CHAPTER - TWO

DEVELOPMENT OF SSI SECTOR:
GOVERNMENT’S PRESCRIPTION
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2.0 Introduction

Small Scale Industrial (SSI) sector is a dynamic and vibrant sector of Indian economy. It is an important constituent of Indian economy in general and of total industrial sector in particular. The SSI sector acts as a cradle to cherish not only the grass root of entrepreneurial talent but also to provide employment opportunities at the local level. Its impulse on country’s economic growth is envisaged by the fact that SSI’s production accounted for 22.85% of India’s GDP\(^1\) and its exports marked more than 3% of GDP in the year 2001-02. Over the last one decade (i.e. from 1990-91 to 2001-02), SSI’s production increased more than the double; nearly doubled (1.76 times) in its numbers; one and a half times (1.53 times) increase in employment; one and a half times (1.51 times) increase in production per employee and remarkably more than seven times (7.2 times) growth in its exports. Presently, this sector has been assigned the target of annual growth of 12% and creation of 4.4 million additional jobs during the Tenth Five Year Plan.

2.1 Industrial Policy of 1948

The Government’s role towards development of SSI sector can be visualized by the Industrial Policy of 1948, that guided India’s industrial growth for eight years. In
1948, immediately after independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance of economy of securing a continuous increase in production and ensuring its equitable distribution. It acknowledged the role of SSIs to ascertain better utilization of local resources to ensure employment opportunities. However, keeping in view their vital problems with regard to availability of raw materials, capital investment, power, skilled labour and marketing, this industrial policy envisaged the importance of State governments to act in co-ordination with Central government in meeting these problems of SSIs.

### 2.2 Industrial Policy of 1956

After the adaptation of the Constitution and its socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. It had its objective the acceleration of the rate of economic growth and speeding up of industrialization as a means of achieving a socialist pattern of society. It continued to extend considerable importance to the SSI sector towards its both viability and its vitality to move forward with its basic objectives. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.
2.3 The Policy Statements

To meet new challenges from time to time, India’s Industrial Policy was modified through Policy Statements in 1973, 1977 and in 1980. These Policy Statements further created a climate for a rapid industrial growth in the country. Thus, on the eve of the Seventh Plan, a broad based infrastructure had been built up. While the government continued to follow policy of self-reliance, greater emphasis was placed on building up the country’s ability to pay for imports through its own foreign exchange earnings. Government was also committed to development and upgradation of its manufacturing to world standards. In this respect, Government provided enhanced support to small scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation to increase SSI’s ability to export.

2.4 Industrial Policy of 1991

Pandit Jawaharlal Nehru laid the foundation of modern India. His vision and determination have left a long lasting impression on every facet of national endeavour since independence. It is due to his initiative that India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set out for the nation by Pandit Nehru on the eve of Independence, namely, rapid agriculture and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of socio-economic
disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time of Pandit Nehru first set them out for the nation. Any industrial policy must contribute to the realization of these goals and objectives at an accelerated pace. The Industrial Policy of 1991 is inspired by these very concerns.

It was held that the primary objective of Small Scale Industrial Policy during the nineties would be to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts will be made to deregulate and de-bureaucratize the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs.

As announced on August 6, 1991, the New Industrial policy came up with significant measures for improving the efficiency of SSI sector. Along with provision of infrastructural support in integrated manner through Integrated Infrastructural Development (IID) Scheme, enhanced technology support for modernization and quality up-gradation, enhancing entrepreneurship development programmes, etc. were its highlights.

2.5.2 Service Sub-Sector

Service sub-sector is a fast growing area and there is need to provide support to it in view of its recognized potential for generating employment. Hence, under the Industrial Policy of 1991, all Industry-related service and business enterprises, irrespective of their location, were recognized as small scale industries and their investment ceilings would correspond to those of Tiny Enterprises.¹
2.4.2 Financial Support Measures

The Industrial Policy of 1991 recognised that inadequate access to credit, both in terms of short and long, remains a perennial problem of the small scale sector. Emphasis thus henceforth shifted from subsidized/cheap credit (except specified target groups) and efforts were to be made to ensure both adequate flow of credit on a normalize basis, and the quality of (Policy Measures for Promoting & Strengthening Small, Tiny and Village Enterprises, Aug. 6, 1991, Handbook of Industrial Policy & Statistics, 1997, Ministry of Industry, GOI, pp. 18-22) its delivery, for viable operations of this sector. A special monitoring agency was to be set up to oversee that genuine needs of the small scale sector are fully met.

