow of funds to the poor through sustainable micro finance institutions (MFIs), SIDBI launched SIDBI Foundation for Micro Credit (SFMC) on November 27, 1998. The Foundation, presently functioning as a Department of the Bank, commenced its operations in January 1999 with an initial corpus of Re.1 billion. The Mission of the Foundation is "to create a national network of strong, viable and sustainable micro finance institutions from the informal and formal sectors to provide micro finance services to the poor, especially women." The new approach not only envisages financial assistance but also strives to build and strengthen the management capabilities of the micro finance practitioners and related institutions through customised capacity building inputs for achieving sustainability, economies of scale, desired outreach, etc. SIDBI Foundation has taken a lead in the country by initiating a pioneering effort for 'capacity assessment rating' of NGOs/MFIs.

The Foundation has entered into an agreement with International Fund for Agricultural Development (IFAD), Rome for upscaling its operations. Earlier, SFMC had signed an MoU with Department for International Development (DFID), UK for grant support for financing various capacity building initiatives of the Foundation as well as MFIs. The Foundation has drawn up a comprehensive action plan with a view to mainstreaming the micro finance and providing capacity building support to the micro finance institutions.

### Rural Industries Programme

Rural Industries Programme (RIP) has been designed to provide a cohesive and integrated package of basic inputs like information, motivation, training and credit, backed by appropriate technology and market linkages. The programme is executed through Non Governmental Organisations (NGOs), Technical Consultancy Organisations(TCOs) and development professionals.

### Mahila Vikas Nidhi

Mahila Vikas Nidhi Scheme is aimed at the economic empowerment of women, especially from the weaker strata in rural areas by providing them with avenues for training and employment by creation of infrastructure in the form of Training-cum-Production Centres (TPCs). The Projects are implemented through accredited NGOs with good track record in the field of enterprise development for women.

### Entrepreneurship Development Programmes

The programmes aim at training various target groups with entrepreneurial traits so that they obtain necessary information, motivation and guidance in setting up their own enterprises. Specialised Entrepreneurship Development Agencies are supported to conduct programmes for specific target groups such as rural youth, women, SC/ST, ex-servicemen, etc.

### Human Resources Development of the SSIs is pursued through

- Small Industries Management Programme (SIMAP) and
- Skill-cum-Technology Upgradation Programme (STUP).
The programmes aim at training various target groups with entrepreneurial traits so that they obtain necessary information, motivation and guidance in setting up their own enterprises. Specialised Entrepreneurship Development Agencies are supported to conduct programmes for specific target groups such as rural youth, women, SC/ST, ex-servicemen, etc

### Programmes for Technology Upgradation include
- Technology Upgradation Programmes (TUPs) in identified industry clusters
- Technology Transfers
- Quality Improvement Programmes

### Quality and Environment Management Programmes aim at
- Making the SSI units aware of the importance of environmental issues and providing them with necessary technical support to implement projects which can provide relative social and environmental benefits as compared to financial cost incurred and
- Educating the SSI units about environmental regulations, which need to be adhered to and the steps required to operate within prescribed norms.

### Marketing Promotion initiatives include
- Sponsoring/organising Exhibitions in India and abroad with intention of subsidising participation costs for SSIs
- Tying up with renowned organisations to provide market information at concessional rates
- Rating services to export-oriented SSI units and
- Sponsoring Market Studies.

### Information Dissemination initiative include
- Promoting new units by identification and publicity of viable project ideas and business opportunities through Project Profiles, Udyog Sadhana Radio Programme and Udyog Sadhana Television Series
- Publication of "SIDBI Report on Small Scale Industries Sector" on an annual basis
- Publication of theme-based reports for SSI sector such as "Technology for Small Scale Industries - Current Status and Emerging Needs"
- Product specific sectoral studies to assess the impact of policy changes
- WTO Impact Studies.

### New Initiatives
SIDBI's National Programme on Innovation and Incubation for Small Scale Industries includes
- Memorandum of understanding signed with Indian Institute of Technology (IIT), Kanpur and Birla Institute of Technology (BIT), Mesra, Ranchi for setting up of Innovation and Incubation centres
- Centre at IIT, Kanpur became operational and at BIT, Mesra to commence
Fast Track Financing Scheme
The scheme aims to provide assistance on a fast track basis without subjecting the existing clients to detailed procedures applicable to the new clients, thus improving relationship banking and promoting good clientele.

Credit Linked Capital Subsidy under Technology Upgradation Fund Scheme
The scheme envisages an option to the small scale textile industries to avail of either one time 12 percent Credit Linked Capital Subsidy or the existing 5 percent interest reimbursement under the Technology Upgradation Fund Scheme for textile industries.

Financing Service Sector
SIDBI has included the activities of establishing cinema theaters, multiplexes and restaurants, as eligible activities for direct assistance from the Bank.

Interest Subsidy on Hotel Loans
SIDBI has been notified as an eligible institution for the availment of interest subsidy in respect of certain hotel projects under one, two and three star and heritage category where loans were sanctioned after approval of projects from the Department of Tourism. Accordingly, an interest subsidy of 3 to 5 percent is being extended on loans sanctioned by SIDBI to approved projects at notified places, with effect from October 11, 2001.

Subsidiaries of SIDBI Venture Capital Limited (SVCL)
SIDBI Venture Capital Limited (SVCL) was incorporated as a wholly owned subsidiary of SIDBI on July 19, 1999 to act as the Asset Management Company (AMC) of the National Venture Fund for Software and Information Technology (NFSIT). The Fund has a committed corpus of Re.1 billion.

SIDBI Trustee Company Limited (STCL)
SIDBI Trustee Company Limited (STCL) was set up by SIDBI on July 19, 1999 to carry out trusteeship functions for Venture Capital Funds. Presently, STCL is acting as the Trustee of NFSIT.

Associate Institutions of SIDBI

Credit Guarantee Fund Trust for Small Industries (CGFTSI)
The Government of India, in association with SIDBI, has formulated a Credit Guarantee Fund Scheme for Small Industries which was launched by the Hon'ble Prime Minister on August 30, 2000. Total corpus of the Fund is envisaged at Rs.25 billion, of which SIDBI's share would be Rs.5 billion. Corpus of the Fund as at end-March 2002 was Rs.2.5 billion. The scheme aims at helping the new and existing industrial units in SSI sector, including units in Information Technology and Software industry, in getting collateral-free/third-party guarantee free credit by

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way of both term loan and working capital, from eligible Member Lending Institutions namely, scheduled commercial banks, select RRBs and such of the institutions as may be approved by the Government of India.

**Technology Bureau for Small Enterprises (TBSE)**

Technology Bureau for Small Enterprises (TBSE) was set up by SIDBI in 1995 in collaboration with United Nations-Asian and Pacific Centre for Transfer of Technology (APCTT). The Bureau aims at helping SSI units to attain international competitiveness through transfer of the latest available technologies from both within and outside the country. As a part of its information dissemination on the latest available technologies for the SSI sector, TBSE launched a website www.techsmall.com. More than 1100 technology offer profiles covering diverse fields have been hosted on the website.

**Institution Building**

**SIDBI Co-promoted**

- Factoring Companies
- North Eastern Development Finance Corporation Ltd. (NEDFi).
- IDBI Bank Ltd.
- Indian Institute of Entrepreneurship, Guwahati.

**Special Purpose Funds**

- National Equity Fund
- Mahila Vikas Nidhi
- Mahila Udyam Nidhi
- Venture Capital Fund
- Technology Development and Modernisation Fund
- Marketing Development Assistance Fund with special earmarked corpus for women

**Resources**

SIDBI has raised funds from diverse sources, both domestic and international. Besides building strong networth over the years, the Bank has raised resources from Government of India, banks, Japan Bank for International Co-operation (JBIC), Kreditanstalt fur Wiederaufbau(KfW), Department for International Development (DFID), International Fund for Agricultural Development (IFAD), etc. As announced in the Union Budget 2002-03, SIDBI has been permitted to raise resources under Capital Gains Bond Scheme and the benefit of Section 54 EC of the Income Tax Act would be available to the investors in respect of the investment made in the bonds issued by the Bank. The Bank has launched the Scheme with effect from August 01, 2002.

