Chapter – II

CONCEPTS, POLICIES AND GROWTH DIMENSIONS OF SMALL SCALE INDUSTRIES IN KARNATAK AND INDIA

The discussions and analysis in this chapter is focused on the conceptual and definitional parameters of small scale industries in general and the small scale industries in different countries including India in particular. Concepts of small scale industries based on different parameters like employment and capital investment in different countries and the process of evolution of the policies regarding the SSI sector in India have been analysed. Policies regarding SSIs under different Five Year Plans and the emergence of institutional infrastructure, fiscal incentives, monetary and marketing assistances provided by the government etc. have been analysed.

The growth trends of small scale industries in Karnataka state and in India have been analysed with statistical information.

Introduction

Small scale industries sector is quickly gearing up to meet the emerging challenges in the global economy through constant innovation and adoption of cutting edge technology to provide superior customer solutions. SSIs motivation for undertaking the proactive transformation is guided by a desire to acquire the requisite competencies to play a facilitating role in the emergence of a globally competitive Indian corporate sector.

Small scale industries play a key role in the industrialization of a developing economy. This unique role of SSIs is attributed to the fact
that SSIs provide immediate large scale employment and have a comparatively higher labour capital ratio, they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.

Experience worldwide indicates that the development of small scale industries is one of the most cost effective ways of creating employment, spreading industry, catalyzing research and development and allowing entrepreneurial talent to grow. Labour intensive small scale industries have been provided basically to create employment in an economy with abundant unskilled labour. In addition low capital requirement given an appropriate market environment is believed to stimulate growth of numerous indigenous enterprises with wide regional dispersal. This may help promote balanced growth more equitable distribution promotion of national heritage development of artistic tastes as well as diversification of the industrial structure which often leads to increased utilization of national resources. It is likely to help in developing the entrepreneurial and managerial skills and boost capital formation. It also harmonizes artistic talent with modern and efficient technology.

Small scale industries with their cost effective substitutability with and complementarity characteristics to large industries are emerging as a dominant player in the industrial development of the
country "Advances in information technology have made it possible for small firms to gain access to global information and computer links across the globe. Technology to influence the small scale sector in India making them more cost and quality conscious to withstand competition.

Global Trends

Small and medium enterprises account for half to two thirds of business all over the world. They comprise a widely divergent spectrum of establishments engaged in economic activities ranging from micro and rural enterprise to modern industrial units using sophisticated technologies. It is reorganized that the shift from agrarian to industrial and to post industrial knowledge based societies is not through the large industrial houses, but through individual and small initiatives by visionaries from the small and medium enterprises. "Contrary to popular impression, a study made by the US Department of Commerce has identified that the bulk of the inventions that revolutionized human life in the twentieth century have came, not from the large corporations, but from independent small firms. The future lay with the small dynamic production groups that can respond quickly to customer needs according to Norman McRae of the prestigious London based 'Economist'. Ingersoll perceived that it is the small enterprise that not only created new products and services but also ideas and most importantly jobs. Increasingly big companies are realizing that they must decentralize to the greatest extent possible and must in effect create small
entrepreneurial units in their overall structure if they want to remain competitive.

Peter Drucker considered as the 'Management Guru' sees a shift in the American economy from a managerial to entrepreneurial one and he noted the small businessman as embodying all the traditional American values.

**Small Scale Industry – A Global View**

Small scale industry in Japan is the foundation on which its awesome industrial strength has been built. It was estimated that 81.4 percent of the workforce and 56.1 percent of the total value added in manufacturing and 79.9 percent of the retail sales was accounted for by the small scale industry. Through a complex system of sub-contracting, Japan combines the advantages of small production and large volume of marketing.

Over 50 percent of the labour force in Canada work for small industry in Italy, the health of the economics maintained by medium sized privately owned firms and those below down to cottage industries where individual initiative and motivation have full play.

China has a small industry sector which provided 60 percent of its fertilizers, 57 percent of its cement, 28 percent of its pig iron, 13 percent of its crude steel, 67 percent of its agricultural machinery and 34 percent of its electric power.

**Size of Small Scale Industry – Criteria in Different Countries**

The scale of capital investment is the criterion in defining small scale industrial unit in India. This is unlike many other countries like
China, Japan, Germany, Indonesia, Iran, Turkey, etc., which go by the number of employees as a criterion for identifying small scale units.

In USA small business is one which has employment of less than 500 people, in UK it is less than 20 skilled workers, in Germany less than 300 workers, in Sweden and Italy less than 50 and 500 people respectively. In some countries both investment and employment are taken into account. In Japan investment in small units should not exceed 100 million and employing not more than 300 employees, in South Korea investment limit is 2 lakh dollars and employment being 200 people.

**Small Scale Industry in India**

The first official criterion for small scale industry dates back to the 2nd Five Year Plan, when it was in terms of gross investments in land, building, plant and machinery and the strength of the labour force. Subsequently the criterion was changed to include only the investment in fixed assets in plant and machinery whether held in ownership terms or by lease or by hire purchase instead of fixing the limit on overall investment. There have been many changes from time to time in the ceiling limit of investment in plant and machinery.

The following table provides the details.
Table 2.1
Small Scale Industries in India – The Evolution of Definition

<table>
<thead>
<tr>
<th>Date</th>
<th>Defining Authority</th>
<th>Capital Investment in Plant and Machinery</th>
<th>No. of Persons Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-4-1948</td>
<td>Industrial Policy Resolution</td>
<td>All industries in handloom, handicrafts, coir silk, khadi and village industries are grouped under SSIs</td>
<td></td>
</tr>
<tr>
<td>6-1-1955</td>
<td>Small Scale Industries Board</td>
<td>Rs. 5 lakh (If using power) or 100 (Without use of power) per shift</td>
<td></td>
</tr>
<tr>
<td>Sept. 1957</td>
<td>Small Scale Industries Board</td>
<td>Rs. 5 lakh (‘Per Shift’ changed to multiple shift)</td>
<td></td>
</tr>
<tr>
<td>4-1-1960</td>
<td>Small Scale Industries Board</td>
<td>Rs. 5 lakh (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>8-7-1966</td>
<td>Ministry of Industries Govt. of India SSI Board</td>
<td>Rs. 7.5 lakhs (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>Nov. 1974</td>
<td>Industries Policy Resolution Govt. of India</td>
<td>Rs. 10 lakhs (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>July 1980</td>
<td>Industries Policy Resolution Govt. of India</td>
<td>Rs. 20 lakhs (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>March 1985</td>
<td>Industries Policy Resolution Govt. of India</td>
<td>Rs. 35 lakhs (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>Aug. 1991</td>
<td>SSI Policy Statement</td>
<td>Rs. 60 lakhs (Rs. 75 lakhs for export oriented units) (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>21-12-1999</td>
<td>SSI Board Ancillary Industries</td>
<td>Rs. 1 Crore (Irrespective of No. of persons employed)</td>
<td></td>
</tr>
<tr>
<td>Jan. 1955</td>
<td>SSI Board</td>
<td>Rs. 10 lakhs (9 type of industries reserved for ancillary industries)</td>
<td></td>
</tr>
</tbody>
</table>

37
<table>
<thead>
<tr>
<th>Date</th>
<th>Organization</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-7-1966</td>
<td>SSI Board</td>
<td>Rs. 10 lakhs</td>
<td>Included units producing parts, components, etc.</td>
</tr>
<tr>
<td>Nov. 1970</td>
<td>SSI Board</td>
<td>Rs. 15 lakhs</td>
<td>Add-rendering of services to large industries but not as subsidiary</td>
</tr>
<tr>
<td>July 1980</td>
<td>Industrial Policy Resolution</td>
<td>Rs. 25 lakhs</td>
<td>List of industries covered 25 items</td>
</tr>
<tr>
<td>March 1985</td>
<td>Industrial Policy Resolution</td>
<td>Rs. 45 lakhs</td>
<td>List of industries covered 25 items</td>
</tr>
<tr>
<td>April 1991</td>
<td>Industrial Policy Resolution</td>
<td>Rs. 60 lakhs</td>
<td>List of industries covered 25 items</td>
</tr>
<tr>
<td>August 1991</td>
<td>Industrial Policy Resolution</td>
<td>Rs. 75 lakhs</td>
<td>List of industries covered 25 items</td>
</tr>
<tr>
<td>21-12-1999</td>
<td>Industrial Policy Resolution</td>
<td>Rs. 1 crore</td>
<td>List of industries covered 25 items</td>
</tr>
<tr>
<td>Dec. 1977</td>
<td>Tiny Sector Industrial Policy Resolution</td>
<td>Rs. 1 lakh</td>
<td>Industries situated in towns and villages with population of less than 50000</td>
</tr>
<tr>
<td>July 1980</td>
<td>Tiny Sector Industrial Policy Resolution</td>
<td>Rs. 2 lakh</td>
<td>To cover cottage industries in rural and semi urban areas</td>
</tr>
<tr>
<td>March 1988</td>
<td>Budget 1988-89</td>
<td>Rs. 2.5 lakhs</td>
<td>To cover cottage industries in rural and semi urban areas</td>
</tr>
<tr>
<td>August 1991</td>
<td>SSI Policy Statement 1991</td>
<td>Rs. 5 lakhs</td>
<td>All Places</td>
</tr>
<tr>
<td>21-12-1999</td>
<td>SSI Policy Statement 1991</td>
<td>Rs. 25 lakhs</td>
<td>All Places</td>
</tr>
</tbody>
</table>
Definitional Inadequacies

The definition of small scale industries is related to investment in plant and machinery and does not take into account the investment in land and building. This has been deliberately followed since land values vary so widely in the country that no meaningful figure can be cited if the definition covers the value of land. However the definition of the small scale industry is rather ambiguous. There is need for redefining industries on the basis of capital, net assets, employment turnover and type of activities considered as an integrated criteria. There is need for a redefinition of small scale sector with the shift of emphasis on the development strategy. The present definition will not help in any way the growth of traditional rural artisans – blacksmiths, carpenters, weavers, leather workers, potters, etc., in areas where a vast repository of skills and potential for increased production and employment lies.

"Any definition of small scale industry should for practical purposes, include rural artisans, cottage industries, village industries, etc., who or which have an investment of Rs. 2 lakhs in machinery and equipment in rural and semi urban centres. Small scale industries in metropolitan cities should be treated on par with other ancillary units". The definition should cover the number of people employed and the technology adopted. At present many medium industries take maximum benefits by registering themselves as small scale industries. Some of them have a turnover of over Rs. 2 crores and enjoy credit limits of Rs. 30 lakhs to Rs. 40 lakhs. In the process
the small units do not receive the attention they deserve. There is
need for a clear, wider and more comprehensive definition of the term
small scale industries and in particular based on the criterion of
employment. The definition should be based on labour intensity rather
than capital intensity.

**New Policy for Small Scale Industries in India**

Policies constitute the framework or guidelines for appropriate
decisions at different levels. Government of India has made a number
of policy statements on industrial development after independence
starting with the Industrial Policy of 1948. This policy laid stress on
the importance of small enterprises especially cottage and village
industries. The Industrial Policy Resolution of 1956 laid down the role
to be assigned to an approach of the government towards small scale
industries in the country. The policy emphasized the following aspects
viz.,

1. Creation of big scale employment opportunities for people with a
   relatively low capital investment per head.

2. Meeting a substantial part of domestic demand for consumer goods
   and even part of capital goods.

3. Bringing about mobilization of capital and entrepreneurial skills in
   vast areas of the country.

4. Providing assistance to a large number of entrepreneurs, artisans
   and craftsman in getting employment income and reasonable
   standard of living.
5. Making available foreign market for the products of SSIs by making them export oriented.