Further, in order to provide access to capital market and to encourage modernization and technological up gradation, it was decided to allow equity participation by the other industrial undertakings in SSI, not exceeding 24% of the total share holdings. This will also provide boost to ancillarisation and sub-contracting, leading to expansion of employment opportunities.

2.5.2 Infrastructural Facilities

So as to facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new Scheme of Integrated Infrastructural Development (including Technological Backup Services) for Small Scale Industries was to be implemented with the active participation of State Governments and financial institutions. Moreover, adequacy and equitable distribution of indigenous and imported raw materials were to be ensured to the small scale sector,
particularly to tiny sub-sector. Based on the capacity needs, Tiny/Small Scale Units were to be given priority in allocation of indigenous raw materials.

2.4.4 Marketing and Exports

It was accepted that in spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Mass consumption labour intensive products are predominantly being marketed by the organized sector. The tiny/small scale sector was to be enabled to have a significant share of such markets. To enhance support mechanism, market promotion were to be undertaken through co-operative/public sector institutions, other specified/professional marketing agencies and an associated consort approach, backed up by such incentives were considered necessary.

Further, Government recognized the need to widen and deepen complimentarity in production programme of large, medium and small industrial sectors. Parts, components, sub-assemblies, etc. required by large public and private sector undertakings were to be encouraged for production in a techno-economically viable manner through small scale ancillary units. Emphasis was also laid on promotion of a viable and competitive ‘component’ market.

It was also held that though the Small Scale Sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The Small Scale Industries Development Organisation (SIDO) was recognized as the nodal agency to support the Small Scale Industries in export promotion. An Export Development Centre was to be set up in SIDO to serve the small
scale industries through its network of field officers to further augment export activities of this sector.

### 2.4.5 Modernization, Technological and Quality Up gradation

It was also felt necessary that a greater degree of awareness to produce goods and services conforming to national and international standards would be created among small scale sector. In this regard, a reorientation programme of modernization and technological up gradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector will be pursued.

### 2.4.6 Promotion of Entrepreneurship

It was also defended that Government will continue to support first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators would be trained to significantly expand the Entrepreneurship Development Programmes (EDP). Further women entrepreneurs would receive support through special training programmes.

### 2.4.7 Simplification of Rules and Procedures

To meet with the persistent complaint of small scale units of being subjected to a large number of Acts and Laws, procedures were to be simplified, bureaucratic controls were to be effectively reduced, unnecessary interference were to be eliminated
and paper work were to be cut down to minimum to enable the entrepreneurs to
concentrate on production and marketing functions, under the Industrial Policy of 1991.

2.5 Enactment Through Plan Strategies

Ever since India’s First Five Year Plan, there have been a definite delineation of
the SSI sector towards achieving its basic objectives. Of late, till the completion of the
Ninth Plan (1997-2002) and even in the strategy approach of the current Tenth Plan
(2002-2007) such attention ascertained the due importance to this sector to enable it to
coup up with the current market competitions evoked through foreign investments.

2.5.1 To Start with / The First Plan Enactment

India’s First Five Year Plan stated that ‘it is customary to refer to industries
which are not required to be registered under the Factory Act as cottage and small-scale
industries. There is no accepted line of distinction between cottage and small-scale
industries and different definitions are adopted according to object in view. The
distinction frequently made between establishments which employ power, numbers
employed, ownership pattern, etc.’

With regard to the types of small industries, first of those are small industries
which are, in the main, an integral part of the village economy. Then there are some
remaining types of small industries. These could be divided into two main groups,
namely, those which represent traditional skills and crafts, and second those which are
more recent and have an intimate connection with the corresponding large industries.
So far as the Village Industries are concerned, these have a central place in rural development programmes. Village Industries are concerned, in the main, with the processing of local raw materials for local markets and with simple techniques. Thus, with the increase in amenities in rural life, there can be increase in the field of village industries.

Small industries, on the other hand, derive part of their significance from potential value for employment of trained and educated persons. Both small industries and handicrafts have greater importance as means for providing employment. In fact, employment is as weighty a consideration in small industries and handicrafts as it is in village industries and in both it is of utmost importance that the process of technical improvement should be hastened.

