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Government Policy towards Small Scale Industries

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ABSTRACT:

Small and medium businesses (SMEs) are supported and promoted by government initiatives known as Small Scale Industries (SSIs). The aims and effects of government programs that are meant to promote the expansion and development of SSIs are highlighted in this abstract. Government policies regarding SSIs are intended to stimulate the expansion and viability of these companies by providing supportive environments. Governments are aware of how crucial SSIs are to stimulating innovation, creating jobs, reducing poverty, and developing the economy.

KEYWORDS:

Bounty, Incentive, Subsidy, Small Scale Industries.

I. INTRODUCTION

Government policies regarding SSIs include a wide range of topics, including financial assistance, the creation of infrastructure, the establishment of regulatory frameworks, the improvement of skills, and market access. Financial assistance comprises programmes like opening up loans, subsidies, and grants to support the capital needs and operating requirements of SSIs. To increase the competitiveness and productivity of SSIs, infrastructure development focuses on enhancing physical infrastructure, such as roads, energy, and telecommunications. Regulatory frameworks are designed to make bureaucratic procedures simpler and less onerous for SSIs. This entails expediting licencing processes, making tax compliance easier, and establishing favourable legal conditions for doing company. Through training programmes and vocational education, skill development efforts concentrate on strengthening the competencies and capacities of business owners and employees in SSIs.

Government initiatives also seek to make it easier for SSIs to reach markets both locally and abroad. This comprises activities include fostering domestic commerce, offering export incentives, and establishing SSI-friendly trade deals [1]–[3]. Government policies concerning SSIs have a big influence. These measures have stimulated more entrepreneurship, the creation of jobs, and the generating of money. They have assisted SSIs in overcoming a variety of obstacles and hurdles, allowing them to compete in both home and foreign markets. The adoption of sustainable practices, technical improvements, and innovation within the SSI sector have all benefited from government backing.

Government policies regarding SSIs are intended to foster an environment that is favorable to their development. These regulations are designed to meet the unique requirements and difficulties encountered by SSIs and to help them realize their full potential as generators of employment and economic progress. Governments can enable SSIs to flourish, contribute to local economies, and promote a more equitable and sustainable development path by putting in place appropriate legislation.

II. DISCUSSION

Indian Industrial Policy Resolutions

Since independence, the Central Government has published a series of six Industrial Policy Resolutions intended to encourage industrial growth and establish a pattern of State intervention and aid. The Industrial Policy Resolution, 1948 recognized cottage and small scale industries as being particularly suited for better utilization of local resources and achievement of "local self-sufficiency" in respect of certain types of industrial goods, while outlining the framework of the basic and strategic industries. In 1956, the government made the decision to start taking steps to increase the competitive power of small and rural enterprises, and this is when the policy of supporting cottage, village, and small industries first took shape. The 1956 Resolution highlighted the potential contributions of the SSI sector in terms of job creation, capital resource mobilization, and large-scale industrial sector integration.

Wider distribution of cottage and small industries in rural areas and small towns was emphasized in the Industrial Policy Statement of 1977. To give services to small enterprises under one roof, the idea of district industries centers was also proposed roof. Although the Industrial Policy Statement of 1980 was significant in terms of ancillarization and the development of a nucleus, aiming for the sector's expansion that of 1990 placed a focus on measures to increase the SSI Sector's contribution to overall exports, employment creation, and the spread of enterprises in rural areas.

Promotion and bolstering of small, niche, and village businesses received special attention from the Industrial Policy measures introduced in 1991. A new plan of integrated infrastructure development for SSIs with the cooperation of State Governments and Financial Institutions was launched, and a proactive role for the NGO sector was envisaged, in addition to enacting adjustments in investment restrictions, equity participation, etc. According to its policies, the government has periodically launched a number of support measures, such as a reservation policy, changes to investment ceilings, modernization, technology advancement, marketing support, etc., in an effort to safeguard their interests and promote their rapid development. The changing liberalized and competitive economic environment has made it necessary to make structural and fundamental adjustments to the framework of policies put in place to support the growth of this important sector of the economy. As a result, the emphasis has shifted from "protection" to "promotion." The government has taken a number of actions in the post-reform period to strengthen this sector, including partial de-reservation, changes to investment limits, facilitating foreign participation, the establishment of growth centers, export promotion, marketing assistance, and incentives for quality improvement. The following are the key points of the August 1991 Small Scale Industries Policy:

a. The tiny sector's investment cap was increased from Rs. 2 lakhs to Rs. 5 lakhs. The current upper limit is Rs. 25 lakhs.
b. From this point forward, small-scale industries will be recognised regardless of their location.
c. The Small Industries Development Organisation (SIDO) has been acknowledged as the central organisation for supporting and promoting small size industries.
d. To support small scale units through its network of field officers and further boost the sector's export activity, SIDO would establish an export development centre.
e. SIDO will establish a technology development cell (TDC), which could offer technological inputs to enhance the quality and competitiveness of small-scale sector products.
f. The handloom sector's plan, which accounted for 30% of the nation's total textile output, will be revised in light of regional and local demands. The government's strategy would be to support handloom in order to maintain employment in rural areas and enhance the standard of living for handloom weavers.
g. The National Small Industries Corporation (NSIC) would focus on marketing products for broad consumption using a single brand name and establishing organizational ties with SSIDCs would be set up.
h. The national equity fund scheme's coverage area will be expanded to include projects up to Rs. 10 lakhs for equity support (up to 15%).
i. The Single Window Loan Scheme has also been expanded to include Projects with a working capital margin of up to Rs. 10 lakhs and a maximum of Rs. 20 lakhs.
j. Medium and large scale industries, public undertakings, NRIs, or foreign investment may provide equity support to small scale units up to a maximum of 24% of the total investment.

The development banks have created a variety of promotional innovation schemes to be conducted either independently or together in accordance with the socio-economic objectives of the national development plans. Important programmes include the soft loan programme, risk capital assistance, concessional programmes, and seed capital aid. Additionally, IFCI runs a variety of subsidy programmes for start-up and small businesses. Eight consulting programmes and four interest subsidy programmes have recently been created for the benefit of business owners [4]–[6].

Even in the country's newly liberalized economic environment, the SSI Sector has proven its mettle. The steps necessary for the economy's opening up have had an impact on this sector's operations, creating both new opportunities and obstacles. Providing support through appropriate actions to improve it is unquestionably necessary in order to enable it to turn problems into opportunities for reaching new heights. The government established a new Ministry of Small Scale Industries and Agro and Rural Industries on October 14, 1999, under the Independent Charge of a Minister of State, to allow it to give the SSI Sector's issues more focused attention.

The Minister in charge of Small Scale Industries and Agro & Rural Industries unveiled a "Agenda for the Millennium" that places special emphasis on the development of a new policy framework, improved credit availability, better infrastructural facilities, and impetus for modernization and technology upgradation in small scale industries. This was done to give the development strategy direction and perspective. The Agenda recognises the special role that information technology, emerging industries, high-tech industries, and export-oriented industries must play while also stipulating all necessary measures to meet the needs of the tiny and micro-enterprises, which make up more than 95% of all small scale industrial units in the nation.

A Study Group on the Development of Small Enterprises was established by the Planning Commission in 1999 under the leadership of Dr. S.P. Gupta, a member of the Planning Commission, in recognition of the vital role that small businesses play and the challenges they face. The Study Group turned in its findings on July 13th, 2000.

Concessions and rewards are included under the term "incentive". The term "subsidy" refers to a one-time payment made by the government to an industry. It is given to a sector of the economy that is deemed crucial to the interest of the country. The term "bounty" refers to a bonus or financial benefit that a government provides to a business to aid in its ability to compete with other units inside a country or on a foreign market. It is distributed proportionately to output. A bounty supports a specific industry, whereas a subsidy is provided for the benefit of the whole country.

The following benefits are provided by these subsidies and incentives:

a. They serve as a motivating factor that draws potential entrepreneurs into the manufacturing industry.
b. They encourage business owners to launch industries in underdeveloped regions.
c. By offering subsidies and incentives, the government can:

i. bring industrial development uniformly to all regions,
ii. foster the growth of more new businesses that foster entrepreneurship,
iii. improve businesspeople's capacity to compete successfully, and
iv. lessen the problems that small-scale entrepreneurs face generally.

