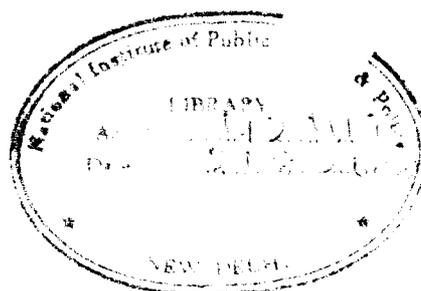


**CENTRAL FISCAL INCENTIVES AND CONCESSIONS  
TO SMALL SCALE INDUSTRIES**

**Impact on Growth and Structure**

Charu C. Garg            S.K. Sanyal  
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MARCH 1996



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## PREFACE

This report analyses the impact of central fiscal incentives and concessions for the growth of small scale industries (SSI) in India. The analysis has been carried out using both primary survey data and secondary published information.

The findings and recommendations of the report are presented in an executive summary. It is found that small SSI units require incentives to survive and grow as they are at a disadvantage vis-a-vis other industries. In the short run, some tax incentives may have to continue but over time non-tax incentives should be the focus. Excise concessions given to SSI units should not be coupled with MODVAT credit. Also, income tax concessions should be phased out, since they benefit only large units.

While reducing the fiscal incentives, Government should go all out for infrastructural development and provide the necessary facilities for their growth, including initial finance and concessions till they attain a threshold level of output. It should try to aim at least one industrial estate in each district with all peripheral facilities. In each of these estates a bulk of the units, with tiny units constituting the majority, should be SSI units. This would help in developing strong horizontal/vertical linkages. Large units willing to come forward in this direction should be encouraged.

Over the tenure of the project, various persons participated and guided the project. Mr. S.K. Sanyal supervised the project in its final phase while Dr. Charu C. Garg led the project to a successful completion. Dr. A. Bagchi participated in an advisory capacity to integrate the work. Team members included Dr. A.N. Bhatt, Mr. S.V. Iyer, Ms. Veena Pailwar, Mr. K.R. Pandit, Mr. S.T. Nagarathinam and Dr. Lakhwinder Singh. Research assistance was provided by Mr. V.N. Alok, Mr. P.K. De, Mr. P.K. Jha, Mr. H.K. Nath, Mr. A.S. Panth, Mr. S. Pattanayak and Mr. C. Robertson.

Parthasarathi Shome  
Director

New Delhi  
March 31, 1996

## ACKNOWLEDGEMENT

At the outset we express our deep gratitude to Professor A. Bagchi, former Director and currently Professor Emeritus at NIPFP, for providing the academic and administrative leadership at various stages.

We are grateful to Dr. P. Shome who joined the Institute as Director in May, 1995 and since then has taken keen interest in seeing through the final completion of the project.

Thanks are also due to Dr. A.V.L. Narayana who designed the project. We also thank Dr. I. Rajaraman and Dr. P.K. Aggarwal not only for taking charge of the project for brief spells but more so for providing advice during several sessions of discussions held with them.

We are grateful to Mr. S. Mukhopadhyay, ex-Member (Budget), CBEC, for his very constructive comments on the earlier drafts of the report which helped in improving its quality. We would very much like to place on record our thanks to Prof. D.B. Gupta at Institute of Economic Growth and Prof. S. Tendulkar at Delhi School of Economics for their valuable comments.

A project of this nature requires involvement of a large number of officials in different states in collecting data from small scale industries. It is not feasible to thank them individually but we shall fail in our duty if we do not take note of the immense support provided by them. We would like to place on record our deep appreciation for the kind cooperation and assistance rendered by the staff of various agencies listed below in organising the field work and carrying out the survey of sample SSI undertakings :

1. Office of the DC SSI, Ministry of Industry, New Delhi.
2. Central Board of Excise & Customs, Deptt. of Revenue, Ministry of Finance, New Delhi.
3. Central Board of Direct Taxes, Deptt. of Revenue, Ministry of Finance, New Delhi.
4. National Informatics Centre, Ministry of Planning, New Delhi.
5. State Directorate of Industries and General Managers of District Industries Centres of (a) Mumbai (b) Calcutta (c) Hyderabad (d) Madras (e) Noida (f) Agra (g) Indore (h) Jalandhar (i) Ludhiana (j) Rajkot (k) Kamrup (l) Nowgaon and (m) Delhi.

We would also like to thank Mr. K.K. Attri and his team comprising Mr. A.K. Halen, Mr. Naveen Singh, Mr. Satish Kamath, Ms. Pooja Paruthi, Mr. Anil Sharma and Mr. J.P. Arya who not only helped us in formulating programmes for generation of tables but also in data entry and data processing.

Last but not least, we would like to thank our stenographer Ms. Archana Chawla, whose untiring effort helped us see the report in its present shape. We would also like to acknowledge the help received from Mr. S.P. Malhotra & Ms. Meenakshi Pandey for providing typing assistance at different stages and Mr. N. Natrajan for supervising the production of the report.

Of course, while we are grateful for all the comments received, the responsibility for the remaining errors lies with the authors.

Charu C. Garg  
Fellow

S.K. Sanyal  
Senior Consultant

## EXECUTIVE SUMMARY

### Background of the Study

Promotion of small scale industries (SSIs) has been a cornerstone of India's development strategy right from the inception of planning. SSIs help employment generation and expansion of industrial activity across the country without making excessive demand on urban infrastructure. However, in the face of competition from large enterprises, SSIs suffer from many handicaps starting with inadequate and irregular supply of raw materials, access to appropriate technology, shortage of working capital and marketing facilities. The externalities associated with small scale industries justify appropriately targeted state intervention to neutralise these handicaps.

In recognition of the need for state support, action was taken by the government to promote small scale units in various ways like reservation of items for exclusive production in SSI, exemption from or concessions in tax rates, bank credit on a priority basis, supply of inputs at concessional rates, and creation of industrial estates.

While these measures have played a crucial role in protecting and fostering the growth of small scale industries in the country, there is also a perception among experts that the protection to SSIs shields inefficiency in resource use. Often, these incentives were provided in various forms operating simultaneously without a clear idea of what exactly was sought to be achieved and whether the instruments used were appropriate or cost effective.

These questions and doubts have acquired urgency especially in the context of economic reforms initiated in 1991, where the basic objective of the reforms is to promote efficiency in the use of resources in the country. The support would be justified only to the extent that they suffer from handicaps as compared with the large scale. Any support beyond this point would be irrational and unjustified.

It was therefore felt necessary to enquire whether the fiscal incentives provided to the small scale are rational and well defined and, if not, how their cost effectiveness could be improved. Reflecting this concern and on the recommendations of the Public Accounts Committee (PAC), the Office of the Development Commissioner, Small Scale Industries (DC, SSI), Ministry of Industry, Government of India, entrusted the study to the National Institute of Public Finance & Policy, New Delhi.

The Terms of Reference required us to explore the existing data sources to assess the growth of SSI and to ascertain the impact of central fiscal incentives and financial concessions and to replenish the findings through a sample survey of registered SSI units covering sixteen districts (including four metro cities) all over India. Keeping in view the limitations of time and resources it was decided in consultation with the Office of the DC, SSI to restrict the field study to 900 SSI units registered with the State/UT Directorates of Industries/DICs. A stratified sampling design was adopted in pre-specified districts/cities and a probability sample of SSIs was selected from each stratum.

The growth of SSI during the late seventies till mid nineties is traced out using available data sources like Annual Survey of Industries (ASI), Small Industries Development Organisation (SIDO) Statistics, and data compiled by Planning Commission. With particular reference to the central fiscal incentives an attempt has been made to ascertain the impact if any, of these measures on the growth of SSI, which itself is compared with the growth of the large scale manufacturing for meaningful analysis. Large scale manufacturing has been defined as comprising units whose undepreciated gross value of plant and machinery (P&M) is more than the limit prescribed by the DC, SSI to define small, that is, more than Rs. 60 lakhs after 1991, greater than Rs. 35 lakhs between 1985 and 1991, and more than Rs. 20 lakhs between 1980 and 1985. Any unit with investments in P&M less than these prescribed limits and was registered under the Factories Act was taken to represent large SSI. The units registered with SIDO are weighted towards small SSIs. The traditional industries comprise village and cottage small industries.

The findings of the sample survey have special reference to Central Excise Concessions to SSI, Tax Concessions, Central Investment Subsidy and Transport Subsidy. The attempt is to establish from the micro level primary data whether these concessions or tax rebates were instrumental in improving their efficiency as judged through the performance indicators.

## **Findings**

### ***From Secondary Sources***

- i) The larger SSIs display growing capital intensity and rising labour productivity indicating potential for growth save employment generation. However, declining capital productivity suggests unproductive use of capital, possibly due to the tendency to inhibit production and remain within the ceilings for availing central excise

concessions. However, capital productivity is higher in large SSI as compared to large and medium industries, indicating capital is used more productively in the former. Labour productivity is higher in large SSI as compared to small SSI, indicative of better working conditions in the former.

- ii) A more impressive performance is seen for small SSIs as compared to large SSIs, as they exhibit rising capital productivity along with growing labour productivity. In both large and small SSIs capital intensity is rising, but at a much slower rate in the latter as compared to the large SSIs.
- iii) A large growth in number of small SSI units vis-a-vis large SSIs implies that entrepreneurs responded well to incentives for setting up of new units. This phenomenon has led to horizontal expansion at a quick pace, and may not be considered bad as it is accompanied by high rates of growth in production as well as employment.
- iv) Over the years capital substitution instead of labour seems to be dominating the growth of SSI in India. The trends have further sharpened during early nineties. Large SSIs, particularly those in the factory sector seem to be giving a push to this trend. This reflects that the usage of advanced technology is becoming more and more important for large SSI, especially in an environment of more open economy. Nevertheless, as mentioned above, this has implied lower capital productivity and lower employment generation.
- v) The SSI as a whole has been responding well to export incentives especially after 1991, not only contributing to arresting the falling trend in the growth of exports but also increasing the share of exports in its own production.
- vi) From the points of view of employment generation and increase in exports, relatively smaller SSIs are doing better; in fact the small traditional industries seem to be performing the best.

### *From Field Survey*

Notwithstanding the complexities induced by frequent policy interventions over time and challenges posed in the collection of primary data through a single cross sectional survey, survey findings subject to limitations of sample size, are interesting. Annexure I summarises the various findings regarding factor-intensity and factor-productivity with size of the units, some of which are also described below :

- i) Both capital and labour productivity are relatively low for medium sized units as compared to units with low and high investment in P&M. This suggests that units should not be allowed to linger in medium ranges. Once they have crossed the lower range, they should be encouraged to grow big. However, these big units experience a sharp fall in labour intensity, suggesting that from employment generation point of view, the smaller units may be better.
- ii) Comparison of units producing excisable goods with those not producing excisable commodities shows that the concessional group are having more capital productivity and labour intensity in size classes with turnover between Rs. 15-75 lakhs. These size classes also have higher employment and output per unit in concessional group as compared to non-concessional group.
- iii) The economies of scale and the employment objectives are often cited as the basis for providing incentives to the SSI. The highest level of central excise concessions to SSIs in lowest sizes of turnover slabs are supposed to suitably compensate them for their higher administrative costs. The field data have revealed a decreasing administrative cost ratio with increasing output levels broadly justifying the economies of scale argument.
- iv) An examination of capital intensity, labour intensity, capital productivity and labour productivity across the different sizes of output reveals that the labour intensity marginally increases with increasing output levels. Both capital and labour productivity are seen to increase with increasing output levels. Some evidence of slackening in the efficient use of capital and labour in the higher output levels of Rs. 50-75 lakhs was noted for major cities. Capital intensity is also lowest in this size class, suggesting that entrepreneurs resist acquiring more capital which would boost their output to higher levels taking them to the normal duty ranges for their additional output.

- v) The survey data came out with a fragmentary evidence on the horizontal disintegration of units in the form of sister units with the highest percentage in the size class with Rs. 50-75 lakhs turnover. These units are found to have satisfactory performance vis-a-vis other independent units.
- vi) On the basis of survey data, the impact of the policy of reservation designed to promote and protect the SSIs is found to be questionable. Performance indicators in terms of size of employment, capital and output and also in terms of productivity of labour and capital show units producing unreserved items to be better, particularly those having investment in P & M of Rs 10 lakhs and above. Even in terms of profitability, inventory burden and capacity utilisation, units producing unreserved items and with output levels greater than Rs.30 lakhs are superior to those producing reserved items. With increasing output levels, a decreasing proportion of units generally reported producing reserved items. Also, the percentage of units reporting to be producing reserved items was higher in district centres as compared to the major cities: reservation is found to have an impact only in the smallest of the units which probably cater to the local needs.
- vii) The impact of both Central Investment Subsidy (CIS) and Transport Subsidy (TS) could only be studied for two districts of Assam (Kamrup & Nowgaon) which shows that:
  - a) The CIS made its impact in terms of better per unit performance as well as higher productivity as compared to those who have not availed of CIS. The scheme has also done good in backward areas as shown by secondary data. Most of the State Governments have their own capital subsidy scheme after it was discontinued by the Central Government. Hence, reintroduction at the Central level is not required.
  - b) Both from the secondary sources and also from survey data it is clear that transport subsidy is mostly availed of by the larger units. The TS availed by larger SSI units have not gone to improve their performance in comparison to those not availing TS, suggesting its withdrawal at least from the beneficiaries having large fixed assets.
- viii) Minimum factory level employment conditions to avail income tax (IT) rebate under various Sections make only a few SSIs eligible. Many young SSI units engaging less number of factory workers have reported payment of IT exceeding Rs. 60,000 during 1993-94 and were not entitled to the IT concessions. The units with employment

between 10-19 workers have in fact highest labour productivity and also high capital productivity. There were only a few cases of SSIs that reported manufacturing articles listed in Schedule XI. Schedule XI thus seemed to be virtually unutilized and had no impact on the SSI. This suggests that IT concessions are beneficial only for large size SSIs. The small SSIs which are also performing well are not entitled to these concessions.

- ix) The comparison between the set of units in industries reporting to avail of any of the central fiscal incentives (CI) and those not availing (NA) brings out 'food products', 'rubber products' and 'non metallic mineral products' industries as using labour and capital more efficiently in CI category as compared to NA category. As against this, the industries 'basic metal' and 'machinery & parts except electrical' in CI category are less productive in respect of labour and capital while being more capital intensive, indicating no need for central incentives in these industries. 'Hosiery & garments' and 'paper products' industry stand out with higher capital productivity but lesser labour productivity and high labour intensity and could thus stake claims for some central incentives.<sup>1</sup> Nevertheless, the difficulties associated with lack of neutrality that differential sectoral incentives engender would suggest that careful thought needs to be given before giving selective central incentives. It appears that a more neutral approach focusing on non-tax facilities, as mentioned further below, may be opted for.
- x) Differentials between major cities and other district centres noted for samples drawn for certain broad output levels show:
- a) A higher proportion of SSIs in major cities were owned by entrepreneurs with technical qualifications as compared to those in the district areas where entrepreneurs with industrial family background constituted a comparatively higher proportion. This suggests that district centres lack technically qualified entrepreneurial skills.
- b) Products classified as capital goods were manufactured by a higher proportion of SSIs in the district areas as compared to the major city areas whereas consumer and intermediate products had a relatively larger share in the latter's output basket. This trend may be due to the proximity of the units of major cities to major marketing centres.

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<sup>1</sup> The central incentives are seen to generate higher labour intensity and capital productivity than State incentives (SI), barring "machinery and parts except electrical" industry. However, labour productivity is higher with state incentives vis-a-vis central incentives for most industries.

- c) Reflecting the cost differentials between major city areas and the district areas, the gross profit ratios and administrative costs were generally higher in the former group. The district areas reported better capacity utilisation as compared to the major city areas, leading to a policy implication for differential treatment of the two groups.
- xi) In terms of ownership of units it was found that more of limited companies were coming up within SSI in recent years as compared to earlier periods. (Some entrepreneurs have voiced the problem of conversion from proprietorship/partnership to limited companies). The younger units generally employed high cost capital, reflecting usage of modern technology. Large SSI units with high values of fixed capital also tend to employ more workers with low wages.
- xii) Purchasers' specification was the major quality standard reported by a number of sample SSIs. ISI/FPO/Agmark standards were claimed by 22 units of which 19 were duty paying cases. During the discussions with the entrepreneurs it was felt that in view of the liberalisation process, maintaining quality standards is becoming important and hence some encouragement may be given for more companies to go in for quality certifications.
- xiii) The market composition of the products reveals that it is the large units which export their products. The percentage of units supplying to other industrial units increases with size implying that partnership, ancillarisation and exports are higher for larger units.
- xiv) The production criterion to define small is normally considered growth restrictive. Sample evidence shows 5 per cent of all units were able to cross the Rs. 200 lakhs output level in 1993-94 and have been called the 'cream-cases'. These were mostly younger units with family in the same business line. These units have reflected high capital and labour productivity. If the contribution of the contract labour is taken into account these units turn out to be quite labour intensive also. This may be due to certain typical industry groups, for example leather products, that occurred in these 'cream cases'. It is therefore felt that industry should be encouraged to grow beyond the turnover limit of Rs. 200 lakhs.
- xv) From the opinion of the sample units about the relative importance of the various incentives/concessions, it was revealed that in almost all size groups and especially for the smaller SSIs (in terms of output size), more concessional finance through banks was considered as the most important incentive.

- xvi) From the ranking given by sample units, no consistent view emerged, however, regarding tax/subsidies. In larger SSIs, subsidies for modernisation were considered more important. In the size class Rs. 30-50 lakhs turnover, increasing the limits of excise concessions was considered most important. Better infrastructure was given average ranking in almost all size classes. In contrast to the picture found for large cities, central subsidy for starting a unit was the preferred policy option in district centres for small SSIs. For large SSIs in district centres, tax concessions were considered important.

## **Recommendations**

### ***Overall policy matters***

- i) In view of the reasonably good performance of the small scale sector, particularly from the viewpoints of employment generation, better utilisation of capital and exports, it needs to be encouraged. For this purpose, it is necessary to quicken the pace in setting up of growth centres where infrastructural and marketing facilities are provided and new units could come up.
- ii) In the context of globalisation it may be important for the Government to intervene in the areas of information and technology, the two important instruments for growth and productive efficiency to see that the SSIs have the same access to these as their bigger partners. Furthermore, flexible specialisation type of technology should be encouraged and horizontal and vertical linkages, important in the context of open economy developed.
- iii) In view of the liberalisation process there is an urgent need for specialisation in higher value added products for which purpose incentives may be considered for product standardisation, particularly the export worthy products. There was no such incentive till 1994 when the Government announced incentives to those SSI units who acquired ISO-9000 certifications or its equivalent to reimburse charges equivalent to 50 % of cost subject to a maximum of Rs 75,000. This incentive, limited only to 100 SSI or ancillary units on first come first served basis, may be extended to all SSI units coming forward for international product standards.
- iv) A more pragmatic approach is required in the policy focus for exporting units in the sense that information from different countries is to be collected on market demand, overseas buyers and investors, product specification, and competitive prices and

disseminate the same through industry associations. The willing SSI units need to be provided all assistance through some agency right from packaging for export, pre-shipment inspection, transport facilities through ships and guarantee for arranging payments in case of dispute of consignment.

- v) In view of the anticipated requirements of highly skilled workers for small industries a scheme needs to be devised for developing technically competent personnel on a fairly large scale and especially in the smaller district centres.
- vi) The criteria to define small are different in different Government departments for extending concessions to SSIs. Central excise department adopts the production criterion, Income tax department uses the employment definition, and SIDO uses the investment based definition to define small. A uniform criteria based on labour intensity and capital productivity would serve the right purpose. However, the difficulty in measuring these for the units every year, and also for units before they commence production, may suggest that any unit satisfying the two criteria mentioned below should be eligible for concessions extended by any agency. (In no case should the turnover and investment ceilings be raised, as it would benefit only a very small proportion of the powerful SSI).

Annual Turnover	-	upto Rs. 300 lakhs
Investment in P&M (original value)	-	upto Rs. 60 lakhs

### ***Central Excise Concessions***

- vii) An examination of the cut-off points for a) full exemption b) preferential treatment and c) eligibility under the scheme suggests full exemption may be given for production upto a threshold of Rs. 45 lakhs and normal duty may be imposed thereafter. The eligibility for the unit to avail the concession should be based on the criterion mentioned in (vi) above. There is no justification for increasing the upper ceiling of Rs. 3 crores for units to qualify for these concessions, as the larger SSIs are found to be enjoying the economies of scale and also have the potential to grow on their own after a limit. In fact, these ceilings are effectively higher than what the nominal figures imply, since SSI units also enjoy MODVAT credit. Indeed, there seems to be some justification, therefore, not to allow SSI exemption and MODVAT credit at the same time. This is supported also on grounds of tax administration. The duty concessions should therefore be treated below the threshold of the MODVAT scheme, thereby reducing the administrative burden of the Excise department.

- (viii) There is a justification for having a threshold for full exemption for small SSI units as these units lack the economies of scale that larger SSI units enjoy. They also face financial crunch at the initial stages. These small units face higher administrative costs as compared to their bigger counterparts. They also have higher employment potential as compared to large SSI units. There is justification for giving full exemption to small SSIs also from administrative point of view as it is virtually impossible to control and supervise lakhs of small factories. It is therefore recommended that full exemption may be given to small SSI and the limit may be raised from Rs. 30 lakhs to Rs. 45 lakhs as mentioned in (vii) above.

This will clean-up the system of excise concessions for SSIs. First, the scope of those receiving full concessions will be increased from Rs. 30 lakhs to Rs. 45 lakhs turnover; since the smaller units are performing better, they would be encouraged further. However, they will not receive MODVAT credit, thereby making tax administration easier. If they wish to opt into the MODVAT system and avail of MODVAT credit, they would have to pay normal duty, as is possible for them to do currently. Second, in line with clean-up of the system, excise concessions will not be available for turnover above the first Rs. 45 lakhs of an SSI unit. However, they should receive MODVAT credit above this cut off (turnover) point<sup>2</sup>.

### ***Reservation of items for SSI***

- ix) Considering the superior performance of units producing unreserved items in all respects, whether labour or capital productivity, or profitability, over the units protected via reservation, the scheme has done more harm than good except for small units having investment in P & M below Rs 10 lakhs or those with production less than Rs. 30 lakhs. It is therefore, recommended that this instrument of protection is to be used discriminately, withdrawing this facility from the purview of the large size SSI units. In other words, reservation should be allowed for only those product categories which require investment of less than Rs. 10 lakhs in P & M for efficient production. In this context, policy of reservation needs to be reviewed.

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Note that with Rs. 45 lakhs threshold and assumed average rate of duty of 20% the larger units would have to share the duty burden at a constant level of Rs. 25,000 only, beyond an output level of Rs. 75 lakhs, and the smaller units would gain substantially. At the hypothetical rates of 20% and 30% duty, per unit gains under the existing and proposed system are presented in Annexure II along with the graphical representations.

### ***Central Investment Subsidy***

- x) This subsidy has been withdrawn since 1988 but there is evidence of its salutary effect on the units having total fixed assets of Rs 1 lakh and above with regard to efficient use of labour and capital than those not availing. This subsidy is continuing at State level and reintroduction at Central level is not required.

### ***Transport Subsidy***

- xi) The transport subsidy availed by large units did not improve their efficiency. It is recommended that some sort of discrimination as to the size of units be made while extending this subsidy. The concession needs to be reduced for all units having fixed assets of Rs 20 lakhs and above. However, the subsidy may be continued (already extended till 2000 A.D.) as it helps in dispersal of units in backward/remote areas.

### ***Income Tax Concessions***

- xii) The sample evidence provides a strong case for doing away with Income Tax concessions as only large units seem to be benefitting out of it. As far as its role in providing dispersion in backward areas is concerned, other non tax incentives should be given.

### ***Data Base***

- xiii). The CE and IT departments of the Ministry of Finance are a veritable store house of information relating to all tax paying individuals or establishments. The records in these departments are in various stages of computerisation. Currently they are not in a position to provide certain essential data pertaining to the SSI even though these are available in the various important documents/records maintained by them. Two working groups (one each for CE and IT) should be constituted including representation from their departments, Office of DC, SSI and Ministry of Planning (including CSO and NSSO) to go into the question of maintaining a suitable data base of SSI sector.

**Annexure I**

**Indicators of Factor Intensity and Factor Productivity in Different Size Classes of SSI (1993-94)**

Indicators	SIZE (Plant and Machinery) (Rs. lakhs)				SIZE according to Turnover (Rs. lakhs)				
	<2	2 - 10	10 - 20	20 - 60	<15	15 - 50	50 - 75	75 - 200	>200
K/L	0.28	0.34	0.42	0.99	.42	.47	.46	.40	.53
L/K	3.57	2.94	2.38	1.01	2.38	2.13	2.17	2.5	1.88
O/L	2.18	2.61	1.85	4.57	.76	1.91	2.63	2.67	6.48
O/K	7.85	7.64	4.39	4.60	1.82	4.09	5.75	6.75	12.18
Average Size									
L/unit	11.0	21.5	39.7	41.6	6.4	16.4	22.4	43.9	83.4
K/unit(Rs. lakhs)	3.1	7.3	16.8	41.3	2.7	7.6	10.2	17.4	44.3
O/unit(Rs. lakhs)	24.0	56.0	73.6	190.3	4.8	31.3	58.9	117.6	539.7

K/L represents capital intensity and its inverse L/K is labour intensity.

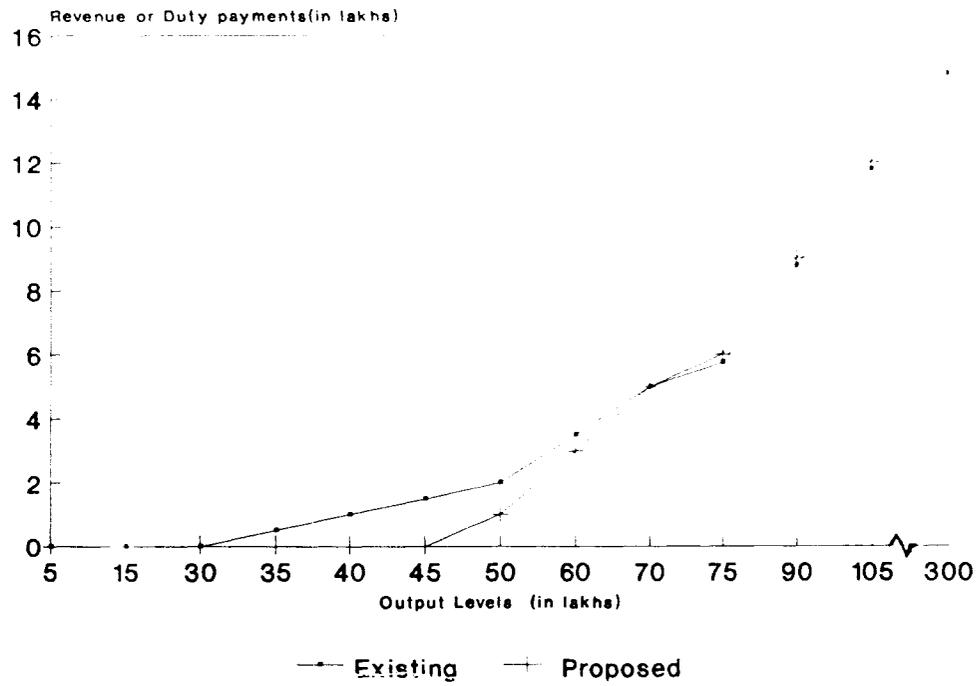
O/L is labour productivity and O/K is capital productivity.