2.5.2 The Ninth Plan Enactment (1997 - 2002)

It is categorized in the Ninth Plan Approach Paper that the Village and Small Industries (VSI) includes sub-sectors such as Small Scale Industries (SSI), Coir Industry, Khadi and Village Industries (KVI), (First Five Year Plan, Planning Commission, GOI, Chap. XXV, p. 325. and Ninth Five Year Plan, Planning Commission, GOI, Approach Paper, pp. 49,51 and 69.) Handlooms, Powerlooms, Handicrafts, Wool Industry, Sericulture and Food Processing Industry (FPI). It was held that VSI sector has a considerable potential for generating employment. It is more amenable to widespread regional dispersal and also more elastic in responding to the changes in the market. The SSI sector contributes more than 40% of the value added in manufacturing and more than 35% of the exports. The textile industry, in particular,
contributes substantially to country’s exports. It is for this reason then the VSI sector needs greater focus in terms of investment and technology upgradation, infrastructural support, marketing and credit facilities, testing, quality certification and training facilities.

The main highlights of the Ninth Plan strategy for the VSI sector were:

(i) The small scale and village industries were to be revised to take account of inflation and to enable the achievement of minimum economies of scale, technological upgradation, so as to withstand emerging competition.

(ii) The small and village industries were to be provided incentives and support to facilitate their growth and employment. It was to be ensured that foreign investment does not displace such industries.

(iii) The list of items reserved for Small Scale Industries (SSI) were to be reviewed with a view to achieve the benefits of economies of scale, technological upgradation, export capabilities, etc.

(iv) Credit flow to SSI were to be augmented. Financial institutions were to be motivated to offer factoring services to SSI in addition to the present system of discounting bills.

(v) Coverage of programmes such as Prime Minister’s Rojgar Yojana (PMRY) were to be enlarged to create new self-employment opportunities for the educated unemployed.

(vi) The KVIC was to be organizationally and financially strengthened to be able to generate more job opportunities under the 2-million jobs programme in Khadi and Village Industries.
(vii) Technology development and upgradation in the VSI sector, especially in the case of small industries, handlooms, powerlooms, coir, handicrafts, wood etc. were to receive special attention.

(viii) It was also held that the policies should be supportive of sustained high export growth. Policies necessary to strengthen the export effort included enhancement of investment limit of the SSI sector against committed export obligations to encourage production base for exports.

(ix) The growth of small scale sector and its contribution to exports has been impressive. However, it was held that this sector requires even further encouragement to be able to grow by tapping both domestic as well as international markets. New initiatives need to be taken in this regard. The Ninth Plan therefore stood to encourage the formation of small scale industries consortia for attaining the required volume and financial strength to compete effectively both at home and abroad.

2.5.3 The Tenth Plan Enactment (2002-2007)

In its industrial policy-based issues it is held that more than 12% growth in industrial sector will be necessary to achieve the targeted 10% economic growth under the Tenth Plan. This sector had achieved nearly 7% growth over the Eighth and the Ninth Plans.

SSIs have enacted an important role in the process of industrialization. It not only has acted as the entry-point for the new entrepreneurs but also provided the ground to develop entrepreneurship (The Tenth Five Year Plan (2002-2007), Planning Commission, GOI, Sept. 2001, ‘Drishtikone Patra’ (Hindi), pp. 44-46.) that after
starting at small scale level can act at a higher level. SSIs also conducted its role towards wider regional spread of industries. As compared to the large scale industries, the SSIs being more employment intensive based on capital investments per units, the SSIs thus provide a good account as a source of employment and which is more needed.

It was also stressed the need to ensure that the policies of the Tenth Plan must be supportive for the small scale sector. Relaxations at the State-level can help this process. It was also marked that the need to ensure is equally important as much as of providing loans for the small units.