**Rating of Bonds**

CARE has assigned 'CARE AAA' rating, upto a maximum umbrella amount of Rs.15 billion, for SIDBI Bonds. CARE has retained the credit rating of 'CARE AAA' for the outstanding amount of borrowings through taxable priority sector
bonds and the ongoing fixed deposit programme and 'PR1+' for Commercial Paper. Instruments carrying the above rating are considered to be of the best quality with negligible investment risk. CRISIL has assigned 'AA+' rating to the outstanding Bond issues of SIDBI and 'FAAA' rating to the ongoing Fixed Deposit programme.

Management and Organisation

Mr.V.K.Chopra, Chairman and Managing Director, is the Chief Executive Officer of the Bank. Principal executives comprise Mr. Brij Mohan, Mr. P.R.Das and Mr. Ram Mohan Mishra as Executive Directors and 16 Chief General Managers.

Personnel

As at end-March 2002, the Bank had on its rolls a total number of 933 full time staff comprising 730 officers and 203 subordinate.
APPENDIX - TWO

GRAPHS
SCENARIO OF SSI SECTOR IN INDIA
APPENDIX – TWO

GRAPH – 1: PERCENTAGE DISTRIBUTION OF SSI UNITS

- Percentage of SSI units, working in the urban sector is more than rural sector.
- Percentage of SSI units, closed in the urban sector is also more than rural sector.
- However, in the urban sector, percentage of units closed is higher. This is serious.

GRAPH – 2: DISTRIBUTION OF REGISTERED UNITS

- Percentage of registered SSI units started picking up since 1977.
- Percentage of registered SSI units got the highest boost in the year 1991.
- It, however, started falling there after.
Graph 3: Distribution of SSI Units by Employment Slabs

- Percentage of SSI units are higher over the employment ‘below 8’ slab
- It is highest in the 2 to 7 employment slab. After this slab, percentage of SSI units drop sharply.

Graph 4: Top Five SSI Units / By Types

- In terms of SSI units, these are the highest in Tailoring services.
- The second highest number of SSI units are in the Furniture and Wood products, followed by Floor milling, Repair of Bicycles and Manufacture of Doors.
In terms of market value of fixed assets, the SSIs engaged in Rice Milling involve the highest value of fixed assets.

In sequence, it is followed by Plastic Products, Mechanical Engineering, Textile Garments and Stone cutting industry.

In terms of gross output also, the SSIs engaged in the Rice milling industry occupy the top position.

The second highest gross output of the SSIs are of those engaged in the Textile Garments industry, followed by those in Plastic Products, Dal Milling and Alloy Steel & Wires industry.
In the SSI sector, mainly (66%) are the SSIs and the rest of 34% are the Business Enterprises.

By the Types of Organisation, the highest percentage (88.85) of the SSIs are Proprietary

The other types of Organisations like Partnership, Private Companies, Co-operatives etc. are comparatively quite nominal.
GRAPH – 9: DISTRIBUTION OF SSI UNITS
BY TYPES OF MANAGEMENT

- Interestingly, as sex-wise distribution, maximum of 92% of the SSIs are managed by male, and the rest of 8% by females.
- On the Caste-wise distribution, 38.5% are managed by OBCs, 7.85% by SCs, 3.5% by STs and 50.12% by others.
APPENDIX - THREE

QUICK RESULTS
AT A GLANCE

THIRD CENSUS SSI
APPENDIX – THREE

QUICK RESULTS AT A GLANCE
(Reference Year : 2001-2002)

I. REGISTERED SSI SECTOR

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Number of permanently Registered SSI Units in the Country as on 31-3-2001 as per Frame</td>
<td>23,05,725</td>
</tr>
<tr>
<td>2. Number of Registered Units for which Data was collected</td>
<td>23,05,725 (100 %)</td>
</tr>
<tr>
<td>3. Number of Working Units</td>
<td>14,37,704 (62.35 %)</td>
</tr>
<tr>
<td>4. Number of Closed Units</td>
<td>8,68,021 (37.65 %)</td>
</tr>
<tr>
<td>5. Number of Units surveyed for which Validated Data is Available</td>
<td>15,08,755</td>
</tr>
<tr>
<td>6. Number of Working Units surveyed in the Validated Data</td>
<td>7,50,102</td>
</tr>
</tbody>
</table>

Findings from the Validated Data Available

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Number of Small Scale Industrial Units (SSIs)</td>
<td>4,92,804 (65.7 %)</td>
</tr>
<tr>
<td>8. Number of Small Scale Service and Business (Industry Related) Enterprises (SSSBEs)</td>
<td>2,57,298 (34.3%)</td>
</tr>
<tr>
<td>9. Number of Rural Enterprises</td>
<td>45.8 %</td>
</tr>
<tr>
<td>10. Nature of Activity</td>
<td></td>
</tr>
<tr>
<td>Manufacturing/ Assembling/ Processing</td>
<td>4,66,049 (62.13 %)</td>
</tr>
<tr>
<td>Repairing &amp; Maintenance</td>
<td>56,559 (7.54 %)</td>
</tr>
<tr>
<td>Services</td>
<td>2,27,494 (30.33 %)</td>
</tr>
<tr>
<td>11. Type of Organisation</td>
<td></td>
</tr>
<tr>
<td>Proprietary</td>
<td>75,779 (90.09 %)</td>
</tr>
<tr>
<td>Partnership</td>
<td>47,683 (6.36 %)</td>
</tr>
<tr>
<td>Pvt. Company</td>
<td>15,917 (2.12 %)</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>2,335 (0.31 %)</td>
</tr>
<tr>
<td>Others</td>
<td>8,388 (1.12 %)</td>
</tr>
<tr>
<td>12. Number of Women Enterprises</td>
<td>83,125 (11.08 %)</td>
</tr>
<tr>
<td>13. Number of Tiny Units among SSIs</td>
<td>4,82,200 (97.8 %)</td>
</tr>
<tr>
<td>14. Total Employment</td>
<td>34,48,356</td>
</tr>
<tr>
<td>15. Total Fixed Investment (in Rs. Lakhs)</td>
<td>53,35,580.77</td>
</tr>
<tr>
<td>16. Total Original Value of Plant &amp; Machinery (in Rs. Lakhs)</td>
<td>16,90,309.79</td>
</tr>
<tr>
<td>17. Total Gross Output (in Rs. Lakhs)</td>
<td>1,14,20,438</td>
</tr>
<tr>
<td>18. Total Exports (in Rs. Lakhs)</td>
<td>5,02,300</td>
</tr>
<tr>
<td>19. Number of Units Exporting 5,052</td>
<td>(0.67 %)</td>
</tr>
<tr>
<td>20. Per Unit Employment</td>
<td>4.6</td>
</tr>
<tr>
<td>21. Per Unit Gross Output (in Rs. Lakhs)</td>
<td>15.23</td>
</tr>
<tr>
<td>22. Per Unit Fixed Investment (in Rs. Lakhs)</td>
<td>7.11</td>
</tr>
<tr>
<td>23. Per Unit Original Value of Plant &amp; Machinery (in Rs. Lakhs)</td>
<td>2.25</td>
</tr>
<tr>
<td>24. Employment per Rupees One Lakh of investment in Fixed Assets</td>
<td>0.65</td>
</tr>
</tbody>
</table>
25. Number of Units having Outstanding Loan as on 31-3-2002 1,34,438 (17.92 %)

26. Number of Units having Outstanding Loan with Institutional Sources as on 31-3-2002 1,11,846 (14.91 %)

27. Number of Sick Units (with erosion of net-worth by more than 50 % or delay in repayment of institutional loan by more than 12 months) 18,720 (2.5 %)

28. Number of Sick Units as per RBI criteria, i.e., those that are sick among units having outstanding loan with institutional sources 15,746 (14.08 %)

29. Number of Incipient Sick Units (decline in Gross Output over three consecutive years) 97,585 (13.01 %)

30. Number of Sick/ Incipient Sick Units (with erosion of net-worth by more than 50 % or delay in repayment of institutional load by more than 12 months or decline in Gross Output over three consecutive years) 1,08,571 (14.47 %)