**Annexure II**

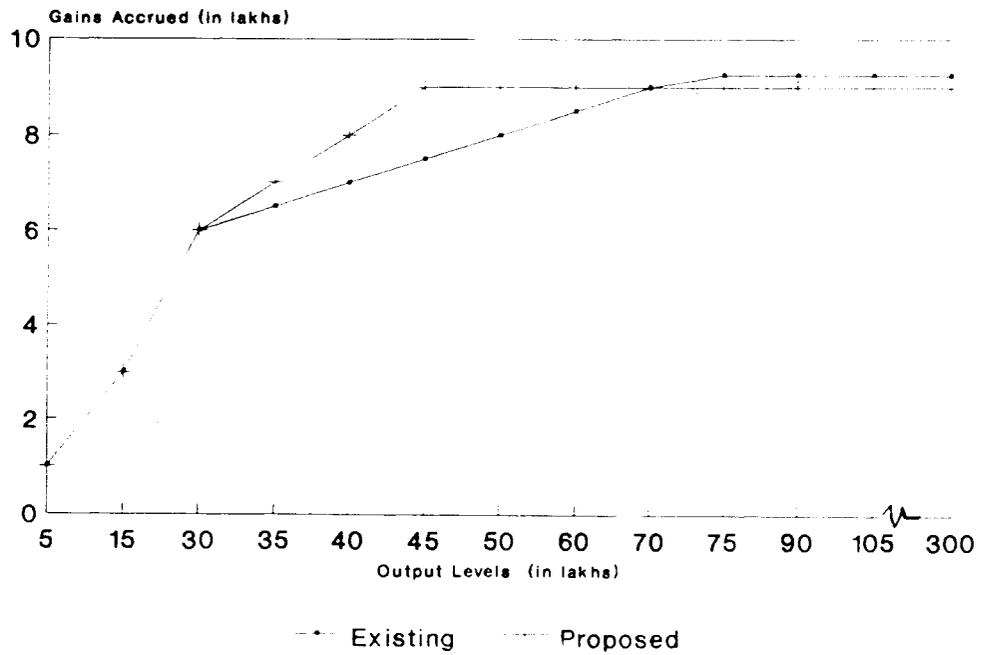
**Duty Paid per Unit and Gains accrued under the Existing and the Proposed Excise duty Structure  
(Hypothetical Average Rates of Duty of 20 & and 30%)**

Output Levels	Assumed Duty Rate = 20%					Assumed Duty Rate = 30%				
	Amount of Duty		With no Concessions	Gains		Amount of Duty		With no Concessions	Gains	
	Existing	Proposed		Existing	Proposed	Existing	Proposed		Existing	Proposed
		Lim= 45			Lim=45		Lim=45			Lim=45
5	0.00	0.00	1.00	1.00	1.00	0.00	0.00	1.50	1.50	1.50
15	0.00	0.00	3.00	3.00	3.00	0.00	0.00	4.50	4.50	4.50
30	0.00	0.00	6.00	6.00	6.00	0.00	0.00	9.00	9.00	9.00
35	0.50	0.00	7.00	6.50	7.00	1.00	0.00	10.50	9.50	10.50
40	1.00	0.00	8.00	7.00	8.00	2.00	0.00	12.00	10.00	12.00
45	1.50	0.00	9.00	7.50	9.00	3.00	0.00	13.50	10.50	13.50
50	2.00	1.00	10.00	8.00	9.00	4.00	1.50	15.00	11.00	13.50
60	3.50	3.00	12.00	8.50	9.00	6.50	4.50	18.00	11.50	13.50
70	5.00	5.00	14.00	9.00	9.00	9.00	7.50	21.00	12.00	13.50
75	5.75	6.00	15.00	9.25	9.00	10.25	9.00	22.50	12.25	13.50
90	8.75	9.00	18.00	9.25	9.00	14.75	13.50	27.00	12.25	13.50
105	11.75	12.00	21.00	9.25	9.00	19.25	18.00	31.50	12.25	13.50
120	14.75	15.00	24.00	9.25	9.00	23.75	22.50	36.00	12.25	13.50
135	17.75	18.00	27.00	9.25	9.00	28.25	27.00	40.50	12.25	13.50
150	20.75	21.00	30.00	9.25	9.00	32.75	31.50	45.00	12.25	13.50
165	23.75	24.00	33.00	9.25	9.00	37.25	36.00	49.50	12.25	13.50
180	26.75	27.00	36.00	9.25	9.00	41.75	40.50	54.00	12.25	13.50
195	29.75	30.00	39.00	9.25	9.00	46.25	45.00	58.50	12.25	13.50
210	32.75	33.00	42.00	9.25	9.00	50.75	49.50	63.00	12.25	13.50
225	35.75	36.00	45.00	9.25	9.00	55.25	54.00	67.50	12.25	13.50
240	38.75	39.00	48.00	9.25	9.00	59.75	58.50	72.00	12.25	13.50
255	41.75	42.00	51.00	9.25	9.00	64.25	63.00	76.50	12.25	13.50
270	44.75	45.00	54.00	9.25	9.00	68.75	67.50	81.00	12.25	13.50
285	47.75	48.00	57.00	9.25	9.00	73.25	72.00	85.50	12.25	13.50
300	50.75	51.00	60.00	9.25	9.00	77.75	76.50	90.00	12.25	13.50

### C.E taxation:Existing & Proposed system

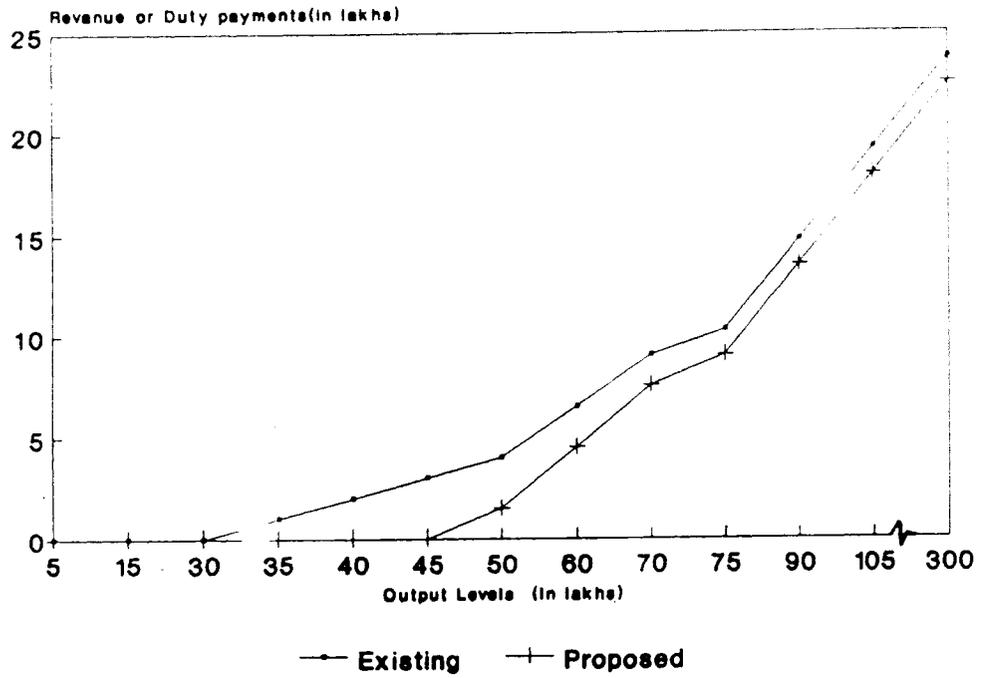


### Gains Accrued under Existing & Proposed System of Concessional Duty

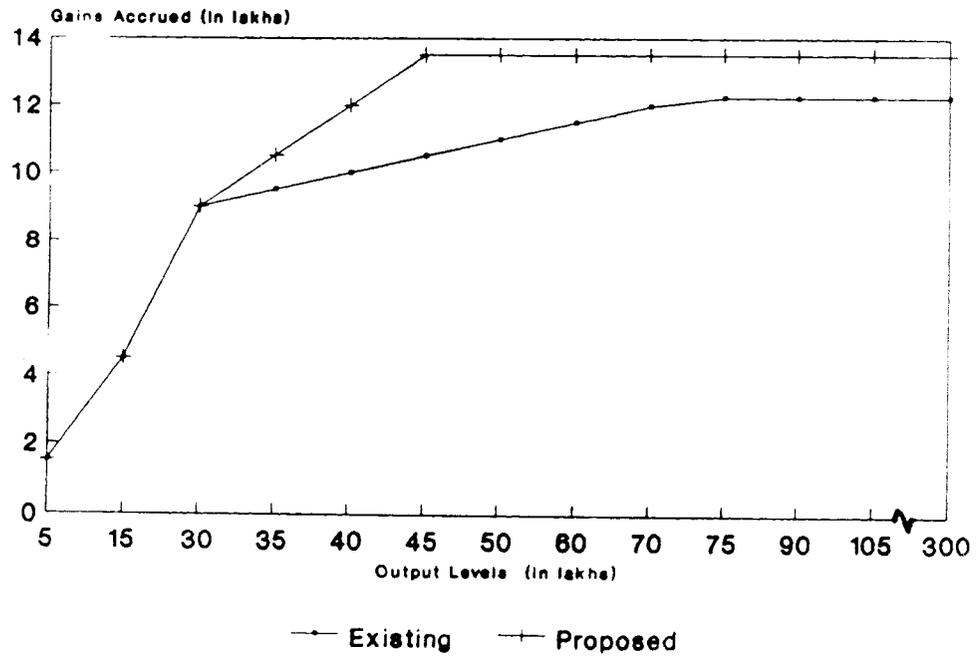


Assumed Average Rate of Duty = 20%

C.E taxation:Existing & Proposed system



Gains Accrued under Existing & Proposed System of Concessional Duty



Assumed Average Rate of Duty = 30%

## CHAPTER I

### INTRODUCTION

Promotion of small scale industries (SSIs) has been a cornerstone of India's development strategy right from the inception of planning. The rationale was that, SSIs are particularly suited for a capital scarce, labour surplus economy like India. SSIs help employment generation and expansion of industrial activity across the country without making excessive demand on urban infrastructure. The best way to utilise the large army of unskilled or semi-skilled labour available in the rural and the semi-urban areas lies in industrialisation based on the small scale. Small scale, cottage and village industries, in particular, seem to suit the Indian ethos, as was articulated by Mahatma Gandhi so forcefully in the days of our freedom struggle.

However, in the face of competition from large enterprises reaping the benefits of the economies of scale, SSIs need protection from the State. Compared to large or medium units, SSIs suffer from many handicaps starting with inadequate and irregular supply of raw materials and other inputs at competitive prices to access to appropriate technology, working capital and marketing facilities. The externalities associated with small scale industries justified state intervention to neutralise their handicaps.

In recognition of the need for state support, action was taken by the government to promote small scale units in various ways. As a measure of protection from the large units a substantial sector of manufacturing was reserved for the small scale. Support was provided also through measures such as exemption from or concessions in tax rates, bank credit on a priority basis (SSIs came within the priority sector lending under policies laid down for the nationalised banks), supply of inputs at concessional rates, and creation of industrial estates.

There is reason to think that these measures have played a crucial role in protecting and fostering the growth of small scale industries in the country. Today small scale industries account for nearly 40 per cent of the total industrial production and an equal

segment of our export. In several areas small scale units have been competing successfully with the large sector. However, over time, the protective measures taken by the government for the small scale have tended to multiply and overlap. There was also a perception among experts that the protection to SSIs was shielding inefficiency in resource use. The fiscal incentives in particular were not all well designed to achieve the objectives in view and were wasteful. All too often, these incentives were provided in various forms operating simultaneously without a clear idea of what exactly was sought to be achieved and whether the instruments used were appropriate or cost effective.

For one thing, "small scale" as commonly used in the context of industrial organisation is not a homogeneous concept. Small scale can mean tiny and village industries which are truly capital saving and labour intensive, as well as though, small in scale in terms of investment based on fairly sophisticated technology, are not quite employment intensive. Should all of them be eligible for support? A question also arises whether it is economical for the country to have units using technology which are outdated or wasteful in terms of labour or inputs consumed. In other words, whether the support or protection be extended to the entire segment indiscriminately or should it be focused with a clear direction to the objectives to be achieved such as employment generation, capital conservation and export promotion.

It is also necessary to recognise that the goals of job creation and economic development may not be synergistic although policy intervention in favour of SSIs are considered justified on grounds of SSIs being effective vehicles for employment generation. Apart from the fact that employment creation and efficiency in production may come into conflict if the technology used in small scale is inappropriate for optimum production in terms of cost (including social costs) it is salutary to remember as has been pointed out in a recent study on this subject "in the longer term, efforts to advance employment goals in lieu of productivity and efficiency goals may be shifted toward firms with lower potential growth rates and hence lower employment offerings in the future<sup>1</sup>." In other words, protection of small scale at any cost may be counter-productive even in terms of employment generation

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<sup>1</sup> Sidney G. Winter: Small and Medium-Size Enterprises in Economic Development-Possibilities for research and policy. The World Bank, September 1995.

over time. Public policies towards small scale therefore have to be carefully drafted to make sure that the objectives of policy are efficiently achieved and are not myopic in the aims.

Looking at the various incentives and support measures extended to the small scale industries in India in the last four decades it would appear *prima facie* that there has been no attempt to design the incentive or support measures in accordance with the objectives. For instance, as discussed in a later section, small scale units coming within the extended definition of small scale for purpose of relief from excise duty as compared to the criteria laid down by the DCSSI are not always labour intensive. On the contrary, units though small in terms of investment criteria are quite capital intensive in terms of capital-labour ratio. In several cases capital-labour ratio in a small scale industry is no different from what is found in the large scale sector. To support industries at the cost of the exchequer and sub optimal use of men and material is obviously wasteful. Moreover, one can also ask whether support through fiscal incentives is the best way of helping or promoting the growth of the SSIs. There is a widespread feeling that small scale industries would do better if only their problems in obtaining supplies or raw materials and inputs and of working capital and marketing could be attended to in time. With these aids, small scale units could also perhaps stand on their own without state support. Or one may argue that if they do not wish such support, there would be no case for extending fiscal concessions to them.

These questions and doubts have acquired urgency in the context of economic reform initiated in 1991, for the basic objective of the reform is to promote efficiency in the use of resources in the country. A major factor underlying the economic crisis that overtook the country in 1991 was high cost of our industries and lack of competitiveness in the world market. Given this background it is necessary to enquire whether our small scale sector would be able to manufacture industrial products efficiently. The support would be justified only to the extent that they suffer from handicaps as compared with the large scale. Any support beyond this point would be irrational and unjustified.

It was therefore felt necessary to enquire whether the fiscal incentives provided to the small scale are rational and well defined and, if not, how their cost effectiveness could be improved. Reflecting this concern the Public Accounts Committee (PAC) in its 32nd Report

on assessment of Small Scale Industrial Undertakings relating to the Department of Revenue, Ministry of Finance, recommended that studies be taken up to evaluate the impact of concessions and incentives given to small sector from time to time. The Committee had also emphasised that extension of any incentive or concession should be followed up with detailed evaluation to enable the Department to assess the efficacy of such incentives in terms of growth of the sector. In pursuance of these recommendations, the Office of the Development Commissioner of Small Scale Industries (DCSSI), Government of India, Ministry of Industry, entrusted a study to the National Institute of Public Finance & Policy, New Delhi, to undertake a detailed evaluation of the impact of concessions, incentives etc., extended to the small scale sector. The report presented below is the outcome of this study. The terms of reference for the study are reproduced below :

### ***Terms of Reference***

- a) To assess the impact of fiscal concessions and incentives given by the Central Government to the small scale sector from time to time over the last ten years.
- b) To examine trends in the growth of small scale industrial units at the aggregate as well as disaggregated level in selected industries.
- c) To analyse the impact of various fiscal incentives on the growth of SSI employing such techniques as may be appropriate, by conducting a sample survey of SSI units.
- d) To examine the efficacy of fiscal incentives in promoting the SSI and to suggest measures for improvement by assessing the likely budgetary impact of support in alternative forms.

The tasks set out in the terms of reference are indeed formidable. The reason first is that with so many incentives and protective measures operating simultaneously, it is almost next to impossible to isolate the impact of any particular one to the exclusion of others. Secondly, the data regarding the growth of small scale industries in all their critical

dimensions such as capital intensity, employment generation, output, export promotion are not easily available. No doubt studies have been carried in the past surveying the growth and efficiency of small scale industries, no systematic attempt has been made to evaluate the efficacy and effectiveness of fiscal incentives as such. However, in order to meet the requirements of the terms of reference as best as possible, the present study drew upon secondary sources of data and then also undertook a survey of small scale units spread over different centres of the country. The findings of these surveys and study are set out in this report. It may be in order to indicate in this introductory chapter the definitional issues in studying the performance and problem of SSIs, the scope and coverage of the study and also an idea of the sampling design used.

### ***Definition of Small Scale Industrial Unit (SSIU)***

A tricky problem that the study has to contend with at the outset is what exactly is or are the distinguishing criterion or criteria of small scale? For, as pointed out by Sandesara, the term small industry or small scale industry is used to designate small sized industrial unit/s, not small sized industry/ies and hence is a misnomer<sup>2</sup>. Different criteria for distinguishing small units from the large viz. capital, output, workers are in use with the cut-off points decided rather arbitrarily to suit administrative convenience. Appearing under different names, though, the small industry is labelled by the Planning Commission as Village and Small Industry (VSI) comprised of traditional industries like Khadi & Village industries, sericulture, silk, coir, handicrafts etc. and modern small scale sector including powerlooms.

The present study is concerned with the modern small scale sector excluding powerlooms. Following the criterion laid down by the DCSSI, a unit having an investment upto Rs 60 lakhs in plant and machinery and carrying on manufacturing, processing, job work, repairing and servicing activity is defined as SSIU; if it is engaged in ancillary industries or is an export oriented small scale unit the ceiling for investment is Rs 75 lakhs. Other units like small service establishments or small scale service & business (industry related) enterprises, mostly tiny units, also come within the purview of SSI. While these ceilings

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<sup>2</sup> Sandesara, J.C. : "The Small Industry Question : Issues, Evidence and Suggestions" in Changes and Choices in Indian Industry, eds Amiya Bagchi & Nirmala Banerjee, 1981.

came into effect from 1991, there had been three more upward revisions in the past viz. in 1975, 1980 and 1985 mainly to take into account the escalation in prices, though updation of technology could have been another reason for the revision of the ceiling (Annexure I). In its latest thinking the Government is reported to be contemplating a review of the small scale industry policy with a hike in investment ceiling from the present Rs 60 lakhs to Rs 3 crores as the present provisions are believed to be impeding growth, economic scale of production and technology upgradation in the small sector. The proposed policy liberalisation will allow higher foreign equity holding of upto 49 percent instead of the present 24 percent and also lower export obligation for large companies manufacturing items reserved for small sector.

As is seen from the upward revisions in investment ceiling over time, the changes are not in proportion to price indices but to certain extent arbitrary, having *prima facie* a bias in favour of capital intensive technology and not employment generation. Employment based definition of SSI would not need any changes making inter temporal comparison of growth of SSI much easier and devoid of any price adjustment needed for a value based definition. In quite a few countries viz. West Germany, Indonesia, Italy, Japan, Malasiya, Mexico, South Korea, Thailand, United States, the small scale enterprises are defined on the basis of employment. As in India, the investment criterion is used in Bangladesh, China, Nepal and Sri Lanka.

The more substantive issue however, is whether this investment-based definition of SSIU is taken into account while formulating fiscal policies relating to SSI by the different Government Departments/Ministries. A look at the central excise concessions and income tax rebates would reveal that there is no uniformity in the definitions adopted.

The excise relief network essentially devolves around a graded system of relief based on the clearances of excisable goods in the preceding financial year; the eligibility limit which was till recently Rs 2 crores is now raised to Rs 3 crores. This production-based identification of small units for central excise relief is at variance with the investment-based definition of SSIU with the result that one does not know whether the entire universe of SSIUs is covered by the excise relief in absence of any equivalent scale of investment and production. The latest revision of the investment ceiling in the DC(SS)I definition would certainly exclude

units close to the ceiling from excise benefit. Whatever be the case, the tiny units are assured of the full exemption. But in view of exemptions and concessional rates of duty, entrepreneurs are tempted to remain within the exempted/preferred slab of production leading to a horizontal rather than vertical expansion. This phenomenon is thought to be operating in the vicinity of the different cut-off points in the graded system of relief resulting in inefficient use of capacity. In any survey seeking relevant information to see the impact of excise concessions in different turnover slabs therefore, there could be a high degree of response bias among producers having a turnover close to the cut-off points.

If the central excise relief network is expected to benefit the tiny and small units despite adoption of a different definition, the income tax concessions are explicitly helping out the larger SSIUs as they are mostly applicable to both SSI and large scale units coming within the Factory Act that is, those employing 10 or more workers in the manufacturing process with the aid of power or 20 or more workers without the aid of power. The only income-tax concession exclusively meant for SSIUs is contained in Section 80 HHA of the Income Tax Act relating to units set up in rural areas. This concession was availed by about 0.2 to 0.3 percent of the total number of SSIUs in the country in the assessment year 1989-90. The overall number of SSIUs assessed to income tax would constitute only around 3 percent including those availing of other income tax concessions. This small proportion of beneficiaries, the overlapping nature of the concessions and their availability to both SSI and large scale sector, particularly when the IT department records have no separate provision for SSIUs, rendered the identification of SSI beneficiaries in a sample study difficult and thus posed problems of data collection.

### ***Scope and Coverage of the Sample Survey***

Keeping in view the limitations of time and resources, it was decided in consultation with the Office of the DCSSI to restrict the field study to 900 SSI units registered with the District Industries Centre (DIC) of the respective State/UT Directorate of Industries. It was also decided to confine the study to 18 districts in 10 states. On an average 50 SSI registered units were to be selected for canvassing the questionnaires in each of the selected districts.

It was also stipulated that emphasis be given to selection of units manufacturing excisable items, specific product groups, as also specific areas enjoying various fiscal incentives.

The criterion of specific types of industries operating and distinct types of incentives available to Small Scale Industrial units were used for the purposive selection of 9 States and the National Capital Territory, Delhi. Within the selected States, districts were selected in consultation with the Office of the DCSSI, the main criterion being the concentration of specific product groups which could have been affected by the policy changes in Excise duty in 1994-95 and also the nature of incentives operating in the area. In all the 18 districts so selected were Kamrup, Nowgaon, Ludhiana, Indore, Ratlam, Madras, Darjeeling, Vishakhapatnam, Jalandhar, Kangra, Burdwan, Ranga Reddy, Rajkot, Ahmedabad, Delhi, Moradabad, Agra & Noida.

In view of the special study on the impact of changes in Central Excise Concessions in 1994-95 budget on the growth of SSI and also due to the requirement of submission of Interim Report to the sponsor within March, 1995 the survey operations which began during August-September, 1994 were temporarily withheld. Six districts of Kamrup, Nowgaon, Madras, Delhi, Rajkot and Ahmedabad were covered in the first phase of survey operation.

### ***Changes in Scope & Coverage***

Subsequent discussions with the Office of the DCSSI on the scope and coverage of the study resulted in changes in the main focus of the study with inclusion of metro cities in the sample and deletion of a few districts earmarked earlier. The changed TOR is given below:

- (i) The study should cover the impact of fiscal incentives such as Union Excise Exemptions/Concessions to SSI units, Income-tax concessions under Sections 80 HH, 80 HHA and 80 IA, Central Investment Subsidy and Transport Subsidy. Other incentives such as Interest Subsidy for Engineers, investment allowance being discounted long back were considered insignificant and as such could be dropped. Subsidy under PMRY being evaluated separately by the Department was also dropped.

- (ii) Hence, the study should also cover the metropolitan cities of Delhi, Calcutta, Madras, Mumbai and Hyderabad-Secundrabad besides the other centres given in the earlier proposal. Hence in Andhra Pradesh and West Bengal, the study should include only these two cities, viz. Hyderabad-Secundrabad and Calcutta and drop other districts. The study in Himachal Pradesh may be dropped. The revised position of the areas to be covered for study would be (1) Andhra Pradesh (Hyderabad-Secundrabad), (2) Assam (Kamrup and Nowgaon), (3) Delhi (Delhi), (4) Gujarat (Ahmedabad and Rajkot), (5) Madhya Pradesh (Indore and Ratlam), (6) Punjab (Ludhiana and Jalandhar), (7) Tamil Nadu (Madras), (8) Uttar Pradesh (Agra, Moradabad and Noida), (9) West Bengal (Calcutta) and (10) Maharashtra (Mumbai).
- (iii) The number of units to be surveyed should not be reduced from 900, i.e. as fixed earlier.

The second phase of survey operations with radically different sampling design and questionnaire could be initiated towards the end of July, 1995 in the remaining ten out of sixteen districts viz. Agra, Moradabad & Noida in Uttar Pradesh; Indore & Ratlam in Madhya Pradesh; Ludhiana & Jalandhar in Punjab and major cities of Calcutta, Mumbai and Hyderabad & Secundrabad.

### ***Sampling Design***

A stratified sampling design was adopted in both the phases of survey in prespecified districts/cities. A probability sample of SSIUs was selected from each stratum. Full details of the sampling design, sample size and limitations are given in Appendix I.

### ***Organisation of the Report***

Chapter II presents an overview of all the subsidies/concessions/incentives/support services given to the SSI during the last two decades with the overall purpose of providing the insight into the nature of policy interventions by the Government for an understanding of the role of such measures for promotion of SSI.

Chapter III traces out the growth of SSI during the late seventies till mid nineties using available data sources with particular reference to the central fiscal incentives in an attempt to ascertain the impact if any, of these measures on the growth of SSI which itself is compared with the growth of the large scale manufacturing for meaningful analysis.

Chapter IV present the findings of the sample survey with reference to Central Excise Concessions to SSI, Income Tax Concessions, Central Investment Subsidy and Transport Subsidy. The attempt is to establish from the micro level primary data whether these concessions or tax rebates were instrumental in improved efficacy judged by performance indicators. Limitations of this study are also indicated.

Besides these chapters, there are a few appendices to the Report. Appendix I gives the sampling design of the two phases of survey operations; Appendix II provides statistical tables used for analysis of both the secondary and primary data. Appendix III charts out the brief history of changes in central excise exemptions/concessions to SSI units. Similarly, Appendix IV brings forth the changes in income-tax concessions.

**Annexure I**

YEAR	1966	1975	1980	1985	1991
Description	----- Investment Ceiling for Plant & Machinery (Rs. in Lakhs)				
Small Scale Industries	7.5	10	20	35	60
Ancillary Industries	10	15	25	45	75
Small Service Establishments	-	-	2*	2*	-
Export Oriented Small Scale Industries	-	-	-	-	75
Tiny Units	-	-	-	-	5
Small Scale Service & Business (Industry related) Enterprises (SSS BE)	-	-	-	-	5**

**Source :** 2nd All India Census of Small Scale Industries : 1988, Ministry of Industry (1992)

**Notes \*** 1955 - < 50 workers with power } + less than Rs. 5 lakh investment in Plant & Machinery.  
           < 100 workers without power }  
 1960 - Investment ceiling of less than Rs. 5 lakhs in Plant & Machinery.  
 Located in rural areas and towns with population of 5 lakhs

\*\* Rs. 5 lakhs ceiling includes other fixed assets also.

## CHAPTER II

### AN OVERVIEW OF CENTRAL INCENTIVE SCHEMES AND SUPPORT SERVICES FOR THE INDUSTRIES

#### **Introduction:**

The primary responsibility for development of village and small scale industries rests with the State Governments. With a view to attract entrepreneurs to set up new units, each State has designed a package of incentives/concessions in the State Industrial Policy which is within the policy guidelines of the Central Government. However, Government of India have also introduced from time to time various incentive schemes/concessions and support services for promotion of industries, particularly in backward areas, no-industry-districts and other special regions to reduce regional imbalances. At times certain incentives/concessions were discontinued in specific areas/industries keeping in view the performance as well as needs of the industries. Some of the central incentive schemes served to accord protection to small scale industries while others being tax-based were promotional ones. The Central Government incentives/facilities could be classified as (I) Fiscal incentives (II) Financial Concessions (III) Instruments of Preference and Protection, and (IV) Infrastructural Development Schemes. The package of incentives and facilities provided by the Central Government from time to time are discussed in this chapter. Some of the important ones are given in a tabular format in Annexure I and a graphical representation is given in Annexure IA.

#### **Fiscal Incentives**

Fiscal incentives are mainly provided through tax concessions granted in the form of exemption, rebate, refund or postponement of direct or indirect taxes which are leviable on production or profits, besides special tax concessions. Such measures include (i) Income-tax concessions such as tax rebates and development rebate, (ii) Customs drawback, (iii) Exemption and Preferential treatment for Excise duty, (iv) Exemption from Sales tax, (v) Additional depreciations and (vi) Tax holiday for new industries.

### *Tax Rebates*

From time to time Government of India have announced tax concessions to industrial undertakings for any industrial undertaking under sections 80J, 80I and 80IA and 80HH for any industrial undertaking except following the area restrictions given in Annexure 1. For new small scale industries in rural areas only, tax incentives were offered under section 80HHA. All these tax concessions are allowed for a fixed period from the initial date of setting up in the form of deduction out of profits and gains to industrial undertakings for any relevant financial year provided that -

- (i) Industrial undertaking is a newly established undertaking and is producing within the specified period relating to the relevant section of Income-tax;
- (ii) It is not formed by the splitting up of a business already in existence in the area;
- (iii) It is not formed by the transfer of a business or plant and machinery previously used for any purpose in the area.
- (iv) It employs 10 or more workers in the manufacturing process carried out with the aid of power or employs 20 or more workers in the manufacturing process carried out without the aid of power;
- (v) It should not produce or manufacture article specified in the Schedule XI of the I.T. Act (only in the case of medium or large scale undertakings). No such restriction has been imposed in the case of small scale industrial undertakings. Minimum employment conditions have not been laid down for availing investment allowance under Section 32A.

Generally companies were allowed higher quantum of concessions while co-operative societies were allowed concessions for longer periods as compared to other undertakings. Tax deductions admissible under different sections of Income Tax, eligibility criteria, with area

and period of applicability and rate of deductions allowed are given briefly in Annexure I. Appendix IV outlines these concessions in somewhat greater details.

The second All India Census of Registered SSI Units with reference to 1987-88 has shown that about 88% of the units were in the employment slab 1-9 persons. Therefore, only 12% of SSI units were eligible for these concessions. Further, tax concessions could be availed only when there were profits and gains. It could, therefore, be presumed that a negligible proportion of small scale industries might have availed of the concessions.

All India Income-tax statistics showing the percentage of returns and tax relief availed under various sections of Income-tax are given below in Table 1.

**Table 1**

**All India Tax returns and deductions claimed on Industrial Profits, SSI Profits and Backward area Industrial Profits**

Year	Section	Number of Returns	Amount of Claim (Rs)	Total Tax Relief (Rs)	Per Unit Tax relief (Rs)
1985-86	80HH	1421	352118	196973	-
	80HHA	563	21018	9560	16.60
	80-I	8480	604791	285205	-
1986-87	80HH	1312	323432	161509	-
	80HHA	563	27075	11887	21.11
	80-I	8480	604791	291751	-
1987-88	80HH	3315	505056	226558	-
	80HHA	812	146018	68658	84.55
	80-I	13160	1123130	544178	-
1988-89	80HH	2699	437875	207830	-
	80HHA	1389	49272	19234	13.85
	80-I	9686	1155063	539614	-
1989-90	80HH	5776	846187	427836	-
	80HHA	4079	96176	41820	10.25
	80-I	10444	3121147	1648522	-

Source: All India Income-tax statistics, Directorate of Income-tax.

Section 80HHA of income tax concessions which relate only to SSI in rural areas, shows even though, the number of returns is seen to increase over the years, per unit tax

relief reached the peak of Rs.84.55 in 1987-88 after which there was a steep fall. The data for the IT Sections 80 HH and 80-I which pertain to all industries including SSI shows that the total amount of claim and total tax reliefs are much higher as compared to section 80HHA. In this sense, government seems to be providing concession basically to large units.

### ***Excise Concessions***

The central excise exemptions date back to 1971, with different goods and different rates of duties applicable at different points of time. A brief history of excise concessions with important changes made from time to time are listed in Appendix III.

A new scheme of Excise Concessions for small scale industries was introduced with effect from 1st April, 1986. This replaced the earlier General Exemption Scheme and applied to all goods with the exception of 22 items. The salient features of the scheme were full exemption were given to registered SSI upto Rs.15 lakhs turnover normal duty reduced by 10 percentage of points subject to a minimum of 5 per cent ad valorem between Rs.15-75 lakhs turnover and normal duty above Rs.75 lakhs but with a maximum clearances of Rs.1.5 crores(Annexure II). Small Scale units whose value of clearances did not exceed Rs.10 lakhs were not required to take Central Excise licence.

The scheme was modified during the year 1989-90. The eligibility limit of Rs.1.5 crores was raised to Rs.2 crores, while the full exemption available to small scale units remained upto Rs.30 lakhs. Even in cases where units manufacture more than one item falling under different 'tariff headings' the limit was restricted to Rs.30 lakhs only. The different slabs for clearances along with their rates of duty are given in Annexure II.

The estimated clearance and revenue from the small scale sector in 1993-94 are given below:-

Table 2

Estimated Clearance and Revenue from Small Scale Sector, 1993-94

Particulars	Upto Rs.30 lakhs	Rs. 30 to Rs. 50 lakhs	Rs. 50 to Rs. 75 lakhs	> Rs.75 lakhs	Total
Units (No.)	14899 (47%)	5705 (18%)	4121 (13%)	6974 (22%)	31700 (100%)
Value of clearances (Rs. crore)	1850 (10%)	2035 (11%)	2775 (15%)	11840 (64%)	18500 (100%)
Duty payment (Rs. crore)	40 (4%)	80 (8%)	120 (12%)	760 (76%)	1000 (100%)
Modvat credit availed (Rs. crore)	66 (6%)	99 (9%)	154 (14%)	781 (71%)	1100 (100%)

Source: Tax Research Unit, Central Board of Excise & Customs

Note: The average rate of gross duty estimated seems to be on the high side. In the case of clearances level Rs.75 lakhs, the average incidence of gross duty works out only to 4.67%  $(0+100+250)/75$  where the rate of duty leviable is 15% and 7.67%  $(0+200+375)/75$  where the duty leviable is 20%. Where the clearance level is Rs.50 lakhs, the corresponding figures are 2% and 4% respectively.

The modvat credit of Rs. 66 crores availed by the units having clearances upto Rs. 30 lakhs have reflected units manufacturing cosmetics, airconditioning and refrigerating equipments who have been entitled to exemption upto Rs. 15 lakhs only.

A special incentive in the form of full MODVAT credit was allowed to the manufacture of final products on purchase of inputs from the small scale units which had paid excise at concessional rates.

Other special features of the scheme introduced from time to time are:

- (a) Removal of the existing distinction between one chapter clearance and more than one chapter clearance.

- (b) Levy of excise duty on commodities manufactured by units but having brand names of other persons.
- (c) Withdrawal of higher notional credit of 5%, even though it affected SSIs considerably in their sales.
- (d) Levy of excise duty on goods manufactured without the aid of power.
- (e) Excise duty exemption made available to unregistered units also by removing the restriction of obtaining SSI registration certificate from the Directorate of Industries.
- (f) Introduction of Modvat Credit on the duty paid on capital goods.

### ***Modvat Credit***

Modvat rules came into force from 1.3.1986. These rules sought to introduce a scheme for allowing credit of the duty paid on specified inputs used in the manufacture of specified final products. The main features of the scheme are:-

- (i) All inputs including packing materials are eligible for the relief. Duty paid on packaging materials whose value is not included in the excisable value are not entitled for the credit. Credit is also not available in respect of cylinders for packaging gases etc. Modvat relief was not available for duty paid on non-consumable capital goods used in the manufacture of final products such as plant and machinery till 28.2.94.
- (ii) With effect from 1.3.94, modvat credit is being allowed on capital goods also which include not only machines, machinery, appliances, components, spare parts and accessories but also moulds and dies. The credit is also available to generating sets and weigh bridges installed and used in the factory of the manufacturer. The credit has been allowed in respect of excise duty or the

countervailing duty of customs paid on the capital goods on or after 1st March 1994.