Policies to reserve items of production under the small scale industries need to be reconsidered. Although it is a matter of big concern to extend support to SSI through special loan schemes and fiscal incentives, but no comparison can be made on economic basis. Many of the expert committees reached to the conclusion that reservation policy for the SSIs has have hampered export capabilities of many sectors. However, it is also illogical to speak of exposing the SSI to competition through imports. Therefore, it was held that, reservation should be phased-out within a reasonable time-span. Yet, while doing so, due consideration should be given to the fact that what would be its impact on employment, as the present employment scenario is not easy and good. *(For the Note on SSI Sector during the 11th Plan, see Appendix – Four).*
2.5.4 Public Sector Outlay on SSI

Plan outlay for Village and Small Scale Industries (VSI) are depicted in the table 2-5-4. Figures are presented here as the outlay for VSI as percentage of outlay for Industry & Minerals as well as percentage of Total Plan Outlay. As evident, outlay on VSI as percentage of Total outlay for Industry which was 15.7% in the First Plan, increased further to 16.62% in the Second Plan. In fact, it was the highest percentage outlay on VSI over the Plans, as since after, it marked a downward trend to reach to the lowest of 6.19% in the Fifth Plan. After the Fifth Plan, it however showed an increasing trend to ultimately reach 13.49% of total Industry outlay in the Eighth Plan.

**Table 2-5-4: Plan Outlay by Head of Development**

<table>
<thead>
<tr>
<th>Five Year Plans</th>
<th>As % of VSI in Industry &amp; Minerals Total Outlay</th>
<th>As % of VSI in Total Plan Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan</td>
<td>15.70</td>
<td>1.30</td>
</tr>
<tr>
<td>Second Plan</td>
<td>16.62</td>
<td>4.00</td>
</tr>
<tr>
<td>Third Plan</td>
<td>12.25</td>
<td>2.81</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>7.82</td>
<td>1.54</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>6.19</td>
<td>1.50</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>11.48</td>
<td>1.78</td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>11.12</td>
<td>1.49</td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>13.49</td>
<td>1.50</td>
</tr>
<tr>
<td>Ninth Plan</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Source: *Economic Survey* (2004), GOI.
Plan outlay for VSI sector as percentage of Total Plan Outlay however remained more or less constant over the Plans, except for its peak of 4% in the Second Plan and another 2.81% in the third Plan. Again specially since the Sixth Plan and onwards, it marked marginal fall from 1.78% to a level of 1.50% in the Eighth Plan.

On the whole, thus, it was only during the Second Plan that VSI sector acquired significant plan outlay and was nominally less better-off in the Third Plan. Since then, more or less a constant trend in the allocation of outlay with an average of 1.5% of Total Plan Outlay is marked. Thus, from the point of view of Plan Outlay, the VSI sector have failed to gather any emphatic or any increasing trend as a percentage of total plan outlay. (Data for VSI Sector’s allocation was not available, as the Ninth Plan allocation was made broad sector-wise (Economic Survey 2004).

2.6 Recent Policy Environments for SSIs

2.6.1 The Union Budget 2000-01

On August 30, 2000, with the Hon’ble Prime Minister’s announcement of a comprehensive policy package for the SSI sector, it received a big boost. Under this package:

- The limit under composite loan was enhanced from Rs. 10 lakhs to Rs. 25 lakhs to enable the entrepreneurs to secure term loans and working capital from the same agency.
- Industry related service and business enterprises with a maximum fixed investment (excluding land and building) of Rs. 10 lakh would qualify for priority lending.
• In order to encourage technology upgradation amongst the SSI units, a Credit Linked Capital Subsidy Scheme was announced which carried subsidy component of 12% of loan amount.

• The Government of India scheme of grant assistance for ISO-9000 certification was extended till the end of Tenth Plan as a measure of encouragement to quality management.

• A one-time capital grant of 50% to SSI associations that intend to develop and operate testing laboratories, provided they are of international standards.

• The exemption limit of excise duty for the SSI sector was enhanced from Rs. 50 lakh to Rs. 1 crore.

• Dispensed with the collateral requirement for loans up to Rs. 5 lakh, and enhanced the loan limit under Composite Loan Scheme (CLS) and project cost ceiling under National Equity Fund (NEF) Scheme.

• It was proposed to direct public sector banks for accelerating their programme for opening of SSI branches to ensure that every district and SSI clusters within the district were served by atleast one specialized SSI branch. Such branches were also required to obtain ISO-certification.

• With regard to micro finance, the Budget proposed an additional coverage of one lakh Self Help Groups (SHGs) by SIDBI and National Bank for Agriculture and Rural Development (NABARD).

• The Budget liberalized the tax structure for Venture Capital Funds by way of applying the principle of complete pass-through status and no tax deductions on distributed or undistributed income of such funds.
• To liberalise the systems and procedures, the budget proposed to dispense with the maintenance of statutory records by SSI units, effective July 1, 2000 and to make the Excise Department to rely upon the manufacturer’s record.