31. *Reasons for Sickness/ Incipient Sickness*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Demand</td>
<td>77,781</td>
<td>71.6 %</td>
</tr>
<tr>
<td>Shortage of Working Capital</td>
<td>52,119</td>
<td>48 %</td>
</tr>
<tr>
<td>Non-availability of Raw Material</td>
<td>16,394</td>
<td>15.1 %</td>
</tr>
<tr>
<td>Power Shortage</td>
<td>23,186</td>
<td>21.4 %</td>
</tr>
<tr>
<td>Labour Problems</td>
<td>8,025</td>
<td>7.4 %</td>
</tr>
<tr>
<td>Marketing Problems</td>
<td>48,327</td>
<td>44.5 %</td>
</tr>
<tr>
<td>Equipment Problems</td>
<td>11,474</td>
<td>10.6 %</td>
</tr>
<tr>
<td>Management Problems</td>
<td>5,974</td>
<td>5.5 %</td>
</tr>
</tbody>
</table>

32. Number of Units maintaining Accounts 1,97,687 (26.35 %)

33. Number of Units having a Computer 54,858 (7.31 %)

34. Number of Ancillary Units among SSIs 22,164 (4.5 %)

35. Number of Units Registered with NSIC 15,300 (2.04 %)

36. Number of Enterprises Managed by Women 70,212 (9.36 %)

37. *Number of Units Managed By*

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC</td>
<td>60,208</td>
<td>8.03 %</td>
</tr>
<tr>
<td>ST</td>
<td>18,750</td>
<td>2.5 %</td>
</tr>
<tr>
<td>OBC</td>
<td>3,06,975</td>
<td>40.92 %</td>
</tr>
<tr>
<td>Others</td>
<td>3,64,169</td>
<td>48.55 %</td>
</tr>
</tbody>
</table>

38. *Main Source of Power*

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No power needed</td>
<td>2,06,827</td>
<td>27.57 %</td>
</tr>
<tr>
<td>Coal</td>
<td>17,464</td>
<td>2.33 %</td>
</tr>
<tr>
<td>Oil</td>
<td>24,264</td>
<td>3.23 %</td>
</tr>
<tr>
<td>LPG</td>
<td>4,104</td>
<td>0.55 %</td>
</tr>
<tr>
<td>Electricity</td>
<td>4,75,296</td>
<td>63.36 %</td>
</tr>
<tr>
<td>Non-conventional Energy</td>
<td>3,254</td>
<td>0.44 %</td>
</tr>
<tr>
<td>Traditional Energy/ Firewood</td>
<td>18,893</td>
<td>2.52 %</td>
</tr>
</tbody>
</table>
## II. UNREGISTERED SSI SECTOR

1. Total Number of villages/ urban blocks in the country as per Economic Census, 1998 conducted by Central Statistical Organisation (CSO) 9,94,357
2. Number of villages/ urban blocks prescribed for the Sample Survey 19,766
3. Number of villages/ urban blocks surveyed 19,754
4. Number of villages/ urban blocks for which Validated Data is Available 18,205
5. Total Number of Unregistered SSI Sector Units Listed 3,69,606
6. Number of SSIs Listed 1,47,967 (40 %)
7. Number of SSSBEs listed 2,21,639 (60 %)
8. Number of Unregistered Enterprises surveyed 1,77,000
9. Number of Unregistered Enterprises for which Validated Data is Available 96,431

### Findings from the Validated Data Available

10. Number of SSIs 34,658 (36 %)
11. Number of SSSBEs 61,773 (64 %)
12. Number of Rural Unregistered Enterprises 57.3 %

#### Major Reasons for Non-registration

- Lack of Knowledge of the Registration Provisions 50,420 (52.3 %)
- Lack of Interest 39,126 (40.6 %)

#### Nature of Activity

- Manufacturing/ Assembling/ Processing 32,400 (33.6 %)
- Repairing & Maintenance 16,007 (16.6 %)
- Services 48,024 (49.8 %)

#### Type of Organisation

- Proprietary 93,725 (97.2 %)
- Partnership 1,208 (1.25 %)
- Pvt. Company 430 (0.45 %)
- Cooperatives 118 (0.12 %)
- Others 950 (0.98 %)

16. Number of Women Enterprises 10,282 (10.66 %)
17. Number of Tiny Units among SSIs 34,620 (99 %)
18. Total Employment 2,03,040
19. Total Fixed Investment (in Rs. Lakhs) 1,18,401
20. Total Original Value of Plant & Machinery (in Rs. Lakhs) 28,681
21. Total Gross Output (in Rs. Lakhs) 83,624
22. Total Exports (in Rs. Lakhs) 758
23. Number of Units Exporting 387 (0.4 %)
24. Per Unit Employment 2.11
25. Per Unit Gross Output (in Rs. Lakhs) 0.87
26. Per Unit Fixed Investment (in Rs. Lakhs) 1.23
27. Per Unit Original Value of Plant & Machinery (in Rs. Lakhs) 0.30
28. Employment per Rupees One Lakh of Investment in Fixed Assets 1.71
29. Number of Units having Outstanding Loan as on 31-3-2002 & 5,880 (6.1 %) \\
30. Number of Units having Outstanding Loan with Institutional Sources as on 31-3-2002 & 3,451 (3.58 %) \\
31. Number of Sick Units (with erosion of net-worth by more than 50 % or delay in repayment of Institutional loan by more than 12 months) & 754 (0.78 %) \\
32. Number of Sick Units as per RBI criteria, i.e., those that are sick among units having outstanding loan with Institutional Sources & 465 (13.47 %) \\
33. Number of Incipient Sick Units (decline in Gross Output over three consecutive years) & 7,481 (7.76 %) \\
34. Number of Sick/ Incipient Sick Units (with erosion of net-worth by more than 50 % or delay in repayment of institutional loan by more than 12 months or decline in Gross Output over three consecutive years) & 7,956 (8.25 %) \\
35. **Reasons for Sickness / Incipient Sickness** 
<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Demand</td>
<td>6,694 (84.1 %)</td>
</tr>
<tr>
<td>Shortage of Working Capital</td>
<td>3,750 (47.1 %)</td>
</tr>
<tr>
<td>Non-availability of Raw Material</td>
<td>1,210 (15.2 %)</td>
</tr>
<tr>
<td>Power Shortage</td>
<td>1,175 (14.8 %)</td>
</tr>
<tr>
<td>Labour Problems</td>
<td>404 (5.1 %)</td>
</tr>
<tr>
<td>Marketing Problems</td>
<td>3,281 (41.2 %)</td>
</tr>
<tr>
<td>Equipment Problems</td>
<td>1,028 (12.9 %)</td>
</tr>
<tr>
<td>Management Problems</td>
<td>405 (5.1 %)</td>
</tr>
</tbody>
</table>
36. Number of Units Maintaining Accounts & 7,312 (7.58 %) \\
37. Number of Ancillary Units among SSIs & 883 (2.55 %) \\
38. Number of Enterprises managed by Women & 10,139 (10.51 %) \\
39. **Number of Units Managed By** 
<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC</td>
<td>8,735 (9.06 %)</td>
</tr>
<tr>
<td>ST</td>
<td>3,061 (3.17 %)</td>
</tr>
<tr>
<td>OBC</td>
<td>41,837 (43.39 %)</td>
</tr>
<tr>
<td>Others</td>
<td>42,798 (44.38 %)</td>
</tr>
</tbody>
</table>
40. **Main Source of Power** 
<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Power needed</td>
<td>40,608 (42.11 %)</td>
</tr>
<tr>
<td>Coal</td>
<td>2,653 (2.75 %)</td>
</tr>
<tr>
<td>Oil</td>
<td>2,895 (3 %)</td>
</tr>
<tr>
<td>LPG</td>
<td>538 (0.56 %)</td>
</tr>
<tr>
<td>Electricity</td>
<td>46,273 (47.98 %)</td>
</tr>
<tr>
<td>Non-conventional Energy</td>
<td>516 (0.54 %)</td>
</tr>
<tr>
<td>Traditional Energy/Firewood</td>
<td>2,948 (3.06 %)</td>
</tr>
</tbody>
</table>
HIGHLIGHTS OF THE CENSUS

