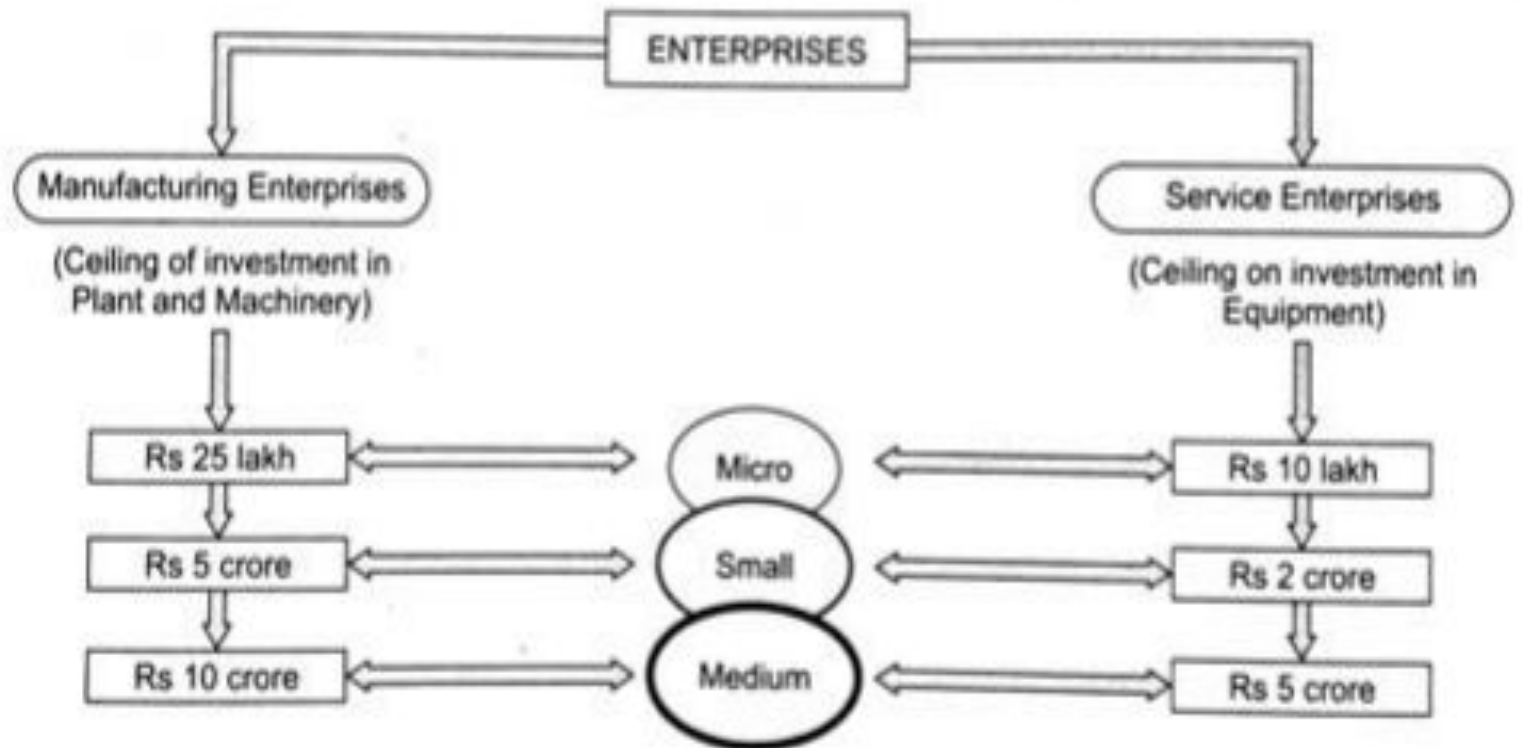


**Module 4**  
**Chapter 6: Small Scale**  
**Industry (SSI)**

# Small Scale Industry(SSI):

- Under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the earlier rather limited concept of “Industries” have been widened to that of “Enterprises”.
- Enterprises have been classified broadly into (MSME, 2009a):
  - a. Enterprise engaged in the ***manufacture/production of goods*** pertaining to any industry, and
  - b. Enterprises engaged in ***providing/rendering of services***.

- The figure shows the new nomenclature and classification of MSMED Act, 2006.



- **Manufacturing enterprises** have been defined in terms of investment in plant and machinery and further classified into:
  - a. Micro enterprises- investment up to Rs 25 lakh.
  - b. Small enterprises- investment above Rs 25 lakh and up to Rs 5 crore.
  - c. Medium enterprises- investment above Rs 5 crore and up to Rs 10 crore.
- **Service enterprises** have been defined in terms of that investment in equipment and further classified into:
  - a. Micro enterprises- investment up to Rs 10 lakh.
  - b. Small enterprises- investment above Rs 10 lakh up to Rs 2 crore.
  - c. Medium enterprises- investment above Rs 2 crore and up to Rs 5 crore.