6. Removing disparities in regional industrial development.

**New Policy for Small Scale Industries - 1991**

Government of India announced policy measures for promoting and strengthening small, tiny and village industries on 6th August 1991 for the first time in the Post-Independence period. The new policy on tiny, small and village enterprises envisages almost U-turn in policy stimulants and structure of both micro and small enterprises in the country.

**Objectives of the 1991 SSI Policy**

1) The primary objective of the SSI policy during the 90s was to impart more vitality and growth impetus to the sector so that the sector could contribute in terms of growth of output employment and export.

2) To decentralize and delicense the sector.

3) To deregulate debureaucratise it.

4) To review all statutes, regulations and procedures and effect suitable modifications when necessary.

5) To promote small enterprises, especially industries in the tiny sector.

6) To motivate small and sound entrepreneurs to set up new green enterprises in the country.
7) To involve traditional and reputed voluntary organizations in the intensive development of Khadi and Village Industries (KVIs) through area approach.

8) To maintain sustained growth in productivity and attain competitiveness in the market economy especially in the international markets.

9) To industrialize backward areas of the country.

10) Accelerate the process of development of modern small enterprises, tiny enterprises and village industries through appropriate incentives, institutional support and infrastructure investment.

In pursuance of the objectives of the Industrial Policy 1991 the Government of India has decided to take a series of initiatives in respect of policies related to the SSI units viz.,

1) Financial Support

2) Infrastructure Facilities

3) Marketing and Export

4) Modernization

5) Promotion of Entrepreneurs

6) Simplication of Rules and Procedures

7) Tapping Resources

The new small scale industrial policy seeks to improve payment mechanism and introduce legislation to enforce timely payment to SSI units. This step was needed to prevent large buyer units from exploiting SSIs. Timely payment was considered more urgent than
cheap credit. The steep hike in interest rates on lending to SSI needs to be reconsidered in the interest of SSIs.

The new policy for small scale industries has endorsed the plan for a new scheme of integrated infrastructural development including technological back up service of SSIs. This would be implemented with the active participation of state governments and financial institutions.

The policy envisages that marketing promotion would be undertaken through cooperative, public sector institutions, other professional agencies backed by such incentives as considered necessary. The National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name.

The Small Industry Development Organization has been recognized as the nodal agency to support the SSI in export promotion. A technology development cell is being setup in SIDO to provide technology inputs for improving productivity and competitiveness of SSI products. Industry Associations are to be encouraged and supported to establish quality counseling and other testing facilities to improve quality goods and services of SSI units. Indian Institute of Technology and selected regional/other engineering colleges would serve as technological information design development centres for the SSIs.

The SSI policy stipulates that rules and procedures related to establishment and functioning of SSI will be simplified. Complaints
regarding submission of returns etc., would be attended to within a specified time frame of three months.

Based on the capacity needs SSI units would be given priority in the allocation of indigenous raw materials. Equitable distribution of imported raw materials to SSI would also be ensured.

Areas of Concern

1) The new policy on SSI sector is silent on price preference to small scale and tiny industries by Central and State Government and public sector enterprises.

2) The policy is also silent of vital components of management and entrepreneurial development on the one hand and integration of tiny and village industries with other industries.

3) Provision for unrestricted holding of upto 24 percent equity participation in the small sector by other industrial undertakings has generated avoidable controversy. Governments hope that domestic large industries will not dominate the small sector is not based on rational grounds. It is not desirable to allow foreign and domestic large companies in low-capital labour-intensive consumer goods industries reserved for the small sector.

Expert Committee on Small Enterprises – New Policy Directives 1997

An Expert Committee on Small Enterprises constituted under the Chairmanship of Mr. Abid Hussain in 1995 submitted its report in January 1997. The committee made important recommendations having a bearing on the small scale sector. Major aspects of the
recommendations relate to cluster development technology support, infrastructure development and SSI Associations.

1) **Cluster Development**

The Committee recommended for the State Governments to identify existing clusters and promote joint ventures between themselves / local authorities and business associations.

2) **Technology Support**

The Committee recommended steps to overcome the problem of technological obsolescence and low quality of production. It recommended that the Department of Science and Technology should initiate new scheme to form R and D associations with interested SSI units as members based around identified clusters and provide funding. The committee also recommended to establish a National Research Institute to promote schemes for assisting in technology upgradation and R and D for Small Scale Enterprises. This institute would operate as a networking institution and clearing house for policy studies and technology issues that are raised by small scale industry.

3) **Infrastructure Development**

i) States should provide opportunities by inviting private sector to participate in upgradation and management of existing Industrial Parks.

ii) States should set up State Industrial Park's Promotion Authorities for regulating the setting up of industrial parks and
assist and negotiate with the private sector for their participation.

4) SSI Associations Related Issues
   i) The committee recommended for dissemination of information / advisory services through the centres which may be set up in collaboration with SIDBI/State Governments. This may help in tapping the export potential of SSI sector.
   ii) There is need for common facility centres at District Cluster level which be setup on professional lines to help SSI units and help save on costs.
   iii) There is need for setting up of companies to market products of member units common testing centres, etc.

Small Scale Industries and Five Year Plans
   A concentrated and well conceived strategy of development of SSI sector has been followed under India's Five Year Plans.
   I) First Five Year Plan divided the SSIs into three broad groups.
      i) those units existing independently
      ii) those integrated with and
      iii) those offering competition to large scale industries.

      The First plan emphasized on setting up of new centres of small scale production, establishment of new townships and training, research and finance. First Five Year Plan made an outlay of Rs. 43 crore for the small scale industries.
II) The Second Five Year Plan initiated some important steps for promotion of SSIs.
   i) Providing of more assured markets for the products of SSIs.
   ii) Reservation of production of certain varieties of cloth and agricultural implements for SSIs.
   iii) Prohibition of further expansion in certain large scale industries for the benefits of SSIs.
   iv) Laying down of separate targets of production for SSIs in certain lines of production.

    The Second plan initiated steps to develop three tier organizational setup viz.,
   i) Ministry of Commerce and Industry at the Centre
   ii) Setting up of All India Boards for SSIs
   iii) Setting up of State Departments of Industries and State Boards of Industries.

    The total outlay for the SSIs in the second plan was Rs. 180 crores.

III) The Third Five Year Plan initiated the following steps for the development of SSIs.
   i) Improving productivity of the workers and reduce production costs.
   ii) Reducing progressively the role of subsidies, sales, rebates and sheltered markets.
   iii) Promoting the growth of SSI units in rural areas and small towns.
iv) Promoting SSIs as ancillaries to large industries
v) Organizing artisans and craftsmen on cooperative lines.

The Third plan proposed for an outlay of Rs. 364 crore for the SSIs.

IV) Fourth Five Year Plan had the following programmes for the SSIs
i) Training and common service facilities for SSIs
ii) Quality marketing for the products of SSIs
iii) Marketing and consolidation of the Industrial Estate programmes for the states.

The Fourth plan provided an outlay of Rs. 370 crore for the SSIs.

V) Fifth Five Year Plan had the twin objectives of
i) Increased production of consumer goods and
ii) Promotion of exports of SSIs

The following steps were initiated during the Fifth plan
i) Promoting entrepreneurship and providing package of consultancy services for creating opportunities for employment and self employment.

ii) Facilitation of fuller utilization of skills and equipment of persons engaged in SSIs.

iii) Improving production techniques of SSIs.

iv) Promoting SSIs in selected growth centres in semi urban and rural areas.

The total outlay was Rs. 535.05 crore.
VI) Sixth Five Year Plan stressed the need for promotion of SSIs with the following objectives

i) Improving the levels of production and earnings of artisans in SSIs by upgrading their skills and technologies and producer oriented marketing.

ii) Creating additional employment opportunities.

iii) Fuller utilization of existing production capacity.

iv) Widening entrepreneurial base by providing appropriate training and packaged incentives.

v) Creation of viable SSIs structure to progressively reduce the role of incentives.

vi) Promotion of exports of SSIs.

The outlay in the Sixth Plan on SSIs was Rs. 1780.45 crores.

VII) Seventh Five Year Plan had the following aims and objectives for the development of SSIs

i) Upgradation of technology by strengthening / creating of tooling and workshop facilities for SSIs.

ii) Revamping of the organizational structure for the development of SSIs sector.

iii) Promotion of the dispersal of industries to less developed areas.

iv) Providing of higher levels of training.

v) According greater emphasis an ancillarization.

vi) Designing and development of such items for improving their efficiency and reduction in costs and energy saving.
vii) Qualitative upgrading and providing for after sales services to consumers for products of consumer durables.

VIII) Eighth Five Year Plan had the following major policy observations for SSIs

i) Increasing the share of credit available to SSIs from commercial banks from 16 to 18%

ii) Under SIDBI new initiatives like sanction of composite loans under single window concept, concessional loans to State Corporations for infrastructural development and provision of factoring services have been introduced.

iii) Industry associations to be encouraged to evolve suitable raw material distribution mechanism for SSIs.

iv) Establishment of tool rooms and training facilities for upgrading technology of SSIs.

v) Simplifying of laws and procedures relating to SSIs.

vi) Industry organizations to be encouraged to form marketing organizations and for improving quality of products.

vii) Establishment of 70 growth centres for SSIs.

IX) Ninth Five Year Plan

i) The Government has taken a number of steps to mitigate the impact of problems of SSIs. For increasing the flow of credit, the Government has started setting up specialized branches of banks exclusively meant for providing credit to SSIs.

ii) The Government has also set up Technology Trust Funds with contributions from State Governments and Industry
Associations for transfer and acquisition of the latest technologies.

iii) Under the scheme of Integrated Infrastructure Development Centres (IIDCs), infrastructure facilities are being developed in backward, rural areas. Fifty such IIDCs were to be set up during the Eighth Plan period, out of which 22 have been approved. This scheme would be continued during the Ninth Plan period with enhanced incentives and financial assistance for hilly areas and N.E. States.

iv) The sector also has the problem of non-conforming to quality standards which are vital for standardization and continuous order flow for components, sub-assemblies and spares from large and medium sectors. To help the SSI sector, the Government has taken a number of policy initiatives like allowing 24 per cent equity participation to large and medium scale units in SSI units, simplification of registration procedures, simplification of environmental laws applicable to SSI units, allowing filing of Memorandum of Information for all categories of industries, except 17 categories of polluting industries, simplification of labour laws in respect of small scale units, etc.

v) Financial assistance upto Rs. 75,000 per SSI unit is being provided to acquire ISO 9000 or an equivalent quality certification.
vi) The credit provided to the SSI sector by the financial institutions is considered credit to priority sector. By March, 1997 the total credit provided by public sector banks stood at Rs. 31542 crore. The cumulative disbursement by the State Financial Corporations amounted to Rs. 12704 crore upto March, 1996.

vii) The Small Industries Development Bank of India (SIDBI) is providing credit to the small scale sector directly and through refinance to the nationalized banks and Bill Rediscounting Scheme. Under the direct assistance scheme, SIDBI provides credit for (i) equipment purchase, (ii) industrial infrastructure development, (iii) marketing, (iv) ancillary development, (v) resources support to factoring companies, (vi) assistance to leasing companies, (vii) direct project loans and (viii) direct discounting of bills (equipment and components).

