Chapter IV

GOVERNMENT PROGRAMMES:

IMPLICATIONS ON THE FUNCTIONING
OF SMALL SCALE UNITS

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INTRODUCTION

India’s concern and support for small-scale enterprises has focused excessively on the small-scale industry. This can, perhaps, be traced back to Mahatma Gandhi’s special concern for handicrafts and village-based industries. Various measures taken by the central and state governments for the development of the SSI have included products reservations, fiscal concessions, preferential allocation of credit and interest subsidy in a credit-rationing framework, extension of business and technical services, preference in government procurement, marketing assistance including export promotion by institutions such as National Small Industries corporation, Small Industries Development Organization, Handicrafts and Handloom Promotion Corporation and Khadi and Village Industries Commission, as also promotion of ancillaryization and so on.

Administratively, India’s SSI sector is divided into seven industry groups. Handicrafts, Handlooms, Kadhi, Village and Cottage industries, Coir and sericulture are the first five sectors collectively called the traditional sectors. Power looms and Residual Small Scale Industries are known as the Modern sectors. The eligibility of SSI firms to take advantage of the various incentives offered depends on the definition of SSI used. Where as most countries define SSE in terms of employment level, the Indian definition has been based largely on the cumulative amount of investment in plant and machinery.
POLICY INITIATIVES ON SSI SECTOR IN 2004-2005

The National Commission on Enterprises in the unorganized /informal Sector was set up in September 2004. The Commission will, inter-alia, recommend measures considered necessary for improvement in the productivity of these enterprises, generation of large scale employment opportunities on a sustainable basis, linkage of the sector to institutional framework in areas like credit, raw material supply, infrastructure, technology upgradation, marketing facilities and skill development.

85 items reserved for exclusive manufacture in the SSI sector consisting of chemicals and their products, leather and leather products, laboratory reagents etc. were de-reserved in October 2004.

Selective enhancement of investment in plant and machinery from Rs. 1 crore to Rs. 5 crore carried out in respect of 13 items in stationery sector and 10 items in the drugs and pharmaceutical sector from October, 2004.

The Union budget announced that banks would provide credit to the SSI sector within an interest rate band of 2 per cent above and below Prime Lending Rate (PLR). All public sector banks have adopted this norm.

The composite loan limit for SSI units was enhanced from Rs. 50 lakh to 1 crore
In its Mid-term review of Monetary and Credit Policy, the RBI announced that banks might enhance the limit of dispensation of collateral requirements for loans from the existing Rs. 15 lakh to Rs. 25 lakh on the basis of good track record and financial position of the units.

The lower limit of Rs. 5 lakh on loans covered under the Credit Guarantee Scheme has been removed. All loans up to Rs. 25 lakh made eligible for guarantee cover under the Credit Guarantee Scheme.

417 SSI specialized bank branches made operational throughout the country.

The final results of third All India Census of Small-scale Industries were released on January 17, 2004.

In the first phase, 60 clusters were identified for focused development by including their credit requirements in the respective State Credit Plans.

Setting up of a Small and Medium Enterprises Fund (SMEF) of Rs. 10,000 crore under SIDBI, to inter alia, address the problems of inadequacy of financial resources at highly competitive rates for small-scale sector.

Laghu Udyami Credit Card scheme liberalized with enhanced credit limit of Rs. 10 lakh (up from 2 lakh rupees) for borrowers with satisfactory track records.

**INSTITUTIONAL SUPPORT STRUCTURE**
Small-scale Industries Board is an apex advisory body constituted by the Government of India to render advice on all the issues pertaining to the SSI sector. The Board was constituted in 1954 to facilitate coordination and provide inter-institutional linkages for the development of the sector. Since 1997, the Union Industries Minister is the Chairman of the Board. Prior to that, the Board which consisted of, inter-alia, State Industries Ministers, select Members of Parliament, secretaries of various departments of Central Government, Heads of financial institutions, industrial associations and eminent experts in the SSI field was headed by the Prime Minister of India.

The department of SSI and Agro and Rural Industries (SSI and A&RI) was created under the Ministry of Industry, Government of India, to formulate policy framework and initiate appropriate programmes and schemes for the promotion of SSIs in the country. The range of functions of the department included the setting up of a network of institutions to render services of a varied nature like techno-economic and managerial aspects, training, testing facilities, marketing assistance etc. These activities are supported by a host of other Central / State departments, agencies and autonomous institutions all over the country.

The office of the Development Commissioner (Small Scale Industries), known as the Small Industries Development Organisation (SIDO) was set up in 1954 upon the recommendations of the Ford
Foundation Team of the Government of India. The Team also suggested the creation of a support network for exclusive development of SSIs. Since 1991, SIDO is functioning under the department of SSI and A&RI. It is the nodal agency for implementation of Central Government policies and plays a constructive role in strengthening of the SSI sector. The organization functions through a network of Small Industry Service Institutes and a host of other field centers. The major SSI-related activities of SIDO include evolving all India policies and programmes, coordinating policies and programmes of State Governments, liaisoning with different State and Central Ministers, planning Commission, RBI and Financial Institutions. SIDO also provides a comprehensive range, of extension services through allied institutions and monitors government sponsored programmes.

At the state level, the Commissioner / Directorate of industries implements policies for the promotion and development of small-scale, cottage medium and large-scale industries. The Central Policies for the SSI sector serve as guidelines but each state evolves its own policy and package of incentives. The state department also oversees activities of the field offices, namely, District Industries Centers (DICs ) etc. In addition, State Financial Corporations, State Small Industries Development Corporations and technical consultancy organizations operate at the State level to assist the promotion and development of SSIs. Other regional
level agencies include State Infrastructure Development Corporations, State Co-operative Banks, Regional Rural Banks, State Export Corporations, Agro Industries Corporation and Handloom and Handicrafts Corporations. For the purpose of Human Resources Development, there is a network of specialized institutes associated with SIDO. At the grass-root level, NGOs play an important role for the development of tiny units.

Industry associations provide support to the SSI Sector and offer a common platform to raise industry-related issues. Government policies, in recent years, have stressed the increasing role of industry associations in the setting up of common facilities and other ventures in the areas of technology, marketing and other support services.

**INSTITUTIONAL CREDIT FRAMEWORK**

Small Industries Development Bank of India (SIDBI) is an all-India principal financial institution for promotion, finance and development of the SSI sector in India. Public Sector Banks with their extensive network of branches operating nation wide are also important channels of credit dispensation to the sector. State Financial Corporations (SFCs) and Small Industry Development Corporations (SIDCs) at the state level are the main source of long-term finance for the SSI sector. NABARD provides refinance to commercial banks against loans for farm and non-farm activities and extends resource support to Regional Rural
Banks (RRBs) and Cooperative Banks to help Tiny, Cottage, and Village Industries.

Within the broad framework, the following financial assistance is offered by the SFCs, SIDC and commercial banks. It includes financing

- of new projects in the small and medium size category.
- for modernization of small and medium industries
- for rehabilitation of small and medium industries and
- for import of capital equipment

**FINANCIAL ASSISTANCE TO SMALL SCALE UNITS**

Rupee Loans to the small-scale units are granted at concessional rates of interest. Non-commitment charge is levied on loans up to Rs 5 lakhs to units in the small scale sector. Commitment charge at the rate of 1 per cent is levied on all other rupee loans after an initial grace period of 12 months from the date of sanction. Units located in specified backward areas are totally exempted from commitment charges on rupee loans.

The small industrial undertakings are considered favourably and allowed a debt-equity ratio extending up to 2.5. The promoter’s contribution norm varies between 12.5 percent and 22.50 percent depending on the location of the project and status of entrepreneurs.

Repayment schedule is fixed by the primary lending institutions after taking into consideration the profitability and debt–servicing capacity of the assisted units.
CREDIT FACILITIES TO SMALL-SCALE INDUSTRIES

The Small-Scale Industrial Sector raises working credit and term capital required by it from commercial banks, cooperative banks, regional rural banks and State Financial Corporations. The banking system provides mainly working capital and the State Financial Corporations mainly investment capital. Assistance is also available to the small-scale industrial sector from the National Small Industries Corporation (NSIC) at the national level and the State Small Industries Development Corporations (SSICs) at state level in the form of supply of machinery on hire-purchase basis. The Small Industries Development Bank (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the Industrial Reconstruction Bank of India (IRBI) provide refinance facilities to banks and financial corporations for financing the small-scale industrial sector. The credit provided by banks to this sector is treated as credit to ‘Priority Sector’. The commercial banks are required to lend 40 percent of their total loans of which 15 percent to 16 percent is required to be in the form of direct agricultural advances and the rest can be to the small-scale industry, Small business, small transport operators, indirect agricultural loans etc.