• The Budget extended the tax holiday for new units to be set up in industrially backward states and districts for a period of another two years and the existing tax benefits to new SSI units till March 31, 2002.

• In addition, Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI), announced important measures that included streamlining systems and procedures by way of progressively encouraging self-certification in lieu of inspections and strengthening of Technology Bureau for Small Enterprises (TBSE) so as to enable it to function effectively as Technology Bank.

2.6.2 The Union Budget 2001-02

The Union Budget 2001-02, while reiterating the policy initiatives announced in the previous budget, further proposed a package of measures for enhancing credit flows to the SSI sector. These included:

• Budgetary support to the newly set up Credit Guarantee Fund Trust (CGTSI) for Small Industries.

• Increase in the ceiling of composite loan to Rs. 25 lakhs and increase in the project cost under the National Equity Fund Scheme to Rs. 50 lakh with maximum soft loan component of Rs. 10 lakh.

• 14 items relating to leather goods, shoes and toys etc. were de-reserved.

• Setting up of Integrated Apparel Parks to enable the deserved readymade garments industry to set up modern units with the best infrastructure under the
Technology Upgradation Fund (TUF) Scheme from Rs. 50 crores to Rs. 200 crores.

- The Excise Duty structure was rationalized and foreign direct investment norms were relaxed. In the direction of rationalization of duty structure, the Budget reduced the three Special Excise Duty (SED) rates to a single SED rate of 16%. Special excise duty of 8% on glazed tiles, mattresses, carpets and floor coverings, painted canvas, linoleum and textile wall coverings, scooters/motorcycles, etc. was abolished. Food preparations based on fruits and vegetables were totally exempted from excise duty.

- Foreign Direct Investment (FDI) norms were further relaxed and long term capital gains arising from sale of securities and units were exempted from tax, provided such gains were reinvested in the primary issue of the shares of public companies.

- In order to give a further boost to the SSI sector in meeting the twin objectives of creation of more jobs in rural areas and in the light of the year 2001 being observed as ‘Women Empowerment Year’ for empowerment of women, it was proposed to strengthen ‘Rashtriya Mahila Kosh’ for providing micro credit to poor asset less women through NGOs; launch an integrated scheme for women’s empowerment in 650 blocks through women’s self-help groups and start a new scheme for supporting destitute and other disadvantaged women.

- Pursuant to the WTO agreements, quantitative restrictions on imports in respect of 715 items were removed with effect from April 1, 2001. In order to enhance the competitiveness of SSI units manufacturing 41 items of hosiery and handtool sub-sectors in terms of technology advancement, vertical expansion
and to reap the benefits of economies of scale, the investment ceiling in plant and machinery in respect of the said items for SSI definition was raised from Rs. 1 crore to Rs. 5 crores with effect from October 9, 2001.

- A new scheme namely ‘Laghu Udyami Credit Card’ was introduced in November 2001 for providing simplified and borrower-friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the tiny sector.

2.6.3 The Union Budget 2002-03

In view of the increased competition faced by the SSIs due to trade liberalization and recognizing the need for adopting a new approach for the promotion of SSI sector, the Union Budget 2002-03 accorded primacy to the consolidation process and giving a push to investment. The measures announced in the Budget were intended to give a fillip to the infrastructure sectors, key industrial sectors like textiles, food processing, tourism and rural development.

With the intent to receive demand, promote investment, accelerate economic growth and enhance productivity, some of the tax proposals for SSIs announced in the Budget include:

- Excise Duty exemption on automatic shuttles looms, specified processing machinery and silk reeling, weaving and twisting machinery.
- Special Excise Duty (SED) was abolished on certain items and customs duty was reduced from 25 to 10 per cent on select processing machinery and from 25 to 15 per cent on specified agricultural machinery and implements.
- Maximum retail price-based assessment was extended to 9 more items.
• The tourism sector and entertainment industry were given incentives by way of permissible deduction from profits under section 80 1B of the Income Tax Act on convention centres and multiplex theatres (in non-metro towns) for a period of five years.

• In order to give impetus to fresh investments in the SSI, additional depreciation at the rate of 15 per cent was allowed in respect of new plant and machinery acquired on or after 1st April, 2002, for setting up new industrial units or for expanding the installed capacity of existing units by atleast 25 per cent.