X) Tenth Five Year Plan

The following are the major policies and programmes relating to SSIs.

i) Enhancement of excise duty exemption limit for SSI units from Rs. 50 lakhs to Rs. 100 lakhs.

ii) Increase in composite loan limit to Rs. 25 lakhs.

iii) Coverage of loans upto Rs. 25 lakhs under the Credit Guarantee Fund Scheme.

iv) Increase in project cost limit under the National Equity Fund Scheme to Rs. 50 lakhs.
v) Credit limited capital subsidy at 12 percent of the cost of technological upgradation of SSI units for modernization of SSI units.

vi) The service business related small scale units with a maximum investment limit of Rs. 10 lakh would also be covered under priority lending.

vii) Enhancement of investment limit top Rs. 500 lakh for hi-tech and export oriented sections.

viii) Technology Bank would be setup for SSI sector by strengthening the existing Technology Bureau for Small Enterprises (TBSE) of SIDBI.

ix) One time capital grant of 50 percent to SSI associations for setting up international level testing laboratories for SSI units.

x) Preference to be given to tiny units while organizing buyer-seller meets, vendor development programmes and exhibitions.

xi) Conduct of third census of SSI

xii) Integrated Infrastructure Development Centres (IIDC) scheme extended to all areas.

Institutional Support for Small Scale Industries

Government has provided adequate institutional support to small scale industry in order to meet the requirements of this rapidly expanding sector in the economy.
The institutions helping small scale industries are broadly classified into three categories vis.,

i) Advisory bodies

ii) Government institutions and

iii) Corporate institutions

The institutions offering assistance to SSIs in different areas have been detailed here.

**Finance**

Apex Banks : (i) Commercial Banks, (ii) RRBs, (iii) Cooperative Banks

State Level : (i) SFCs, (ii) SIDCs, (iii) SIICs, (iv) SSIDCs

Others : (i) NABARD, (ii) NSIC

**Technical Training**

(i) SIDO, (ii) SISIs, (iii) TCOs, (iv) PPDCs, (v) DICs, (vi) RTCs,
(vii) CFTIs, (viii) Tool Rooms

**Technology Upgradations**

(i) NSIC, (ii) SIDO, (iii) SISIs, (iv) RTCs, (v) PPDCs, (vi) TBSE

**Marketing**

(i) SIDO, (ii) NSIC, (iii) SSIDCs, (iv) SISIs, (v) EPCs, (vi) SECs

**Industrial Inputs**

(i) SSIDCs, (ii) SIDCs, (iii) HUDCO

**Entrepreneurship Development**

(i) SIDO, (ii) Specialized Institutes, (iii) EDII, (iv) NIESBUD,
(v) EDIs, (vi) SISIs
Small Industries Development Organization (SIDO)

This is the nodal agency that advises the Ministry of Industry (and other Ministries) in formulating policies and programmes for the development of small scale industry. SIDO maintains close liaison with the relevant Central Ministries, the Planning Commission, State Governments, Financial Institutions and Other Organizations involved in promoting SSIs.

The organization coordinates the work relating to development of SSIs on an All India basis by

i) Evolving an all-India policy and programme for the development of SSIs.

ii) Coordinating the policies and programmes of various state governments.

iii) Acting as a liaison between different states and between the states and central ministries, the planning commission and the RBI and state bank.

iv) Coordinating the programme for the development of large and small scale industries.

v) Coordinating programme for the development of industrial estates and ancillaries all over the country.

The following chart provides the details of the functioning of the SIDO.
**State Level Organizations**

The policies for the development of SSIs, cottage, medium and large scale industries are implemented by the Commissioner / Directorate of Industries at the state level. Each state evolves its own policy and package of incentives though the Central Policies for SSI sector serve as the guidelines. The state departments oversee activities of the field officer like DICs. Other institutions like State Financial Corporations, Technical Consultancy Organizations operate at the State level to assist the promotion and development of SSIs. Other institutions at regional level include State Infrastructure Development Corporations, State Cooperative Banks, Regional Rural Banks, State Export Corporations, Agro Industries Corporation and Handloom and Handicrafts Corporations.

Industry Associations, NGOS provide support to the SSI sector. Industry Associations have been encouraged by Government policies in setting up of common facilities and other ventures in the area of technology marketing and other support services.

**Industrial Estate Programme**

Industrial Estate Programme in India is the biggest undertaken in any developing country. The programme was started in 1952 when an Estate was established in Hadapsar in Maharashtra.

The main objectives of Industrial Estate:

- To encourage and support the creation, expansion and modernization of SSI through provision of factory accommodation.
• To provide common service facilities and assistance and servicing throughout.
• To assist in all stages of establishment and operation.
• To help in developing subcontracting relationships within the small scale and large scale industries and specialized manufacturing activities.

The programme has assumed the role of regional development through provision of built in factory accommodation with the requisite facilities and services in semi-urban, rural and backward areas.

The Government of India launched its Industrial Growth Centres Scheme and the Export Promotion Industrial Park Scheme which promoted setting up of industrial estates. The Industrial Growth Centre Scheme has been discontinued the Integrated Infrastructure Development Scheme has been launched to set up industrial estates exclusively for SSIs. It will now also include cases of upgradation of existing estates.

**Fiscal Incentives of Small Scale Industries**

Fiscal incentives to SSI units are provided in the form of exemptions, rebate, refund or postponement of direct or indirect taxes leviable on production or profits besides special tax concessions. They include:

i) Income tax concessions

ii) Customs duty drawbacks

iii) Exemption and preferential treatment in respect of excise duty

iv) Exemption from sales tax
v) Tax holiday for new industrial units, etc.

**Tax Incentives Under Tax Provisions**

- IT Section 80 HH: 20 percent for 10 years for industries under the Factories Act in backward areas.

- IT Section 80 HHA: 20 percent for 10 years for SSI units to be set up in rural areas.

- IT Section 80I: 20 percent for 7 to 9 years for SSI units to be set up under Factories Act 25 percent for 11 years in case of cooperative societies, 35 percent for companies.

- IT Section 801A: 25 percent for 10 years for industries to be set up under Factories Act 100% for 5 years and 25% for next years for backward areas only.

- IT Section 80-18: The small scale units commencing production between April 01, 1995 and March 31, 2000 are allowed a deduction for a period of 10 years.

**Incentives for Exports Including Duty Drawbacks**

Earnings from exports, export turnover, gains and profits from projects outside India, earnings in convertible foreign exchange consultancy exports, software exports, production for exports in free trade zones, etc., are provided tax benefits under various provisions of the Income Tax Act. Tax Holiday for 10 years for newly established 100% EOUs (section 10B) and Duty drawback facilities are provided to exporters of SSI units.
Exemptions and Preferential Treatment from Excise Duties

For SSIs having clearances in the preceding financial year not exceeding Rs. 30 million the rates of excise duty are as under:

<table>
<thead>
<tr>
<th>Clearances</th>
<th>Rate of Duty for SSIs</th>
<th>Rate of Duty for SSI Availing Modavat Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not exceeding Rs. 10 million</td>
<td>Nil</td>
<td>60% of normal rate</td>
</tr>
<tr>
<td>Rs. 10 to 30 million</td>
<td>Normal</td>
<td>Normal</td>
</tr>
<tr>
<td>Goods for capital consumption</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Note: Commodity specific exemption for small scale units namely articles of plastics / cosmetics and toilet preparation, tread rubber, air conditioning and refrigeration, machinery and parts have been merged with the General SSI Exemption Scheme with effect from April 01, 2000.

1) Excise exemption is raised to SSI units to a turnover of Rs. 50 lakhs in 1998-99.

2) SSI may opt for MODAVAT with concession in normal rate of duty in the central budget of 1998-99 MODAVAT credit was raised to 100%.

3) Union budget 1998-99 provided for duty exemption to SSI units producing products under another brand name in the rural areas.

4) Exemption provided to SSI units based on the product line has now been extended to cover cotton yarn, which does not contain synthetic staple fibre.

5) With effect from June 1, 1999 factories falling under the category of SSI units can remit excise duty on a monthly basis instead of each
time goods are cleared from the factory premises. This applies to SSI units having turnover between Rs. 50 lakhs to Rs. 1 crore.

**Sales Tax Exemptions**

1) No liability under State Sales Tax law for import of the goods into the export of goods out of the territory of India.

2) Export sales have been exempted from the levy of Sales Tax under Central Sales Tax Act 1956.

Fiscal incentives help promote investment in small scale industries and provide relief to them. Tax concessions are used to stimulate the establishment or expansion of SSI units in a desirable direction. They are provided on the basis of product line and the concessions refer to excise duties, sales taxes on specific input such as capital equipment, intermediate goods, etc. Excise duty concessions are probably the most important which give small enterprises an important competitive edge. Taxation concessions not only stimulate growth of small scale industries but also stimulate entrepreneurship production and marketing of quality goods.

**Credit Facilities for Small Scale Industries**

Small Scale Industries raise working and term capital required by them from,

- Commercial banks
- Cooperative banks
- Regional Rural banks and
- State Financial Corporations
Banks provide mainly working capital and the State Financial Corporations provide mainly investment capital. Financial assistance is also provided to SSIs by National Small Industries Corporation (NSIC) at national level and State Small Scale Industries Development Corporation (SSIDC) at state level in the form of supply of machinery on hire purchase basis.

Refinance is given by Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and Industrial Reconstruction Bank of India (IRBI) to banks and financial corporations for financing small scale industrial sector. Credit provided by banks to SSIs is treated as credit to ‘priority sector’.

The following chart provide details of credits to SSIs:

**Credit to Small Scale Industries**

```
SIDBI Refinance Rediscount -> IFCI, LIC, UTI, IRCI

SFCs -> SIDCs -> Banks RRBs -> Small Scale Industries
```

**Small Industries Development Bank of India**

The Small Industries Development Bank of India (SIDBI) is an all India Principal Financial Institution. It was setup under the SIDBI
Act 1989 and was delinked from IDBI to provide greater functional autonomy and operational flexibility in 2000, SIDBI serves as principal financial institutions for

- Promotion
- Financing
- Development of Industries in the SSI Sector and
- Coordinating the Functions of Institutions engaged in similar activities

SIDBI has two types of channels for its assistance viz.,

**Indirect Finance**

Indirect finances are provided by way of refinance and bills rediscounting through 894 primary lending institutions having 65000 outlets across the country.

**Direct Finance**

Direct finance is given to specific target groups through SIDBIs own 38 offices by means of several tailor-made schemes.

**Promotional and Developmental Activities**

SIDBI involves accredited Non-Government Organizations (NGOs), Voluntary Organizations (VOs), Scientific and Research Institutions, Technology Institutions in its promotional and developmental activities. These initiatives of SIDBI aim at improving the inherent strength of the SSI units on the one hand and employment generation, economic rehabilitation of rural poor on the other. Over the years SIDBI’s promotional and development initiatives have crystallized into five thrust areas:
1) Enterprise Promotion
   i) Rural Industries Programme
   ii) Mahila Vikas Nidhi
   iii) Entrepreneurship Development Programme
   iv) Mass Media

2) Human Resource Development

3) Technology Upgradation

4) Environment and Quality Management

5) Information Dissemination

   In view of the liberalization scenario and market orientation of the economy SIDBI is gearing itself up to meet the varied requirements of the small scale sector. The assistance provided by SIDBI has been meeting adequately the requirements of SSIs covering wide spectrum of units from hi-tech state of the art units to traditional units.