Commercial banks and financial institutions have played a significant role in supporting the SSI movement in India. Banks have continuously been evolving special schemes and approaches to suit the
rapidly growing and changing needs of the sector. Provision of liberal credit facilities to the small-scale units has been a hallmark of banking support to the SSI. Banks set up Equity fund with the objective of providing equity assistance to new entrepreneurs. Under the scheme, assistance is provided to new units by way of interest free loans to fill the shortfall inequity. The loans are repayable over a period of 5 to 7 years after an initial moratorium period of 5 to 7 years.

Outstanding advances to small industries by all scheduled commercial banks increased from Rs. 16590.14 crore as on June 19191 to Rs. 59200 crore by March 2003. However, the outstanding advances of Regional / Rural Banks (RRBs) to artisans, village and cottage industries slightly decreased from Rs. 282.04 crore as on March 1990 to Rs. 912.50 crore as on March 2003. Recently, the Reserve Bank of India appointed a one-man high level committee (S.L.Kapoor Committee) to suggest measures for further improving the delivering system and simplification of procedures for credit to the SSI sector.
Table- 4.1

<table>
<thead>
<tr>
<th>Year End March</th>
<th>Net Bank Credit (Rs.)</th>
<th>Credit to Industry (Rs.)</th>
<th>Credit to SSI (Rs.)</th>
<th>Percentage Share of SSI</th>
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<tbody>
<tr>
<td>1991</td>
<td>116301</td>
<td>61576</td>
<td>17118</td>
<td>14.72</td>
</tr>
<tr>
<td>1992</td>
<td>123161</td>
<td>56240</td>
<td>17830</td>
<td>14.47</td>
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<tr>
<td>1993</td>
<td>151982</td>
<td>78662</td>
<td>20026</td>
<td>13.17</td>
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<td>1994</td>
<td>164418</td>
<td>80482</td>
<td>22620</td>
<td>13.75</td>
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<tr>
<td>1995</td>
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<td>27612</td>
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<td>1996</td>
<td>254015</td>
<td>124937</td>
<td>31726</td>
<td>12.49</td>
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<tr>
<td>1997</td>
<td>278402</td>
<td>138548</td>
<td>34113</td>
<td>12.25</td>
</tr>
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<td>1998</td>
<td>324079</td>
<td>161038</td>
<td>43508</td>
<td>13.43</td>
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<td>1999</td>
<td>368837</td>
<td>178799</td>
<td>48483</td>
<td>13.14</td>
</tr>
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<td>2000</td>
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<td>200133</td>
<td>51111</td>
<td>11.12</td>
</tr>
<tr>
<td>2001</td>
<td>469153</td>
<td>218834</td>
<td>56002</td>
<td>11.33</td>
</tr>
<tr>
<td>2002</td>
<td>585837</td>
<td>229533</td>
<td>57199</td>
<td>10.10</td>
</tr>
<tr>
<td>2003</td>
<td>713657</td>
<td>238610</td>
<td>59200</td>
<td>8.23</td>
</tr>
</tbody>
</table>

(Source: MSME Report 2004)

**SICKNESS AND STATUS OF SICKNESS OF SSIS IN INDIA**

The definition of sickness in SSI sector has been undergoing changes. The Reserve Bank of India (RBI) has been instrumental in appointing committees from time to time to look into the issue of the sickness affecting the sector. The latest definition of sickness given by the Working Group (Khohli Committee) set up by the RBI is given below:

A Small-Scale industrial unit is considered sick:
- If any of the borrowed accounts of the unit remains substandard for more than six months, that is, principal or interest, in respect of any of its borrowed accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course;
- When there is an erosion in the net worth due to accumulated losses to the extent of 50 percent of its net worth during the previous accounting year; and
- When the unit has been in commercial production for at least two years.

**Present Status of Sickness of SSIs in India**

In the beginning in liberalized and globalized market, there is cutthroat competition. SSIs have to compete in the domestic market with Multi-National Companies (MNCs) and Large-Scale Corporations (LSCs) on all fronts namely cost of production, quality, technology, marketing network, price and so on. Besides, liberalization in imports of capital goods and related components has exerted further pressure on the existing market of ancillaries and SSIs. LSCs enjoy economy of production; thus, for them, it is very comfortable to sustain the price war.

At present, as India moves from a protected economy to a market-oriented economy, some amount of transitional problem is unavoidable.
Since most Indian SSIs have not yet gained the strength to withstand the changes that have taken place in the economy, they are losing their economic strength and giving out signals of possible large-scale sickness.

The incidence of sickness in the Small-scale industries’ sector has declined from the year 1999 to 2003 as per the data compiled by the RBI from scheduled commercial banks. The number of sick SSI units in the country has come down from 306221 at the end of March 1999 to 167980 at the end of March 2003.

Criteria to Identify Sickness

The necessary information on sickness and incipient sickness among the units in the sector was collected during the Third Census. In order to measure incipient sickness, the continuous decline in gross output for three consecutive years was identified as a suitable indicator, whereas for measuring sickness, the latest definition given by the Kohli Committee was adopted. That is,

- Continuous decline in gross output compared to the previous two financial years.
- Delay by more than 12 months in repayment of loan taken from institutional sources
- Erosion in the net worth to the extent of 50 per cent of the net worth during the previous accounting year.
Table -4.2

Summary of Third All-India Census on Sickness in SSI (March 2003)

<table>
<thead>
<tr>
<th>Reasons for sickness/incipient sickness</th>
<th>No. of sick/incipient sick units (with erosion of net worth by more than 50 percent or delay in repayment of institutional loan by more than 12 months or decline in gross output over three consecutive years)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of demand</td>
<td>111508 (58%)</td>
<td>435121 (69%)</td>
</tr>
<tr>
<td>Shortage of working capital</td>
<td>109844 (57%)</td>
<td>269648 (43%)</td>
</tr>
<tr>
<td>Non-availability of raw material</td>
<td>23493 (12%)</td>
<td>76029 (12%)</td>
</tr>
<tr>
<td>Power shortage</td>
<td>33099 (17%)</td>
<td>77345 (12%)</td>
</tr>
<tr>
<td>Labour Problems</td>
<td>12182 (6%)</td>
<td>26282 (4%)</td>
</tr>
<tr>
<td>Marketing problems</td>
<td>70202 (37%)</td>
<td>224002 (36%)</td>
</tr>
<tr>
<td>Equipment problems</td>
<td>16995 (9%)</td>
<td>76038 (12%)</td>
</tr>
<tr>
<td>Management Problems</td>
<td>9124 (5%)</td>
<td>21088 (3%)</td>
</tr>
</tbody>
</table>

( Source: MSME Report 2004)

Causes for Sickness

The sickness is due to two factors - exogenous and endogenous

Exogenous Factors

The exogenous factors causing sickness relate to government policies pertaining to production, distribution and prices and change in the investment pattern following new priorities in the plans, shortage of power, transport, raw materials and deteriorating industrial relations. Such factors are likely to affect all units in an industry. These factors deserve corrective action at the territory level by both the State and Central governments.
The external factors causing sickness are given below:

- Change in preference of consumers
- Cheaper variety of products available in the market
- Shortage in the supply of vital inputs
- Rise in the cost of raw materials
- Radical changes in government policies
- General recession in industries
- Foreign exchange fluctuations leading to adverse effect on the price of machinery and raw materials, which are imported.

**Endogenous Factors**

The endogenous factors causing sickness are generally mismanagement, diversion of funds, wrong dividend policy, excessive overheads, lack of provision for depreciation of machinery and other equipment, over-estimation of demand and so on. The most important of all causes of sickness is the incompetence of the management.

Endogenous factors can be categorized into two.