- (iii) Modvat credit is eligible only to the extent of the amount of duty actually paid.
- (iv) Modvat credit of duty paid on inputs is not eligible when the final products are exempt from excise duty.
- (v) Small scale industries exempted from payment of excise duty on clearances upto Rs.30 lakhs have also been allowed option with effect from 1.3.94 to pay duty at normal rate by exercising their option in order to claim modvat credit.
- (vi) If the quantum of modvat credit in a particular year claimed is more than the excise duty realised from the sale of excisable goods, it could be carried over for next year.

### ***Duty drawback***

When export products consist of duty paid imported raw material, refund of duty after exportation is granted, it also includes refund of excise duty levied on the production of export products and import duty paid on imported components. These drawback facilities are provided with the objective of removing any disincentive to exports by duty bearing inputs in the export product. Drawback facilities are provided in two forms -

- (i) Drawback of the whole of import duty paid on imported articles, components and raw materials and excise duty paid on excisable components used in the manufacture of the product when it is exported.
- (ii) Drawback of 98% of duty paid on imported article when it is re-exported.

Other internal taxes and cesses levied by State and local authority on production and transfer of export products are not refundable.

### ***Duty Free Imports***

A 100% export oriented unit is allowed duty free import of capital goods, components, raw materials, spares, samples, office equipments, material handling equipments etc. required for the manufacture of the product. It is also allowed to sell its products to domestic projects under the equitable tender condition. Finished products of such units are also exempt from payment of excise duty and other Central levies. Rejects upto 5% of such percentage as may be fixed by the Board are allowed to be sold in the domestic market on payment of excise duty on the imported components and Central Excise duty on the indigenous components and Central Excise duty on the rejects or an amount equal to the aggregate of such duties. Foreign collaborations are permitted on the basis of import of such goods. Foreign equity even upto 100% in export-oriented units are permissible as against general restriction of 40%.

### ***Sales Tax concession***

Sales Tax is levied by the concerned States on sale/purchase of goods within the State jurisdiction. For inter- State Trade (Sales), sales tax is governed by the Central Sales Tax Act 1956(CST); though legislated by Parliament, it is administered by the States who also retain the revenue.

The operation of the Inter-State sales tax employs taxation according to provision, that is where the goods are produced, no matter where they are consumed (destination). Most of the States have moved the point of levy of their sales taxes to the first point of sale i.e. on manufacturers and importers of goods in their respective jurisdiction. The exporting States levy CST (subject to a ceiling of 4%) and the importing State apply their local rates on the resale of goods imported including the CST paid to the exporting States.

The industrial units (manufacturers) who buy machinery or equipments, parts and other inputs from other States have to pay only 4% CST. If the same goods are purchased from the local dealers, the manufacturers have to pay full local sales tax, rate of which could be normally greater than 4%. There are concessions in the sales tax on inputs in most of the States.

## **Financial Concessions**

These include various types of credit facilities at concessional rates, direct or indirect cash subsidies for price advantage and direct cash subsidies for special promotional efforts. The various financial incentives prevalent during the period 1970-94 are discussed hereunder:

### ***Central Investment Subsidy***

With a view to encourage entrepreneurs to set up large, medium and small industries in backward areas, Government of India had initiated a scheme of investment subsidy in August 1971. An outright subsidy @ 10% on fixed capital investment viz. land, building, plant and machinery subject to a maximum of Rs.5 lakhs was provided initially to the entrepreneurs for setting up new industrial units or going in for substantial expansion of their existing units in any of the 101 notified backward districts/areas. Subsequently from 1st March 1973, the quantum of the subsidy was raised to 15% subject to a maximum of Rs.20 lakhs. In respect of North Eastern Region and Sikkim State subsidy was raised to 20%. w.e.f. 1st March, 1981. From time to time suitable amendments were made in this scheme in order to attract more and more investment in industrially backward areas more particularly in the no-industry districts and special regions. Backward areas were further classified into three categories viz. A, B & C with respective rates of subsidy on fixed investment as 25%, 15% and 10% from 1.4.1983. Subsidy rates, ceilings and other modifications made in the scheme of Central investment subsidy from time to time are given in Annexure III. This scheme was withdrawn in October 1988. Upto 1992-93, capital subsidy amounting to Rs.1047.46 crores was reimbursed to the States by the Central Government. Statewise break up shows that till 1992-93 U.P. has got the maximum share of Rs.133.6 crores followed by M.P. (Rs. 91.2 crores) and then Tamil Nadu (Rs.82.8 crores).

### ***Transport subsidy***

This scheme provides incentives to small, medium and large scale industries set up in hilly, remote and inaccessible areas. In order to compensate the entrepreneurs partially for higher transport costs of establishing and running industries, the Government of India have

been operating a transport subsidy scheme introduced in July, 1971 and to continue till 31.3.2000. Under the scheme, subsidy ranging from 50% to 90% is admissible on transport costs incurred by entrepreneurs for movement of raw materials and finished products from designated railhead/ports upto the actual location of the industrial units and vice versa. The scheme has been extended to cover transportation by inland waterways also since 1.4.1995. Power generation units, refineries and plantation etc. are excluded from its purview. The identified promotional institutions which transact business on behalf of small, village and cottage industries are also eligible for subsidy. The scheme is applicable in different States/earmarked districts with different rates of transport subsidy from time to time, which are summarised in Annexure IV.

The scheme extends to raw materials but excludes fuels like coal/furnace oil and cement where the F.O.R pricing formula covers equalisation of price upto district headquarters.

The transport subsidy available under the scheme has been limited for 5 years period from the date of commercial production. The scheme now enables the Centre to make direct payments to the units on a single level scrutiny of the State-level Committees. From the inception of the scheme upto 31.3.94, an amount of Rs.144.45 lakhs has been reimbursed to States/Union Territories with yearwise allocation during the last 4 years as follows:

Year	Allocation (Rs.)
1991-92	14.03 crores
1992-93	12.18 crores
1993-94	31.99 crores
1994-95 (upto 31.12.94)	18.87 crores

(The designated railheads / ports and goods eligible for transport subsidy are given in Annexure IVA).

### *Subsidy under SEEUY Scheme*

The scheme for providing self-employment to the educated unemployed youth (SEEUY) was announced on 15th August 1983 and implemented through the State District Industries Centres(DIC), throughout the country excluding towns/cities having a population of 10 lakhs and above as per 1981 census. The objective of the scheme was to encourage educated unemployed youth to undertake self-employment ventures in SSI, service and business activities. The scheme aimed at self-employment of 2.5 lakh young persons every year by providing financial assistance to them to set up their projects. The overall supervision of the scheme was vested with Development Commissioner, Small Scale Industries, DC(SSI) Government of India. Annual Targets to each State/UT and policy guidelines were issued by DC(SSI). The assistance from the Central Government was in the shape of an outright capital subsidy to extent of 25% of the loan contracted by the entrepreneurs from Scheduled Commercial Banks after their cases were recommended by the Task Force at DIC level. The Task Force consisted of General Manager as its Chairman, Credit Manager of DIC, a representative each from the lead bank and concerned Small Industries Service Institute and the District Employment Officer.

The responsibility for administering the subsidy on behalf of Government of India was entrusted to the Reserve Bank of India, who received claims from various banks and reimbursed them. Originally educated unemployed youth who were matriculate and above and in the age group 18-35 years were eligible for loan assistance upto Rs.25000/- to take up ventures in industry, service and business.

The banks provided each entrepreneur a composite loan for which they would not require collateral guarantee or owner's contribution margin. The modifications in certain criteria of eligibility from time to time are summarised in Annexure V.

This Scheme was discontinued from the year 1994-95. A new Scheme (PMRY) for employment generation has taken its place and the same is discussed below. The number of applications sanctioned, amount sanctioned, subsidy released by RBI under SEEUY during the year 1983-84 to 1993-94 are given in the Table below:-

Table 3

Percentage of sanctioned applications to those received/recommended and of subsidy released to total sanctioned amount

Years	Number of Applications sanctioned	Amount (Rs.lakhs)	
		Total sanctioned by Bank (Rs.)	Subsidy Released by RBI (Rs.lakhs)
1983-84	242405	40154	555
1984-85	228800	42953	9983
1985-86	220724	42999	7648
1986-87	216956	46991	8744
1987-88	120224	25976	7000
1988-89	191958	40461	8054
1989-90	106561	22481	6000
1990-91	101233	22269	4451
1991-92	93874	20608	3718
1992-93	73316	16450	3955
1993-94	50603	10848	4000
Total	1638556	329189	64308

Source: Office of DC SSI, Ministry of Industry, India.

#### *Capital subsidy under PMRY*

The Prime Minister's Rozgar Yojana (PMRY) launched on 2.10.93 has been designed to provide self-employment to educated unemployed youths encouraging them to set up of micro-enterprises in industry, service and business activities. However, not more than 30% of such ventures would be from the business sector. A target of 40,000 beneficiaries was kept for the year 1993-94 for urban areas only and from the year 1994-95 a target of 2.20 lakh beneficiaries was envisaged per year for all areas during the remaining period of VIIIth Five Year Plan.

Any unemployed educated person living in any part of the country is eligible for assistance under the PMRY provided he is between 18 years to 35 years of age, matriculate (pass or fail), ITI pass or having undergone Government sponsored technical course for a minimum duration of six months, permanent resident of the area for at least 3 years, family income not exceeding Rs.24,000 per annum and he/she is not a defaulter to any nationalised bank/financial institution/cooperative bank. Preference is given to weaker sections including women. The scheme envisages 22.5% reservation for SC/ST and 27% for other backward classes (OBCs).

Under PMRY, projects upto Rs.1 lakh are covered in the case of individuals. If two or more eligible persons join together in a partnership, the project with higher cost would also be covered for assistance provided the share of each partner in the project is Rs.1 lakh or less.

The entrepreneur is required to contribute 5% of project cost as margin money. The balance of 95% is sanctioned as a composite loan for which no collateral guarantee is required; assets created under the scheme are hypothecated/mortgaged/pledged to the bank. Government would provide an outright capital subsidy on the project at the rate of 15% of the project cost subject to a ceiling of Rs.7500/- per entrepreneur. In case of partnership, subsidy is calculated separately for each entrepreneur at the above rate and ceiling.

The entrepreneurs selected under the scheme are provided compulsory training under Entrepreneurial Development Programme after their loans are sanctioned by banks. Repayment scheme range from 3 to 7 years after an initial moratorium of 6 to 8 months. State/UT Governments are to provide necessary infrastructural support like sheds, shops, power and water connection under the Scheme. During 1993-94, 31,797 persons were sanctioned loans by banks against a target of 40,000 beneficiaries while during 1994-95, 19,189 cases have been sanctioned loan till the end of September 1994. During 1993-94, about 3000 educated youth were disbursed loans amounting to Rs.200 crores.

### *Interest Subsidy Scheme for Engineers*

In order to motivate unemployed trained engineers under the Engineer Entrepreneurs Training Programme to take up industrial ventures, an interest subsidy scheme was introduced on 16.8.74. Subsidy was granted on interest payable on loans taken by them from any of the recognised financial institution for the acquisition of fixed assets. The quantum of subsidy was the difference between the normal rate of interest charged by the financial institutions and the interest at the rate of 7 per cent per annum subject to a limit of Rs.20,000/- per annum per entrepreneur.

The scheme was subsequently liberalised in 1976 to cover untrained engineers and technical trade diploma holders also for setting up the units. The claim to interest subsidy was limited for 5 years if the engineer entrepreneur had set up small scale industry in any of the backward areas or for a period of 3 years if the unit was set up in an area other than backward. The scheme was applicable to small scale registered units only.

The scheme was discontinued with effect from 31.3.1985. However, units set up prior to this date were entitled for the subsidy for the eligible period. The scheme benefitted about 109 entrepreneurs till 1991 with total disbursements of Rs.369 lakhs.

### *Credit Allocations*

The Government has fixed credit policy for small scale industries to provide effective financial support for promotion of small, village and cottage industries. For ensuring adequate flow of credit by way of term loan and working capital for small scale industries alone, a new apex bank known as Small Industries Development Bank of India (SIDBI) was established to need based tiny and rural industries. Some of the financial concessions applicable to small scale industries in different areas for their promotion and development are discussed hereunder:

### *National Equity Fund Scheme*

A National Equity Fund was set up in August 1987, with the objective of providing special attention to the needs of smaller amongst small scale units. Under the scheme, assistance is provided by way of seed capital in the form of soft loans to eligible small and tiny industries located in villages or towns with population not exceeding 5 lakhs to meet margin money requirements with project cost not exceeding Rs.5 lakhs. New units as also potentially viable sick units in the small scale sector, eligible for assistance under the refinance scheme of IDBI, get support out of this fund. No security (including collateral) need to be provided by the borrower under the scheme. Having regard to the special characteristics of the North Eastern Region and Hilly States of Himachal Pradesh and Jammu and Kashmir, it had been decided that in addition to nationalised banks and the State Bank of India, the State Financial Corporation and twin function Small Industrial Development Corporation in these Regions/States will also be the operating agencies for implementation of the scheme. In cases of rehabilitation proposals, the project could be located in towns with population not exceeding 15 lakhs against the ceiling of 5 lakhs population in the original scheme. Scope of National Equity Fund Scheme was increased to double the ceiling from Rs.5 lakhs to Rs.10 lakhs.

### *Single Window Scheme*

The IDBI introduced a single window scheme for financing of fixed assets and working capital to tiny and SSI units whose project cost did not exceed Rs.5 lakhs. Government of India has provided Rs.5 crores towards the Fund while IDBI has provided an equal amount. The scheme is being administered by IDBI. IDBI's role relating to SSI was transferred to SIDBI from April 1990 to provide equity support to small scale entrepreneurs for setting up new units and rehabilitation of potentially viable sick unit.

The scheme provides financial assistance to SSI units in the form of long term equity type seed capital upto Rs.1.5 lakhs with a project cost not exceeding Rs.10 lakhs. Financial assistance is provided at a nominal service charge of 1% per annum. The limit of financial assistance has now been extended to Rs.50 lakhs.

### *Concessional finance for SSI Units*

Concessional finance assistance to small scale industries mainly flows through IDBI's scheme of refinancing. Under this scheme, the SFC and scheduled commercial banks give loans to the small scale units at lower rates of interest and in turn get the same refinanced from the IDBI at cheaper rates. The small scale units located in all the three categories A, B & C of backward areas are eligible for this assistance. For term loan, the interest structure for refinance by Small Industries Development Bank of India is as follows:

<b>Size loan</b>	<b>Rate of interest</b>
Upto Rs. 25,000/-	12% fixed
Rs. 25,000/- to Rs. 2,00,000/-	14% fixed
Over Rs. 2,00,000/-	14% minimum

Primary lending is done at 3% higher than refinance rates.

### *Quality Certification Scheme*

In order to promote modernisation and technology upgradation in SSIs the units are assisted in improving the quality of their products. Through information dissemination on quality standards and procedures to be followed, a new scheme has been launched to assist about 100 small scale industrial units in obtaining international standards ISQ-9000 or an equivalent international quality standard. Subject to an upper ceiling of Rs.0.75 lakhs, each unit is given financial assistance equal to 50% of the cost incurred in acquiring the quality standard. The SSI units are being encouraged to participate in quality awareness and learning programme organised specially for their benefits.

### *National Awards*

In order to promote entrepreneurship, the Government of India have introduced a scheme of giving National Awards for recognising the achievements of outstanding

entrepreneurs in the small scale sector since 1983-84. The awards are given once in each calendar year and are open to all small entrepreneurs who have set up their own units in any of the five years immediately preceding the year of award.

The awards carry cash prizes of Rs.25,000/-, Rs.20,000/- and Rs.15,000/-. A special recognition award with the prize money of Rs.10,000/- is also given to one entrepreneur in each State/UT. For this purpose weightage is given to entrepreneurs setting up units in industrially backward districts/areas and to Schedule Castes/Tribes and women.

### **Instruments of Preference and Protection**

The thrust of the Industrial Policy is on effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. In pursuance of this policy, some specific measures of far reaching significance in the development were introduced which included strengthening of the protective frame work. These measures are described below:

#### ***Reservation of the items for exclusive manufacture in the Small Scale Sector***

Government of India had constituted under IDR Act, 1951 duly amended on 21.3.1984, a Statutory Advisory Committee on Reservation under the Chairmanship of Secretary (SSI) to make recommendations for items/products to be reserved for exclusive manufacture in the Small Scale Industries sector. The policy of reservation primarily promotes the small scale units and protects them from competition from medium and large scale units. The Committee makes its recommendations after taking into consideration the following criteria:-

- (i) Economic viability and technical feasibility of any article or class of articles which may be produced mechanically by the ancillary or small scale industrial undertaking.

- (ii) The level of employment likely to be generated by production of such articles or class of articles by ancillary or SSI undertaking.
- (iii) The possibility of encouraging and defusing entrepreneurship in industry.
- (iv) Small Scale unit can meet the requirements of the consumers both in terms of quality and quantity.
- (v) Such other matters as the Advisory Committee may think fit.

No new unit in medium or large scale sector is allowed to be set up after the date of reservation nor any further capacity expansion in the existing medium or large scale units is permitted. All further expansion or capacity creation is reserved for small scale sector only.

The medium or large scale industrial units can manufacture reserved items in cases as mentioned below:-

- (i) The existing medium or large unit had already been manufacturing an item when it is put on reserved list. In such a case the unit has to obtain a Carry on Business (COB) Licence from the Ministry of Industry. The capacity of the unit is pegged at the highest production level achieved by the unit in the last three years preceding the date of reservation of the product.
- (ii) If the existing SSI units manufacturing reserved items graduate by their process of growth into medium/large scale, such units have to obtain a COB Licence wherein the capacity is pegged with respect to the date when it became incumbent on the unit to apply for and obtain a COB licence.
- (iii) Medium/large units undertake to export a minimum 75% of their production (50% in case of readymade garments).

There is no restriction on the marketing of products reserved for manufacture in SSI sector by large units or big companies.

The Statutory Advisory Committee on Reservation undertakes the review of items from time to time for (i) reservation of items which are already reserved (ii) reservation of additional items.

The items are considered for dereservation mostly for the reasons given hereunder:-

- (i) In case adequate additional capacity is not generated in the existing small scale units
- (ii) No new units have been set up for creation of new capacity.
- (iii) Production in the small scale items has not shown substantial increase in relation to the demand.
- (iv) The technology debars small industries to procure machinery which crosses prescribed investment limits for small scale sector.
- (v) It is not economical to manufacture the product having a low demand as compared to the minimum capacity for a single unit.

As on 31.3.95, 836 items were reserved for exclusive production by the SSIUs.

#### ***Reservation of items for exclusive purchase from Small Scale Units***

The items reserved for exclusive purchase from the small scale sector are grouped as in Group IV, Group V and Group VI. Under Group IV at present, there are 409 items which are exclusively to be purchased from small scale units. Similarly there are 13 and 28 items in Group V and VI respectively which are reserved to the extent of 75% and 50% of the purchases made by DGS&D. In respect of other items produced in the small scale sector,

price preference to the extent of upto 15% is given to small scale and tiny units in comparison to the prices quoted by medium and large units if the products of SSI are otherwise acceptable in terms of quality and specifications. The actual quantum of price preference is decided in each case on merit.

Under the Government Stores Purchase Programme, Director General of Supplies and Disposal of the Ministry of Supplies is responsible for arranging of purchases and delivery of all stores required by different Ministries of the Government of India and their attached offices. Government has given due emphasis on increasing the quantum of purchases of various types of items from small scale industries. Preferential Purchase Policy has been introduced and National Small Industries Corporation has been designated as the nodal agency to promote marketing of small scale industries products to the Government. Special facilities are provided to small scale units to participate in Government Purchase Programme which include exemption from registration fee, security deposit, free supply of tender form.

A unit is registered for products which it manufactures and those products which could be manufactured with the existing machinery and equipments. the team constituted for this purpose recommends the items along with capacity of the unit. It provides clear picture regarding capability of the small units to the extent it can meet orders placed on it.

In order to enlist small scale units, a single point registration programme has been evolved since 1976 with a view to avoid multiplicity of registration of small scale units with various Government agencies. Under the single point registration scheme, eligible and bonafide small scale manufacturing units are registered by the National Small Industries Corporation Ltd. (NSIC) after verification of their technical and commercial competency. The units so registered are treated at par with those registered with the DGS&D or other Central Government Departments, public enterprises and no separate registration is required with these agencies/departments. No fee is charged for granting registration to the units for participation in Central Government Stores Purchase Programme. All services including inspection and capacity determination are provided free of cost. The directory of units enlisted under this programme is published periodically by the NSIC Ltd. for the use of various Government departments.

### ***Supply of machinery on hire purchase basis***

The National Small Industries Corporation Ltd.(NSIC) an autonomous body under Ministry of Industry was set up in February 1955. The primary function of NSIC is to help small entrepreneurs by providing both indigenous and imported machinery on easy hire purchase terms. The Corporation also supplies both indigenous and imported machinery on lease basis to existing units for expansion, diversification and modernisation.

The scheme to supply machines on hire-purchase basis was launched in March 1956 to achieve faster establishment of new small and ancillary industries and also to modernise the existing ones by arranging appropriate modern and sophisticated machinery and equipment. The rate of earnest money and service charges depend upon the value of machines as well as its nature whether indigenous or imported. The full hire purchase value of the machine is payable in 13 half-yearly instalments. The concessional terms in respect of earnest money, rate of interest and administrative charges have been introduced for units in backward areas and also for units promoted by Scheduled Castes and Scheduled Tribes entrepreneurs, techno-crats, physically handicapped persons, ex-defence personnel and women entrepreneurs.

NSIC has also given importance on equipment leasing activity as it is believed that it can help in achieving some degree of modernisation, expansion and diversification of beneficiary units. It is also expected that equipment leasing activity would help small industry in becoming competitive both in terms of price and quality.

### **Infrastructural Development Schemes**

For promotion of small scale industries, the Central Government have conceived and implemented schemes for development of infrastructure. Some of these developmental schemes are covered hereunder:

### ***Industrial Estates Programme***

In order to obviate the difficulties of small scale industries in acquiring suitable factory accommodation and other infrastructural facilities, the industrial estates programme was started in India in the year 1955. The major objectives of the programme were:-

- To facilitate the growth of small scale industries by providing all the facilities.
- To shift the small scale industries from congested areas to estate premises with a view to increasing their productivity.
- To achieve decentralised industrial development in small towns and villages.
- To assist the ancillary industries in the townships surrounding major industrial undertakings, both in public and private sectors.

The different components of the industrial estates programme were:-

- (i) Provide well-planned accommodation to small scale industries at suitable sites with facilities of water, electricity, transport, banks, canteens, watch and ward, all weather approach roads etc.
- (ii) Bring number of units together and thereby facilitate the establishment of common facility service centres, introduction of modern techniques, collective purchase of raw materials and sale of finished goods, etc.
- (iii) To enable the enterprises to avail of the goods and services of each other so as to make them complementary and interdependent.

Though the industrial estates programme was sponsored by the Central Government, its role was only to guide the State Governments by laying down policies and to assist them by earmarking funds for its implementation and monitoring.

### ***Growth Centres Scheme***

For promotion of industries in backward areas the Central Government announced in June 1988 the scheme for establishment of 100 growth centres in the country. The growth centres were to act as magnets to attract industries to backward areas and were provided with best infrastructural facility to facilitate and promote industrial growth. The criteria for establishment of growth centres were (i) Proximity to railhead, national highways or port (ii) Availability of water, electricity, telecommunication, education and health facilities and (iii) availability of sufficient land.

The financing pattern for each growth centre is as follows:

Central Government (Equity)	Rs.10 crores
State Governments (Equity)	Rs. 5 crores
Financial Institutions / Banks	Rs. 5 crores
Market borrowings	Rs.10 crores
	-----
Total	<b>Rs.30 crores</b>
	-----

Growth centres selected under this scheme would be included in Category 'B' (unless it is already included in Category 'A') of the list of Backward areas and will be entitled to all incentives as available from time to time for 'B' category areas.

Out of 70 growth centres to be taken up in the first phase, 65 Growth Centres have been identified. An important criterion for identification of growth centre is that its sphere of influence should cover an area of about 400 to 800 hectares.

### ***Integrated Infrastructural Development Scheme***

Pursuant to policy measures for promoting and strengthening small and tiny village enterprises announced on 6th August, 1991, the scheme of Integrated Infrastructural Development (IID) (including technological back up services) for small scale industries in rural/backward areas was announced by Government of India on 7th March, 1994.

The scheme was envisaged to augment infrastructural facilities in the rural and backward areas with special emphasis on linkage between agriculture and industry. The scheme will cover centrally developed backward districts which have been given coverage under the Growth Centre Scheme. The objectives of this scheme are:-

- (i) To set up about 50 IID Centres in rural areas/backward districts in the country excluding those districts covered under the scheme of growth centres.
- (ii) To promote 11 clusters of SSI and tiny units with a view to create employment opportunities and develop exports.
- (iii) To promote stronger linkages between agriculture and industry.
- (iv) To provide common facilities and technological back up services in the selected centres.
- (v) Creation/upgradation of infrastructural facilities like power, water, telecommunication etc. in new/existing centres/industrial areas.

The financial pattern and the features of IID Scheme are narrated as under:-

- (i) Size of each centre is = 15-20 hectares.
- (ii) Project cost of each centre:  
Central Government = Rs.2 crores  
Loan(SIDBI) = Rs.3 crores  
Cost in excess of Rs.5 crores will be met by the State/UT Governments.
- (iii) Each Centre is expected to promote 450 small scale industrial units.
- (iv) Project to invest in components like land development, roads, water supply.

drainage, service complex, effluent treatment facilities, common service facilities etc.

- (v) State agencies, public sector undertakings or non-governmental organisations are the implementing agencies.

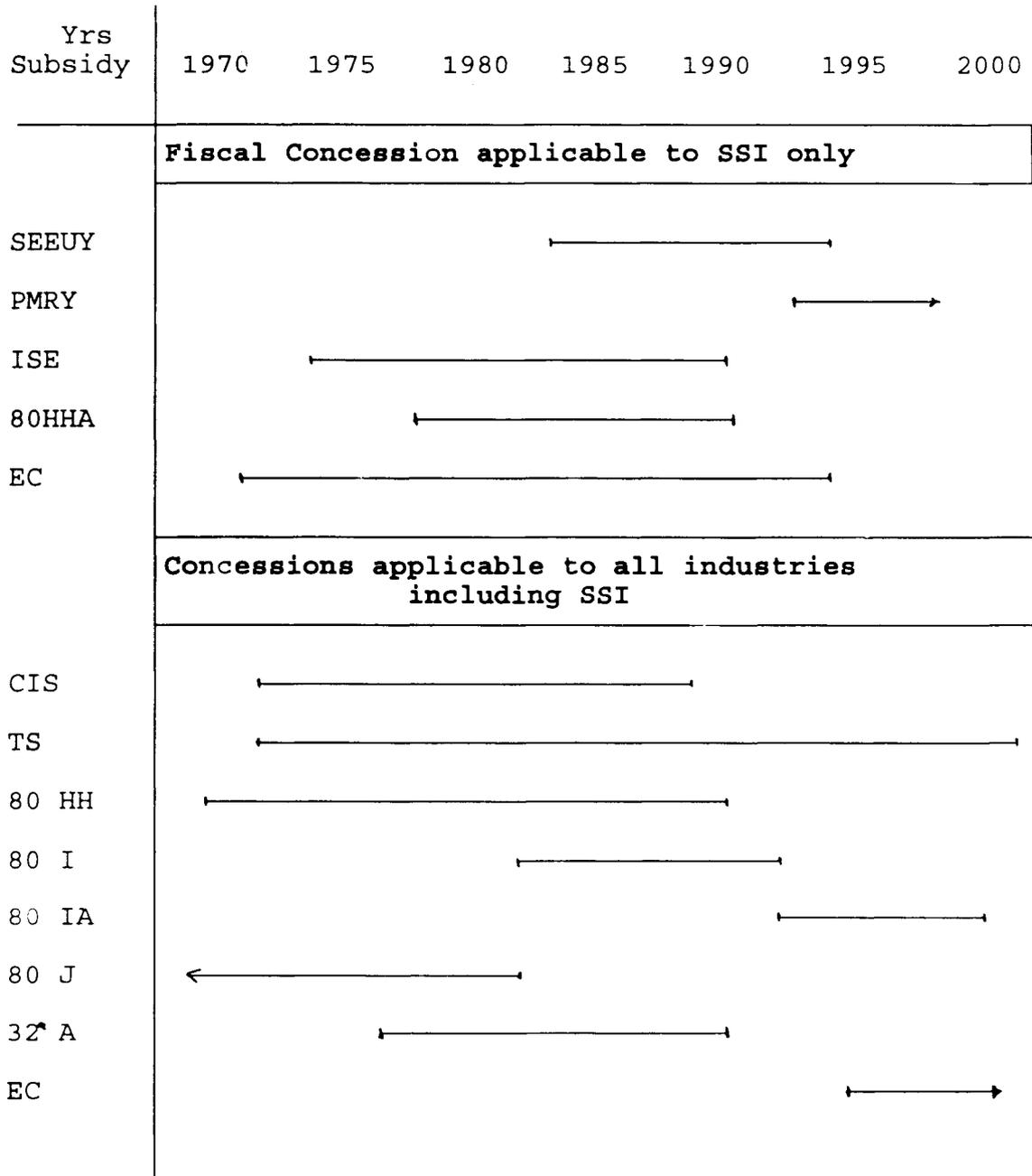
**Annexure I**

**FISCAL MEASURES**

<b>Incentive</b>	<b>Nature of Incentive</b>	<b>Area</b>	<b>Target Group</b>
SEEUY From 1983-94	25% subsidy on loans contracted by entrepreneurs with different limits (See Annexure V)	Except 12 cities with population greater than 12 lakhs in 1981	For SSI only. Unemployed youths. 18-35 yrs. Matriculate of ITI . After 1986 those with family income less than Rs. 10,000/-
PMRY From 93 onwards	Subsidy @ 15% of project cost with a ceiling of 75,000. Compulsory training	During 93-94 Urban areas Currently all areas	Only SSI Unemployed youths. Reservation for weaker sections.
Subsidy for Engineers 1974 - 90	Subsidy limit to Rs. 20,000/- p.a. per entrepreneur allowed if a rate of interest taken for acquisition of assets was greater than 7%	5 years in backward areas and 3 years in other areas	Unemployed engineers and diploma holders
ITC - 80 J 1948 - 81	Deduction from profits and gains amounting to 6% of capital employed available for 4-6 years	No restriction	Applicable to all industries falling under Factories Act
ITC - 80 HH 1970 - 1990	Could claim reduction of 20% from profits and gains for 10 years	Backward areas	All industries under Factories Act
ITC - 80 HHA 1977 - 1990	Same as above	SSI in rural areas	SSI under Factories Act
ITC - 80 I 1981 - 1991	20% deduction from profits and gains for 7-9 years (25% and 11 years for cooperative societies) ( 35 % for companies )	No restriction	All industries falling under Factories Act. Large industries could claim on non-Schedule XI articles
ITC - 80 IA 1991- 1998	25% deduction from profits and gains for 10 years (1991-95)	No restrictions	as above
	100% concessions for 5 years and 25% for next 5 years (1993-98)	Backward areas	as above
CIS 1971 - 88	One time subsidy for setting up unit (See Annexure III)	Backward areas	All Industries
Transport Subsidy 1971 - 2000	Subsidy given to transport. raw material & finished products (See Annexure IV)	Remote hilly areas and inaccessible backward areas	All industries
Investment Allowance ITC - 32 A 1976 - 90	Deduction of 25% of actual cost of P & M installed Higher deduction for non polluting or high tech industries	No restriction	All industries. Large industries could claim on non Schedule XI articles only

Annexure I.A

**FISCAL CONCESSIONS AVAILABLE TO SSI  
(1970 ONWARDS)**



**Annexure II**

**EXCISE CONCESSION FOR SSI**

<b>Time Period</b>	<b>Nature of Clearance</b>	<b>Rate of Duty</b>
1986-89	less than 15 lakhs*	Nil
	15 lakhs to 75 lakhs	Normal duty - 10% points (min. 5%)
	75 lakhs to 150 lakhs	Normal duty
1989 - 94	Not exceeding Rs. 30 lakhs	Nil
	Rs. 30 lakhs - Rs. 50 lakhs	Normal duty - 10% pts. (min.5%)
	Rs. 50 lakhs - Rs. 75 lakhs	Normal duty - 5% pts. (min 5%)
	Rs. 75 lakhs - Rs. 200 lakhs	Normal duty
1994 - 95 onwards	Limit raised to 300 lakhs for availing above mentioned concessions and applicable to all industries, whether SSI or non-SSI.	

