

CHAPTER-V

INCENTIVES FOR MSMEs

In the previous chapter, a brief account of the structure and functions/roles of the various organisations and agencies started by the Central Government and the Government of Karnataka to facilitate proper functioning of the micro, small and medium enterprises was given in detail. Their role or function includes promoting MSMEs, training the entrepreneurs, providing guidance on marketing, selling, exporting their products, and various other technical and non-technical help.

In this chapter, the other aspects of the Government's role such as the assistance, subsidies and incentives offered to MSMEs are discussed. This chapter relates a great deal to the current industrial policy of Karnataka 2009-14, which gives a comprehensive account of the policy measures, schemes, incentives and concessions provided, as applicable to the entire State of Karnataka and its districts.

Karnataka is one of India's fastest growing states, having a strong industrial base and a vibrant service sector. The State has a host of large industries ably supported by a strong base of micro, small and medium sector. Due to inherent advantages available in the State, the industry and trade sectors including the service sector are propelling the overall economic development of Karnataka. Hence, Karnataka is considered as one of the most industrially developed States in the Country. It has all the potential to stand out in the forefront and focus on the development of industries, trade and service sector.

It is the first State 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. Due to the progressive policies and proactive measures of the Government and also the contribution of entrepreneurial fraternity and investors,

today Karnataka has been recognised as one of the preferred destinations for investment.

Karnataka is a State of action; the 30 districts which it has are unique in their own right, offering investment potential like no other State in the country. While nearly 69% of the population lives in rural areas, urbanisation is fast increasing.¹ It has witnessed rapid and unparalleled growth across the knowledge-based sectors. It has emerged as the 'Knowledge Hub of Asia'. Further, salubrious climate, vast natural resources, proactive and growth-intensive Government policies lend the State an edge over other states. There are over 700 Multinational Companies (MNCs) which are reaping the advantages by making Karnataka their home.² The Government has targeted a balanced regional growth by creating development corridors in the State, linking major industrial areas by national highways and rail links, and matching natural resource capabilities. Every part of the State is set to be supported with infrastructure projects to boost growth and employment. All these facilities present to investors, a right blend of strength and opportunities. Furthermore, Karnataka was one of the earliest states to electrify all its villages and is regarded as one of India's most investor friendly states. A large number of major Indian and foreign companies, who have made Karnataka as their base, bears testimony to its growing industrial tradition.

Out of the 30 districts in the State as already mentioned, the most industrially developed cities of Karnataka are Bangalore (the capital city of Karnataka), Mangalore, Belgaum, the twin cities of Hubli and Dharwad, Chitradurga, Bellary etc. There are many districts where MSMEs are thickly concentrated. However, on the basis of the easy availability of information, and owing to time constraint of the researcher four cities are chosen for the study and they are Bangalore, Mangalore,

¹ Infrastructure Development Department, Government of Karnataka

² Central Statistical Organisation, Directorate of Economics and Statistics, Bangalore.

Belgaum and Hubli. The following paragraphs give a brief view of the industrial scenario of these four cities.

Bangalore, the capital city of Karnataka, is one of the fastest growing cities in the world today, with a population of over 84.25 lakhs (as per 2011 census)³. This Capital city was once a quaint little city which has undergone a remarkable metamorphosis with its metropolitan grandeur. Bangalore has been the destination for a large number of Multi-National Companies, knowledge based industries, technology driven sectors and is today recognised as one of the top technopolises in the world. The growth in the information technology sector has been phenomenal. It has been ranked as one of the top five technology clusters in the world. Similarly, the growth in other sectors like petroleum and petroleum products, iron ore and minerals, silk products, gems and jewellery, plastic goods, basic chemicals, pharmaceuticals and cosmetics etc., have been substantial.