Schemes for Incentives

The following are some of the incentive programmes that the Central and State Governments, as well as the Union Territories, offer to Indian entrepreneurs:

Encouragements for the Development of Industries in Underdeveloped Areas:

Government of India has periodically announced a variety of concessions and advantages for industries founded in particular disadvantaged districts/areas as part of efforts to maintain balanced regional development. About 70% of the country's territories, or 247 districts, have been designated by the central government as being in need of assistance. To expand this list in order to provide state-level subsidies, many state governments have done so. Below is a quick description of the assistance plan created to help businesses establish themselves in the district or backward area that was chosen:

i. Concessional finance: Regardless of the project costs, all new and existing industrial projects with expansion schemes located in the 247 districts chosen by the government are given financial assistance on favorable terms by all India financial institutions, including the Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India, and Industrial Development Bank of India. The benefits provided by these financial institutions include lower interest rates—9.5% p.a. instead of the standard 11%—a 0.5% reduction in the commitment fee (which may be waived in exceptional circumstances), lower underwriting commissions of 1.25% for shares and 0.75% for debentures, an initial moratorium period of up to five years, longer amortizations of 15 to 20 years, and selective participation in risk capital. In addition to these, the IDBI maintains a flexible attitude about promoter contributions, margin requirements, and rescheduling repayments over the loan's term. The principal lender's rate is subject to a cap of 9.5%, while the IDBI assesses a special rate of 6% depending on the merits of particular circumstances regarding reliance. Refinancing rates typically range from 6% to 12.5%, depending on the underlying loan institution.

ii. **Subsidy for capital investments:** Capital investment subsidy refers to the payment of a cash subsidy for a capital investment. Typically, it takes the form of an outright grant of 10% to 20% of the capital invested in industrial units in regions and districts designated as being economically depressed. The Central Government provides it.

Stricts/areas have been chosen to be eligible for the Central Investment Subsidy out of the districts that the planning committee determined to be backward. These districts/areas were chosen according to a system where industrially developing states receive six districts/areas and other states receive three districts/areas. The following list includes the scheme's key characteristics:

a. **Quantum of subsidy:** 10% of the investment made in fixed capital, such as land, buildings, and machinery, was to be reimbursed as an outright grant up to a maximum of Rs. 15 lacs when the scheme was first introduced in 1971. This increased to 15% as of January 1, 1973. However, the maximum payment is limited to Rs. 15 lacs per industrial unit. Following the classification of underprivileged districts into categories (A), (B), and (C), the subsidy will be as follows: (A) 25% up to a maximum of Rs. 25 lacs; (B) 15% up to a maximum of Rs. 15 lacs. (c) 10%, but not more than Rs. 10 lacs.

b. **Eligibility:** A non-departmental industrial unit that made investments in land, buildings, plant, and machinery on or after 1-3-1973 and is situated in the aforementioned group of districts or areas is entitled to apply for subsidies. Existing units that consider diversification, modernization, and growth are also qualified to apply for a subsidy.

c. **Procedure for Claiming Subsidy:** The administrations of the State Governments and Union Territories have designated disbursing organisations to manage the investment subsidy programme. The State Financial Corporation and financial institutions like IDBI, IFCI, and ICICI are a few of the organisations chosen for the scheme's subsidy disbursement. Every industrial unit that is built in the designated district must register with the Director of Industries in order to be eligible for investment subsidies. Units interested in receiving investment subsidies should contact the disbursing agencies, who will then suggest the units to the State level committee that has been appointed in each State and Union Territory following verification and other procedures [7]–[9].

New industrial ventures established in underdeveloped States and Union Territories are exempt from paying taxes: Deduction is permitted in calculating the taxable income in accordance with section 80-IA of the Income-tax Act of 1961.

Regarding the earnings from a ship, a new industrial project, or the hotel industry. In the case of corporations, the deduction is permitted at 30% of profits for the nine assessment years that immediately follow the initial assessment year and the assessment year relevant to the prior years in which the hotel opens, the industrial undertaking begins production, or the ship is first put into service. For the first assessment year and the next eleven, a similar deduction is permitted for taxpayers who are cooperative societies. For non-corporate assesses, the deduction is permitted at a rate of 25%. The deduction is also allowed at the rate of 50% of earnings for new hotels built in hilly areas, rural areas, places of pilgrimage, or other locations determined by the Central Government.