(a) **Anatomical causes**

- Underestimation of the project cost
- The existing manufacturing process has become out dated or obsolete
- Selection of wrong project site resulting in increased transportation cost
- Undue investment in fixed assets
- Defective working of plant and machinery affecting quality of production

(b) Operational Causes

Defective financial planning and financial management

No research and development planning

Low productivity

Incapable and incompetent management

Improper manpower planning

Difference among promoters and interference in the functioning of the company

Management that is inclined to making personal gains at the cost of the company

Rehabilitation of Sick SSI Unit and Package of Relief and Concessions

A unit may be regarded as potentially viable if it is in a position, after implementing a relief packages spread over a period not exceeding 5 years from the commencement of package from banks, institutions and governments.

Central or State and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the
concessions after the aforesaid period. The repayment periods for restructured debts should not exceed 7 years from the date of implementation of the package. In case of tiny and decentralized sector units, the period of relief and concessions and of restructured debts will be 2 years and 3 years respectively. Based on the norms specified above it will be for the Banks to decide whether a sick SSI unit is potentially viable or not. The viability study of the unit should be carried out within a period of 3 months and nursing programme should be taken up within a maximum period of 6 months from the date of identification of the unit as sick.

It is of utmost importance and urgency to take measures to ensure that sickness is arrested at the incipient stage itself. The management of the units should be advised about their primary responsibility to inform bank if they face problems which could lead to sickness and to restore the units to normal health. The branch officials who are familiar with the day to day operations in the borrowal accounts should also identify the early warning signals by making visits to the units and initiate corrective steps promptly.

**Relief and concessions for Rehabilitation of potentially viable units**

It is emphasized that only those units, which are considered to be potentially viable, should be taken up for rehabilitation. RBI parameters
for grant of relief and concessions by banks to potentially viable sick SSI units for rehabilitation would be:

1. Waiver — Panel provision to be waived from the date of accounting year from which the unit started incurring cash losses continuously.

2. Term loans:

   (a) Existing: Interest may be reduced wherever necessary by not more than 3 percent from document rate in case of tiny and decentralized sector and not more than 2 percent in other cases

   (b) Fresh Rehabilitation term loan (for expansion, modernization, balancing equipment etc)

3. Funded Interest: Unpaid interest debited to term loan and working capital limits from the first date of accounting year from which the unit started incurring cash losses continuously till the cut off date (i.e. probable date of implementation of rehabilitation) may be funded at nil rate of interest. Period of repayment is 3 years.

4. Working Capital Term loan: Balance amount in working capital limits (after segregating panel interest and funded interest) in excess of drawing power may be funded at an interest rate 1.5 percent to 3 percent below the fixed or prime lending rate to all the SSI units including the tiny and decentralized sector units. Repayment period shall not exceed 5 years.
5. Future Working Capital Limits: Need based working capital should be sanctioned to carry on its operations. Interest on working capital may be charged at a rate 1.5 percent below the prevailing fixed / prime lending rate.

6. Sharing of Future Cash Losses, Start up Expenses, Margin Money etc: Cash losses excluding Interest incurred during the nursing programme, funds for start up expenses, margin money may be financed by Bank. Future cash losses, excluding interest, incurred during nursing programme until the unit breaks even are to be financed by Bank or Financial Institution, if only one of them is the financier. If both are involved, the Financial Institution concerned should finance cash losses. Interest at the rates prescribed by SIDBI under its Refinance Scheme for Rehabilitation assistance should be charged. The interest should be funded separately. Interest on funded interest may be charged.

7. Promoters contribution: Minimum promoters’ contribution towards rehabilitation assistance should be at 10 percent of the additional long term requirements under the package in case of tiny sector units and 20 percent of such requirements in other cases.

   No promoters’ contribution is insisted in case of units in decentralized sector. It is, however, open to Bank to stipulate higher promoters’ contribution, where warranted 50 percent of the promoters’ contribution to be brought immediately and the balance within 6 months.
For arriving at promoters’ contribution the monetary value of sacrifices from Banks, financial institutions and Government may be taken into account in addition to long term requirement of funds under rehabilitation package.

8. Contingency Loan Assistance: Rate of interest is applicable to working capital finance. The purpose of contingency loan is for meeting escalations in capital expenditure to be incurred under rehabilitation programme, where considered necessary, up to 15 percent of estimated cost such as modernization, expansion, balancing equipments, rationalization of labour, payment of workers’ dues, pressing creditors, start up expenses, margin money for working capital, future cash losses etc.

9. Unadjusted Interest Dues: - Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented may also be funded on the same terms.

10. Funds for start up expenses and margin money for Working Capital and fresh Rehabilitation Term Loan: - The assistance will be in the form of a long term loan. Margin money may come from SIDBI under Rehabilitation Scheme. The interest rate will be 1.5 percent below the fixed interest rate wherever applicable or as prescribed by SIDBI / NABARD where refinance is obtained from it for the purpose.
11. Right to Recompense: As per RBI guidelines, Banks, while sanctioning rehabilitation packages to potentially viable sick units are required to retain their “Right to recompense” under which relief / concessions granted under the package are to be recouped once the unit turns the corner and the unit is in a position to repay the Bank the sacrifices made by Bank under the package.

While communicating sanction of the nursing programme to the branches, a condition should be stipulated to the above effect in the sanction letters.

12. Interest Rate: The interest rate is subject to annual review.

13. SIDBI Refinance: To the extent of 75 percent of rehabilitation plan with 5 percent promoters contribution for tiny units and 10 percent for other units.

**NEW INDUSTRIAL POLICY**

**Mission**

Karnataka’s mission is to achieve an economic growth rate of 8 percent to 9 percent over the next decade by promoting the rapid growth of a market driven, knowledge based, efficient and competitive industrial sector. This will by providing industry access to high quality infrastructure, extending institutional support for technology upgradation, deregulating the business environment for a proactive and transparent administrative framework and catalysing the entrepreneurial
as well as creative capabilities of the human resources. The proposed industrial policy will therefore aim to achieve an average industrial growth rate of 10 to 12 percent per year and attract investment of at least Rs 20,000 crores per year and create, on an average, employment potential of at least 1.5 lakhs per year.

**Objectives**

In achieving this mission, the focus will be on the objectives set out bellow:

i. Encourage rapid growth of sectors and markets in which Karnataka has strategic advantages.

ii. Enhance value addition in product and processes to rapid technology upgradation.

iii. Enable optimal utilization of capacity and resources in different sectors.

iv. Enable industry to access new markets – domestic and export through new products that meet global standards of quality and competitiveness.

v. Give impetus through knowledge base industries and the service sector.

vi. Create a market driven environment with the private sector the primary engine for growth.

vii. Provide industry access to high quality infrastructure.
viii. Fully tap the potential of the Small-Scale Sector and encourage establishment of new tiny and small-scale industries, particularly in the rural areas to achieve the twin objectives of employment generation and utilization of local resources.

Towards this end Government will undertake, through an expert group, a detailed study of the small-scale industry sector in the state to ascertain their present state, problems and prospects and come out with a separate policy on employment generation in the industrial sector which among other things would also include a suitable incentive schemes linked to employment generation.

Strategy

In order to achieve these objectives the following strategy will be adopted.

Forge a strong partnership with private sector with all aspects of industrial policy and its implementation to provide for a demand driven decision making process in an increasingly market oriented economy.

Create a policy framework to facilitate competitiveness of local industry.

Enhance public and private expenditure to build efficient and competitive industrial infrastructure.
Give impetus to technology upgradation by forging symbiotic and mutually beneficial institutional arrangements between Government, Academic – R&D institutions and industry;

Assist the tiny, small and medium scale industries to upgrade their technology and manufacturing processes to face the increasing competition and

Radical restructuring of the state public sector undertakings as well as Government infrastructure agencies and financial institutions by promoting private sector initiative in these activities.