Belgaum is well known in the country for its foundries and hydraulic equipment. It acts as a trade centre for food grains, sugarcane, cotton, tobacco, oil seed and milk products. It consists of 10 taluks with a total population of 42.15 lakhs during the last census but as per the present census (2011), it is reported that there is a decrease in the population in Belgaum by 18,000. It has a literacy rate of 64.42% and is rich in mineral resources. It acts as an important centre for manufacture of heavy machine tools and high pressure oil hydraulics as already mentioned above. Owing to the favourable climatic conditions, horticulture crops are grown in abundance and the district has become the hub for the horticulture industry.⁴

Mangalore is the fourth largest city in the State which is located in the Dakshina Kannada District of Karnataka and is considered to be a commercial hub next only to Bangalore city. It is the largest urban coastal centre in Karnataka. The new

³ Deccan Herald, Oct 25, 2011, vol 64, No. 295, page 1.

⁴ Jd-belgaum@karnatakaindustry.gov.in

port in the city is considered to be the ninth largest port in India in terms of cargo handling. It handles almost 75% of the coffee exports, betel nut and the cashew nut. Mangalore has a population of around 4.84 lakhs (as per 2011 census), which has considerably decreased in a decade. It has a very high literacy rate of 94.03% of the population. The boat building and fishing industry have been the core business for generations. Apart from the above mentioned industries there are major IT industries, oil and petrochemical plants and reserves which operate here.⁵

Hubli-Dharwad are the twin cities of Karnataka, which is considered to be the 2nd most advanced district in the State. Dharwad has a population of around 9.43 lakhs (as per 2011 census) with a literacy rate of 71.87%. It is a very important business centre in Karnataka, having more than 3000 SMEs operating. Hubli is the main trading center for agricultural produce. Farmers all over the state come here to trade their produce. It also has many industrial sectors of engineering items and subsidiary agricultural industries such as pickles, cotton ginning etc.⁶

The State's commitment to investment is further reflected by the number of major infrastructure projects coming up in the State, e.g., the Bangalore-Mysore Infrastructure Corridor Expressway, the Information Technology Park at Bangalore, Special Economic Zones in various parts of the State etc. The Bangalore International Airport which was inaugurated in the year 2008 has added much needed boost to the industrial growth. For balanced industrial development in the State, the Karnataka Government, through KIADB, has set up Growth Centers at Dharwad, Hassan and Raichur. In order to explore opportunities in exports from Karnataka, Hassan Growth Centre is being upgraded to establish Special Economic Zone by acquiring additional 250 acres of land and improving infrastructure. It has also taken action to develop EPIP at Mangalore, five Agro-food Processing Parks at Malur, Bagalkot, Belgaum, Chittradurga and Maddur, Two Apparel Export Parks at Bangalore and Bellary, a

⁵ <http://en.wikipedia.org/wiki/Mangalore>

⁶ Jd-dharwad@karnatakaindustry.gov.in

Knowledge Park dedicated to Bio-Technology related industries at Bangalore and three Auto Park at Bidadi, Shimoga & Dharwad.⁷ Therefore one can say that every part of the State is set to be supported with infrastructure projects to boost industrial sector, overall growth and employment.

The State Government has also announced exclusive policies for promotion of tourism, agro food processing industries, infrastructure facilities, export promotion, information technology and biotechnology industries. 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-scale sector. It has demonstrated its strength over a wide spectrum of sectors in industry and has achieved commendable results. The State has also witnessed considerable foreign direct investment (FDI) both in Bangalore and in other parts of the State.⁸

The Government of Karnataka has a vision envisaged for its growth namely Vision 2020 which seeks to propel a holistic growth by promoting equitable development of sectors and districts, by providing employment to all sections of people and regions of the State. It has also focused on ensuring excellent infrastructure, quality education, decent living conditions and life security for all the citizens. A step has been taken towards the accomplishment of this vision by organising the Global Investors Meet 2010. This meet brought together leading entrepreneurs, investors and experts to showcase the potential of Karnataka. The Government desired that this mega event results in doubling of investments and employment opportunities with accelerated industrialisation across the State in the next few years. This meet will take

⁷ kiadb@mail.nic.in

⁸ www.karnatakaindustry.gov.in/policies

the Government a step closer to fulfilling the State's vision for its holistic growth. This vision 2020 seeks to remove the sector wise and regional disparities by encouraging diversified economic activity in all regions of the State, and by upgrading skills in the labour force through vocational training. ⁹

The MSME sector gets special attention and support all over the world, even in the developed countries. Realizing this fact, the Central Government, enacted the Micro, Small and Medium Enterprises Development Act, 2006 facilitating the growth of the MSME sector in the country. In line with the philosophy of the MSME Act, it is imminent for the State to focus more on the MSME sector. This Act provides a clear status for enterprises engaged in the service activities and a clear cut definition for the medium scale enterprises. It is felt that, these features need to be suitably incorporated in the current industrial policy of the State to provide better edge to the MSME sector of the State.

