

# **Policy for Small Scale Enterprises**

## **Introduction**

Andhra Pradesh has embarked upon a Mission, which is, to be at the forefront of industrial development in the country by the year 2020. The Government is conscious that fulfilling this Mission needs not only ideas and dreams but also a lot of hard, realistic planning guided by well spelt out policy directions.

In 1995, the Government enunciated its Industrial Policy – 'Target 2000' which set the tone for adopting a new approach to industrial development in the liberalized economy. One of the objectives of this New Industrial Policy has been to promote the growth of small scale and cottage industries to help the small entrepreneurs.

The State today has nearly 2,30,000 Small and Tiny industries established in the State. The contribution of the Small Scale Sector to the State's economy cannot be overestimated. Employing a work force of over 22 lakh, the sector contributes about Rs.4800 Cr to the NSDP and accounts for roughly 35-40% of the State's export. The potential of the sector to utilise locally available resources, skills and entrepreneurial ability is of enormous importance for a State faced with the daunting task of removing regional imbalances through dispersal of economic activity and of providing employment opportunities. Added to this, the low operational costs and flexibility of adopting production processes suited to differing requirements make the sector well suited to the capabilities of small entrepreneurs.

The sector has, however, been beset with several difficulties. While infrastructural and resource centered bottlenecks are common with large and medium industries, the SSI sector today faces certain peculiar problems which are innate to it viz. lack of access to credit, marketing problems, complying with cumbersome procedures, harassment by inspecting Governmental functionaries, technological obsolescence, rigid labour laws impeding operational flexibility etc. These unique problems require special solutions. They therefore call for adoption of specific and well thought out strategies to meet the needs of the Small Scale Sector.

Further, amidst the general euphoria created by the liberalization policies of Government of India initiated in 1991, there lurks amongst the small entrepreneurs considerable fear that the decontrol of industry, increased competition, market- oriented reforms and globalization of the economy are likely to adversely affect the small scale sector in the country.

In order to develop the small scale sector, Government feels that it is imperative to spell out a specific policy framework which would set the tone and direction of the Governmental effort to help this sector achieve its full potential. In order to make the policy more realistic, Government have gone

through an elaborate process of consultations with SSI Associations, officials of related Government Departments and individual entrepreneurs.

### **Objectives of the S.S.I. Policy**

The Policy for Small Enterprises aims to create a congenial atmosphere conducive to the healthy growth of the Small Scale Sector in the State. The broad policy objectives are enumerated below:

- To achieve an annual growth rate of 15%.
- To assist the small scale industries in the State to become competitive, domestically as well as internationally.
- To increase employment generation - particularly by promoting the labour intensive segments.
- To improve the export performance of the SSI sector by providing adequate support services.
- To create a more congenial and hassle-free environment for the functioning of the SSI sector
- To help the SSI sector acquire new technologies and skills so as to compete effectively in the market place.
- To promote appropriate linkages between the large and small scale sectors in the interest of harmonious industrial development.
- To strive to promote an appropriate institutional mechanism to revive sick industries
- To encourage SSI units to grow vertically and graduate, in the course of time, from small scale to medium and large scale units.

### **Strategy for achieving the policy objectives**

- Work towards phased de-reservation of items reserved for exclusive manufacture in Small Scale Sector.
- Recommend revision of investment limits for Small Scale, Ancillary and Tiny Industries.
- Rationalize fiscal concessions.
- Strive to put in place appropriate arrangement for timely and adequate flow of credit.
- Assist the Small Scale Sector in their marketing efforts by providing support services.
- Provide adequate, good quality infrastructure support at a reasonable cost for more efficient functioning of the SSI sector.
- Provide technical support for modernization and access to R&D facilities.
- Give a thrust to Human Resource Development by setting up new technical training institutions and by associating small scale entrepreneurs in the Advisory Boards of these institutions.

- Simplify Rules, Regulations and Procedures to remove the fetters on the smooth functioning of the sector.
- Bring about revision in Labour Laws.
- Improve the quality of services to entrepreneurs belonging to SC / ST categories and women to encourage them to participate effectively in the developmental process.
- Put in place appropriate organizational mechanism for greater interaction between the Government agencies and the SSI Associations.
- Diagnose incipient sickness and initiate timely measures for the revival of sick industries.
- Introduce a scientific data collection system to make the planning process more realistic.

### **Revision of the definitions of SSI , Ancillary and Tiny Industries**

- The Government of India has recently revised the limits of investment for the SSI sector from Rs. 60 lakh to Rs. 300 lakh. While it is justified to argue that the investment level needs to be revised periodically, say every 5 years, keeping in view the inflation rates, the argument that the levels need to be enhanced to encourage SSI units to go in for modernization is not justified. The introduction of new technologies is an aspect of growth and the small scale units must be encouraged to grow and be ready to face the competition of large and medium entrepreneurs rather than to seek protection indefinitely and engage in unfair competition with the smaller of the SSI units.
- The State Government will therefore recommend to Government of India to revise the investment level to Rs.100 lakhs for small scale industry, to Rs.125 lakhs for ancillaries and export-oriented units and to Rs.10 lakhs for tiny units.