The Finance Bill intends to offer incentives for the dispersion of industry in remote and industrially backward regions in order to give significant thrust for supporting industrialization in States and Union Territories, which are particularly industrially backward. It is proposed to permit the deduction under section 80-IA at a rate of 100% of profits in respect of the first five assessment years beginning from the assessment year relevant to the previous year in which the industrial undertaking begins manufacture or production for any new industrial undertaking, located in a State or Union Territory specified in the new Eighth Schedule of the Income-tax Act, which starts manufacturing or production after 1.4.1993. Deduction from the profits of such operations will be permitted at the standard rate of 30% for businesses and 25% for non-corporate assesses for the next assessment years. As per the current provisions, the deduction, at the increased rate and the normal rate combined, shall be limited to ten assessment years for other assesses and twelve assessment years for cooperative societies.

According to the Backward Area Notification S.O.No. 165 dated 19.2.1986, States and Union Territories that are industrially very backward are those in which all the districts are industrially backward. These States and Union Territories include Andaman and Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep, and Pondicherry as well as Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikim, and Tripura. The list above matches the current list of regions designated by the Ministry of Industry as being industrially backward. The proposed changes will become effective on April 1, 1994, and they will thus be applicable to the 1994–1995 assessment year and following years.

Small business owners can receive discounted consulting services: Small business owners looking to expand, diversify, or modernise their existing operations can obtain low-cost consulting services from technical consultancy organisations (TCOs) supported by All India and State level financial and promotional institutions and banks. For tasks like creating feasibility studies, project reports, market studies, pre-investment studies, diagnostic studies, special studies, and applications for requesting financial assistance from financial institutions, etc., they are only required to pay 20% of the fees charged by a TCO. In the case of assignments including the use of biogas or renewable/alternative sources of energy, IFCI would subsidise the entire remainder of 18% or Rs. 5,000, whichever is less. 100% of the TCO's fees for the assignment, or Rs. 6,000, whichever is less, is subsidised for units classified as covering physically disabled or scheduled caste/tribe entrepreneurs, as well as assignments covering these groups. Entrepreneurs will not have the right to stop the TCO or other entrepreneurs from using the report in any way or form if they are unable to put the project into motion within a year of the consultant assignments' completion date. An entrepreneur who has already established a project at one location and desires to establish a completely separate initiative at a different location may be eligible for funding for both projects. In any event, a single entrepreneur cannot receive the subsidy for more than two projects [10].

Support For Market Research: TCO can do market research for new business owners (locally based or non-resident Indians) who are entering the medium and/or large industry for the first time in the nation at a lower cost. If the cost of the market study preparation charge paid to TCO is less than Rs. 15,000, IFCI will cover up to 75% of the cost. Only TCOs having one or more financial institutions or development organisations affiliated with them as shareholders or members of the board of management at the State or All India level will be eligible for the subsidy. Only 25% of the study's cost will need to be covered by the entrepreneur.

Policy measures introduced in 1991. A new plan of integrated infrastructure development for SSIs with the cooperation of State Governments and Financial Institutions was launched, and a proactive role for the NGO sector was envisaged, in addition to enacting adjustments in investment restrictions, equity participation, etc. According to its policies, the government has periodically launched a number of support measures, such as a reservation policy, changes to investment ceilings, modernization, technology advancement, marketing support, etc., in an effort to safeguard their interests and promote their rapid development. The changing liberalised and competitive economic environment has made it necessary to make structural and fundamental adjustments to the framework of policies put in place to support the growth of this important sector of the economy. As a result, the emphasis has shifted from "protection" to "promotion." The government has taken a number of actions in the post-reform period to strengthen this sector, including partial de-reservation, changes to investment limits, facilitating foreign participation, the establishment of growth centres, export promotion, marketing assistance, and incentives for quality improvement.

III. CONCLUSION

Given that the Central Government has declared a series of six Industrial Policy Resolutions since independence, each of which aims to encourage industrial growth and establish a pattern of State intervention and assistance. The Industrial Policy Resolution, 1948 recognised cottage and small scale industries as being particularly suited for better utilisation of local resources and achievement of "local self-sufficiency" in respect of certain types of industrial goods, while outlining the framework of the basic and strategic industries. When the government decided to start taking steps to increase the competitive strength of small and rural enterprises, the policy of supporting cottage, village, and small businesses took shape. The 1956 Resolution highlighted the potential contributions of the SSI sector in terms of job creation, capital resource mobilisation, and large-scale industrial sector integration. Wider distribution of cottage and small industries in rural areas and small towns was emphasised in the Industrial Policy Statement of 1977. To give services to small enterprises under one roof, the idea of district industries centres was also raised. Promotion and bolstering of small, niche, and village businesses received special attention from the Industrial

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