The Karnataka Government has shown very keen interest in the development of MSMEs for a very long time. To avail themselves of the benefits, the MSME units are required to submit details of their investment and turnover. Incentives and facilities include credit facilities, fiscal support, cluster-based development, technology, infrastructure, and marketing support. Some special export incentives and facilities are also provided. The products of small-scale industries are displayed in international exhibitions, the cost for which is borne by the government. Various training programs regarding packaging, marketing, etc. are conducted to help entrepreneurs. Also, assistance is provided to individuals for participating in overseas fairs, exhibitions, study programs, etc.

⁹ <http://www.advantagekarnataka.com>.

According to S. Krishnamurthi (2008),¹⁰ incentives are motivational forces which improve productivity of the entrepreneurs. They enable the entrepreneurs to take appropriate decisions and give capacity to implement them. They are financial as well as non-financial and also encourage the entrepreneur for undertaking activities and to achieve their goals. Entrepreneurs need these incentives as a help for setting up industries of their own. Subsidies relate with a single lumpsum payment given by the Government to an entrepreneur compensating him for the excess cost over administered price for a particular product or service.

The Government of India has been trying to provide incentives to the MSMEs in order to support their existence. The assistance and incentives provided by the Central Government are discussed below.

5.1 GOVERNMENT ASSISTANCE :

- a. Technical assistance:** The Technical assistance and guidance are provided by various organisations such as NSIC, through TTC, SIDO, through Small Industries Service Institutes and Extension Centres. These institutes are manned by experts in different fields/ trades/industries. These experts visit these industries, study their problems on the spot and give technical assistance and guidance.
- b. Assistance for obtaining raw materials:** Every registered small unit, on obtaining the registration certificate is required to submit all the requirements to the Directorate of Industries (DoI) for procuring essential raw materials. Many organizations are also lending a helping hand in this regard such as NSIC and others.

¹⁰ S. Krishnamurthi, Guide to Micro, Small and Medium Enterprises(Small Scale Industries) policy, Rules and Regulations, 3rd Edition, Allahabad, Orient Publishing Company, 2008, pages 456-462.

- c. Cash Assistance:** Government provides cash assistance under the self employment scheme to the rural youth (entrepreneurs). Similarly, it is also made available to scheduled castes/tribes and women entrepreneurs.
- d. Supply of plant and machinery on hire-purchase basis:** There are organizations like National Small Industries Corporation (NSIC) or State level Small Industries Corporations who give financial assistance to purchase plant and machinery to the entrepreneurs on their own or on hire-purchase basis. They also provide 100% finance to facilitate SSIs in diversification and technology upgradation. Entrepreneurs can also avail tax rebate on full year rentals.
- e. Marketing Assistance:** This assistance is very important for a small scale unit. For availing this, the units have to be registered with the NSIC under the single point registration scheme. The objectives of this programme are to ensure fair margin to producers of goods, to maintain standardization and quality control with testing facilities, to market products under the common brand name, to provide publicity to SSI products etc.
- f. Assistance to small entrepreneurs:** The NSIC has developed five financial centres at New Delhi, Mumbai, Ahmedabad, Bangalore and Goa to provide finance to small entrepreneurs for activities related to marketing, bills discounting, raw materials, purchases and exports. To train and equip the entrepreneurs, the government has developed various training institutes in the field of entrepreneurial activities/entrepreneurship. The NISIET (Hyderabad), NIESBUD (New Delhi), Integrated Training Centres (Nilokheri) are the main training institutes which function under the administrative control of SIDO.
- g. Rural Industrial Project Assistance:** The Rural Industrial programme (RIP) of SIDBI provides a cohesive and integrated package of basic inputs like information, motivation, training and credit, backed by appropriate technology and market linkages. For these purposes, SIDBI has identified implementing

agencies such as NGOs, development professionals, and technical consultancy organizations (TCO), and these agencies are assigned the task of developing RIP at a fee given by the bank.