### **Reservation of items for the exclusive manufacture in the small-scale sector**

Out of the 821 items reserved for the SSI Sector, approximately 30% are not produced in the SSI sector at all. While the domestic large industry is not allowed to manufacture these items, many of the items can be freely imported. The instrument to implement the policy of reservation was to freeze the capacity of the existing large and medium units manufacturing the reserved items and to deny new licenses to large and medium units for the manufacture of these items. However, with the decontrol of a large number of industries, the instrument of licensing is no longer available to Government to implement the policy of reservation. Moreover, the policy of reservation of items for exclusive production by the Small Scale Sector is not in line with the philosophy behind the decontrol of industry. The policy of reservation has encouraged the larger of the small-scale units to grow horizontally rather than vertically merely to stay within the definition of small scale, thus sacrificing the efficiency that

could have arisen from economies of scale for the sake of the concessions offered by Government. Moreover, in a market-oriented economy it would be in the interest of industrial efficiency to let the market decide what should be the appropriate scale of production for a particular item. This is likely to vary from one part of the country to another depending on markets, raw materials and managerial skills.

In the light of the above the State Government will recommend to the Union Government for adoption of a rational policy of de-reservation as follows:

(i) Items which are not produced at present in the small scale sector at all or which cannot be produced in the small scale sector in the future because of the compulsions of modernization and which entails substantial investments beyond the limits prescribed for SSI Sector, could be de-reserved immediately. However, the SSI Associations must be consulted before any item is de-reserved.

(ii) Those items, which can be produced either by large/ medium or by Small Scale Industries, could be de-reserved in a phased manner. In the transition period assistance should be given to the SSI units for upgrading technology, expanding production, training staff and improving managerial efficiencies so that they are in a position to face the competition after dereservation.

(iii) Manufacture of traditional items using low technology and those activities that provide employment to weaker sections should continue to be reserved for the SSI sector.

### **Fiscal concessions**

- Government of India has been giving excise duty exemption to small scale industries with turnover upto Rs.50 lakhs and concessional rate of tax for turnover upto Rs 1 Crores. The State Government has also introduced, in the year 1995, a liberal scheme of fiscal concessions to all new industries, which includes 7 years of sales tax exemption or 14 years of sales tax deferment limited to 135% of fixed capital investment and an investment subsidy of 20% of the fixed capital investment limited to a ceiling of Rs.20 lakhs. A power rebate of 25% is also given for a period of 3 years restricted to a limit of Rs.30 lakh in respect of small scale industries.
- It is observed that there is a certain amount of mis-use of the scheme by industries though it is difficult to quantify it. Instances have been reported where the entrepreneurs have closed down the existing units at the end of the concession period and have set-up new units in order to draw the benefits once again
- The SSI Associations have pointed out that many small scale units are not getting much benefit out of this scheme since a large majority

of the small scale units are in the service activity and are thus not covered by the scheme. Further, tax concessions create a discriminatory situation for the older units which have to pay higher levels of taxes and are thus forced out of competition, especially when the incidence of tax is high.

- The policy has fostered a spirit of unhealthy competition amongst the State Governments in extending tax concessions, whether justified or not, to attract industries to their State. Such a policy leads to allocative inefficiency in respect of investible resources.
- In view of the above, the Government proposes to review the sales tax rates in the State to bring about rationalization and harmonization keeping in view the tax rates in the neighbouring States. This will improve the competitiveness of the industries located in the State and at the same time ensure better tax collection through higher compliance. VAT will be introduced in a phased manner and the tax collection system simplified.
- A dialogue will be initiated with the neighbouring States to adopt a uniform policy as regards fiscal incentives so that, henceforth, investments are made on the basis of economic rather than fiscal considerations and the unhealthy competition amongst States to attract industries through fiscal incentives is curbed.
- The Government will adopt a strategy to provide non-fiscal rather than fiscal incentives to new industries, particularly by way of improved infrastructure in industrial estates at reasonable cost. Towards this goal, the Government will henceforth release investment subsidies under the existing State Incentive Scheme in respect of SSI units, which are set up in APIIC's industrial estates, directly to APIIC towards adjustment against the payments due from the SSI unit owners for the cost of the developed plots. 80% of the subsidy will be released on the basis of the project cost to APIIC in advance without waiting for the unit to go into commercial production. Priority will be given for the release of such amounts to APIIC out of the budgetary outlay available each year with Industries Department.
- After the unit goes into commercial production, Commissioner Industries will scrutinize the incentive proposals as usual and release the balance 20% subsidy to APIIC. The APIIC will transfer the title of the plot to the entrepreneur only after five years from the date the unit goes into commercial production. In case the unit does not go into commercial production, the APIIC will return the subsidy amount to Commissioner, Industries. This procedure for releasing subsidies will be extended to private industrial estates also.