**POLICY FRAME WORK**

**Technology Upgradation**

The first principle of the Industrial Policy will be technology. In particular, putting in place an institutional mechanism and a viable revenue model for the rapid technological upgradation of the small and medium industries in Karnataka will receive special attention. The objective will be to facilitate a cluster based approach aimed at meeting the sectoral / sub-sectoral technology needs on a demand driven basis. To catalyze the efforts of technology upgradation, the Government of Karnataka will establish a corpus called the Technology Upgradation Fund of Rs 50 crores over period of 5 years. The fund will be administered through a Government / industry partnership and its deployment dictated by the logic of the market and by industry. In
particular, this fund will focus on niche products and processes in the value chain of industries in which Karnataka has comparative advantages and reinforce best practices in technology and business. The following specific schemes and proposals will be implemented under this scheme:

a) Interest subsidy to SMEs who avail loan from State Financial Corp. for technology upgradation and modernization for which separate orders have been issued;

b) Promoting Technology Business Incubators / Accelerators with the active involvement of private sector in identified potential locations in the State. This Technology Business Incubator will aim to build on the strengths of small-decentralized Technology Development Groups and are expected to spawn high value SMEs. Government assistance will be in the form of providing financial assistance for creation of basic infrastructure facilities subject to a ceiling of Rs 50 lakhs per incubator.

c) To establish, over the next 5 years, ten more Science & Technology Entrepreneurs Parks (STEPs) in potential districts of the State. Government assistance will be in the form of capital grants for creating basic infrastructure facilities to the extent of 25 percent of the cost of each STEP subject to ceiling of Rs 25 lakhs.

d) To assist and encourage the private sector to establish material and product testing as well as quality assurance laboratories in different
Districts of the State. These laboratories will focus on ensuring compliance with Product & Process Methods (PPM) and sanitary measures of the WTO. Government assistance for establishing such laboratories and testing centres would be in the form of capital grants of 10 percent of the capital cost subject to a ceiling of Rs 10 lakhs per Centre; and

e) Government will encourage the SMEs to obtain ISO 9000, ISO 14000 and similar international certification with a view to promote total quality management and best practices in SMEs. Government Assistance will be in the form of meeting 50 percent of the cost of obtaining such certification, subject to a ceiling of Rs 75,000 per industry.

**Infrastructure Support**

a) The Government of Karnataka recognizes that a key parameter to make local industry globally competitive is to provide industry access to high quality industrial infrastructure at competitive prices. Towards this end the Government will establish an infrastructure Development Fund with an initial corpus of Rs 100 Crores. This fund will seek to leverage the strengths – technical and financial – of major private infrastructure providers through a public–private partnership. The Government will significantly enhance expenditure on infrastructure development and infuse efficiency in the management of industrial
infrastructure. The common infrastructure fund will be aimed at meeting the infrastructure needs of sector specific and location specific technology parks / industrial corridors for the focused sectors. This corpus fund would be used to kick- start investments in common industrial infrastructure, which could be accessed by industry.

b) In keeping with the Government’s objective of developing a market driven and efficient management of industrial infrastructure, the Govt. of Karnataka will establish industrial townships in major locations that have clusters of industries. The industrial townships will provide for management of the industrial infrastructure by private industry associations / user groups. The industrial Townships are expected to allow industry to manage their own assets and ensure a high order of maintenance of the basic infrastructure like roads, power, water supply, telecommunication etc within the industrial estate or industrial parks.

c) The Karnataka Industrial Areas Development Board will act as a key Govt. agency to develop sector specific / location specific industry parks over the next five years.

**Human Resource Development**

a) Developing a large skill / knowledge based workforce is fundamental to self-sustaining industrial sector. Recognizing this imperative, the Govt. will, with the active participation of industry, revitalize the
network of Artisan Training institutes, the District Training Institutes and Polytechnics to upgrade the quality and skill of manpower employed by SMEs. This effort will be driven by market needs dictated by private industry. The effort to retrain the existing industrial workforce, upgrade training system / methods will receive impetus from industry. It is envisaged that the focus of this programme will be to allow industry to manage the training institutions such that skill upgradation is market driven on the supply-side of the formal labour market.

b) As part of the initiative to promote a strong entrepreneurial base, the Government will strengthen the Centre for Entrepreneurship Development of Karnataka (CEDOK). The objective will be to utilize the creative capabilities of the local people particularly in less industrialized districts. CEDOK will be encouraged to collaborate with recognized national / international organizations involved in Entrepreneurship Development. In partnership with the private sector, the Government of Karnataka will seek to develop CEDOK into a Centre of Excellence in Entrepreneurship Development, Business Management and Training.

c) In order to encourage micro enterprises in rural and backward areas the Government of Karnataka will continue its programme of establishing Rural Development and Self-Employment Institutes
(RUDSETIs) in all Districts of the State. Government has successfully established nine RUDSETIs in collaboration with financial institutions and banks. Over the next five years the Government of Karnataka will establish one RUDSETI in each District of the State. The Management of these institutions will be largely through private initiative to meet the needs of local industry.

d) In addition, the Government will also promote specialized training institutes viz:

- Steel Technology institute
- Three Automobile institutes

Government will assist the industry associations and the other stakeholders to establish and run these training institutes. Govt. support will be in the form of making available required lands upto an extent of 50 acres and other infrastructure as well as capital contribution of 10 percent of the cost of the project subject to a ceiling of Rs 2.00 crore per institute.

**Deregulation of Business Environment**

a) The principal objective of the policy framework for industry in Karnataka will be to provide an enabling environment for the growth of industry. One of the key reform measures will be to simplify the regulatory framework to enable ease of doing business in the State. The regulatory framework extent is fraught with a multiplicity of Acts
and Rules, multiplicity of Registers to be maintained and Returns to the filed by entrepreneurs as well as plethora of approvals to the obtained. Industry, today, is also subject to several inspections carried out by Government Departments / Agencies under the provisions of a variety of Acts and Rules. The existing regulatory framework constitutes in many ways a barrier to the growth of industry. The entrepreneurs encounter difficulties both at the entry / implementation level as well as during operations.

b) Deregulation of business environment is therefore imperative. With the objective of providing an efficient, responsive and transparent administrative framework for industry, the following is envisaged:

1. To bring in comprehensive industries Promotion / Deregulation measures through amendments to the existing rules.

2. Karnataka Udyog Mitra (KUM) shall be Nodal Agency to guide and to provide assistance to the entrepreneurs as well as to obtain the required clearances/consents/approvals/registrations/license from the various departments at the implementation stage of a project.

3. To reduce the multiplicity of Application forms, a Combined Application Form (CAF) shall be introduced.

4. Industries to be segregated into two categories:
a) A restricted list of dangerous hazardous and polluting industries which will continue to be subjected to the normal approval procedure and

b) All other industries in the open list eligible for fast track clearances.

5. Under ‘Fast Track Clearance’ entrepreneurs will be required to complete the CAF and submit it to KUM as a single window for obtaining necessary clearances from the various departments concerned.

6. The multiplicity of Registers/Records maintained under various Acts/Rules will be simplified and rationalized by introducing Combined Registers/Records, wherever possible.

7. The Multiplicity of the periodical returns to be filed will be simplified and rationalized by introducing Combined Returns, wherever possible.

8. Inspections by various authorities of different departments shall be minimized and regulated through random annual inspections only on the basis of complaints.

9. Providing for a scheme of self–certification by the entrepreneur confirming compliance of the extant laws and rules. Such self certification to be supported stringent penalty structure for default.
c) The Government of Karnataka will also commission bi-annual survey of industry. This will be aimed at obtaining primary data on key performance indicators of industry which will serve as the input for policy prescriptions, based on the analysis of empirical data generated. This survey will also serve as a platform for Government /Industry partnership and provide valuable inputs to direct policy changes/application of corrections.

d) To enable a real time response both by Government as well as industry to the various implications of the multilateral trading regime under the WTO, the Government of Karnataka will in collaboration with Indian Institute of Management, Bangalore and National Law School of India establish a WTO Relay Centre. The objectives of the relay center will be the following.

i. Establish a credible and extensive database on WTO and its implications for sectors/sub–sectors as well as products and processes that are likely to be affected by the WTO. This database will be made available to industry as well as policy makers to enable them to design a suitable response.

ii. To lend legal, technical and administrative support to user industries effected by WTO as well as to enable them to make use of the opportunities for export markets.
iii. Rely compliance levels expected in terms of quality, technical standards, sanitary standards, product and process methods that local industry will have to comply with to meet the global standards prescribed under the WTO; and

iv. Enabling capacity building in institutions in Karnataka to meet sector specific needs for quality testing and compliance of these standards.