**Market Assistance for Small Scale Industries**

Small industry has a pronounced weakness in the area of marketing of its products. Hence it is an important facet of the development programme to help small units market their products. Specific assistance programmes in domestic marketing of SSI products have been followed in India vis. vis,

- Price preference
- Purchase reservation
- Ancillary development (subcontracting)
Price Preference

The policy of price preference is followed in respect of products where offers are received from both small and large units. In such cases the price given to a small unit may exceed not more than 15% over that of a large unit. Price preference is one of the major instruments for providing marketing support to small scale industries. The exact preference is to be decided for each product depending on the differential advantage enjoyed by a large unit, but in practice 15% is followed in every case. Price preference is given only when a small unit and a large unit actually compete for the same product, which is not often the case. Even so all other things – meaning quality of the product should be acceptable. Many times the quality of the SSI product is considered inferior and hence the price preference is disallowed. Another problem in this direction is that public sector agencies are reluctant to accord this benefit on the ground that as “commercial bodies” they cannot afford to give such subsidies.

Purchase Reservation

The policy of reservation of items for exclusive purchase has been in vogue since late 60s as a measure of market support to the SSI sector. The Stores Purchase Policy of the Government prior to 1989 in the form of categorization of items was in six major groups of which group IV, V and VI include items which were to be purchased to a tune of 100%, 75% and 50% respectively from the SSI units.
Ancillarization (sub-contracting)

Ancillarization or subcontracting is directed towards the public enterprises controlled by Central Government. Some private companies like Philips, Enfield, Cycles had encouraged the policy of ancillarization. Two major difficulties encountered by ancillaries in India are:

1) Rejection of supplied of small scale industrial units made to larger units and
2) Inordinate delay in payment for the supplies made by ancillary units (SSIs)

Small Scale Industries in Karnataka State – Growth Trends

The year wise registration, investment and employment of small scale industries in Karnataka indicates a trend of fluctuation since the early part of 70s till 2005-06 period of 30 years.

1) Small Scale Industries During the Seventies from 1970-71 to 1979-80

i) A continuous rise in the number of SSI units registered is observed from 1908 in 1970-71 to 3043 in 1973-74. A declining trend of registered number of SSIs is indicated upto 1975-76 and a steep increase noticed then onwards till the end of the decade i.e. 1979-80.

ii) Investment in SSIs has slowed down from Rs. 2294 lakhs in 1970-71 to Rs. 1639 lakhs in 1973-74 with a sharp increase of investment of Rs. 3991 lakhs in 1974-75. A steep slowdown in
investment is observed till a spurt investment in the final year of
the decade of seventies.

iii) Employment was high at 44295 persons in 1970-71 but the
trend of decline has been indicated the next three years till a
peak of 56043 persons in 1974-75 is reached during the entire
decade. Year wise employment in SSI units in Karnataka revived
from a low of 12783 in 1975-76 to 34378 in 1989-90.

2) SSI Growth Trends During 1980-81 to 1989-90

Trend of fluctuations is observed during the eighties in the
number of SSI units registered, investment made and the number of
persons employed.

i) The number of SSI registered units rose from a low figure of
2776 in 1980-81 to a highest number of 11962 in 1984-85
during the entire period of the decade. However a slow decline
from then onwards to lower level of 8100 units in 1989-90 is
observed.

ii) Investment from SSI units rose from Rs. 3042 lakhs in 1980-81
to 6324 lakhs in 1984-85 and the rising trend in investment
continued till the end of decade with Rs. 11247 lakhs in
1989-90.

iii) Employment of persons in SSI units in Karnataka has indicated
an almost rising trend during the decade of eighties.
Employment rose from 26358 persons in 1980-81 to 55849
persons in 1984-85 and further to a maximum of 60796
persons in 1985-86 but has indicated in a slow decline in the further period and reached 51521 in 1989-90.

3) Growth Trend of SSIs During 90s in Karnatak

i) The first five years from 1990-91 to 1994-95 had witnessed a continuous growth in the number of registered SSI units from 9884 in 1990-91 to 13503 in 1994-95.

With a small decline in 1995-96 the number of registered SSIs rose to a record high of 34402 in 1997-98. However there was a decline to 15938 SSI units in 1999-2000.

ii) The year wise amount of investment in SSI units indicates a conventional increase from Rs. 11843 lakhs in 1990-91 to Rs. 66451 lakhs in 1997-98 with a decline to Rs. 59752 lakhs in 1998-99 into record high of Rs. 73705 lakhs in 1999-2000.

iii) Employment of persons in SSI units in Karnatak has indicated a continuous rise during the first five years during the 90s from 53568 in 1990-91 to 73999 in 1994-95. However a decline in employment in the next two years is noticed. A record high of 132978 persons employed in 1997-98 is observed with a downward trend in the next two years.

4) Growth Trends of SSIs in Karnatak in the New Millennium

Fluctuation trend in the number of registered SSU units, investment and employment is observed during the six years from 2000-01 to 2005-06.

i) The number of registered SSI units increased during the first two years from 2000-01 to 2001-02 but the number declined
then onwards and reached the lowest level of 11238 SSI registered units in 2004-05 with a small increase in the next year.

ii) Investment in SSI units in Karnataka declined from Rs. 65157 in 2000-01 to Rs. 37054 lakhs in 2003-04. There has been a good increase in the subsequent period from Rs. 38541 lakhs in 2004-05 to Rs. 43647 lakhs in 2005-06.

iii) There has been a continuous decline in the number of persons employed in small scale industrial units from 85792 in 2000-01 to 49998 in 2004-05 with an increase to 58133 in 2005-06.

iv) The growth trend of small scale industries in Karnataka during the three and half decades from 1970-71 to 2005-06 has been indicated in the adjoining table.

Table 2.2
Growth Trend of Small Scale Industries in Karnataka

Statement showing the year wise number of small scale industrial units Registered, Investment and Persons Employed from the year 1969-70, in Karnataka State

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SSI Units Registered</th>
<th>During the Year</th>
<th>Cumulative Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Persons</td>
<td>No. of SSI Units</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employed</td>
<td>Registered</td>
</tr>
<tr>
<td>1969-70</td>
<td>3890</td>
<td>3456</td>
<td>47960</td>
</tr>
<tr>
<td>1970-71</td>
<td>1908</td>
<td>2294</td>
<td>44295</td>
</tr>
<tr>
<td>1971-72</td>
<td>2272</td>
<td>1295</td>
<td>21343</td>
</tr>
<tr>
<td>1972-73</td>
<td>2285</td>
<td>1350</td>
<td>22490</td>
</tr>
<tr>
<td>1973-74</td>
<td>3043</td>
<td>1639</td>
<td>21814</td>
</tr>
<tr>
<td>1974-75</td>
<td>1907</td>
<td>3991</td>
<td>56043</td>
</tr>
<tr>
<td>1975-76</td>
<td>1562</td>
<td>1641</td>
<td>12783</td>
</tr>
<tr>
<td>1976-77</td>
<td>1420</td>
<td>1483</td>
<td>15406</td>
</tr>
<tr>
<td>1977-78</td>
<td>1621</td>
<td>1517</td>
<td>24822</td>
</tr>
<tr>
<td>1978-79</td>
<td>2075</td>
<td>1451</td>
<td>16957</td>
</tr>
<tr>
<td>1979-80</td>
<td>2910</td>
<td>3255</td>
<td>34376</td>
</tr>
<tr>
<td>Year</td>
<td>Total</td>
<td>SSI1</td>
<td>Total</td>
</tr>
<tr>
<td>----------</td>
<td>-------</td>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>1980-81</td>
<td>2776</td>
<td>3042</td>
<td>26357</td>
</tr>
<tr>
<td>1981-82</td>
<td>3396</td>
<td>4954</td>
<td>39214</td>
</tr>
<tr>
<td>1982-83</td>
<td>6096</td>
<td>2794</td>
<td>46420</td>
</tr>
<tr>
<td>1983-84</td>
<td>7479</td>
<td>6397</td>
<td>44282</td>
</tr>
<tr>
<td>1984-85</td>
<td>11962</td>
<td>11843</td>
<td>53568</td>
</tr>
<tr>
<td>1985-86</td>
<td>11634</td>
<td>19773</td>
<td>62835</td>
</tr>
<tr>
<td>1986-87</td>
<td>11179</td>
<td>9409</td>
<td>56888</td>
</tr>
<tr>
<td>1987-88</td>
<td>10530</td>
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<td>52498</td>
</tr>
<tr>
<td>1988-89</td>
<td>9811</td>
<td>10533</td>
<td>50448</td>
</tr>
<tr>
<td>1989-90</td>
<td>9700</td>
<td>11247</td>
<td>51521</td>
</tr>
<tr>
<td>1990-91</td>
<td>9848</td>
<td>11843</td>
<td>53568</td>
</tr>
<tr>
<td>1991-92</td>
<td>10588</td>
<td>18623</td>
<td>61903</td>
</tr>
<tr>
<td>1992-93</td>
<td>11368</td>
<td>19773</td>
<td>62835</td>
</tr>
<tr>
<td>1993-94</td>
<td>12614</td>
<td>19891</td>
<td>69563</td>
</tr>
<tr>
<td>1994-95</td>
<td>13503</td>
<td>26463</td>
<td>73999</td>
</tr>
<tr>
<td>1995-96</td>
<td>11856</td>
<td>33160</td>
<td>70903</td>
</tr>
<tr>
<td>1996-97</td>
<td>13529</td>
<td>35811</td>
<td>67631</td>
</tr>
<tr>
<td>1997-98</td>
<td>34002</td>
<td>132978</td>
<td>223311</td>
</tr>
<tr>
<td>1998-99</td>
<td>13422</td>
<td>59752</td>
<td>69579</td>
</tr>
<tr>
<td>1999-2000</td>
<td>15938</td>
<td>73705.58</td>
<td>88278</td>
</tr>
<tr>
<td>2000-01</td>
<td>16554</td>
<td>65157.83</td>
<td>85792</td>
</tr>
<tr>
<td>2001-02</td>
<td>16964</td>
<td>47883.60</td>
<td>73195</td>
</tr>
<tr>
<td>2002-03</td>
<td>10209</td>
<td>40835.52</td>
<td>57371</td>
</tr>
<tr>
<td>2003-04</td>
<td>12220</td>
<td>37054.28</td>
<td>56790</td>
</tr>
<tr>
<td>2004-05</td>
<td>11238</td>
<td>38541.00</td>
<td>49998</td>
</tr>
<tr>
<td>2005-06</td>
<td>12780</td>
<td>43647.08</td>
<td>58133</td>
</tr>
<tr>
<td>As at 31-03-2006</td>
<td>334456</td>
<td>735619.08</td>
<td>1887111</td>
</tr>
</tbody>
</table>

Source: Directorate of Economics and Statistics

5) Districtwise Distribution of Small Scale Industries in Karnataka

During 2005-06

i) Bangalore (Urban) had the maximum number of 1509 small scale industrial units in Karnataka followed by Belgaum district with 808 SSI units, Gulbargs 804, Dakshina Kannada 804, Mysore 712, Bangalore (Rural) 696, Dharwad 595, Tumkur 578, Kolar 562, Bellary 550 SSI units and Shimoga district had 500 SSI units. The number of SSI units in other districts was less than 500. Kidagu district has the minimum of 79 SSI units.
ii) Bangalore (Urban) district accounted for maximum investment of Rs. 8811.73 lakhs in SSI units in Karnataka State followed by Kolar Rs. 3823.2 lakhs, Mysore Rs. 3057 lakhs, Belgaum Rs. 2416.35 lakhs, Bellary Rs. 2415.29 lakhs, Dharwad Rs. 2032.59 lakhs, Dakshina Kannada Rs. 1931.8 lakhs, Koppala Rs. 1849.59 lakhs, Udupi Rs. 1745.99 lakhs, Bangalore (Rural) Rs. 1490.61 lakhs, Bagalkot Rs. 1229.15 lakhs, Bijapur Rs. 1156.59 lakhs and Uttar Kannada Rs. 1129.23 lakhs. Investment in SSI units in other districts is less than Rs. 1000 lakhs.

iii) Bangalore (Urban) district accounted for maximum of 13980 of employed persons in SSI units in Karnataka State followed by Belgaum 3076, Kolar 2995, Gulbarga 2919, Mysore 2618, Bangalore (Rural) 2608, Bellary 2578, Dakshina Kannada 2544. The employment of labour in SSI units in 2005-06 in other districts is less than 2500. SSI units in Kodagu district had employed minimum of 388 workers.