\* In case of units which manufacture more than one article falling under different tariff head, full exemption limit was 30 lakhs.

**Annexure III**

**SUBSIDY RATES OF CENTRAL INVESTMENT SUBSIDY WITH  
MAXIMUM AMOUNT PERMISSIBLE**

<b>Applicable w.e.f. (date)</b>	<b>Rates of subsidy on fixed investment (%)</b>	<b>Quantum of subsidy ceilings per unit (Rs.lakhs)</b>	<b>Backward / special areas where applicable</b>
August 1971	10	5	101 notified districts/areas
1.3.1973	15	15	101 notified districts/areas
1.3.1981	20	20	Only for NE Region and Sikkim State.
1.4.1983	25	25	Category 'A' No industry districts/ special region as redefined - 118 districts.
	15	15	Category 'B' - 55 districts
	10	10	Category 'C' - 133 districts (Introduced first time in these areas)
1.4.1985	25	50	Only for electronic industries set up in hilly districts of Category 'A'
1.10.1988	Scheme was discontinued all over the country.		

**Note:** Central Government had allowed the State Governments/Union Territory Administrations to disburse subsidy to non-manufacturing activities by 30.9.1989 and to manufacturing activities by 31.12.1989 provided the projects were approved by the State Level Committee/District Level Committee as the case may be on or before 30.9.1988.

**Annexure IV**

**RATES OF TRANSPORT SUBSIDY**

<b>Date from which applicable</b>	<b>Rate of Transport subsidy</b>	<b>Applicable in States / Districts</b>
15.7.71	50%	Jammu & Kashmir, All North Eastern States
24.8.73	50%	Himachal Pradesh
24.8.73	50%	8 hilly districts of UP - Almora, Chamoli, Dehra Dun, Nainital, Pauri Garhwal, Pithorgarh, Tehri Garhwal, Uttar Kashi
1.12.76	50%	Andaman & Nicobar Islands
1.12.76	50%	Sikkim
5.12.77	50%	Lakshadweep
1.4.83	75%	Sikkim, Lakshadweep
1.9.86	75%	Darjeeling District of West Bengal
	90%	North Eastern Region, Sikkim, Lakshadweep, Andaman & Nicobar Islands
5.12.86	90%	Jammu & Kashmir
	90%	Movement of raw materials within North Eastern Region from one State to another
1.5.88	50%	Only within North Eastern Region on inter State movement of finished goods
	75%	Calcutta airport to airport nearest to location of unit and vice versa in North Eastern Region and Sikkim on airlifting of electronic components / products
	75%	For H.P. & hill districts of UP and Darjeeling WB
18.8.89	75%	On transportation by air of electronic components/products Delhi to Shimla, Delhi to Srinagar/Ladakh and vice versa

**Note:** The scheme has been extended upto 31.3.2000

**Annexure IVA**

**AREAS ELIGIBLE UNDER TRANSPORT SUBSIDY**

<b>Name of State / UT</b>	<b>Area Eligible</b>	<b>Designated Railhead / Port</b>
Jammu & Kashmir	Whole State	Jammu / Pathankot whichever is nearer
Uttar Pradesh (hilly areas)	Dehradun Chamoli Garhwal, Uttar Kashi, Nainital, Pithorgarh	Dehra Dun, Rishikesh, Moradabad, Bareilly, Kotdwara, Shahjahanpur Rampur
Himachal Pradesh	Whole State	Pathankot, Kiratpur Sahib Nangal, Kalka, Ghanmauli, Yamuna Nagar, Barara and Hoshiarpur
North Eastern Region comprising the States of Assam, Meghalaya, Nagaland Tripura, Manipur, Mizoram	Whole State	Siliguri Railhead and Calcutta airport to airport nearest to location of unit for electronic items only
Sikkim	Whole State	Siliguri Railhead
Andaman & Nicobar Islands	Whole of UT	Madras
Lakshadweep	Whole of UT	Cochin
Darjeeling Distt. of West Bengal	Whole of district	Siliguri

Annexure V

**SUBSIDY UNDER SEEUY**

<b>Year</b>	<b>Modifications made</b>
1984	Two leading bankers were also included in the District Level Task Force
1985	(a) 50% ventures for industry sector and not more than 30% ventures in business activities were prescribed
	(b) Percentage ceiling for industrial units was reduced to 30% instead of 50% and upper ceiling of 30% for business ventures was removed in respect of hilly States, viz. Jammu and Kashmir, Himachal Pradesh, Sikkim, Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh and Mizoram
1986	(a) Besides Matriculate, ITI passed youths were also made eligible
	(b) Family income of Rs.10,000/- per annum was prescribed to determine eligibility of the beneficiaries
	(c) 30% reservation for SC/ST beneficiaries was incorporated
	(d) Loan limits were revised to Rs.35,000/- for industrial ventures, Rs.25,000/- for service ventures and Rs.15,000/- for business ventures
1994	The scheme has been subsumed in Prime Minister's Rozgar Yojana with effect from 1.4.1994.

## CHAPTER III

### GROWTH OF SMALL SCALE SECTOR : ROLE OF INCENTIVES

#### Introduction

A major objective of economic policy since the inception of planned economic development in India has been industrialisation with employment generation which involved a question of technological choice. Capital intensive nature of modern technology may have a direct conflict with employment generation. Hence, small scale industries which were perceived to be labour intensive in character were encouraged in various Industrial Policy Resolutions (IPRs). While these industries have been crucial foreign exchange earners through their rising shares in total exports, they have also been important in the development of large industries through the subcontracting linkages which may be formed with large industries<sup>3</sup>. Development of technology, globalisation of capital, flexible manufacturing technologies and changing consumer preferences have provided ample scope for the development of small scale industry in India. This is exemplified with various country experiences (Nanjundan, 1994).

The economic policies in the past, to promote SSI, were made with a view to ensure increased availability of risk capital, access to technology, quality promotion, marketing, infrastructural development, reducing regional imbalances and ensuring equitable distribution of national income. It has been recognised that growth from small to large was also possible if external obstacles are removed. Various promotional and protective incentives given in the past, keeping in mind the above objectives have already been outlined in chapter II. There have been incentives from both Central and State Governments to promote SSIs. Even though it is extremely difficult to separate out the effect of various incentives on the growth of SSI, some attempt has been made in this chapter, to examine how some of these incentives given to SSIs during the period 1980-94 have helped their growth.

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<sup>3</sup> A recent study by Gupta et.al (1994) throws some light in this area in the context of Indian Industrial

## Central Fiscal Incentives to SSI

Most of the central fiscal incentives to SSI are based on incentives to the individual firms and their performance can be evaluated only at the micro level which would be done with the help of primary data in the following chapter. An aggregate picture to assess the impact of incentives on growth of small scale industries can emerge by looking at some of the concessions and their impact on key growth variables like production, number of units, investment, employment, returns to capital and labour, exports, productivity of these factors and size of the units.

One of the most important incentives available to SSI currently, is the excise concession which is guided by the production or turnover criterion. Hence, the growth of output in small scale industries can throw some light on the efficacy of this incentive.

The subsidy for educated unemployed youth (SEEUY) would affect the growth in number of units which could then have an indirect effect on employment, investment and output.

The central investment subsidy (CIS) which was prevalent till 1988 could give us an effect on investment in small scale industries. Also, as it was related to backward areas, its impact on regional dispersion of SSIs can be studied.

Besides these, the various tax concessions under Articles 80 HH, 80 HHA, 80 IA, 80 J help the units in getting deductions from profits, leaving a greater amount for reinvestment. Most of these concessions are available in rural and backward areas and are available to large as well as small scale industries. Since there are no separate data from secondary sources to throw light on the number of units benefiting from these concessions in the backward areas, micro level data would be used to assess the efficacy of the above incentives on growth of SSI. A study by Aggarwal & Sondhi (1991) on the evaluation of backward area development incentives under various sections of income tax show that these incentives successfully promoted industrial dispersal and led to structural transformation of backward areas. However, the backward areas of developed states benefited more.

The transport subsidy is available to all industries in remote and hilly areas and have no special advantage for SSIs vis-a-vis large industries. This subsidy helps in reducing operational cost of industries and is more important from the point of view of regional dispersal rather than growth of industries in terms of growth indicators mentioned earlier. In this respect also, micro level data will be used to see whether the industries utilising these transport subsidies have lower operational cost and thereby higher growth as compared to other small scale industries in the same areas.

Besides these fiscal incentives, there is a list of 836 items reserved for exclusive production in SSI. Whether the items produced under this reserved category are performing better than those not under this category will be seen with the help of primary data.

All the above fiscal incentives given to small scale industries have to be evaluated from the viewpoint of their efficiency and efficacy. In order to judge the efficiency of the incentives we look at the growth perspective of SSI which can be evaluated in terms of growth of output, employment, investment, number of units, exports, size and productivity.

### **Data Sources and Framework for Analysis**

In India, information on variables like production, number of units, investment, employment, returns to capital and labour, and exports for the manufacturing sector is available from several sources, such as (1) National Accounts Statistics (NAS) brought out by CSO, (2) Data compiled by the Planning Commission, (3) Annual Survey of Industries (ASI) prepared by the CSO, and (4) SIDO statistics prepared by the Small Industry Development Organisation.

1. The NAS gives Net Domestic Product (NDP) at factor cost for unregistered and registered manufacturing.

2. In the Eighth Five Year Plan and Annual Plans of the Planning Commission, the data is available for village and small industries on the basis of the following classification :

- a) Traditional Sector comprising industries with activities like handloom, coir, sericulture, handicrafts, and cottage industries
- b) Modern Sector comprising small scale industries and power looms.

3. The Annual Survey of Industries (ASI) publishes summary results for entire factory sector and has detailed data according to capital size and employment classification. ASI statistics cover only the establishments falling under the Factories Act (FA), 1948, that is, units with 10 or more workers using power and 20 or more workers without using power. In this case, most of the units falling under the small category get excluded because most of the SSI units employing less than 10 workers are not registered under the FA. The 1987-88 census for the small scale sector shows that only 7.3 per cent of the units covered in the census fall under the Factories Act. but their share in employment was slightly more than 30 per cent of total employment, share of output was approximately 45 per cent and share of investment in fixed assets was 33 per cent<sup>4</sup>. Except for labour intensity (persons employed per lakh rupees of fixed investment), all other technical coefficients like output per unit of investment, output per person employed, and gross value added per unit of fixed investment were all higher in small scale units registered under the Factories Act than those not registered under FA implying that the importance of small scale units under the Factories Act cannot be undermined.

4. Finally, SIDO statistics for the small scale industry are based on the capital size definition (Chapter I, Annexure 1). Data on the variables mentioned above can be either obtained from the two All India Censuses for Small Scale Industries conducted in 1972 and in 1987-88 or from the yearly data which are estimated on the basis of the units registered

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<sup>4</sup> There is a possibility that the Census underenumerated large units coming under FA, as large number of units in FS, though satisfying the investment criterion, are not registered with SIDO. This is supported by the fact that 1987-88 census reported approximately 43 thousand units in factory sector, however, ASI data shows 93 thousand units are below SSI investment limits and fall under the SSI in factory sector.

with the Development Commissioner, Small Scale Industries.<sup>5</sup> In estimating production, employment and investment, from SIDO data, the contribution of a large unregistered sector is missed out. As incentives are available to the registered units only, a study of the growth of this sector will be useful to assess their impact on the growth of SSI.

All the above sources use different classification criterion and different definitions to define small and, hence, a comparison between them may not be very meaningful. There have been several studies in the past using different sources and different definitions to assess the growth of SSI (Goldar 1985, Ahluwalia 1991, Little et.al 1987, Sandesara 1992 and Gang 1995). Most of these studies use the employment definition to define small and work out the productivity and trend analysis. The data covered in these studies are prior to 1988.

The small scale industry for the present study has been defined as comprising units having investment in plant and machinery below the ceiling prescribed by the DC(SS)I (Chapter I, Annexure 1)<sup>6</sup>. Three types of comparisons have been made. Firstly, ASI data are used to make a comparison between large units in factory sector ( *large (FS)* ), with SSI in the factory sector ( *SSI (FS)* ), latter being synonymous with larger SSI. Secondly, SIDO data comprise SSI (FS) and other registered units which are mostly small & tiny units. As more than 90% of registered units are not FS units, hence *SSI (SIDO)* may said to be weighted towards smaller SSI. Third, data from the plan documents on village and small industries (VSI) are used for a comparison between *modern SSI* (excluding powerloom) and *traditional industries*.

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<sup>5</sup> According to the VIIIth plan scheme on collection of statistics, EFC note, Development Commissioner Small Scale Industries, the yearly estimates for production, employment and investment were provided on the basis of 20 per cent sample of registered units in 1981 and, thereafter, on the basis of units found working in the earlier rounds and the 20 per cent sample survey of the new units registered with SIDO. After the 2nd All India census, a sample of 10 per cent from the working units from the frame of 2nd All India census was to be taken. However, after the changed sampling design, the effective sample size was expected to be 15 per cent.

<sup>6</sup> To define small for ASI data by using capital size definition, the cut off limits for large and small are on the basis of original value of plant and machinery. Price deflation has not been used here. The unspecified category has been included in small scale sector on the basis of the statement "it can be assumed that unspecified group of factories, i.e., those which did not furnish figures on investment in plant and machinery would belong to the lowest size class" (ASI, 1991:21).

## Growth of Small Scale Industry

In order to judge the growth of SSI we rely on the growth of certain key variables like the growth of the number of factories, output, employment, investment and exports besides the productivity and size of these industries. Data for these variables are presented in Appendix II, Series A.

Table A.1 presents time series on gross output, employees, capital, emoluments and number of factories from 1980-81 to 1991-92 for small, large and all factories using ASI data. Time series for the above indicators are computed at constant prices by using suitable deflators<sup>7</sup>. The average annual growth rates are also presented for almost 2 equal sub-periods : 1980-81 to 1984-85 and 1985-86 to 1990-91. Growth rates between 1990-91 to 1991-92 have also been worked out. This is done to see if there was any impact on growth of any major policy change or change in general economic conditions.

The SIDO statistics have data for 1980-81 to 1994-95 on modern SSI. The trends along with their rates of growth of output, investment, employment and number of units are obtained at constant prices by using suitable deflators (see footnote 7) and are presented in Table A.2. A period-wise analysis has also been done.

The plan data are presented in Table A.3 for the years 1984-85 and thereafter for 1989-90 to 1993-94. The data are available for production, employment and exports. The share of each of the sectors have been worked out in order to compare the growth of traditional industries vis-a-vis the modern SSI (excluding powerlooms). Growth rates have also been worked out for both sectors for period before 1990s and after 1990s and also for the entire period 1984-85 to 1993-94.

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The wholesale price index is used for deflating gross output, consumer price index for machines and tools for deflating capital stock. Capital stock is measured by using the perpetual inventory method (Goldar, 1985). The returns to capital is calculated by using the formula  $(V-WL)/K$ . Where V is the Gross Value Added, WL is the emoluments paid to employees and K is the capital stock.

## ***Growth in Units***

### *Large (FS) vs. SSI (FS) :*

The ASI data show that of the total units in factory sector, the SSI (FS) comprise more than 80 per cent of all factories every year. During 1980-81 to 1991-92, the growth rates for the number of small units show no significant trend and have remained almost constant. We would have, in fact, got a declining trend if instead of capital size limits to define small we had used the price deflators to obtain these limits.

While the small sector show no significant change in the number of units registered under the Factories Act, the large sector show a rise in the rates of growth from 12 per cent between 1980-81 to 1984-85 to 15 per cent between 1985-86 to 1990-91 with an overall trend growth rate of 8 per cent per annum for the period 1980-81 to 1991-92 (Table A.1).

### *SSI (FS) vs. SSI (SIDO) :*

In contrast to the almost constant rate of growth for the SSI (FS), the SIDO results show that the average annual rates for growth of registered units is 10.3 per cent per annum during 1980-81 to 1993-94. If we include the unregistered category (those not registered with various District Industries Centre) then the growth rates would have been even higher.

While the SSI (SIDO) grew at an average rate of 10.3 per cent per annum for the period 1980-81 to 1993-94, there has been a decline in the rate of growth from 11.5 per cent between 1980-81 to 1984-85 to 10.9 per cent between 1985-86 to 1989-90, to 8.7 per cent between 1990-91 to 1993-94 (Table A.2).

The above findings could be due to the following reasons :

- a) A rise in the number of large factories shown by a trend rate of growth of 8.1 per cent per annum between 1980-81 and 1991-92 could have been even higher if instead of SIDO limits to define small we had used the investment limits obtained from the deflation factor. This positive rate of growth for the large scale sector (except for the three years : 1980, 1985 and 1991 in which there has been a definitional change) and almost no growth in SSI (FS), could imply that the larger SSI move into the large scale category. This may be possible because once they attain a certain level of output and do not manage to get competitive benefit of staying in the small scale purview, that is, where they could get

concessions, they may then invest more in plant and machinery and begin to fall under the large category. Little et.al suggest that larger SSI have the potential to grow, but within the small scale purview and hence, raising the investment and output limits give them the opportunity to grow. According to them movement into the large category would be restricted as these tiny units would lose the competitive advantage which they get by staying small.

b) There is also a possibility that some of the larger SSIs shrink in size and move outside the factory sector. However, the size data for SSI (FS) as shown in Table A.10 seem to support the hypothesis of increasing size of SSI (FS). At the same time decreasing size of SSI (SIDO) as shown in Table A.9, seem to suggest that not many small units are able to move to SSI (FS) category and therefore, the number of units in SSI (FS) do not register any growth.

c) A significant increase in the number of units registered with SIDO, seem to be because of those small units which might have simply cropped up due to certain investment incentives prevalent during the 1980s. This could be supported by the falling size of SSI (SIDO). There could also be a high incidence of closures among these small units (as indicated by 1987-88 census, where we find that of the total 10.6 lakh units identified in the frame, estimation could be done from only 5.8 lakhs working units ) which were not deleted from these registration records and may tend to inflate the figures for SSI (SIDO). However, this should not affect the growth rates. Also on comparing 1972 and 1987-88 censuses we find a 282 per cent increase in the number of new units (Sandesara, 1993). Hence, the number of smaller units are definitely increasing and the few which do manage to become large may move to the medium and large scale category.

d) Slower growth rate of units registered with SSI (SIDO) during late 1980s and early 1990s may be due to withdrawal of certain concessions that were given to SSI earlier. e.g., Interest Subsidy Scheme for Engineers was withdrawn in 1985 and Central Investment Subsidy was withdrawn in 1988. Even though the Subsidy for Engineers may not have benefited too many entrepreneurs (slightly more than 300 till 1992) the Central Investment Subsidy (CIS) used for setting up units in backward areas seem to have had a positive effect

on the growth of small scale units. From the two All India Censuses for Small Scale Industry we find that against 35 per cent SSI units in backward areas in 1972, the proportion increased to 62 per cent in 1987-88. Further, for some other subsidies like Subsidy for Educated Unemployed Youth (SEEU), the sanctioned number of units and disbursement amounts were much lower in later periods. Till 1993-94, it is found that 16.4 lakh of units were sanctioned this subsidy out of which approximately 5.4 lakh can be estimated to have come up for industrial and service activities. Out of the cumulative 17.7 lakh units registered with SIDO in 1993-94, 5.4 lakh units are estimated to have been set up due to this subsidy (Interim Report, 1995). The performance of these units could help us in considering whether the subsidy of this kind (now subsumed under PMRY) should be continued to set up new units. It is very difficult to estimate whether the cost of this subsidy to the Government in terms of (1) RBI subsidy and (2) irrecoverable loans is lesser than the benefit which would accrue from the point of view of employment generation and productivity gains. On the whole, we can say that the direct subsidies have a positive effect in setting up of new units.

#### *State-wise Data :*

At disaggregated level, we have state-wise data for the cumulative number of units registered with SIDO. Most of the states show a significant growth rates of over 10 per cent during 1980-1992 (Table A.4). During 1980-92, states like Himachal Pradesh, Orissa, Rajasthan, West Bengal, Delhi and some North-Eastern states showed a compound rate of growth of less than 10 per cent per annum; among them West Bengal and Manipur recorded a growth rate of only 3 per cent.

Looking at the percentage share, we find that for some of the industrially developed states like Gujarat, Maharashtra, Tamil Nadu, West Bengal and Punjab the share of small scale sector has been falling, between the two censuses (Sandesara, 1993). Table A.4 shows that after 1988 their share have marginally improved except in Maharashtra, Punjab (which could have been affected by terrorism) and West Bengal. Uttar Pradesh, which is not among the industrially developed states accounts for major share of all units registered with SIDO followed by Madhya Pradesh, West Bengal, Punjab and Tamil Nadu. This could have been due to the subsidies available to units in these States. If we look at the reimbursement made under the Central Investment Subsidy, we find that Uttar Pradesh has got the maximum amount followed by Madhya Pradesh, Tamil Nadu and Andhra Pradesh (Interim Report.

1995). Even in case of SEEU, we find that for almost all years the largest amount and the number of units sanctioned this subsidy are in Uttar Pradesh. Tamil Nadu and Madhya Pradesh are also significant beneficiaries of this subsidy (Interim Report, 1995). Hence, these subsidies have a direct effect in setting up of units in these states. However, Bihar, Maharashtra and West Bengal which are other significant beneficiaries of this subsidy have not been able to increase their share of registered units significantly. In fact, in case of Maharashtra and West Bengal it has been falling continuously from 1980 onwards.

### ***Growth in Employment***

Employment generation is considered to be the main objective of SSI. Tables A.1, A.2 and A.3 reflect the employment generating potential of large vs. SSI (FS) and SSI (SIDO) and modern vs. traditional industries. The major findings are:

#### *Large (FS) vs. SSI (FS):*

Of the total units in factory sector, SSI (FS) contributes about one-third to half of the total employment. Though the 1970s saw a positive growth of 5.1 per cent for the small sector and 4.6 per cent for the large sector, there was a decline of 2 per cent for SSI (FS) during the first half of the 1980s and thereafter it increased only marginally. Even in the large sector employment grew at a marginal rate of 1 per cent per annum during the period 1980-81 to 1991-92 (Table A.1).

#### *SSI (FS) vs. SSI (SIDO) :*

In contrast to the growth in SSI (FS), the growth of employment in SSI (SIDO) is quite impressive. The employment has increased from 71 lakhs in 1980-81 to 139.4 lakhs in 1993-94 showing a trend rate of increase of 5.5 per cent per annum. When the whole period is divided into three sub-periods, the growth in employment is observed to be marginally lower at 5.8 per cent during 1985-86 to 1989-90 compared with 6.1 per cent during 1980-81 to 1984-85. The growth in employment generation further declined to 4.2 per cent during 1990-91 to 1993-94 (Table A.2). This shows that the small scale sector has not been able to keep pace in generating employment at the level at which it generated during the 1980s.

*Traditional Sector vs. Modern SSI (excluding powerloom) :*

The share of traditional industries in total employment from the VSI sector is approximately 60 per cent and modern SSI accounts for only 30 per cent (Table A.3). The overall growth rate has also been marginally higher at 4.9 per cent for traditional industries as compared to 4.4 per cent per annum for modern SSI between 1984-85 to 1993-94. After 1990-91, the growth of employment in modern SSI has been slower whereas, in the traditional industries, it is increasing.

*Reasons for slow growth in employment:*

- a. One can cast doubts on the employment generating potential of larger SSIs. It seems that during the 1980s substantial investment incentives induced the small producers to displace labour by capital. This would support the view extended by Gandhi (1987) and Lim (1992) that investment incentives provide substantial subsidies to capital, making labour relatively more expensive.
- b. Some of the incentives like SEEUY were given to set up new units. Most of these new units would tend to be smaller in character, such that they will not fall under the Factories Act. But, at an estimated 5.4 lakhs units with an average employment of 2 persons per unit, this subsidy would create an employment of 10.8 lakh, which would increase the growth of employment in SSI (SIDO) during the 1980s. The decline in growth of employment in SSI (SIDO) during the 1990s could be due to decline in the subsidies to set up new units.
- c. In comparison to the modern SSI, the traditional industries have greater labour absorption capacity. Also, a declining rate of growth in employment after 1990s for modern SSI shows that the impact of SAP (Structural Adjustment Programme) and global recession is felt more by the modern SSI than the traditional industries. This also indicates higher displacement of labour in the modern SSI vis-a-vis the traditional industries.

### ***Growth in Production***

The major findings based on data from ASI, SIDO and Planning Commission reports can be listed as follows:

#### *Large (FS) vs. SSI (FS) :*

Table A.1 shows that output in the large sector during 1980-81 to 1991-92 has been growing at a higher average annual rate of growth of 9.3 per cent per annum as compared to 5 per cent in SSI (FS). In terms of period-wise break up, we find that in both large and small industries in factory sector, the growth of output was higher during 1985-86 to 1990-91 as compared to 1980-81 to 1984-85.

#### *SSI (SIDO) :*

From SIDO data in Table A.2 we find that at 1981-82 prices, the production from SSI is seen to grow at a trend rate of 10.6 per cent per annum during 1980-81 to 1993-94. Production between 1990-91 and 1993-94 grew at a much slower pace at 6.7 per cent per annum as compared to 13.1 per cent during 1985-86 to 1990-91 and 9.5 per cent during 1980-81 to 1984-85.

#### *Traditional Industries vs. Modern SSI (excluding powerloom):*

Within the VSI sector we find that modern SSI is performing better than the traditional industries having about 80 per cent of the share in production. However, after 1990-91 we find that share of modern SSI in total VSI is declining while that of traditional industries is increasing (though at a slower pace). The overall growth rate in production has been marginally higher at 6.2 per cent for SSI as compared to 5.9 per cent for traditional industries between 1984-85 to 1993-94.

#### *Possible reasons for above findings:*

a The increase in output during the second period may be more due to a general change in economic climate after 1985 with more liberalised trade and fiscal policies of the Government. A step towards liberalisation with improvement in infrastructure leads to

flexibility in production which helps to facilitate technology upgradation. Increases in production in SSI could have been due to these policies.

b Expansion of markets and liberalisation of exports could also have led to increase in output.

c Increases in growth of output could also be due to increases in total factor productivity (TFP). In Table A.5, equation set I represents CES production function, for both large and small units in factory sector. In the two equations the coefficient of labour is found to be not significant showing absence of scale economies and diseconomies. The coefficient of time trend is significant and suggests a TFP growth of 4 and 5 per cent per annum respectively for the small and the large scale sector. However, the number of observations are small to comment firmly on this but the result is in line with that estimated by Ahluwalia for organised sector where she finds a 3.4 per cent growth in TFP in the first half of 1980s as compared to no growth in earlier periods. Increases in TFP have been attributed to increases in labour productivity and no decline in capital productivity (Ahluwalia 1991).

d The increase in output of SSI (SIDO) could either be due to increase in number of units or increases in output per unit in SSI (FS). However, the decline in growth rate of production in early 1990s may either be due to a slower growth of units after 1990s or due to the recessionary climate of the early 1990s. RBI Report on Currency and Finance (1992-93) reports that the deceleration in production (and employment) in 1991-92 could be attributed to combined affect of a number of factors including import restrictions, credit squeeze and hike in rate of interest on bank advances.

#### *Industry wise growth:*

At the disaggregated level the data on index of industrial production are available industry wise. It can be seen that the food products and leather-product industries were the fastest growing in the small scale sector with a trend rate of growth of over 20 per cent per annum between 1980-81 and 1992-93. Wearing apparel, wood and wood products, non metallic mineral products and metal products also show a significant growth rate of over 10

per cent per annum during the same period (Table A.6). The food product, chemical and chemical product and basic metal industries account for major share of SSI production<sup>8</sup>. Therefore, a fast rate of growth in these industries gives a major impetus to small scale industry.

### ***Growth in Capital***

#### *Large (FS) vs. SSI (FS):*

Table A.1 shows that in both the small and large sector there has been a substantial growth in the gross fixed capital at the rates of 14 per cent and 15 per cent per annum respectively. Even though the large sector is showing an increasing growth of capital, in SSI (FS) there has been slowing down in the rates of growth during 1985-86 to 1990-91 as compared to the period 1980-81 to 1984-85.

#### *SSI (SIDO):*

For SIDO data figures on investment are available only till 1988-89 and on the basis of past trends they have been estimated thereafter. In real terms this shows a growth of 6.4 per cent per annum with 4.1 per cent per annum during 1980-81 to 1984-85 and 8.2 per cent per annum during 1985-86 to 1988-89.

#### *Reasons*

a. Increases in capital in large and small units of factory sector could be due to Government policies to encourage investment through low rates of interest. Depreciation allowance and deductions from profit tax have an effect of reducing effective tax rate of capital intensive projects (Ahluwalia, 1991). A lower growth rate in the accumulation of capital in late 1980s in SSI (FS) as compared to the early 1980s could be due to better utilisation of capital, as reflected by the slowing down of the decline in productivity of capital in the latter half of 1980s.

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<sup>8</sup> The share of production of SSI in food product, chemical and chemical products, and basic metal industries was 22 per cent, 12 per cent and 10 per cent respectively in 1987-88 (calculated from 1987-88 census). Leather products account for only 2.4 per cent share of production from SSI.

b. Again, a high rate of growth of capital could be due to the investment incentives in the 1980s which made the capital relatively cheaper vis a vis labour. This is also supported by figures for employment and total emoluments. Even though employment is not growing, the total wages during 1980-81 to 1990-91 are growing at the average annual rates of 2.1 per cent and 3 per cent for small and large sectors respectively (Table A.1), indicating that the cost of labour was increasing. Hence, the tax and investment incentives that existed during the 1980s were more capital augmenting than employment generating (Gandhi 1987). This could also be supported by greater than unitary elasticity of substitution estimated by using CES production (results given in equation set II, Table A.5). The coefficient of wage rental ratio is found to be significant, positive and greater than one. Little et.al (1987) also estimated the elasticity of substitution to be greater than unity.

c. Since the SIDO data show that there has been higher growth in investment in late 1980s, it is more likely that the increase in investment was partly due to setting up of new units guided by the incentives like SEEU and partly as a result of increase in investment in already existing units. Increase in gross fixed capital (GFC) per unit in large SSI could imply that the investment is also increasing in the already existing units and as already seen from 1987-88 data, the SSI (FS) accounts for about a third of total investment in registered units with SIDO.

### *Growth in Exports*

The importance of the small scale sector can also be judged by its contribution to the external sector. According to the 1993-94 Economic Survey, small scale sector contributed about one third of the country's total export, acting as an important foreign exchange earner. The data for exports are given in Table A.7 and Table A.8.

#### *Exports from Modern SSI in Total Exports:*

At current prices, exports from SSI increased from Rs. 1643 crores in 1980-81 to Rs. 24000 crores in 1993-94 which showed that its share in the total exports from the country increased from 24.5 per cent in 1980-81 to 36.4 per cent in 1993-94. When changed to

constant 1981-82 prices using the unit value index for exports, the exports from SSI are found to grow at a rate of 8.4 per cent per annum.

The period wise trend growth rates show that the exports from SSI increased maximum after 1985 at the rate of 11.6 per cent per annum between 1985-86 to 1989-90 after recording a negative growth rate in the early 1980s. After 1990-91, the rate of growth has been 18.2 per cent per annum.