The main highlights of the Third Census of Small Scale Industries are as follows:

I. Registered SSI Sector

- All the SSI units permanently registered up to 31-3-2001 numbering 23,05,725 were surveyed on complete enumeration basis, of which 14,37,704 units (62.35%) were found to be working and 8,68,021 units (37.65%) were found to be closed.
- Of the 7,50,102 working units for which Validated Data is available, 4,92,804 were SSIs and 2,57,298 were SSSBEs. Thus, the proportion of SSIs is 65.7%. About 4.5% of the SSI units were Ancillary Units. The proportion of the units operating in Rural Areas was 45.8%.
- In terms of number of working units, five States, viz., Uttar Pradesh (12%), Tamil Nadu (11.7%), Gujarat (11.3%), Kerala (10.5%) and Karnataka (9.1%) had a cumulative share of 54.6%.
- With regard to closed units, five States, viz., Tamil Nadu (16.2%), Uttar Pradesh (13.4%), Kerala (8.4%), Madhya Pradesh (7.4%) and Maharashtra (7.1%) had a combined share of 52.5%.
- 90% of the units were proprietary units and about 6% of the units were partnership units.
- The per unit employment was 4.6. The employment per rupees one lakh of investment in fixed assets was 0.65.
- About 11.08% of the units were women enterprises and 51.45% of the units were managed by the entrepreneurs from socially backward classes.
- Rice Milling industry topped the list of industries in terms of gross output. Among the top 50 Industries having heavy fixed investment, its contribution to generation of employment per rupees one lakh of fixed investment were 0.37.
- Compared to the Second Census, the Third Census brought out some structural changes in the Registered SSI Sector. While the proportion of working units remained the same by and large, the domination of SSIs among the working units has gone down considerably from 96% to 66%. This is mainly due to the increase in the number of units engaged in Services. The per unit employment has gone down from 6.29 to 4.6. The per unit fixed investment has gone up from Rs. 1.60 lakhs to Rs. 7.11 lakhs. This could be due to technological upgradation.
II. Unregistered SSI Sector

- This Sector was surveyed using a two-stage stratified sampling design. Out of the 9,94,357 villages and urban blocks, 19,754 villages and urban blocks were surveyed to identify the units of Unregistered SSI Sector. Out of these selected villages and urban blocks, Validated Data is available in respect of 18,205 only in which 3,69,606 unregistered SSI units were listed. About 1.77 lakh units were actually surveyed out of which validated data is available in respect of 96,431 units. The estimates of various components of the Unregistered SSI Sector would be furnished after completion of the validation process.
- Out of the 96,431 unregistered units, only 36 % were SSIs and the rest were SSSBEs.
- The reasons for Non-registration were elicited in the Third Census. Interestingly, 52.3 % of the units informed that they were not aware of the provisions for Registration, while 40.6 % of the units indicated that they were not interested.
- About 49.8 % of the units were engaged in Services while 33.6 % were engaged in manufacturing and the rest 16.6 % in repair/ maintenance.
- 97.2 % of the units were proprietary units and about 1.25 % of the units were being run on partnership basis.
- The average employment was 2.11 and the employment generated per rupees one lakh of fixed investment was 1.71.
- About 10.66 % of the units were women enterprises and 55.62 % of the units were managed by the entrepreneurs from socially backward classes.

III. Sickness in SSI Sector

- Sickness was identified through the latest definition of RBI given by the Kohli Committee and Incipient Sickness was identified in terms of continuous decline in Gross Output.
- Sickness identified in the Registered SSI Sector was of the order of 2.5 %, whereas in the Unregistered SSI Sector, it was 0.78 %.
- Out of the units having loan outstanding with Institutional Sources like Banks and Financial Institutions, sickness was about 14.08 % in the Registered SSI Sector and 13.47 % in the case of Unregistered SSI Sector.
- Incipient sickness identified in terms of continuous decline in Gross Output was 13.01 % in the Registered SSI Sector and 7.76 % in the Unregistered SSI Sector.
- Combining the three yardsticks used to measure sickness, viz., (a) delay in repayment of loan over one year, (b) decline in net worth by 50 %, and (c) decline in output during last three
years, about 14.47% of the units in the Registered SSI Sector were identified to be either sick or incipient sick, while this percentage was only 8.25 in the case of unregistered units.

- The States of Kerala, Karnataka, Chattisgarh, Maharashtra and Tamil Nadu had the maximum share of sick units in the Registered SSI Sector.

- ‘Lack of Demand’ and ‘Shortage of Working Capital’ were the main reasons for sickness/incipient sickness in both the Registered and Unregistered SSI Sectors.
APPENDIX - FOUR

THE 11th PLAN

NOTE ON
SSI SECTOR
THE NOTE ON SSI SECTOR

The 11th Five Year Plan

Volume - III

Industry

7.1.331 In order to continue the stimulus for investment for modernization, up gradation, and additional capacity creation, the TUFS, SITP and TMC would have to be continued during the Eleventh Five Year Plan. However, it would be necessary to limit the TUFS, either in time or scope, in order to ensure that the financial commitment of the Central Government does not cross the allocation available for the programme. Furthermore, in order to ensure that the industry modernizes, the assistance should be restricted only to the purchase of new machinery.

7.1.332 It has become apparent that substantial additional effort would be needed for skill up gradation and training of managerial, skilled, and semi-skilled manpower. In order to ensure that the effort is demand driven, the individual initiatives must come from the industry, which should be willing to take complete responsibility for running the additional programmes. The government’s contribution could come as a onetime assistance for developing the needed infrastructure, by way of buildings and equipment needed for the creation of new facilities or expansion of existing ones.

7.1.333 The total outlay for the industry segment of the textile sector is Rs 11000 crore. In the Eleventh Plan the TUFS would continue for two years. Other main continuing schemes are SITP and TMC. Jute Technology Mission has already been revised by bringing all components together in Mission Mode in 2006. For skill up gradation, a ‘Human Resource Development Scheme’ is proposed in the Eleventh Plan.

MICRO AND SMALL ENTERPRISES (MSEs)

Introduction

7.1.334 Worldwide, MSMEs have been recognized as engines of economic growth. In India, MSEs (till recently, known as village and small enterprises) account for almost 40% of the total industrial production, 95% of the industrial units (along with medium industries), and 34% of the exports. They manufacture over 6000 products ranging from handloom saris, carpets, and soaps to pickles, papads, and machine parts for large industries.
7.1.335 It is estimated that an investment of Rs 10 lakh in fixed assets in the small sector produces goods or services worth Rs 46.2 lakh with an approximate value addition of 10 percentage points. In 2003–04, the contribution of SSI sector alone to the GDP was 6.71%.

In the last decade, the growth rate of MSEs has been consistently higher than the overall growth rate of the industrial sector, crossing the 12% mark in the terminal year of the Tenth Plan.

7.1.336 The MSEs are, however, more than just GDP earners; they are instruments of inclusive growth which touch upon the lives of the most vulnerable, the most marginalized—women, Muslims, SCs, and STs—and the most skilled. Being the largest source of employment after agriculture, the MSE sector in India enables 650 lakh men, women, and children living in urban slums, upcoming towns, remote villages and isolated hamlets to use indigenous knowledge, cultural wisdom, dexterous hands, and entrepreneurial skills for the sustenance of their lives and livelihoods. Yet, in successive Five Year Plans this sector has not received its due. A subset of the MSE sector is what can be termed as ‘cultural and creative industries’. India’s cultural diversity and heritage is capable of giving the country a strong presence in the global market for products from such industries. The Planning Commission had constituted a Task Force with a view to integrate production by cultural and creative industries with our development strategy. The recommendations of the Task Force will be examined for implementation in the Eleventh Plan. Table 7.1.12 indicates the allocation for Village and Small Enterprises (VSE) in the past three Plan periods.