**MARKETING ASSISTANCE FOR THE SSI SECTOR**

Governments, both at the State and the Central level, have been extending marketing assistance to small-scale industries in Government procurements through purchase and price preference. The State has also established the Karnataka Small Industries Marketing Corporation to provide marketing assistance to the Small-Scale Industries Sector. These measures have helped the Small-Scale Industries sector to a great extent. However, with the coming into force of the Karnataka Transparency in Public Procurement Act 2000, the special preference available to the small-scale industries sector has been negated. While Act provides for exceptions to the applicability of the Act to procurements from Government Departments, public sector undertakings, statutory boards and such other institutions specified by the Government, there are no such exceptions made in respect of Small-Scale Industries Sector. However, sub Para – G of Para – 4 of the Act states that exceptions to applicability
will be available “in respect of specific procurements as may be notified by the Government from time to time”. In view of the serious sickness faced by the Small-Scale Industries sector as a whole and the problems getting much more serious with full implementation of the provisions of various agreements signed with the WTO, it is necessary that Small-Scale Industrie is protected for some more time. In this background it is necessary that purchase and price preference to the Small-Scale Industries sector be continued for at least another 5 years. It is also necessary that the purchase and price preference is adhered to strictly by all Govt. Departments, Public sector undertakings, Statutory Board and Corporations. It is therefore proposed to amend the Karnataka Transparency in Public Procurement Act 2000 to provide purchase price preference to SSI units of the State, which manufacture items reserved for SSI sector by Government of India from time to time, in the following manner:

a) 75% of the items reserved by the SSI sector shall be procured from the units located within the State through an open tender system;

b) SSI units of the States shall be offered a price preference of 15% over the lowest price quoted.

INCENTIVES AND CONcessions

In order to achieve the objectives as set out in this policy and to ensure that the strategy/approach detailed in this policy is implemented
successfully, the Government offers the following incentives and concessions for new investments made in industrial sector on or after 1st April 2001. For the purpose of various incentives and concessions as detailed hereunder the State has been classified into four Zones namely

- Developed Areas .. Zone – A
- Developed Areas .. Zone – B
- Backward Areas .. Zone – C
- Growth Centres & Mini Growth Centres,
- Specified Industrial Parks and list of taluks .. Zone – D

### Investment Subsidy

a) The Government will provide subsidy to all new Tiny/ Small-Scale Sector Industries. The details of investment subsidy available to Tiny/Small-Scale Sector Industries in different Zones will be as follows.

#### Table- 4.3

<table>
<thead>
<tr>
<th>Zone</th>
<th>Particulars</th>
<th>Industry Sector Eligible for Subsidy</th>
<th>Investment Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Developed Areas</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>Developing Areas</td>
<td>Tiny Industries</td>
<td>10% value of fixed assets subject to a max. of Rs 5 lakhs</td>
</tr>
<tr>
<td>C</td>
<td>Backward Areas</td>
<td>Tiny Industries</td>
<td>20% value of fixed assets subject to a max. of Rs 10 lakhs</td>
</tr>
<tr>
<td>D</td>
<td>Growth Centres</td>
<td>Tinny &amp; Small Scale Industries</td>
<td>25% value of fixed assets subject to max of Rs 12.50 lakhs</td>
</tr>
</tbody>
</table>

(Source: Karnataka State New Industrial Policy, Govt of Karnataka)
b) Investment Subsidy for industrial units making new Industrial Investment under expansion, diversification & modernisation:

    Investment subsidy as per Para 1 (a) would also be available to all existing Tiny and Small-Scale units undertaking expansion, diversification or modernization without exceeding prescribed monitory ceiling as applicable to new tiny/Small-Scale industrial units subject to the condition that grant of this facility as per this order shall be available only on additional investments made.

c) Additional Subsidy to Special category of entrepreneurs:

    Additional subsidy to an extent of 5% value of fixed assets subject to a ceiling of Rs 1.00 lakh shall be available for tiny/Small-Scale Units.

**Entry Tax Exemption**

    Entry tax Exemption extended to all new industries including large and medium scale industries as detailed below;

    a) During the implementation of the project on production machinery and equipments directly involved in the production process, subject to the condition that the benefit will be available for a maximum period of 3 years from the date of commencement of project implementation.
b) On commencement of commercial production, on raw materials, components, semi-finished goods, sub-assemblies and consumables. Entry tax exemption available as indicated below:

**Table – 4.4**

**Entry Tax Exemption**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Particulars</th>
<th>Entry Tax Exemption Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Developed Areas</td>
<td>Nil</td>
</tr>
<tr>
<td>B</td>
<td>Developing Areas</td>
<td>3 Years</td>
</tr>
<tr>
<td>C</td>
<td>Backward Areas</td>
<td>5 Years</td>
</tr>
<tr>
<td>D</td>
<td>Growth Centres</td>
<td>8 Years</td>
</tr>
</tbody>
</table>

(Source: Karnataka State New Industrial Policy, Govt of Karnataka)

**Special Concession for Export**

The following benefits extended to Export Oriented Units (EOU):

1. 100 percent Export Oriented Units (EOUs)
   
   A. Investment subsidy.
   
   B. Exemption from power cut
   
   C. Exemption from payment of entry tax and VAT payable on purchase of raw materials.

2. Units other than 100 percent EOUs with an export effort of a minimum of 25 percent of the value of total turnover;
   
   A) Investment subsidy
B) Refund of entry tax and VAT payable on purchase of raw materials, components, packing materials and sub assemblies from a registered dealer.

New Initiatives

The general perception in official circles is that credit is the single largest issue which makes or mars SMEs in this country. Several initiatives have been taken by the Government and the Reserve Bank of India to deal with the problem of credit. The Annual Policy Statement of RBI for 2005-06 has given a specific thrust to SME credit. It introduced the cluster-focused lending approach with the Small Industries Development Bank of India as its focal point. Under the strategic alliance proposed by the RBI, the existing branches of SIDBI are to be redesignated as ‘Small Enterprises Financial Centers (SEFCs)’. They are expected to take up co-financing of the term loan requirements of SSI Units along with the bank branches, while the working capital needs will be met by the banks.

The Finance Minister unveiled a major package for the small and medium enterprise (SME) sector in August 2005. The package aims at doubling the flow of bank credit to this sector in five years and reducing their debt burden. His initiatives, along with the series of policy packages which he announced in recent months, are commendable. But practitioners in this area will welcome it only with some ‘ifs’ and ‘buts’. 
The policy package also envisages a new initiative by the central bank. The RBI will issue guidelines for recasting the debts of viable SMEs on lines of the Corporate Debt Restructuring (CDR) mechanism, applicable to big companies. The package provides for a One-Time Settlement (OTS) scheme during the financial year for defaulting SSI units which have NPA (non performing assets) accounts in banks.

Similar packages were announced by the former Prime Minister, A.B.Vajpayee, as also by Minister for SSI, Mahavir Prasad. However, for such packages to have a real impact there needs to be co-ordination within the Union Government. The new policy package does not even make a reference to a rather parallel initiative taken by the Ministry of SSI-the Small and Medium Enterprises Development Bill, 2005, tabled in the Lok Sabha.

Despite all these developments, there are two basic questions faced by any SME consultant at the grass-root level. And they are questions from would be start-ups and those already in the stream: (1) Is there a project which can bring me a bank loan? (2) Who will do the marketing of my product? These questions amply demonstrate the lopsided development of entrepreneurship in the country.

In most discussions on development today, the key words are “enterprise development” and “entrepreneurship”. The SME sector is atomic in nature, that is, the large number of small and micro units make
the sector what it is. Here lies their social significance under a democracy. Democracy is also characterized by its atomic base. Hence, a correspondence of the two provides the logical foundations for public policy which is specific to the context of SMEs.

On the other hand, SME development has the basic connotation of ‘private sector development’. The logic of private sector development, especially under globalisation, demands achievement of competitiveness at the local, national and international levels. Competitiveness can be achieved only through a continuous process of innovation. Innovation demands a radical change in know-how, the practice of know-how and above all, a change in attitude that can trigger the former.