• Fifty-one items of knitwear, agricultural implements, auto components, chemical, drugs were de-reserved in May, 2002.

• With a view to facilitate the transition of innovation into enterprises in the Small Scale Sector, it was proposed in the Union Budget 2002-03 to set up a Micro-Venture Capital Fund for small innovations. The Budget had also proposed to cover an additional 1.25 lakh Self Help Groups under the micro credit programme.

• In order to give boost to the flow of credit under the collateral free/third party guarantee free lending to the units in the SSI sector, the Union Budget 2002-03 had proposed to exempt income of the Credit Guarantee Fund Trust for Small Scale Industries for a period of five years beginning April 01, 2002.

• Further, in order to boost investments in the sector, the Budget had proposed to extend the benefit provided U/s 54 EC of the Income Tax Act to cases wherein long term capital gains were invested in SIDBI’s bonds issued on April 01, 2002 and redeemable after three years.
For accelerating the progress of technology upgradation and quality improvement in the SSI sector, the scope of the ongoing incentive scheme of ISO-9000 certification was enlarged to include reimbursement of expenses for ISO-14001, Environment Standard Certification with effect from October 28, 2002.

2.6.4 The Union Budget 2003-04

The measures announced in the Union Budget 2003-04 were intended to give a fillip further to the investment demand and enhance manufacturing sector efficiency as well as accelerate the growth in exports. Some of the important measures relevant for the SSI sector are highlighted below:

- Peak rates of custom duties were reduced/removed in respect of rough, coloured gem stones, semi-processed and half-cut diamonds as well as cut and polished diamonds, gem stones, besides gold bars.

- In order to rationalize duty structure as also to encourage upgradation / modernization of textile units as well as saving in usage of raw materials, basic custom duty on a large number of textile machinery items and their parts was reduced from 25 per cent to 5 per cent. This initiative is in line with facilitating vertical expansion of knitwear units for which the ceiling of investment in plant and machinery was enhanced to Rs. 5 crore earlier for the purpose of definition of SSI.

- Excise Duty (ED) structure has been rationalized into three slabs by abolishing 4% ED on select items like bicycle and parts, toys, articles of woods, mosaic tiles, kitchen articles, etc. that constitute the part of SSI sector. The
rationalization of duty structure is expected to encourage capacity expansion, technology upgradation and building competitive strength of the SSI units concerned.

- Tax holiday has been extended for a period of 10 years and for select activities upto March 31, 2004 by way of deduction of 100 per cent of the profits and gains. In particular, the activities of cutting and polishing of precious and semi-precious stones (diamonds and gems) U/s 10A & 10B of the IT Act, operations of cold chain facility, telecom and domestic satellite services have been made eligible for the tax holiday.

- Information Technology industry has been covered under tax holiday exemption U/s 1-A & 10B of the IT Act. As per amended provisions, the units would not lose the benefits upon their change in ownership or share holding on account of amalgamation or de-merger for the remaining period of the tax holiday of 10 years. The initiative is expected to encourage consolidation of the IT industry.

- With an objective to grant parity in fiscal matters/incentives to high growth industries, income tax exemptions have been granted to pharmaceuticals and biotechnology at par with Information Technology. The step is expected to give boost to the growth of respective sectors.

- In line with the changing needs of the sector and phased de-reservation as recommended by various expert committees, the Union Budget 2003-04 has proposed further de-reservation of 75 SSI items relating to laboratory chemicals and re-agents, leather and leather products, plastic products, chemicals and chemical products and paper products.
• A major thrust has been provided in the Budget on infrastructure, principally to roads, railways, airports and seaports. Emphasis has been accorded on public-private partnership and innovating funding mechanism.

• With an objective to facilitate availability of credit to SSIs at finer rates, the Union Budget has indicated IBA’s advising to its member banks to adopt interest rate band of 2% above and below of their respective PLRs for secured advances to SSIs.

• Further, with a view to increase overall flow of credit to different sectors of the economy, including SSI, private sector banks have been advised to open more branches in the rural areas.

• In continuation with the last year’s target of 1.25 lakh Self Help Groups to be covered under micro credit programme, an additional target of 50,000 SHGs has been set for the F.Y. 2003-04.

• The five-year export and import (EXIM) policy (2002-07) announced on March 31, 2002 aimed at achieving a share of 1 per cent in the global trade by 2007, up from the level of 0.67 per cent, embodied among other measures to boost exportsof SSIs a new programme called “Special Focus on Cottage Sector and Handicrafts” was launched with an objective of strengthening the small scale sector.