### **Credit**

- A major complaint of the SSI units has been the lack of access to institutional credit, particularly for working capital, delays in the

sanction of loans and inadequate quantum of credit. The SSI Associations state that though the Government of India has directed the commercial banks to advance at least 40% of the total credit to the priority sector, which includes lending to SSIs, the commercial banks are fighting shy of advancing loans to SSIs because of the perceived higher risks in lending to this class of industry especially in the context of tighter capital adequacy norms for the banks and the pressure to improve their profitability. The Commercial banks/ SFC often try to hedge their risks by insisting on collateral securities to fully cover the loans even though these are not to be taken as per RBI norms for loans upto Rs.50,000. As regards working capital, they point out that for some industries, seasonal requirements of working capital vary considerably but the bank norms for assessing such seasonal requirements are not flexible. Adhoc limits to meet such seasonal requirements should be considered.

- The SFC is of the view that the quantum of security is not unusually high and varies from 25-75% based on the risk perception in respect of different types of ventures.
- Further, the SSI Associations have expressed dissatisfaction with the interest rates applicable to the SSI borrowers which they find to be excessively high. They are especially aggrieved about the SIDBI refinance scheme wherein the banks have been charging a minimum of 18% for term loans, upfront fees and penal interest of 5% even for a temporary period of default from the SSI borrowers. Though the prime lending rate of the banks was reduced by RBI, the banks and SIDBI did not reduce the interest rate charged to the SSI borrowers.
- The State Government supports the following measures to increase the flow of credit to SSIs and to remove some of the present constraints on such flow. The matter will be taken up with Government of India and the Reserve Bank of India wherever necessary.

(i) The share of tiny and cottage industries of the overall advances to SSI units by the commercial banks should be increased from the present level of 2.6% (as per survey of January, 1998 of RBI in Andhra Pradesh) to atleast 40% through simplification of procedures, lowering of interest rates, more flexible norms for assessment of their credit requirements and repayment schedules, and for advancing composite loans upto Rs.10 lakhs.(covering tiny and cottage industries).

(ii) A Collateral Reserve Fund should be created and administered by SIDBI to provide support to first generation entrepreneurs who do not have collateral securities to offer.

(iii) Collateral for loans should not be insisted for loans upto Rs.1 lakh as against the present limit of Rs.50,000.

(iv) SIDBI should be given access to low cost funds so as to lower interest rates on refinance to banks for loaning to tiny and cottage industries, for infrastructure schemes for SSI clusters, and for modernization schemes for SSI units.

(v) More SSI bank-branches should be set up with staff specially trained in and motivated for SSI lending so as to cover every district and more than one branch in those districts where the number of SSI units exceeds 1000.

(vi) The RBI should set up independent Grievances Redressal Tribunals in each State which will hear grievances of the SSI entrepreneurs against SFC and commercial banks and issue directions to resolve the problems after giving a hearing to all the parties concerned.

(vii) Debt Recovery Tribunals should be set up in each State. The small scale entrepreneurs, who have defaulted to a bank, should be given adequate opportunity to explain their case before the Tribunals.

(viii) A credit rating scheme for SSIs should be introduced by banks with special benefits for SSI units who have good track record in repayment of loans by way of lower interest rates, ad hoc credit limits, lower margins etc.

(ix) In order to ensure the continuous flow of institutional credit to the small industries' sector, effective monitoring will be done of recoveries of loans advanced by commercial banks under any welfare scheme or programme such as PMRY and the like which are sponsored by the State or Central Government, applying the Revenue Recovery Act where necessary.

(x) The Credit Guarantee Scheme of DICGC needs to be revised to make it more effective.

### **Support for marketing**

- The APSSIDC was set up in 1961 to assist the SSI units in the procurement of controlled items like steel, paraffin wax and pig iron and in the marketing of their products mainly to State Government

departments and undertakings under the Marketing Assistance Scheme (MAS) and investing capital in new SSI units

- With the decontrol of items such as steel and pig iron the Raw Materials Supply Scheme does not have much relevance. SSI Associations can also buy bulk quantities of steel, pig iron etc., from the manufacturers and sell to their members.
- The Government departments have been frequently complaining against the quality of the products supplied under the Marketing Assistance Scheme and have also objected to the charging of a high commission of 3% by APSSIDC. The overhead costs of the APSSIDC have been increasing every year and the APSSIDC is forced to increase its service charges for the scheme. Most of the Govt. departments have expressed their preference to buy from the open market. It is also observed that there are defects in the implementation of the scheme such as the formation of syndicates by a few influential manufacturers who have tried to corner a large portion of the orders. It is also found that some of the registered suppliers are not actual manufacturers but are traders.
- Lastly, the APSSIDC does not have funds to invest in joint ventures. Most of the joint ventures promoted by APSSIDC earlier have become sick. The APSFC is at present the only nodal agency to promote SSI units through term loans.
- In the light of the above, Government will restructure the APSSIDC.
- The Marketing Assistance Scheme will be modified to a rate contract system. The departments will be free to place orders directly on any of the units particularly in the rate contract. The department will pay the amount directly to the supplier unit on delivery of the item, after paying the necessary sales tax to the Commercial Tax Department. The implementation of the scheme will be monitored by the Andhra Pradesh Small Scale Industries' Development Authority.
- In order to encourage ancillarization by the large private and public manufacturing units, the State Government will organize Vendor Development Programmes in the major cities of the State. The State Government will also bring large, medium and small companies together on a common platform through the "Linkage" programme to identify areas of common interest and to forge linkages through sub-contracting and ancillarization, so that the advantages enjoyed by the small units in production such as lower overheads, flexibility in production, ability to take small orders etc. can be combined with the marketing strengths of the large units with their adherence to quality standards, capacity to take large orders etc. for mutual benefit of both. The State Government will also persuade the Industry Associations to set up sub-contracting exchanges.
- The Government will encourage development of SSIs through a cluster approach so as to facilitate implementation of development programmes and make marketing of the products of these clusters easier