In such a complex situation, a programme for SME development demands specific roles for the government and the enterprises. Arguing that Government is redundant and market forces are self-correcting is an immature viewpoint that takes us away from the imperatives of public policy. The big question, therefore, is what it should not. These are crucial issues of public policy which have not yet been properly, addressed in the Indian context.

The liberalized Economic Policy formulated by the Government of India greatly contributed to the rapid industrial growth in the private sector besides substantial inflow of capital from abroad in the form of Foreign Direct Investments (FIDS) in Karnataka. Karnataka has been a
pioneer in industry. For several years now, the State has been consistently pursuing progressive industrial policies to meet the changing needs of the State’s economy and Industry. Over the last 100 years, the State has had the distinction of building a strong and vibrant industrial base, which combines the intrinsic strengths of large industrial public sector undertakings, large and medium privately owned industries and a very wide and dispersed small-sector. The State has demonstrated its strength over a wide spectrum of sectors in industry and has outstanding examples of success in the old economy. In recent times, Karnataka has emerged as the knowledge and technology capital of the country making rapid strides in the new economy as well. IT and related industries, biotechnology and strong research and development institutions have given Karnataka pride of place in the global market. Karnataka being one among the Top five industrialized States in the country, has achieved substantially in promoting hi-tech industries in key sectors like Electronics, Telecommunication, Information Technology, Precision Engineering, Automobiles, Readymade garments, Bio-technology and Food Processing and also witnesses considerable foreign direct investment (FDI) both in Bangalore and in other parts of the State.

The 2001-2006 Industrial Policy announced by the Government incorporated the various features reflected in the liberalized Economic Policy of the Government of India to give an impetus to industrial growth
and to attract investments in identified sectors as also to ensure uniform dispersal of industries more particularly in the backward areas of the State. During the 2001-2006 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 and 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.115882 crores and with an employment potential of 1375000 persons. Similarly, the number of projects approved by SLSWCC is 861 with an anticipated investment of Rs. 19044 crores and employment potential of 590869 persons. During the same policy period 65231 SSI units registered with Rs.2079.62 Crores of investment and provided employment to 295487 persons. Bangalore has the distinction of being the destination for a large number of Multi-National Companies in knowledge based industries and technology driven sectors and is today recognized as one of the Top 10 Technopolises in the World. The growth in the Information Technology Sector has been phenomenal. Similarly, the growth in other sectors like petroleum and petroleum products, iron ore and minerals, silk products, iron ore and minerals, silk products, gems and jewellery, plastic goods, basic chemicals, pharmaceuticals and cosmetics etc., have been substantial during the last Industrial Policy period and during 2005-2006,
the State of Karnataka recorded an export performance of Rs.82280 Crores.

In the Government Order No.C1319SPI 2005 dated 24-10-2005, a core group under the chairmanship of Sri P.P.Prabhu, IAS (Rtd) with two members, one an expert in the field of Economics and another from Industry, was constituted to advise the government on the broad contours of a New Industrial Policy that will guide the State’s Industrial development over a period of five years beginning from April, 2006. This core group, after detailed discussions and consultation with industrialists, Industry Associations, Labour Representatives and Senior Officers of Government Departments/Organizations/ Agencies related to industries sector and after visiting Mysore, Mangalore, Hubli and Gulbarga and discussing with the regional representatives of the industry, associations of the respective regions submitted its Report to the State Government on 18-04-2006 which inter alia contained the proposed objectives of the New Industrial Policy and also the strategy to be adopted to realize the said objectives

Due to limitations of land availability and expansion of the irrigation potential, industrial development, particularly in the rural and backward areas, is critical for augmenting employment in the non-farm sector. This is particularly so to meet the aspirations of the educated youth in the rural areas who need to be encouraged to set-up micro-
enterprises not only as an employment generation scheme but also for economic development of the rural and backward areas.

On the basis of the recommendations of the Core Group on New Industrial Policy and with due regard to the rationale contained in the Industrial Policy 2001-06 and taking into account the positive results achieved through adoption of the said Policy as also discussing the matter in all its aspects with the Departments concerned, a decision has been taken to adopt a new Industrial Policy for the period 2006-2011.

The salient features of the New Industrial Policy 2006-2011 are as follows:

a. It aims at increasing the percentage in GDP growth, strengthen manufacturing industry, increase share of exports from Karnataka in the National exports, to generate additional employment to at least 10.00 lakh persons in the manufacturing and service sectors, promote diversified industrial base, reduce regional imbalance in the matter of economic development and employment opportunities and ultimately aim at overall soci-economic development of the State

b. The strategies for further industrialization of the State during the next five years include zoning of various taluks with special emphasis on most/more backward taluks for the purpose of industrial growth, develop in an integrated manner, industrial infrastructure in various key locations of the State ahead of the requirements, implement mega industrial water
supply schemes for potential locations through SPVs, encourage specialized industrial infrastructure for specific sectors and SEZs, encourage development of industrial cluster/corridor and give priority to upgradation of infrastructure in existing and new industrial areas and to that effect set-up an infrastructure upgradation fund with an initial corpus of Rs.500 crores, promote Human Resource Development; promote Agro Food Processing Industry; take up technology upgradation for Survival and growth of SSI sector and create a technology upgradation Initiative Fund with a corpus of Rs.25.00 crores; provide marketing assistance to SSI sector and promote local entrepreneurship etc.

c. Extending various incentives and concessions relating to Entry Tax and Special Entry Tax, waiver of conversion fine, exemption of stamp duty and reduction of registration charges have also been considered.

**SME Cluster Development Programme**

Clusters are defined as sectoral and geographical concentration of micro, small and medium enterprises with interconnected production system leading to firm/unit level specialisation and developing local suppliers of material inputs and human resources. Availability of a local market/intermediaries for the produce of the cluster is also a general characteristic of a cluster.

Industrial cluster occupies the driver’s seat for propelling economic activities in micro and small Enterprises (MSE) sector. The Ministry of
Small-Scale Industries (SSI), has laid special emphasis for development of cluster and launched a scheme known as Technology Upgradation and Management Programme called UPTECH in 1998. Although it was having a cluster based approach for development of MSE, but was mainly technology-focused comprising of diagnostic study, setting-up of a demonstration plant and organizing workshops, seminars, etc. for quicker diffusion of technology across the cluster of small enterprises. Later, in August 2003, the scheme was renamed as Small Industry Cluster Development Programme (SICDP) and made broad based by adopting holistic pattern of development of the cluster encompassing marketing, exports, skill development, setting up of common facility centre, etc., including technology upgradation of the enterprises.

After widening the scope of the scheme, there was a sudden jump in the performance of scheme during 2003-04. Initially, the programme was implemented mainly through the specialised institutions, such as Product and Process Development Centres (PPDC), Tata Energy Research Institutes (TERI), Entrepreneurial Development Institutions like NISIET & EDII, State level consultancy organisations like APTICO, GITCO, etc. During 2003-04, efforts were also made to involve SISIs, the field officers of the Ministry in a big way in implementation of the programme. For this purpose Cluster Development Executives (CDEs) were developed at SISIs level by imparting them a specialised training in
the methodology of cluster development programme. For this purpose, two National Resource Centres (NRC) for SSI cluster development have been established at NISIET, Hyderabad and EDII, Ahmedabad. Eighty three clusters have been taken up for development till 2005-06 (before March, 2006 when the SICDP guidelines were comprehensively revised).

**Revision of SICDP Guidelines in March, 2006**

Broadly, the Cluster Development Programme (CDP) implemented till March, 2006 consisted of assistance mainly in “soft” areas which encompass activities like general awareness and trust building, counseling, training and capacity building, exposure visits, credit facilitation, market developments etc. It was felt that the “hard” component, which is directed towards assisting technology improvements, quality standardization and testing mainly in the form of ‘Common Facility Centres’ (CFCs) equipped with a variety of hardware facilities which individual cluster units cannot afford but are necessary for technology upgradation, ensuring quality standards need to be suitably incorporated as one of the important component of the CDP implemented by this office.