• Units in the handicraft sector were made entitled to the benefit of Export House status on achieving a lower average export performance of Rs. 5 crores.

• In order to boost the Electronic Hardware Industry (EHI), the Electronic Hardware Technology Park (EHTP) Scheme was modified to enable the SSI
sector to face the ‘zero duty regime’ under the Information Technology Agreement (ITA-1) of the WTO.

Units in the EHTP will now be entitled to various facilities that included:

- Net foreign exchange earnings as percentage of exports to be positive in a five year period instead of every year;
- No other export obligation for EHTPs; and
- Supplies of ITA-1 items having zero duty in domestic market to be eligible for counting of the export obligation.

- Various duty-neutralisation instruments for exports such as DEPB and all other schemes like Advance Licenses, Export Promotion Credit Guarantee, etc. were to continue along with the existing dispensation of not having any value caps.

- The sops offered to the gems and jewellery sector included:
  - Customs duty reduction on import of rough diamonds to zero per cent and the licensing regime for rough diamonds abolished;
  - Value-addition norms for export of plain jewellery reduced from 10 per cent to 7 per cent and export of all mechanized un-studded jewellery allowed at a value-addition of only 3 per cent;
  - Personal carriage of jewellery allowed through Hyderabad and Jaipur airports also.

- Duty-free imports of trimmings and embellishments upto 3% of FOB value, hitherto confined to leather garments, were extended to all leather products.

The EXIM policy for 2003-04 announced on March 31, 2003 aims at identifying the “engines of growth”, such as services exports, special economic zones, building of country’s core competence in the areas of agriculture and allied product
exports and special focus on growth segments including textiles, auto components, gems and jewellery, drugs and electronic hardware. The new policy, besides emphasizing on software exports, lays thrust on a host of other services that provide abundant opportunities in global trade.

A series of other steps have been announced to boost exports from the SSI sector and enable small industries to expand their manufacturing base for exports. Fast growing export house status holders, particularly from small scale sector, would be entitled for duty-free import of capital goods, spares, office equipments and consumables based on the merits of their achieving a growth rate of 25% or more in the current year with a minimum export value of Rs. 25 crores. In order to harness the potential of export clusters and enhance their competitiveness, a scheme on industrial infrastructure up gradation was at the final stages of its approval.

All put together, the role of government towards development of SSI sector is visualized in totality from the apex policy level, collectively through India’s Industrial Policy, Five Year Plan strategies and recent Union budgetary policy measures.

While most importantly the Industrial Policy of 1991 recognised all industry-related service and business enterprises as SSIs (termed as SSSBE), it also made efforts to ensure stronger linkages between agriculture and industry for SSIs with its scheme of infrastructure development. Acknowledging that marketing remains a major problem area for small and tiny enterprises, support mechanism was enhanced for market promotion. Annotation for modernization and technological up gradation aimed at improving productivity, efficiency and cost-effectiveness were apparent in lieu of liberalized market competitiveness. Simplification of Acts & Laws, loosening of bureaucratic controls and effective reduction of paper works were also answered.
In as much as recent Plan strategies are concerned, especially during the second generation of reforms, India’s Ninth Plan and Tenth Plan continued with its significant dependence on the growth rate of SSI sector for country’s overall industrial and export growth. However, alongside it was also categorically recognized that the credit flows to the sector must be augmented for greater focus of investments in infrastructural support, technology upgradation, marketing and export capabilities. For this, the plans annotated the need to ensure policies supportive for the sector.

Of late, policy environments as transcribed through the recent year’s Union Budgets imprinted government’s continued attention to ensure credit flows to the sector both in the form of term loans and working capital. Affirmation of government’s intension to strengthen SSI’s financial strength also gets articulated by continued liberalization of tax structures. Reduction of custom duty and rationalization of excise duty in select industries of the sector are the indicators in this respect. Beside many other measures, government’s perusal of de-reservation policy, special focus on Cottage sector and Handicrafts in EXIM policy was not only aimed at increasing strength and competitiveness but also to boost exports of the sector. Lastly, not to belittle the significance of ‘Laghu Udyami Credit Card’, government’s care for small business, retail traders, artisans, small entrepreneurs, professionals and self-employed persons gets affirmed.