- The State Government will set-up an International Trade Fair-cum-Convention Centre in Hyderabad, which will organize international exhibitions, fairs and conferences to assist the local industries to market their products in the international markets. It will also assist the SSI units in participating in foreign exhibitions and will organize visits of foreign trade and industry delegations to Andhra Pradesh and from Andhra Pradesh to other countries. The State Government will address the Municipal Corporations and Municipalities to set up permanent Exhibition-cum-Convention Centres in district headquarters and large industrial towns. While the local bodies will invest in the construction of such Centres, the management of these Centres will be handed over to Associations of SSI units or to professional agencies. Fees will be collected from the SSI units for utilizing the facilities and this revenue will be used for the maintenance and up-keep of these Centres.

### **Delayed**

### **Payments'**

### **Problem**

- The SSI units complain of delayed payments by the large and medium units and by Government agencies. This problem gets particularly acute when there is a credit squeeze. Though Government of India has passed legislation to provide for compulsory payment of interest on such delayed payments, the settlement of disputes in cases of default in payment of interest is difficult since the existing legal procedures through civil courts are cumbersome and expensive. The State Government in consultation with the High Court, will authorize some of the existing special tribunals to take up such cases in areas where there is a concentration of SSI units.
- Though it has been made mandatory bylaw for the large and medium units to declare the dues to SSI units in their audited balance sheets, it is observed that in practice this is not being done by several large and medium companies. A mechanism must be evolved to ensure that this law is enforced. A separate schedule should be included in the audited balance sheets of the large and medium companies for declaring the dues to the SSI units and the interest accrued thereon under the Delayed Payment's Act. The inclusion of such a schedule in the audited balance sheet may be made mandatory on the auditors through the Code of Accounting Practices. The banks must be authorized by law to automatically deduct the dues to the SSI suppliers from the cash credit of the concerned defaulting large and medium unit. The Public Sector units and the local bodies must accept bills of exchange or must agree to payment to SSI units only through banks. Factor services should be made widely available through specialized agencies by removal through suitable legislation of legal impediments relating to stamp duty, registration fee, assignment of contracts etc.

## Infrastructure support

- The Andhra Pradesh Industrial Infrastructure Corporation has been entrusted with the responsibility of setting-up industrial estates throughout the State, providing basic infrastructure such as sheds, internal roads, power, drainage etc. A common complaint of the SSI entrepreneurs is that the cost of developed plots sold by APIIC is high compared to the cost of similar property and facilities that can be privately acquired. Moreover, there is widespread criticism that the infrastructure in the industrial estates is not properly maintained by the APIIC.
- The Government will introduce a scheme to be called the "Critical Infrastructure Balancing Scheme" under which funds will be made available to industrial estates or to SSI clusters identified under the SSI Cluster Development Programme for the establishment of some critical infrastructure which is considered essential to establish the viability of the infrastructure project and for the upgradation of the infrastructures in the existing industrial estates.
- The policy to provide infrastructure support to SSIs through industrial estates will be continued and strengthened. Theme Parks such as Software Park, Apparel Export Park, Biotech Park, Leather Park etc. will be set up on priority so that specialized infrastructure, technology back-up and escort services can be provided more easily. Captive mini-power plants and special industrial water supply schemes for the new industrial estates, besides the normal infrastructure such as roads, sanitation, street lighting etc., will be made integral parts of the projects wherever found necessary.
- The Andhra Pradesh Industrial Infrastructure Corporation will be encouraged to run on more commercial lines and to reduce its overheads and improve its marketing techniques. The Government will also encourage the setting up of private industrial estates so that there is an element of competition in providing industrial infrastructure services. Special facilities such as clearances from the Pollution Control Board, Local Bodies, APSEB etc. will be extended to private industrial estates also.
- As regards the problem of maintenance of existing industrial estates, the APIIC will henceforth handover fully developed industrial estates to associations of the entrepreneurs who have set up their units in the industrial estates. Part of the revenues collected from the units will be given back to these Associations for the maintenance of the infrastructure. An appropriate legal framework for the handing over of the industrial estates to local industry associations will be worked out.