5.2 GOVERNMENT INCENTIVES :

The following are the incentives available to the small units:

- a. Subsidy relating to investment:** Government has initiated a different scheme of investment subsidy for the benefits of entrepreneurs so that they may be encouraged to establish more and more SSI units. These schemes are capital investment subsidy, transport subsidy, power generations subsidy, special investment scheme for women entrepreneurs, provision for seed capital, subsidy for technical/feasibility study etc. SIDBI, besides being an apex bank for the SSI sector, is also arranging equity type assistance, venture capital scheme etc. to accelerate the pace of investment in small scale sector.
- b. Export/Import subsidies and Bounties:** 100% export-oriented units (EOUs) and units in the export processing zones (EPZs) enjoy a package of incentives and facilities, which include duty free imports of all types of capital goods, raw materials, and consumables in addition to tax holidays against exports.
- c. Subsidy relating to Research and Development:** To encourage continuous research and development activities in the small scale sector, government provides subsidy by keeping aside certain amount of money toward research so that more encouragement is given to small scale entrepreneurs.
- d. Subsidy relating to taxes:** The Central Government as well as the State Government is trying to encourage entrepreneurs through tax subsidy schemes enabling them to accelerate the pace of establishment of industrial units. These

are exemption from estate duty, tax relief to NRIs, rebate in income-tax, interest-free sales tax loan, sales tax subsidy, exemption from sales tax etc.

- e. **Subsidy relating to resources:** small industries are given a lot of subsidies relating to resources such as purchase of testing tools, subsidy for industrial estates and parks, allotment of land and buildings at concessional rates, supply of water at concessional rates, arrangement of developed or constructed production sheds, arrangement of raw materials at concessional / controlled rates etc.
- f. **Capital subsidy scheme for Technology Upgradation:** This scheme facilitates technology by induction of proven technologies in respect of specified products/sub-sectors. This would apply to the introduction of the latest technology, improvement of productivity, quality of production and environmental conditions and installation of improved techniques as well as anti-pollution measures and energy conservation. However, for availing this scheme, the entrepreneur has to fulfill certain conditions such as replacement of the existing equipment/technology with a new one. The same equipment or technology would not qualify for the scheme and it is also not applicable to units going for the upgradation with second-hand machinery.

An adequate infrastructural facility is very important because it contributes to the economic development both by increasing productivity and by providing amenities which will enhance the quality of life and the services which will lead to growth in production. Infrastructure adequacy helps determined success in diversifying production, expanding trade, coping with supply of various inputs and improving environmental conditions for the small scale sector. In this context the following infrastructural support schemes have been formulated.

- **The Industrial Estate Programme** was launched in India following the recommendations of the International planning team (Ford Foundation Team)¹¹ to promote a rapid development of small industries and to promote the decentralization and dispersal of industries in rural, semi-urban and backward areas.
- **The Integrated Infrastructural Development Scheme (IID)** is meant for augmenting infrastructural facilities in the rural and backward areas with a special emphasis on the linkages between the agriculture and industry. The criteria to be followed for the selection of a site for IID centres are preceded by a comprehensive industrial potential survey, indicating the potentialities for SSIs and tiny units.
- **The Small Industry cluster** may be defined as a sectoral and geographical concentration of enterprises. It may be a local agglomeration of enterprises, which produce and sell a range of related and complementary products and services. These clusters enable the SSIs to derive their strength through a unique state of togetherness. The economy of agglomeration ensures a network of suppliers that provide raw materials, equipment, machinery, repairs, and other services to units, which would otherwise have been difficult.
- **Industrial Growth Centre Scheme** was launched in 1980 for the promotion of industries in the backward areas. The main objective of this growth centre is to provide best possible infrastructural facilities, to avail institutional finance etc for their overall development.¹²
- **Export Processing Zones (EPZs)** are industrial areas which form enclaves from the nation's customs territory of a country. Normally, they are developed in the nearby area of seaports or airports. These zones are

¹¹ S. Krishnamurthi, Guide to Micro, Small and Medium Enterprises(Small Scale Industries) policy, Rules and Regulations, 3rd Edition, Allahabad, Orient Publishing Company, 2008, pages 447.