The details of number of SSI units, investment and employment in different districts of Karnataka State have been provided in the adjoining table for the year 2005-06.
### Table 2.3

**Number of SSI Units, Investments and Employment in Different Districts in Karnatak State**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>District</th>
<th>During the Year 2005-06</th>
<th>Cumulative upto 31-03-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of SSI Units Registered</td>
<td>Investment (Rs. Lakhs)</td>
</tr>
<tr>
<td>1</td>
<td>Bagalkot</td>
<td>310</td>
<td>1229.15</td>
</tr>
<tr>
<td>2</td>
<td>Bangalore - Rural</td>
<td>696</td>
<td>1490.61</td>
</tr>
<tr>
<td>3</td>
<td>Bangalore - Urban</td>
<td>1509</td>
<td>8811.73</td>
</tr>
<tr>
<td>4</td>
<td>Belgaum</td>
<td>808</td>
<td>2416.35</td>
</tr>
<tr>
<td>5</td>
<td>Bellary</td>
<td>550</td>
<td>2415.29</td>
</tr>
<tr>
<td>6</td>
<td>Bidar</td>
<td>146</td>
<td>366.54</td>
</tr>
<tr>
<td>7</td>
<td>Bijapur</td>
<td>401</td>
<td>1156.59</td>
</tr>
<tr>
<td>8</td>
<td>Chamarajnagar</td>
<td>164</td>
<td>585.05</td>
</tr>
<tr>
<td>9</td>
<td>Chickmagalore</td>
<td>410</td>
<td>773.88</td>
</tr>
<tr>
<td>10</td>
<td>Chitradurga</td>
<td>445</td>
<td>559.85</td>
</tr>
<tr>
<td>11</td>
<td>Dakshina Kannada</td>
<td>800</td>
<td>1931.80</td>
</tr>
<tr>
<td>12</td>
<td>Davangere</td>
<td>334</td>
<td>355.73</td>
</tr>
<tr>
<td>13</td>
<td>Dharwad</td>
<td>595</td>
<td>2032.59</td>
</tr>
<tr>
<td>14</td>
<td>Gadag</td>
<td>201</td>
<td>430.93</td>
</tr>
<tr>
<td>15</td>
<td>Gulbarga</td>
<td>804</td>
<td>1620.10</td>
</tr>
<tr>
<td>16</td>
<td>Hassan</td>
<td>400</td>
<td>496.29</td>
</tr>
<tr>
<td>17</td>
<td>Haveri</td>
<td>253</td>
<td>825.42</td>
</tr>
<tr>
<td>18</td>
<td>Kodagu</td>
<td>79</td>
<td>227.97</td>
</tr>
<tr>
<td>19</td>
<td>Kolar</td>
<td>562</td>
<td>3823.20</td>
</tr>
<tr>
<td>20</td>
<td>Koppal</td>
<td>207</td>
<td>1849.59</td>
</tr>
<tr>
<td>21</td>
<td>Mandya</td>
<td>300</td>
<td>969.38</td>
</tr>
<tr>
<td>22</td>
<td>Mysore</td>
<td>712</td>
<td>3057.27</td>
</tr>
<tr>
<td>23</td>
<td>Raichur</td>
<td>240</td>
<td>536.73</td>
</tr>
<tr>
<td>24</td>
<td>Shimoga</td>
<td>500</td>
<td>767.82</td>
</tr>
<tr>
<td>25</td>
<td>Tumkur</td>
<td>278</td>
<td>2040.00</td>
</tr>
<tr>
<td>26</td>
<td>Udupi</td>
<td>315</td>
<td>1745.99</td>
</tr>
<tr>
<td>27</td>
<td>Uttara Kannada</td>
<td>461</td>
<td>1129.23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12780</strong></td>
<td><strong>43647.08</strong></td>
<td><strong>58133</strong></td>
</tr>
</tbody>
</table>

*Source: Directorate of Economics and Statistics – Government of Karnatak*

**Growth Trends in India’s Small Scale Industries**

There has been rapid growth of small scale industries under India’s development planning. The government has been following a policy of promotion as well as protection of the small scale industries.
sector. This has led to a predominant position of the SSI sector in the Indian economy. SSI sector has vast potential in terms of employment, output export promotion, expansion of base for indigenous entrepreneurship and dispersal of industries and entrepreneurial skill in rural as well as backward areas.

The Third All India Census of Small Scale Industries has provided some authentic information on the sector. The size of the small enterprise sector is around 10.52 million units of which 4.45 million are defined as SSI under the official definition. The total employment contribution of the sector is 24.93 million with a par unit contribution of 2.37. The export contribution of the sector is 14,199 crores and the number of exporting units is 50606. Out of 878 items reserved for this sector only 672 are actually produced by SSIs. The census shows a decline in small manufacturing units during the intersfusal period in favour of service enterprises.

The figures relating to per unit fixed investment have been suggested as an indicator of enhanced capital intensity in this sector. But a desegregation of units according to utilization of key inputs such as bank credit and energy indicates a dismally poor picture of growth performance of the sector.

**Growth Trends**

The growth of small scale industries in terms of number of units, employment, investment, production and exports since the early 50s indicate a high rate of increase during the last five decades in India.
i) The number of SSI units rose from 0.16 lakhs in 1950-51 to 0.37 lakhs in 1960-61 a more than hundred percent increase. The total number of SSI units increased to 8.50 lakhs by the end of seventies. The rate of increase is slower till the middle of 80s. The total number of SSI in India reached figure of 20.87 lakhs in 1991-92. There is again a slowdown in the growth rate till the middle of 90s. A spurt in the growth rate of SSI units is observed then onwards with a total of SSI units reaching 37.10 lakhs in 2003-04.

ii) The employment of workers in SSI units increased by 100% between 1950-51 and 1960-61 from 7 lakhs to 14 lakhs. An increase of the same order in employment was observed during the mid 60s. The increase in employment was slow during the first half of 70s. A good increase in employment of 75 lakhs in SSI units in 1981-82 is observed. Employment rate was increasing at a sustained rate till middle 80s. Total employment in SSI went up to 124.30 lakhs in 1990-91 and by the end of 90s it reached the figure of 178.50 lakhs in 1999-2000 and further to 2007.50 lakhs in 2003-04.

iii) Investment in SSI units increased almost by three times between 1950-51 and 1965-66 from Rs. 120 crore to Rs. 356 crore. Investment in SSI units reached a staggering figure of Rs. 2296 crore in 1974-74. The rate of growth of investment has been slow till 1980-81. By the end of 80s investment in SSI units had reached Rs. 18196 crore in 1989-90. A steep rise in
investment is observed during the mid 90s and by the end of 90s investment had gone upto Rs. 39048 crore and reached the maximum of Rs. 55000 crore in 2003-04.

iv) Production value rose from Rs. 615 crore in 1950-51 to Rs. 1280 crore in 1960-61 and further to Rs. 11000 crore in 1975-76. The production value of SSI units reached the staggering figure of Rs. 155340 crore in 1990-91. The increasing trend in SSI production continued due to increasing number of units and the rising trend of general level of prices. The total value of production of SSI units in 2003-04 was Rs. 813262 crore.

v) The export earnings from SSI units in India rose from Rs. 40 crore in 1950-51 to Rs. 210 crore in 1960-61, Rs. 532 crore in 1975-76, Rs. 2071 crore in 1981-82, Rs. 155340 crore in 1990-91 and Rs. 813262 crore in 2003-04.

The share of export of SSI units in total export rose from 5.2% in 1950-51 to 24.5% in 1980-81 and 28.4% in 1990-91 and further to 35.2% in 2003-04.

The details of the growth of SSI units in India in terms of number of units, employment, investments, production and exports are provided in the adjoining table.
### Growth of SSI Units in India 1950-51 to 2003-04

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units (Lakhs)</th>
<th>Employment No. (Lakhs)</th>
<th>Investment (Rs. Crores)</th>
<th>Production of current prices (Rs. Crores)</th>
<th>Exports (Rs. Crores)</th>
<th>Share in Total Exports (percent)</th>
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<td>1950-51</td>
<td>0.16</td>
<td>7.00</td>
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</tbody>
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Source: Ministry of SSI - Government of India – Various Publications
NEW INDUSTRIAL POLICY 2006-2011

1. INTRODUCTION:

1.1 Karnataka is one of the top 5 industrialized States in the country. It has a history of pioneering industrial development initiatives since the time of the Princely State of Mysore and subsequently in the post independence era. The State was the first in the country to have brought out a State Industrial Policy during 1982-83, followed by successive State Industrial Policies in 1988, 1990, 1993, 1996 and in 2001.

1.2 During the just concluded 2001-06 Industrial Policy period, investment approvals of projects [with investments of over Rs. 50 crores each] by the State High Level Clearance Committee [SHLCC] and large & medium projects by the State Level Single Window Agency [SLSWA] have shown sustained increase/growth. The number of projects approved by the SHLCC is 148 with an investment of Rs. 1,15,882 crores and with an employment potential of 11,03,824 persons. Similarly, the number of projects approved by SLSWCC is 861 with an anticipated investment of Rs. 19,043.73 crores and employment potential of 5,90,869 persons. During the same Policy period 65,231 SSI units registered with Rs. 2,079.62 crores of investment and provide employment to 2,95,487 persons.

1.3 The State GDP growth rate during 2005-06 is 8.7% with industrial sector accounting for 18%. Having regard to this it is
felt that the new policy should have a mission to achieve GSDP growth of over 9%.

1.4 The industrial recession, which was prevalent upto 2002-03 has now given way to increased investments & growth, as is evident in the year - wise investment approvals by SHLCC & SLSWCC.

1.5 However, this increased flow of investment need to be supported with (i) On demand infrastructure availability, (ii) Human resource for diverse sectors, (iii) Support to technology upgradation, quality improvement and (iv) Single Window support and facilitation mechanism, so that the projects are implemented expeditiously and go into operation.

1.6 Today, there is intense competition between States for attracting investments. Investors naturally choose the State that offers best combination of (i) Industrial & Social infrastructure, (ii) Human resources, (iii) Technology savvy work force and (iv) The State that offers “Ease of doing Business”.

1.7 The fiscal/taxation regime and incentives & concessions offered by the States & Government of India also have important bearing on the locational decision of projects.

