Trade Policy

Background of Export Promotion

Exports from the small scale sector over a period of time have acquired great significance in India's foreign trade. The SSI Sector today constitutes a very important segment of India's economy and it accounts for nearly 40 of the gross value of output in the manufacturing sector and about 50% of the total exports from the country. Direct exports from the SSI Sector accounts for 35% of the total exports.

Export Promotion from the small scale sector has been accorded a high priority in the India's export promotion strategy. The small industries due to their inherent strengths of low capital investment, high employment generation, maximum utilisation of capacity, flexibility in operation, etc. are highly conducive for rapid industrialization and generation of export surpluses.

An idea about the contribution of small scale sector in country's total exports can be had from the table given below:

Year	Total Exports	Share of SSI Exports	% share
1990-91	32,553,34	9664.15	29.7
1991-92	44,041.81	13883.40	31.5
1992-93	53,350.54	17784.82	33.3
1993-94	69,546.97	25307.09	36.4
1994-95	82,674.11	29068.15	35.1
1995-96	106,464.86	36470.22	34.2
1996-97	117,524.98	39248.54	33.4
1997-98	126,286.00	44442.18	35.2
1998-99	141,604.00	48979.00	34.6
1999-2000	159,561.00	54200.00	33.9

Export Assistance & Facilities

Export Promotion from Small Scale Sector has received utmost priority of the Government. Every Policy formulated for achieving growth in exports have a number of incentives to small scale exporters so as to maximise export earnings. Such incentives include :

1. Free import of capital goods/raw material and other essential inputs, and in certain cases duty free or with concessional rate of Custom Duty, so as to ensure higher production for exports.
2. With a view to make Indian products competitive in the world markets, a large number of incentives were provided to the exporters from time to time. Such incentives include refund of duties paid on the raw material used in export production by a system of Duty-Draw-Back, Pre and Post shipment Credit to the exporters at concessional rate of interest, etc.
3. Export Policy of the Government has remained liberal as there were hardly any restrictions on export of items from small scale sector. Export Procedures have been simplified from time to time so as to promote exports from the small scale sector. The efforts of the Government have always been to regulate and simplify procedures so as to create a congenial environment for the exporting community.

Export Strategies for Small Scale Sector

Broadly, exports strategy for small sector includes simplification of export Procedures and to provide incentives to the small sector for higher production and to maximise export earnings. With a view to formulate trade policy with simplified procedures which are conducive for export promotion. Export-Import policy is formulated after consulting various trade bodies like Federation of Indian Export Organisation, Federation of Indian Chambers of Commerce & Industry and different Export Promotion Councils, etc.

Export-Import Policy for Small Scale Sector

Recognition of Export Houses/ Trading Houses, etc.

With a view to recognise established exporters so that they may build marketing infrastructure and expertise required for export production, merchant as well as manufacturer exporters, EOU etc. are recognised as Export House, Trading Houses, Star Trading Houses and Super Star Trading Houses on the basis of certain criteria as laid down in the Export-Import Policy 1997-2002. The eligibility criteria for such recognition is based either on the basis of FOB or Net Foreign Exchange value of exports of goods and services made directly by the exporters during the preceding three licensing years or the preceding licensing year. In an attempt to encourage exports from the small scale sector, the exports made by small scale sector manufacturer-exporters are given triple weightage for the purpose of recognition as EH/TH/STH/SSTH. Accordingly, in terms of provisions contained at para 12.7(a) of the Exim Policy 1997-2002 (amended upto 31/3/99), triple weightage on FOB or net foreign exchange on the export o f products manufactured and exported by units in the small scale industry (SSI)/ Tiny sector/ Cottage sector and double weightage on FOB or net foreign exchange to merchant exporter exporting products reserved for SSI units and manufactured by units in the SSI/Tiny Sector is give. These Export Houses, Trading Houses, etc. are entitled to certain benefits under the current Export-Import Policy.

Special Import Licence (SIL)

Exporters recognised as Export Houses, Star Trading House, Trading Houses, etc. Are eligible for grant of special Import Licence (SIL) @ certain percentage of their FOB value of exports/NFE. However, 2 percent additional SIL is granted for exports of Products manufactured by units registered as SSI, provided the exports of these products is more than 50% of the exports during the period (provisions contained in para 12.7(b) of Hand Book of Procedure 1997-2000 refers).

Eligibility condition for Small Scale Exporters for SIL

In case of small scale exporters holding ISO 9000 (Series) or IS/ISO 9000 Series of quality certification, the FOB value (excluding deemed exports) of exports for becoming eligible for Special Import Licence (SIL) @4% of the FOB value of exports is Rs. 30 million and above in the preceding licensing year or on an average FOB value of Rs. 10 million or above during the preceding three licensing years instead of the limit of Rs. 50 million and Rs. 20 million respectively prescribed for others (Para 11.11 (a) & (b) of Hand Book of Procedures 1997-2002 refers in this context).

Participation in International Fairs/Exhibitions

With a view to ensure that exporters from small scale sector exhibit their products in the International Exhibitions, required assistance & support is provided. Expenditure on account of space rent, handling and clearing charges, insurance and shipment charges etc. are met by the office of the Development Commissioner (Small Scale Industries) under one of the plan schemes.

During 2000-2001, O/o the DC(SSI) participated in 7 International Trade Fairs/ Exhibitions. Participation in the named fairs/exhibitions generated large number of Trade enquiries besides certain export orders. It also provided an opportunity to SSI units to display their products in the world market. During the current financial year, it is proposed to participate in 8-9 International fairs/ exhibitions. The basic objective behind this scheme is that SSI units which otherwise are not in a position to display their products may participate in foreign exhibition/fairs so as to promote their exports. Enquiries generated during such exhibitions abroad are disseminated to all SSI units through a net work of field offices of this organisation. This strategy has been found to be successful for exporters from small scale sector in identifying new foreign buyers/markets.

Packaging for Exports

Role of packaging for exports has gained much significance in view of trends in the world markets. The need for better and scientific packaging for exports from small sector was recognised long back. With a view to acquaint SSI Exporters of the latest

Packaging standards, techniques etc. training programmes on packaging for exports are organised in various parts of the country. These programmes are organised in association with Indian Institute of Packaging which has requisite expertise on the subject. Basic objective of these programmes is to generate the much needed consciousness in the industry and to educate the entrepreneurs about the scientific techniques of Packaging.

Bar-coding for Exports

A new program has been drawn up with the assistance of EAN India to sensitise Indian exporters about barcoding. 7 training sessions were conducted in 2000-01 at different locations across the country. More sessions are planned this year.

Technical & Managerial Consultancy Services

Technical & Managerial Consultancy Services to the SSI manufacturers/exporters is provided through a net work of field offices of this office so as to ensure higher level of production and generation of higher exports.

National Awards for Quality Products

With a view to encourage the small scale units for producing Quality goods, National Awards for Quality Products are given to the outstanding small scale units, who have made significant contribution for improving quality of their products. The scheme is being operated since 1986. Winners of National Awards get a Trophy, a Certificate and a Cash Prize of Rs.25,000/- National Awards encourage Small Scale Industries units to produce quality goods which further enables them to enter into export market.

SSI MDA Scheme

The scheme offers funding upto 90% in respect of to and fro air fare for participation by SSI Entrepreneurs in overseas fairs/trade delegations. The scheme also provide for funding for producing publicity material (upto 25% of costs) Sector specific studies (upto Rs. 2 lakhs) and for contesting anti-dumping cases (50% upto Rs. 1 lakh) - for individual SSIs & Associations.

Marketing Development Assistance (Ministry of Commerce)

Marketing Development Scheme (MDA) is also being operated by Ministry of Commerce under which MDA is given to exporters through FIEO and Export Promotion Councils/ Commodity Boards to plan their marketing strategy for export growth. Guidelines in respect of single person sale-cum-study tours abroad and participation in fairs/ exhibition abroad have been revised with effect from 1st May, 1999. The revised scheme, is as under :-

i. Eligible activities:-
   - One person sale-cum-study tour(s) abroad
   - Participation in fairs/ exhibitions abroad.
ii. Eligible exporters :-
   - Status Holder exporters namely Export Houses, Trading Houses etc.
   They would be eligible to get MDA through FIEO.
   - Small Exporters who are not status holders but are eligible to get the Special Import

License (SIL) under Para 11.11 (a&b) of the Hand Book of Procedures 1997-2002.
Such exporters would be eligible to get MDA through their respective
EPCs/Commodity Boards.

iii. Quantum of Assistance:-

Sales-cum-Study Tour(s) abroad:-
MDA would be limited to 90% of the actual fare for SSI Exporters and 75% for
other than SSI exporters with upper ceiling of Rs. 60,000/- in all cases for travel in
economy class.

Participation in Fairs/Exhibitions abroad:-
MDA would be available on actual fair in economy class and space rent including
decoration, electricity, water etc. only and would be limited to 90% of the total expenditure on above mentioned items for SSI exporters and 75% for other than
SSI exporters with combined upper ceiling of Rs.90,000/- in all cases.

iv. **Number of activities permissible :-**
MDA would be provided for a maximum of 3 activities in a financial year, combined both for sale-cum-study tour abroad and participation in fairs/exhibitions abroad subject to the condition that not more than two activities would be allowed in a financial year either in sales-cum-study tour or in participation in fairs/exhibition abroad.
Second activity in a financial year of either of the activities indicated at sub-para (I) above would be permissible only to those exporters who have achieved a minimum 5% export growth in their global exports during the preceding financial year. One additional sale-cum-study tour or participation fairs/ Exhibition in Latin American Countries (LAC) Region would be permissible without any minimum export growth restriction in a financial year to Status Holder's exporters only.

NOTE : Ministry of Commerce, MDA Section may be approached for other conditions/guidelines, payment terms, documents to be submitted etc. Their Circular No. 1(3)/99-MDA dated 28/4/1999 refers.

Awards to Exporters

Ministry of Commerce gives awards to exporters for their outstanding export performance, under the scheme of National Export Award for export performance. Earlier, a total of 17 Awards including 5 Awards for Small Scale Sector in the form of Trophy were given every year. However, from the year 1997-98 and onwards, the number of awards have been increased to 20, out of which the number of Awards (Trophy) earmarked for small scale sector have been increased from 5 to 8. Upto 8 awards will be given to the exporters in the small scale and cottage sector subject to achievement of normative level of performance by the concerned SSIs and cottage sector units. Out of 8 Awards., one will be given for Khadi & Village Industry.

Promotional Schemes

To meet the challenges of international competition and to promote exports of SSI products, following promotional schemes are also being implemented.

Technology Development and Modernization Fund Scheme

Small Industries Development Bank of India (SIDBI) has been implementing a scheme of technology development and modernisation of SSI units with effect from April, 1995. Under this scheme assistance is available for meeting the expenditure on purchase of capital equipment, acquisition of technical know-how, upgradation of process technology and products with thrust on quality improvement, improvement of packaging and cost of TQM and acquisition of ISO-9000 series certification. The coverage of the scheme has been enlarged from export oriented units to non-exporting units also in September, 1997. Under this Scheme a sum of Rs. 152 crores has been sanctioned for 245 units by April, 1999.

Quality Awareness Scheme

Small Industries Service Institutes organising Workshop on ISO-9000 certification and awareness about quality.

Subsidy for obtaining ISO-9000 quality Certification

Under the scheme of promoting ISO-9000 certification SSIs are given financial support by way of reimbursing 75% of their expenditure to obtain ISO-9000 certification subject to a maximum of Rs.75,000/-. The scheme is being continued during Tenth Plan.