¹² S. Krishnamurthi, Guide to Micro, Small and Medium Enterprises(Small Scale Industries) policy, Rules and Regulations, 3rd Edition, Allahabad, Orient Publishing Company, 2008, pages 451.

under obligation to export the entire production of its units. Each zone is provided with the basic infrastructural facilities at reduced rates and includes other incentives provided by the State Government as well.

- **Integrated Industrial Parks (IIPs)** may be defined as self-contained islands providing high quality infrastructural facilities. They include the specialized industrial clusters both for the domestic and the export market. These parks are an ideal vehicle for providing integrated infrastructural facilities and are an essential requirement for industrialization in the developing countries. They are usually targeted at small and medium scale industries with a focus on high value-added output.¹³

5.3 OTHER SCHEMES OFFERED BY CENTRAL GOVERNMENT :

There are some Schemes that are offered by the Central Government through the Office of the Development Commissioner for the MSME sector and they are as follows:

- **National Manufacturing Competitiveness Programme (NMCP) Schemes Under XI Plan** - The Government announced the formulation of National Competitiveness Programme in 2005 with an objective to support the Small and Medium Enterprises (SMEs) in their endeavor to become competitive and adjust the competitive pressure caused by liberalization and moderation of tariff rates.
- **Micro & Small Enterprises Cluster Development Programme (MSE-CDP)** - DC(MSME) launched MSE-CDP for holistic development of selected MSEs clusters through value chain and supply chain management on co-operative basis, which is mentioned above.

¹³ S. Krishnamurthi, Guide to Micro, Small and Medium Enterprises(Small Scale Industries) policy, Rules and Regulations, 3rd Edition, Allahabad, Orient Publishing Company, 2008, pages 453-455.

- **Scheme for Capacity Building** – refers to strengthening of database and advocacy by industry/ enterprise associations, as envisaged in the promotional package for Micro and Small Enterprises (MSEs).
- **Credit Linked Capital Subsidy Scheme for Technology Upgradation** - This scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products.
- **Credit Guarantee Scheme** - Collateral free loans upto a limit of Rs.50 lakhs are offered by the Banks under the guidance of the RBI for the entrepreneurs who run MSME.
- **ISO 9000/ISO 14001 Certification Reimbursement Scheme** – Refers to incentive Scheme of Reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 certification/environment management (EMS) ISO 14001 certification to the extent of 75% or Rs.75,000/- whichever is lower.
- **Mini Tool Rooms** – Refers to financial assistance upto 90% or Rs.9.00 crores, whichever is less for setting up new Mini Tool Rooms. For upgradation of existing Tool Rooms, the assistance is 75% or Rs.7.5 crores
- **Assistance to Entrepreneurship Development Institutes** - For strengthening training infrastructure in EDIs, assistance upto 50% or Rs. 50 lakhs whichever is less will be made available.
- **Scheme of Micro Finance Programme** – This scheme relates to the Micro Financing which can be achieved by creating self employment opportunities. This is one of the ways of attacking poverty and solving the problems of unemployment.

- **Scheme of National Award** - In order to boost the entrepreneurs, the Central Government has instituted a National Award to business men running the micro, small and medium enterprises.
- **Scheme to Support 5 Selected University / Colleges to Run 1200 Entrepreneurship Clubs per Annum** - A package for the promotion of Micro and Small Enterprises, in selected universities and colleges has been approved by the Cabinet Committee for Economic Affairs (C.C.E.A.).

Schemes for individual MSME units

1. MSME MDA - The scheme offers funding upto 75% in respect of to and fro air fare for participation by MSME Entrepreneurs in overseas fairs/trade delegations. The scheme also funds various other aspects such as to produce publicity material, to contest anti-dumping cases etc.
2. Financial Assistance is given for using Global Standards (GSI) in Bar coding through the Office of the DC(MSME).
3. Purchase and Price Preference Policy - This is administered through the Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by Central Government. Other facilities include submission of tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases. This scheme is available for individual MSMEs.