**The New Approach**

This Ministry runs various schemes and programmes for promotion and development of micro and small enterprises. The assistance through these schemes and programmes is provided for individual or collective
development of MSE. The strategy is now to subsume the essential features of the schemes having collective approach for development of clusters such as Scheme for Integrated Infrastructural Development and Scheme for setting up of Testing Centres / programmes under SICDP. Although the objective of SICDP is to provide assistance to MSE for common purpose, it is also not less important to strengthen industrial units located in the clusters individually. There are schemes of Ministry of SSI for credit, technology upgradation, quality certification, such as, Credit Guarantee Scheme for investment, Credit Linked Capital Subsidy Scheme for technology upgradation, ISO 9000/14001 reimbursement scheme for certification, etc. through which assistance is provided to an individual micro and small enterprise. Under the new approach, the emphasis is to dovetail all such schemes under SICDP for the overall development of MSE and optimum utilisation of resources.

Several other Ministries / Departments and agencies have also taken up their versions of “cluster development”. In order to harmonise divergences in the concept as well as content of cluster development programmes, an Empowered Group of Ministers (EGoM) has been constituted very recently under the Chairmanship of the External Affairs Minister. Ministry of SSI has been nominated for servicing the EGoM.
GOVERNMENT PACKAGE FOR PROMOTION OF SMALL INDUSTRIAL SECTOR

The Small-scale industries of India have a long history of promoting employment-oriented and spatially widespread and hence inclusive economic growth. At the beginning of the X Plan (2002-2003) the segment provided gainful employment to 24.9 million people in the rural and urban areas of the country through 10.5 million units engaged in manufacturing and providing a wide range of goods and services. Over the next four years they have grown to 12.3 million units providing employment to 29.5 million persons. This represents an average annual growth rate of 4.33 percent in employment.

By enacting the Micro, Small and Medium Enterprises Development Act, 2006, the Government has recently fulfilled one of the needs felt and articulated by this segment for long. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first ever legal framework for recognition of the concept of “enterprise” (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. Apart from clearer and more progressive classification of each category of enterprises, particularly the small, the Act provides for a statutory consultative mechanism at the national level with wide representation of all sections.
of stake holders, particularly three classes of enterprises and with a wide range of advisory functions. Establishment of specific funds and the promotion, development and enhancing competitiveness of these enterprises, notification of schemes / programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and simplification of the process of closure of business by all three categories of enterprises are some of the other features of this legislation.

The Government has also announced a Policy Package for stepping up credit to small and medium enterprises assuring, inter alia, a 20 percent year-on-year growth in credit flow.

Significant improvements have also been made in the Credit Linked Capital Subsidy Scheme for Technological Upgradation, leading to a spurt in the number of units availing of its benefits.

Promotional Package

In fulfillment of the assurance the following package is now announced

Legislation

The Micro, Small and Medium enterprises Development Bill, 2006 has been passed recently with a view to facilitating the promotion and
development and enhancing the competitiveness of micro, small and medium enterprises. The Government will take up effective and expeditious implementation of this legislation in close collaboration with all stakeholders.

The Government will also soon enact a law on Limited Liability Partnerships covering, among others, micro, small and medium enterprises, with a view, inter alia, to facilitating infusion of equity and venture capital funding in these enterprises.

Credit Support

In line with the Policy Package for Stepping up Credit to Small and Medium Enterprises (SME), the Reserve Bank of India (RBI) has already issued guidelines to the public sector banks to ensure 20 percent year-on-year growth in credit to the SME. Action has also been initiated to operationalize other elements of the said Policy Package. Implementation of these measures will be closely monitored by the RBI and the Government.

The Small Industries Development Bank of India (SIDBI) will scale up and strengthen its credit operations for micro enterprises and cover 50 lakh additional beneficiaries over five years beginning with 2006-07. Government will provide grant to SIDBI to augment SIDBI’s Portfolio Risk Fund for this purpose.
Government will also provide grant to SIDBI to enable it to create a Risk Capital Fund (as pilot scheme in 2006-07) so as to provide directly or through intermediaries, demand-based small loans to micro enterprises.

SIDBI’s direct lending operations will be expanded by increasing the number of branches from 56 to 100 in two years beginning with 2006-07 with a view to catering to the credit needs of more clusters of micro and small enterprises (MSEs).

The eligible loan limit under the Credit Guarantee Fund Scheme will be raised to Rs. 50 lakh. The credit guarantee cover will be raised from 75 percent to 80 percent for micro enterprises for loans up to Rs. 5 lakh. Accordingly, to strengthen the credit Guarantee Fund, the corpus of the Fund will be raised from Rs. 1189 crore as on 01 April 2006 to Rs. 2500 crore over a period of five years. Moreover, to encourage public sector banks and public financial institutions to contribute to the corpus of the Fund, the feasibility of allowing deduction of their contributions to the Fund for income tax purposes would be examined.

The fund will continue to be maintained with and managed by the Credit Guarantee Fund Trust for Small Industries (CGTSI) The Trust will be renamed as “Credit Guarantee Fund Trust for Micro and Small Enterprises” (CGTMSE).

Fiscal Support will Take into consideration all the relevant factors, including the new definition of small manufacturing enterprises, under
the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the Government will examine the feasibility of

1. Increase in the General Excise Exemption (GEE) limit and the existing eligibility limit for GEE,
2. Extending the time limit for payment of excise duty by micro and small enterprises, and
3. Extending the GEE benefits to small enterprises on their graduation to medium enterprises for a limited period.

**Support for Cluster Based Development**

For comprehensive and speedier development of cluster of micro and small enterprises, the existing guidelines of the Small Industries Cluster Development Programme will be reviewed during 2006-07 to accelerate holistic development of clusters, including provision of Common facility Centers, developed sites for new enterprises, upgradation of existing industrial infrastructure and provision of Exhibition Grounds/Halls and also for creation and management of infrastructure-related assets in the public-private partnership mode. The ceiling on project cost will be raised to Rs.10 crore.

**Technologies and Quality Upgradation Support**

Four Training-cum-Product Development Centers (TPDCs) for agro and food processing industries would be set up at identified existing
Small Industries Service Institutes (SISIs) to facilitate promotion and development of micro and small enterprises in the food-processing sector. The two existing Central Footwear Training Institutes (CFTIS) (at Chennai and Agra) will be further strengthened to expand their outreach and assist the MSE in upgrading their technology. Vertical Shaft Brick Kiln (VSBK) Technology would be promoted for adoption by MSEs engaged in manufacturing bricks to make them energy efficient and eco-friendly. For this, one-time capital subsidy (limited to 30 percent of the cost or Rs. 2 lakh, whichever is less) will be provided to micro and small brick manufacturing enterprises.

With a view to promoting energy efficiency in electrical pumps and motors manufactured by MSEs, a special programme of assistance will be launched after a detailed technical study. The existing scheme of assisting the attainment of ISO 9000 and 14004 standards will be operated as a continuing scheme during the 11th Five-year plan. The scope of the above-mentioned scheme will be expanded to cover “Hazard Analysis and Critical Control Points” (HACCP) Certification obtained by MSE. A Technology Mission will be established with a view to assisting micro, small and medium enterprises (MSMEs) in technology upgradation, energy conservation and pollution mitigation.
Market Support

The national manifesting competitiveness (NMCP) announced in the Budget speech of 2006-2007 will include components relating to marketing support to small industries.

Support for Entrepreneurial and Managerial Development

A new scheme will be formulated to provide financial assistance to select management or business schools and technical institutes to conduct tailor made courses for new as well as existing micro and small entrepreneurs. A new scheme will also be formulated to provide financial assistance to 5 select universities or colleges to run 1200 entrepreneurial clubs. A new scheme will be launched for capacity building, strengthening of database and advocacy by industry or enterprise associations after consultation with the associations and states. A comprehensive study will be conducted to assess the needs and scope of government intervention required for enhancing the competitiveness of small enterprises in the service or business sector.

Prime Minister’s Rozgar Yojana (PMRY)

The Prime Minister’s Rozgar Yojana introduced in 1993, has been one of the important credit-linked subsidy schemes to generate self-employment opportunities for the educated youth by assisting them in setting up viable micro enterprises. By the end of 2005-06, it is estimated to have provided self-employment opportunities to 38.09 lakh persons. A
recent review has, however, established the need to improve its effectiveness as a measure for self-employment through this route.

The design parameters of the PMRY, in terms of family income limits for eligibility, project cost ceilings, corresponding ceilings of subsidy, rates of assistance to States towards training of beneficiaries before and after selection, etc., will be improved with effect from 2007-08, keeping in view the findings of the review.