Other Schemes for technology improvement

Tool Rooms:

Tool Rooms provide toolings, dies, moulds and fixtures to small scale units at a very low price to enable them to produce quality goods to meet the requirements of supplies of components to large units as well as produce quality goods for direct sale. This enhances their competitiveness and export potentials. There are 10 Tool Rooms established in various parts of the country.

Process-cum-Product Development Centres :

There are 6 Process-cum-Product Development Centres. These Centres take up jobs from SSIs for specific product development as well process development to improve the quality of products, reduce cost of product and enhance marketability of goods.
These Centers deal with specific product groups.

Small Industry Cluster Development Program:

A new scheme for technology upgradation for industrial clusters has been started recently. 10 clusters of industries producing different groups in various parts of country have been selected. The scheme aims at diagnostic study of the clusters, identification of technological needs, technological intervention and wider dissemination of information and technology within the clusters. The expenditure involved on pilot plants etc. Is to be met on 50:50 cost sharing basis by the Government and the concerned Industry Association of the clusters. The scheme is flexible and provides for smooth sourcing of technology even from abroad.

Other links

National Small Industries Corporation

The National Small Industries Corporation (NSIC) through its export development programme is playing a vital role to promote the SSI sector in exporting their products/projects in international, markets by providing following assistance to the small enterprises.

Marketing and Promotion

- Organising International Exhibitions
- Organising and participation in Buyers-Sellers meet
- Sponsoring delegation from different SSI sectors to various countries
- Providing information related to sales opportunities available in international market
- Product specific catalogue preparation
- Advertising and publicity in various countries through Indian High
- Commissions, Offices abroad and Internet
- Publication of Exporters Directory
- Participating in Global Tenders
- Providing assistance in deemed exports
- Organisation of Seminars and Workshops to upgrade and update SSI with regard to international developments.

Financial Assistance

- Pre and Post Shipment finance at concessional rate of interest
- Financial assistance for procurement of indigenous and imported raw material
- Financial assistance for upgradition and modernisation of SSI unit
- Assisting in the process of claiming exports incentives

Technical Assistance

- Laboratory and Testing assistance for improving quality of products
- Providing assistance in packaging
- Providing assistance for obtaining, inspection documents
- Conducting various programmes related to technology upgradation
- Assisting SSI Sector in Technology assimilation
- Imparting technical training

Effecting product improvements

NSIC has been instrumental in developing a large number of small scale units to export high quality products such as builders hardware, locks, light engineering products, giftware and novelties, readymade garments and textile products.

Following activities are also undertaken by NSIC for Export Promotion through SSI

- Study visit to various developed countries to identify the product range and their market demand.
- Arrange visits of delegations consisting of representatives of small scale industries/Associations to different specialises exhibitions and buyers-sellers meets.
- Collect samples during the above export promotion visits and to identify suitable small scale suppliers to develop counter samples.
- NSIC has already opened two offices abroad at South Africa and Dubai, U.A.E. These offices will be utilised for generation of business for the small scale sector.
- Publication of a directory of identified products and possible buyers for circulation to the small scale industries.

Reservation Policy

Reservation of products for exclusive manufacture in the small scale sector was introduced for the first time in 1967 with the reservation of 47 items. This number increased progressively as under:

February, 1970 - 55
February, 1971 - 128
November, 1971 - 124
February, 1974 - 177

June, 1976 - 180
April, 1978 - 504

After the introduction of National Industrial Classification (NIC) code the list was recast. As a result, the list of reserved items expanded from 504 to 807 in 1978 and was 836 in 1989. Out of this, 39 items were dereserved in four phases viz., 15 items on 3.4.1997, 9 items on 3.2.1999, 1 item on 1.1.2001 and 14 items on 29.6.2001. Subsequently, 51 items were dereserved in May 2002, 75 items in May 2003 and 85 items in October, 2004.

As of October, 2004, 605 items are reserved for exclusive manufacture in the small scale sector.

Reservation affords support to SSIs against competition from medium/large/ multinational companies. The policy received statutory backing in 1984 under Section 29B of Industries (Development & Regulation) Act, 1951.

Reservation/dereservation is a continuous process. The Advisory Committee on Reservation constituted under the Industries (Development & Regulation) Act, 1951 recommends items to be added and deleted from the reserved list including bringing changes in nomenclature. The Advisory Committee on Reservation consists of the following:-

Secretary (SSI&ARI) . Chairman
Secretary (IP&P) - Member
Secretary (Commerce) - Member
Adviser (VSI), Planning Commission - Member
Additional Secretary & DC(SSI) - Member Secretary

Non-SSI units (i.e. medium/large units including multi-nationals) can manufacture reserved items if they have obtained a carry on business licence or accept an export obligation of 50% of their production.

As only manufacturing of items is reserved, trading in these items is not a violation of the reservation policy

Licensing Policy

The major impact of liberalisation and globalisation of economy, which started in India in July, 1991, was to do away with the Compulsory Licensing. As of now on FOUR industries are reserved for the Public Sector and only SIX industries fall under the compulsory licensing, as detailed below:

LIST OF INDUSTRIES RESERVED FOR THE PUBLIC SECTOR

1. Arms and ammunition and allied items of defence equipment, Defence aircraft and warships.
2. Atomic energy.
3. The substances specified in the scheduled to the notification of the Government of India in the Department of Atomic Energy number S.O.212(E), dated the 15th March, 1995.
4. Railway transport.

LIST OF INDUSTRIES FOR WHICH INDUSTRIAL LICENSING IS COMPULSORY

1. Distillation and brewing of alcoholic drinks.
2. Cigars and Cigarettes of tobacco and manufactured tobacco subsitutes.
3. Electronic Aerospace and Defence equipment: all types.
4. Industrial explosives including detonating fuses, safely fuses, gun powder, nitrocellulose and matches.
5. Hazardous chemicals.
6. Drugs and Pharmaceuticals (according to modified Drug Policy issued in September, 1994).

In case of the small units which employ less than 50 workers with power or less than 100 workers without power are not required to obtain any license under Compulsory Licensing Provisions.

For further details visit website http://indmin.nic.in

Foreign Direct Investment Approval

HIGHLIGHTS

- An industrial undertaking, i.e., a company with interests in industry can invest upto 24% equity in a SSI unit.
- If the equity goes beyond 24%, the industrial unit loses its SSI status.
- There is no restriction on the extent of equity that can be held by a Non-resident Indian (NRI) as an individual/partner in a SSI unit.
- Investors need to file an application with the Reserve Bank of India (RBI) in the prescribed format and approval is ordinarily granted within 15 days.
- For foreign investment outside the automatic route, clearance has to be obtained from Foreign Investment Promotion Board (FIPB).

- Applications for setting up a 100% Export Oriented Unit are also required to be filed with the SIA.
- For setting up a unit in an Export Processing Zone (EPZ), application has to be filed with the Development Commissioner of the concerned EPZ.
- Under automatic procedures, foreign technology agreements are being permitted in respect of industries that are designated as high priority industries.
- The use of foreign brand names and / or trade mark of goods is also now being permitted freely.

For further information regarding automatic approvals, write to

CONTROLLER
EXCHANGE CONTROL DEPARTMENT
RESERVE BANK OF INDIA
NEW CENTRAL OFFICE BUILDING
SHAHEED BHAGAT SINGH ROAD
BOMBAY - 400023
TEL: 2861602, 2860604 FAX: 2864667, 2861892

For proposals not coming in the automatic approval category write to:

SECRETARY
SECRETARIAT OF INDUSTRIAL APPROVAL (SIA)
DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION
MINISTRY OF INDUSTRY UDYOG BHAWAN
NEW DELHI - 110001
TEL: 3014005 FAX: 3011770
www.indmin.nic.in

FOREIGN TECHNOLOGY AGREEMENTS

Automatic permission is given for foreign technology agreements up to certain ceilings covering the same high priority areas.

HIRING FOREIGN TECHNICIANS

No government permission is necessary for hiring foreign technicians and full powers have been delegated to the RBI.

Further Liberalisation in "FDI"

EQUAL TRATMENT IN PAYMENT OF ROYALTY
UNDER FOREIGN TECHNOLOGY COLLABORATION

It has now been decided by the Government that all companies irrespective of the extent of foreign equity in the shareholding, who have entered into foreign technology collaboration agreements may henceforth be permitted on automatic approval route to make royalty payments at 8% on exports and 5% on domestic sales without any restriction on the duration of the royalty payments. The ceiling on payment of lumpsum fee/ royalty on the automatic route would continue to apply in all cases.

Earlier only wholly owned subsidiaries were permitted to make payment of royalty at the same rate to their offshore parent companies without any restriction on the duration of the royalty payment.

NRI Investment Approval

A liberal policy for permitting investment of upto 100% equity wth full repatriation facilities in industrial ventures in high priority industries by Non-Resident Indians (NRIs) and Overseas Corporation Bodies (OCBs) has been announced. It has also been decided to permit 100% NRI investment with full repatriation benefits in Export/ Trading/ Star Trading House also.

REPATRIATION OF DIVIDENDS
India permits free repatriation of profits after payment of the applicable taxes for all approved investments other than in few specified industries. In these consumer goods industries, repatriation of profits is allowed only out of net foreign exchange earnings during an initial period of seven years from the commencement of production.

However, there are procedural requirements for obtaining RBI approval for repatriation of Branch profits or dividend by an Indian company which has more than 40 percent of equity. On disinvestment, capital may be repatriated subject to the sale price being considered reasonable by the RBI and payment of applicable taxes.

FOREIGN INVESTMENT PROMOTION BOARD
Government of India has established a Special Empowered Board called Foreign Investment Promotion Board in the Ministry of Industry, to negotiate with large international firms and to approve direct foreign investment in selected areas.

Objective
The objective of this Board will be to invite and facilitate investment in India by international companies in projects which are considered to be of benefit to the Indian economy and do not fall within the parameters of the existing policy for clearance of foreign investment proposals.

Functions
The functions of the Board shall mainly comprise:

- Expeditious clearance of proposals;
- Establishment of contact with and inviting selected international companies to invest in India in appropriate ventures; and
- To periodically review the implementation of projects cleared by the Board. The Board will provide a single window clearance for all aspects of project proposals considered by it. No formal application forms are prescribed; the entrepreneur can directly correspond with the Board.

NRI Investment Approval

- Non-Resident Indians (NRIs) allowed to invest upto 100% equity with full benefits of repatriation in most industry sectors.
- There is no restriction on the extent of equity that can be held by a Non-Resident Indian (NRI) as an individual/partner in a SSI unit.
- NRIs and Overseas Corporate Bodies (OCB) predominantly owned by NRIs are allowed to invest upto 100% foreign equity in high priority industries with full repatriation benefits.

To set up large industrial ventures in products reserved for the small scale sector, the unit has to take up a 50% export obligation.

Foreign Investment Regulations

Current Account Convertibility

Under the present policy all receipts of foreign exchange under the current account both export earnings and inward receipts are fully convertible. As per the present policy of the Government all receipts of foreign exchange, under current transactions, both merchandise exports and invisible receipts, received by exporters and other recipients are required to be surrendered to an authorised dealer of foreign exchange.

The authorised dealer converts 100% of the foreign exchange received into rupee at the free market.

In respect of export contracts entered into by exporters on CIF or C & F basis, the authorised dealers are required to obtain documentary proof of freight and insurance charges actually paid by the exporter, whether in foreign currency or rupees (to be notionally converted into foreign exchange at market rate for this purpose) and deduct this amount from the CIF value of exports to arrive at the FOB value of exports. The conversion of foreign currency into Indian Rupees is done on the basis of FOB value of Exports.