# Definitions:

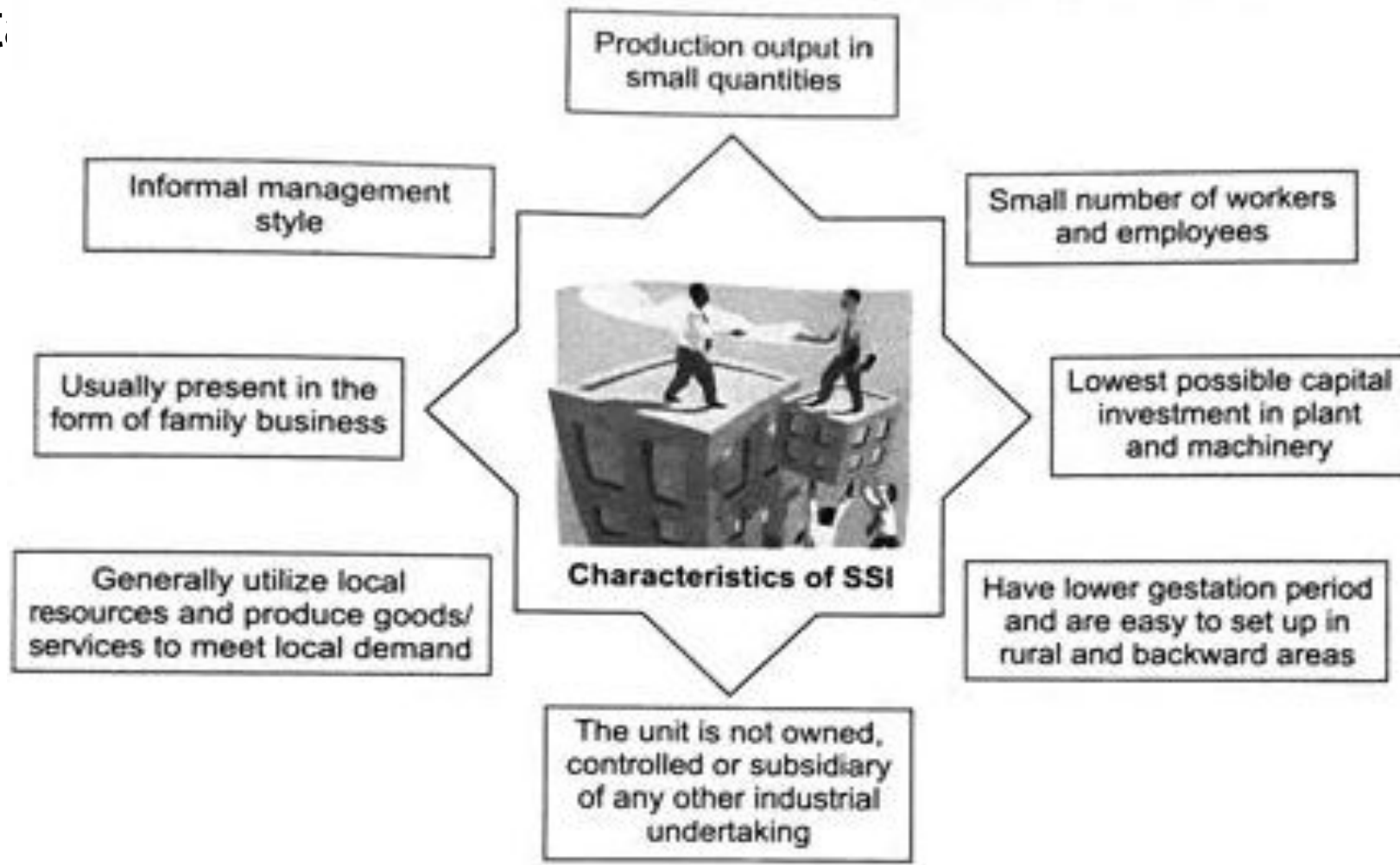
- **Small scale enterprise:** In the Indian context, a small-scale enterprise is broadly defined in terms of the value of investment in plant and machinery.
- A small-scale enterprise is the one in which the investment in fixed assets in plant and machinery, whether held on ownership terms, on lease, or on hire purchase, is above Rs 25 lakh and up to Rs 5 crore, subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertaking.
- In calculating the value of plant and machinery, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account.

- In the case of imported machinery, the following shall be included in calculating the value, namely:
  - a. Import duty,
  - b. the shipping charges,
  - c. customs clearance charges, and
  - d. sales tax
- Computer software development and software services including computer graphics, engineering design, computerised design and drafting have been recognised as industrial activities eligible for registrations as small-scale enterprises.

- **Ancillary Industrial undertaking:** It is an industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services; and undertaking supplies or renders or proposes to supply or render not less than 50% of its production or services, as the case may be, to 21 or more other industrial undertakings and U.S. investment and fixed assets in plant and machinery whether on ownership terms or on lease or on hire purchase does not exceed Rs 1 crore.

# Characteristics of SSI:

- The figure shows the various characteristics of SSI undertakings





### 1. Production output in small quantities:

- By virtue of small planned capacity of SSI enterprises, the production output is small.

### 2. Small number of workers and employees:

- The small scale of operations in SSI requires small number of workers and employees.

### 3. Lowest possible capital investment in plant and machinery:

- The investment in fixed assets in plant and machinery whether held on ownership terms, on lease, or on hire-purchase does not exceed Rs. 5 crore.