**TABLE 7.1.12**

**Plan Outlays for the Last Three Five Year Plans for VSE Sector**

(\(Rs\) Crore)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Eighth Plan Period</th>
<th>Ninth Plan Period</th>
<th>Tenth Plan Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME</td>
<td>1629.55</td>
<td>4303.85</td>
<td>5534.00</td>
</tr>
<tr>
<td>Textiles</td>
<td>1157.00</td>
<td>1270.00</td>
<td>1600.00</td>
</tr>
<tr>
<td>FPI</td>
<td>146.00</td>
<td>235.04</td>
<td>650.00</td>
</tr>
</tbody>
</table>

*Source: Ninth and Tenth Plan, Planning Commission.*

*(In this chapter, MSME means micro, small, and medium enterprises; SME means small and medium enterprises; while MSE means micro and small enterprises.)*

7.1.337 The MSME sector has been artificially fragmented across various ministries, such as MSME, textiles, and FPI to name a few. As a result, sectors such as handloom, powerloom,
handicrafts, khadi, and coir have suffered greater neglect than other manufacturing and service based MSEs.

7.1.338 In an attempt to correct these discrepancies and neglect, the Micro, Small and Medium Enterprises Development Act was enacted on 16 June 2006. This Act provides the first-ever legal framework recognizing the concept of ‘enterprise’ (comprising both manufacturing and service entities), defining medium enterprises and integrating the three tiers of these enterprises, namely, micro, small and medium. Carrying forward the vision behind this Act, the Eleventh Plan recognizes the MSE sector as an important component of the industry that needs infrastructure, credit, and policy support. During this Plan period, the endeavour would be to recognize the heterogeneity of the MSE sector and at the same time remove artificial distinctions within the sector to ensure that the unorganized, home-based industries such as handlooms and food processing are able to avail the benefits and schemes launched for the industry in general and the MSE in particular.

**Role of SMEs in Global Economy:**

**International Scenario**

7.1.339 The overall contribution of small firms—formal and informal—to the GDP and employment remain about the same across low, middle, and high-income group countries. As income increases, the share of the informal sector decreases and that of the formal SME sector increases.

7.1.340 In Brazil, MSEs represent 20% of the total GDP. Of the country’s 4.7 million registered businesses, 96.8% are MSEs and—along with the other 9.5 million informal enterprises—they employ 59% of the economically active population. Similarly, informal and micro enterprises account for 39% of labour force and contribute to 24% of the GDP in South Africa; SMEs employ 27% of the labour force and contribute 32% to the GDP; while large enterprises employ 34% people and account for 44% of GDP. (Stats SA 2000 and Abedian 2001).

SMEs comprise over 90% of all industrial units in Bangladesh contributing between 80% and 85% of the industrial employment and 23% of the total civilian employment (SEDF, 2003). They contribute three-quarters of the household income in both the urban and the rural areas. In Japan, SMEs employ more than 70% of the wage earners, contributing over 55% of value added in the manufacturing sector.

In Thailand in 2003, there were 2006528 enterprises of which 99.5% were SMEs. These SMEs generated products worth 38.1% of GDP and in 2003 they employed 60.7% of Thailand’s working population.
The real importance of the SMEs, however, can be seen in China where over 68% of the exports come from the SMEs (Table 7.1.13). China has created more SMEs in the last 20 years than the total number of SMEs in Europe and the US combined. Their numbers have increased from about 1 million private sector SMEs in the 1990s to 40 million in 2004. In China, an industrial SME is defined as having up to 2000 employees, while a small business has less than 300 employees and a medium-size business has employees between 301 and 2000.

### Defining MSEs—MSMED Act, 2006

There is no globally accepted definition of MSMEs. Different countries use different criterion; most of the definitions are based on investment ceiling and number of people employed. In India, the Micro, Small, and Medium Enterprises Development (MSMED) Act 2006 defines MSMEs. It introduces the concept of ‘enterprise’ as opposed to the earlier concept of industry. According to the Act, MSMEs are classified into the following: (i) enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation Act 1951) and (ii) enterprises engaged in providing or rendering services.

### TABLE 7.1.13

Chinese Town and Village Enterprises (TVEs) Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>SME Exports</th>
<th>SME Exports as % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>438.23</td>
<td>272.48</td>
<td>62.3</td>
</tr>
<tr>
<td>2003</td>
<td>593.32</td>
<td>390.44</td>
<td>65.8</td>
</tr>
<tr>
<td>2004</td>
<td>761.99</td>
<td>518.16</td>
<td>68.0</td>
</tr>
</tbody>
</table>

Table 7.1.14 defines the MSMEs in both these sectors:

**TABLE 7.1.14 : Definition of MSMEs**

<table>
<thead>
<tr>
<th>Manufacturing Sector</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises</td>
<td>Investment in plant and machinery (original cost excluding land and building and the items specified by the then ministry of small scale industries, vide its notification No. S.O.1722(E) dated 5 October 2006)</td>
<td></td>
</tr>
<tr>
<td>Micro enterprises</td>
<td>Does not exceed Rs 25 lakh</td>
<td></td>
</tr>
<tr>
<td>Small enterprises</td>
<td>More than Rs 25 lakh and less than Rs 5 crore</td>
<td></td>
</tr>
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<td>Medium enterprises</td>
<td>More than Rs 5 crore and less than Rs 10 crore</td>
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<th>Service Sector</th>
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<tr>
<td>Enterprises</td>
<td>Investment in equipments</td>
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<tr>
<td>Micro enterprises</td>
<td>Does not exceed Rs 10 lakh</td>
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<td>Small enterprises</td>
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<td>Medium enterprises</td>
<td>More than Rs 2 crore and less than Rs 5 crore</td>
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*Source: Micro, Small, and Medium Enterprises Development Act, 2006.*

7.1.343 The Act also provides for a statutory consultative mechanism at the national level with a balanced representation of all the sections of stakeholders and with a wide range of advisory functions. Establishment of specific funds for promotion, development, and enhancement of the competitiveness of these enterprises; notification of schemes / programmes, progressive credit policies and practices; preference to products and services of MSEs in the government procurement; more effective mechanisms for mitigating the problems of delayed payments; and a scheme for easing the closure of business by these enterprises are some features of the Act.

**Need for Greater Engagement with MSEs**

**TO GENERATE LARGE - SCALE EMPLOYMENT**

7.1.344 As countries develop, the share of agriculture in providing employment and in GDP decreases. According to the Australian Economist Chris Hall, the SMEs contribute about 70% of net new jobs across the globe, while larger firms tend to be job destroyers.

7.1.345 The MSE sector in India has grown significantly since 1960, when there were only 12376 MSEs providing employment to 10 lakh people—of which, direct employment was 1.85
lakh; annual production level was Rs 875 crore. At the beginning of the Tenth Plan, 249 lakh people in the rural and urban areas were employed in 105.21 lakh MSEs. This has increased to 295 lakh people in 128 lakh units now; an average annual growth rate of 4.4% in the number of these units and 4.62% in employment. If the units in the khadi industries, village industries, and coir industries are taken into account, the employment is estimated to be over 332 lakh. With the inclusion of handlooms, handicrafts, wool, and sericulture, the total job in the MSE sector in India goes up to 650 lakh. The employment intensity of the registered units indicates that an investment of Rs 0.72 lakh is required for creating one employment in MSME sector as against Rs 5.56 lakh in the large organized sector.

7.1.346 Not only do MSEs generate the highest employment per capita investment, they also go a long way in checking rural–urban migration by providing villagers and people living in isolated areas with a sustainable source of employment. Among the MSEs in India, the dispersed food products sector generates maximum employment (13.7% of total employment in the MSE sector), followed by non-metallic mineral products (10.9%) and metal products (10.2%). In chemicals and chemical products, machinery parts except electrical parts, wood products, basic metal industries, paper products and printing, hosiery and garments, repair services, and rubber and plastic products, the contribution ranges from 9% to 5%. In all other industries the contribution is less than 5%.