From the free convertible portion, the exporters of goods and services have the option to retain upto 25% of the foreign exchange in Dollar Accounts, also called EEFC Accounts, with some commercial bank in India which is an authorised dealer of foreign exchange, to meet their current or contingent liability, and get only 75% of the foreign exchange converted into rupees at free market rates. However, as has been exempted before, all the 100% Export Oriented Units and Units set up in the Export Processing Zones / Free Trade Zones are allowed to get their entire proceeds from exports converted at market rates quoted by authorised dealers.

For the import of raw materials, components, capital goods, etc and for remittance of dividends, royalties, technical know-how fee, repayment of overseas foreign exchange loans and/or interest therein, the foreign exchange has to be purchased by the remitter at market determined rates from the authorised dealers of foreign exchange in India.

For the requirement of foreign exchange for any of these purposes, an application to the regional Exchange Control Department of RBI, under whose jurisdiction the unit is located, has to be made and permits have to be obtained.

Indian exporters/importers can make payments towards freight charges in respect of their exports/imports in a convertible foreign currency to steamships/airline companies operating in India or to their Indian Agents. Such payments can be made either from their foreign currency accounts or by purchases of foreign exchange from authorised dealers at market rates quoted by them. It is open for Indian/Foreign Shipping lines/Airlines to open and maintain foreign agency accounts (EEFC accounts) and to credit up to 25% of the collections of the freight in foreign currencies to such accounts.

As all payments for deemed exports are settled in rupees, they are outside the purview of Liberalised Exchange Rate Mechanism (LERMS).

All foreign currency loans raised by Indian firms/Companies are converted into rupees at market rates. All remittances towards repayment/payment of principal/interest under commercial borrowings, supplier's credit, buyer's credit, lines of credit, etc and other incidental expenses connected therewith are also made at market rates.

The RBI also permits Indian parties who have raised foreign currency loans abroad to open ESCROW accounts with banks abroad and to assign the credit balance outstanding therein favour or the lenders. Such accounts can be funded through export earnings of the borrower to the extent permitted by the Reserve Bank of India.

Any surplus inflows from these accounts into India are converted at market rates by their authorised dealers.

Any foreign exchange received by Indian companies towards foreign equity contribution is converted at market rates. If the foreign equity contribution is retained abroad, with the permission of the RBI, to finance import of capital goods, the unspent balance repatriated to India and surrendered to an authorised dealer is converted into rupees at market rates.

The proceeds of Imports into India and exports from India have to be credited to or paid from the US Dollar Escrow account maintained with the bank in India.

Labour Policies

The Factories Act, 1948

Objectives

- To ensure adequate safety measures and to promote the health and welfare of the workers employed in factories.
- To prevent haphazard growth of factories through the provisions related to the approval of plans before the creation of a factory.

Scope and coverage

- Regulates working condition in factories.
- Basic minimum requirements for ensuring safety, health and welfare of workers.
- Applicable to all workers.
- Applicable to all factories using power and employing 10 or more workers, and if not using power, employing 20 or more workers on any day of the preceding 12 months.

Main provisions

- Compulsory approval, licensing and registration of factories.
- Health measures.
- Safety measures.
- Welfare measures.
- Working hours.
- Employment of women and young persons.
- Annual leave provision.
- Accident and occupational diseases.
- Dangerous operations.
- Penalties.
- Obligations and rights of employees.

When to consult and refer

- On starting a factory.
- Throughout the life of the factory.

The Minimum Wages Act, 1948

Objectives
To determine the minimum wages in industry and trade where labour organisations are non-existent or ineffective.

Scope and coverage

- Applicable to all employees engaged to do any work, skilled, unskilled manual or clerical, in a scheduled employment, including out-workers.
- Fixation of minimum wages.

Main provisions

- Fixation of minimum wage of employees.

- Procedure for fixing and revising minimum wages.
- Obligation of employees.
- Rights of workers.

When to consult and refer
At the time of fixation of salary of new/existing employees.

The Payment of Wages Act, 1936

Objectives
To ensure regular and prompt payment of wages and to prevent the exploitation of a wage earner by prohibiting arbitrary fines and deductions from his wages.

Scope and coverage

- Application for payment of wages to persons employed in any factory.
- Not applicable to wages which average Rs 1600/- ($35.83) per month or more.
- Wages include all remuneration, bonus, or sums payable for termination of service, but do not include house rent reimbursement, light vehicle charges, medical expenses, TA, etc.

Main provisions

- Responsibility of the employer for payment of wages and fixing the wage period.
- Procedures and time period in wage payment.
- Payment of wages to discharged workers.
- Permissible deductions from wages.
- Nominations to be made by employees.
- Penalties for contravention of the Act.
- Equal remuneration for men and women.
- Obligations and rights of employers.
- Obligations and rights of employees.

When to consult and refer
Deciding wages and salary administration at all times.

The Employees Provident Funds and Misc. Provisions Act, 1952

Objectives

- To make provisions for the future of the industrial worker after he retires or for his dependents in the case of his early death.
- Compulsory Provident Fund
- Family Pension
- Deposit linked insurance

Scope and coverage

- Application to factories and establishments employing 20 or more persons.
- Can be made applicable by central government to establishments employing less than 20 persons or if the majority of employees agree.
- Excludes establishments employing 50 or more persons or 20 or more persons but less than 50 persons, until the expiry of three years in the case of the former, and five years in the case of the former, and five years in the case of the latter, from the date of setting up of establishment.
- Applicable to all persons who are employed directly or indirectly through contractors in any kind of work.

Eligibility
Employees drawing pay not exceeding Rs. 3500/- ($78.37) per month.

Benefits

- Apart from terminal disbursal of non-refundable withdrawals for Life Insurance Policies
- House building
- Medical treatment
- Marriage

- Higher education
- Family pension
- Retirement-cum-withdrawal benefits
- Deposit linked insurance Amount equal to the average balance in Provident Fund of deceased subject to a maximum of Rs. 25,000/- ($559.79).

Workmen's Compensation Act, 1923

To provide compensation for workmen in cases of industrial accidental / occupational diseases in the course of employment resulting in disablement or death. Coverage for persons employed in Factories, Mines, Plantations, the Railways and others mentioned in Schedule II of the Act.

Benefits

Compensation for Death
- Minimum - Rs. 20,000 ($447.83) Maximum - Rs. 1,14,000 ($2,552.62)

Compensation for Permanent disablement
- Minimum - Rs. 24,000 ($537.4) Maximum - Rs. 70,000 ($1567.4)

Temporary disablement
- 50% of wages for a maximum period of 5 years.

The Contract Labour (Regulation & Abolition) Act, 1970

- Not to be required to work beyond 9 hours between 6 A.M. and 7 P.M.
- with the exception of midwives and nurses in plantations.

The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979

- Separate toilets and washing facilities to be provided in employment covered by the 3rd and 6th laws.

Maternity Benefit Act, 1961

- Maternity benefits to be provided on completion of 80 days working.
- Not required to work during six weeks immediately following the day of delivery or miscarriage.
- No work of arduous nature, long hours of standing likely to interfere with pregnancy/normal development of foetus or may cause miscarriage or likely to affect health to be given for a period of one month immediately preceding the period of six weeks before delivery.
- On medical certificate, advance maternity benefit to be allowed.
- Rs. 250 ($5.6) as medical bonus to be given in case when no prenatal confinement and post-natal care is provided free of charge.

Equal Remuneration Act, 1976

- Payment of equal remuneration to men and women workers for same or similar nature of work protected under the Act and also under the provisions at ISMW Act, mentioned above.
- No discrimination permissible in recruitment and service conditions except where employment of women is prohibited or restricted by or under any law.

The Children (Pledging of Labour) Act, 1933

- Any agreement to pledge the labour of children is void.

The Bidi and Cigar Workers (Conditions of Employment) Act, 1966

- Employment of children under 14 years of age prohibited under the laws at Sl. Nos. 2 to 5.
- Except in the process of family based work or recognised school-based activities, children not permitted to work in occupations connected with: Passenger, goods mail transport by Railway Cinder picking, cleaning of ash pits Building operations, construction Catering establishments in Railway premises or port limits Beedi making Carpet weaving Cement manufacturing Cloth printing Dyeing, weaving Manufacture of matches, explosives, fireworks Mica cutting, splitting Wool cleaning
- In occupations and processes other than the above mentioned, work by children is permissible only for six hours between 8.00 A.M. and 7.00 P.M. with one day's weekly rest.
- Occupier of establishment employing children to give notice to local Inspector and maintain prescribed register.

The Payment of Gratuity Act, 1972

Objective
To provide for payment of gratuity on ceasing to hold office

Coverage
Factories, Mines, Oil fields, Plantations, Ports, Railway Companies, Shops & Commercial Establishments and to other establishments to which the Government extends the law.

Eligibility
Employees drawing wages not exceeding R. 3500/- ($78.37) per month.

Benefits
15 days wages for every completed year of service or part thereof in excess of six months subject to a maximum of Rs. 50,000 ($119.58)

Employees State Insurance Act, 1948

Objective
To provide for health cover, Medical care and Cash benefits for

- Sickness
- Maternity
- Employment injury
- Pensions to dependents in case of Death (or) Employment injury

Eligibility
Employees drawing wages not exceeding Rs. 3000/- ($67.17) per month

Benefits

- Compensation for Death Minimum - Rs. 20,000 ($447.83 Maximum) - Rs. 1,14,000 ($2552.62)
- Compensation for Permanent disablement Minimum - Rs. 24,000 ($537.4) Maximum - Rs (70,000) $1,567.4
- Temporary disablement 50% of wages for a maximum period of 5 years.

The Payment of Bonus Act, 1965

Objectives
To provide statutory obligations for payment of bonus to persons employed in certain establishments on the basis of profits or productivity.

Scope and Coverage

- Applicable all over India to factories under the Factories Act and to other establishments employing 20 or persons on any day during a year.
- Government can extend its coverage to establishments employing between 10 and 20 workers.
- Covers all workers including supervisors, managers, administrators, technical and clerical staff employed on salary or wages not exceeding Rs 2,500 ($55.97) per month.

Main Provision

- Eligibility for bonus.
- Payment of minimum and maximum bonus.
- Time limit for payment of bonus.
- Deductions from bonus.
- Computation of gross profits and available allocable surplus.
- Rights of employees.

When to Consult And Refer

- When the factory if registered under the Factories Act.
- When the number of employees in the establishment reaches 20 or above.
- When calculating the bonus.

The Shops and Establishments Act, 1953

Objectives
To provide statutory obligation and rights to employees and employers in the unorganised sector of employment, i.e., shops and establishments.

Scope and Coverage

- A state legislation; each state has framed its own rules for the Act.
- Applicable to all persons employed in an establishments with or without wages, except the members of the employer's family.
- State government can exempt, either permanently or for a specified period, any establishments from all or any provisions of this Act.

Main Provisions

- Compulsory registration of shop/establishment within thirty days of commencement of work.
- Communications of closure of the establishment within 15 days from the closing of the establishment.
- Lays down the hours of work per day and week.
- Lays down guidelines for spread-over, rest interval, opening and closing hours, closed days, national and religious holidays, overtime work.
- Rules for employment of children, young persons and women
- Rules for annual leave, maternity leave, sickness and casual leave, etc.
- Rules for employment and termination of service.
- Maintenance of registers and records and display of notices.
- Obligations of employers.
- Obligations of employees.

When to Consult And Refer

- At the time of start of an enterprise.
- When framing personnel policies and rules.

