
An overview of the Government Policies, Initiatives and Incentives for SSI Sector in India

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Abstract:

It is a well-established fact that the small-scale industries play an important role not only in the growth of global output and world trade but also in employment generation and balanced regional development. There is widespread recognition within India that vibrant SSIs are potentially a key to the engine of economic growth, job creation and greater prosperity. The primary responsibility to develop small-scale industries in the States rests with the State Governments concerned. However, the Government of India announces, from time to time, various incentive schemes, concessions and support services for the promotion of industries particularly in industrially backward areas and other special regions to reduce regional imbalances. Many measures have been taken up by the Government as policy initiatives just to boost up the growth and performance of SSI sector: Reservations of Items for Exclusive Purchase from SSIs Under the Government Stores Purchase Programme, the Director General of Supplies and Disposal 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 Government has laid emphasis on an increase in the purchases of different types of items from the small-scale industrial units. The National Small Industries Corporation Limited has been designated as the nodal agency to promote the marketing of SSI products to the Government under the preferential purchase policy.

Key words: Village and Small Industries, **Fiscal Incentives**, trade liberalisations

Introduction:

It is a well-established fact that the small-scale industries play an important role not only in the growth of global output and world trade but also in employment generation and balanced regional development. The growth of the sector has catalytic effect on the overall growth of the economy. As per the Government of India's Tenth Five Year Plan (2002-2007), achieving and sustaining high rate of growth and employment will require a sharp step-up in industrial and services growth, spurred by SSIs, which have the greatest potential to provide high wage employment for the 60 per cent of the labour force still working in agriculture. Indeed, now there is widespread recognition within India that vibrant SSIs are potentially a key to the engine of economic growth, job creation and greater prosperity. SSI sector has constantly been receiving special attention from the policymakers by way of support and incentives. Initiatives and significant measures were taken up by the Government for the promotion and development of SSIs. These measure included protection to SSI sector, developing infrastructural facilities, modernisation and technology upgradation. A treatment of "priority sector" was specially accorded to SSIs by the financial sector for providing required financial assistance to SSI units. All these efforts resulted in the form of robust growth trend duly maintained by the SSI sector for last several years.

Central Government's Small Industry Policies and Initiatives:

The Central Government laid stress on promotion of Village and Small Industries (VSI) as this sector could play an important role in the overall process of economic development. The report of the Ford Foundation Team (1954) of the Government of India emphasised on pro-active role of the modern small-scale units as an organic component of the emerging industrial structure. Government policies have thus, aimed at the simultaneous development of all the segments of small industry, i.e., the village, cottage and modern industries. The policy frame and the promotional measures intended to enable the small-scale units withstand competition from the medium and large-scale enterprises.

The Industrial Policy Resolution, 1948 The resolution spelt out the details of some basic and strategic industries to be established by the State in addition to those, in which the private sector could be permitted to play a role, subject to controls and regulations. The policy aimed at balanced growth of different manufacturing sectors and focused on the co-existence of large, medium, cottage and small industries. An emphasis was laid on the promotion of cottage and small scale industries as these could play a crucial role in the rehabilitation of displaced persons through the establishment of individual as well as co-operative enterprises.

The Industrial Policy Resolution, 1956 This resolution supported the initiation of measures to improve the competitive strength of the small enterprises while recognising the role of SSI sector in providing employment opportunities, mobilizing local skills and capital resources, and integration with the large sector. Emphasis was placed on the creation of facilities such as Industrial Estates and rural community workshops to provide the required production technologies, other amenities and incentives.

The Industrial Policy Statement, 1977 This policy statement stressed the wider dispersal of cottage and small industries into rural areas and small towns. It emphasised that "Whatever could be produced by cottage and small industries must only be so produced". This philosophy led to the expansion of the list of reserved items for exclusive production by the SSI sector. The concept of the tiny sector was introduced within the SSIs giving special consideration and extending help by way of provision for margin money assistance. The concept of District Industries Centres was also mooted so that in each district, a single agency could meet all the requirements of village and small industries under one roof.

The Industrial Policy Statement, 1980 It focused on integrated industrial development and suggested the setting up of nucleus plants in these districts, which were identified as industrially backward with the expectation that these would help the spatial dispersal of small ancillary units and the existing network of SSI units would grow faster. SSI units were redefined by raising the ceiling of investment in plants and machinery.

The Industrial Policy, 1990 It introduced important measures like raising the investment ceilings in plant and machinery for SSIs, export oriented and tiny units, creating a central investment subsidy exclusively for the SSI sector in rural and backward areas, assisting women entrepreneurs with an objective of widening the entrepreneurial base.