7.1.347 Per unit employment is highest (20) in units engaged in beverages, tobacco, and tobacco products. Next come cotton textile products (17), non-metallic mineral products (14.1), basic metal industries (13.6), and electrical machinery and parts (11.2). Per unit employment is highest (10) in the metropolitan areas and lowest (5) in the rural areas. Non-metallic products contribute 22.7% to the employment generated in the rural areas, followed by food products (21.1%), wood products, and chemicals and chemical products. As for the urban areas, food products and metal products almost equally share 22.8% employment. Machinery parts except electrical, non-metallic mineral products, and chemicals and chemical products between them account for another 26.2% employment. Metal products, machinery and parts except electrical, and paper products and printing (total share being 33.6%) are the leading industries in metropolitan areas.

7.1.348 The presence of MSEs across States is not uniform. Tamil Nadu (14.5%) makes the maximum contribution to employment followed by Maharashtra (9.7%), Uttar Pradesh (9.5%), and West Bengal (8.5%). Per unit employment is high—17, 16, and 14, respectively—in Nagaland, Sikkim, and Dadar & Nagar Haveli; Madhya Pradesh has the lowest figure of 2. In all other cases it is around 6.
TO SUSTAIN ECONOMIC GROWTH AND INCREASE EXPORTS

7.1.349 Estimates say that in order to achieve the target of 10% growth in the Eleventh Plan, the MSE sector needs to grow at 12%.

7.1.351 Non-traditional products account for more than 95% of the SSI exports. The performance of garments, leather, and gems and jewellery units has been remarkable in the last decade. The SSI sector dominates in export of sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food, and leather products. Annexure 7.1.20 indicates performance of SSIs from 2000–01 to 2006–07. The US, Europe, and West Asia are the major export destinations as indicated as Annexure 7.1.21.

<table>
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<th>ANNEXURE 7.1.21</th>
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<td>Export Destination (Country) of SSI Products</td>
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Source: http://www.laghu-udyog.com/ssiindia/exportdest.htm

7.1.352 There is tremendous potential to expand the quantum of exports from traditional MSEs because they are handcrafted and hence eco-friendly and exclusive. Further, while MSEs are unable to take advantage of economies of scale, they are ideal for meeting small order quantities—a bonus in industries such as readymade garments, home furnishings, etc.

7.1.353 MSEs often act as ancillary industries for LSIs providing them with raw materials, vital components, and backward linkages. For instance, large cycle manufacturers of Ludhiana
rely heavily on the small MSEs of Maler Kotla which produce cycle parts. MSEs also promote eco-friendly growth, especially in difficult terrains and the ecologically sensitive areas. In large tracts of barren desert land in Barmer and Kutch, in the scattered *dhani* of Udaipur, in the hilly hamlets of J&K, Ladakh, Himachal, and the North East, in the tribal hinterlands of central India, they are the only source of livelihood.

**FOR MAKING GROWTH INCLUSIVE**

7.1.354 The MSE sector is a microcosm of all vulnerabilities—it touches upon the lives of women, children, minorities, SCs, and STs in the villages, in the urban slums, and in the deprived pockets of flourishing towns and cities. For many families, it is the only source of livelihood. For others, it supplements the family income. Thus, instead of taking a welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people’s skills and agency.

7.1.355 Different segments of the MSE sector are dominated by different social groups. Women are mostly found in the unregistered sector—food processing enterprises, manufacturing enterprises, and weaving—and often work part time in the family enterprises. Women and small children roll bidis, make agarbattis, do zari and sequin work for meager wages.

7.1.356 Large number of Muslims are found in the unorganized weaving sector and in powerlooms. STs produce wonderful handcrafted articles and are involved in sericulture. In the North East, most women weave. In States like Tripura, 50% of rural men and 35% rural women are engaged in MSEs. In Nagaland and Mizoram over 68% of urban men are with MSEs.

**Challenges**

**AN OVERVIEW**

7.1.357 The MSE sector in India is heterogeneous, dispersed, and mostly unorganized. It includes diverse types of production units ranging from traditional crafts to high-tech industries. Yet, it is often considered to be limited to large units among the SSIs which deal with high-tech industries or serve as ancillaries to large industries. Segments such as powerlooms, handlooms, handicrafts, food processing, coir, sericulture, khadi, village
industries, and wool, which are mostly unorganized, are fragmented across various ministries and often seen only as rural livelihoods. This is, however, far from the truth. Towns and cities such as Benaras, Berhampur, etc., are big handloom centres; Lucknow, Bhopal, Delhi, and Jaipur are famous for their handicraft products while powerlooms are normally only found in urban areas. The artificial fragmentation of the sector often pits the traditional MSEs against each other and against non-traditional ventures. It also limits their access to capital, infrastructure, and support policies.

7.1.358 Due to the unorganized nature of the sector, entrepreneurs and artisans/workers face difficulties in accessing government schemes. Consequently, the workers engaged in the MSE sector—and these are often the most vulnerable and poor—have very little bargaining power and are exploited by the middlemen, unit owners, and big business houses. Unable

200 Eleventh Five Year Plan to take up aggressive marketing, like big industries, they cannot find markets despite good quality and competent prices (Box 7.1.3)

7.1.359 The dispersed, unorganized nature of the industry also raises issues of quality, bulk production, and inability of meeting big orders. Often individual units lack packaging facilities.12 As a result, markets, especially for traditional MSEs, are shrinking and workers are experiencing a dip in wages. Moreover, as most non-traditional MSEs serve as ‘captive units’ for big industries, often workers, especially women do not get paid until the product is picked up. The situation is same for the traditional sector where payments are made by traders and even government corporations only after the stock is sold. Thus money is held up, further impoverishing the workers.

7.1.360 The MSEs engaged in manufacturing of products such as paints, dyes and chemicals, explosives, minerals, leather and leather goods, etc., pollute the environment. These units have to obtain nonpollution certification from the concerned pollution control agencies of the State.

INADEQUATE ACCESS TO CREDIT AND WORKING CAPITAL

7.1.361 Though most sub-sectors of the MSE under different ministries have a scheme for credit availability, everywhere across the country—from the iron mongers of Jodhpur to powerloom units of Malegaon, from young entrepreneurs trying to set up food processing units in Kargil to handloom weavers of Kaithun, Berhampur, and Pochampally—artisans, weavers, and entrepreneurs rue the non-availability of the working capital. The percentage share of the MSEs (erstwhile SSI) in non-food Bank Credit declined from 15.1% in 1990–91 to 8.0% in March 2007. The fall in the percentage share of credit to MSEs under priority sector can, in
part, be attributed to the expanding scope of the priority sector lending to accommodate fast-growing areas such as housing, exports, etc. As per the Third All-India SSI Census (2001–02), only 14.2% of the registered and 3.09% of the unregistered MSEs availed of bank finance. **Though the Nayak Committee (set up by RBI in 1991–92)** had recommended working capital to the SSEs at 20% of their annual turnover, SSI and KVI units together received only 13.3% of their production value from scheduled commercial banks (SCBs) in 2005–06.

7.1.362 Lending to micro enterprises, which is stipulated at 60% of the total credit to MSE sector, has fallen from 51.2% in 2002–03 to 45.1% at the end of 2005–06. Moreover, difficulty in arranging collaterals or third-party guarantees continues to be a problem. Though the RBI had issued instructions to advance collateral free loans up to Rs 5 lakh, were without collaterals.

**Dwindling of a Vibrant Sector**

People working in MSEs, especially in the traditional sector, are being increasingly impoverished. In Tantol village (Rajsamand district, Rajasthan), the silver minakari workers have not received a hike in wages for the last 60 years. As the markets are flooded by cheap machine-made and Chinese goods, weavers of Barabanki, Uttar Pradesh, have experienced a fall in wages. So while the trendy stoles, shawls, and dupattas they make are sold at upmarket stores for Rs 300 onwards, they get only Rs 5–10 a piece. The powerloom weavers of Bhiwandi and Malegaon and the handloom weavers of Benaras have no civic amenities. In Malegaon, powerloom weavers say that every day they suffer a loss of Rs 1 crore due to power cuts. Most of the looms in both Malegaon and Bhiwandi are old. Hence productivity is very low. The Bhairongarh print from district Ujjain, Madhya Pradesh is one of the many crafts which have become extinct. Handloom Himroo Shawl from Aurangabad is on the verge of extinction. The Langas and Manganiyars of Rajasthan who have long entertained people with their music are now finding it difficult to survive. Leh and Kargil cannot sustain big industries but have a huge tourist market where their handlooms, handicrafts, processed apricots plus Leh berry juice can be sold. Yet in the absence of packaging facilities and credit, small entrepreneurs are unable to set up food processing units.