The above mentioned Government assistance and incentives are provided to existing small industrialists and the intending entrepreneurs by the various agencies started by the Government for this purpose. These agencies are SIDO, NSIC, NISIET (Hyderabad), NIESBUD (New Delhi), Integrated Training Centres (Industries), SIDBI and its various sub-agencies etc. Information about these agencies has been given in chapter-IV for a better understanding of their functioning.

5.4 INCENTIVES, SUBSIDIES AND POLICIES AT STATE LEVEL:

The State Governments formulate their respective policies for the development of industries in general and small scale industries in particular and also implement the incentive schemes through the District Industries Centre (DIC) and other Departments and Corporations set up for this purpose. They provide technical and other support services to SSIs. All these concessions are not uniform in all the States/UTs; Their nature, content, quantum and periodicity vary from State to State.

5.5 KARNATAKA INDUSTRIAL POLICY 2009-2014:

The Government of Karnataka has always been a strong advocate of Industrial liberalisation. The industrial policies of the Government of Karnataka have reflected the Government's strong desire to have an environment of successful business propositions. The present industrial policy 2009-14 has a great deal to offer to the micro, small and medium enterprises in the State.

The salient features of the Karnataka Industrial Policy 2009-2014 are as follows:

- i) It envisions to make Karnataka prosperous through development of human and natural resources in a systematic, scientific and sustainable manner
- ii) It aims to provide additional employment for about 10 lakh persons in the next five years.
- iii) The policy intends to increase the share of industry to the State GDP to 20% by the year 2014.
- iv) It hopes to double the State's exports from the current level of Rs.1,30,000 crores.
- v) The policy focuses on providing quality infrastructure across the State.
- vi) It lays thrust on Skill Development and Entrepreneurship Promotion.

- vii) It provides added focus on development of MSME sector.
- viii) The policy offers performance and employment linked incentives and concessions.

Objectives of Karnataka Industrial Policy for MSME:

- a) To 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 utilisation of local resources.
- b) To appoint an expert group, who would make a detailed study of the small scale industrial sector in the state, to ascertain their present status, problems and prospects.
- c) To come out with a separate policy on employment generation in the industrial sector which among other things would also include a suitable incentive scheme linked to employment generation.

5.6 POLICY FRAMEWORK RELATED TO MSME IN KARNATAKA:

- a) While developing industrial areas, measures will be taken to earmark at least 20% of the land for MSME sector for necessary vendor development support to the large projects.
- b) Price preference of 15% will be allowed for the goods manufactured by the MSME manufacturing industrial enterprises located in the State in case of purchases by the Government departments and the State owned PSUs.
- c) Attractive package of incentives will be offered especially in backward areas to provide competitive edge to the sector.
- d) Market development and promotion will be supported through setting up virtual and physical exhibition centers at the State and district levels. Common branding and promotion of the MSME products are also encouraged.
- e) Cluster development approach will be encouraged for the development of the enterprises in order to harness the natural resources and skills concentrated in the respective cluster.

- f) Realising the need for encouraging Khadi and Village industries, the State will come out with a special programme for the promotion of this sector.
- g) Thrust will be given to increase the labour productivity as it is the key to improve returns and greater output especially in the MSMEs. Simplification of laws and procedures will also be attempted to reduce the transaction cost.
- h) Various other relevant schemes which are being operated by the Government of India will be suitably used for the benefit of the MSME enterprises.¹⁴

The Government of Karnataka under its Industrial policy 2009-2014, has grouped its districts into four zones for providing the package of incentives, concessions to the enterprises. The Investment promotion subsidy given by the Government is shown in the following table:

¹⁴ Karnataka Industrial Policy 2009-14, Department of Industries and Commerce, Government of Karnataka page 4

KARNATAKA INDUSTRIAL POLICY 2009-2014:

5.7 PACKAGE OF INCENTIVES AND CONCESSIONS OFFERED FOR INVESTMENTS IN THE STATE OF KARNATAKA

1. Investment Promotion Subsidy

ZONES	MICRO MANUFACTURING ENTERPRISES	SMALL MANUFACTURING ENTERPRISES	MEDIUM MANUFACTURING ENTERPRISES (Those who employ minimum 25workers)
ZONE 1	25% VFA (max. Rs.10 lakhs)	20% VFA (max. Rs.20 lakhs)	Rs.30 lakhs
ZONE 2	20% VFA (max Rs.7.5 lakhs)	15% VFA (max Rs.15 lakhs)	Rs.20 lakhs
ZONE 3	15% VFA (max Rs.5.00 lakhs)	10% VFA (max Rs.10 lakhs)	Nil
ZONE 4	Nil	Nil	Nil

Notes:

- (i) The classification of district into the 4 zones is shown in the Annexure III
- (ii) 25% of the subsidy sanctioned amount will be released every year on refund basis towards the payments made by the unit in respect of gross VAT, ESI and PF and power tariff.

In cases of enterprises which do not use power and not covered under VAT, EPF, ESI the investment subsidy will be released against the loan dues.
- (iii) This incentive is available to enterprises availing term loan to an extent of minimum 50% cost of fixed assets only.
- (iv) Additional subsidy to SC/ST, Women, Physically challenged, Ex-Servicemen Entrepreneurs and enterprises coming up in most Backward taluks of Hyderabad Karnataka region.

An additional subsidy to SC/ST, Women entrepreneurs, Physically challenged, Ex. Servicemen Entrepreneurs and enterprises coming up in most Backward taluks of Hyderabad Karnataka region. An additional of 5% subsidy is provided, subject to a maximum of Rs.1.00 lakh, Rs.3.00 lakhs and Rs.5.00 lakhs for Micro, Small and Medium Manufacturing Enterprises respectively.

2. Exemption from Stamp Duty- MSME:

Stamp duty to be paid in respect of

- (i) loan agreements, credit deeds, mortgages and hypothecation deeds executed for availing term loans from State Govt. and / or State Financial Corporation, Industrial Investment Development Corporation, National Level Financial Institutions, Commercial Banks, RRBs, Co-operative Banks, KVIB/KVIC, Karnataka State SC/ST Development Corporation, Karnataka State Minority Development Corporation and other institutions which may be notified by the Government from time to time for the initial period of five years only and
- (ii) for lease deeds, lease-cum-sale and absolute sale deeds executed by industrial Enterprises in respect of industrial plots, sheds, industrial tenements, by KIADB, KSSIDC, KEONICS, KSIIDC, Industrial Co-operatives and approved private industrial estates shall be exempted as follows; for Zone 1 and Zone 2 it is 100% exemption, for Zone 3 it is 75% exemption and Zone 4 it is Nil. (as shown in the Annexure III)

3. Concessional Registration Charges - MSME:

For all loan documents and sale deeds as specified above, the registration charges shall be at a concessional rate of Re.1 per Rs.1000.

Note:

- (i) The exemption of stamp duty and concessional registration charges are also applicable to lands purchased under Section 109 of the KLR Act and also for direct purchase of industrially converted lands for the projects approved by SHLCC/SLSWCC/ DLSWCC. This incentive will also be applicable for the land transferred by KIADB to land owners as compensation for the acquired land.
- (ii) The exemption of stamp duty and concessional registration charges are also available for registration of final sale deed in respect of lands, sheds, plots, industrial tenements after the expiry of lease period at the rate as specified in the industrial Policy which was in vogue at the time of execution of lease-cum-sale deed.

4. Waiver of Conversion Fine - MSME:

The payment of conversion fee for converting the land from agriculture use to industrial use including for development of industrial areas by private investors will be waived as follows- Zone- 1 : 100%, Zone- 2:100% Zone- 3 : 75%, Zone- 4 : Nil

Note:

The waiver of conversion fine will be on reimbursement basis after implementation of projects.

5. Exemption from Entry Tax - MSME:

For Zone 1, 2 and 3 there is 100% exemption from payment of Entry Tax on 'Plant & Machinery and Capital Goods' for an initial period of 3 years from the date of commencement of project implementation and for Zone 4, the exemption is Nil.