<u>The Trade Unions Act, 1926</u>

Objective
To confer a legal and corporate status on registered trade unions.

Scope and Coverage

- Applicable to unions of workers as well as associations of employers.
- Extends to the whole of India.
- A central legislation but administered and enforced by the state governments.

Main Provisions

- Defines trade union.
- Registration of a trade union by any seven or nine workers of an establishment on applying with a copy of the rules of the union, the name and address, and the list of office bearers.
- Cancellation and dissolution of trade unions.
- Obligations of registered trade unions.
- Rights of registered trade unions.

When to Consult And Refer

- At the time of start of an enterprise.
- Throughout the running of the enterprise.

<u>The Industrial Disputes Act</u>

Objectives
To provide a machinery for peaceful resolution of disputes and to promote harmonious relation between employers and workers.

Scope and coverage

- Applicable to all industrial and commercial establishments

- Covers all workers and supervisors drawing salaries up to Rs. 1600/- ($35.82) per month.
- Not an applicable to person employed in managerial and administrative capacities.

Main provisions

- Defines industry, industrial dispute, layoff, lockout, retrenchment, trade union, strike, wages. workman, etc.
- Provides machinery for investigating and settling disputes through works committees, conciliation officers, boards of conciliation, courts of enquiry, labour courts, tribunals and voluntary arbitration.
- Reference of dispute for adjudication.
- Awards of labour courts and tribunals.
- Payment of wages to workers pending proceedings in High Courts.
- Rights of appeal.
- Settlements in outside conciliation.
- Notice of change in employment conditions.
- Protection of workmen during pendency of proceedings
- Strike and lockout procedures.
- Lay-off compensation.
- Retrenchment compensation.
- Proceedings for retrenchment.
- Compensation to workmen in case of transfer of undertakings.
- Closure procedures.
- Reopening of closed undertakings.
- Unfair labour practices.
- Recovery of money due from employer.
- Penalties.
- Obligations and rights of employees.

When to consult and refer

- When a dispute arises with the workers' union.
- When you plan changes in employment conditions.
- When there is a strike.
- When there is a lockout.
- When retrenchment of workmen.
- When undertaking is being transferred
- On closure of an establishment.
- On re-opening establishment.

Policy for Small and Tiny Enterprises, Village Industry, Handloom Etc.

A. SMALL AND TINY ENTERPRISES

1.0 INTRODUCTION

1.1 The Small Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. At the end of the Seventh Plan period, it accounted for nearly 35 percent of the gross value of output in the manufacturing sector and over 40 percent of the total exports from the country. It also provided employment opportunities to around 12 million people.
1.2 The primary objective of the Small Scale Industrial Policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts would be made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs.
1.3 All statutes, regulations and procedures would be reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small and village enterprises.

2.0 TINY ENTERPRISES

2.1 Government have already 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 SSI/Ancillary units as on date is Rs 10 million. For tiny it is Rs 2.5 million and for SSSBE Rs 500 thousand.
2.2 Service sub-sector is a fast growing area and there is need to provide support to it in view of its recognised potential for generating employment. Hence all Industry-related service and business enterprises, recognised as small scale industries and their investment ceilings would correspond to those of Tiny enterprises.
2.3 A separate package for the promotion of Tiny Enterprises is now being introduced. This constitutes the main thrust of Government's new policy.
2.4 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.
2.5 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 upto 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 (SSIDCs), would also be channelised through commercial banks. This would facilitate access to a larger number of entrepreneurs.

3.0 FINANCIAL SUPPORT MEASURES

3.1 Inadequate access to credit – both short term and long term – remains a perennial problem facing the small scale sector. Emphasis would henceforth shift from subsidised/cheap credit, except for specified target groups, and efforts would be made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector. A special monitoring agency would be set up to oversee that the genuine credit needs of the small scale sector are fully met.
3.2 To provide access to the capital market and to encourage modernisation and technological upgradation, it has been decided to allow equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancillarisation & sub-contracting, leading to expansion of employment opportunities.
3.3 Regulatory provisions relating to the management of private limited companies are being liberalised. A Limited Partnership Act will be introduced to enhance the supply of risk capital to the small scale sector. Such an Act would limit the financial liability of the new and non-active partners/entrepreneurs to the capital invested.
3.4 A beginning has been made towards solving the problem of delayed payments to small industries by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). Network of such services would be set up throughout the country and operated through commercial banks. A suitable legislation will be introduced to ensure prompt payment of Small Industries' bills.

4.0 INFRASTRUCTURAL FACILITIES

4.1 To facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new Scheme of Integrated Infrastructural Development (including Technological Back-up Services) for Small Scale Industries would be implemented with the active participation of State Governments and financial institutions. A beginning in this direction will be made this year itself.
4.2 A Technology Development Cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) which would provide technology inputs to improve productivity and competitiveness of the products of the small scale sector. The TDC would coordinate the activities of the Tool Rooms, Process-cum-Product Development Centres (PPDCs), existing as well as to be established under SIDO, and would also interact with the other industrial research and development organisations to achieve its objectives.
4.3 Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small scale sector, particularly the tiny sub-sector. Policies would be so designed that they do not militate against entry of new units. Based on the capacity needs, Tiny/Small Scale units would be given priority in allocation of indigenous raw materials.
4.4 A proper and adequate arrangement for delivery of total package of incentives and services at the District level will be evolved and implemented.

5.0 MARKETING AND EXPORTS

5.1 In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Mass consumption labour intensive products are predominently being marketed by the organised sector. The tiny/small scale sector will be enabled to have a significant share of such markets. In addition to the existing support mechanism, market promotion would be undertaken through cooperative/public sector institutions, other specialised/professional marketing agencies and consortia approach, backed up by such incentives, as considered necessary.
5.2 National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and SSIDCs would be established.
5.3 Government recognises the need to widen and deepen complementarily in production programmes of large/medium and small industrial sectors. Parts, components, sub-assemblies, etc. required by large public/private sector undertakings would be encouraged for production in a techno-economically viable manner through small scale ancillary units. Industry associations would be encouraged to establish sub-contracting exchanges, in addition to strengthening the existing ones under the SIDO. Emphasis would also be laid on promotion of a viable and competitive 'component' market.
5.4 Though the Small Scale Sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognised as the nodal agency to support the small scale industries in export promotion. An Export Development Centre would be set up in SIDO to serve the small scale industries through its network of field offices to further augment export activities of this sector.

6.0 MODERNISATION, TECHNOLOGICAL AND QUALITY UPGRADATION

6.1 A greater degree of awareness to produce goods and services conforming to national and international standards would be created among the small scale sector.
6.2 Industry Associations would be encouraged and supported to establish quality counselling and common testing facilities. Technology Information Centres to provide updated knowledge on technology and markets would be established.
6.3 Where non-conformity with quality and standards involves risk to human life and public health, compulsory quality control would be enforced.
6.4 A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Specific industries in large concentrations/clusters would be identified for studies in conjunction with SIDBI and other banks. Such studies will establish commercial viability of modernisation prescriptions, and financial support would be provided for modernisation of these industries on a priority basis.

6.5 Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges will serve as Technological Information, Design and Development Centres in their respective command areas.

7.0 PROMOTION OF ENTREPRENEURSHIP

7.1 Government will continue to support first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programmes (EDP). Industry Associations would also be encouraged to participate in this venture effectively.
7.2 EDP would be built into the curricula of vocational and other degree level courses.
7.3 Women entrepreneurs will receive support through special training programme. Definition of "Women Enterprises" would be simplified. The present stipulation regarding employment of majority of women workers would be dispensed with and units in which women entrepreneurs have a majority shareholding and management control, would be defined as "Women Enterprises".

8.0 SIMPLIFICATION OF RULES AND PROCEDURES

8.1 The persistent complaint of small scale units of being subjected to a large number of Acts and Laws, being required to maintain a number of registers and submit returns, and face an army of inspectors, would be attended to within a specified time frame of three months.
8.2 Procedures would be simplified, bureaucratic controls effectively reduced, unnecessary interference eliminated and paper work cut down to the minimum to enable the entrepreneurs to concentrate on production and marketing functions.

B. VILLAGE INDUSTRIES

9.0 HANDLOOM SECTOR

9.1 Handloom sector contributes about 30 per cent of the total textile production in the country. It is the policy of Government to promote handlooms to sustain employment in rural areas and to improve the quality of life for handloom weavers.
9.2 Schemes for the handloom sector will be redesigned keeping in mind the local and regional needs. Constraints of coverage will be removed so as to include bulk of the weavers who are outside the corporate/cooperative fold.
9.3 Existing schemes will be re-drawn and suitably revised under three major heads:
(a) Project Package Scheme: Under this scheme, area-based projects for product development, upgradation of technology, improvement of marketing facilities will be drawn up.
(b) Welfare Package Scheme: Number of welfare schemes and quantum of funds earmarked for them will be substantially augmented.
(c) Organisation Development Package: Schemes for participation in the share capital will be re-drawn under organisational development scheme for imparting a better management system in the existing state agencies.
9.4 Janta cloth scheme which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the VIII Plan ad replaced by the omnibus project package scheme under which substantial funds will be provided for modernisation of looms, training, provision of better designs, provision of better dyes and chemicals and marketing assistance.
9.5 A vastly expanded role for the National Handloom Development Corporation (NHDC) is envisaged. NHDC would be the nodal agency for increasing the supply of hank yarn and of dyes and chemicals. Spinning capacity in the co-operative sector will be increased. National Co-operative Development Corporation will provide more assistance for this in the form of Seed Money, both for cotton growers spinning mills and weavers spinning mills.
9.6 For improving marketing of handloom products, a more intensive implementation of schemes for design and product improvement by national level publicity, exhibitions, and design exercise will be undertaken. A special scheme will be drawn up to graduate the handloom production, which is often of low value items, to high value products suitable for export markets. This will be done by better design inputs, upgradation of technology, diversion of weavers from cotton to silk and tassar weaving. Special projects for modernisation of looms for products suitable for export markets will be drawn up.

10.0 HANDICRAFTS SECTOR

10.1 The key areas in handicrafts that could contribute towards a faster pace of rural industrialisation are production and marketing. Schemes for training and design development and for production and marketing assistance will be given encouragement.
10.2 Considering the importance of this sector from the point of view of employment and exports, it is proposed to provide an integrated development thrust to this sector with a view to enlarging the production base, thus enhancing the opportunities for employment and income through crafts as an economic activity and to giving it necessary inputs for quality improvement and effective marketing support both internal and overseas. Efforts will be made not only to preserve the traditional richness of the crafts but to engage the hereditary skills of the craftspersons to suit modern requirements.
10.3 Emphasis will be given to the following:-

- Extension of services like supply of raw materials, design and technical guidance, market support, training and procuring of related materials/inputs in an integrated and area-based manner through the setting up of craft development centres in identified clusters of villages.

- Market development support in the form of a package of assistance through expansion of marketing infrastructure, exhibitions, publicity, etc., through Central and State Handicrafts Corporations, voluntary organisations and support to direct marketing activity by craftspersons.

- Expansion of training activities by greater involvement of State Handicrafts Development Corporations, Co-operatives and voluntary organisations.

- Measures to sustain an increased exports of handicrafts through new marketing channels like trading companies, departmental stores, etc.