7.1.363 Though the percentage of NBC available to MSEs has been declining, the absolute amount of credit to this sector has been increasing. Since the Union Budget 2003–04, Indian Banks’ Association has advised banks to adopt the interest rate band of 2% above and below their prime lending rates (PLRs) for advances to SSI. In order to ensure that credit is available to all segments of SSI sector, RBI has issued instructions that 40% of funds available to MSE sector be given to units with investment in plant and machinery up to
Rs 5 lakh, 20% for units with investment between Rs 5 lakh to Rs 25 lakh, and remaining 40% for other units. As on March 2002, 391 specialized SSI branches were working in the country. Laghu Udyami Credit Card Scheme was also launched by public sector banks for providing simplified and borrower-friendly credit facilities to SSI, tiny enterprises, retail traders, and artisans.

7.1.364 The Credit Guarantee Cover Fund Scheme for Small Industries was launched jointly by the GoI and SIDBI (on a 4:1 contribution basis) in August 2000, with a view to ensure greater flow of credit to the MSE sector without collateral security. It picked up during the last two years of the Tenth Plan and till the end of March 2007, 68062 proposals were approved and guarantee covers for Rs 1705 crore were issued.

**NON-AVAILABILITY OF QUALITY RAW MATERIALS AND PACKAGING FACILITIES ON A TIMELY BASIS**

7.1.365 Non-availability of quality raw materials such as dyes and yarn (especially for handlooms and powerlooms); vital inputs such as power (for powerlooms, handicrafts, other industrial MSEs); and proper packaging facilities continue to be a major bottleneck. Lack of credit combined with inadequate raw materials often forces weavers, artisans, and entrepreneurs into the clutches of loan sharks and middlemen. The modern manufacturing MSE units are also constrained due to non-availability of quality raw materials in adequate quantity. Though the National Small Industries Corporation (NSIC) and State Small Scale Industries Development Corporations are providing some raw materials, their efforts are not in consonance with the requirements.

**INSUFFICIENT MARKET RESEARCH, LINKAGES, AND DESIGN INPUTS**

7.1.366 Most MSEs do not have money to invest in market research and are unable to carry out design and technical improvements to keep up with market demands. Unlike big businesses, they cannot invest in advertising and packaging. This limits their ability to tap markets and attract consumers. Most people are unaware of *Chamba Chugh*, natural fibre purses and cushion covers, *Bhuvastra* (garment of the Earth—made in coir), *Chamba Chappals*, Camel Hair Carpets (which do not burn) of Jodhpur, and the intricately carved tables of Ladakh. MSEs, especially those pertaining to traditional livelihoods, are therefore, increasingly being forced to rely on middlemen, petty traders, and big businesses to market
their products. This has reduced many to the status of daily workers, earning less than the minimum wages.

**REHABILITATION OF SICK SSI UNITS**

7.1.367 The major causes of sickness in the SSI sector, as per the Third Census of SSI (2001–02), were lack of demand, shortage of working capital, non-availability of raw material, power shortage, marketing problems, etc. Combining the three yardsticks used to measure sickness, viz., (i) delay in repayment of loan over one year, (ii) decline in net worth by 50%, and (iii) decline in output in last three years, 13.98% of the units in the registered SSI sector and 6.89% in the unregistered sector were either sick or incipiently sick. In the total SSI sector, this percentage was 7.82%. The five States of Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra together accounted for 54.28% of the sick/incipiently sick SSI units in the country.

**GLOBALIZATION**

7.1.368 Many segments of MSE, especially the traditional sectors, find it difficult to compete against aggressive marketing by the big domestic and multinational players. Street vendors, petty traders, handloom and powerloom weavers, home-based food processing units, khadi institutions, attar (perfumers), zari workers, and rural artisans, many of whom have even lost livelihoods and places of work due to developmental works, are the worst affected. There is a need to evolve a constructive response to this situation. As these sectors employ the most marginalized, our indigenous/traditional industries should be given opportunities to tap both the domestic and international markets. Most important, however, is that the license raj and red-tapism, which is being minimized in other sectors, needs to wither away from the micro sector as well.

7.1.369 As in other countries, globalization can also act as a tool for development of the MSE sector. MSEs engaged in the manufacturing of engineering and automobile products have shown excellent growth in the past decade due to their expertise in supplying OEM assemblies and sub-assemblies, components, etc. What is needed is a rational policy which offers adequate support and protection to this sector, enabling it to reach Indian markets. MSEs have many inherent advantages such as exclusivity, ability to produce small order quantities, etc. In a globalized world, they can tap new markets, especially in the West where there is a big demand for handcrafted products. Information technology can be used as a tool to provide online
information on indigenous products and producers, while the GI Act and patents can be used to prevent cheap imitations of our designs and products by other countries.

TECHNOLOGY UPGRADEATION AND ACHIEVING ‘ECONOMIES OF SCALE’

7.1.370 The investment ceiling on plant and machinery used for defining the small-scale units create problems. Efforts such as raising investment ceiling to Rs 5 crore for micro and small-scale units will help these units to graduate to medium-scale enterprises. The Tenth Plan schemes such as TUFS and SITP, which have helped some units to modernize, will be continued in the Eleventh Plan as well. There is an urgent need to devise measures to tackle the problem of loss of fiscal benefits when the micro and small-scale units graduate into larger units. The general excise duty exemption, which was traditionally available to the SSIs, is now restricted to Rs 1.5 crore of the transactions, a figure which is largely insignificant for many of the larger SSEs. As has been demonstrated by units such as Hero Cycles, Nirma detergents, Videocon, and Onida electronics, and vertical expansion and upward movement of MSEs to the medium and large sector enables them to achieve economies of scale. But today MSEs are encouraged to go for horizontal expansion and deliberate fragmentation, mainly to stay within the limits of excise exemptions. During the Eleventh Plan it would be necessary to consider policy initiatives to incentivize MSEs to achieve economies of scale by expanding production. One possibility could be to allow them to retain the benefit of excise duty exemption up to the prescribed limit even after they graduate into medium-scale enterprises. Measures would also need to be taken to deal with the problems arising from Chapter V-B of the Industrial Dispute Act to facilitate the MSEs to overcome fragmentation and inefficiency. While doing all this, however, it is imperative to ensure that the small, household based units are not neglected.

7.1.371 Owing to liberalization and opening up of the economy, the MSEs are facing stiff competition from imports and need technological up gradation to produce better quality products at cheap rates. They should be able to access production supply units around the world through the Internet. Information dissemination about availability of recent technologies, literature on modern machinery, contact details of suppliers, etc., is essential. A Technology Bank could be set up for this purpose. There is a need to intensify implementation of the Credit Linked Capital Subsidy Scheme (CLCSS) along with ready availability of model modernization projects for manufacturing industries. Potential of MSE Sector in Eleventh Plan: Monitorable Targets
7.1.373 The Eleventh Plan approach to the MSE sector marks a shift from the welfare approach to that of empowerment. The Plan looks at this sector as an engine for sustained and inclusive economic growth and employment. The strategy is two-pronged—it focuses on livelihood and social security. This is not just a rights issue but also makes economic common sense—artisans and entrepreneurs can be most productive only when they are physically and mentally fit.

7.1.374 The Eleventh Plan considers the MSE sector as an important segment of industry which is unorganized and hence needs support and access to all schemes of industry with special enabling provisions. As it is, Tribal Sub-Plan (TSP) and Special Component Plan (SCP) are constitutional requirements. Support for women’s empowerment and minority development has been stressed upon in the Prime Minister’s 15-point programme and in other flagship schemes of the government. We know that it is mostly the tribes, SCs, minorities, and women who are engaged in traditional livelihoods and in the small and micro sector. In the handloom sector alone, 60.6% weavers are women, 10.76% belong to SCs, 25.5% to STs, and 42.65% to OBCs.14

7.1.375 Thus providing enabling provisions for artisans, weavers, and small entrepreneurs within industrial policies and schemes will automatically fulfill the constitutional requirement and the commitments made by various Plans. While planning infrastructure development for industries, the needs of the micro and small sector would be kept in mind. There is need to move from adversarial to complementary relationships between various segments of industry and MSE. For instance, handlooms can target hi-end exclusive products—stoles, shawls, sarees, and furnishings—while powerloom mills do bulk production for gamchas, dhotis, towels, bed and table linen, etc.