A State level organization to be called the Andhra Pradesh Small Scale Industries Development Authority will be set up to promote the

development of small scale industries in the State . One of the important tasks of the Authority will be to coordinate the activities of all the agencies involved in the development of infrastructure for industries. The task of this Authority in the area of infrastructure will be to:

i) Ensure that all essential facilities are provided in an integrated manner to the industrial estates.

ii) Check if the cost of the developed land and services is reasonable.

iii) Hear complaints against the various agencies for violating rules and regulations or for providing substandard services or for charging exorbitant rates.

- The Andhra Pradesh Small Scale Industries' Development Authority will be chaired by the Chief Secretary and will have as members Principal Secretaries/Secretaries and Heads of Departments and Chief Executive Officers of government or semi-government agencies involved in the development of small scale industries and in providing infrastructure to industry. Representatives of Government of India departments and agencies such as Railways, Postal Services, Telecommunications etc. will be invited whenever necessary. Representatives of small scale industry will be made members of the Authority.
- Similar Authorities to be called District Small Scale Industries' Development Authority will be set up at the District level with the Collector as the Chairman and the General Manager, District Industries Centre as the member-convener.
- As regards electricity supply, the APSEB will supply electricity to such of those SSI units which have connected load between 75 HP and 150 HP under LT industrial category tariff duly providing metering on 11 KV side on condition that the unit sets up a separate transformer at its own cost. The minimum consumption demand will be that which is applicable to LT category only. APSEB will reduce the service line charges / development charges where the SSI unit is willing to forego tariff rebate under the "Target 2000" Scheme, put in place a grievance redressal system by holding meetings with SSI consumers once a week at the field level and allow 15 days additional time beyond the 14 days period allowed at present for payment of bills.
- As regards industrial water supply, the tariffs for the minimum charges for industries have been revised down-wards in February, 1997. In view of the shortage of drinking and industrial water, especially in industrial estates around Hyderabad, the Hyderabad Water and Sewerage Board will undertake a survey, in consultation with the industry associations, of the present demand, make a projection of the further growth of demand and thereafter prepare plans for augmenting the water supply to the industrial estates within

- a reasonable time frame. To solve day to day problems regarding water supply in industrial estates, local teams will be formed of local small scale industry associations and HWWSB officials.
- To encourage exports, the State Government will strengthen infrastructure such as international airports, sea ports, warehouses, cold storage chains, modern cargo handling facilities and container services. While identifying the requirements of the industry and preparing feasibility reports, the State Government will encourage private investment in this sector to the extent possible apart from stepping up its own investments.

### **Technical support for modernization and access to R&D facilities**

- The State Government needs to take an active role in promoting technological development in the small scale sector. The small scale units can aim at global competitiveness by acquiring ISO 9000 certification. The cost of acquiring such certification is about Rs.2 to 3 lakhs at present. The Government of India gives 75% of the cost of acquiring the certificate as a subsidy, limited to a ceiling of Rs.75,000 for the first 100 units throughout the country. The State Government has introduced a scheme to subsidize an additional 25% of such cost, limited to a ceiling of Rs. 25,000 per unit for all those units which are located in Andhra Pradesh. In order to encourage the small scale industry to improve productivity levels, annual awards have been instituted by the State Government for SSI units which achieve high levels of productivity, quality in products, innovative technology and high safety standards.
- The State Government will actively promote a close interaction between the Research Institutes located in Andhra Pradesh such as the Indian Institute of Chemical Technology, Centre for Cellular and Molecular Biology, Institute of Tool Design etc., with the concerned segment of the industry by arranging Industry-Institute Interface meetings for promoting transfer of new technologies from the laboratories to small industries.
- The State Government has supported the CII initiative to set up the Andhra Pradesh Technology Development Centre which will assist industries, particularly the small scale units, in getting access to new technologies, in negotiating agreements of transfer of technology, in overcoming problems in implementing new technologies and in taking up research in specific areas of interest to small scale industry.
- A Technology Exchange will be set-up by the Andhra Pradesh Technology Development Centre to make available information to the small entrepreneurs about the latest technological developments world-wide and about the scope for transfer of technology. Industry Associations such as CII, FAPCCI, FAPSIA etc. and private consultants and international organizations such as the World Assembly of Small and Medium Enterprises (WASME) will be associated with the Technology Exchange.

- A Technology Development and Modernization Fund has been set up by the Small Industries Development Bank of India (SIDBI) in 1995. Wide publicity will be given to this scheme to encourage SSIs to avail of the benefit under the scheme.
- Assistance will be given to SSI units to take up energy conservation measures, to implement projects for utilizing non-conventional energy and to introduce pollution control measures. While doing so, the State Government will be supplementing the efforts being made already by SIDBI, IDBI, Government of India etc. in this area.
- SSI units will be assisted through suitable software packages to adopt Information Technology to enhance their competitiveness .