#### 4. Have lower gestation period and are easy to set up in rural and backward areas:

- Gestation period is the time taken to conceptualise and develop the enterprise before it starts generating business.
- In case of SSI, the gestation period is relatively lower than medium and large enterprises, which take much longer time to conceptualization and development.
- For this reason, SSIs are easy to set up in rural and backward areas where the resources are limited, and the local market is small.
- Thus, in such areas, SSIs can be quickly set up for generating employment and for utilising local resources, while addressing the needs of the local market with an innovative product/service.

## 5. The unit is not owned, control or subsidiary of any other industrial undertaking:

- Where two or more industrial undertakings are set up by the same person as a proprietor, each of such industrial undertakings shall be considered to be controlled by the other industrial undertaking or undertakings.
- In that scenario, all such industrial undertakings would not be considered as SSIs.
- Therefore, it is necessary that in order to qualify as an SSI, the unit should not be owned, controlled or subsidiary of any other industrial undertaking.

## 6. Generally utilise local resources and produce goods/services to meet local demand:

- The small scale of operations in SSI generally requires utilization of local resources (to avoid transportation cost for sourcing the raw materials from distant locations).
- Similarly, the local markets are most easily accessible to the SSIs for selling their products and services at competitive prices.

## 7. Usually present in the form of family business:

- SSIs are usually present in the form of family business not only in India, but also elsewhere in the world.

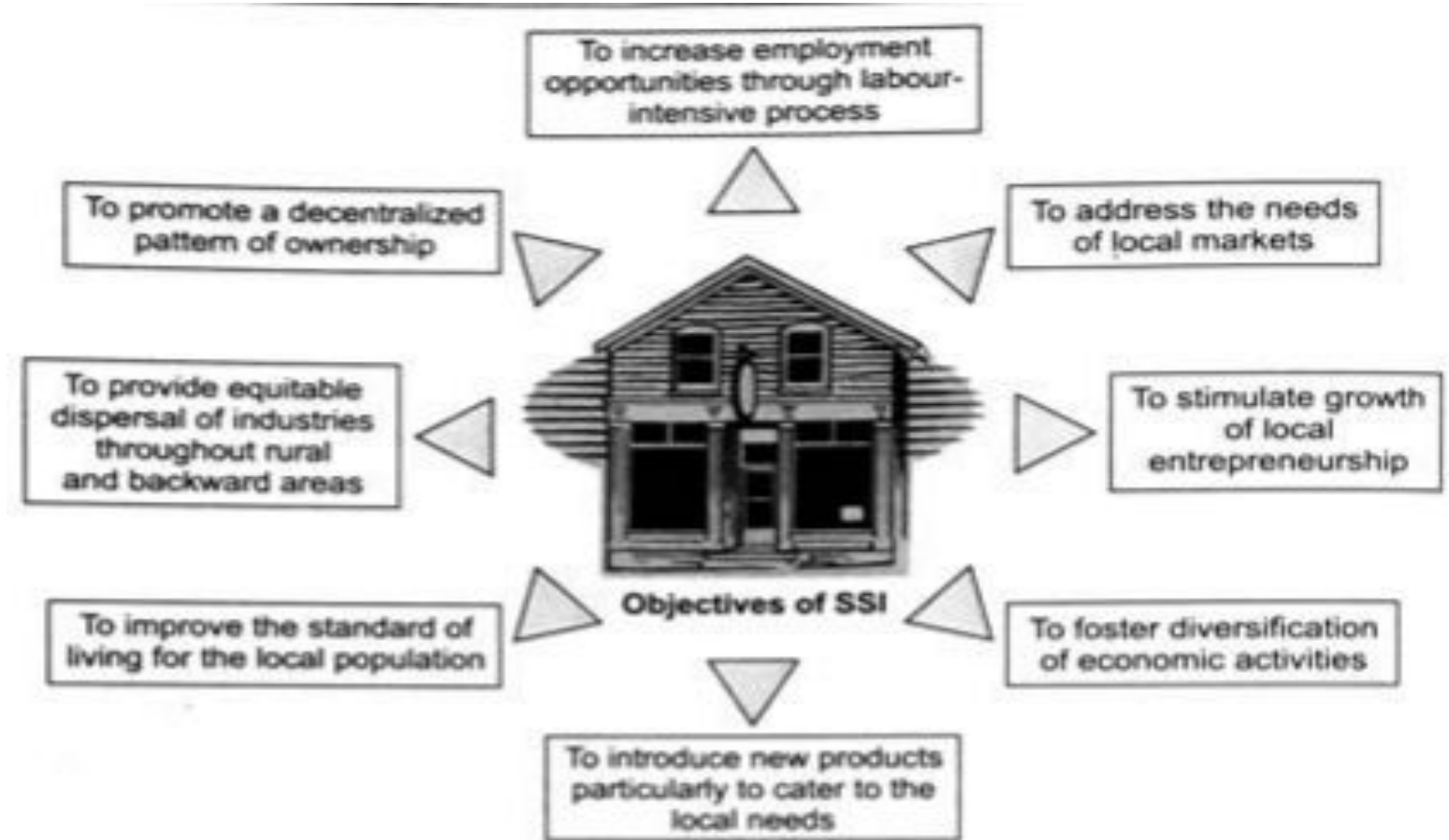
## 8. Informal management style:

- Informal management style is prevalent in SSIs, whereby members of family business, relatives, friends, and outside employees assume multiple roles as warranted by the small business from time to time.
- The work atmosphere is characterised by unity, harmony, love, and affection.