The Industrial Policy, 1991 This policy announced "New Policy Measures for Small, Tiny and Village, enterprises" with the objective of imparting a vitality and growth impetus to the sector. These measures were announced subsequent to the policy of delicensing, decontrol, deregulation, liberalisation and structural reform of the economy in general and industrial and trade policies in particular that were initiated in July, 1991. Small scale and ancillary undertakings were exempted from licensing for all articles of manufacture which were not covered by the reserved list for public sector and those kept under compulsory licensing. The investment limit for tiny

enterprises was raised to Rs. 5.0 Lac. and locational conditions were withdrawn. All industry-related service and business enterprises with an investment ceiling as those of tiny enterprises were, irrespective of location, recognised as SSIs. Equity participation by other industrial undertakings was permitted upto a limit of 24 per cent of shareholding in SSIs to boost ancillarisation and a strengthening of the capital base. A new scheme of 'Integrated Infrastructural Development for SSIs' was provided for with the participation of State Governments and financial institutions.

The Industrial Policy 2023: Government announced increase in the investment limits in plant and machinery of small scale industries, ancillary units and export – oriented units to Rs 6 million, Rs 7.5 million, and Rs 200 thousand respectively. Such limits in respect of "TINY" ENTERPRISES would now be increased from the present Rs 200 thousand to Rs. 500 thousand, irrespective of location of the unit. Limit in plant and machinery for determining the status of MSME/Ancillary units as on date is Rs 10 million. For tiny it is Rs 2.5 million and for SSSBE Rs 500 thousand. While the small scale sector (other than 'Tiny Enterprises') would be mainly entitled to one-time benefits (like preference in land allocation/power connection, access to facilities for skill/technology upgradation), the 'Tiny' enterprises would also be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws.

It has also been decided to widen the scope of the National Equity Fund Scheme to cover projects upto Rs. 1 million for equity support (upto 15 per cent). Single Window Loan Scheme has also been enlarged to cover projects up to Rs 2 million with working capital margin upto Rs 1 million. Composite loans under Single Window Scheme, now available only through State Financial Corporations (SFCs) and twin function State Small Industries Development Corporation (MSMEDCs), would also be channelized through commercial banks. This would facilitate access to a larger number of entrepreneurs.

Policy Changes in the Post-Liberalisation Era (After 1991) The new policy measures introduced in 1991 by the Government, in the wake of economic liberalisations, have resulted in competition in the village and small industries sector with the challenge to achieve greater industrial efficiency and international competitiveness. Domestic competition has been intensified by the investment. The policy initiatives have focused on changing the basic orientation of the industry. The trade liberalisations have the dual objective of increasing exports as well as the employment opportunities. The process of privatisation has been continued as a part of the reform programme encouraging foreign investors to invest in India. The policy to attract foreign investment has a direct impact on the programmes & performances of SSIs.

Central Government Incentive Schemes for SSI Sector

The primary responsibility to develop small-scale industries in the States rests with the State Governments concerned. However, the Government of India announces, from time to time, various incentive schemes, concessions and support services for the promotion of industries particularly in industrially backward areas and other special regions to reduce regional imbalances. The incentives and schemes are reviewed periodically and some of the concessions may be discontinued in specified areas or industries keeping in view the performance and

changing needs of the industries.

Fiscal Incentives

These types of incentives are provided through tax concessions granted in the form of exemptions, rebates, refund or postponement of direct or indirect taxes leviable on production or profits, besides special tax concessions. Such measures include tax incentives and concessions from profits and gains in form of deductions under various provisions of Income Tax Act, incentives for exports including duty drawbacks, exemption and preferential treatment from excise duties, custom duties and sales tax, capital investment subsidy, transport subsidy, financial assistance and loans at concessional rates, etc.

(ii) Incentives through the Policy of Reservation and Protection:

Following measures have been taken up by the Government as policy initiatives just to boost up the growth and performance of SSI sector: Reservations of Items for Exclusive Purchase from SSIs Under the Government Stores Purchase Programme, the Director General of Supplies and Disposal 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 Government has laid emphasis on an increase in the purchases of different types of items from the small-scale industrial units. The National Small Industries Corporation Limited has been designated as the nodal agency to promote the marketing of SSI products to the Government under the preferential purchase policy. The purchase policy of the Government has two ways of providing marketing support to SSIs as against large-scale units and other suppliers. Firstly, purchases are made exclusively from SSI units for specified items known as reserved items. Secondly, even for those items, which are not reserved, a purchase price preference of 15 per cent, as against the notations from large-scale units, is given to SSI units. Thus, SSIs get protection from market competition in the matter of purchases made by the Government. Prior to 1989, the Store Purchase Policy of the Government of India had six categories of products. In the wake of economic liberalisation policy, the list of various items reserved for exclusive purchase from SSI sector was reduced so many times whenever reviewed and needed.

Conclusions:

The Governments both Central and state are very much in favour of providing various incentives and policy help to SSI so as to make them grow with more vigour. Some specially designed policies and provisions are in existence which have proved successful for SSI. However, these need to be properly implemented and used by the beneficiaries so that new and more schemes can be introduced.

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