The export intensity, defined as the export to production ratio declined from 6 per cent in 1980-1981 to 4 per cent in 1990-91, implying that a proportionately greater share of production is going in domestic consumption. However, after 1990-91, the ratio started to increase again and reached the level of 6 per cent in 1993-94.

*Modern SSI (excluding powerloom) vs. Traditional Sector:*

The share of the traditional industries and the modern SSIs in total VSI exports have remained almost same (Table A.3). For the period 1984-85 to 1993-94 the growth rate in traditional sector is higher at 9.6 per cent per annum as compared to 8.6 in modern SSI. The export intensity of the traditional sector is also much higher as compared to modern SSI (Table A.12).

*Reasons*

- a. The increasing rate of growth of exports after 1985 shows that small sector has responded to the general change in the economic climate where liberalisation has become a hallmark. After 1991, the rate of growth of exports has been faster and export intensity also began to rise after a initial decline between 1980-81 and 1990-91, implying that SSIs are also responding favourably to the export incentives (Gang, 1995).
- b. Higher export intensity of traditional sector vis a vis modern SSI shows that traditional sector is a more important source for earning foreign exchange whereas, a greater proportion of output of modern SSI is used for domestic consumption.

At the disaggregated level, the data are presented in Table A.8 according to the growth of exports in major industries. The percentage share of SSI exports in the total exports from these industry groups are given for 1991-92 and 1992-93. We find that the major growth has taken place in basic chemicals, pharmaceuticals and cosmetic industries. The other industries with a per annum rate of growth of more than 20 per cent in exports are leather and its products, ready-made garments, and processed tobacco and beedi. The percentage share of the SSI sector in the total exports is 100 per cent for sport goods followed by 90 per cent for ready-made garments and 83 per cent for leather products. Chemicals and pharmaceuticals accounted for 51 per cent share in 1991-92 which is likely to increase further considering the high growth rate that these industries are experiencing.

### ***Size of the unit***

The average size of the small industry has been measured in terms of employment per unit, output per unit and fixed capital per unit. Data are presented in Tables 9 and 10.

#### *Large (FS) vs. SSI (FS) :*

In terms of the size of the unit we find that SSI (FS) has been performing better than the large sector on almost all the variables. Even though the employment per unit has fluctuated around 32 employees for the small sector (average annual rate of growth is 0.1 per cent), it has significantly fallen from 753 employees in 1980-81 to 266 in 1990-91 for the large sector, showing a decline in average annual growth rate of 9.2 per cent per annum (Table A.10). This could be quite worrying as two-third of the factory sector employment comes from the large sector. Several factors like rising real wage rates in the factory sector, or factories employing more contract labour, or resistance from the management to employ more labour due to trade unions could be responsible for this. Even though the employment per unit has been declining, capital per unit has been increasing in both the large sector and in the SSI (FS). However, the rate of growth of gross fixed capital per unit in SSI (FS) is 14 per cent as compared to 4 per cent per annum in large sector. In both sectors the rate is slowing down in the second sub period as compared to the first sub-period. This could be representative of the fact that small sector responded favourably to the greater investment

incentives that existed during the first half of the 1980's or capital was becoming more efficient in the second half of the 1980s as shown by capital productivity figures in Table A.11. The performance of SSI (FS) was better, even in terms of output per unit with a rate of growth of 5 per cent as compared to a declining rate of 1.5 per cent in the large sector. It is difficult to assess whether this increase in output per unit was due to increase in limits in excise concessions. However, output per unit does grow at a faster rate in latter periods as compared to early 1980s which could mean that raising the limits help to increase the output per unit. When we compare 1988-89 data with 1993-94 data for estimated excise clearance and revenue from small scale sector, we find that though the total number of units benefiting from the excise concessions have fallen from 35,651 to 31,700 units, the number and percentage of units with turnover less than 30 lakhs is falling and those with turnover greater than 75 lakhs is increasing. Hence, increased limits do seem to help in increasing production per unit in SSI (FS). In comparison growth in output per unit in large sector has been declining in all the periods. This shows that in terms of size, SSI (FS) has been performing better than large sector and has the potential to grow larger.

*SSI (FS) vs. SSI (SIDO):*

The above analysis shows that the size of SSI (FS) has been increasing, except in terms of employment where it has remained constant. In contrast, the size of SSI (SIDO) has declined during the period 1980-81 to 1993-94 where production per unit fell by 0.3 per cent per annum, employment per unit fell by 4.9 per cent per annum and investment per unit fell by 1.1 per cent per annum (Table A.9). This looks paradoxical because during this period there have been two upward revisions in the definition of SSI and therefore the size of SSI should have increased over time. The SSI (FS) data supports this, where we find that the size of the larger SSI, especially in terms of capital is increasing. Therefore, our hypothesis that the small is going smaller and big is going bigger among the SSIs seem to hold good. The decline in per unit ratios of SSI (SIDO) could be due to the fact that a number of units simply register for availing the incentives without being really involved in the production or employment activity. Also, a large number of units which might have closed down may not have been removed from the list<sup>9</sup>. Employment per unit could also decline when a large

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<sup>9</sup> As mentioned earlier, in 1987-88 census, we find that out of the 10.6 lakhs units in the frame only 5.8 lakhs were found to be working.

number of small entrepreneurs run very tiny units and even those who have the capacity to grow do not increase the size of their operations in order to avoid labour regulations.

### *Productivity of SSI*

Even though the size of the larger SSI is increasing and that of smaller SSI is shrinking, the real performance can be judged in terms of productivity indicators. Data are presented in Tables A.9 and A.11.

#### *Larger (FS) vs. SSI (FS):*

In both, large and SSI (FS) the capital intensity is increasing at the rate of 14 per cent per annum, representing capital deepening process which, in turn, could lead to technological progress. This also means that in both the sectors there has been an increasing substitution of labour by capital. This is inspite of the fact that productivity of labour is increasing at the trend rate of 6 and 7 per cent per annum in small and large sectors respectively and productivity of capital is declining at the rates of 7 and 5 per cent respectively between 1980-81 to 1991-92 (Table A.11). Even though the productivity of capital is declining more for SSI (FS) as compared to the large sector, the higher productivity of capital in the former for all the years is representative of the fact that SSI (FS) has better utilisation of capital.

The sequence of increasing capital intensity, declining productivity of capital, and increasing labour productivity could have been due to the following reasons :

a Units are responding to the investment incentives given by the state and general change in economic policy during the 1980s could also have led to substitution of capital for labour.

b This is also accompanied by a high growth in wage rates and wage rental ratios (7.2 per cent and 6.6 per cent per annum respectively for small and large sector) which could also have led to the substitution of labour by capital. This is supported by equation set II of Table A.5 where we find that the coefficient of wage rental ratio which represent the elasticity of substitution of capital for labour are significant and greater than one. However, SSI (FS) has still a lower capital intensity as compared to large, implying they use more labour intensive methods of production.

c In the small sector where there was a high rate of growth of capital, the ability of this capital to produce output at the same or higher rate could be limited by some of the excise concessions which put upper limit on clearances or turnover to obtain concessions. This point would be worth exploring using the primary data.

In short, we can say that the SSI (FS) has been quite efficient in the 1980s where the size of the units have been increasing and the capital deepening process is also accompanied by higher labour productivity. The capital productivity is declining but it is higher as compared to the large scale sector.

#### *SSI (FS) vs. SSI (SIDO)*

In terms of technical coefficient we find that in SSI (SIDO) the investment-production ratio (K/O) continuously declined over time from 0.22 in 1980-81 to 0.14 in 1988-89 and thereafter remained constant (Table A.9). The falling trend of K/O ratio is indicative of the fact that utilisation of capital was quite efficient. The reciprocal, that is, the production-investment ratio which is roughly an indicator of capital productivity increased at the rate of growth of 3.6 per cent per annum. This result is different from SSI (FS) where the capital productivity is seen to be declining. Even when we find the investment output ratio for SSI (FS) it is seen to be declining at the rate of 1.9 per cent per annum. This shows that in smaller SSIs there has been more productive utilisation of capital as compared to large SSIs. The increase in efficiency of SSI (SIDO) could also be seen through rising trend of labour productivity. Labour productivity has increased at the rate of 4.8 per cent per annum during 1980-81 to 1993-94 (Table A.9). The rising labour productivity is also accompanied by rising trends in capital intensity. Capital intensity (here defined as investment labour ratio) is an important indicator of technological change and is found to have increased at a rate of 1.2 per cent per annum. Thus it is apparent that increasing application of capital was accompanied by significant improvement in technological advances. Capital substitution, instead of labour, seems to have become a dominant feature of growth of SSI in India. The trends have further sharpened during the early 1990s. This indicates that though the larger SSIs are growing in size, the efficiency of the smaller SSIs is better. This result is found to be different from that derived by Little et. al (1987) where they find that medium size industries (in terms of employment) are the ones which are performing best.

## Main findings and conclusion

The main findings showing the growth rates for large sector, small sector and traditional industries are presented in a summary table below.

**Growth rates (per cent per annum) of Large, SSI (FS), SSI (SIDO), Modern SSI and Traditional Industries**

	Large (FS)	SSI (FS)	SSI (SIDO) 1980-81 to 1993-94	VSI	
				Modern SSI	Traditional Industries
	1980-81 to 1991-92			1984-85 to 1993-94	
Units	8.1	0.5	10.3	-	-
Employment	0.7	0.1	5.5	4.4	4.9
Investment	14.1	13.7	6.4*	-	-
Production	8.0	6.0	10.6	6.2	5.9
Exports	-	-	8.4	8.6	9.6
<b>Size@</b>					
Employment / Unit	-9.2	0.1	-4.9	-	-
Capital / Unit	4.0	13.8	-5.6	-	-
Output / Unit	-1.6	5.1	-0.3	-	-
<b>Technical Coefficient</b>					
Output / Employment	7.2	6.1	4.8	1.7	1.0
Output / Capital	-5.4	-6.7	3.8	-	-
Fixed capital / Employment	13.3	13.8	1.15	-	-
Exports / Output	-	-	-3.8	2.3	3.4

- Notes :**
1. The figures in the table are trend rates of growth, except where otherwise mentioned
  2. \* Based on investment figures 1980-81 to 1989-90
  3. @ For Large (FS) and SSI (FS), average annual growth rates have been worked out.
  4. - Data not available.

### *Large sector vs. SSI (FS)*

While the number of units remained almost constant for SSI (FS), the large sector show a growth rate of over 8 per cent. This could have been due to the shift of SSI (FS) into large sector, or they may even shrink into the smaller category if they are not able to compete. Also, it seems very few units may be moving from SSI (SIDO) to SSI (FS) as the smaller SSIs are found to be falling in size.

In terms of employment generation also SSI (FS) has shown no growth and even the large sector has shown only marginal growth. This is accompanied by rising wages and also increasing labour productivity in both the sectors. This means that even though labour is becoming more productive, it is also more expensive especially in terms of capital where the various incentives like depreciation allowance, low rates of interest and tax concessions lower the price of capital vis-a-vis labour. This leads to substitution of capital for labour which is reflected in the higher growth of capital in both the sectors and also greater than unitary elasticity of substitution. In terms of output, both the sectors have been growing at a positive rate, but the growth in output has not been able to keep pace with the growth in capital leading to a decline in productivity of capital. To a limited extent this could have been due to the excise concessions which can limit the output of a unit to a level beyond which concessions are not available or available to a lesser extent. However, increasing output per unit of SSI (FS) does not really support this argument.

In terms of size we find that SSI (FS) is performing better than the large factory sector. The large sector is showing a declining size in terms of both output and employment and a positive growth in terms of capital. In contrast, SSI (FS) is increasing in size for all variables but only marginally in terms of employment. This shows that SSI (FS) has the potential to grow in size. That the SSI (FS) has the potential to combine the factors in the best possible way and generate greater output, is also suggested by growing capital intensity which is an indicator of technological progress, rising labour productivity and increasing total factor productivity (TFP). TFP is increasing at the rate of 4 per cent and 5 per cent for small and large sectors respectively. The only point of concern is declining capital productivity which suggests that investment incentives are lopsided, which tend to make the units accumulate capital without being able to put to productive use. Figures on capacity utilisation

could shed some light on this, but it does seem that production is limited by upper ceiling on excise concessions.

#### *SSI (FS) vs. SSI (SIDO)*

When we compare the two, we find that the SSI (SIDO) is growing faster than SSI(FS) in terms of number of units, employment and output. Since SSI (FS) is a subset of SSI (SIDO) and as the number of units and employment have remained almost constant in SSI (FS), hence the entire growth in SSI (SIDO) can be attributed to the smaller SSIs. The larger growth in the number of units and hence higher employment in SSI (SIDO) could be attributed to incentives like SEEUY and CIS which encouraged initial setting up of units. State-wise data also suggests that the states which have got the maximum subsidy are the ones which have the highest growth of units. However, this high growth in number of units could be a cause of the declining size of SSI (SIDO). The decline in output per unit in SSI (SIDO) could be due to the limits placed by the excise concessions. The declining size of SSI (SIDO) as compared to the positive growth in size of SSI (FS) indicates large is becoming larger and small is becoming smaller leading to a missing middle. In spite of the declining size, SSI (SIDO) is performing good in terms of productivity indicators. Rising capital intensity, indicating technological progress is accompanied with rising capital and labour productivity. However, SSI (FS) which is a subset of SSI (SIDO) is showing a declining capital productivity which implies that capital is being used more productively in the smaller SSIs. Labour productivity is, however, higher in SSI (FS) as compared to SSI (SIDO), probably due to better working conditions.

#### *Traditional Sector vs. Modern SSI (excluding powerloom)*

The traditional sector has a high employment and export potential having about 60 per cent share of entire labour force and share about 50 per cent of exports from VSI. Even though the modern SSI is showing a marginally higher growth rates for production, the exports and employment are increasing faster for the traditional industries during the period 1984-85 to 1993-94. In terms of export productivity which represents the contribution of exports in its own output, we find that it has been declining for modern SSI between 1984-85 and 1990-91 after which it has increased at quite a fast rate. For traditional sector, export productivity has grown at a slightly higher rate till 1990-91 as compared to the period after

that. However, for the entire period the export productivity is much higher for the traditional sector as compared to modern SSI, implying a greater share of traditional sector output is used for exports, whereas a greater output of modern SSI is used for domestic consumption. In this sense, the traditional sector earns more foreign exchange for its output as compared to the modern sector. In terms of absolute values of labour productivity modern SSI has performed better than the traditional SSI. However, the growth rates for both the sectors have remained almost same.

### ***Conclusions***

The growth of units in smaller SSIs have been faster as compared to SSI (FS) which implied that entrepreneurs responded to incentives for setting up of new units.

In terms of providing employment, it is either the smaller SSIs or the traditional sector that plays an important role. The traditional sector is performing even better than small scale industries. Though the productivity of labour in all the sectors has been rising, it is coupled with declining size in terms of employment per unit, which imply that greater employment can be generated only from the new units.

It is also necessary to remove some of the lopsided investment incentives which tend to make the large and SSI (FS) units substitute relatively cheaper and unproductive capital for relatively expensive but more productive labour. Some of the incentives even limit the growth of output of the units.

The modern SSI has also been responding well to the export incentives, especially after 1991 when their shares in their own production has also been increasing. In fact before 1991, the exports share in the total production had been falling quite drastically which could have been one of the reasons for the dwindling foreign exchange reserves in 1989-90. The higher growth of export in traditional sector coupled with higher export productivity implies that traditional industries have played a very crucial role in earning foreign exchange.

In short, we can say that the small scale industries have been performing very well. If opportunities are there, then initiative exists. It can be seen clearly, from the point of view of employment generation and exports, traditional sector and smaller SSIs are performing better, and hence, they need to be encouraged. Even in terms of capital utilisation, smaller SSIs have higher productivity. Larger SSIs have the potential to grow but it seems that the unnecessary ceilings on their turnover for availing concessions, limits their productivity. It is also necessary to remove some of the lopsided investment incentives which tend to make the large sector and SSI (FS) to substitute relatively cheaper but scarce capital for more abundant labour.

In this context, it may be necessary to quicken the pace in setting up of growth centres where infrastructural and marketing facilities are provided, and new units could come up. In the context of globalisation it may be important for Government to intervene in the areas of information and technology which are two important instruments for growth and productive efficiency, and SSIs do not have the same access to these as compared to large industries. At the same time, the units could go in for flexible specialisation type of technology and develop horizontal and vertical linkages which are becoming important in the context of open economy [Schmitz 1995 and Nunjudan 1994]. Policy measures should be such as to encourage collective efficiency and promote setting up of new units. Traditional industries should also be promoted within the framework of growth centres.

## CHAPTER IV

### IMPACT OF CENTRAL INCENTIVES AND CONCESSIONS : SURVEY RESULTS

The overview of the various subsidies, incentives and support schemes exclusively for the SSI and also some overlapping with the large sector presented in Chapter II shows that the measures were concurrently in force over different time periods. In addition, there were the State level incentives of varying nature and for varying time periods, some overlapping with the central incentives. Assessment of the impact of individual measures thus becomes difficult. The analysis of secondary data in assessing the role of incentives in the growth of SSI attempted in Chapter III has therefore, been of a general nature inferring about specific time periods of growth coinciding with policy changes. The aggregative time series analysis using broad size groups further, is not capable of isolating the inter size migration of units and as such it is difficult to ascertain the validity of increase in small scale industrial units (SSIUs) say, from large to small or vice versa.

The need for a sample survey was felt because of the necessity to have incentive specific data at the unit level and infer from the size distributions of units the impact of individual measures from the cross sectional survey itself. Such distributions are not available from the secondary data sources.

An important factor to be reckoned with is the survival rate of the SSIUs which are known to be particularly prone to high entry and exit rates. To add to this the policy changes in the form of incentives and subsidies have been far too often and variegated. While this induces complexities and poses challenges for primary data collection, any conclusion about the efficacy of a particular incentive from the survey is subject to the very small size or in other words since survival rates are very low presumably at the lower tail of the skewed distribution it is difficult to net in sufficient survivors<sup>10</sup>, even if a large sample is aimed at.

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<sup>10</sup> This was resolved by providing a large number of substitute samples and in case a sampled unit was either untraceable or closed or shifted to a different locality, the sample was drawn from the list of substitute samples, a procedure if carried too far is vulnerable to sampling biases.

Considering again, in the universe of SSIUs some are registered with the District Industries Centres of respective States but a great many are not. In the latter category the household level enterprises not registering with the designated authorities but carrying on legitimate businesses comprise the bulk. The rest that is, the informal sector ventures enjoying cost advantages but with no bindings of any regulatory mechanism and hence evading taxes is an unmeasured entity, probably, contributing significantly to the total economy. In this study, based on the survey of registered SSIUs only a large chunk of the SSIUs suffering from lack of access to institutional support are excluded, the comparative performance of which with the formal sector would have been revealing.

Unit level data were collected from probability samples drawn for the selected centres in questionnaires seeking information on the important variables needed for assessing the impact of central fiscal incentives and financial concessions. As mentioned earlier, the survey covering all the selected centres was conducted in two phases, on each occasion using different sampling designs and questionnaires (see Appendix I). Following the changes in scope and coverage, this study is required to deal with only the central excise concessions, income tax concessions, central investment subsidy and transport subsidy. In addition, the protectionist policy of reservation of items for SSI is examined in this chapter. This chapter uses the pooled data of central excise concessions and on reservation of items for SSI of all the centres for analysis. As regards income tax concessions, out of 249 sample units in Phase I survey centres, only three reported as availing those concessions and hence are left out of discussion in Section I of this chapter. However, in a subsequent section an analysis is attempted on the basis of the few samples obtained in Phase 2.

There were in all four backward centres included in the study. Two of these viz., Moradabad and Ratlam did not respond to our attempts to obtain filled in questionnaires, although the field staff were duly given intensive training and the sample lists given to them for canvassing the questionnaires according to the scheduled phase of initiation of survey operations. The results for Kamrup and Nowgaon in Assam therefore, on the impact of central investment subsidy and transport subsidy could only be used for analysis.

## SECTION I

### ANALYSIS OF SURVEY DATA

#### General Considerations

Sandesara (1981)<sup>11</sup> has summarised principal, widely prevalent notions on technical and economic characteristics of small and large industry. The small units are said to have broadly higher average cost of production per unit of output, require less capital per worker, generate lower output per worker, have lower surplus per worker, generate higher output per unit of capital and lower surplus per unit of capital than large units, notwithstanding definitional and methodological differences.

Whatever be the hypotheses or propositions, it is clear that SSI differs from the larger sector and size of unit is crucial for any analysis. Our universe of study being the modern small scale sector excluding powerlooms and the issue as the impact of incentives/subsidies in the face of persisting competition between small units and large ones catering to the same markets and generally prevalent notion of relative inefficiency of the former than the latter, the protectionist and promotional policies are examined over the size of the units within the universe covered by the survey. For this purpose, three classifications viz., employment, investment in plant & machinery (P & M) and total fixed assets are used. Three important variables that is, employment, fixed assets (capital) and production (output) are selected for analysing the impact of individual incentives in this chapter based on the total sample via productivity measures and a few other ratios.

Related to promotion of employment viz tax measures, Dandekar Committee Report<sup>12</sup> (confining itself to broadly the village and small industries and hence more relevant for this study) inter alia goes into the rationale and purpose of indirect taxes, in particular exemptions and differential rates of concession provided in central excise duty. "The rationale of duty differentials is to place a handicap on the less labour intensive techniques so that the more

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<sup>11</sup> Sandesara, *op cit.*

<sup>12</sup> Report on the Expert Committee on Tax Measures to Promote Employment, Ministry of Finance, Department of Revenue, January 1980.

labour intensive techniques may survive the competition". It goes on to recommend however, that "enhancing employment by adoption of labour intensive techniques can be a temporary and transitional solution to the problem of unemployment: to the extent it has to be supported by fiscal means it involves public cost and hence productive contribution of the employment must be sufficient to reduce substantially the burden of relief ". The analysis presented in this report therefore, addresses itself to the employment potential inter alia among the various size groups to see whether the purpose of duty differentials in protecting the employment (besides removing handicaps) is served in the modern small scale sector.

In Section II using the more detailed data of Phase 2 survey operations, the differentials between the major cities and other districts are examined in respect of gross profits, working capital, inventory and capacity utilisation. In Section III, special cases from Phase 2 sample relating to sister units, brand name, quality of products and SSIUs satisfying the investment (in P & M) criterion but having output exceeding the ceiling for central excise concessions (referred to as 'Cream Cases') are discussed.

### **Characteristics of the Sample**

The sample reflects an overwhelmingly large number of tiny units ( 75 % ) with investment in plant & machinery (P&M) below Rs 5 lakhs<sup>13</sup>. In terms of employment however, there is an even spread over all employment size groups ( Table 1 ) with 55 percent below 10 workers and 45 percent in the group 10 workers or more. Interestingly, the units comprising the tiny group ( investment upto Rs 5 lakhs ) are spread over all the employment slabs indicating a mix of units using different technologies. As we move up the scale of investment there is a shift towards higher employment slabs meaning high positive correlation between investment and employment. No conclusion however, about labour intensive mode of production moving hand in hand with increasing capital size can be drawn from this distribution.

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<sup>13</sup> This is the result of proportional weights given in Phase 1 while allocating the total sample size over different classes of investment in P & M. However, disproportionate allocation of sample units in Phase 2 enabled us in getting some reasonable number of units in larger groups (see Appendix I).

**Table 1**

**Distribution of sample units by investment in P & M and by employment size**

<b>Investment in P &amp; M (Rs. lakhs)</b>	<b>Employment Size</b>				
	<b>1 - 4</b>	<b>5 - 9</b>	<b>10 - 19</b>	<b>above 20</b>	<b>Total</b>
Upto 5	113	174	83	63	433
5 - 10	3	17	16	28	64
10 - 20	2	7	8	20	37
20 - 60	0	3	9	28	40
60 and above	0	0	1	1	2
<b>Total</b>	<b>118</b>	<b>201</b>	<b>117</b>	<b>140</b>	<b>576</b>

**Note :** Out of 616 questionnaires received only 576 could be included in the analysis

Before moving to the more substantive aspect of assessing the impact of central fiscal incentives, a few ratios relating to key variables for units classified by employment slabs are examined (Table 2.1). Increase in per unit magnitudes of all the variables over employment range indicates that employment could be accepted as a valid measure of size for analytical purposes.

Table 2.1 shows that capital intensity measured by fixed assets per employee increases with employment size till 20 workers though slowly but drops thereafter and this behaviour holds good for labour productivity (production per employee) as well. There is however, a consistent increase in capital productivity over employment range. The smaller SSIUs are seen to be important from the point of view of larger employment potential ( number of employees per Rs 1 lakh of production ) compared to the medium and large SSI units.

When the sample units are classified by investment in P & M, the feature of increase in per unit values for all characteristics as observed via employment classification is displayed

except surprisingly in case of net value added. There is a significant drop for group Rs. 5-10 lakh investment followed by a rise. This could be due to sampling fluctuations and/or data aberrations. Capital intensity as expected has an increasing trend but capital productivity shows more or less a decline. Leaving aside the group Rs. 60 lakhs & above, excessive use of capital in larger SSIs (Rs. 20-60 lakh group) is noticed along with low capital productivity and obviously low employment potential. In all probability, this set of SSIUs might be making heavy investment disproportionate to their requirements in land, buildings etc. due to the attraction of various incentives/subsidies.

Dandekar Committee report (1980) observed from the results of the Survey of Small Scale Industrial Units conducted by the Reserve Bank for 1976-77 about the decline in employment per unit of value added with increase in scale of output. A similar relationship was also noticed between size of investment in P & M and employment. The results of this survey too, brings out the relationship though with some fluctuations. The criterion of investment in P & M seems to suggest that there is not much gain in giving concession to units having an investment in P & M of Rs. 20 lakhs or more from the point of view of employment potential. Moreover, the sharp rise in capital intensity for this group has not led to commensurate increase in capital productivity. However, per unit values of the key variables viz., fixed assets and production, and a sharp increase in labour productivity would seem to suggest that these units are performing well.

**Table 2.1**  
**Per unit employment, fixed assets, production and certain key ratios by size of employment : All India, 1993-94**

Employment size	Number of Sample Units	Per cent to total	Per unit				Per employee (Rs. lakhs)			Capital Productivity
			Employment	Fixed assets (Rs. lakhs)	Production (Rs.lakhs)	Net value added (Rs.lakhs)	Fixed assets	Production	Net value added	
1 - 4	118	20.5	2.81	1.49	4.40	1.40	0.53	1.57	0.50	2.96
5 - 9	201	34.9	6.84	3.96	19.09	10.19	0.58	2.79	1.49	4.81
10 - 19	117	20.3	13.62	8.51	48.91	11.81	0.62	3.59	0.87	5.79
20 & above	140	24.3	50.23	18.47	126.06	33.24	0.37	2.51	0.66	6.78
Total	576	100.0	17.94	7.91	48.14	14.32	0.44	2.68	0.80	6.09

**Table 2.2**

**Per unit employment, fixed assets, production and certain key ratios by investment in P & M : All India, 1993-94**

Investment in P & M (Rs. lakhs)	Number of Sample Units	Per cent to total	Per unit				Per employee (Rs. lakhs)			Capital Productivity
			Employment	Fixed assets (Rs. lakhs)	Production (Rs. lakhs)	Net value added (Rs. lakhs)	Fixed assets	Production	Net value added	
upto 2	343	59.6	11.01	3.06	24.05	8.46	0.28	2.18	0.77	7.85
2 - 5	90	15.6	17.57	6.06	52.12	24.26	0.35	2.97	1.38	8.60
5 - 10	64	11.1	27.08	9.13	61.60	16.80	0.34	2.28	0.62	6.75
10 - 20	37	6.4	39.68	16.78	73.56	22.02	0.42	1.85	0.55	4.39
20 - 60	40	7.0	41.60	41.34	190.28	27.62	0.99	4.57	0.66	4.60
Above 60	2	0.3	54.00	49.70	256.59	84.73	0.92	4.75	1.57	5.16
Total	576	100.0	17.94	7.91	48.14	14.32	0.44	2.68	0.80	6.09

## Central Excise Concessions

The Central excise concession to the SSI sector is in the form of a reduction in the normal amount of duty, linked to the size of turnover (sale value of excisable items in the domestic market, export value being excluded) subject to a minimum ad valorem rate of duty. There have been several revisions in the structure of duty concessions and the maximum ceiling of turnover applicable to SSI sector (see Appendix III). Since clearances upto Rs.30 lakhs in a financial year are fully exempted from excise duty, it is difficult for this impact study to ascertain the proportion of this segment that is, the tiny producers benefitted by exemption or the complement of non-beneficiaries for a comparison of the performances of beneficiaries and non-beneficiaries. For analytical purposes therefore, the sample units producing excisable items and those producing non-excisable items are separated and a few meaningful indicators of performance analysed for assessing the impact of excise relief. As mentioned earlier, the data of fourteen districts excluding those which did not respond are taken to represent all India and are merged to obtain the size distribution and the ratios. The size distribution uses the production value of 1993-94 for classifying the units and obtaining the key variables for each size. Further, the cut-off points above Rs.30 lakhs in terms of production are the same as used for the graded system of relief given by the excise authorities, so as to have meaningful interpretation of the appropriateness or otherwise of the cut-off points based on the performance indicators<sup>14</sup>.

One limitation arising out of combining the samples of the two phases, is discernible if we look at the size distributions pointing towards a huge concentration of the sample at the lower tail end (see footnote 1). From sample size considerations, the reliability of results for tiny units is far more than that of larger units. Table 3 presents the size distribution for SSIUs producing excisable and non-excisable items.

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<sup>14</sup> "The criteria now followed also do not quite meet the requirements of employment promotion. The tests of employment potential or labour intensity have not been built explicitly into these criteria. Being based on value of clearance the criteria currently in operation apparently do not distinguish between labour intensive and capital intensive techniques". (Dandekar Committee Report op cit). The situation as of now is not much different.

Table 3

Distribution of sample units by size of production: all India, 1993-94

Size of production (Rs.lakhs)	Number of units producing excisable items	Percentage to total	Number of units producing non-excisable items	Percentage to total	Percentage of units producing non-excisable items
0-15	102	31.7	177	71.4	63.4
15-30	50	15.5	21	8.5	29.6
30-50	58	18.0	12	4.8	17.1
50-75	37	11.5	13	5.2	26.0
75-200	63	19.6	20	8.1	24.1
200 & above	12	3.7	5	2.0	29.4
All	322	100.0	248	100.0	43.5

It is interesting to note the difference in the distributional pattern of the units producing excisable and non-excisable items. Tiny units having a turnover of less than Rs.30 lakhs figure more relatively in the latter category than the former. In other words, there are proportionately larger number of units producing excisable items in higher production slabs than those producing non-excisable items. The results show that 63 per cent of the smallest units produce non-excisable items and about 30 per cent in production level of Rs. 15-30 lakhs. Thus within the exempted category (below Rs. 30 lakhs) it would be too simplistic to assume that all are availing duty relief.

Aggregated employment (L), fixed assets (K), production (O) and net value added (NVA) are obtained for arriving at the per unit values from the two data sets followed by the ratios capital intensity (K/L), labour productivity (O/L), capital productivity (O/K). It is striking to note ( Table 4 ) that at the aggregate level that is, for all sizes taken together, the dimensions of per unit magnitudes indicate the salutary effect of excise relief on the performance of the units.

However, when these averages are examined over size groups, no systematic pattern emerges. For example, except for size groups between Rs.15-75 lakhs, the employment per

unit in non-excisable category is more than the excisable; fluctuating behaviour is observed for fixed assets; except for higher size groups, the production per unit is more for the excisable category. The net value added per unit is more for the excisable category but fluctuates too much indicating data aberrations. Detailed examination of the questionnaires reveal that the accuracy of the value of inputs is suspect and hence for the discussion of technical coefficients, production is used in place of net value added.