1.8 His Excellency, the President of India Dr. A. P. J. Abdul Kalam, in his address to the members of the Karnataka Legislature on 20-11-2005 on the occasion of “Suvarna Karnataka celebrations” had advocated 11 Missions for Karnataka's prosperity. Of these, Missions on Textiles, Bio-fuel, Agro
processing and Entrepreneurship are related to industries sector and addressed in this Policy.

1.9 Government accords highest priority to the objectives of dispersal of industrial investments in various backward regions / districts of the State so that the fruits of economic development and employment opportunities are shared by all segments of society and in all parts of State in as equitable manner as possible.

1.10 The New Industrial Policy 2006-2011 attempts to address the above aspects in a balanced manner.

2. VISION:

2.1 Policy to help facilitate the State achieve a GSDP growth of over 9%, which in turn call for an industrial sector growth of over 12%.

2.2 To focus on strengthening of the manufacturing industry in the State and to increase it’s percentage share of the GSDP from the present average of 16.70% to over 20% by the end of the policy period.

2.3 To achieve an increased share of Karnataka’s exports in the National exports from the present 15% to 20% by the end of the policy period.

2.4 To create additional employment generation to at least 10.00 lakh persons in the manufacturing and service sectors during the Policy period.
2.5 Promote diversified industrial base with strength in both old economy & new economy fields.

2.6 Facilitate reduction of regional imbalance in the matter of economic opportunities, employment and growth.

2.7 Endeavor to promote sustained industrial growth by facilitating accelerated flow of investments.

2.8 In short, to promote sustained, growth oriented industrialization with employment & revenue generation, for overall socio-economic development of the State.

3. STRATEGY:

Keeping the above objectives in mind, the strategy for further industrialization of the State during the next 5 years would be:

3.1 To classify various taluks of the State into 3 Zones for the purpose of focused attention:

(i) **Zone-1:** 79 Taluks - most / more backward Taluks as categorized by Dr. D.M.Nanjundappa Committee Report.

(ii) **Zone-2:** 85 Taluks - [Taluks not covered in Zone 1 & 3].

(iii) **Zone-3:** 12 Taluks - of Bangalore Urban & Rural Districts [excluding Taluks of Kanakapura & Magadi] Mangalore and Mysore Taluks.

3.2 To develop industrial infrastructure facilities ahead of the requirements, in various key location of the State through the KIADB / KSSIDC. Annually a minimum of 5,000 acres of quality industrial infrastructure would be created, during the Policy period. Such Industrial Areas will be developed in an integrated
manner reserving up to 25% of the area for housing and other social infrastructure. The equity base of KIADB would be strengthened through greater support.

3.3 Keeping in view the fact that water is a crucial support requirement for industrialization, Government would facilitate implementation of mega industrial water supply schemes for potential locations through Special Purpose Vehicles [SPVs].

3.4 A comprehensive Power Policy would be formulated by the Department of Energy. This Policy would encourage power generation from IPPs and also through captive power generation.

3.5 To meet the rising energy requirements of the State on account of rapid industrialization, Government would facilitate preparation of a “Gas Distribution Master Plan” to enable public/private sector players to bring in gas from diverse sources for distribution.

3.6 Apart from standard infrastructure in the form of industrial areas and industrial estates, specialized industrial infrastructure for specific sectors and Special Economic Zones [Multi-product, Product specific, Sector specific and Free Trade Zones] would be encouraged to be established through both KIADB as well as private sector promoters. The establishment of multi-product and product specific SEZs will be encouraged in all districts of the State except Bangalore Urban District. However, establishment of SEZs even in Bangalore Urban
District will also be encouraged if the proponent of SEZ comes forward to do so in his/her own land or through a joint development agreement with the land owners.

3.7 The ONGC in association with Govt. of Karnataka is already implementing a large Multi-product SEZ that would predominantly house Petroleum refining and Petro-Chemical projects. Govt. would take up with Govt. of India for enlargement of the size and scope of Mangalore SEZ Ltd. in to Petroleum, Chemicals & Petro-chemicals Investment Region (PCPIR).

3.8 Industrial corridor / Cluster development would be encouraged in potential locations.

3.9 State would encourage alternate partnership & financing options for infrastructure development.

3.10 Focused attention on sub-sectors / areas where the State has core competency i.e., Aerospace, Engineering, Automobile, Machine-tools, Steel, Cement, Pharmaceuticals, Food Processing, Apparel & Textiles, Electronics, Information Technology, Bio Technology etc.

3.11 In view of the fact that the silk reeling sector is highly employment oriented, a separate package will be formulated in consultation with the Sericulture Department.

3.12 Impetus for development of renewable & non-conventional energy sources through Mission approach.
3.13 Human Resource Development - Government would promote / help facilitate establishment of specialized skill development institutions at key locations suitable for the manufacturing industries and emerging vocations in the service sector. A scheme of State support through public, private partnership would be evolved & implemented. The Government assistance will be in the form of providing land and financial assistance for creation of basic infrastructure facilities as follows:

(i) Grant of up to 5 acres of Government land will be considered along with capital contribution of 50% of the project cost subject to a ceiling of Rs. 2 crores per Training establishment for sector specific training.

(ii) Recurring cost for running the training institution an amount of Rs.750/- p.m. per trainee will be provided subject to a ceiling of Rs. 15 lakhs per year for a period of 3 years.

(iii) Government will launch a new scheme to provide Rs.750/- p.m. stipend for on-the-job training of unemployed educated youth for training in different vocations through industrial / service establishments. The Training Institutions would also consider providing matching contribution towards stipend to the trainees and other required facilities during the training period.

The modalities of the scheme will be worked out by the Government separately.
3.14 Promote Agro Food Processing industries in the potential location to help farmers realize better value / price for their produce, through increased localized processing of agricultural output. As an incentive for setting up of new agricultural produce processing industries, APMC cess in respect of such procurement by the processing industries directly from the farmers will be exempted. Necessary amendments to the existing law will be brought about by the Co-operation Department in this regard.

3.15 In the context of globalised economy, survival & growth of SSI sector depend up on its ability to modernize, improve quality & cut costs. Karnataka Council for Technology Upgradation [KCTU] would be strengthened to take up promotional programmes in this regard.

3.16 Programmes for promotion of local entrepreneurship would be strengthened through appropriate restructuring of institutional mechanism to impart entrepreneurship training to 3,00,000 persons during the Policy period.

3.17 Special Incentives for entrepreneurs setting up units in backward areas. Additional incentives for units promoted by entrepreneurs from the category of SC/ST, Minority, Women, Physically challenged & Ex-Servicemen.

3.18 Government would work in close co-ordination with Industry Associations / Chambers of Commerce / Trade bodies to have
continuous feed back on the state of industries and the support measures needed.

3.19 Improvement of investment climate and business environment through decentralized governance measures and efficient facilitation.

3.20 Government would take up comprehensive rationalization & simplification of provisions of various labour laws to enable flexibility & increased productivity in the industry.

3.21 Government would come up with a separate revival package for sick SSI units and BIFR cases, after consultation with all the stakeholders viz. Industry Associations, Financial Institutions / Banks, Service providers, labour representatives. A clear cut Exit Policy would be attempted.

3.22 Local Amendments to The SEZ Act 2005 & Rules 2006 [Central Act] would be effected, providing for State level facilitation & incentives, labour law rationalization etc.

3.23 The BMRDA has taken up 5 New Townships around Bangalore. As per BMRDA Master Plan economic activities would be encouraged within these townships by creating industrial infrastructure.

3.24 The District Industries Centre (DIC) would be designated as Nodal Agency at the district level for implementation of Self-Employment Programmes and Self-Help Groups.

3.25 Global Information Centres would be set up at all DICs at district headquarters for the benefit of entrepreneurs.
3.26 Industry relevant skills would be identified and training programme would be provided to one lakh educated unemployed youth for taking self-employment ventures and wage-employment.

3.27 The Government shall encourage setting up of various institutions and centres of excellence in the field of automobile / machine tools / food processing / building materials and other fields and also encourage setting up of Technology Business Incubators in these areas. The Government assistance will be in the form of providing financial assistance for creation of basic infrastructure facilities, subject to a ceiling of Rs. 50.00 lakhs per incubator / centre.

3.28 Existing areas of concentration of industries would be converted in to “Industrial Township” for efficient maintenance of civic amenities and services etc.

3.29 Implementation of Kaigarika Vikas Scheme will be speeded up for development of 79 most and more backward Taluks as identified by Dr. D. M. Nanjundappa Committee Report on redressal of regional imbalances. G.O. No. C! 154 CSC 2005 dated 8-12-2005 already issued for implementation of the Scheme will be integrated with this new policy. It envisages creation of new economic opportunity by utilising local resources, skill and demand, by providing ready to use infrastructure, human resource development etc.
3.30 Khadi institutions assisted by KVIC / KVIB would be provided improved Charakas for increasing productivity, which in turn, will help increased wage earning by artisans.

3.31 In order to encourage, sustain and safeguard the interests of SSI units of Karnataka, Government is committed to extend the facility of price preference of 15% for the purchases and purchase preference made from SSIs units of the State. This incentive as provided in the 2001-06 Policy would be extended in this Policy for the next five years.

3.32 In order to achieve envisaged export growth rate of 20% during the Policy period Visvesvaraya Industrial Trade Centre (VITC) will be strengthened in this regard.

3.33 Incentives and concessions for various categories of industries and locations are indicated. Negative list of units in-eligible for incentives & concessions is also indicated.

4. ACTION PLAN:

4.1 KIADB would focus on development of large industrial areas of 500 or more acres each in potential locations.

4.2 KIADB would endeavour to complete implementation of SEZ projects taken up at Hassan, Mangalore & Shimoga.

4.3 One time Upgradation of Infrastructure in existing industrial areas / estates developed by KIADB / KSSIDC respectively would be carried out. Financial assistance would be provided to KIADB / KSSIDC to carry out the work subject to the condition that the Local Authorities & Industrial Associations come
forward to take up future maintenance. An Infrastructure Upgradation Fund of Rs. 500 crores would be created for this purpose.

4.4 The Apparel Park taken up by KIADB at Doddaballapur and Integrated Textile Park at Anekal, Bellary, Davanagere, Mysore, Kanakapura would be completed and commissioned early.

4.5 6 Food Parks taken up at Malur, Bagalkot, Maddur, Hiriyur, Jewargi and Belgaum would be completed by end of 2007.

4.6 Government would adopt the “Mega Food Park” concept being formulated by Ministry of Food Processing, Govt. of India, for Implementation in select Districts by providing infrastructure, forward and backward linkages.

4.7 Accelerated development of food processing industries would be encouraged. Karnataka has 11 Agro Climatic Zones ideally suited for cultivation of a variety of cereals, oil seeds, fruits & vegetables, spices, flowers etc. These agro resources would be harnessed to the fullest extent to create value chain for farmers, processors & Consumers.

4.8 Agriculture produce processing industries will be permitted to procure agriculture produce like cereals, oil seeds, fruits & vegetables directly from farmers without going through the APMC.

APMC cess in respect of such procurement by processing industries would be exempted.
4.9 25 Small Industrial areas for development of Cluster in potential Taluks through out the State would be taken up for the benefit of Tiny / SSI Units by KSSIDC and would be completed by 2007-08.

4.10 Private Sector entrepreneurs would be encouraged to set up a multi-product, product specific, sector specific and free trade zones in various potential locations and need based infrastructure support would be extended from KIADB.