11.0 OTHER VILLAGE INDUSTRIES

11.1 Government recognise the need to enhance the spread of rural and cottage industries towards stepping up non-farm employment opportunities.
11.2 The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards will be expanded and the organisations strengthened to discharge their responsibilities more effectively.
11.3 There will be greater emphasis on improving the quality and marketability of the products pari passu with consumer preferences instead of merely depending on rebates and subsidies.
11.4 While the plan allocation for rural industries will be augmented, effective steps will also be taken to ensure better flow of credit from the financial institutions and a more coordinated and optimal utilisation of different development schemes and agencies operating in the rural sector. Bankability of projects undertaken in this sector would be stressed.
11.5 The programmes of intensive development of KVI through area approach with tie-up with DRDA, TRYSEM and ongoing developmental programmes relating to weaker sections like Scheduled Castes, Scheduled Tribes and Women would be extended throughout the country.
11.6 The traditional village industries would be given greater thrust. Involvement of traditional and reputed voluntary organisations will be encouraged.
11.7 Agro processing and food processing industries in KVI sector using appropriate technologies would be promoted with a view to utilise locally available agricultural produce and promote employment/resource generation in the countryside.
11.8 Functional industrial estates would be established in areas with concentration of agricultural/horticultural produce.
11.9 R & D in KVI sector would be strengthened through greater linkages with CSIR and other research institutions in the areas of production, finishing/packaging, processes and development of new tools and implements.
11.10 The training programmes would be upgraded and augmented to cover the expanded list of industries under the purview of the KVIC.

Development of Backward Areas Policy

In exercise of powers conferred by section 80-IA of the Income-tax Act, 1961 (43 of 1961), as amended by section 3 of the Income-tax (Amendment) Ordinance, 1997 (15 of 1997) and in supersession of the Notification of Government of India, Ministry of Finance, Department of Revenue (Central Board Direct Taxes) number 636(E), dated 3-9-1997] [Notification No.10404 (F.No.142/20/94-TPL (PT-III), dated 3-9-1997][except as respects things done or omitted to be done before such supersession, the Central Government specifies the following districts as industrially backward districts of Category 'A' and Category 'B' under sub-clause (c) of clause (iv) of sub-section (2) of section 80-IA read with rule 11EA of the Income-tax Rules, 1962, namely:-

A. CATEGORY 'A' INDUSTRIALLY BACKWARD DISTRICTS: under SISI Agra (in U. P.)		
1.	Chamoli	Uttar Pradesh
2.	Uttarkashi	Uttar Pradesh
3.	Almora	Uttar Pradesh
4.	Pithoragarh	Uttar Pradesh
5.	Tehri Garhwal	Uttar Pradesh
B. CATEGORY 'B' INDUSTRIALLY BACKWARD DISTRICTS: under SISI Agra (in U. P.)		
1.	Badaun	Uttar Pradesh
2.	Etah	Uttar Pradesh
3.	Etawah	Uttar Pradesh
4.	Mainpuri	Uttar Pradesh
5.	Farukhabad	Uttar Pradesh

Explanation: For the purpose of this notification, the districts correspond to the districts mentioned in the Report of the Study Group on identification of Backward Districts dated 4th October, 1994 and are based on districts as they stood in the Census Report of 1991. Where a district specified as an industrially backward district for the purposes of section 80-IA is reorganized, either by split or otherwise, after the Census Report of 1991, all the areas comprised in the district as it existed in the Census Report of 1991 will qualify for the purpose of this rule.

2. This notification shall be deemed to have come into force with effect form the 1st day of October, 1994.

EXPLANATORY MEMORANDUM

The Central Government had set up a Study Group to identify industrially backward districts for the purposes of section 80-IA of the Income-tax Act, 1961. The Group submitted its Report to the Central Government in the month of October 1994. The Central Government constituted another Study Group to review the said Report. On the basis of the reports of both the Study Groups, the Central Government decided that the industrially backward districts should be classified into two categories, i.e. Category 'A' and

Category 'B'. Section 80-IA was amended by the Income-tax (Amendment) Ordinance, 1997) so as to classify the industrially backward districts of Category 'A' and industrially backward districts of Category 'B'. The Said Ordinance has come into force on the 16th September, 1997. Rule 11EA of the Income-tax Rules, 1962 has also been amended retrospectively with effect from 1-10-1994 so as to give effect to the amendment made in section 80-IA of the Income-tax Act by the said Ordinance. It is certified that the retrospective operation of this amendment shall not prejudicially affect the interest of assesses.

SOURCE: **Notification No. SO 714(E), dated 7-10-1997.**

Note: Deduction under Sec. 80IA of the Income Tax Act has been extended upto 31.3.2002

Taxation and Excise Policy

Today, the SSI sector produces almost 8000 products. The number of units have gone up from 19 lakhs in 1991 to over 31 lakhs in 1999. During the 7 year period from 1991 when liberalization began till 1998, the SSI sector created almost 42 lakhs new jobs whereas the entire organised industry including government was able to create only 14.3 lakhs new jobs.

From time to time, various incentives in the shape of exemptions from payment of excise duties and licensing registration controls have been extended to small scale units producing excisable goods. This has been the long standing and consistent policy of the Government to encourage the small scale sector and to improve their competitive position vis-à-vis the large manufacturing units. Government of India has provided a major relief by granting full exemption from the Payment of central excise duty on a specified output and thereafter slab-wise concessions of certain specified items in 1978. A general Small Scale Exemption Scheme in respect of specified commodities was introduced in 1985. The same was replaced in 1986 and subsequently amended from time to time by a number of notifications in 1993. With effect from 1-4-1994, Gate-Pass System was replaced by manufacturer invoice to cover clearances of goods as the duty-paying document.

In the Budget 1995-96, the limit of Rs.2 crore turnover for a small scale unit to be eligible to exemption was revised to Rs.3 crore. SSI units whose clearances dis not exceed Rs.30 lakhs in a financial year were exempted from payment of excise duty. SSIs are also not required to maintain any statutory records such as daily stock account of production and clearances, raw material account, personal ledger account, RG-23A account, RG-23C account, stock register of goods sent for processing of job-work, invoice records etc. Their own records are adequate for excise purposes. The exemption limit was raised to Rs.50 lakhs in the budget 1998-99 and further to Rs.100 lakhs in 2000. SSIs have been allowed to pay duty on a monthly basis w.e.f 1-4-1999.

Eligibility as an SSI Unit

The pre-requisite for the eligibility for excise concessions was that SSI unit should be registered with the State Directorate of Industries or DC(SSI). At-the time of obtaining the exemptions and concessions, the SSI unit was required to produce such a certificate of registration from the respective Directorate of Industries or DC(SSI),

In the year 1986, SSI units not registered with the State Directorate of Industries were also given exemptions, but on different eligibility conditions. With effect from 1-4-1994, the requirement of obtaining registration certificate from the Directorate of Industries or DC(SSI) has been dispensed with as a condition for available or excise duty concessions. This implies that there would be no distinction between registered and unregistered units for SSI concessions. Further, the eligibility for excise concessions for SSIs has been based on annual turnover rather than SSI registration which is based on the criterion of investment in plant and machinery. Only the units previously registered with DGTD and now with SIA are not considered eligible for SSI concessions.

There are two exemption schemes available for the SSI sector which have been amended by the Finance Act, 2000. The schemes are:

SSI Scheme (Without CENVAT)

This scheme as contained in Notification No.8/2003-CE dated 1.3.2003 is effective from 1.4.2000. The following rate of duty is applicable to such manufactures whose turnover does not exceed Rs. 3 crores in the previous financial year in respect of clearances of excisable goods for home consumption (including exports to Nepal or Bhutan) from one or more factories of the same manufacturer or from factory by one or more manufacturers:

Rate of duty in respect of Clearances of Excisable Goods

Value of Clearance (Rs.)	Rate of duty	Remarks
Upto 100 Lakhs	Nil	Not to avail Cenvat
100-300 Lakhs	Normal rate of duty	Can avail Cenvat

It may be noted that beyond clearances of Rs.100 lakhs, the manufacturer is liable to pay normal rate of duty and accordingly he can avail CENVAT credit at this stage. Similarly, CENVAT credit on capital goods can be availed and utilised after crossing the limit of Rs.100 lakhs.

The scheme has been extended to articles of plastic, cosmetic and toilet preparations, tread rubber, airconditioning and refrigeration and parts, which were earlier covered under a separate exemption. All such clearances of the specified goods which are used for captive consumption in production of the specified goods are subjected to 'nill' rate of duty and the Table itself. The notification grants exemption in respect of basic excise duty and special excise duty. The manufacturer may opt for not availing exemption contained in the notification and instead pay the normal rate of duty on the clearances. But once the option is exercised, it shall continue till the remaining part of the financial year.

SSI exemption notifications clearly use the words 'first clearances on or after 1st April in any financial year'. In Remakrishna Engineering Works v. CCE, (1996) 83 ELT 346 (CEGAT), it has been held that all clearance from 1st April in chronological order have to be considered for purpose of calculation of exemption limit of Rs.100 lakhs. Thus, if some goods are cleared on payment of duty, those will also have to be considered for calulating the limit of 100 lakhs.

Value for purpose of calculating the limit of 100 and 300 lakhs is the 'Assessable value' as per section 4 i.e., wholesale price at factory gate, exclusive of taxes, where price is the sole criteria. When goods are assessed on basis of MRP (Maimum Retail Price) the 'Value' will be as determined under section 4A.

SSI Scheme (with CENVAT)

This scheme as contained in Notification No.9/2003-CE dated 1.3.2003 is effective from 1.4.2003. The Notification provides the concessional rate of duty in respect of clearances of specified goods for home consumption (including exports to Nepal or Bhutan), and also states that all clearances of the specified goods which are used for captive consumption in production of the specified goods shall be subjectedd to 'nil' rate of duty. Such clearances shall not be counted for determining the aggregate value of clearance of the specified goods. The following Table shows the Rate of Duty.

Rate of duty in respect of Clearances of Specified goods

Value of Clearance (Rs.)	**Rate of duty**	**Remarks**
Upto 100 Lakhs	60% of normal rate	Cenvat credit is of duty available from the beginning itself
100-300 Lakhs	Normal rate of duty	Can avail Cenvat

The exemption shall apply only subject to the following conditions:

i. A manufacturer who intends to avail the exemption under this notification shall exercise his option in writing for availing the exemption under this notification shall exercise his option in writing for availing the exemption under this notification before effecting the first clearances and such option shall be effective from the date of exercise of the option and shall not be withdrawn during the remaining part of the financial year.
ii. While exercising the option under condition (i), the manufacturer shall inform in writing to the jurisdiction Deputy Commissioner or Assistant Commissioner of Central Excise with a copy of the Superintendent of Central Excise giving the following particulars, namely:-
    a. name and address of the manufacturer;
    b. location/locations of factory/factories;
    c. description of specified goods produced;
    d. date from which option under this notification has been exercised;
    e. aggregate value of clearances of specified goods (excluding the value of clearances referred to in para 3 of this notification) till the date of exercising the option.
iii. Where a manufacturer opts for availing the exemption under this notification in terms of condition (i) above, the clearances of specified goods already made during the financial year, prior to the exercise of such option, shall be taken into account for computing the aggregate value of clearances, as specified in the said table.
iv. Where a manufacturer clears the specified goods from one or more factories, the exemption in this case shall apply to the aggregate value of clearances mentioned against each of the serial numbers in the said table, and not separately for each factory.
v. Where the specified goods are cleared by one or more manufacturers from a factory, the exemption shall apply to the aggregate value of clearances mentioned against each of the serial numbers in the said table and not separately for each manufacturer.
vi. The aggregate value of clearances of all excisable goods for home consumption by a manufacturer from one or more factories, or from a factory by one or more manufacturer, does not exceed preceding financial year Rs.300 lakhs.