Among the units, with production less than 15 lakhs there is an indication of units producing excisable items being less employment and more capital using per unit than those producing non-excisable items (Table 4). However, for those between Rs.15-30 lakhs production, opposite is the case. The smallest units producing excisable items display more capital intensity and labour productivity but less capital productivity ( Table 5 ) than their counterparts (non-excisable). This feature again, is surprisingly in sharp contrast to the group of units in the production slab Rs.15-30 lakhs, the 'non-excisable' category demonstrated to be better performers. Does it mean that full exemption of duty (excise) has been rather a dampener to the group closer to the ceiling of Rs.30 lakhs? Is it the result of inefficient use of resources purported to retain the production within the limit for utilising full exemption of excise duty? The answers to these questions are not readily available from this survey. Perhaps a longitudinal survey of units close to the ceiling with specific probes could provide the answer.

While for all units irrespective of the size, all measures including capital intensity, labour productivity and capital productivity reveal units producing excisable items as better performers, for the units producing Rs.30 lakhs or above, more or less an increasing trend over production size in capital intensity is observed among the excisable category as against a near about decreasing one for the non-excisable category (Table 5). As regards labour productivity both the categories display increasing trend more or less, though relatively the former category is better placed. Larger units are more efficient with respect to capital productivity though relatively except for the size group above Rs.200 lakhs, the excisable category shows better performance.

**Table 4**

**Employment (L), Fixed assets (K), Production (O) & Net Value Added (NVA) per unit for i) units producing excisable items (E) and ii) units producing non-excisable items (NE) by size of production : All India 1993-94**

**Per unit**

Size of Production (Rs.lakhs)	L		K (Rs. lakhs)		O (Rs. lakhs)		NVA (Rs. lakhs)	
	E	NE	E	NE	E	NE	E	NE
0-15	6.25	6.45	3.29	2.31	5.54	4.46	1.03	1.37
15-30	11.68	10.81	6.80	8.57	22.41	22.28	5.20	20.60
30-50	22.48	16.08	8.01	7.86	40.61	39.44	9.96	1.66
50-75	22.38	22.38	9.84	11.33	59.06	58.29	32.51	19.23
75-200	41.68	51.15	16.50	20.34	115.84	122.85	31.37	55.19
200 & above	58.08	144.00	48.03	35.40	480.97	680.79	79.22	169.60
All	20.73	14.50	9.69	5.71	59.94	33.67	15.75	11.68

**Table 5**

**Capital intensity (K/L), Labour Productivity (O/L) & capital productivity (O/K) by size of production : all India, 1993-94**

Size of production (Rs lakhs)	K/L (Rs. lakhs)		O/L (Rs. lakhs)		O/K	
	E	NE	E	NE	E	NE
0-15	0.53	0.36	0.89	0.69	1.68	1.93
15-30	0.58	0.79	1.92	2.06	3.30	2.60
30-50	0.36	0.49	1.81	2.45	5.07	5.02
50-75	0.44	0.51	2.64	2.60	6.00	5.14
75-200	0.40	0.40	2.78	2.40	7.03	6.04
200 & above	0.83	0.25	8.28	4.73	10.01	19.23
All	0.47	0.39	2.89	2.32	6.19	5.90

If we pursue the analysis on the lines of Dandekar Committee Report where in the employment potential was seen to decline with increase in scale of output, the present study shows the behaviour fluctuating upto clearances of Rs. 50 lakhs for the 'E' category and a sharp drop thereafter. However, if we consider labour intensity as measured by the reciprocal of capital intensity, units with production less than Rs. 30 lakhs are observed to be less labour intensive than those producing Rs. 30 lakhs or more.

To sum up the excise relief in the broad group of units producing Rs.30 lakhs and above exhibits higher labour intensity and even capital productivity relative to those not enjoying excise concessions. It may be observed however, that the cut-off points decided upon by the excise authorities do not come up to expectation as there are breaks in the observed trend of each of the three measures (capital intensity, capital and labour productivity) somewhere in the scale of production. We may note for example the unlikely increase in labour productivity in the production slab Rs 15 - 30 lakhs followed by a drop in an otherwise increasing trend. These will come up for further discussion in a later section.

### **Reservation of Items for SSI**

The policy of reservation is primarily designed to promote the small scale units and to protect them from competition from medium and large scale units. The questionnaires used in the survey sought the information that the product being manufactured by the sample unit was a reserved item for SSI or not. The two data sets of the units producing 'reserved' items and those producing 'unreserved' items were sorted out and a comparative analysis is attempted below:

**Table 6**

**Distribution of sample units producing reserved and unreserved items by size of investment in plant and machinery (P &M) : All India, 1993-94**

<b>Size of investment in P &amp; M (Rs lakhs)</b>	<b>Number of units producing unreserved items</b>	<b>Percentage to total</b>	<b>Number of units producing reserved items</b>	<b>Percentage to total</b>	<b>Percentage of units producing reserved items</b>
upto 5	262	76.2	171	73.7	39.5
5-10	34	9.9	30	12.9	46.9
10-20	20	5.8	17	7.4	45.9
20-60	27	7.8	13	5.6	32.5
60 and above	1	0.3	1	0.4	50.0
All	344	100.0	232	100.0	40.3

40 percent of the sample of units selected were producing reserved items, the proportion increasing from 39 percent in the tiny sector to about 47 percent in the group Rs 5-20. The distributional patterns of units producing 'reserved' and 'unreserved' items are observed to be almost similar with bulk reporting tiny units having investment in P & M below Rs.5 lakhs (Table 6). As in the previous exercise, the aggregated employment, fixed assets, and production are obtained for the different investment sizes for arriving at the per unit values from the two data sets (Table 7) and technical coefficients (Table 8).

Considering the two data sets irrespective of the investment sizes, the units producing reserved items are lowly placed compared to those producing unreserved items in all respects whether it be employment, capital or production. Table 8 further brings out the superiority of units producing 'unreserved' items over the protected ones producing 'reserved' items in all respects whether it is capital intensity, labour productivity or even capital productivity. This leads us to conclude that reservation of items for the SSI has done more harm than good.

Excluding the class Rs.60 lakhs & above because of negligible sample size, the results in Tables 7 & 8 reveal that 'reservation' of items has been of some use for the tiny group

in as much as capital per unit is either at the same level as that of the 'UR' category or more and both capital intensity and labour productivity are also of an increased order relative to the UR category. Capital productivity of the unreserved category is decidedly more for all the size groups. The gap between the two categories increases with increasing size of investment in respect of all the per unit magnitudes and labour and capital productivity.

To sum up, small units having investment upto Rs.10 lakhs producing reserved items have marginal benefits of capital intensity and labour productivity when compared with those falling in the same size group but producing unreserved items. For the rest of the units that is, those having investment of Rs.10 lakhs or more, reservation has not served any purpose and hence this instrument of protection has to be sagaciously used for only the very small SSIUs.

**Table 7**

**Employment (L), fixed assets (K) & production (O) per unit by size of investment in P & M for (i) units producing reserved items (R) and (ii) units producing unreserved items (UR) : All India, 1993-94**

**Per unit**

Size of investment in P & M (Rs lakhs)	L		K (Rs. lakhs)		O (Rs. lakhs)	
	R	UR	R	UR	R	UR
Upto 5	11.93	12.67	3.64	3.71	28.86	30.55
5-10	21.03	32.41	9.76	8.57	49.70	72.11
10-20	30.76	47.25	13.55	19.52	55.65	88.79
20-60	35.15	44.70	32.73	45.48	76.42	245.10
60 and above	13.00	95.00	9.28	90.11	30.80	482.38
All	15.79	19.38	6.81	8.64	36.19	56.19

Table 8

Capital intensity (K/L), Labour Productivity(O/L) & capital productivity (O/K) by size of investment in P & M for R and UR categories of units: all India, 1993-94

Size of investment in P & M (Rs lakhs)	K/L (Rs. lakhs)		O/L (Rs. lakhs)		O/K	
	R	UR	R	UR	R	UR
Upto 5	0.31	0.29	2.42	2.41	7.92	8.23
5-10	0.46	0.26	2.36	2.22	5.09	8.41
10-20	0.44	0.41	1.81	1.88	4.11	4.55
20-60	0.93	1.02	2.17	5.48	2.33	5.39
60 and above	0.71	0.95	2.36	5.08	3.31	5.35
All	0.43	0.45	2.29	2.90	5.31	6.50

### Central Investment Subsidy (CIS)

This analysis is restricted to the samples from Kamrup and Nowgaon of Assam for reasons stated earlier. The CIS introduced in 1971 was designed to encourage entrepreneurs for setting up large, medium and small industries in backward areas. In respect of North-Eastern Region the subsidy on fixed capital investment was fixed at 20 percent in 1981 but the scheme was withdrawn in October 1988. The sampling design for the two districts stipulated drawing of equal samples of 25 each from the units existing prior to 1.4.1988 and those registered after and as such the data set for each of these two districts consisted of 'old' and 'new' units. A greater proportion of the 'old' units availing CIS is expected relative to the 'new' units where the beneficiaries are expected only in eventualities of delayed payment of subsidies. In any case, the analysis for the purpose of ascertaining the impact of CIS is attempted via a comparative study of per unit magnitudes of key variables and the technical coefficients for the two groups - those availing CIS and those not availing mentioned as 'others' in Tables 9 and 10.

Table 9 shows that out of the combined sample of 100 units, only 22 availed CIS spread over different size classes of total fixed assets. Per unit employment, fixed assets and production for the CIS category in 1993-94 as a whole are far more than the 'others' category showing indisputably the encouraging aspect of this subsidy. Except for "per unit production" value in the lowest size class and "per unit employment" in the size class Rs 1-5 lakhs, the size distribution indicates higher values for all the three per unit variables in different size classes.

Technical coefficients (Table 10) while exhibiting better performance of the units availing CIS at the aggregate level do indicate the tiny units (upto Rs 1 lakh of fixed assets) availing CIS as inferior to its counterpart in respect of all the measures. The larger units having fixed assets of Rs.5 lakhs or more not availing CIS are more capital intensive but the units availing CIS are more productive having either the same order or more labour productivity and definitely scoring in respect of capital productivity. The limitation of the vastly unequal sample sizes for comparative purposes should however, be noted.

**Table 9**  
**Distribution of sample units availing CIS and those not availing by size of total fixed assets and per unit values of key variables: Kamrup and Nowgaon, 1993-94**

Size of total fixed assets (Rs lakhs)	No. of units		Employment (L)		Fixed assets(K) (Rs. lakhs)		Production (O) (Rs. lakhs)	
	CIS	Others	CIS	Others	CIS	Others	CIS	Others
Upto 1	6	36	9.00	5.94	0.58	0.53	5.39	14.76
1 to 5	6	26	4.16	7.19	2.75	2.10	6.52	5.21
5 to 10	4	8	11.25	6.88	7.69	6.74	20.17	12.33
10 and above	6	8	58.00	11.88	58.44	28.38	341.35	34.27
All	22	78	21.45	7.06	18.24	4.55	100.02	13.33

Table 10

**Capital intensity (K/L), Labour productivity (O/L) and capital productivity (O/K)  
by size of total fixed assets: Kamrup & Nowgaon, 1993-94**

Size of total fixed (assets) (Rs lakhs)	K/L (Rs. lakhs)		O/L (Rs. lakhs)		O/K (Rs. lakhs)	
	CIS	Others	CIS	Others	CIS	Others
Upto 1	.06	.09	.59	2.48	9.27	27.95
1 to 5	.65	.29	1.56	0.72	2.37	2.48
5 to 10	.68	.98	1.79	1.79	2.62	1.82
10 and above	1.01	2.39	5.88	2.88	5.84	1.20
All	0.85	0.64	4.66	1.88	5.48	2.93

### **Transport Subsidy (TS)**

The transport subsidy also applicable to small, medium and large scale industries is particularly designed for hilly, remote and inaccessible areas, compensating the entrepreneurs partially for higher transport costs in such areas. The revised geographical coverage of the centres for the study of the impact of transport subsidy excluded Darjeeling and Kangra from the four earmarked for the survey. The present analysis is therefore based on the data for Kamrup and Nowgaon.

The sample selected when classified by the value of total fixed assets revealed that there were only seven out of hundred units which availed of the transport subsidy, the fixed assets for each being Rs. 5 lakhs or more. In comparison, out of 93 units not availing TS, there were 74 in the size group less than Rs. 5 lakhs and hence comparison is restricted to the 19 units not availing TS but having fixed assets of Rs. 5 lakhs or more.

Subject to the limitation of very small sample size, in particular of high sampling fluctuation implicit in the higher size group, the units availing TS are observed to be in a better position with respect to 'others' in case of all the variables except production per unit for the size group Rs.10-20 lakhs. On close scrutiny it is found that one of the beneficiaries

of TS occurring in the sample is a large coke factory employing 172 persons and having a production of Rs.1337 lakhs. This outlier is thus excluded in Table 11 as also from computation of technical co-efficients in Table 12 to have meaningful comparison.

**Table 11**

**Distribution of sample units availing TS and 'Others' by size of total fixed assets and per unit values of key variables : Kamrup and Nowgaon, 1993-94**

**Per unit**

Size of total fixed assets (Rs lakhs)	No. of sample units		Employment		Fixed assets (Rs. lakhs)		Production (Rs. lakhs)	
	TS	Others	TS	Others	TS	Others	TS	Others
5-10	2	10	12.50	7.50	8.29	6.81	30.84	11.76
10-20	2	4	23.00	13.25	12.43	14.69	21.85	36.66
20 and above	2	5	53.00	13.20	72.75	71.80	150.75	42.40
Total	6	19	29.50	10.21	31.15	17.68	67.82	25.11

**Table 12**

**Capital intensity, labour productivity and capital productivity for 'units availing TS' and 'others' by size of total fixed assets : Kamrup and Nowgaon, 1993-94**

Size of total fixed assets (Rs. lakhs)	K/L (Rs. lakhs)		O/L (Rs. lakhs)		O/K	
	TS	Others	TS	Others	TS	Others
5-10	0.66	0.91	2.47	1.57	3.72	1.73
10-20	0.54	1.11	0.95	2.77	1.76	2.50
20 and above	1.37	3.16	2.85	3.21	2.07	1.01
Total	1.05	1.73	2.29	2.45	2.17.	1.42

Ignoring the small sample size, the following inferences can be drawn from Table 12.

- (i) The units not availing transport subsidy are more capital intensive and this feature holds good for the three broad size groups considered.
- (ii) Except for the size group Rs. 5-10 lakhs of fixed assets, labour productivity of the units availing transport subsidy is less than that of the other units.
- (iii) Capital productivity of units availing TS is however more than other units except for the middle group (Rs.10-20 lakhs).

An examination of the 'profits' as proportion of 'sales' for these seven units (data not presented) reveals that the units having fixed assets of Rs. 20 lakhs or more reported losses or negligible proportion of profits as compared to sales (1 per cent). On the other hand, the units in the size group Rs. 5-10 lakhs reported this proportion varying from 14 per cent to 44 per cent.

All in all, the transport subsidy availed by larger units have not gone to improve their labour productivity in comparison to their counterparts. However, even though there is no evidence of transport subsidy availed by tiny units having less than Rs.5 lakhs as fixed assets, the units within Rs.5-10 lakhs availing TS have shown a better performance than those not availing TS. One policy conclusion emerging from this fragmentary evidence though, is that some sort of discrimination as to the size of the units be made while extending transport subsidy. If the large units are not able to utilise effectively the concessions, they need to be withdrawn.

### **Overall impact of Central incentives**

A comparative study of the units in selected ten industries which availed one or more of the Central incentives only with the units which have not reported to have availed till 1993-94 any of the Central fiscal incentives is attempted below. The usual constraint of the

small sample size is applicable here too. As we have pointed out earlier that it is difficult to isolate the effects of individual incentives, this analysis purports to assess the total impact of the Central incentives in the few units in the sample who availed one or more incentives. The counterpart (that is, those not reporting to have availed any incentive) is having a larger number of observations in each industry group. The comparison is thus based on unequal number of samples of the two sets denoted as 'CI' and 'NA' (not assisted). A second comparison is then attempted between 'CI' and 'SI' the latter representing those units which availed of State incentives only.

Tables 13 and 14 bring out the comparison of the per unit magnitudes of key variables as well as the economic ratios or the technical coefficients for the ten industry groups.

#### ***Comparison between Centrally assisted and not assisted units***

- i) If we examine the goal of employment promotion, in respect of per unit employment taking 'CI' perform better than those 'NA'. Labour intensity is also higher for all 'CI' industries as compared to 'NA' industries except 'Chemical and chemical products', 'Basic metal industry' and 'machinery and parts except electrical'.
- ii) Both capital and labour productivity, are lower in case of assisted 'metal industry' (codes 33 and 34), and 'electrical and other machinery & part' (35 and 36) as compared to the NA category. The other industries in group 20, 21, 26, 28, 30, 31 and 32 have higher capital productivity for CI units vis a vis NA units. In all the above industries the impact of incentives are seen to be best for 'food products', 'rubber' and 'non metallic products' (20-21, 30 and 32) where higher labour intensity is accompanied with higher labour and capital productivity.
- iii) For the two industry groups, 'metal products' and 'electrical machinery and parts', the central fiscal incentives have not made any impact.

(iv) More capital intensity but less of labour productivity in the CI category of 'basic metal industry' and 'machinery and parts except electrical' as compared to the 'NA' category indicate that central fiscal incentives may not be extended to these industries.

(iv) Capital appears to be most productive in 'hosiery & garments' industry for the assisted group in a situation where in general, the capital productivity of CI category is more. All in all, the 'hosiery & garments' industry stands out with higher labour intensity, higher employment potential, higher capital productivity but lesser labour productivity and could thus stake claims for a higher dose of central incentives.

#### ***Comparison between Centrally assisted and State assisted units***

In general, per unit employment and labour intensity for the Centrally assisted units are more than the State assisted units for different industry groups, indicating that Central incentives are more employment oriented than State incentives. The only industries which are less labour intensive in category 'CI' as compared to 'SI' are 'machinery & parts except electrical' (code 35). Except for food products and chemical products (code 20-21 and 31) the units in 'CI' on the average are larger than 'SI' in terms of fixed assets. On the other hand, the production per unit of all the industry groups show higher values for the 'CI' category in comparison to the 'SI'. The labour productivity and capital intensity of the CI category in most of the industries selected are less than the respective ratios in 'SI' category. Except for industry group 35 (machinery & parts except electrical) capital is more productive in the 'CI' category for most of the industry groups.

Table 13

Per unit magnitudes of some important variables for (i) units availing Central Incentives only (CI) (ii) for units availing State Incentives only (SI) and (iii) for units not availing any Central Incentives (NA) by selected industry groups: All India, 1993-94

NIC Code	Industry	Number of Units			Per unit Employment			Per unit Fixed Assets (Rs. lakhs)			Per unit Production (Rs. lakhs)		
		CI	SI	NA	CI	SI	NA	CI	SI	NA	CI	SI	NA
20-21	Food Products	11	16	20	23.54	17.37	7.25	16.04	16.37	7.47	161.30	148.96	39.14
26	Hosiery and Garments	4	8	19	162.75	74.50	17.78	6.84	4.10	9.58	205.93	78.03	82.39
28	Paper Products & Printing	5	4	32	45.20	9.25	11.87	14.07	9.43	5.82	59.18	16.23	19.66
30	Rubber & Plastic Products	15	16	41	28.93	22.06	7.60	15.40	11.81	6.49	103.18	51.89	16.00
31	Chemical & Chemical Products	18	12	23	18.88	14.25	12.95	10.28	11.11	6.80	56.09	30.75	35.45
32	Non-metallic mineral Products	7	2	7	22.28	8.50	4.57	8.12	6.28	5.33	53.24	31.60	3.79
33	Basic metal industry	15	8	30	31.06	24.00	12.43	14.10	12.15	4.31	63.15	52.09	46.57
34	Metal Product	34	20	61	32.97	10.95	14.80	8.94	8.72	4.80	54.89	27.08	29.73
35	Machinery & Parts except elect.	9	9	21	39.77	20.33	21.47	8.33	8.05	8.90	100.69	58.68	101.70
36	Electrical machinery & parts	31	25	32	21.35	14.20	11.37	23.64	4.89	6.56	52.11	36.21	67.22

Table 14

Economic ratios for (i) units availing Central Incentives only (CI) (ii) for units availing State Incentives only (SI) and (iii) for units not availing any Central Incentives (NA) by selected industry groups: All India, 1993-94

NIC Code	Industry	K/L (Rs. lakhs)			O/L (Rs. lakhs)			O/K		
		CI	SI	NA	CI	SI	NA	CI	SI	NA
20-21	Food Products	0.68	0.94	1.03	6.85	8.57	5.40	10.05	9.10	5.24
26	Hosiery & Garments	0.04	0.05	0.53	1.27	1.32	4.63	30.08	23.90	8.60
28	Paper Products & Printing	0.31	1.01	0.49	1.31	1.76	1.66	4.20	1.72	3.38
30	Rubber & Plastic Products	0.53	0.53	0.85	3.57	2.35	2.10	6.70	4.39	2.46
31	Chemical & Chemical Products	0.54	0.77	0.52	2.97	2.16	2.74	5.45	2.77	5.21
32	Non-metallic mineral products	0.36	0.73	1.16	2.39	3.71	0.83	6.55	5.03	0.71
33	Basic metal Industry	0.45	0.50	0.34	2.03	2.17	3.75	4.48	4.29	10.80
34	Metal products	0.27	0.79	0.32	1.66	2.47	2.01	6.14	3.10	6.19
35	Machinery & parts except elect.	0.55	0.40	0.41	2.53	2.88	4.74	4.59	7.29	11.42
36	Electrical machinery and parts	0.31	0.34	0.57	2.44	2.55	5.91	7.83	7.39	10.24

## **SECTION II**

### **FURTHER EVALUATION OF CENTRAL EXCISE CONCESSIONS**

As pointed out earlier, the second phase of survey, limited to ten centres probed into many aspects of operation of SSIUs with particular reference to Central Excise (CE). The design permitted a comparison of the performances of units in different production ranges with particular reference to CE duty structure.

The survey was designed to ask the respondent SSIUs data on production, employment and investment for the last three years besides the basic characteristics and the details of inputs and outputs. The respondents were required to give their own assessments of their performance in terms of "average" or above or below average. They were also asked to rank a number of policy prescriptions for the promotion of SSI sector. A special question was also included on "sister" units owned or controlled by the same owner/management. This was to examine if more duty paying units tend to have "sister" units as compared to others and also study some of their characteristics.

The most important Central fiscal incentive currently available to the SSI is the concession in CE leviable from the SSIUs. While the large scale units have to pay full duty on the entire clearance for domestic consumption, the SSIUs are totally exempted from paying duty for the turn-over upto a certain level and concessional duty rates for different slabs of turn-over upto a specified ceiling. The implicit rationale for such a concessional scheme is that there exists economies of scale (EOS) in the manufacture of various products and the units producing an article on a smaller scale would be at a disadvantage in competing with units producing the same article (or a substitute) on a larger scale. While the EOS could be considered in terms of certain overhead costs, these could also accrue with the adoption of better, often high cost technology by large units. Thus, employment per unit of output would be higher for smaller unit as compared to large scale undertakings. The smaller units often use local resources, low grade manpower and indigenous technology, are relatively better dispersed and flexible in restructuring upto a certain level of expansion, justifying the concessional scheme of duty applicable to the SSI.

The overhead costs are difficult to distinguish from other operating costs in SSI in general and in certain (modern) industries in particular. Cost studies cannot be effectively carried out at a single point of time in a field enquiry. The EOS may not be same for a particular product and its substitutes and may not be meaningful for the reserved sector within the SSI.

Barring a small percentage, the entire SSI is dominated by proprietorship and partnership concerns. Only 19% of SSIUs were limited companies or co-operative ventures according to the Second All India Census of SSI(1987-88). In a great majority of cases, the proprietors and partners are either full time or part-time workers in their own undertakings. Often they may combine both management (fixed overhead) and labour (variable cost) functions. Single owners seldom maintain any accounting records and there is no question of separating compensation for management and labour functions or for investment or entrepreneurship. Accommodation for residence, office and factory purposes may overlap in various degrees. In certain industries, technical graduates/post graduates attend to management work in office as well as supervision of skilled workers in factory. Thus there are obvious limitations of field data on above aspects pertaining to the EOS.

The employment objective for promoting or protecting SSI is basic and important for arguing the case of SSI scheme of duty concession. An essential requirement for the employment of human resources, however, are the capital resources which are scarce and costly. Ratios involving these two resources as also the output of their joint use are examined over time, space and industries for analysing the impact of one upon the other.

Certain legislative measures to protect the interest of labour are widely felt to be distorting the scope of employment growth in the SSI. These along with the upper limit level for excise concessions are said to be the key factors for the fragmentation of SSI units leading to horizontal rather than vertical expansion. Besides depriving the labour certain benefits, such fragmentation invariably results in inefficient use of capital resources. All these are somewhat difficult aspects to probe but some analysis has been done in the section of sister units.

The most common problem of a large scale field survey is one of non-response or biased response. The withdrawal of many schemes of subsidies and incentives by most State Governments and the Centre since 1988 has further accentuated this problem with most undertakings firming up their non-cooperative attitude towards Governmental effort to conduct a field survey.

The SSI sector is characterised by the preponderance of small units with output level below Rs. 20 lakhs who have hardly any written records of their activities. Even in case of larger SSIUs who are expected to have audited statements of accounts, information on such essential items as Modvat availment and ex-factory value of production separately in respect of more than one item of production are not easy to cull out from diverse registers. Many old units report high inventory accumulated over the past irrespective of the fact that much of it ought to be written off. Thus, even when response is forthcoming from some SSIUs, its quality is far from consistent.

Altogether a total of 399 filled in survey schedules were received from eight centres - Mumbai (51), Calcutta (76), twin city of Hyderabad-Secundrabad (TCHS) (58), Noida (59), Agra (28), Indore (23), Jalandhar (52) and Ludhiana (52). Agra could not be included in the analysis presented in Sections I and II because the schedules were not received in time. Some schedules from Agra were used for analysis done in Section III on special cases. Responses were partial from Mumbai, Agra, Indore and Jalandhar. Several schedules had to be rejected in course of editing and in several others there were gaps and deficiencies, particularly in respect of working expenses, duty payments, Modvat availment and break-up between fixed costs and variable costs. Since the composition and basic characteristics of SSIUs in the major city centres of Mumbai, Calcutta, TCHS and Noida - all close to mass consumption centres - are likely to be different from those of the districts of Indore, Jalandhar and Ludhiana, the analysis of data from these two groups of survey centres is presented separately, under the heads 'major' cities and 'district' cities.

The survey design including random samples of SSIUs taken from the registers of CE offices, District Industries Centres (Post - 88 registers) and the updated lists of SSIUs covered in the Second All India census of SSI (available with the National Informatics Centre) has

projected the various facets of the SSI to permit a meaningful evaluation of the CE concession. An attempt has also been made to classify the products of the sample units as reserved and others, to see if with the available sample a comparative assessment of the two segments of the SSIUs could be made.

The available sample sizes were barely sufficient to capture the diversity and the high degree of variation among the SSIUs discussed in the earlier paragraphs. Inevitably, the samples have to be analysed according to well recognised classes (eg. slabs of turnover corresponding to different levels of CE concession). A minimum sample of 30 in any such class would generally be necessary. This was not always the case even when samples were pooled in the respective classes for the two groups of survey centres. The inferences from available results have therefore to be suitably qualified in the light of this limitation.

More importantly, there is no "control" group for comparison with the "treated" group. As an illustration, we may consider the case of CE concession. If we have data on the development of SSI in an environment of normal duty regime (control group) and also similar data in the concessional duty regime (treated group), all other factors remaining same, then the impact of the concessional scheme would be measurable. Such an evaluation is obviously not possible. Alternatively, if we had a number of non-dutiable products, we might compare the characteristics of the two segments (dutiable and non-dutiable cases) of SSI. But the non-dutiable cases mostly include service types (repair services, job works, printing, data processing etc.), life saving products, equipments for handicapped persons, low priced goods and certain agro-products. The markets for these goods are very different and truncated. Hence, there is limited scope for any meaningful comparison. However, the survey design does permit a scrutiny of the characteristics of SSIUs engaged in the manufacture of non-dutiable goods and services with very limited sample sizes. As of now, the SSIUs have adapted themselves to the concessional duty regime and also to various other incentives and protective measures available from time to time. Their present characteristics alone can be studied to see if a cross section analysis of key technical ratios discloses any adverse impact such as excessive displacement of labour with capital and inefficient use of capital resources within the slabs of concessional scheme.

## **Differentials between Major city areas (Group I) & District areas (Group II)**

Analysis of Phase 2 data is attempted separately for Groups I and II with a view to examine the districtly different characteristics and performance of the units with respect to the graded system of duty relief.

### ***Basic Characteristics of SSIUs***

As the size of the SSIU in terms of output level increases, the type of its organisation changes distinctly with proprietorship concerns dominating the smaller size class and then giving way to more of partnership concerns which further graduate to limited companies at higher level. A clear shift over the recent years is also discernible with relatively more limited companies coming up in the small sector. Certain characteristics differ between units located in the major city areas (Group I) and units located in the district areas (Group II). The results are shown in Tables B.1 and B.2 (Appendix II).

In Group I over 65% of smaller SSIUs (output less than Rs.10 lakhs) were proprietorship concerns. In Group II however, a higher percentage (around 80%) was reported in this type. Partnership concerns in Group I occupied the second position with 23% in respect of older units (that commenced production prior to 1988); but among the younger units (that started production in 1988 or later) the second position went to limited companies (23%) pushing the partnership concerns to the third position with less than 12%. At a higher output level (Rs.10 to 30 lakhs), only 43% of the older units were proprietorship concerns whereas 50% were partnership concerns. Among the younger units of the same output level the share of proprietorship concerns further declined to about 38% with partnership cases accounting an equal share and limited companies having a significant share of 25%. As the size further increases, the share of proprietorship concerns gradually declined to less than 20%. Partnership cases and limited companies constituted about 32% and 38% respectively. In Group II, partnership concerns were predominant in the higher size class of units. This share was between 67% and 80% in case of units with output above Rs.30 lakhs. The limited companies were relatively less in Group II as compared to Group I.

Less than 25% of the small SSIUs claimed to be registered under the Factories Act in Group I and at the top level (Rs.75 to Rs.200 lakhs) this percentage was close to 90%. In Group II very few small units were registered under the Factories Act whereas the position at higher level was not very different from what was reported in Group I.

The pattern of financing of the initial establishment of the SSIUs was not very different between Group I and Group II. Generally, the individual entrepreneur and his family contributed the major share of initial finance. Public financial institutions including banks and relations/friends were also reported to have provided part of the requisite initial finances. Only very few cases of availing of finance from private individuals/financial institutions were reported.

In Group I, nearly one out of every three units with output level above Rs.30 lakhs had owners with technical qualifications. In Group II however, this ratio was lower, around one out of every 10. At lower level, investors without much of industrial experience or background dominated with a share of around 40%. On the other hand, entrepreneurs with long family tradition in the industrial line had a higher share in Group II (40%) as compared to Group I (25%).

There were some differences in the product combination of the SSI between Group I and Group II. Intermediate products, components and parts accounted for about 25% to 55% of the products in different size classes of SSIUs in Group I whereas in Group II their share was generally much less with the exception of the size class (Rs. 10 to Rs. 30 lakhs) where a higher percentage (60%) was observed. Upto 50% of the products were classified as consumer durables in case of Group I or Group II. Capital goods accounted for 13% to 25% of the products of the units in Group I. In case of Group II, the percentage was higher between 32% and 67%. A higher proportion of units in Group I generally reported consumer items (other than durables) in their output basket as compared to Group II.

With growing size of SSIUs the percentage share of reserved items manufactured by the SSI generally declined. It was highest (about 40%) among units below output level Rs.30 lakhs in Group I. This figure declined to about 26% in the size class of units with output

level above Rs.75 lakhs. In case of Group II generally much higher percentage of units reported manufacturing reserved items.