4.12 Human Resource Development-A High Level Committee chaired by Principal Secretary to Govt., Commerce & Industries Department and with Representatives of Higher Education, IT & BT, Agriculture & Horticulture and Vice-Chancellor of Universities of VTU / Agriculture Universities and others would be constituted to work out detailed plans for Human Resource Development / Skill sets required for various segments of Industry. An amount of Rs. 25 crores would be earmarked for this purpose.

4.13 Man Power Training Institutions for emerging vocations like retailing, apparels & textiles, construction, repair and service of
earth moving equipments etc. would be set up with Private Sector participation in PPP mode.

4.14 A State Level Industrial Development Council with Hon’ble CM as Chairman & Hon’ble Minister for Large & Medium Industries as Vice-Chairman and consisting of Captains of Industries, Chiefs of Chamber of Commerce & Industries / Trade bodies would be constituted to aid and advise the Government on policy issues pertaining to Industrial development & Investment Promotion in the State.

4.15 Besides physical infrastructure, fiscal / financial incentives, the key aspect enabling timely implementation & commissioning of projects is “de-regulation & ease of doing business”. The Karnataka Industries (Facilitation) Act 2002 and Rules 2003 would be implemented more effectively for efficient delivery of services to the entrepreneurs.

4.16 Karnataka Udyog Mitra would be strengthened and assigned a dominant role in the task of Investment Promotion and Investors support to facilitate speedy implementation of projects. The Single Window Mechanism would further be rationalized and strengthened to this effect.

4.17 Under Kaigarika Vikasa scheme, GTTC would set up additional sub-centres in tool and die making and implementation of Sector specific scheme of various Boards and Corporations, conducting EDP’s, Resource mapping of Taluks, upgradation / creation of Industrial Infrastructure will be taken up by
integrating various schemes of other Departments. Financial assistance would be provided for sector specific scheme implemented by Boards / Corporations.

4.18 Existing 6 spindle charakas will be replaced by 8 spindle improved charakas at subsidized rates through Khadi institutions assisted by KVIC / KVIB in phased manner to increase productivity and wage earnings of artisans.

5. TERMS & CONDITIONS:

5.1 The incentives and concessions under this policy will come into force with retrospective effect from 1st April 2006. However, industrial units which have already been granted a Package of Incentives & Concessions as per the previous policies will continue to enjoy the benefits already granted till the expiry of the earlier sanction orders. All new investments made after 1st April 2006 will be covered by this Policy.

5.2 Industrial units are eligible for Incentives & Concessions on new investment made on fixed assets only. Investments in taken over industrial concerns or assets would not qualify for incentives. However for additional investment made by the new entrepreneur during this Policy period in creation of new assets under new unit / expansion programme would qualify for assistance.

5.3 Incentives and concessions for investments in the Information Technology/ Bio Technology Sectors will however continue to be
governed by the IT policy as per Government Order" MAHITI" and the Bio Technology Policy.

5.4 Incentives and Concessions as per this Policy will not be available for the industries.

5.5 Definitions:

a. Tiny Industry: Tiny Scale industry is one in which the investment in plant and machinery is less than Rs.25 lakhs irrespective of the location of the unit.

b. Small Scale Industry; An industrial undertaking in which the investment in plant and machinery whether held on ownership terms or on lease or by hire purchase does not exceed Rs.100 lakhs.

c. Medium & Large Scale Industry: An industrial unit which is not classified as Tiny/ Small Scale/Ancillary Industry shall be classified as Medium/ Large Scale Industry.

d. 100% Export Oriented Units [Export Oriented Units]: A100% Export Oriented Units is one which undertakes to export its entire production of goods subject to relaxation as permitted by Govt. of India from time to time and as defined by it. Such units may be set up either under the Export Oriented Units or under EPIP [Export Promotion Industrial Park] Scheme or under the EHTP [Electronic Hardware Technology Park] Scheme or Software Technology Park Scheme or Special Economic Zone.
e. Mega Project: shall mean Projects with an investment of Rs. 100 Cr. and above in fixed assets.

f. Fixed Asset: Fixed assets shall mean the total investment made on land, building and plant and machinery and such other productive assets like tools, jigs, and fixtures, dies, utilities like boilers, compressors, diesel generating sets, cranes, material handling equipments and such other equipments directly related to production purposes.

5.6 Sanction of Incentives and Concessions is Subject to the Following Terms and Conditions:

a. All new industrial investments shall create maximum possible additional employment opportunities and provide a minimum 80% of employment to the local people on an overall basis [100% employment to local people in case of Group C & D categories will be insisted] and this will be monitored during disbursement of incentives and concessions.

The above requirements regarding employment to local people will be monitored by the DIC for a period of 5 years. Failure of the industries to provide employment to local people as stipulated above will be reported to the concerned DLSWA/ SLSWCC/ SHLCC, which will recommend for recovery of investment subsidy sanctioned to the unit, for which purpose a suitable under-taking will have to be furnished by the unit concerned before disbursal of subsidy.
b. The quantum of investment subsidy shall be computed on the value of fixed assets as specified in Sub Para-[f] of Para 5.5 and as approved by the financial institutions, commercial banks.

c. The definition of tiny, small or medium and large scale industries as indicated above shall automatically stand revised as and when Government of India makes any changes in such definition and benefits under this package shall be available to the Tiny, Small Medium & Large scale units as per the new definition from the respective dates.

d. The validity of incentives and concessions as per this order shall be for a period of five years from 1st April 2006 [i.e., upto 31st March 2011].

e. Wherever industrial units avail subsidy under any other schemes of Govt. of Karnataka / Govt. of India, only differential amount of Subsidy, if any, would be provided under this policy.

f. Commerce & Industries Dept. would administer the package of Incentives & Concession under this Industrial Policy. Separate guidelines for administration of these incentives and concessions will be issued for the guidance of the concerned agencies and officers. Interpretation of this Government Order and the decision thereon of the Commerce & Industries Department, Government of Karnataka shall be final.
### INCENTIVES & CONCESSIONS FOR MEGA, LARGE & MEDIUM AND SMALL SCALE INDUSTRIES

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Incentives</th>
<th>Mega Industries</th>
<th>Large &amp; Medium Industries</th>
<th>Small Scale Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Capital Investment Subsidy</td>
<td>Nil</td>
<td>Nil</td>
<td>Zone-1: 25% of the value of fixed assets, subject to a maximum of Rs. 15 lakhs per unit.</td>
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<td>Zone-2: 20% of the value of fixed assets, subject to a maximum of Rs. 10 lakhs per unit.</td>
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<td>Zone 1 &amp; 2: Addl. Subsidy of 5% of the value of fixed assets, subject to a ceiling of Rs. 1 lakh for SC/ST/PH/Minority &amp; X-Serviceman entrepreneurs. In case of women entrepreneurs, the ceiling for additional subsidy would be Rs. 5 lakhs.</td>
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<td></td>
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<td>Note: This incentive is available only to units financed by KSFC/KSIDC, Banks/Other financial institutions.</td>
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<td></td>
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<td></td>
<td>Zone 3: Nil</td>
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<tr>
<td>2.</td>
<td>Exemption of Electricity Duty on Captive power generation</td>
<td>Currently available under Energy Dept Policy Continued up to 2011.</td>
<td></td>
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<tr>
<td>3.</td>
<td>Exemption of Stamp Duty &amp; Reduction of Registration charges</td>
<td>Zone-1: Full exemption.</td>
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<td></td>
<td></td>
<td>Zone-2: 75% exemption</td>
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<td>Zone-3: Nil.</td>
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<td></td>
<td>Stamp duty: In respect of Loan &amp; Credit deeds executed for availing term loans from FIs/Banks and for execution of Lease, Lease cum Sale &amp; absolute Sale Deeds by KIADB/KSSIDC in respect of Industrial land/plots allotted.</td>
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<td></td>
<td>Reduction of Registration charges: Concessional registration charges at Rs. 1 per Rs. 1,000.</td>
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<tr>
<td>Sl. No.</td>
<td>Type of Incentives</td>
<td>Mega Industries</td>
<td>Large &amp; Medium Industries</td>
<td>Small Scale Industries</td>
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<td>4.</td>
<td>Waiver of conversion fine:- (on lands converted for industrial use)</td>
<td>Zone-1: Full exemption subject to a maximum of 50 acres per unit. Zone-2: 75% exemption subject to a maximum of 25 acres per unit. Zone-3: Nil</td>
<td>Zone-1: Full exemption subject to a maximum of 25 acres per unit. Zone-2: 75% exemption subject to a maximum of 25 acres per unit. Zone-3: Nil</td>
<td>Zone-1: Full exemption subject to a maximum of 10 acres per unit. Zone-2: 75% exemption subject to a maximum of 10 acres per unit. Zone-3: Nil</td>
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<tr>
<td>5.</td>
<td>Acquisition &amp; allotment of land through KIADB</td>
<td>In respect of lands acquired for development of industrial area / estates or single unit complex KIADB acquisition charges to be levied is 28% in respect of areas in Zone: 3. For the areas in Zones 1 &amp; 2 acquisition charges would be 10%.</td>
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<td>6.</td>
<td>Subsidy for setting up of Effluent Treatment Plants [ETPs]</td>
<td>One time capital subsidy up to 50% of the cost of ETP, subject to a ceiling of Rs. 100 lakhs per unit for all categories of industries for all Zones.</td>
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<tr>
<td>7.</td>
<td>Entry Tax &amp; Special Entry Tax concessions</td>
<td>Zone1&amp;2: (i) ET &amp; Special ET exemption on &quot;Plant &amp; Machinery and Capital Goods&quot; for an initial period of 3 years from the date of commencement of project implementation. For this purpose, the term &quot;Plant &amp; Machinery and Capital Goods&quot; also includes Plant &amp; Machinery and capital goods i.e., equipment etc which is put up in the power project units for captive generation of Electricity. (ii) On raw materials, inputs, component parts &amp; consumables (excluding petroleum products) [wherever applicable] for a period of 5 years from the date of commencement of commercial production. Zone-3: Nil</td>
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<tr>
<td>8.</td>
<td>Human Resource Developments</td>
<td>(i) Grant of up to 5 acres of Government land will be considered along with capital contribution of 50% of the project cost subject to a ceiling of Rs. 2 crores per Training Establishment for sector specific training. (ii) Recurring cost for running the training institution an amount of Rs. 750/- p.m. per trainee will be provided subject to a ceiling of Rs. 15 lakhs per year for period of 3 years. (iii) Government will launch a new scheme to provide Rs. 750/- p.m. stipend with suitable matching contribution by training institutions for on-the-job training of unemployed educated youth for training in different vocations through industrial / service establishments.</td>
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<tr>
<td>Sl. No.</td>
<td>Type of Incentives</td>
<td>Mega Industries</td>
<td>Large &amp; Medium Industries</td>
<td>Small Scale Industries</td>
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<tr>
<td>9.</td>
<td>Technology Upgradation</td>
<td>Nil</td>
<td>Nil</td>
<td>Zone 1 &amp; 2: (i) Existing scheme of 4% interest subsidy for TU loans availed from KSFC/KSIIDC shall be extended to cover TU loans availed from scheduled Commercial Banks, which are not covered under CLCS Scheme of Govt. of India. Zone 1,2 &amp; 3: (ii) Existing incentive scheme for SSI units going in for BIS product certification or ISO series certification is continued with enhanced financial allocation. (iii) Encouragement to Patents Registration: Subsidy at 50% of the cost of Patents registration, subject to a ceiling of Rs. 2 lakhs per unit. Funding will be provided for certain commercially viable research projects in collaboration with IITs, universities and other reputed institutions. An amount of Rs. 25 crores is earmarked for this purpose during the policy period.</td>
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<tr>
<td>10.</td>
<td>Industrial Infrastructure Development/ Common Infrastructure/facilities in Notified Industrial Clusters</td>
<td>A separate Infrastructure Upgradation Fund of Rs. 500 crores would be created for upgradation of infrastructure facilities in existing industrial areas/estates and also for maintenance. This fund may also be utilized for new industrial areas. Separate guidelines would be issued for utilizing this fund.</td>
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<tr>
<td>11.</td>
<td>Agriculture Produce Processing Industries - Exemption of APMC Cess</td>
<td>APMC Cess in respect of direct procurement of agriculture produce for processing from farmers by processing industries is exempted.</td>
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<td>Sl. No.</td>
<td>Activity</td>
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<tr>
<td>1</td>
<td>Breweries &amp; Distilleries of all types</td>
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<tr>
<td>2</td>
<td>Units utilizing molasses / rectified spirit / denatured spirit as main raw material for manufacture of potable alcohol</td>
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<tr>
<td>3</td>
<td>Khandasari units</td>
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<td>4</td>
<td>Photo Studios &amp; Color processing units</td>
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<td>5</td>
<td>Photo Copying &amp; Xerox Machines</td>
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<td>6</td>
<td>Fertilizer Mixing</td>
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<td>7</td>
<td>Re-packing of Drugs / Medicines / Chemicals, without any processing or value addition</td>
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<td>8</td>
<td>All types of Saw Mills</td>
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<tr>
<td>9</td>
<td>Beedies/Cigarettes/Cigars/Gutka &amp; Tobacco based products</td>
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<tr>
<td>10</td>
<td>Azoic / Reactive Dyes</td>
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<tr>
<td>11</td>
<td>Fire Crackers</td>
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<tr>
<td>12</td>
<td>Industries manufacturing and or utilizing Ozone depleting substances</td>
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<td>13</td>
<td>Power Laundries</td>
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<tr>
<td>14</td>
<td>Brick making units Excluding Cement Hallow Blocks, wire cut &amp; fly ash Bricks</td>
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<tr>
<td>15</td>
<td>Poultry</td>
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<tr>
<td>16</td>
<td>Popcorn &amp; Ice candy making units</td>
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<tr>
<td>17</td>
<td>Coffee Roasting and Grinding</td>
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<tr>
<td>18</td>
<td>Clock and Watch Repair shops</td>
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<tr>
<td>19</td>
<td>Cassette recording [Audio &amp; Video]</td>
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<tr>
<td>20</td>
<td>Cyanide</td>
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</tbody>
</table>
**Major Observations**