# Objectives of SSI:

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- The figure shows the objectives of SSI:



## •Objectives of SSI:

1. Increase employment opportunities
2. Address the needs of local markets
3. Stimulate growth of local entrepreneurship
4. Foster diversification of economic activities
5. Introduce new products
6. Improve the standard of living
7. Provide equitable dispersal of industries
8. Promote a decentralised pattern of ownership

## 1. Increase employment opportunities:

- Most SSIs utilise labour-intensive processes and thus, provide employment to local population in our country where unemployment is widespread.

## 2. Address the needs of local markets:

- There is a demand of low-priced products in local markets like small towns and villages which cannot be largely fulfilled by the products manufactured by large scale enterprises due to their relatively higher prices.
- Therefore, SSIs play a major role in creating products for the local populace which are much more economical due to avoidance of transportation costs, traditional production systems, and cheap local labour. Example: Washing soaps.



### 3. Stimulate growth of local entrepreneurship:

- There are unemployed youth in our small towns and villages, some of whom have the potential of becoming successful entrepreneurs a financial support is extended to them. SSIs are a viable option in this regard.
- Prime minister's Rozgar Yojana for employment generation calls for educated unemployed youth with family income up to Rs 40,000 per annum by granting them loans of up to Rs. 1 lakh for self-employment business/service projects.
- Subsidies released as a grant by the government, through the RBI, to the participating banks for crediting to the account of beneficiary, and adjusted against the repayment of last installment of loan by the beneficiary.
- The subsidy is 15% of the project cost or Rs 7500 per entrepreneur, whichever is less.

#### 4. Foster diversification of economic activities:

- It was realised by the Government of India much earlier that Indian economy cannot be made robust only by large scale enterprises.
- It was therefore a conscientious effort on the part of the government to support and nurture SSIs through various policies in Five-year plans.
- This diversification of economic activities through lesser dependence on large scale industry makes India more or less immune to the vagaries of global economic crisis like the one experienced by the world in 2008.

## 5. Introduce new products:

- SSIs are expected to create new products for local markets without use investments in research and development.
- The government has provided necessary local infrastructure in this regard by way of setting up of tool rooms, testing laboratories, MSME technology development centre, etc.

## 6. Improve the standard of living:

- There is a cumulative effect of improvement in the standard of living for the local population when SSIs generate employment, create new products, and mobilise resources locally.

## 7. Provide equitable dispersal of industry:

- Many regions in our country where deprived of industrial activity due to lack of interest of large business houses to set up their facilities there.
- SSIs strive to fill-in this gap due to the encouragement of the government through its various policies of promoting industrial activity in rural and backward areas.
- Our North-Eastern states have been getting special attention from the government in this regard for the past few decades.

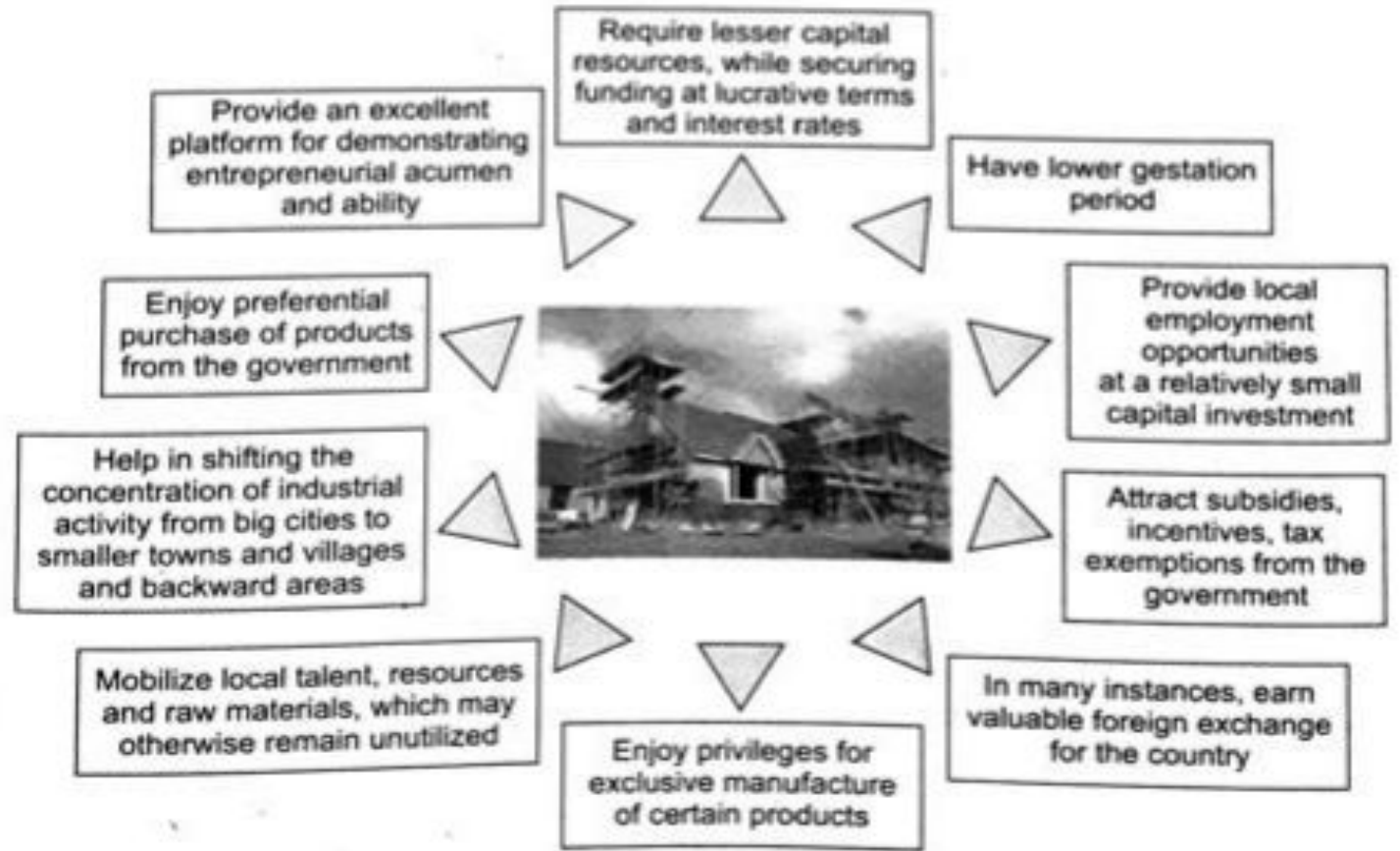
## 8. Promote a decentralised pattern of ownership:

- SSIs are helpful in decentralising the pattern of ownership of industrial activity.
- In most instances of large-scale enterprises owned and controlled by a few like business houses in the country (like the groups of Tatas, Birla's, Ambani's, etc.), there is a likelihood of concentration of capital in a few hands only.

# Advantages of SSI:

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- There are several advantages of SSI as shown in the figure.



- Advantages of SSI:

1. Require lesser capital resources
2. Have lower gestation period
3. Provide local employment opportunities
4. Attract subsidies from the government
5. Earn valuable foreign exchange
6. Enjoy privileges for exclusive manufacturing
7. Mobilize local resources
8. Help in shifting the concentration of industrial activity
9. Enjoy preferential purchase of products
10. Demonstrate entrepreneurial acumen and ability

## 1. Require lesser capital resources:

- By virtue of the small scale of operations, SSIs require lesser capital resources.
- Central and state governments have created financial institutions to support SSIs and they provide funding to the SSI entrepreneurs at lucrative terms, conditions, and interest rates.

## 2. Have lower gestation period:

- Lesser initial capital in SSIs is recovered faster by revenues generated by them, resulting in lower gestation period.
- This is in contrast to medium and large-scale enterprises which have relatively much longer gestation period.

### 3. Provide local employment opportunities:

- Many of the SSIs are located in rural and backward areas with much lower capital investment for purchasing land, buildings, etc.
- The overall capital requirement is much lesser due to small scale of operations as well.
- Most SSIs have human intensive operations, thus generating employment for local people at relatively small capital investment compared to large scale enterprises.
- The employment intensity of the registered units indicates that an investment of Rs 0.72 lakh is required for creating one employment in MSME sector as against Rs 5.56 lakh in the large organised sector.



#### 4. Attract subsidies from the government:

- The government takes a very supportive view of SSIs by providing subsidies incentives, tax exemptions, etc.
- This makes them have a competitive advantage against their large-scale rival enterprises.

#### 5. Earn valuable foreign exchange:

- Indian handicrafts and khadi garments are very popular in developed nations due to their exclusivity and low prices.
- Similarly, there are other unique products manufactured by SSIs, which make them earn valuable foreign exchange for the country.

## 6. Enjoy privileges for exclusive manufacturing:

- Small enterprises are protected by the government by imposing restriction upon large scale enterprises in manufacturing items identified for exclusive manufacture by SSIs.

## 7. Mobilize local resources:

- SSIs utilise the skills and talent of local population and also use local natural resources and raw materials in most instances.
- In the lack of SSIs, these resources may remain unutilised or under-utilized.

## 8. Help in shifting the concentration of industrial activity:

- by virtue of having better infrastructure and other facilities, big cities have been successful in attracting huge industrial investments.
- Smaller towns, villages, and backward areas, on the contrary, have been deprived of industrial activity.
- Government's intervention in promoting SSIs in small towns, villages, and backward areas has helped in reducing this regional imbalance and industrial activity.
- In recent times, North-Eastern states of the country have received special privileges from the government in this regard.

## 9. Enjoy preferential purchase of products:

- The government has granted preferences to purchase of goods manufactured SSIs compared to their large-scale counterparts.

## 10. Demonstrate entrepreneurial acumen and ability:

- Entrepreneurship helps in restoring the confidence and pride of people having entrepreneur acumen and talent, particularly the unemployed youth in the country.
- SSIs provide an excellent platform for entrepreneurs in this direction.