The pattern of marketing of the products by the SSI units in terms of supply to other industrial undertakings and disposal in the domestic market was not very different between Group I and Group II. Majority of the smaller units (output less than Rs.30 lakhs) disposed of their output in the domestic market and the rest supplied to other industrial undertakings. At the higher level, the position was roughly reverse.

### ***Performance Indicators***

The statement at Table B.3 (Appendix II) gives the gross profit ratio<sup>15</sup>, capacity utilisation and inventory to total sale ratio for different size classes of SSIUs in Group I and Group II.

The gross profit ratios were generally higher in Group I as compared to Group II. Apparently, the high cost of living in the capital cities require that the entrepreneurs demand a high gross return on their operating cost. Between the size classes, the smaller size classes recorded relatively higher gross profit ratio.

The Group II comprising the district centres generally reported better capacity utilisation as compared to the units in the major city areas (Group I). A likely reason would be that in the city areas the units tend to keep their production capacity flexible to accommodate occasional large demands even though the average performance might be comparatively lower. On the other hand, units in the district centres probably face a more steady market and hence are not required to maintain surplus capacity much above the average effective demand.

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<sup>15</sup> Gross Profit Ratio has been defined as the ratio of (output - wage bill - working expenses) in the numerator to output in the denominator.

The burden of inventory as measured by value of inventory to total sales is seen to fluctuate with the size class of units due to the relatively poor quality of information from the field. The older units generally have reported high inventories accumulated over the past. Therefore, wherever the older units occurred in larger number in the different size classes, this ratio worked out to be larger. The factors affecting the inventory are relatively too numerous and the field study did not aim to go into such details.

The performance indicators were also computed separately for the SSIUs manufacturing at least one or more of the *reserved items* and separately for other units. The results are shown in the Table B.4. Because of the reduced sample sizes, it is observed that a smooth pattern was not emerging between the two categories and also among the different size class of units. On an average, the gross profit ratio for units producing unreserved items was higher than those producing reserved items except in the class with turnover less than Rs. 30 lakhs or Rs. 50-75 lakhs for dutiable units. This, along with the feature of low inventory burden, shows units producing unreserved items to be superior. Capacity utilisation was found to be better for the smaller units in reserved category and almost same for large units in the two categories.

### ***Economies of Scale(EOS)***

Despite the limitations associated with the issue of EOS discussed earlier, an attempt was made to generate certain ratios which might reflect the economies of scale. The details of operating cost collected in the field survey were broken into administrative cost (roughly corresponding to fixed cost) and other costs (roughly corresponding to variable cost). The administrative cost included the wage bill of the own account workers and the managerial/office staff as also the cost of the building rent/maintenance and insurance of building in respect of the office portion only. This administrative cost expressed as the percentage of the total operating cost was computed for the different size class of SSIUs. The results are presented in Table B.5 (Appendix II). It is observed that this ratio declined gradually from 7.2% in case of small units (with output level below Rs.10 lakhs) to 2.3% in output level above Rs. 75 lakhs in Group I. In case of Group II, this ratio declined from 1.8% to 0.3%. Even though the ratios were computed for diverse industrial groups with

diverse basic characteristics such as input-output ratios, value addition ratios and price level. It is interesting to note that a fairly smooth picture has been disclosed by the field survey. The sharp reduction is noted at the point of Rs.30 lakhs in case of Group I and at the point of Rs.10 lakhs in case of Group II. This suggests different cut-off points for exemption of excise duty. For metro cities, the present ceiling may continue but for other districts, there should be a downward revision to Rs. 10 lakhs. The values for the output ranges Rs.30 to Rs.50 lakhs and Rs.50 to Rs.75 lakhs are not very different in case of Group I and also Group II.

Incidentally it is observed that the administrative cost ratios for Group II are much lower than the corresponding ratios for Group I. This may be essentially due to reduced difference in the wage rate between managerial/office staff and other workers and also due to reduced instances of insurance of buildings, hiring of building or maintenance cost for building in case of Group II.

### ***Analysis of Output, Employment and Capital***

The statement at Table B.6 (Appendix II) presenting the per unit averages of output, capital and employment as also the three technical ratios (O/L, K/L and O/K) for different size classes of SSIUs may be seen. The averages per unit follow generally the normal pattern except for the size class (Rs.50 - 75 lakhs) in Group II where a sharp fall in the capital employed per unit was reported. Barring this instance, the average size of capital rose with increasing size class of unit along with increasing output and employment values. However, when the technical ratios are scrutinised, some deviations are noticed. These are discussed in the following paragraphs.

#### ***Output-Employment Ratio (O/L)***

The general hypothesis is that smaller units generate lower output per worker than large SSI units. This follows the economies of scale argument. This may also be due to higher capital intensity associated with bigger units. The survey results generally followed this pattern with one exception each in Group I and Group II. Instead of uniformly increasing,

the output per worker declined in the size class Rs. 50-75 lakhs as compared to the preceding size class in Group I. In case of Group II, the size class Rs. 30 - 50 lakhs registered a decrease as compared to the preceding class.

### ***Capital Intensity (K/L)***

According to widely prevalent notion, smaller units require less capital per worker than large units (Sandesara). In other words, the capital intensity is expected to rise with the increasing size of the unit. This notion is, however, applicable to "small" and "large" industry only. One can argue that for 'small' sector, the pattern could be different. In the present case, it is observed that in Group I, the capital intensity rose from 35 to 51 between the two size classes of less than Rs.10 lakhs and Rs.10 - 30 lakhs respectively. Subsequently, there is a gradual fall in the capital intensity till it reaches 34 for Rs. 75-200 lakhs size class. In the case of Group II there is no clear pattern of either increasing or decreasing capital intensity; there is an alternating trend among the size classes possibly due to varying composition of the workers (unskilled/skilled/managerial staff), corresponding wage differences and other differences such as product groups and types of technology. However, a significantly higher capital intensity is observed for 'non-dutiable units.'

### ***Output-Capital Ratio (O/K)***

Small units are believed to generate higher output per unit of capital than large units because of possibly a better supervision and control that may be associated with such units. In larger units there may be a certain measure of wastage of capital in terms of under-utilisation and also ineffective control of larger number of workers. Our results, however, present an opposite trend. The output per unit value of capital generally rose between the size classes in both the Groups I and II. The important factor to be borne in mind in this analysis is that we are focusing our attention on the behaviour of units below the upper limit of CE concessions. The impact of taxation may be expected to alter the performance pattern of the undertakings. As on crossing the threshold point the unit is required to pay a duty, the management may be keen to reduce other costs by putting the capital to the best use. Further, the declining output capital ratio may have validity in certain traditional industries where

smaller units use meagre capital resources and contribute maximum value addition from labour. In modern SSI sector such as electronics, the units at different production level may be adopting technologies designed to make more efficient use of capital. There is, however, a small discordant behaviour in the size class Rs. 50 - 75 lakhs. The capital intensity was less in the output size class Rs. 50-75 lakhs as compared to the adjoining size classes suggesting that the SSIUs in this size class were hesitant to acquire more capital that would boost their output level. Further the data from the capital city areas showed that the capital productivity in this size class was lower as compared to the size class Rs. 30-50 lakhs suggesting some slackening in the efficient use of the capital. The threshold level of Rs.75 lakhs is crucial in the sense that beyond this point the concessional duty ceases and normal duty is charged for every rupee of product cleared beyond this stage; the concessions allowed below this level would, however, continue to be available. This explains the behaviour of this particular class. The next higher class expanding over a wide range of Rs.75 to 200 lakhs (now extended to Rs. 300 lakhs) has a wide scope for improving the performance and yet stay within the SSI scheme of Central Excise concession. Therefore, the units in this top size class can be more efficient as compared to those in the preceding class.

A cross section analysis of average output, capital and employment per SSIU across the production range would disclose the pattern of development of SSIUS. During 1993-94, the average output in the top output slab (Rs. 75-200 lakhs) was about 6.4 times that of the size class Rs. 10-30 lakhs which may be termed as the base level for taxation point Rs. 30 lakhs. In order to achieve this rise, the average value of capital employed in the top slab was only 2.3 times that of the base level. The employment size, however, rose by a higher value, viz. 3.2 implying a higher rate of employment absorption. Apparently there was no substitution of labour with capital as the unit shifted to higher output levels. The two interacted together without the former displacing the latter to yield higher output.

In short, the above analysis reveals that there is slackening in the efficient use of capital in the range Rs. 50-75 lakhs in major cities. In contrast the district cities reflect efficient usage of labour and capital in this range. This range also experiences higher average administrative costs in group II as compared to group I. Hence, it could be concluded that the concessions in range of Rs. 50-75 lakhs are not having positive impact in major cities but

have relevance in district centres. The capacity utilization of units in district centres is higher than the capacity utilisation in major cities in all production slabs, leading to policy implications of differential treatment of two groups (major cities and district centres).

### **Income Tax Concessions to SSI**

Direct tax incentives to the manufacturing undertakings were restricted to those that employ minimum number of workers as specified in the Factories Act. In other words, smaller non-factory SSI units which would constitute about 95% of all SSI were not entitled to these tax incentives. The general concession available to the factory SSI units was in respect of articles/items listed in Schedule XI of the IT act which if manufactured by large non-SSI undertakings, the IT rebates were not applicable. The field survey conducted in the second phase permits us to examine the extent of SSI units manufacturing articles listed in the Schedule XI and also the extent of availment of income tax rebates under Sections 80I/80J/ 80IA. The findings are briefly discussed below.

Out of nearly 400 sample units, only ten reported manufacturing items/articles listed in Schedule XI - four manufacturing confectionary items/biscuits, three producing pilfer proof caps/crown corks and three engaged in the manufacture of steel furniture. Three of the 10 outside the factory sector were not entitled to the Income Tax rebate. Of these three, two reported having paid income tax during the year 1993-94. Out of the seven factory level SSI units, six had paid income tax during the same year. However, no one claimed to have availed the income tax concession under Section 80 I/IA. Three of these units commenced production in the recent years, that is during 1990-92. It is thus apparent that the kind of reservation for the SSI units mentioned above for claiming income tax concessions has had no impact at all with hardly any SSI unit benefitting from it.

Only a very few factory size SSIUs indicated having availed the IT concession under Section 80 J, 80 I or 80 IA. Altogether 79 non-factory SSI units reported having paid any income tax during any of the three years ending 1993-94. Of them, 57 had commenced production prior to 1988 while 22 started production during 1988 or later. Eight of the 22

younger units were from Mumbai, seven from Calcutta, three from Jalandhar and two each from Noida and Ludhiana. Seven units were engaged in the manufacturing of machinery & equipments including electrical, five in metal products & parts, three in rubber/plastic products and two in basic chemicals & products. Other industry groups that figured among these SSI units were food products, paper/paper products & printing/publishing, non-metallic mineral products and basic metals/alloys industry. Nine of these units were paying central excise duty. Ten of the units reported paying income tax ranging between Rs.10,000 and Rs.60,000 during 1993-94.

Nine out of 22 younger units had output level below Rs.20 lakhs during 1993-94; four each from output levels from Rs.20-30 lakhs and Rs. 30-50 lakhs while the remaining five had output above Rs. 50 lakhs. It is of interest to note that one SSI unit set up in 1991 in Ludhiana with an investment of Rs. 1.66 lakhs in P&M etc and functioning from rented building (annual rent Rs.48,000) has been manufacturing HB wire annually valued above Rs.1 crore and earning a net profit of above Rs. 1 lakh after paying an average income tax of nearly Rs. 48,000 p.a. during the three years ending 1993-94. This unit employed only six workers on the factory site and thus was not entitled to any income tax rebate under Section 80 I or 80 IA.

The sample evidence provides a strong case for doing away with the Income Tax concessions as these seem to benefit only the larger SSI units.

### **SECTION III SOME SPECIAL CASES**

#### **SSIs with Quality Standards**

Quality standards of the products in general are dictated by consumer preferences. Given the mixed composition of SSI products - intermediate products, components & parts,

capital goods, consumer durables and other consumer items, purchasers' specification was the major quality standard reported by the sample units. Unclassified standards occupied the second position. While only one unit claimed ISO - 9000 series standard, a total of 22 sample units stated that at least one of their products bore the ISI or FPO or Agmark Standard. The percentage share of these units in different size class of output levels may be seen in Tables B.1 & B.2 (Appendix II) in respect of Group I and Group II centres. Barring three cases, all units had output values above Rs. 30 lakhs (in 1993-94) and all these units occurred in samples drawn from the lists provided by the CE offices.

Jalandhar accounted for eleven of the 22 units reporting quality standard followed by Mumbai, Calcutta & NOIDA (three each) and Hyderabad-Secundrabad and Indore (one each). A significant feature of these cases is that, all of them belonged to 'older' category i.e. those commencing production prior to 1988. The only younger unit was started in 1990 with one exception for manufacturing gas stove in NOIDA. Of the older units six had started production prior to 1970, six during the 70s and nine during 1980-87. This indicates the life span required by an SSIU for reaching the stage of producing goods of national quality standard.

Among the products with such quality standard, there were four instances of industrial valves or gun metal valves, three instances of pipe fitting, two instances of industrial gas or gas plants and two instances of plastic containers. Other standard products included lubricating oil (reclaimed), laminated sheets, generator set, iron mixer, grinding machine, rice rubber rolls, surgical needles, fire extinguishers, heat mixer tank and canvas cloth.

There were four instances of standard quality products among the SSI 'cream' cases falling outside the purview of excise network dealt with in a separate section. One of them (Agra/1983) claimed the ISO - 9000 series quality standard for its products of diesel engines and generator sets. Three more manufacturing edible oils/cakes (Agra/1990), electric wire/cable (Noida/1990) and lubricating oil (Calcutta/1984) claimed the national quality standard.

## Sister Units

A common criticism of the concessional duty structure applicable to SSI is that the threshold level (Rs. 30 lakhs) for duty paying units and the ceilings of the different slabs (including the maximum limit<sup>16</sup> for SSI concession) operate as barriers or disincentives for the expansion or improvement in the performance of the unit. There is substance in this criticism since by crossing each point, the unit is liable to pay a higher level of duty. With particular reference to the maximum limit beyond which the SSI unit graduates to a large unit with the obligation to pay full duty for every unit of product cleared, i.e. even losing the full concession upto the first Rs.30 lakhs clearance, the Jha Committee observed that often there was a fragmentation of what should really be one unit into different units in order not to lose the benefit of the concession. The officials in Central Excise Department and State Industries Departments speak of rather a high level of incidence of such fragmentation or horizontal growth rather than vertical expansion. In fact, under the SIDO registration system, a person can get more than one industrial undertaking registered as SSI units so long as the total of the investment in plant and machinery in all such undertakings is within the ceiling (currently Rs. 60 lakhs) prescribed for an SSI unit. The ceiling, high as it is, would permit establishment of even 3 or more SSI units producing more than a total of Rs. 5 crores worth goods in certain industry groups like chemicals and electronics. Thus there is nothing objectionable or illegal about a person or a group of persons owning or controlling two or more duly registered SSI units and producing crores of rupees worth excisable items and saving (or avoiding) substantial amount of duty.

Certain forces may, however, come in the way of such uncontrolled horizontal growth of SSIUs. A proprietor or a management may find it difficult to run reasonably efficiently two or more undertakings. There could be organisational and labour problems. Acquiring separate accommodation may be more difficult as compared to expansion of existing accommodation, all of which would lead to higher administrative costs.

Incidence of such fragmented "sister" units may nevertheless be in conformity with the

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<sup>16</sup> Rs. 200 lakhs till March 95 and Rs. 300 lakhs subsequently.

employment objective behind the promotion of SSI. The implicit assumption is that two sister units would engage more number of workers as compared to one unit in producing a given level of output. On the other hand, capital resources may be underutilised; modernisation and adoption of improved technology might be slowed down. In order to go into a few such key issues as also to assess the level of incidence of sister units, the field survey in the second phase sought to elicit relevant details of sister units from the sample SSI units in spite of an overwhelming opinion that respondents would suppress formally reporting such cases, especially when the field work was to be carried out by Government officials.

About 5% of all the sample SSIUs (371) in the second phase reported the existence of sister units. There were 11 such cases (6.2%) out of a total sample of 176 drawn from the frames provided by the CE offices, six cases (5.7%) out of a sample of 106 drawn from the frames prepared from the registers of the DICs and only one out of 89 sampled from the frames updated on the basis of the second All-India census of SSI units (1987-88). Nine out of 11 cases of CE frame had commenced production in 1987 or earlier. Thus while few smaller units of older age (census frame) reported existence of sister units, relatively more number of larger SSI units (CE frame) of corresponding age bracket disclosed such instances. The reverse is true of younger units that commenced production in 1988 or later i.e. more number of such smaller SSIUs (DIC frame) than larger SSIUs (CE frame) came forward to reveal the incidence of sister units. In two instances, the sister units had the production level well above Rs. 2 crores with no implication of any tax avoidance.

At this point, a comment on the overall dimension of sister units would be pertinent. The findings of about 5% should be conceded as an underestimate for fairly obvious reasons. This project did not have the objective of an in-depth study of sister units. As such, no attempt was made to assess the degree of non-sampling errors (or response bias) that might have distorted the true dimension of this problem.

Tulsi<sup>17</sup> (1981) had probed the incidence of sister units in one industry group of SSI and came up with a figure of 67% of "establishments" (24 out of 36) having additional (sister)

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<sup>17</sup> "Social Cost of Incentives" by S.K. Tulsi - Kunj Publishing House, Delhi.

units under the same management. Our figure of 5% is widely off the 67% reported in her study. But a close look at her results would be really revealing. Tulsi had sampled establishments rather than units - the establishment being defined as one representing a single management that may be responsible for the operation and the working of one or more units in the same or different premises but under different names. A unit was defined as a single productive entity with a separate name with a self-contained production operation. A survey of managements was likely to throw up more instances of sister units than a survey of units. Only seven of the 36 establishments were proprietary concerns, 27 were partnerships and two were private limited companies - a composition very much different from that of the general SSI units which are predominantly proprietary concerns.

Tulsi's survey was confined to only the dyestuff industry located in the Mumbai city and four cities (Ahmedabad, Baroda, Surat and Vapi) of Gujarat. Thus the results had a restricted base.

As regards the opinion voiced by the officials of Government departments, it is apparent that enforcement officials often overstress instances of tax avoidance (or evasion) without reference to a large number of mostly law abiding usual cases and hence generally an exaggerated size of unusual cases is painted. Only a carefully planned and an objective study can throw better light on this phenomenon.

Two-thirds of the sister units in our survey whether from CE frame or DIC frame - were partnership concerns; over 22% were private limited companies and the rest (about 10%) were proprietary concerns - a pattern somewhat similar to Tulsi's findings. Partnership concerns and private limited companies have apparently the wherewithal to control two or more sister units whereas individual owners mostly rest content with managing one unit.

Calcutta had five cases of sister units followed by NOIDA (4), Mumbai (3) and Hyderabad-Secundrabad, Jalandhar and Indore (2 each). Half of these cases (9) reported manufacture of same products by the sister units - mostly excisable items. In another four instances, a unit was manufacturing excisable item while its sister concern was making a

related non-excisable item. In a couple of cases, both the sister concerns were apparently engaged in manufacture of related products (or services) which were claimed to be non-excisable. In three cases, particulars of sister units were not disclosed.

Barring one instance, all cases of sister units had the location within the same town or city. Only one unit reported having two sister units - all the three producing excisable items, but none paying any duty though the combined total production during 1993-94, as reported, was Rs. 69 lakhs. The average concessional duty payable on this clearance would be close to Rs. 3 lakhs implying a 5% gross or a net 2% (allowing for Modvat credit) saving on the turn-over. In other applicable cases, this net saving rate varied between 1.5% and 5% of the turn-over.

Combining the broad output size composition of eight sister units producing dutiable items and suitably adjusting the data for all the sample units of dutiable cases, the following technical ratios are obtained :-

<b>Technical Ratios of Sister Units and all Sample Units (dutiable cases), 1993-94</b>		
	<b>Sister Units</b>	<b>All Units</b>
i. Labour Productivity (O/L) (Rs. 000)	198	228
ii. Capital Intensity (K/L) (Rs. 000)	32.0	33.5
iii. Capital Productivity (O/K)	6.2	6.8

It is observed that while capital intensity and capital productivity were not very different for sister units when compared with the whole of sample, the labour productivity seemed to be lower. This gives credence to the argument that sister units might provide more employment without commensurate output.

One pertinent issue is whether the sister units are indifferent to vertical growth and underutilising the capacity. From a scrutiny of the basic data, it was observed that during the three-year period ending 1993-94, the production trend was quite good and to the extent annual capacity data were provided, the capacity utilisation was improving over the years.

A better performance was reported hardly by any of the independent units. It may be argued that once the units have ensured a certain measure of saving of tax by setting up sister units, they are not unduly concerned with the tax liability of each unit, but are essentially influenced by the market forces.

### **The Cream of SSI Sector**

An interesting issue for debate is how far the definitions of SSIU adopted by the DCSSI and the CE department deviate from each other leaving scope for grievance on the part of certain affected units. The capital definition is convenient to the DCSSI to recognise an industrial undertaking as SSIU at the very commencement of production and make available its organisational and policy support to all such undertakings until an undertaking outgrows this definition. On the other hand, the CE department levies duty on the basis of annual turnover in respect of all industrial undertakings whether small or large with concessional levels of duty applicable in different slabs of turn-over upto the ceiling, labelling any undertaking falling below this ceiling as SSIU. Apparently the CE department has considered this definition as practically convenient. It could argue that adoption of the capital definition might be liable to serious abuse since there was no rigid relation between capital and output and further that it would be impractical to keep track of the changes in the "original purchase value" of capital items in respect of a large number of undertakings who may be adding or subtracting their capital assets now and then.

One type of deviation may be presumed to be absent viz. those of units availing SSI concessional duty, but actually exceeding the DCSSI definition. The sampling design did not permit such cases as it was restricted to the SSIs. During 1993-94, the SSIUs availing SSI duty concession (31000 units) constituted less than 2% of the cumulative SIDO registration cases (17.7 lakhs). These together with the best performing non-dutiable units would form the top 2% layer of the SSIUs in terms of output. We are really concerned with the second type of "grievance" cases that fall within the capital definition, but are denied the CE concession due to their turn-over (production) exceeding the CE upper ceiling for SSI (Rs. 200 lakhs upto 1995 and Rs. 300 lakhs later). We term these units as the cream of SSI. The sampling scheme as per the planned survey design brought up in all 20 such cases.

### *Composition of the Cream cases*

Agra district and Noida topped this list each with six cases followed by Jalandhar (4), Calcutta (3) and Hyderabad-Secundrabad (1). A significant majority (65%) of them had commenced production in 1988 or later; the oldest case had commenced production in the year 1971 while the remaining had started production in the 80s. Two of these cases - the oldest and another of 1989 had crossed the capital ceiling prescribed for the SSI in 1992-93 or 1993-94 and entered the large sector as per DC SSI definition. Interestingly enough, there were as many as five cases (25%) which had the original purchase value of plant and machinery (P&M) as low as less than Rs. 5 lakhs; eight cases (40%) had in the range of Rs. 5 to 20 lakhs, three (15%) in the range of Rs. 20 to 40 lakhs while the remaining (20%) had higher P &M values.

Half of these cases had owners with family in the industrial line for long signifying the importance of long experience needed to reach such height. Four of them had owners who were essentially investors without industrial background. The remaining cases had entrepreneurs with or without technical qualification - the two types having equal share.

Six of these 'cream' cases had output in 1993-94 (or 1992-93) in the range Rs. 2 to Rs. 3 crores; a maximum i.e. 8(40%) had the output from Rs. 3 to Rs. 5 crores and four (20%) between Rs. 5 & Rs. 10 crores while the remaining two had the highest output values of Rs. 11.2 and Rs. 11.7 crores.

Reflecting the typical industrial complexion of the selected centres, the leather products dominated the cream cases accounting for four of them of which three were 100% export cases. The only other 100% exports case produced hand tools, pliers etc. Electric wires/cables or copper wires had also an equal share with four cases. Two units each had the products electronic items (Radio, tape recorder, computer hardware), agro products, machinery products and parts & components (particularly crown cap). Only one of them claimed the ISO quality standard for its products (diesel engine/generator set) while three more claimed the ISI/FPO/Agmark quality levels. Apart from the four units with 100% exports, 12 manufactured dutiable products and four non-dutiable products.

More than half of these units (11 out of 20) were limited companies, 35% (7 out of 20) partnership concerns and two were said to be proprietorship units. Two with employment sizes 10 and 30 stated that they were not registered under the Factories Act. Employment size 50 turned out to be the median point splitting the creamy set into two equal sub-sets. Three units employed more than 100 workers. The largest unit (producing leather shoes) reported a total employment of 666 workers with bulk of them (nearly 600) being contract workers. This unit was started in 1990.

A great majority of the cream cases (70%) belonged to the younger set (commencing production in 1988 or later) and among the top 10 biggest units (in terms of employment size) six of them (including the biggest) were the younger ones (post - 88 cases). Thus the younger units generally had high output levels as well as high employment sizes - a welcome combination that was also reported in the analysis of results of the field survey in Section II.

Most of the cream cases indicated an extremely high ratio of skilled to unskilled workers; the average wage bill was, however, comparatively low. One plausible reason could be that the skilled workers in industry groups like leather products and agro products are paid relatively low wages.

### ***Performance of the Cream Cases***

The thin layer of "cream" cases rests at the top output level of the capital based definition of SSI and are denied the CE concession by virtue of the fact that their output sizes (as also the turn-over in most cases) exceed the maximum ceiling fixed by the CE deptt - Rs. 200 lakhs till 1994-95 and Rs. 300 lakhs later on. As indicated earlier, some of them had very low capital sizes and also low employment sizes that could keep them below the factory sector. Thus in terms of capital used and employment size, some of them were observed to be much below larger SSI units. Hence, their overall labour productivity and capital productivity would show a marked rise above even the top stratum of production level.

The output-capital ratio for the SSI in the factory sector stood at 3.1 in 1991-92 when computed at constant (1981-82) prices, vide Table 11 of chapter III. It had declined from 6.8 in 1980-81 to this position. The cream apparently had a much larger value and this worked out to nearly 12.5 for 1993-94. The large sector as a whole above the SSI had a very low figure of 0.7 in 1991-92. These values together with other technical ratios are presented in the table below:-

**Technical Ratios : SSI, the Cream of SSI & Large Sector**

Sector	Technical Ratios (1981-82 Prices)			Remarks
	K/L (Rs. lakhs)	O/L (Rs. lakhs)	O/K	
SSI (FS) (1991-92)	0.40	1.21	3.1	Secondary data
The Cream of SSI(1993-94)	0.27*	2.33	12.5**	Survey data
Large Sector (Above the SSI) (1991-92)	2.88	2.05	0.7	Secondary data

\* This ratio excludes contract labour in the denominator since the unknown value of capital used by the contract labour is not included in the numerator.

\*\* The output in the numerator has been roughly adjusted for the contribution of contract labour.

The very low capital intensity reported against the cream of SSI may be attributable to certain typical industry groups (leather product) that happened to occur as cream cases in the survey centres. Other ratios too were affected by their presence. Only a larger survey or a more balanced study can disclose a more representative character of this cream. However, these cream cases are excluded from the analysis reported earlier.

Excluding four units engaged in 100% exports, 10 out of the 16 cases reported paying any income-tax during 1993-94 and four out of these 10 cases indicated having availed income tax concession under Section 32-A and or Section 80-I. Most of the tax paying younger units were entitled to IT concession under Section 80-I. A great majority (14 out of 20) claimed that they had not availed any State incentive; two indicated having availed one

type of incentive while the remaining four reported having benefitted from more than one type of State incentive.

### **Policy preferences for the promotion of SSI**

Among the alternative policy options suited for the promotion of SSI, initial subsidy or incentive to start the undertaking was the most preferred choice with six out of 19 cream cases giving the first rank to this incentive. Subsidy for modernisation or technology upgradation was the second choice. Incentive for acquisition of additional capital and more central excise concessions figure prominently among the first three choices. The pattern of choice of policies by general sample SSIUs are indicated in the Tables B.1 & B.2. It is observed that apart from the preferences indicated above, more concessional finance through banks was an important choice in case of Group I centres and more IT concessions for large units in case of Group II centres. For smaller SSIs in district centres initial subsidy for starting a unit was considered important. The size class Rs. 30-50 lakhs ranked 'increasing the limits of excise concessions' as an important incentive. Better infrastructure was given average ranking in almost all size classes.

## **SAMPLING DESIGN**

Because of the obvious limitations of secondary data in providing detailed information at the disaggregated level for the purpose of ascertaining the impact of various Central fiscal incentives, a sample survey of small scale industrial units (SSIUs) was canvassed in pre-specified districts/cities in two phases. The first phase covered the six districts/cities of Nowgaon, Kamrup, Rajkot, Ahmedabad, Delhi and Madras during the period August 1994 to February 1995. The survey operations were temporarily withheld because of some other commitments like completion of the project on impact of changes in 1994-95 Budget regarding excise policy on growth of SSI.

Subsequent to this, discussions with the sponsor of the project led to changed terms of reference whereby the scope and coverage of the study were modified. Several changes were made in the approach to the survey design as well as the coverage of the remaining centres to be surveyed. More importantly, the specifics of Central fiscal incentives to be probed were revised with the focus on Central Excise concessions to the SSI sector followed by Income-tax concessions, Central investment subsidy and Transport subsidy. The second phase of the survey operations were initiated during July 1995 covering the 10 centres viz. the districts of Agra, Indore and Jalandhar, Ludhiana, Moradabad, Ratlam and major cities of Mumbai, Calcutta, Hyderabad and Secundrabad and the industrial area of Noida.

### **Sampling Design for the First Phase Survey Operations**

A uni-stage stratified random sampling design was adopted in the selected districts.

#### ***Selection of Units***

On an average 50 small scale units registered with the State/UTs Directorate of industries were selected at random from two frames as per the following arrangements:

1. 25 Units from the frame of working units registered upto 31.3.88 as available from Second All India Census.
2. 25 Units from the frame of units registered from 1.4.88 to 31.3.94 as available with the General Manager, District Industries Centre/State Directorate of Industries.

However, the following restrictions were observed while finalising the list of sample units for coverage:

1. For providing representation to all industry groups specified by DC(SSI) and to net in units manufacturing excisable products, random selection was made in such a manner to include at least 50 per cent of units which manufactured excisable items.
2. Sample units were drawn in such a manner that they represented different strata of investment in plant and machinery as under:

<b>Investment in Plant &amp; machinery (P &amp; M) (Rs. in lakhs)</b>	<b>No. of Sample Units</b>
Less than 2	40
2 - 5	4
5 - 35	4
35 and above	2
<b>Total</b>	----- <b>50</b>

The above allocation to P & M slabs was based on the proportion of units as obtaining in the selected districts as per Second All India Census of Small Scale Industrial Units registered as on 31.3.88.

In order to substitute units found non-traceable, closed or non-responding during field enumeration, a substitute sample of 25 units was also drawn on lines similar to the main sample. Both the main sample and substitute sample lists were given to field teams for canvassing the questionnaires.

### **Sampling design for the Second Phase of Survey Operations**

Because of the distinctly different characteristics of the centres i.e. major cities including Noida and the remaining districts, the survey design was planned in such a way that the analysis could be done for the two groups separately. Further, among the districts, the industrially backward districts of Moradabad and Ratlam enjoyed the additional Central incentives namely Central Investment Subsidy and Income-tax concessions under section 80HH which provided the rationale for separating out the backward districts from the non-backward districts for design and analytical purposes. Thus the centres could be divided into three separate groups for analytical purposes:

- (i) Backward districts
- (ii) Non-backward districts and
- (iii) Major cities/areas.