The exemption contained shall not apply to the specified goods bearing a brand name of trade name, whether registered or not, of another person, except in the following cases, namely:-

a. Where specified goods, being in the nature of components or parts of any machinery or equipment orappliances by following the procedure laid down in Chapter X of the Central Excise Rules, 1944, However, manufacturers, whose aggregate value of clearances for home consumption of such specified goods for use as original equipment does not exceed rupees fifty lakhs in the financial year 1999-2000, may submit a declaration regarding such use instead of following the procedure laid down in chapter X of the said rules;
b. Where the goods bear a brand name of trade name of -
    i. the Khadi and Village Industries Commission; or
    ii. a State Khadi and Village Industry Board; or
    iii. the National Small Industries Corporation; or
    iv. a State Small Industries Development Corporation; or
    v. a State Small Industries Corporation;
c. Where the specified goods are manufactured in a factory located in a rural area.

Goods exempted from whole of the Duty of Excise/The Additional Duty of Excise

i. Specified goods produced without the aid of power. All capital goods, intermediate goods and inputs if captively consumed within the factory of their production or used in the manufacture of specified final products in the manufacturer or specified goods.
ii. Specified goods if manufactured on job work basis/cleared for job work/manufactured as a job work and used in the manufacture of final products.
iii. Genuine specified products of village industry/certain specified goods manufactured in the rural areas by Co-operatives/K.V.I.C., etc.
iv. Goods meant for repairing, reconditioning and reengineering.
v. Goods sent abroad as exhibits for exhibition in International Trade Fairs or for demonstration or carrying out tests or trials.
vi. Certain goods if cleared for display in any fair or exhibition in India.
vii. Goods produced in a technical, educational and research institute during the course of technical training or an academic or vocational nature or carrying out experiments or research.
viii. Goods supplied to specified research institutions.
ix. Goods produced in Government Factories, Mines, Mints, prisons Defence Production etc.
x. Goods manufactured by specified units/Institutions for use by Governmnet Departments or Defence purposes.
xi. Goods supplied for Defence or other specified purposes.
xii. Specified goods manufactured in a State Government factory and intended for use in any of its department.
xiii. Duty in excess of 10% is exempted on goods for supply to Gas Authority of India Limited, Oil and Natural Gas Corporation Ltd., or the Oil India Limited.
xiv. Certain specified goods connected with solar and natural energy.
xv. Improved Chulhas (including smokeless Chulhas) capable of burning wood, agro-waste, cow-dung, briquettes and coal.
xvi. Good required for Nuclear Fuel Complex.
xvii. Duty in excess of 5% ad valorem on pollution control equipment.
xviii. Goods manufactured by institution for handicapped persons.
xix. Good produced or manufactured in a Free Trade Zone.
xx. Specified goods used by units in Export Processing Zones/Free Trade Zones.
xxi. Goods brought to any gem and jewellery manufacturing units set up in Santa Cruz Electronics Export Processing Zone (SEEPZ).
xxii. Goods produced in 100% Export Oriented undertakings but not sold within India.

Concessions

SSI units having turnover less than Rs.60 lakhs per annum need not have a separate storeroom for storing the finished products.

SSI units are required to pay duty on monthly basis instead of paying at the time of every clearance. Duty liability is to be discharged by 15th of the following month. The duty can be paid either through PLA or RG23 register.

SSI exemption is available in respect of goods exported to Nepal & Bhutan. The SSI exemption is available for home consumption, i.e. for consumption within India. However, explanation to SSI exemption notifications make it clear that clearances for home consumption shall also include clearances for export to Bhutan & Nepal. Thus, exports to Nepal & Bhutan will qualify for SSI exemption.

As per the CBE&C circular No.406/39/98-CX dated 7.7.1998, since the exemption SSI units do not have to file any declaration, they will not be given any code number and it need not be mentioned in the invoice or challan. In Lokhandwala Construction Industries v. CCE, 1997 (92) ELT 703(CEGAT) & K.S. Mills v. CCE, 1998 (98) ELT 619 (CEGAT), it has been held that the declaration to be given by SSI is only for purpose of exemption from registration. The duty exemption to SSI is available whether or not such declaration is given. Thus, SSI exemption is available even if such declaration is not submitted.

Normally, excise officers are not expected to visit SSI units paying less than Rs.10 lakhs duty annually. According to Mumbai II Commissionerate Trade Notice No.15/93 dated 31-3-1993, excise inspectors as well as preventive and internal audit parties can visit SSI units only with specific permission of Assistant Commissioner for specific purpose. Officers are required to enter relevant particulars in the visitors' book maintained as assessee.

Credit Policy

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise & operational requirements but also for diversification, modernisation/ upgradation of facilities, capacity, expansion etc. In respect of SSIs, the problem of credit becomes all the more critical when ever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment etc. In general, SSIs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit.

Government of India recognised the need for a focused credit policy for SSIs in the early days of promotion of SSIs. This in turn led to a credit policy with the following components:-

Priority Sector Lending: Credit to the small scale sector is ensured as part of the priority sector lending by banks. Banks are required to compulsary ensure that defined percentage (currently 40%) of their overall lending is made to priority sectors as classified by Government. These sectors include agriculture, small industries, export etc. The inclusion of small industries in this list makes them eligible for this earmarked credit.

Institutional Arrangement: Small Industries Development Bank of India (SIDBI) was set up as the apex refinance bank. Term loans are provided by State Financial Corporations (SFCs) and Scheduled Banks. Credit lending in direct/indirect forms is also undertaken to some extent by NABARD , NSIC etc.

With the liberalisation of the Indian economy, greater emphasis was placed on meeting the credit needs of SSIs. This was manifest through the following initiatives:-

1. Earmarking of credit for tiny sector within overall lending to small industries.
2. Opening of specialised SSI bank branches.
3. Establishment of National Equity Fund for venture capital support.
4. Technology Development & Modernisation Fund through SIDBI.
5. Enhancement of turnover limit for assessing aggregate working capital requirement.
6. Enhancement of limit of composite loan to Rs. 10 lakhs. (Rs 1 million)
7. No collateral security for loans upto Rs. 5 lakhs. (Rs 0.5 million)

The Comprehensive Policy Package announced on 30th August 2000 took this process further. This included:-

1. Launch of Credit Guarantee Scheme to cover loans upto Rs. 25 lakhs. (Rs 2.5 million)
2. Launch of Credit Linked Capital Subsidy Scheme to provide for subsidy against loans taken for technology upgradation.
3. Further enhancement of ceiling composite loan limit to Rs. 25 lakhs.(Rs 2.5 million)
4. Enhancement of project cost limit under National Equity Fund to Rs. 50 lakhs.(Rs 5 million)

Many of these initiatives were based on the recommendations made by the Nayak Committee, the Kapur Committee and the Dr. S.P. Gupta Study Group.

Credit to SSI Sector From Public Sector Banks

The table below gives the status of credit flow to Village & Small Industries (VSI) Sector since 1991:-

Year	Net Bank Credit (in Rs. crores)	To SSI (in Rs. crores)	Share of SSI
March 1991	1,05,632	16,783	15.89%
March 1992	1,12,160	17,398	15.51%
March 1993	1,32,782	19,388	14.60%
March 1994	1,40,914	21,561	15.30%
March 1995	1,69,038	25,843	15.29%
March 1996	1,84,381	29,485	15.99%
March 1997	1,89,684	31,542	16.60%
March 1998	2,18,219	38,109	17.50%
March 1999	2,46,203	42,674	17.33%
March 2000	2,92,943	45,788	15.6%
March 2001	3,40,888	48,445	14.2%
March 2002	3,96,954	49,743	12.5%
March 2003	4,77,899	52,988	11.1%

Source: RBI

The Table below give the status of credit flow to Tiny Sector since 1995:-

	At the end of March '95	At the end of March '96	At the end of March '97	At the end of March '98	At the end of March '99	At the end of March '2000	At the end of March '2001	At the end of March '2002	At the end of March '2003
Net Credit To Tiny Sector (Rs. Crore)	7734	8183	9515	10273.13	8837.47*	22,742**	26,019	27,030	26,937
Tiny Credit as percentage of net SSI credit	29.93	27.76	30.2	27.0	20.7	54.03	53.7	54.34	50.84

* Refers to units with investment in P&M upto Rs. 5 lakhs.
** Refers to units with investment in P&M upto Rs. 25 lakhs.
Note: Rs. 1 Crore = Rs. 10 million, Rs. 1 Lakh = Rs. 100,000/-

Assistance to SSIs by SFCs

The main objective of State Financial Corporations(SFCs) is to meet Term Loan/Fixed Capital needs of the Small Scale Industries. There are 18 SFCs in the country.
The Table below gives the total assistance and assistance to SSIs by SFCs:-

Year	SANCTIONS (Rs Crores)		DISBURSEMENTS (Rs Crores)	
	Total Assistance	To SSIs	Total Assistance	To SSIs
1992-93	2015.3	1686	1557.4	1163.9
1993-94	1908.8	1561	1563.4	1175.2
1994-95	2702.4	1920	1880.9	1314.5
1995-96	4188.5	2513	2961.1	1675.4
1996-97	3544.8	2115	2782.7	1529.6
1997-98	2626.0	1786	2110	1222
1998-99	1864	1365	1625	1004
1999-2000	2203	1617	1754	1083

Source: IDBI Annual Report

Improving the Credit Flow

Nayak Committee (1991-92)

Nayak Committee set up by the Reserve Bank of India in December 1991 (Report came in September 1992) dealt with aspects of adequacy and timeliness of credit to SSIs. Nayak Committee found that small scale sector was getting working capital to the extent of 8.1% of its annual output which was less than the normative requirement of 20%. Accordingly, Nayak Committee recommended that the SSI sector should obtain 20% of its annual projected turnover by way of working capital. Based on these, as well as other recommendations of the Nayak Committee, RBI issued a number of guidelines advising the banks to grant working capital to the extent of 20% of the projected annual turnover, timely disposal of loan applications and setting up of specialised bank branches for SSI loaning in areas of higher SSI concentration. This norm is applicable to units with annual turnover up to Rs. 5 crores.

Seven Point Action Plan (1995-96)

As a follow up of Nayak Committee recommendations, the Union Finance Minister in the Budget Speech of 1995-96, announced a Seven Point Action Plan for improving the flow of credit to small scale sector. This included:-

- Setting up of specialised SSI bank branches;
- Adequate delegation of powers at branch and regional levels;
- Conducting sample surveys of their performing SSI accounts by banks;
- Sanction of composite loans as far as possible;
- Regular meeting with SSI entrepreneurs;
- Sensitization of bank managers towards working of SSI Sector; and
- Simplification of procedural formalities by banks.

Action has been taken by banks on the above action plan.

Kapur Committee (1997-98)

Reserve Bank of India (RBI) had in December 1997 appointed a One Man Committee headed by Shri S.L. Kapur, the then Member, Board for Industrial & Financial Reconstruction (BIFR), to review inter-alia:

i. the working of credit delivery system of small scale industries with a view to making the system more effective, simple and efficient to administer ; and
ii. to make suggestions for simplification and improvement in system and procedures. The Committee submitted its Report to RBI on 30th June 1998, which contains 126 recommendations. Out of 126 recommendations, 103 have been examined by RBI and decision taken thereon. Banks/ Financial Institutions and other agencies have already implemented 86 recommendations. Some of the important measures taken pursuant to the Recommendations of the Committee include:-
    - Delinking of SIDBI from IDBI.
    - Opening of more specialized branches.
    - Enhancement in the limits of Composite Loan from Rs. 2 lakhs to Rs. 5 lakhs.
    - Setting of DRTs.
    - Introduction of Credit Guarantee Scheme.
    - Raising the exemption limit for collateral security from Rs. 25,000/- to Rs. 5 lakhs.