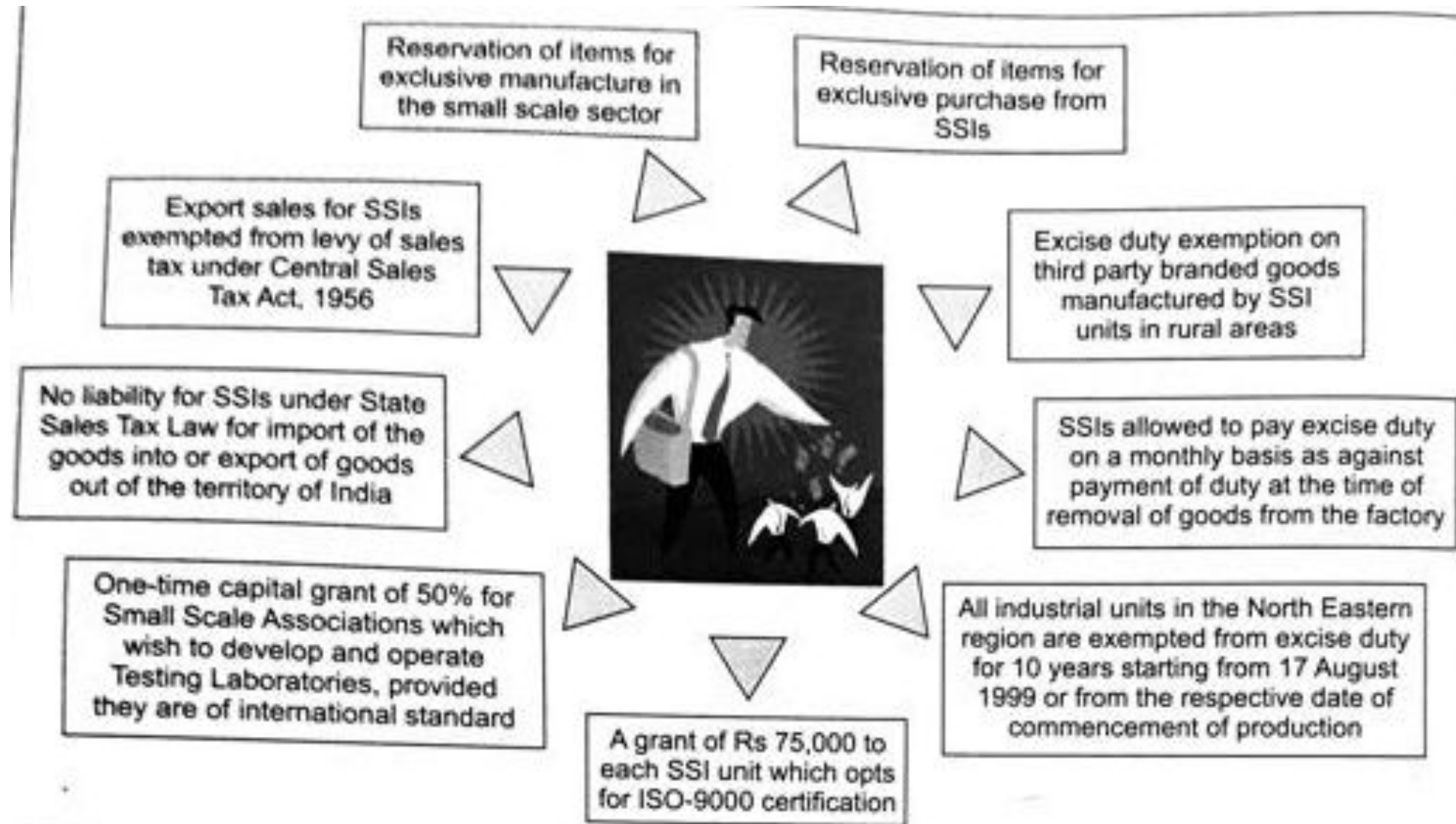
# Government Policy towards SSI:

- Government policies towards SSI have aimed at the simultaneous development of all the segments of small industry, viz. the village, cottage, and modern enterprises.
- The policy framework and the promotional measures are intended to enable the small-scale units withstand competition from the large-scale enterprises.
- So far, a total of 6 industrial policy resolution statements have been formulated so as to promote industrial growth and also to determine the pattern of State assistance to small industries for fulfilling socio-economic objectives.

- Industrial policies have over the years promoted SSIs through various incentives in order to fulfil socio-economic objectives.
- Incentives were related to financial, fiscal, and infrastructural measures and were targeted at achieving the growth of the sector during various 5-year plan periods.
- Incentives were extended either on a “one-time” basis or in the form of sustained support for a specified period.
- While some incentives were made available to all industrial units including the large-scale sector, others were available exclusively for the SSIs.

# Different Policies of SSI:

- The government has created a myriad of policies to attract entrepreneurs to start their small-scale ventures and to support them.
- The government has provided policies in which it has directly provided concessions to SSIs in the form of excise duties, sales tax, reservations, etc. rather than through institutions created by it to support the SSIs in various ways.
- The figure shows the different policies provide concessions and support to the SSIs in a big way.



