

Small Scale Undertakings

Policy at a Glance The Small & Medium Enterprises (SME) sector is one of the fastest growing industrial sectors all over the world. Many countries of the world have established a SME Development Agency (SMEDA) as the nodal agency to coordinate and oversee all Government interventions in respect of the development of this sector. In the case of India, though a separate medium sector is not defined, the Office of Development Commissioner (Small Scale Industries) also known as Small Industries Development Organisation (SIDO) functions as the nodal Development Agency for small industries. SIDO functions under the Ministry of SSI (Ministry of Small Scale Industries).

Consequent to the increased globalization of the Indian economy, small industries are required to face new challenges. SIDO has recognised the changed environment and is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to SSIs. Global trends and national developments have accentuated SIDO's role as a catalyst of growth of small enterprises in the country.

Small Scale Industrial Undertakings The following requirements are to be complied with by an industrial undertaking to be graded as Small Scale Industrial undertaking w.e.f. 21.12.1999. An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs 10 million. (Subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertaking)

Every industrial undertaking which has been issued a certificate of registration under section 10 of the said Act or a license under sections 11, 11A and 13 of the said Act by the Central Government and are covered by the provisions of paragraphs (1) and (2) above relating to the ancillary or small scale industrial undertaking, may be registered, at the discretion of the owner, as such, within a period of one hundred and eighty days from the date of publication of this notification in the Official Gazette.

Ancillary Industrial Undertakings The following requirements are to be complied with by an industrial undertaking for being regarded as ancillary industrial undertaking: -

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million.

Tiny Enterprises Investment limit in plant and machinery in respect of tiny enterprises is Rs 2.5 million irrespective of location of the unit.

Women Entrepreneurs A Small Scale Industrial Unit/ Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as Partners/ Shareholders/ Directors of Private Limits Company/ Members of Cooperative Society.

Small Scale Service & Business (Industry related) Enterprises (SSSBEs) SSSBEs industry related service/ business enterprises with investment upto Rs 500,000 in fixed assets, excluding land and building, are called Small Scale Service/ Business Enterprises (SSSBEs). This limit has been raised to Rs.1 million w.e.f. September 2000.

Manufacturing by non SSI units Thus, an industrial undertaking is defined as a Small Scale Unit if the investment in fixed assets in plant and machinery does not exceed Rs 10 million. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from any locational restrictions.

There can be only four situations in which medium or large units can manufacture items reserved for exclusive production in the small scale sector. These are:

1. When an item is reserved for the small-scale sector there may be existing medium or large industrial undertakings manufacturing that item. In such a case, these units are to obtain a 'Carry on Business' (COB) license to continue to manufacture such reserved item. The capacity in the COB license is however, pegged at the highest production level achieved by such a unit in the 3 years preceding the date of reservation of the item.
2. When existing small scale units manufacturing a reserved item graduate by their process of growth, into medium or large scale undertaking, then they have also to obtain a COB license to enable them to continue manufacturing of such reserved items. In such cases also their capacity is pegged with respect to the date on which it became incumbent on the unit to apply for and obtain a COB license.
3. Manufacture of items reserved for the small scale sector can also be taken up by non- small scale units, if they apply for and obtain an industrial license.
4. Under the small scale policy, equity holding by other units including foreign equity in a small scale undertaking is permissible up to 24 per cent. However there is no bar on higher equity holding for foreign investment if the unit is willing to give up its small scale status. In such cases, it is mandatory for the non-small scale unit to undertake an export obligation of 50 per cent.

In addition, if the equity holding from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 10 million, the unit loses its small scale status.

Foreign Investment in the Small Scale Sector: In case of foreign investment beyond 24 per cent in a small scale unit which manufactures small scale reserved item(s), an industrial license carrying a mandatory export obligation of 50 per cent would need to be obtained. An IEM is required to be filed in such a case for de-licensed industries, and an industrial license is to be obtained in the case of items of manufacture covered under compulsory licensing.

Government Approval: Government approval for FDI through the FIPB would be necessary for items of manufacture reserved for the small scale sector. Where an industrial license has already been issued to a medium or large unit undertaking to manufacture an item, prior to the date reservation of that item. Such units can manufacture the reserved item up to the capacity endorsed on the license. There is, however, no restriction on the marketing of products reserved for exclusive manufacture in the Small Scale Sector by large units or big companies.

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 and 75 items in May 2003.

As of May, 2003, 675 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.

In September 2004, the committee has recommended the dereservation of a number of products. The government will notify the 85 items shortly.

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