Other steps taken by Reserve Bank of India to improve credit flow to SSI Sector

a. In order to ensure that credit is available to all segments of SSI sector, RBI has issued instructions that out of the funds normally available to SSI sector, 40% be given to units with investment in plant and machinery up to Rs.5 lakhs, 20% for units with investment between Rs.5 lakhs to Rs.25 lakhs and remaining 40% for other units.
b. Public sector banks have been advised to operationalise more specialised SSI branches at centres where there is a potential for financing many SSI borrowers. As on March 2002, 391 specialised SSI branches are working in the country.
c. Extension of 'Single Window Scheme' to all districts to meet the financial requirements (both term loan & working capital) of SSIs.

d. With a view to moderating the cost of credit to SSI units, banks have been advised to accord SSI units with a good track record, the benefit of lower spreads over the prime lending.
e. In order to take expeditious decision on credit proposals of SSI units, banks have been advised to delegate enhanced powers to the branch managers of the specialised SSI branches so that most of the credit proposals are decided at the branch level
f. Laghu Udyami Credit Card (LUCC) Scheme launched by Public Sector Banks for providing simplified & borrower friendly Credit facilities to SSI, tiny enterprises retail traders & artisans.
g. An interest rate band of 2% above & below PLR should be applicable to SSIs.
h. Bank advised to fix self set targets for growth in advances to SSI sector based on previous year's achievements and overall tread in growth of net bank credit.
i. Bank to consider 3 slabs for rate of interest-loans upto Rs.50,000, between Rs.50,000 and Rs.2 lakhs and above Rs.2 lakhs.
j. Composite loan limit to be enhanced to Rs.50 lakhs from Rs.25 lakhs.
k. Limit on collateral free loans to be increased to Rs.25 lakhs in deserving cases.
l. Deposits of foreign banks with SIDBI to earn interest at Bank Rate.
m. Working Group to be set up on flow of credit to SSI sector.

Incorporating credit requirement in the identified clusters in the banks' Annual Credit Plans for the year 2003- 04:

As a follow up to the decisions of Review Meeting, the Ministry of SSI had forwarded to the RBI a list of 60 identified clusters for focused development of SSIs to disseminate the information to all public sector banks. As per RBI's directives, all SLBC Convenor Banks to initiate action for incorporating the credit requirements in the State Credit Annual Plans in respect of 60 clusters identified by the Ministry of SSI for focused development of SSIs. Further, as decided in the meeting of the Standing Advisory Committee held at RBI, Mumbai on 1st September, 2003, the banks have been advised by the RBI that credit requirement in the identified clusters to be incorporated in the banks' Annual Credit Plans for the year 2003-04.

Adequate publicity by the banks to various schemes/ facilities like availability of collateral- free/composite loan:

As decided in the meeting of Standing Advisory Committee held on 1st September, 2003, the banks have to give adequate publicity to their schemes/facilities like availability of collateral free /composite loans and schemes under TUFs/NEF/KVIC/CGTSI etc.

Interest rate band of 2% above and below PLR:

As per the announcement made by the Hon'ble Finance Minister in the Union Budget 2003-04, Indian Banks' Association (IBA) has advised the banks to adopt the interest rate band of 2% above and below their prime lending rates (PLRs) for advances to SSI

Quality Standards Policy

Compulsory Legislation for Quality Standards

Standards on Weights and Measures (Packaged Commodities) Rules, 1977

These Rules laid down certain obligatory conditions for all commodities in the packed from with respect to their quantity declaration. These Rules are operated by the Directorate of Weights and Measures under the Ministry of Food and Civil Supplies.

Prevention of Food Adulteration Act, 1954

The Act is the basic statute intended to protect the common consumer against supply of adulterated food and specifies different standards on various articles of food. The standards are of minimum quality level intended for ensuring safety in the consumption of these food items and for safeguarding against harmful impurities, adulteration etc.

The Central Committee for Food Standards under the Directorate General of Health Services, Ministry of Health and Family Welfare is responsible for operation of this Act. Provisions of the Act are mandatory and contravention of the Rules can lead to both fine and imprisonment.

Essential Commodities Act, 1954

A number of Control Orders have been formulated under the provisions of this Act, main objectives of which are to regulate manufacture, commerce and distribution of essential commodities including food. These orders include:

(a) Fruit Products Order, 1955
This order regulates manufacture and distribution of all fruit and vegetable products, sweetened aerated waters, vinegar and synthetic syrups. Manufacture or relabelling of these products can be carried out only after obtaining a valid license from the Ministry of Food Processing Industries.

The license is issued only after the licensing officer is satisfied with regard to the quality of product, sanitation, personnel, machinery and equipment and work area standards.

(b) Solvent Extracted Oils, De-oiled meal and Edible Flour Control Order, 1967 and Vegetable Products Control Order, 1976.
These Orders control the production and distribution of solvent extracted oils, deoiled meal, edible flours and hydrogenated vegetable oils (Vanaspati).

Both the Orders are operated by the Directorate of Vanaspati, Vegetable Oils and Fast under the Department of Civil Supplies in the Ministry of Food and Civil Supplies.

For production and distribution of the above products, a license is necessary from the Directorate, which is granted if the product conforms to the specification laid down in the Schedules. The Directorate also regulates the price of vanaspati under the Order.

(c) Meat Products Control Order, 1973
This Order regulates manufacture, quality and sale of all meat products and is operated by the Directorate of Marketing and Inspection.

(d) Milk and Milk Product Order, 1992
This Order provides for setting up an advisory board to advise the Government on the production, sale, purchase and distribution of milk powder. Units with an installed capacity for handling milk of over 10,000 litres per day or milk products containing milk solids excess of 500 tonnes per years are required to obtain registration under this order from the Department of Animal Husbandry.

Directorate of Marketing and Inspection (DMI)

The DMI enforces the Agricultural Produce (Grading and Marking). Act 1937. Under this Act, Grade Standards are prescribed for agricultural and allied commodities, which are known as 'Agmark' Standards. Grading under the provisions of this Act is voluntary. Manufactures who comply with standards laid down by DMI are allowed to put 'Agmark' labels on their products.

Export (Quality Control and Inspection) Act, 1963

The Export Inspection Council is responsible for operation of this Act under which a large number of exportable commodities have been notified for compulsory pre-shipment inspection.

The quality control and inspection of various export products is administered through a network of more than fifty offices located around the important production centres and ports of shipment. In addition, organizations may be recognized as agencies for inspection and/or quality control.

Recently, Government has exempted agriculture and food products, fruit products, fish and fishery products from compulsory pre-shipment inspection, provided the exporter has a firm letter from the overseas buyer stating that the overseas buyer does not want pre-shipment inspection from any official Indian Inspection Agencies.

Voluntary Standards

There are two organizations dealing with the voluntary standardization and certification systems in food. Bureau of Indian Standards looks after standardization of products and standardization of raw agricultural produce falls under the Directorate of Marketing and Inspection.

Bureau of Indian Standards (BIS)

The activities of BIS are two fold; formulation of Indian Standards and their implementation by promotion and through voluntary and third party certification system.

BIS has on record, standards for most of the processed foods; these standards in general cover raw materials permitted and their quality parameters, hygienic conditions under which the product is manufactured and packaging and labeling requirements.

Manufacturers complying with the standards laid down by BIS can obtain an 'ISI' mark, which can be exhibited on their product packages. BIS has identified certain items like food colours/additives, vanaspati and containers for their packing, milk powder and condensed milk for compulsory certification.

The Bureau of Indian Standards (BIS) promotes formulation of Indian Standards particularly in identified thrust areas, introduction of standardisation and quality control in different sectors of economy, introduction of Certification Marks Scheme for different products, launching of quality system certification to help Indian industry build quality in their products and manage the quality systematically to boost exports, modernisation and upgradation of testings laboratories to increase their efficiency, creation of quality consciousness and furtherance of international cooperation.

BIS functions through a network of offices with its headquarters at New Delhi and 5 Regional Offices at Calcutta (Eastern), Madras (Southern), Bombay (Western), Chandigarh (Northern) and New Delhi (Central) and Branch Offices at Ahmedabad, Bhopal, Bangalore, Bhubaneswar, Coimbatore, Faridabad, Lucknow, Patna and Trivandrum which act as effective links between BIS and industry, Central and State Governments, consumer organisations and technical institutions.

BIS - Standardisation and Promotion Activities

BIS has been formulating Indian Standards in line with the national priorities on a time bound programme.

It has formulated over 15800 standards in fields of agriculture and food, chemicals and petrochemicals, electrical engineering, civil engineering, medical instruments and hospital planning, mechanical engineering, metallurgy, textiles and quality management.

Formulation of standards has been intensified in the areas of technological significance and affecting the quality of life of common man such as information technology, renewable energy sources, environmental protection and safety, dry land farming, low cost housing, rural water supply system, primary health etc.

For this purpose close linkages have been established with Government agencies, district industry centres, research institutes, industries and industry associations and consumer organisations.

BIS - Testing Laboratories

Testing forms the mainstay of certification and quality control. BIS has, therefore, established a network of laboratories.

It has a Central Laboratory at Sahibabad besides four regional laboratories at Bombay, Calcutta, Mohali, Madras and three branch laboratories at Patna, Bangalore, Guwahati and Gandhi Nagar.

Incentives to SSI Units acquiring ISO-9000 Certification

The Government have been considering a scheme to enhance the international competitiveness of the Small Scale Sector. As a step in that direction, Govt. is operating a scheme to provide incentives to those Small Scale Undertakings who acquire ISO-9000

Pollution Control Policy

Manufacture of new products and by-products recovered through application of pollution control processes

1. It is the policy of the Government that the industrial undertakings desiring to use the wastes and effluents for manufacture of new products should be encouraged to do so.

2. Many of the chemicals recovered from pollution control processes and recycling of waste products are reserved for exclusive manufacture in the small scale. As per current industrial policy, the non-small scale units require to obtain industrial licence with 50% export obligation for manufacturing any of the products reserved for the small scale sector. In this background, it was felt that if the chemicals are recovered through installation of pollution control processes which are in the larger interest of sustainable industrial development, capacity of such recoverable chemicals, even if reserved for the small scale, should be permitted without the mandatory export obligation.

3. The Government have now decided that in order to encourage adoption of pollution control processes by the industrial undertakings which have the potential to utilise the waste products and effluents for manufacture of new items, they may be allowed to do so by suitable endorsement in the existing Industrial Licences or issued new Industrial Licences for such recoverable items which may be reserved for the small scale sector, without necessarily stipulating the mandatory export obligation.

4. The industrial undertakings will submit application in Form IL, to the Secretariat for Industrial Assistance, Ministry of Industry, Udyog Bhawan, New Delhi. Such applications will be considered on merits and wherever Government agrees to allow industrial undertakings to recycle their wastes and effluents, necessary endorsement of capacity for the items allowed would be made on industrial licences, without necessarily stipulating the conditions for export of such new items. However, before taking a decision in the matter, the Secretariat for Industrial Assistance will obtain the prior written comments/views of the Development Commissioner (SSI) in each case.

5. It is hoped that adoption of this positive policy would encourage the industrial units to install pollution control processes and be a positive incentive to utilise the waste products and effluents.