## Different Policies of SSI



## • Different policies of SSI:

1. Reservation of items for exclusive manufacturer in the small-scale sector
2. Reservation of items for exclusive purchase from SSIs
3. Excise duty exemption on third party branded goods manufactured by SSI units in rural areas
4. SSIs allowed to pay excise duty on a monthly basis as against payment of duty at the time of removal of goods from the factory
5. All industrial units in the North-Eastern region are exempted from excise duty for 10 years starting from 17th August 1999 or from the respective date of commencement of production
6. A grant of Rs. 75,000 to each SSI unit which opts for ISO-9000 certification
7. One-time Capital grant of 50% for Small Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard
8. No liability for SSIs under State Sales Tax Law for import of the goods into or export of goods out of the territory of India
9. Export sales for SSIs exempted from levy of sales tax under Central Sales Tax Act, 1956

## 1. Reservation of items for exclusive manufacturer in the small-scale sector:

- In order to strengthen the SSIs and make them economically viable, a policy of reservation of products for exclusive manufacturer in the SSI sector was initiated in 1967 with 47 items having been initially reserved to promote and protect the small-scale sector vis-à-vis the large-scale sector.
- The list of reserved items has been reviewed from time to time aiming at:
  - i. De-reservation of items, which no longer required reservation;
  - ii. reservation of additional items; add
  - iii. change in the nomenclature of listed items.

## 2. Reservation of items for exclusive purchase from SSIs:

- Under the Government Stores Purchase Programme, the Director General of Supplies and Disposal(DGS&D) of the Ministry of Supplies arranges for the purchase and delivery of all stores intended by different Ministries of the Government of India and their attached offices.
- The purchase policy of the government has two ways of providing marketing support to SSIs as against latest scale units/other suppliers.
  - a. Purchases are made exclusively from SSI units for specified items known as reserved items.
  - b. Even for those items which are not reserved, a purchase price preference of 15% as against the quotations from large scale units/other suppliers, is given to the SSI units.
- Thus, SSIs get protected from market competition in the matter of purchases made by DGS&D.

### 3. Excise duty exemption on third party branded goods manufactured by SSI units in rural areas:

- This policy promotes entrepreneurship and rural areas whereby entrepreneurs manufacture goods there, which are later supplied to other companies (third parties) for selling them with their brand.
- This policy thus helps in employment generation in rural areas.

### 4. SSIs allowed to pay excise duty on a monthly basis as against payment of duty at the time of removal of goods from the factory:

- This policy provides flexibility to the small enterprises to make excise duty payment for all the supplies made by them in a month taken together rather than taking the trouble of making excise duty payment every time a supply of goods leaves the facility for being dispatched to the customer.

5. All industrial units in the North-Eastern region are exempted from excise duty for 10 years starting from 17th August 1999 or from the respective date of commencement of production:
  - The North-Eastern region of the country was deprived of industrial activity for a long time and this policy of the government seeks to eliminate this regional imbalance.
6. A grant of Rs. 75,000 to each SSI unit which opts for ISO-9000 certification:
  - Quality of products produced by the SSI sector has been a concern and therefore, the government floated this policy to increase SSIs for establishing quality management system so that their products may compete well in the market place against the products of their large-scale rivals.

7. One-time Capital grant of 50% for Small Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard:

- The government has created several testing laboratories itself.
- Nevertheless, this policy aims to strengthen the efforts of SSI associations to establish their own testing laboratories.
- This will help and encouraging private participation in SSI infrastructure development.

8. No liability for SSIs under State Sales Tax Law for import of the goods into or export of goods out of the territory of India:

- The State governments have, through this policy, provided a great relief to SSIs which are into export-import activities.

9. Export sales for SSIs exempted from levy of sales tax under Central Sales Tax Act, 1956:

- The Central Government has provided this exemption to encourage SSIs to export their products abroad and earn valuable foreign exchange for the country.

# **Chapter 7:**

# **Institutional Support**



# MSME-DI: (Micro, Small, and Medium Enterprises)

- There are 30 MSME development institutes (formerly Small Industries Service Institutes, SISI) and 28 branch MSME development institutes set up in state capitals and other industrial cities all over the country.
- **Functions of MSME-DI institutions:**
  1. Assistance/consultancy to prospective entrepreneurs
  2. Assistance/consultancy rendered to existing units
  3. Preparation of state industrial profiles
  4. Preparation/updation of district industrial potential surveys
  5. Project profiles

6. Entrepreneurship development programmers
7. Motivational campaigns
8. Production index
9. Management development programmes
10. Energy conservation
11. Pollution control
12. Quality control and upgradation
13. Export promotion
14. Common facility workshop/labs
15. Coordination with district industries centres
16. Linkage with state government functionaries
17. Market surveys

- MSME Development institutes and their branches have common facility workshops in various trades.
- There are at present 42 such common facility workshops attached to MSME development institutes.

**National**

**Small**

**Industries**

## **Corporation(NSIC):**

- NSIC Established in the year 1955.
- It has been working to fulfill its mission of promoting, aiding, and fostering the growth of small-scale industries in the country.
- Over a period of 5 decades of transition, growth and development, NSIC has proved its strength within the country and abroad by promoting modernization, upgradation of technology, quality consciousness, strengthening linkages with large and medium enterprises and enhancing exports-projects and products from small industries.
- NSIC operates through 9 zonal offices, 33 branch offices, 14 sub offices, 10 NSIC business development extension offices, 5 technical service centres, 3 extension centres, and 2 software technology parks supported by a team over 500 professionals spread across the country.