## **Human Resource Development**

- Government has been investing in man-power development for the small scale industry by setting-up technical institute such as ITIs, Polytechnics, Engineering Colleges etc. While this has helped in creating a pool of technically qualified persons, it is found that the quality of training has not been upto the mark and that the institutes are not able to meet the changing needs of the industry. The equipment used in the training institutes is also often obsolete. The SSI entrepreneurs point out that inexperienced technical staff join their units to gain experience and after some time they move on to get jobs in large industries where salaries and perquisites are more attractive. The SSI units thus suffer from high turn over of employees.
- The State Government will step up investments in ITIs, Polytechnics and engineering colleges, both in the public and in the private sector to meet the growing need of the Industry for skilled manpower.
- The State Government will try to make these institutes more oriented towards meeting the needs of the industry. Advisory Committees will be set up for these institutes, with representatives of the concerned industry to advise on the course curriculum, equipment purchases, on-the-job training and to provide campus recruitment. Students of ITIs and Polytechnics will be imparted practical training in local industries. TA/DA will be given to SC,ST,BC and women candidates by the Government. Practicing SSI entrepreneurs will be invited to teach or to take some classes in the training institutes.
- Land will be allotted in every industrial estate for training institutes for training of workers and for upgradation of their skills and for training of SSI entrepreneurs. SSI Associations/NGOs will be actively associated in this training.
- Government of India will be addressed to amend the Apprenticeship Act to make the apprenticeship training concurrent with the formal training at the Industrial Training Institute and provide for joint evaluation of the performance of the candidate both at the

- Institute and in the factory by the Head of the Training Institute and of the factory to which he is attached for apprenticeship. This will make the candidate take the apprenticeship training seriously and also make the training more practical oriented. The vocational training methods adopted in Germany will be examined and adopted in the State if found suitable.
- Government will take up programmes in collaboration with the A.P. Productivity Council, the National Productivity Council and the SSI Associations to improve labour productivity in the State.
  - The State Government is supporting the initiative of the Association of Lady Entrepreneurs of Andhra Pradesh to set up a premier institute for entrepreneurial development in Hyderabad, particularly for small entrepreneurs, in collaboration with the Entrepreneurship Development Institute of India, Ahmedabad. Technology incubators, where hands-on experience can be obtained by entrepreneurs in new technologies, will be a part of the EDI project.
  - The "Mentor Concept" in entrepreneurial training will be adopted under which new SSI entrepreneurs will be guided by successful, experienced entrepreneurs.

### **Simplification of Government Procedures**

- A frequent complaint heard from small scale entrepreneurs is that they face considerable harassment from Government officials who inspect their units without any prior intimation, thus disrupting production. There are complaints that during inspections, frivolous objections are made and petty lapses highlighted merely to extract illegal gratification.
- The State Government set-up a One Man Commission to review all the existing industrial laws and advise Government on the simplification, rationalization and consolidation of such laws. The Associations of Industries in the State set up a Joint Review Committee to review the existing rules enacted by the State Government. Expeditious action will be taken to simplify the laws and rules in the light of the recommendation of the One Man Commission and in the light of the recommendations of the Joint Review Committee, set up by the Associations of Industries. The recommendations regarding the Central laws will be communicated to Government of India.
- A system of accredited agencies will be introduced selectively, in specific technical areas, under which private agencies with credible track record will be authorised to undertake statutory inspections and issue certificates on payment of fixed fees.
- The various annual reports that have to be submitted by industries to the Labour and Factories Departments under different laws have been combined into a single Common Annual Return. The format of the Common Annual Return will be revised to make it more simple, yet comprehensive. The District Industries Centres will be

- computerized in the next 2 years so that the data can be accessed by other departments. A similar exercise for consolidation of registers to be maintained under various laws will be made.
- The Central Documentation and Clearance Centre (CDCC) operating in the Commissionerate of Industries will continue to offer its services to the entrepreneurs to get all necessary Government clearances within a time bound period and to attach an escort officer to every project to follow up with the Government departments.
  - The State Government has issued an order exempting small units consuming less than 30HP power and employing less than 30 persons from taking prior clearances from certain Government Departments, such as Local Bodies, Town and Country Planning and Factories Department before the units are set-up. A self-certification system has been introduced which permits the entrepreneur to declare on a stamp paper at the time of registration with the District Industries Centre that he has not violated any of the existing rules and regulations relating to zoning, workers' health and safety etc. The SSI Associations will be expected to ensure that violations of rules and regulations do not take place under this liberalized procedure by taking up awareness campaigns amongst small scale units of the need for self-regulation by industry.
  - Under Indian Partnership Act, powers for registration were given only to the Registrar of Stamps and Duties. In order to make it easier for entrepreneurs to register their firms outside Hyderabad, the AP Partnership (Registration of Firms) Rules have been amended to authorize the District Registrars in the Districts to also register partnership firms.
  - Registration with District Industries Centre will be made compulsory for all SSI units engaged in manufacturing activity. Only registered units will get the benefit of Government's tax concessions, subsidies, electricity and water connections, land allotments by APIIC, credit by banks etc. Compulsory registration by tiny and cottage industries will be considered at a later stage, if found feasible. The procedure for registration of an SSI unit will be simplified. A single point registration and a common registration number to be adopted by all concerned departments for a unit will be instituted.
  - Licences will be given on a permanent basis. They will be cancelled for violation of the law, or of any of the terms and conditions of the licence including non-payment of the fees, after issuing a notice to the licensee.
  - The Common Annual Return will be treated as a voluntary declaration, on the part of the entrepreneur, of information statutorily required to be declared by him. The penalty for false declarations, if detected, will be made very stiff so as to act as a deterrent to these entrepreneurs from giving false information.
  - Government will take measures to eliminate harassment of small scale entrepreneurs due to frequent and un-scheduled inspections by Government officials. Statutory inspections will be