7.1.376 The MSE sector, including handlooms and handicrafts, presents an opportunity for exports. Exclusivity, which stems from the dispersed nature of this sector, is its biggest strength. And yet, the dispersed nature of the sector makes it difficult to meet bulk orders, raises quality control issues, robs the workers of bargaining power, limits access to credit and markets, results in absence of social security, and prevents enterprises from benefiting from economies of scale. The effort during the Plan period will therefore be to organize this sector, to create clusters and SHGs of weavers/artisans to improve their bargaining power and to enable them to pool resources. These groups, comprising weavers, artisans, and entrepreneurs,
will be given full control over cluster decisions and will be provided support in the form of credit, inputs, expertise, and marketing links.

7.1.377 The Working Group on MSMEs for the Eleventh Plan had projected the need for Rs 296400 crore as the working capital and term loans for MSEs during the Eleventh Plan. At present, there is no sub-sector target for the MSE sector within the overall stipulated 40% ceiling for the priority sector lending. Since sub-targets have already been fixed at 18% for agriculture and at 10% for the weaker sectors, the MSE sector has to compete with real estate, housing, education, retail, etc. for the remaining 12%. Considering the vital role of the MSE sector in generation of large-scale employment opportunities, consideration should be given to whether a separate sub-target for the MSE sector can be effectively introduced in all SCBs. If this is not possible then other means must be found to incentivize lending to this sector.

7.1.378 For micro and small entrepreneurs who cannot bring in sufficient equity/promoter’s contribution, a flexible debt–equity ratio may need to be adopted while sanctioning export credit. Banks will be encouraged to ensure that all loans up to Rs 5 lakh to MSEs (excluding credit from MFIs) are given free of collateral at the interest rate of 8%. Coverage under the Credit Guarantee Trust Fund will be increased. As international experience indicates cluster based financing is the most effective way of providing credit to MSEs, 100 MSE clusters based on the PPP model will be adopted on a pilot basis.

**Small Success**

*Individual success stories in various nooks and corners of the country have demonstrated the potential of MSEs. Kolkatabased Mallika’s Kantha has rejuvenated the traditional Kantha weave. Today, hundreds of women sit at their village homes in West Bengal, making stoles, shawls, sarees, dupattas, table covers, cushion covers, etc., which sell for anything between Rs 5000 to Rs 50000. From the Pope to the Prime Minister, everyone appreciates the art of Kantha. Fab India has shown the tremendous appeal of Indian handlooms and handprints, especially for the young, college-going crowd. Even brands like Pantaloons are starting handloom ranges for both men and women. In Andhra, designer shirts and kurtas of khadi made under the PRODIP scheme are a big success. Hotels like the Jahanuma Palace in Bhopal use handlooms and other handcrafted products for interior decoration. This experience is cherished*
Tourists pick up a large number of products, chappals, bags, masks, papier mâché etc., from small shops allotted to artisans inside the Mehrangarh Fort in Jodhpur. The artisans on their part get a steady source of income. Chizami is a small village in the Phek district of Nagaland. Here, an NGO, North East Network, has provided the local youth with a source of livelihood. They make passion fruit, guava, and ginger jams, pickles, and squashes. India has many natural fibres such as banana, khus, sisal, korai grass, talipot, palm leaf, coconut, pineapple, screwpine, golden grass, jute, sabai, etc. Not-for-profit organizations such as Industree Crafts are encouraging rural artisans to convert these fibres into value-added finished products such as bags, table mats, cushion covers, hats, floor coverings, curtains, office and home accessories, etc. These products are now being marketed in top stores across the country. Likewise, natural soaps, shampoos, and cosmetics produced by various small units under the brand name of Khadi are already catching on in the domestic market and have tremendous scope for exports.

7.1.379 During the Eleventh Plan period, an aggressive marketing campaign using the media and icons will be launched. Handlooms, handicrafts, food processing, and other cultural industries will be linked to tourism; circuits for heritage and fabric tourism will be developed. In the West, the cultural industries have become the most rapidly growing sector in the world, contributing over 7% of the world’s GDP. Giving an ‘industry’ status to craftspersons is important because it entitles them to tax benefits and export promotion schemes, makes them eligible for banking and credit support, and helps them lobby for protection of intellectual property.

7.1.380 Mapping of the MSE sector will be carried out and registration of products under the GI Act will be encouraged and supported. Strict enforcement of laws relating to reservation will be carried out. Neglected areas such as occupational health, insurance, and so on will be taken up as an integral part of the MSE policy. Special emphasis will be laid on skill development and up gradation across all sectors.

7.1.381 An effective preference policy for procurement of goods and services produced by MSEs both at Central and State levels will be developed. A policy for women in the micro and small sector, particularly in the unorganized segments, will also be formulated to ensure that women get their rights and that their special needs are catered to.
ELEVENTH PLAN SCHEMES OF MINISTRY OF MSME

7.1.382 Most of the existing schemes for the MSME sector have been evaluated by independent organizations and suitably modified and reorganized. These will be continued during the Eleventh Plan period along with addition of some new schemes. The schemes which will be carried forward in the Eleventh Plan are given in Annexure 7.1.23.

NEW INITIATIVES

7.1.383 The Small Industries Development Organization (now called Micro, Small, and Medium Enterprises Development Organization) has a network of more than 3000 technically qualified personnel working through its Small Industries Service Institutes (and Branch SISIs), testing centers, and autonomous organizations such as the Tool Room, Product and Process Development Centers, etc. In the Eleventh Plan, the Ministry of MSME will establish a Technology Mission to promote new and emerging technologies, assess present levels of technology and their upgradation, set up technology information centres/data banks and an IT portal for information dissemination to carry out detailed technology audits.

7.1.384 In 2006, the government launched the National Manufacturing Competitiveness Programme. The NMCC and the Ministry of MSME chalked out a five-year programme with a projected expenditure of Rs 850 crore. The programmes include: setting up of design clinics, application of lean manufacturing technologies for increasing competitiveness of firms by systematically identifying and eliminating waste throughout the business cycle. These programmes will be demand driven and will be implemented in the PPP mode in selected industrial clusters.

7.1.385 Infrastructural constraints, notably the power outages, affect the MSEs much more than the larger enterprises. Although some States do offer differential power tariffs in favour of the MSEs, the real deficiency is the quality and quantity of power supply. During the Eleventh Plan, group/associations of the MSEs will be incentivize to establish captive power plants as enjoined in the Electricity Act 2003 or to set up common large-scale generation facilities with dedicated feeder lines. Roads, transport, water, and other infrastructure problems, or their total absence, push up operating costs of MSEs as against goods produced in more favourable conditions in other countries and it is, therefore, imperative for the government to develop adequate infrastructure.
Labour Laws and Factory Laws have created problems for MSE units in terms of number of inspections. The committee set up under Member (Industry) Planning Commission recommended a system of third-party inspection to give enterprises an option to get their regulatory compliance certified by accredited agencies. Once such certification has been obtained the unit would be exempted from routine inspection. Special inspections would be authorized only on receipt of credible complaints. Early implementation of this recommendation during the Eleventh Plan will provide relief to the MSMEs.

A proper database is critical for formulation of appropriate schemes for the MSE sector. The recently announced ‘Package for Promotion of Micro and Small Enterprises (SMEs)’ contains a proposal for providing financial support to the MSE Associations for their capacity building and for strengthening the database and contacts with the grassroots. This initiative would be carried forward during the Eleventh Five Year Plan.

An outlay of Rs 11500 crore has been allocated to Ministry of MSME, out of which Rs 4000 crore is for DC (MSME) and Rs 7500 crore is for agro and rural industries.