Note: For this purpose, the term 'Plant & Machinery and Capital Goods' also includes Plant & Machinery, equipment etc., including machinery for captive generation of Electricity. Raw materials, inputs, component parts & consumables (excluding

petroleum products) [wherever applicable] are exempted for a period of 5 years from the date of commencement of commercial production

6. Incentives for Export Oriented Enterprises:

There is 100% exemption from payment of Entry Tax (herein referred to as ET) on 'Plant & Machinery and Capital Goods' for an initial period of 3 years from the date of commencement of project. 100% exemption from payment of ET on raw materials, inputs, component parts & consumables (excluding petroleum products) for an initial period of 3 years from the date of commencement of commercial production in Zone 1, 2 and 3 and 50% in Zone 4. (as shown in the Annexure III)

7. Exemption of APMC Cess/fees – MSME:

For Zones 1, 2, & 3 APMC cess/fees in respect of procurement of agriculture products directly from farmers for processing shall be exempted for a period of five years, four years and three years respectively and it is nil for Zone 4

8. Interest Subsidy- Micro manufacturing enterprises:

The Interest subsidy is @ 5% on term loans. The interest subsidy is payable only on the interest actually paid to financial institutions and not any default in payment of principal or interest installments. The amount of interest subsidy will be based on an effective rate of interest (after deducting interest subsidy) receivable by any institutions/under any Govt. of India scheme or 5% per annum whichever is less). The period of interest subsidy is 5 years, 4 years and 3 years in Zone-1, Zone 2 and Zone-3 respectively.

10. Exemption from Electricity Duty- Micro & Small manufacturing enterprises:

There is 100% exemption from electricity duty/tax for the initial period of five years, four years and three years in Zone 1, Zone 2 and Zone-3 respectively for micro and small manufacturing enterprises.

11. Technology Upgradation (hereafter referred as TU), Quality Certification and Patent Registration - Micro & Small manufacturing enterprises:

(i) Interest Subsidy on TU Loan:

For Zone 1, 2 & 3 it is 5% on loans availed from KSFC, KSIIDC & Scheduled commercial banks, which are not covered under CLCSS of GOI.

(ii) ISO series certification:

For Zone 1, 2, 3 & 4: 75% of cost (max.Rs.75,000),

(iii) BIS Certification:

It is provided at 50% of fees payable to BIS. (max.20,000) and 25% of cost (max.Rs.50,000) for purchase of testing equipments as approved by BIS.

(iv) Patent registration:

It is 75% of cost of fees payable to Patent Office (max. Rs.1.25 lakhs) and 50% of cost (max. Rs.75,000) towards attorney fees, patent search etc.

(v) Technology Adoption:

It is 25% of cost (max.Rs.50,000) for adopting technology from recognized national laboratories.

(vi) Technology Business Incubation Centre: It is 25% of the project cost (Max: Rs.50 lakhs).

12. Water harvesting/Conservation Measures - Small & Medium manufacturing enterprises in all Zones:

The Government has provided concessions for water harvesting and for adopting conservation measure which is applicable to small and medium manufacturing enterprises and are given as follows:

- (i) Rain water harvesting : 50% of cost (max.Rs.1 lakh)

- (ii) Waste water recycling : 50% of cost (max.Rs.5 lakh)
- (iii) Zero discharge process : 50% of cost (max.Rs.5 lakh)

13. Energy Conservation - Small & Medium manufacturing enterprises in all Zones:

For practicing energy conservation measures which would result in reduction of Energy Consumption atleast 10% of earlier consumption, then 10% of capital cost (max Rs.5 lakh) is exempted and for the use of non-conventional energy sources it is also at 10% of capital cost (max Rs.5 lakh).

14. Refund of cost incurred for preparation Project Reports - Micro & Small manufacturing enterprises:

For zone 1, 2 & 3, the cost incurred for preparation of project reports by TECSOK/CEDOK/ KSFC or any other recognized institutions for availing loans shall be reimbursed to the maximum of Rs.10,000/- per unit subject to financing of the unit.¹⁵

To conclude, the central Government along with the Government of Karnataka has taken a lot of steps in promoting the micro, small and medium enterprises. They have continuously updated the various incentives, assistance, concessions, schemes etc., for the benefit of these enterprises. It is now upto these units to take the help and avail the benefit offered by the Government.

¹⁵ Karnataka Industrial Policy 2009-14, Department of Industries and Commerce, Government of Karnataka page 13-23.