- **Functions:**

- NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes design to put them in a competitive and advantageous position.
- The schemes compromise of facilitating marketing support, credit support, technology support, and other support services.

# Small Industries Development Bank of India(SIDBI):

- Established on 2nd April 1990, the Small Industries Development Bank of India (SIDBI) is the principal development financial institution for promotion, financing and development of industries in the small-scale sector and for coordinating the functions of other institutions engaged in similar activities.
- SIDBI has vision to empower the MSME sector with a view to contribute to the process of economic growth, employment generation, and balanced regional development.

- **Functions of SIDBI:**

- 1. Indirect finance:**

- Refinance scheme is used for catering to the need of funds of eligible primary lending institutions (PLIs) like state financial corporations, state industrial development corporations, scheduled commercial banks both in the public and private sector, etc. for financing small scale industries.
- Under the scheme, SIDBI grants refinance against term loans granted by the eligible PLIs to industrial concerns for setting up industrial projects in the small-scale sector as also for their expansion/modernization/diversification.

## **2. Direct finance:**

- Through 38 of SIDBI's own offices by means of several tailor-made schemes to provide financial assistance to specific SSI target groups.

## **3. Promotional and developmental activities:**

- Like human resource development in SSI sector, technology upgradation, programmes on environment and quality management, market promotion, information discrimination, etc. by involving accredited non-governmental organisations, voluntary organisations, scientific and research institutions, technology institutions, management institutions, etc.



# Karnataka State Industrial Investment and Development Corporation(KSIIDC):

- Established in 1964, Karnataka State Industrial Investment and Development Corporation(KSIIDC) has been greatly instrumental in the industrialization of the State, especially in the large and medium sector.
- **Functions:**
  1. An important arm of the state is bringing industrial move in various sectors, KSIIDC has assisted 135 startup ventures through equity participation to the extent of Rs. 118.28 crores spread over the length and breadth of the State.

2. KSIIDC has also extended financial assistance in the form of debt to core sector industries like steel, cement, mining and textiles and modern sector industries like information technology, aviation, telecommunication, and other infrastructure projects to the extent of around Rs. 2,223 crores.
3. KSIIDC has been instrumental in establishing Jindal Vijayanagar Limited (JSW Limited), Vikrant Tyres Limited, Karnataka Antibiotics and Pharmaceuticals Limited, etc.
4. Persistent efforts of KSIIDC as the nodal agency of the State aided in realising the dream of setting up the country's first green field International Airport at Devanahalli on public private sector partnership. This has brought in international standards in the aviation sector. Established at a cost of about Rs. 2000 crores, the airport is presently meeting the search of air traffic in Bangalore.

# Karnataka Industrial Areas Development Board (KIADB):

- Karnataka Industrial Areas Development Board (KIADB) engaged in acquiring and developing industrial lands in different industrial areas.
- In case the investor desires, KIADB acquires land in specific location of investors choice and develops the land if required, at entrepreneur's cost.
- KIADB industrial lands are generally of “ready to occupy” condition with all basic infrastructure facilities.
- The KIADB allot the land on lease-cum-sale basis and the period of lease is 10 years.

- The allottees are required to set up the industry within a specified time frame.
- Further, allottees are required to construct the factory and other buildings as per the plan approved by the Directorate of Factories and Boilers(DFB).
- The stipulations on coverage, setback, floor area, etc. are to be followed as spelt out in the agreement to be executed between the KIADB and allottee at the time of allotment.

# Karnataka State Financial Corporation(KSFC):

- Karnataka State Financial Corporation(KSFC) is one of the fast track term lending financial institution in the country, with assistance to more than 1,59,225 units amounting to nearly Rs. 8,537 crore over the last 49 years in Karnataka.
- It is one of the robust and professionally managed state financial corporations.
- **Functions:**
  - KSFC provides term loans for establishment of new Tiny/SSI/MSI/ service units and for expansion/modernization/diversification of existing units.

# Directorate of Industries and Commerce(DIC):

- The Directorate of Industries and Commerce, Government of Karnataka, is one of the oldest institutions set up under the aegis of the government.
- Established in the year 1913 under the erstwhile Princely State of Mysore, the department oversees the industrial development in the State.
- The department is able to reach out to the small businesses as well as the industrial houses by the great degree of decentralization within the organizational structure.

- The department **functions** through the districts industries centres, KVI offices, various boards, corporations and special purpose vehicles.
- The implementation of policies of the government has done through various schemes and the implementation of these schemes is decentralised for faster delivery of services.
- The department has established the single window mechanism for faster, single point clearances to be given to projects seeking infrastructure facilities/incentives/concessions and helps in establishing industries and businesses in Karnataka.
- Karnataka Udyog Mitra is the nodal agency under the single window setup.

- They are the District Level Single Window Agency(DLSWA), State Level Single Window Agency(SLSWA), and the High Level Committee(HCL).
- There is a screening committee, which screens projects to be placed before high level committee.
- The screening committee as recently been empowered to sanction infrastructure facilities and such of those incentives and concessions which are laid out within the approved policies of the State.