carried out henceforth only once in a year as per a schedule of inspections to be fixed and announced in advance by the inspecting department. Inspections, other than such annual statutory inspections will be permitted only in the case of written, signed and verifiable complaints of violation of any rule or regulation by a unit. Such inspections will have to be authorized by an officer not below the rank of an Assistant Director or equivalent post of a Department. A copy of the complaint will have to be given to the management of the unit at the time of the inspection and the observations relating to the written signed complaint of the inspecting officer will have to be written in a register to be maintained by the unit immediately after the inspection. If the entrepreneur/manager does not produce such a register or refuses to accept a copy of the inspection report, the inspection report shall be sent by the inspecting officer by registered post to the entrepreneur.

- Surprise inspections will be permitted only by an officer not below the rank of an Assistant Director or an officer of equivalent post with the prior authorization of either the Head of the Department or the Regional or Zonal Officer in case there is sufficient reason to believe that the unit has violated any rule or regulation and the reasons are recorded in writing by such authorizing agencies. In exceptional cases surprise inspections may be carried out by an officer not below the rank of an Assistant Director or equivalent post without the prior approval of the Head of the Department or Regional or Zonal Officer. However in such cases, the inspecting officer shall, within two days of conducting the inspection, send a report to the Head of the Department or to the Regional or Zonal Officer as to the reasons for conducting the inspection, the reason why prior permission could not be taken and the findings of the inspection.
- With a view to ensure that the welfare of labour is achieved, in respect of Labour Department, surprise inspections will be conducted by all Gazetted Inspector's under Child Labour (P and R) Act, 1986 and Minimum Wages Act 1948 with the written permission of the immediate superior officer. The inspecting officer shall report immediately after conducting the inspection to the immediate superior officer, the findings of the inspection.
- The Heads of Department will monitor the conduct of the surprise inspections by the departmental staff and shall ensure that there is no harassment.
- A complaint cell will be set up in the office of the Chief Minister and of Minister (SSI), to receive complaints from office bearers of registered SSI Associations against any government official indulging in unwarranted harassment of an SSI entrepreneur.
- At the same time, the need for the industrial units in the State to implement effectively the laws relating to labour welfare and environment protection is underlined . The industry should aim at

evolving a self-regulatory mechanism to achieve the objectives of these laws.

## **Review of Labour Laws**

The strength of the small scale units lies in their flexibility in production. However, the existing labour laws restrict such flexibility. There is a multiplicity of labour laws enacted by the Central and State Governments which need to be reviewed and combined into one single piece of legislation. The One Man Commission has examined this issue. The recommendations will be examined and action will be taken to simplify the laws and, wherever necessary, communicated to Government of India.

Assistance to Special Categories of Entrepreneurs (Women, BCs, SCs and STs)

Special fiscal concessions have been offered to SC and ST entrepreneurs, vide G.O.Ms.No.108, Industries and Commerce (IP) Department, dt.20-5-96, such as, an investment subsidy of 25% of the fixed capital cost not exceeding Rs.50 lakhs, an interest subsidy of 6% on total credit (i.e. term loan and working capital) for a period of 5 years upto a maximum of Rs.5 lakhs per year and an enhanced limit for sales tax concession.

In keeping with the general policy towards the development of the SSI sector, entrepreneurship amongst women, BCs, SCs and STs will be encouraged through the training of prospective entrepreneurs in technical and managerial skills, through assistance in preparing project reports, through the setting up of exclusive industrial estates for them and through the provision of escort services by DICs, APITCO, AP Schedule Caste Finance Corporation till the time the units are run on sound commercial lines. Marketing complexes will be set up for them and such complexes will be handed over to an Association of the entrepreneurs or to professional agencies. The complexes will be run on commercial lines.

The APIIC will offer 10% price reduction on the developed plots to SC/ST beneficiaries. In Scheduled Areas, adequate thrust will be given for the identification of industrial activities suitable to Scheduled Areas, creation of infrastructure, augmentation of credit flow and capacity building in the community

The SC/ST Development Corporations will set up single windows to assist SC/ST beneficiaries to get bank loans and complete all formalities.

Government will encourage the setting up of Local Area Banks and an exclusive Bank for Women.

The Commercial banks will be asked to provide credit on priority for viable projects proposed by SC/ST and women beneficiaries and to evolve special schemes to meet their specific requirements.

