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Small Scale and Cottage Industries in India

(a) Small scale industries are mostly located in urban centres as separate units, but the cottage industries are normally associated with agriculture and provide subsidiary employment in rural areas; and

(b) Small scale industries produce goods with mechanized equipment's, partially or fully, but the cottage industries involve activities mostly by hand and are performed primarily with the help of household workers.

In India, the small scale industrial sector has been growing at a very rapid scale. Industrial Policy Resolutions, 1948, 1956 and more particularly the Industrial Policy Statement, 1977 have offered a special favour for the development of small scale industries in India. Initially the fixed capital investment limit of the small scale units was restricted to Rs. 5 lakh and later on the

limit has been raised to Rs. 10 lakh for small scale unit and Rs. 15 lakh for ancillaries in 1975.

Again this fixed capital investment limit was raised to Rs. 15 lakh for small units and Rs. 20 lakh for ancillary units in 1980. In 1985, this investment limit was further raised by the Government to Rs. 35 lakh for small scale units and Rs. 45 lakh for ancillary units.

Again the Industrial Policy statement, 1990 raised the investment ceiling in plant and machinery to Rs. 60 lakh for small scale units and Rs. 75 lakh for ancillary unit and for the “tiny” units the limit was raised from Rs. 2 lakh to Rs. 5 lakh. Small scale industries were also given extra incentives for export.

Thus, their investment limit was raised further to Rs. 95 lakh on condition that these small scale units should export 30 per cent of their output by the third year of their commencing production.

In 1996-97 (January 1997), the Government of India in its policy of industrial reforms has again enhanced the investment ceilings in plant and machinery for small scale industries (SSI) and ancillary units from Rs. 60 lakh and Rs. 75 lakh respectively to Rs. 3 crore and that for the tiny sector has also been raised from Rs. 5 lakh to Rs. 25 lakh, Thus, this investment ceiling of SSI unit would also apply to ancillary and export oriented units for which no separate limit has been prescribed.

In 1999-2000, the investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crore to Rs. 1 crore.

Again the Union Budget 2007-08 has also proposed to raise the exemption limit of Small Scale Industry (SSI) from Rs. 1.0 crore to Rs. 1.5 crore.

Moreover, the process of reservation of items of production exclusively by the small scale sector was started in 1967 and reached the peak in 1984. There has been a continuous relaxation of the reservation policy overtime and the number of items reserved for the small scale sector was 239 on January 22, 2007.

The process of de-reservation of items from small scale sector continued in recent years. Number of items de-reserved in 2005, 2006 and 2007 were 108,180 and 212 respectively. Again on February 5, 2008, the Government has excluded an additional 79 items from a list of 114 items which can be exclusively manufactured in the small scale sector. With this de-reservation, only 35 items can now be manufactured in the SSI sector.

The Government has been de-reserving items in a gradual and calibrated manner to increase competitiveness of the industry, facilitate adequate flow of credit and upgrade technology. The 35 items that would continue to be manufactured in the SSI sector include—food and allied items, wood, wood products, paper, paper products, plastic product, organic chemicals, drug, drug intermediates, other chemicals, chemical products, glass, ceramics, mechanical engineering and electrical machines, appliances and apparatus.

MSMED Act, 2006:

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which provides the first ever legal framework for recognition of the concept “enterprise” (comprising both

manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium.

Under this Act, enterprises have been categorised broadly into those engaged in (i) manufacturing and (ii) providing/rendering of services and that too classified into micro, small and medium enterprises. For manufacturing enterprises, the investment limit of Micro enterprises is fixed at Rs. 25 lakh, small enterprises above Rs. 25 lakh to Rs. 5 crore, Medium enterprises above Rs. 5 crore to Rs. 10 crore. For service enterprises the investment limit is fixed at for Micro enterprises—upto Rs. 10 lakh, small enterprises—above Rs. 10 lakh to Rs. 2 crore and Medium enterprises—above Rs. 2 crore to Rs. 5 crore.

The Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprise and with a wide range of advisory functions and an Advisory Committee in found to assist the Board and the Centre/State Governments.

The other features of Act include:

- (i) Establishment of specific funds, for the promotion, development and enhancement of competitiveness of these enterprise;
- (ii) Notification of schemes/programmes for the purpose;
- (iii) Progressive credit policies and practices,
- (iv) Preference in Government procurements to products and services of the micro and small enterprises;
- (v) Introducing most effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and
- (vi) Simplification of the process of closure of business by all three categories of enterprise.

2. Amendment to KVIC Act:

The government has amended the Khadi and Village Industries Commission Act, 1956 introducing several new features to facilitate professionalism in the operations of the Commission as well as field level formal and structured consultations with all segments of stakeholders. Accordingly the commission has been constituted.

3. Approval of Package:

A package for promotion of Micro and Small enterprises has been approved recently, to address most of the concerns in the areas such as credit, cluster-based development, infrastructure, technology and marketing. Besides, capacity building of MSME Associations and support of Women entrepreneurs are the other important features of this package.

4. Setting up EGOM:

An Empowered Group of Ministers (EGOM) under the Chairmanship of the External Affairs Minister has been set up to lay down a comprehensive policy for cluster development and to oversee its implementation.

5. Introducing CGTSI:

Under the Credit Guarantee Scheme, life insurance cover for chief promoters of units provided guarantee cover by the Credit Guarantee Fund Trust for Small Industries (CGTSI) has been introduced. Further, the one-time guarantee fee under the scheme has been reduced from 2.5 per cent to 1.5 per cent with effect from April 1, 2006.

6. De-reservation:

After due consultation with the stakeholders, 180 items reserved for exclusive manufacture in micro and small enterprises have been de-reserved on May 10, 2006 and 87 such items have been de-reserved on January 22, 2007.

Major Initiatives Taken by the Government:

Recently, the Government has taken some major initiatives to revitalize MSME sector. These are:

(i) Implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

(ii) A “Package for Promotion of Micro and Small Enterprises” was announced in February 2007. This includes measures addressing concerns of credit, fiscal support cluster-based development, infrastructure, technology and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package.

(iii) To make the Credit Guarantee Scheme more attractive, the following modifications have been made :

(a) enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh; (b) raising the extent of guarantee cover from 75 per cent to 80 per cent for (i) micro enterprises for loans upto Rs. 5 lakh, (ii) MSEs operated or owned by women and

(iii) all loans in the North-Eastern Region; and (c) reducing our time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North Eastern Region.

(iv) The phased deletion of products from the list of items reserved for exclusive manufacture by micro and small enterprises in being continued 125 items were de-reserved on March 13, 2007 reducing the number of items reserved for exclusive manufacture in micro and small enterprises sector to 114.0. Further, 79 items were de-reserved through a notification dated February 5, 2008.

Assignments:-

a)What is MSME? Explain the features of MSME?

b) Elaborate, How in industrial policy small scale industry is being highlighted? Also explain the amendment act related to Small Scale Industry & Cottage Industry?

c) What are the role of government to elevate this sector?