The following major observations have emerged from the preceding analysis.

SSI sector is gearing up to meet the emerging challenges in the global economy through constant innovation. The unique role of SSIs is attributed to their employment potential, comparatively higher labour capital ratio, lower investment and favourable impact of equitable distribution of national income and utilization of local resources and diffused pattern of ownership. SSIs have the potential to develop entrepreneurial and managerial skills to boost capital formation. SSIs have cost effective substitutability with and complementarily characteristics to large units.

Small and medium enterprises (SMES) account for half to two thirds of business all over world "contrary to popular impression a study made by the US Department of Commerce had identified that the bulk of inventions that revolutionized human life in the 20th century have come not from the large corporations but from independent small firms".

In Japan 81.4% of the work force 56.1% of total value added in manufacturing and 79.9% of retail sales was accounted for by SSI. Through a complex system of subcontracting, Japan combines the advantages of small production and large volume of marketing.

Over 50% of labour force work for small industry in Canada, in Italy the health of the economy is maintained by medium sized privately owned firms and those below down to cottage industries.
where individual initiative and motivation have full play. China has small industry sector which provided 60 percent of its fertilizers 57% of cement, 28% of pig iron, 13% of crude steel, 67% of agricultural machinery and 37% of its electric power.

Scale of capital investment is the criterion in defining SSI units in India. In other countries like China, Japan, Germany, Indonesia, Iran, Turkey, etc. number of employees is the criterion for identifying small scale units.

In USA small business is one which has employment of less than 500 people. In UK it is less than 20 skilled workers; In Germany less than 300 workers; In Sweden and Italy less than 50 and 500 people respectively. In Japan and South Korea both investment and employment are taken into consideration while defining an SSI unit.

In India the evolution of the definition of SSI units dates back to 1948 Industrial Policy Resolution followed by SSI Board in 1955 (investment of Rs. 5 lakh in fixed assets) 1957 and 1960, 1996 (Rs. 7.5 lakhs), 1974 (Rs. 10 lakhs), 1980 (Rs. 290 lakhs), 1985 (Rs. 35 lakhs), 1991 (Rs. 75 lakhs) and 1999 the investment unit in SSI units was raised to Rs. 1 crore.

The definition of SSI in India is rather ambiguous. There is need for redefining industries on the basis of capital net assets, employment, turnover and type of activities considered as an integrated criteria. There is need for a clear, wider and more comprehensive definition of the term small scale industries. The definition should be based on labour intensity rather than capital intensity.
The new policy for SSIs in India was announced in 1991. In pursuance of the policy, in pursuance of the objectives of the new Industrial Policy 1991 the Government of India has decided to take series to initiatives in respect of policies related to the SSI units viz.

i) Financial Support

ii) Infrastructural Facilities

iii) Marketing and Export

iv) Modernization

v) Promotion of Entrepreneurship

vi) Simplification of Rules and Procedures

vii) Tapping Resources.

The new policy on SSI sector is silent on price preference to small scale and tiny industries by Central and State Government and public sector enterprises. The policy is also silent on vital components of management and entrepreneurial development on the one hand and integration of tiny and village industries with other industries. Provision for unrestricted holding of upto 24% equity participation the SSI sector by other industrial undertakings is likely to result in domination of SSI sector by large units. It is not desirable to allow foreign and domestic large units in SSI sector.

The Abid Hussain Committee on SSI in 1997 suggested for (i) development of clusters of SSI and promote joint ventures between SSI clusters and business associations, (ii) providing of technology support to SSI to overcome technological obsolescence, (iii) infrastructural
development and (iv) information dissemination, common facility centres and setting up of companies to market products of SSI units.

The successive Five Year Plans have emphasized the significance of SSI sector in the economic development of the country and funds were allocated for the SSI sector in each plan.

a) An institutional superstructure has been developed during the last few decades for the promotion and development of SSI sector in India. A board classification of institutions for promoting and developing SSI sector include (i) Advisory bodies, (ii) Government institutions and (iii) Corporate institutions.

b) Institutions providing assistance to SSIs in different areas are classified as under:

i) Finance: Banks like commercial banks, RRBs and Cooperative banks, others include SECs, SIDCs, NABARD and NSIC.

ii) Technical Trainings: SIDO, SISIs, TCOs, PPDCs, DICs, RTCs, CFTIs and Tool Rooms.

iii) Technology Upgradation: NSIC, SIDO, SISI, RTCs, PPDCs, TBSE.

iv) Marketing: SIDO, NSIC, SSIDCs, SISIs, EPCs, SECs.

v) Industrial Inputs: NSICs, SSIDC, DICs.

vi) Industrial Infrastructure: SSIDC, SIDC, HUDCO.

vii) Entrepreneurship Development: SIDO, Specialized Institutions, EDII, NIESBUD, EDIs, SISIs.
Small Industries Development Organization (SIDO) is the nodal agency that advises the Ministry of Industry (and other Ministries) in the formulation of policies and programmes for the development of SSIs. It maintains close liaison with the relevant Central Ministries, the Planning Commission, State Government Financial Institutions and Other Organizations involved in promoting SSIs.

The policies for the development of SSIs are implemented by the Commissioner / Directorate of Industries at the state level. Each state evolved its own policy and package of incentives under the guidelines of the Central Government. At the state level institutions like DICs, SECs, SSIDCs, etc. assist the SSIs in different areas for their development. Industry Associations, NGOs, Banks, etc. also help the growth of SSIs.

Industrial Estate programme in India is the biggest undertaken in any developing country. The programme was started in 1952 when the first Estate was established in Hadapsar in Maharashtra. The programme provides various assistance to SSIs in the area of infrastructure like factor building, servicing, promoting subcontracting, common service facilities, etc.

Government of India has launched Growth Centres Scheme for SSIs and Export Promotion Industrial Park Scheme. Integrated Infrastructure Development Scheme has been launched to setup industrial estates for SSIs.

Governments at the centre and at the state level have provided fiscal incentives for the promotion of SSIs. Incentives are provided in
the form of exemptions, rebates, refund or postponement of direct or indirect taxed leviable on production or profits besides special tax concessions.

These incentives are provided under various provisions of Income Tax, Excise Duties and Sales Tax. Fiscal incentives help promote investment in small scale industries and provide relief to them. Tax concessions are used to stimulate the establishment or expansion of SSI units in desirable directions. Taxation concessions not only stimulate growth of SSIs but also stimulate entrepreneurship, production and marketing of quality goods.

Small Scale Industrial Units raise working and term capital required by them from (i) commercial banks, (ii) cooperative banks, (iii) regional rural banks and (iv) state financial corporations. Banks provide mainly working capital and the SFCs provide mainly investment capital, financial assistance to SSIs is also provided by NSIC, and State Small Industries Development Corporation (SSIDC). Refinance is given by SIDBI, NABARD and IRBI.

SIDBI is an All India Principal Financial Institution set up in 1989. It serves the SSI sector by way of promotion, financing development of SSIs and by coordinating the functions of institutions engaged in similar activities.

Specific assistance programmes in the domestic marketing of SSI products have been implemented in India viz.,

- Price Preference
- Purchase Reservation
- Ancillary Development
Price preference is followed in respect of products where offers are received from both small and large units. In such cases price given to a SSI may exceed not more than 15% over that of large unit. This preference is provided only when small and large units actually compete for the same product which is not often the case.

In case of purchase reservation purchases by government from the SSI units has been stipulated under the stores purchase policy of the Government. Under the three major groups IV, V and VI items included in these should be purchased from SSI units to a tune of 100%, 75% and 50% respectively.

Ancillarization or subcontracting is directed towards the public enterprises controlled by Central Government. Two major difficulties encountered by ancillaries in India relate to

i) Rejection of supplies of SSI units made to larger units and

ii) Inordinate delay in payment for the supplies made by ancillary units (SSIs)

There has been a phenomenal growth of SSI units in Karnataka during the last three and a half decades. A trend of fluctuations in the number of registered units, amount of investment and employment from 1970-71 to 2005-06.

Districtwise analysis indicates that Bangalore Urban leads the other districts in terms of number of registered units, amount of investment and number of employed persons in the SSI sector in the state. Other district where the growth of SSI units in terms of the
above parameters have made strides are Belgaum, Dakshina Kannada, Gulbarga, Mysore and Bangalore Rural.

The growth of SSI units has been stupendous in the country. The All India data indicates that the number of SSI units rose steeply from 0.16 lakhs in 1950-51 to 37.95 lakhs in 2004-05. The amount of investment in the SSIs rose from Rs. 120 crore in 1950-51 to Rs. 60500 crore in 2005. Value of production increased from 615 crore in 1950-51 to Rs. 815000 crore in 2004-05. Employment rose from 7 lakhs in 1950-51 to 214.12 lakhs in 2004-05 and exports rose from Rs. 40 crore in 1950-51 to Rs. 75000 crore in 2004-05.