#### Implementation of Prime Minister's Rozgar Yojana and other Self Employment Schemes

Vigorous efforts will be made to improve the performance of self-employment programmes covering training, identification of vocations, provision of counseling services and tying up proposals with banks and other local agencies. The implementing agency at the district level- DIC, in consultation with the banks and associations of SSIs, will develop counseling services to the beneficiaries. Mass awareness and motivational campaigns will be organized to make the opportunities known widely to prospective beneficiaries, as was done by the Scheduled Caste Corporation in June - October, 1994. As part of this effort, experiences of successful self-employed persons, who had set up enterprises earlier will be projected for demonstration.

#### **Tiny and Cottage Industries**

Rural artisan complexes need to be strengthened and expanded. The focus will be on developing the artisans through a cluster approach to ensure adequate infrastructure and linkages providing improved tools, credit, marketing facilities, skill development etc.

The State Government will encourage a consortium approach for bulk marketing domestically and internationally by the tiny units. Marketing fairs in growth centres in the districts will be encouraged.

#### **State Advisory Board for SSIs**

The State Government has constituted a State Advisory Board for SSIs with the Chief Minister as the Chairman. This Board will be used as a forum for greater interaction between the Government agencies and the SSI Associations. The Board should meet atleast twice in a year.

A Sub-Committee of the Advisory Board consisting of the Minister (SSI) as Chairman, Secretary Industries as Member-Convenor and the representatives of the SSI Associations will be constituted. This Sub-Committee will meet atleast once every two months. The meetings will be held in different parts of the State to give an opportunity to local SSI units to submit their representations to the Sub-Committee.

Regional meetings will also be organized with local Industry Associations which will be attended by senior Government officials from departments such as Industry, Commercial Taxes, Labour, Pollution Control Board etc. so as to understand and solve local problems of SSI.

## **Sickness in SSI units**

The level of sickness in Andhra Pradesh is reported to be as high as 27% compared to the all-India figure of 21%. However, as per the RBI Report on Currency and Finance, 1993-94, the total number of sick units and the amounts outstanding with the sick units has been declining since 1992.

The Government had requested the Administrative Staff College of India to conduct a study on the causes of sickness among SSI units in the State. The reasons for the sickness, identified by the study, are poor quality infrastructure, particularly power, lack of technological upgradation, high taxes, rigid labour laws and inadequate flow of credit - especially working capital, insistence on collateral securities by banks and SFC, inadequate marketing efforts and facilities, managerial inefficiencies, delay in settlement of receivables, poor project appraisal, unreasonably short moratorium periods to cover gestation, compounding of interest, high interest rates, poor supervision and monitoring by bank officials, inadequate support and guidance from DIC officials.

While Government will take action to ensure that these problems are solved at the root so that sickness can be prevented, the State Government will also try to help viable sick units to be revived.

Statutory provisions for the revival of sick units on the lines of BIFR may not be suitable for the small scale sector in view of the much larger number of units involved, as also the need for much greater flexibility in dealing with the small scale sector. Government is of the view that the State Level Inter-Institutional Committee (SLIIC) has also not been very effective in reviving sick SSI units since it has no statutory powers.

There is an urgent need to set up an institutional framework to examine the cases of sick units and to revive such of those units which can be made viable. A further dialogue will be held with financial institutions, commercial banks, Government of India, RBI and Industry Associations to evolve such an institutional framework expeditiously.

A package of concessions for sick SSI units should be evolved by the agency identified for the revival of sick SSI units on a case by case basis. Commitments will have to be made by the management of the sick units or new promoters, by the Central and State Governments and by the financing institutions for the revival of the sick SSI units. The concessions could include soft loans, write-off of previous bank loans, tax deferrals, reschedulements of other dues like electricity, water etc. A "Rehabilitation" or "Reconstruction Fund" should be setup to assist the sick units with contributions by SIDBI, Commercial banks, Central and State Governments. It should be operated at the State Level by SIDBI

The SSI Associations have represented that the Debt Recovery Tribunals set up for facilitating the recovery of the dues of the Commercial Banks and Financial Institutions by Government of India should give a fair hearing to the SSI units whose cases are brought before the Tribunals, so that the grievances of the SSI units are kept in view when final orders are passed by the Tribunals. The matter will be taken up with Government of India.

### **Role of SSI Associations**

So far the role of SSI Associations has been largely that of representing the grievances of their members to the Government and seeking more concessions. In future the Associations would be encouraged to take on developmental activities to a greater extent such as organizing exhibitions, training programmes, workshops for transfer of technology, creating awareness among members about social responsibilities in areas such as environment protection, safety of workers etc. and taking-up maintenance of industrial estates, marketing complexes, common effluent treatment plants etc.

SSI Associations will be given due representation on the Boards of organizations such as APSFC, APIIC.

### **Improving Data Base**

There is no system of regular collection of data relating to SSI units in the State regarding important indicators such as new investment, production, exports, employment creation, sickness etc., This data is essential for monitoring the development of the sector and to analyze the impact of government policies.

Efforts will be made to introduce a scientific data collection system in the office of the Commissioner of Industries which will be computerized so that it is easily available to any one interested in it.