6. Entrepreneurs desirous of availing this facility shall have to submit applications in the prescribed form for Industrial Licences (Form FC/IL) to the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy & Promotion, Ministry of Industry, Udyog Bhawan, New Delhi-110011, giving full details of the pollution control processes proposed to be adopted and new items with capacities which would be recovered from the same

Environmental Regulation Policy

Environmental Protection

The following is a brief description of the laws and regulations relating to environmental protection in India.

a. Constitutional Status Article 48A of the Directive Principles of State Policy provides for the State's commitment. To protecting the environment and Article 51A(g) states that to protect and improve the natural environment shall be the fundamental duty of the citizens of India.
b. Regulatory Environment Protection Laws

In observation of the Directive Principles, the Union of India has enacted the following major legislations:

The Environment (Protection) Act, 1986, which is the umbrella Legislation
The Water (Prevention & Control of Pollution) Act, 1981, as amended in 1978 and 1988
The Air (Prevention & Control of Pollution) Act, 1981, as amended in 1987.

The above Acts have been substantially amended in the recent past and some of the most significant aspects of amendments are:
A consent order is now valid for 15 years or till such time there is some significant change in the process, whichever is earlier;
A consent order cannot be provided provisionally and will be obtainable only when all the pollution prevention requirements are adopted in to;
Action under these two Acts are to be taken by the respective State Pollution Control Boards.

<u>The Forest Conservation Act, 1980</u>

The Wildlife Preservation Act, 1982; extended to cover biosphere resources and the Hazardous Wastes (Management & Handling) Rules, 1989.
Manufacture, Storage and Import of Hazardous Chemical Rules, 1989
Manufacture, Use, Import, Export and Storage or Hazardous Micro organisms and Genetically Engineered Organism or Cell Rules, 1989, to regulate the storage, use, trade, transport and disposal of hazardous wastes.

<u>The Public Liability Insurance Act, 1991</u>

The Motor Vehicles Act, 1939, amended in 1988, and
The Environment Tribunal Bill, 1992.

c. Promotional Policy Framework

<u>The National Forest Policy, 1988</u>

The National Conservation Strategy and Policy Statement on Environment & Development, 1992.
The policy statement for abatement of pollution, 1992
The above policy statements complement the National Water Policy and Factories Act, 1948, besides other related legislation having a bearing on resources and economic activities
The national Housing Policy, 1988, the National Water Policy, 1987 and the National Land Use Policy, 1988, recognise the importance of maintaining ecological balance.

D. Organisational Structures of the Regulating Bodies for Environment Management

The Ministry of Environment and Forests, created in 1986, is the nodal regulating agency. The Ministry has four divisions:

a. Environment: The Central Pollution Control Board (CPCB) functions under it and this department is responsible for exercise of promotional and regulatory functions under the Water, Air and Environment Protection Acts.
b. Forests and Wildlife: Wildlife preservation offices responsible for implementing the Wildlife Protection Act, 1972 and the Regional Offices of the MOEF for implementing the provisions of the Forest Conservation Act, 1980.
c. Ganga Project Directorate
d. National Afforestation and Eco-Development Board.

In addition to the above, there are various bodies and institutes under the MOEF or working with it on other areas such as research, awareness drives etc.

Other important Ministries and Departments of the Government of India looking after environment protection include:

The Ministry of Rural Development - Regeneration of bio-mass outside recorded forest areas;
The Ministries of Power, Industry and Non Conventional Energy Sources - Energy conservation and development of alternate sources of energy.
The Ministry of Water Resources - Monitoring of water quality and environment impact assessment for water resource projects.
The Ministries of Water Resources and Agriculture - watershed management;
The Ministry of Agriculture - soil conservation;
The Department of Biotechnology - technical support for ex-site conservation and bio safety;
The Ministry of Urban Development - Solid waste collection and disposal in 500 urban areas.

<u>State-level machinery:</u>

All the state governments looking after environment and forests collectively.
Most of the states have State Pollution Control Boards (SPCBs) which have a significant role to play in enforcing environmental management and pollution control as required under different laws.

E. International Agreements to which India is a Signatory
India is a signatory to six important conventions that have a direct bearing on environment protection and conservation. These are:
The Convention on International Trade in Endangered Species (CITIES)
The Convention on Wetlands of International Importance (the Ram Sar Convention)
The Convention on Climate Change

The Convention for Conservation of Biological Resources
The Vienna Convention / Montreal Protocol on substances that deplete the ozone layer
The Rio Declaration on Environment and Development and the Agenda 21, which is the operational programme for sustainable development
Two important procedures to be observed in the context of environment protection in industry are:

1. Environmental Impact Assessment (EIA) as per a notification issued on 27 January, 1994

The EIA is statutory for 29 different activities in industry, mining, irrigation, power plants, ports and harbours, atomic power plants, railways and road highways, bridges, airport and communications.

The Central government appraises the following types of projects :

Projects which require the approval of the Public Investment Board / Planning Commission / Central Water Commission / Central Electricity Authority etc.
Projects referred to the MOEF by other ministries.
Projects which are sensitive and fall in environmentally fragile areas.
Projects under dispute.

<u>The process to be followed is:</u>

Project authorities are required to provide relevant information as indicated in the guidelines along with the EIA statement / environmental management plan.
After the preliminary scrutiny by the Ministry, the Appraisal Committee evaluates the impact and makes recommendations for approval, rejection or modifications in the project.
The above recommendations form the basis of the Ministry's decision regarding approval / rejection.

2. Environmental Audits:

All units seeking consent under the Water or Air Acts or Authorisation under the Hazardous Wastes (Management & Handling) Rules, beginning 1993, are required to submit environmental statements for the period ending 31 March on or before 30 September every year to the concerned SPCB.
The Central and State Pollution Control Boards are responsible for enforcing legal action against polluters.
Detailed below are the different fiscal benefits for environment protection:

Depreciation allowance at the rate of 100 per cent for installing pollution control devices.
Customs duty at reduced rates of 35 per cent plus 5 per cent auxiliary charges levied on imported equipment and spares for pollution control.
Customs duty at the reduced rate of 25 per cent and full exemption from auxiliary charges for kits required for conversion of petrol driven vehicles to compressed natural gas driven vehicles.
Excise duty at the reduced rate of 5 per cent on manufactured goods that are used for pollution control.
Excise duty exemption for bricks and blocks manufactured from fly ash and phospho-gypsum.
Exemption under section 35 CCB of the Income Tax Act is given to assessees who incur expenditure by way of payments on any sum towards association or institutions which carry out programmes for conservation of natural resources.
Financial assistance towards capital investment up to 25 per cent or Rs. 50 lakh, whichever is less, is given as subsidy to industrialists from the small scale sector for setting up common effluent treatment facilities.
Incentives in terms of rebate on water cess payable under the Water (Prevention & Control of Pollution) Cess Amendment Act,1991.
Provision of loans at reduced rates of interest by financial institutions for installing pollution control devices, for example:
Funded by the USAID (United States Agency for Industrial Development), the Industrial Credit and Investment Corporation of India (ICICI) has a $ 25 million Trade in Environmental Services and Technologies (TEST) scheme which carries loans at 12.5 per cent with no exchange risk for the dollar assistance
Industrial pollution control projects funded by the World Bank; the Bank offers loans on concessional terms which is received by the MOEF and disbursed through different financial institutions.

ENVIRONMENTAL CLEARANCE PROCEDURES

Under the Environment (Protection) Act, 1986, 24 categories of projects and industries will require environmental clearance from the Central Government

In addition, any project proposed to be located within 10 km of the boundary of a reserved forest or a designated ecologically sensitive area or within 25 Kms of the boundary of a national park or sanctuary will require environmental clearance from the Central Government.

For all other projects, environmental clearance need to be obtained only at the level of the State Government. Clearance is required from the environmental (for site clearance) and pollution control angle, which has to be obtained by all units other than certain specified non-polluting units in the small scale sector.

No Objection Certificate (NOC) for the site clearance usually involves clearance from the concerned State Pollution Control Board
NOC is also required for adequacy of pollution control measures.

In general, the State Pollution Control Board is the concerned authority which will be the State Pollution Control Board is the concerned authority which will usually specify certain pollution control measures to be taken by the unit.

AUTHORITIES OF STATES FOR ENVIRONMENTAL CLEARANCE

Andhra Pradesh Pollution Control Board
6/6/115-124, Kavadiaguda
Secunderabad - 500 003.

Assam State Board for Prevention and Control of Water Pollution
Piyali Phokan Road, Rohaba
Guwahati - 781 001.

Bihar State Water Pollution Control Board
Rudra Bhawan, East Boring Canal Road
Patna - 800 001.

Gujarat Water and Air Pollution Control Board
Patnagar Old Assembly Building,
2nd Floor Sector No. 17
Gandhinagar - 382 017.

Haryana State Board for Prevention
and Control of Water Pollution
Chandigarh - 160 008.

Himachal Pradesh State Board for Prevention
and Control of Water Pollution
Jaksal House
Kasumpti
Shimla - 171 002.

Jammu & Kashmir State Board for Environmental
Improvement & Ecology Department
Div. Planning and Development
New Secretariat
Jammu / Srinagar.

Karnataka State Pollution Control Board
7th and 8th Floors Public Utility Building
Mahatma Gandhi Road
Bangalore - 560 001.

Kerala State Pollution Control Board
Keston Road
Kawdiar (P.O.)
Tiruvanandhapuram - 694 003.

Madhya Pradesh State Pollution Control Board
Paryavacan Parisar, Sector E-5
Arera Colony
Bhopal.

Maharashtra State Pollution Control Board
Army and Navy Building
148, M.G.Road Fort
Bombay - 400 001.

Orissa State Pollution Control Board
Gautam Nagar
Bhubaneshwar - 751 014.

Punjab State Board for Prevention and
Control of Water Pollution
11-A, The Mall
Patiala.

Rajasthan State Board for Prevention and
Control of Water Pollution
J-2/35, Mahaveer Marg
Jaipur-1.

Department of Environment (Sikkim)
Mahatma Gandhi Road
Gangtok
Sikkim.

Tamil Nadu Pollution Control Board
80, Kamarajar Salai
Ramakrishna Nagar R.A.Puram
Madras - 600 028.

Uttar Pradesh Pollution Control Board
B-159, Nirala Nagar
Lucknow - 226 007.

West Bengal Prevention and Control of Water Pollution Board
Industry House, 10,
Camac Street
Calcutta - 700 017.

Directorate of Smoke Nuisance
60-B, Chowringhee Road
Calcutta - 700 020.

Department of Environment (Delhi)
Government of India
Bikaner House
New Delhi.

Central Board for the Prevention and
Control of Water Pollution (Delhi)
A-1, Chandra House
Dr. Mukherjee Nagar
New Delhi - 110 009.

Central Board for the Prevention and
Control of Water Pollution (Goa)
Dhavali Mal Ponda
Goa - 403 408.

Central Board for the Prevention and Control of
Water Pollution (Pondicherry)
"Ballamalyayam" 42,
Sellam Nagar
Pondicherry - 605 011.

Environmental Restrictions for SSI Sector

Environmental clearances procedure for small scale industries have been rationalised and simplified except in the case of 17 hazardous industries.
Now a mere acknowledgment of the application by the State Environment Board would be sufficient.
Seventeen hazardous items are

- Fertilizer (Nitrogen/Phosphate)
- Sugar
- Cement
- Fermentation and Distillery
- Aluminium
- Petro-chemicals
- Thermal power
- Oil refinery
- Sulphuric acid
- Tanneries
- Copper Smelter
- Zinc Smelter
- Iron and Steel
- Pulp and Paper
- Dye and Dye intermediaries
- Pesticides manufacturing and formulation
- Basic Drugs and Pharmaceuticals