**RECENT EVIDENCE OF PERFORMANCE**

The third all-India census of Small-scale Industries reveals that the size of the small enterprise sector is around 10.52 million units, of which, 4.45 million are defined as SSIs under the official definition. The total employment contribution of the sector is 24.93 million with a per unit contribution of 2.37. The export contribution of the sector is Rs. 14,199 crores and the number of exporting units is 50606. Out of 878 items reserved for the sector, only 672 are actually produced by SSIs. The census shows a decline in small manufacturing units during the inter-censal period in favour of service enterprises. The figures relating to per unit fixed investment have been suggested as indicators of enhanced capital intensity in this sector. But a de-segregation 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. The regional
performance of units also demonstrates a high positive correspondence of birth rate and poor performance.

Despite some important changes in the sector in recent times, there are some major areas of concern.

The hegemony of neoclassical economics does not provide enough room for small industry since, according to this theory; the size of operation does not permit SSIs to reap the benefits of economies of scale. While the hegemonic thinking in developing countries is neoclassical, political compulsions have prompted them to devise some sort of a specific small industry policy. But policy ambivalence has contributed to significant invisibility of the small sector in policy platforms. Hence, in most developing countries including India, large industry interests have significant influence over small industry platforms.

The liberalization measures in the country and the globalization experience have significantly contributed to this blurring in public policy. The setting up of a separate Ministry of Small-Scale Industries in 1999 marked a major step towards providing a policy platform for the SME sector. Subsequently, there was enhanced pressure of lobbies to scuttle the interests of the small sector in the form of opposition to product reservation, which resulted in the gradual de-reservation of several items.
Table 4.5

Growth and Performance of Small-Scale Industries in India

<table>
<thead>
<tr>
<th>SL. NO.</th>
<th>Year</th>
<th>Total SSI Units (In Lakhs)</th>
<th>Fixed Investment (Rs. Crore)</th>
<th>Production (Rs. Crore)</th>
<th>Employment (In Lakhs)</th>
<th>Export (Rs. Crore)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>1990-91</td>
<td>67.87</td>
<td>93555</td>
<td>84728</td>
<td>158.34</td>
<td>9664</td>
</tr>
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<td>100351</td>
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<td>123790</td>
<td>108774</td>
<td>191.40</td>
<td>29068</td>
</tr>
<tr>
<td>6</td>
<td>1995-96</td>
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<td>125750</td>
<td>121175</td>
<td>197.93</td>
<td>36470</td>
</tr>
<tr>
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<td>1996-97</td>
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<td>134892</td>
<td>2005.86</td>
<td>39248</td>
</tr>
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<td>Year</td>
<td>Year Range</td>
<td>Value 1</td>
<td>Value 2</td>
<td>Value 3</td>
<td>Value 4</td>
<td>Value 5</td>
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<td>---------</td>
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<td>1997-98</td>
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<td>[2.05]</td>
<td>[8.43]</td>
<td>[3.55]</td>
<td>[13.23]</td>
</tr>
<tr>
<td>9</td>
<td>1998-99</td>
<td>93.36</td>
<td>135482</td>
<td>157525.1</td>
<td>220.55</td>
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<td>[7.7]</td>
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<td>97.15</td>
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<td>[10.66]</td>
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<td>306771</td>
<td>260.21</td>
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<td>[8.68]</td>
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<td>[20.73]</td>
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<tr>
<td>14</td>
<td>2003-04</td>
<td>113.95</td>
<td>170219</td>
<td>336344</td>
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<td>[4.31]</td>
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<td>2004-05</td>
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<td>178699</td>
<td>372938</td>
<td>282.57</td>
<td>124417</td>
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<td></td>
<td>[4.07]</td>
<td>[4.98]</td>
<td>[10.88]</td>
<td>[4.11]</td>
<td>[27.47]</td>
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<tr>
<td>16</td>
<td>2005-06</td>
<td>123.42</td>
<td>188113</td>
<td>418884</td>
<td>294.91</td>
<td>NA</td>
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<tr>
<td></td>
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<td>[4.07]</td>
<td>[5.27]</td>
<td>[12.32]</td>
<td>[4.37]</td>
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</table>

Figures inside the brackets show the percentage increase with respect to previous year.
### Table-4.6
Growth Rates of SSI Sector

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>7.68%</td>
<td>8.68%</td>
<td>6.0</td>
</tr>
<tr>
<td>2003-04</td>
<td>8.59%</td>
<td>9.64%</td>
<td>7.4</td>
</tr>
<tr>
<td>2004-05</td>
<td>9.96%</td>
<td>10.88%</td>
<td>9.2</td>
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<tr>
<td>2005-06</td>
<td>10.40%</td>
<td>12.32%</td>
<td>9.1</td>
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</table>

### Table-4.7
Growth Rates of Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate of SSI sector (%)</th>
<th>Overall Industrial Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>8.68</td>
<td>5.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>9.64</td>
<td>6.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>10.88</td>
<td>8.40</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.32</td>
<td>8.10</td>
</tr>
</tbody>
</table>

### Table-4.8
Contribution of SSI in the Gross Domestic Product [GDP]

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution of SSI (%) at 1999-2000 Prices in</th>
<th>Total Industrial production</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>39.74</td>
<td>5.86</td>
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<tr>
<td>2000-2001</td>
<td>39.71</td>
<td>6.04</td>
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<tr>
<td>2001-2002</td>
<td>39.12</td>
<td>5.77</td>
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<tr>
<td>2002-2003</td>
<td>38.89</td>
<td>5.91</td>
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<tr>
<td>2003-2004</td>
<td>38.80</td>
<td>5.82</td>
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</tr>
</tbody>
</table>

[Source Table -4.5, 4.6, 4.7, 4.8, 4.9 -Annual Report for the year 2006-07 Ministry of MSME, Government of India, New Delhi]
Since the beginning of planning in 1950-51, considerable efforts have been made for the development of small-scale industries in view of their potential for creating employment.

The level of production by SSIs went up from Rs 8,4728 crores in 1990-91 to Rs 4,18,884 crores by the end of 2005-2006 showing an increase of nearly 5 times over a period of 15 years. The contribution of SSI in exports was high during the period, especially up to the year 1995. Later there was no steady growth. There is not much satisfactory growth in employment during the recent years.

Table-4.9


<table>
<thead>
<tr>
<th>Areas of Performance</th>
<th>Average growth rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Of Units</td>
<td>8.6</td>
</tr>
<tr>
<td>Production</td>
<td>19.9</td>
</tr>
<tr>
<td>Employment</td>
<td>6</td>
</tr>
<tr>
<td>Export</td>
<td>19.15</td>
</tr>
</tbody>
</table>

(Source: Annual Report for the year 2006-07 Ministry of MSME, Government of India, New Delhi)

A comparison between the growth rates in the performance level of SSIs between the two periods indicates wide disparities. The pace of growth during the 1990s was relatively lower compared to that of the pre-liberalisation period.
Performance of SSI

The SSI sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and export. The performance of the small-scale sector based on the annual report for the year 2006-2007, ministry of MSME, Government of India is given in the above Table.

Share of Small-Scale Industrial Units in Total Exports

With the growing trend towards liberalization and Globalization, export is one of the focus areas of SSI units. Since 1950, policy framework indicated the need for increased exports to meet the important requirement over a period of time; the SSI share in total exports has been increasing. The overall performance of the SSI sector in exports has been fairly satisfactory. The commodity-wise export of major products by SSI units has also been increasing over a period of time.

The overall analysis of growth and development of entrepreneurship in India indicates that in different states, the number of units promoted by entrepreneurs is increasing manifold. Their contribution in the overall production, employment, investment and exports has a multiplier impact on the different sectors. Various factors have affected the performance of entrepreneurship over a period of time. The government changed its policy to a boost to entrepreneurs in the country. Risky projects are being promoted and financed by venture
funds, with the advent of an era of liberalization and globalization. Small-Scale entrepreneurs are facing acute competition with the coming into force of the WTO agreement. The SSI units have to face challenge from MNCs besides other large scale units. Budding entrepreneurs will have to follow a strategic management approach in the starting, working and management of their units.