The survey design for the second Phase of survey operations had to take into account the changed emphasis on Central Excise concessions with the result that the earlier instruments for selection of samples had to be re-examined for getting a representative sample. In other words, as compared to the first phase, the sampling frames, the scheme of stratification and the principle of allocation of samples to different strata had to be radically changed in the second phase.

#### ***Sampling Frames***

The following frames from five different sources were utilised for drawing random samples of SSIUs:

- (i) Assessment Registers maintained in the offices of the Central Excise Offices containing names, addresses of duty paying industrial undertakings and sizes of turnover during a financial year. (The frame provided by these registers is designated as ED).

(ii) Lists of SSIUs updated on the basis of All India Second Census of SSI units (1988) maintained in the computer data base by the National Informatics Centre (NIC)(This frame which gives units registered prior to 1.4.1988 is designated as SDI).

(iii) Records in the District Industries Centres (DIC) showing the details of SSI units registered with them from 1.4.88 onwards (constituting the frame labelled as DIC).

(iv) Records available in the DICs showing the disbursement of Central Investment Subsidy to the SSIUs. (This frame applicable only for the backward districts is designated as CIS).

(v) Records of the Income Tax Department containing the particulars of industrial undertakings which availed of the concession under Section 80 HH/80HHA. (This frame is designated as IT).

Prior to stratification and selection of sample units, the sampling units in each of the frames should have been screened first to remove any extraneous unit; that is, the universe should have consisted of only SSIUs satisfying the DCSSI definition of investment in plant & machinery. But this was not possible because of lack of information on investment in ED and IT frames. A uniform procedure to exclude any such extraneous unit from the sample list was adopted during survey operations; a casualty form was required to be filled up in any such case and a substitute unit was to be selected and surveyed.

### ***Stratification***

The excise concessions being the major incentive, the provisions of the General Scheme of Central Excise concessions for the SSI sector offered the key criteria for stratification viz. the different slabs of turn-over corresponding to the four levels of concession: below Rs. 30 lakhs, Rs. 30 to Rs. 50 lakhs, Rs. 50 to 75 lakhs and Rs. 75 to 200 lakhs.

Since the SSIUs having a turnover below Rs.30 lakhs are not required to pay any duty it was considered necessary to use the frames available with the DIC and SDI for covering this stratum below Rs.30 lakhs but the information on turnover is not available in these frames. However, using a rough relationship between the original purchase value of plant and machinery in respect of units registered from 1.4.88 onwards and the annual production, the investment value of Rs.5 lakhs was taken to approximately correspond to a production (or turnover) value of Rs.30 lakhs during 1994-95. The investment value of Rs.2 lakhs was taken to correspond to a production level of Rs.10 lakhs. The SDI frame of updated list of second census of SSIUs contains the production of units for the year 1987-88. This was adjusted to the 1994-95 price list. Hence the broad stratum below Rs.30 lakhs was split into two strata:

- (i) Equivalent value of production below Rs.10 lakhs
- (ii) Equivalent value of production between Rs.10 to 30 lakhs.

The main five strata are shown below with indications of the frames from which sampling of units was done.

<b>Stratum</b>	<b>Production (turnover) in Rs. lakhs (1994-95) criterion</b>	<b>Frames to be used for stratification and sampling</b>
1.	≤ 10	SDI, DIC
2.	10 - 30	SDI, DIC, ED*
3.	30 - 50	ED
4.	50 - 75	ED
5.	75 - 200	ED

\* This sample was drawn from the ED frame containing addresses of units with a turnover below Rs. 30 lakhs who had filed the declaration with the CE offices.

In addition, there were two more strata to accommodate samples from the frame of units availing CIS and those availing IT concessions under Sections 80HH and 80HHA. One stratum was also retained to include units producing non-excisable items with output level above Rs. 30 lakhs. In all there were eight strata.

### *Allocation*

In the light of the revised terms of reference which shifted the focus of the evaluation study to the Central Excise (CE) concessions provided to the SSI sector, the design of the field survey in the second phase was suitably modified to incorporate the following salient features:-

- (i) The SSI units were stratified to align with the different slabs of CE concession levels.
- (ii) Greater weightage in sample allocation was given to strata covering duty paying SSI units.
- (iii) Essential details required for the study of duty paying SSI units were included in the survey schedule.

Even though the duty paying SSI units constituted hardly two percent of all the registered units (SIDO), over 50% of the total sample was allocated to these units with largest sample from the lowest slab of turn-over in the range of Rs. 30 to 50 lakhs followed by the smaller samples from the turn-over slabs of Rs. 50 to 75 lakhs and Rs. 75 to 200 lakhs. The huge bulk of units below the turn-over level of Rs. 30 lakhs was split into two strata. Care was also taken to sample large SSI units (output above Rs. 30 lakhs) that were engaged in the manufacture of non-dutiable items including units engaged in services like repairs, printing, data processing etc. A sample of units immediately below the taxation level (Rs. 30 lakhs) and producing dutiable items was also included in the survey.

The total sample for a particular centre thus was allocated to the eight strata disproportionately with a view to netting more samples from the Strata 3, 4 and 5. The allocated samples for strata 1 and 2 was divided between the SDI and the DIC frames broadly categorising the units as those that commenced production prior to 1988 and those from 1.4.1988 onwards.

### ***Selection of units***

Simple random sampling without replacement was adopted for selecting samples within each stratum from a frame. In case of DIC registers, wherever units in relatively small strata could be completely enumerated, separate lists were prepared first and random samples drawn; otherwise sufficiently large random samples were drawn from the integrated registers so that the prescribed quota of sample allocation for all the strata was fully met. Computer-generated random samples were drawn from the SDI frame.

In the case of Central Excise department, industrial undertakings including SSIUs in a predetermined geographical area known as Range are administered by a Superintendent; groups of several adjacent Ranges known as Divisions are controlled by Asstt. Commissioners. A two stage sampling scheme was found to be convenient in this situation. In the first stage, systematic random samples of Ranges (groups of Ranges in case of Mumbai or Divisions in case of Calcutta) arranged in the order of the size of Ranges were drawn in the first stage. All the SSIUs in the selected cluster of Ranges for a survey centre were stratified according to the turnover size and random samples of SSIUs selected from each stratum.

### ***Sample Size & Limitations of the Study***

The second phase of survey operations covered ten districts where the staff of the District Industries Centres ( DICs) were trained intensively in canvassing of the questionnaires in sample units, a list of which was provided. In order to provide for eventualities of closure of units, not traceable cases, units, shifting to different location, non-cooperation. etc. a list of substitute units was also provided for each stratum so as to achieve the required sample size. However, owing to a multiplicity of reasons which included even the election work postponing survey operations there remained a shortfall in the allocated samples. The feedback received from the visits to the districts revealed that in general, to canvass one single questionnaire four to five visits on an average were required. Besides, the fact that several other surveys were concurrently being conducted by the DIC staff made heavy demands on the field workers deployed by the DICs. The field work was constantly being monitored so as to obtain the questionnaires in time as per the required sample size. But the delay in

receipt of the data inevitably resulted in the imposition of a cut-off date. Districts which did not respond at all are Ahmedabad, Moradabad and Ratlam. Combining the two phases of survey operations the number of sample units planned to be surveyed and the number actually surveyed or questionnaires received till 15th January, 1996 are given below :

S.No.	District/City	Number of Small Scale Industrial Units	
		Planned to be surveyed	Actually surveyed
1.	Kamrup	50	50
2.	Nowgaon	50	50
3.	Delhi	50	50
4.	Madras	50	49
5.	Calcutta	76	76
6.	Mumbai	76	51
7.	Hyderabad-Secundrabad	60	58
8.	Noida	60	59
9.	Ludhiana	54	52
10.	Jalandhar	54	52
11.	Indore	50	23
12.	Agra	52	28**
12.	Rajkot	50	50
13.	All	900*	648

\* includes non-responding units of Moradabad (58) & Ratlam (58) & Ahmedabad (50)

\*\* 28 questionnaires were received from Agra at a later date and as such could be included only in special case analysis of Section III, Chapter IV.

A total of 648 sample units could therefore, be included in this study for analysis. It is to be noted that the approach of the survey design in respect of the two phases was different and hence the data for sample units of the two phases were separately tabulated. For presentation in general, the results of all the districts/cities have been combined. However,

the results relating to central excise concessions sought for more details in the second phase pertain mostly to the districts/cities covered in the second phase (serial nos. 5-11 ). For discussion of central investment subsidy and the transport subsidy the analysis could be restricted to only the districts of Kamrup and Nowgaon as a result of the non-responding backward districts of Moradabad and Ratlam. The effective number of samples included in different analyses, as given seen in Chapter IV, was less depending on the quality of data.

**STATISTICAL TABLES**

Series A

1. Trends in Units, Labour, Output, Capital for Small, Large and All Factories : at constant (1981-82) Prices.
2. Estimates of No. of Units, Employment, Production and Exports in Small Scale Industry at 1981-82 Prices.
3. Percentage shares in Production, Employment and Exports of Modern SSI (excluding powerloom) and Traditional Industries in Village and Small Industries in 1984-85 to 1993-94.
4. Statewise distribution and growth of registered SIDO units.
5. CES Production Functions.
6. Growth of Index of Industrial Production (SSI)
7. Growth and Share of SSI Exports in Total Exports and Export Productivity (at constant (1980-81) prices).
8. Growth rates of Exports of major products groups of SSI at 1981-82 prices.
9. Trends in Size, Labour Productivity, Capital Output Ratio, Capital Intensity and Export Intensity of Small Scale Industries (at 1981-82 prices).
10. Indicators of Size of Small and Large Scale Units.
11. Estimates of Productivity and Intensity in Small and Large Factory Sector (at 81-82 prices).
12. Trend and Growth Rates of Labour and Export productivity in VSI sector (at constant 1981-82 prices).

Series B      Survey Results

1.      Basic Characteristics Small Scale Industrial units : Group I
2.      Basic Characteristics Small Scale Industrial units : Group II
3.      Selected performance Indicators (Current price) : (All units)
4.      Selected performance indicators (Current price) : (Reserved/Others)
5.      Administrative Cost Ratio.
6.      Output, Employment and Capital and Technical Coefficients.

**Table A.1**  
**Trends in Units, Labour, Output, Capital for Small, Large and All Factories : at constant (1981-82) Prices**

Years	Factories (in thousands)			Employees ( in lakhs)			Gross Fixed Capital (Rs. crores)			Gross Output (Rs. crores)			Total Wages (Rs. lakhs)		
	Small@	Large	All	Small	Large	All	Small	Large	All	Small	Large	All	Small	Large	All
1980-81	90.1	6.4	96.5	29.0	48.2	77.1	2598	35160	37758	17718	50229	67947	47	114	89
1981-82	98.2	6.9	105.0	30.0	47.8	77.8	3108	41621	44729	17847	55796	73672	43	115	87
1982-83	85.5	7.6	93.2	30.4	49.7	80.1	3557	49688	53245	19833	63330	83163	49	119	92
1983-84	87.7	9.0	96.7	28.3	50.0	78.2	4558	58951	63509	17471	65452	82923	47	124	97
1984-85	86.9	10.0	96.9	26.5	52.2	78.7	4671	68027	72698	17928	69970	87898	49	132	104
1985-86	93.2	7.8	101.0	30.0	44.7	74.7	5947	74721	80668	23235	72582	95818	54	143	107
1986-87	89.5	8.5	98.0	28.6	45.8	74.4	6424	83529	89953	22630	77629	100259	53	145	110
1987-88	92.8	9.7	102.6	29.6	48.3	77.9	7239	95968	103207	24278	83020	107298	53	145	110
1988-89	93.3	10.8	104.1	29.5	48.0	77.4	8412	106551	114962	26620	92854	119474	55	146	111
1989-90	90.1	17.9	108.0	30.0	51.4	81.4	8594	122328	130922	28140	111063	139203	56	156	119
1990-91	90.3	19.9	110.2	28.7	53.0	81.6	9263	142093	151357	27489	120603	148092	57	153	119
1991-92	101.4	10.9	112.3	28.4	53.5	81.9	11268	154317	165585	34426	109557	143983	68	127	106
<b>Annual Average Growth Rates</b>															
1980-81 to 1984-85	-0.6	11.9	0.4	-2.1	2.1	0.5	16.2	10.0	17.8	0.6	8.7	6.8	1.6	3.8	4.2
1985-86 to 1990-91	0.7	15.0	2.2	1.5	0.5	0.7	12.4	13.1	13.0	7.9	9.6	9.2	2.4	2.5	2.2
1980-81 to 1990-91	0.2	13.7	1.5	0.0	1.1	0.6	13.9	15.0	15.0	5.0	9.3	8.2	2.1	3.0	3.0
1990-91 to 1991-92	12.4	-45.5	1.9	-0.8	1.0	0.4	21.6	8.6	9.4	25.2	-9.2	-2.8	20.5	-17.0	-10.6
<b>Trend Rates</b>															
1973-74 to 1979-80	7.5	6.2	7.3	5.1	4.6	4.8									
1980-81 to 1991-92	0.5	8.1	1.3	0.1	0.7	0.4	13.7	14.1	14.1	6.0	8.0	7.5	3.0	2.4	2.6

**Source:** Annual Survey of Industries, CSO  
**Note:** a Small includes all industries with investment in P & M to be less than Rs. 10 lakhs before 1980, Rs. 20 lakhs before 1985, Rs. 35 lakhs before 1991 and lesser than Rs. 60 lakhs thereafter. No separate distinction has been used for ancillary industries while using the classification criterion.

**Table A.2**  
**Estimates of No. of Units, Employment, Investment, Production and Exports in Small Scale Industry at 1981-82 Prices**

Year	Cum No. of Units regd. (Lakhs)	Employment (Lakhs)	Production (Rs. crores)	Investment@ (Rs. crores)
1980-81	4.5	71.0	29505.8	6393.8
1981-82	5.2	75.0	32600.0	6280.0
1982-83	6.1	79.0	33816.4	6601.9
1983-84	6.8	84.2	37905.3	6869.2
1984-85	7.6	90.0	42995.7	7482.1
1985-86	8.5	96.0	49179.1	7921.5
1986-87	9.5	101.4	55921.1	8567.7
1987-88	10.5	107.0	63032.5	9553.0
1988-89	11.7	113.0	70231.0	10085.4
1989-90	12.7	119.6	78481.6	10730.9*
1990-91	13.8	125.3	84978.1	11417.7
1991-92	15.0	129.8	87856.0	12148.4
1992-93	16.4	134.1	92774.8	12925.9
1993-94	17.7	139.4	99361.8	13753.2
1994-95 (P)	19.4	146.6	199427.0**	
<b>Growth Rate (per cent per annum)</b>				
1980-81 to 1984-85	11.5	6.1	9.5	4.1
1985-86 to 1989-90	10.9	5.8	13.1	8.2
1990-91 to 1993-94	8.7	4.2	6.7	6.4
1980-81 to 1993-94	10.3	5.5	10.6	6.7

Source : Development Commissioner, Small Scale Industries

(a) Investment figures are taken from the publications of the Centre for Monitoring Indian Economy.

\* Figures on investment after 1988-89 have been estimated on the basis of trend for the previous year.

\*\* At 1990-91 prices

Table A.3

Percentage shares of Modern SSI\* (excluding powerloom) and Traditional Industries in Village and Small Industries in Production, Employment and Exports, 1984-85 to 1993-94

Percentage

YEARS	EMPLOYMENT		PRODUCTION		EXPORTS	
	Modern SSI	Traditional Industries	Modern SSI	Traditional Industries	Modern SSI	Traditional Industries
1984-85	29.1	60.5	78.1	11.9	51.6	48.4
1989-90	31.1	57.2	80.6	10.8	51.5	48.5
1990-91	29.2	57.9	83.5	9.8	50.4	49.6
1991-92	28.3	59.3	81.9	10.7	55.1	44.1
1992-93	28.0	58.9	79.0	10.8	48.0	47.4
1993-94	27.6	60.0	77.5	11.6	47.5	48.1
<b>Growth Rates (Per cent per annum)</b>						
1984-85-1990-91	5.5	4.7	12.02	7.2	10.1	10.9
1990-91-1993-94	2.3	5.4	-4.5	3.5	5.7	6.8
1984-85 to 1993-94	4.4	4.9	6.2	5.9	8.6	9.6

Source: Eight Five Year Plan 1992-97, Planning Commission Vol II & Annual Plan (1993-94), Planning Commission, New Delhi

- Note 1. Percentage share have been calculated at current prices.  
 2. Growth rates are average annual compounded rates of growth calculated at constant price (1980-81).  
 3. \* SSI excludes powerloom. Hence the residual share between the traditional and SSI is the contribution of powerloom sector.

Table A.4

## Statewise distribution and growth of registered SIDO units

States	SIDO Units (Per cent) Share			Growth of Regd. Units*
	1980	1988	1992	1980-92
Andhra Pradesh	4.96	5.96	6.56	14.0
Assam	0.82	0.80	0.88	12.0
Bihar	4.67	5.11	5.12	12.3
Gujarat	6.20	5.60	5.80	10.8
Haryana	3.95	5.23	4.88	13.4
Himachal Pradesh	1.46	0.85	0.74	5.3
Jammu & Kashmir	1.33	1.53	1.38	11.8
Karnataka	3.85	5.34	5.41	14.6
Kerala	3.69	3.66	5.29	14.8
Madhya Pradesh	7.32	11.94	11.25	15.5
Maharashtra	6.33	4.66	4.15	7.6
Manipur	0.69	0.25	0.26	2.9
Meghalaya	0.04	0.09	0.10	20.7
Nagaland	0.08	0.04	0.04	5.5
Orissa	1.79	1.37	1.01	6.2
Punjab	7.49	8.24	8.21	12.3
Rajasthan	5.34	4.85	3.94	8.6
Tamil Nadu	6.71	7.39	8.17	13.3
Tripura	0.25	0.30	0.35	14.4
Uttar Pradesh	7.45	12.45	15.14	18.2
Sikkim	0.01	0.01	0.01	20.1
Arunachal Pradesh	0.04	0.03	0.03	10.7
West Bengal	22.33	11.24	8.70	3.0
Mizoram	0.11	0.14	0.16	15.4
Goa	0.26	0.38	0.33	13.6
Andaman & Nicobar	0.02	0.05	0.05	20.1
Chandigarh	0.18	0.21	0.17	11.0
Dadar & Nagar Haveli	0.03	0.02	0.02	8.6
Delhi	2.46	2.03	1.63	7.6
Pondicheri	0.16	0.20	0.21	14.2
All	100.00	100.00	100.00	11.4

Source : Calculated from data provided by SIDO

\* Average annual compounded rates of growth

**Table A.5**

<b><u>CES Production Functions</u></b>					
<b>I.</b>	Small:	$\log (V/L) = 5.5 + 0.8 \log (w) + .04 \text{ time} - 0.83 \log (L)$			$R^2 = .95$
		(1.4)	(1.9)	(-1.6)	
	Large:	$\log (V/L) = 5.1 + 0.5 \log (w) + .05 \text{ time} - 0.11 \log (L)$			$R^2 = .94$
		(0.8)	(1.1)	(-0.2)	
<b>II.</b>	Small:	$\log [K/L] = -5.76 + 1.6 \log [w/r]$			$R^2 = .85$
		(8.1)			
	Large:	$\log [K/L] = -7.1 + 1.7 \log [w/r]$			$R^2 = .84$
		(8.8)			

- Note:
1. Figures in parenthesis are t - values. Number of observations = 12
  2. Calculated by using ASI data given in Table 1.
  3. L stands for all employees, as per ASI definition, K is the real capital stock at the end of the year calculated by using perpetual inventory method, w stands for total emoluments as per ASI definition, V is the net real value added and r is taken to represent returns to capital and is calculated by using  $(V-wL)/K$ .

**Table A.6****Growth of Index of Industrial Production (SSI)**

<b>Items</b>	<b>Growth Rates</b>
Food Products (20-21)	20.9
Wearing Apparel (26)	10.7
Wood & Wood Products (27)	19.3
Paper & Paper Products (28)	6.8
Leather & Leather Products (29)	25.5
Rubber Products (30)	8.7
Chemical & Chemical Products (31)	5.2
Non-Metallic Minerals Products (32)	12.1
Basic Metal Industries (33)	9.2
Metal Products (14)	11.9
Non-Electrical Machinery (35)	6.8
Electrical Machinery & Appliances (36)	7.9
Transport Equipment (37)	7.3
Miscellaneous (38)	6.8
All Industries	11.0

**Source :** Calculated from data provided by SIDO\*  
Trend rates calculated for period 1980-81 to 1992-93.  
Figures in brackets are 2 digit level NIC Codes.

**Table A.7**

**Growth and Share of SSI Exports in Total Exports and Export Productivity**

Years	Exports (Rs. crores)		Percent Share of SSI	Exports / Output*
	Total	SSI		
1980-81	6710.7	1643.2	24.5	0.06
1981-82	7890.5	2070.6	26.2	0.06
1982-83	8907.8	2045.0	23.0	0.06
1983-84	9872.1	2163.9	21.9	0.05
1984-85	11403.7	2540.7	21.9	0.04
1985-86	10834.6	2769.1	25.6	0.04
1986-87	12566.6	3643.7	29.0	0.04
1987-88	15741.2	4372.9	27.8	0.04
1988-89	20295.2	5489.6	27.0	0.04
1989-90	27681.5	7625.7	27.5	0.04
1990-91	32553.8	9664.1	29.7	0.04
1991-92	44041.8	13883.3	31.5	0.05
1992-93	53350.5	17784.8	33.3	0.05
1993-94	69546.9	25307.0	36.4	0.06
1994-95 (P)	82674.1	26836.5	32.5	-
<b>Trend Growth Rates (per cent per annum) calculated at constant (1980-81) prices</b>				
1980-81 to 1984-95		-1.5		
1985-86 to 1989-90		11.6		
1990-91 to 1993-94		18.2		
1980-81 to 1993-94		8.4		

**Source:** Development Commissioner, Small Scale Industries, Government of India

\* Ratio has been calculated at constant 1981-82 prices.

Table A.8

## Growth rates of Exports of major products groups of SSI

Industry Group	Growth Rates**	Percentage Share of SSI	
		1991-92	1992-93
Engineering Goods	15.1	30.7	30.2
Basic Chemicals Pharmaceuticals, Cosmetic	41.4	51.0	55.0
Chemicals & Allied Products	20.8	4.6	2.8
Plastic Products	12.5	26.5	45
Finished Leather & Products	23.5	82.8	80
Marine Products	3.3	-	28.7
Processed Foods	17.7	65.0	65
Woolen Garments	6.9	34.5	35
Sports Goods	10.3	100.0	100.0
Readymade Garments	27.3	90.0	90.0
Rayon & Synthetic Products	15.8	n.a.*	-
Processed Tobacco, Snuff, Beedi	28.5	48.0	47.3
<b>Traditional Industries</b>			
Cashew Kernal and Nut Shell	17.2	86.6	85.7
Lac	6.8	98.0	97.8
Spices, Spice Oils	23.1	10.0	10.0

**Source:** Calculated from data provided by Development Commissioner, SSI, Ministry of Industry.

\* Figures on total exports are not available for this product. However, SSI exports show a 10% increase between the two periods.

\*\* Trend Growth Rates calculated for period 1980-81 to 1992-93

**Table A.9**

**Trends in Size, Labour Productivity, Capital Output Ratio, Capital Intensity and Export Intensity of Small Scale Industries (at 1981-82 prices)**

Year	Prod / Unit (Rs.)	Emp / Unit	Inv / Unit* (Rs.)	Inv / Prod K/O	Prod / Emp O/L (Rs.)	Inv / Emp K/L (Rs.)
1980-81	658611.2	15.8	142719	0.22	41557	9005
1981-82	623327.0	14.3	120076	0.19	43467	8373
1982-83	557107.5	13.0	108763	0.20	42806	8357
1983-84	554170.8	12.3	100426	0.18	45045	8163
1984-85	569480.0	11.9	99101	0.17	47773	8313
1985-86	576543.0	11.2	92866	0.16	51228	8252
1986-87	589884.5	10.6	90376	0.15	55149	8449
1987-88	597464.4	10.1	90550	0.15	58909	8928
1988-89	600265.1	9.7	86200	0.14	62151	8925
1989-90	619428.7	9.4	84695	0.14	65620	8972
1990-91	616677.2	9.1	-	0.13	67820	9112
1991-92	586488.3	8.7	-	0.14	67686	9359
1992-93	566736.8	8.2	-	0.14	69204	9642
1993-94	560732.7	7.9	-	0.14	71288	9867
Growth Rates@	-0.3	-4.9	-5.6	-	4.8	1.15

**Source :** Calculated from data provided by Development Commissioner, SSI, Ministry of Industry

@ Trend Rates of growth in per cent per annum  
\* Investment figures after 1988-89 are not available.

**Table A.10**  
**Indicators of Size of Small and Large Scale Units (1981-82)**

Years	Employment / Unit			GFC / Unit (Rs. lakhs)			Output / Unit (Rs. lakhs)		
	Small	Large	Total	Small	Large	Total	Small	Large	Total
1980-81	32.2	752.7	79.9	2.9	549.5	39.1	19.7	785.1	70.4
1981-82	30.5	696.1	74.0	3.2	606.0	42.6	18.2	812.4	70.1
1982-83	35.6	650.0	86.0	4.2	650.2	57.2	23.2	828.7	89.3
1983-84	32.2	555.8	80.9	5.2	655.5	65.7	19.9	727.8	85.7
1984-85	30.5	522.5	81.2	5.4	680.7	75.0	20.6	700.2	90.7
1985-86	32.2	570.3	74.0	6.4	953.6	79.9	24.9	926.3	94.9
1986-87	32.0	541.2	76.0	7.2	987.0	91.8	25.3	917.3	102.3
1987-88	31.9	495.1	75.9	7.8	984.6	100.6	26.1	851.7	104.6
1988-89	31.6	446.3	74.4	9.0	991.2	110.5	28.5	863.8	114.8
1989-90	33.3	286.9	75.4	9.5	682.5	121.2	31.2	619.7	128.9
1990-91	31.7	266.0	74.1	10.3	713.4	137.4	30.5	605.5	134.4
1991-92	28.0	492.6	73.0	11.1	1420.3	147.5	33.9	1008.3	128.2
<b>Annual Average Growth Rates</b>									
1980-81 to 1984-85	-0.9	-8.7	0.8	17.4	5.6	18.0	2.4	-2.6	7.2
1985-86 to 1990-91	0.8	-9.6	-1.4	11.5	2.9	10.7	7.0	-0.8	6.8
1980-81 to 1990-91	0.1	-9.2	-0.6	13.8	4.0	13.6	5.1	-1.6	7
1990-91 to 1991-92	-11.7	85.2	-1.5	8.3	99.1	7.4	11.5	66.5	-4.6

Note : Calculated from Table 1

Small and Large defined as per note in Table 1

\* This high rate of growth in large in 1991-92 seems to be due to change in economic policy but more due to definitional change and a shift of factories (which were earlier classified as large) into the small category (see the Factories column in Table 1)

**Table A.11**  
**Estimates of Productivity and Intensity in Small and Large Factory Sector (at 81-82 prices)\***

Years	GFC / Empl (Rs.)			Output / Employment (Rs.) (O/L)			Output / GFC (Rs.) (O/K)			GFC / Output (Rs.)			W / r@		
	Small#	Large	Total	Small#	Large	Total	Small#	Large	Total	Small#	Large	Total	Small#	Large	Total
1980-81	8962	73014	48943	61114	104306	88074	6.8	1.4	1.8	0.15	0.70	0.56	8774	55956	39198
1981-82	10371	87064	57508	59542	116715	94721	5.7	1.3	1.6	0.17	0.75	0.61	9270	56175	39188
1982-83	11690	100032	66475	65184	127497	103826	5.6	1.3	1.6	0.18	0.78	0.64	12727	62283	45307
1983-84	16126	117953	81171	61818	130960	105984	3.8	1.1	1.3	0.26	0.90	0.77	10006	65864	46143
1984-85	17625	130279	92353	67651	134001	111664	3.8	1.0	1.2	0.26	0.97	0.83	11787	85040	60514
1985-86	19806	167197	107967	77386	162413	128244	3.9	1.0	1.2	0.26	1.03	0.84	12901	92212	61456
1986-87	22447	182375	120874	79075	169493	134723	3.5	0.9	1.1	0.28	1.08	0.90	14533	99075	67692
1987-88	24456	198881	132562	82017	172048	137817	3.4	0.9	1.0	0.30	1.16	0.96	15545	107260	73541
1988-89	28556	222089	148466	90370	193540	154293	3.2	0.9	1.0	0.32	1.15	0.96	15742	100304	69411
1989-90	28649	237867	160787	93803	215964	170958	3.3	0.9	1.1	0.31	1.10	0.94	15803	102201	71679
1990-91	32336	268219	185429	95953	227653	181429	3.0	0.9	1.0	0.34	1.18	1.02	18363	102580	75002
1991-92	39652	288347	202091	121141	204711	175726	3.1	0.7	0.9	0.33	1.41	1.15	19776	101547	76139
<b>Annual Average Growth Rates</b>															
1980-81 to 1984-85	18.9	15.6	17.2	2.8	6.5	6.2	-12.5	-7.8	-9.4	16.8	8.6	10.6	9.8	11.5	12.1
1985-86 to 1990-91	10.8	13.0	12.4	6.1	9.4	8.5	-4.1	-3.1	-3.4	4.5	3.3	3.7	7.8	3.3	3.8
1980-81 to 1990-91	14.0	14.0	14.3	4.8	8.3	7.6	-7.4	-5.0	-5.8	9.4	5.5	6.4	8.6	6.6	7.1
1990-91 to 1991-92	22.6	7.5	9.0	26.3	-10.1	-3.1	3.0	-16.4	-11.1	-2.9	19.6	12.5	7.7	-1.0	1.5
Trend Rates (1980-81 to 1991-92)	13.8	13.3	13.6	6.1	7.2	7.1	-6.7	-5.4	-5.8	7.2	5.7	6.1	7.2	6.6	6.9

\* Calculated from Table 1  
# Small and Large as defined in Table 1.  
@ W/r shows the wage rental ratio.

**Table A.12**

**Trend and Growth Rates of Labour and Export productivity in VSI sector (at constant 1981-82 prices)**

YEARS	PRODUCTION / EMPLOYMENT		EXPORT / PRODUCTION	
	SSI* (Rs.)	Traditional Industries (Rs.)	SSI*	Traditional Industries
1984-85	47773	3511	0.04	0.25
1989-90	45664	3336	0.06	0.42
1990-91	68365	4050	0.04	0.30
1991-92	62420	3781	0.05	0.31
1992-93	58134	3762	0.05	0.36
1993-94	55575	3833	0.05	0.33
<b>Growth Rates (Per cent per annum)</b>				
1984-85 to 1990-91	6.2	2.4	-1.7	3.5
1990-91 to 1993-94	-6.7	-1.8	10.8	3.2
1984-85 to 1993-94	1.7	1.0	2.3	3.4

**Note:** Based on figures in Table 3.

\* SSI excludes powerloom

Table B.1

## Basic Characteristics of Small Scale Industrial Units : Group I

(Percentage)

S.No.	Particulars	Size Class (Output in Rs lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units			Dutiable Units		
1	<b>Total No of Units</b>	52	53	34	20	34	20
2	<b>Type of Location</b>						
	(a) Metro	75.0	67.9	58.8	75.0	44.1	50.0
	(b) Urban	21.2	24.5	38.2	20.0	50.0	30.0
	(c) Rural	7.7	20.2	2.9	5.0	5.9	41.7
3	<b>Type of Organisation</b>						
	(a) Proprietorship	65.4	37.7	32.4	25.0	17.6	15.0
	(b) Partnership	17.3	45.3	35.3	40.0	32.4	65.0
	(c) Ltd Co.	15.4	15.1	29.4	20.0	38.2	25.0
	(d) Co-operative Society	1.9	0.0	0.0	5.0	0.0	0.0
	(e) Others	0.0	1.9	2.9	10.0	11.8	0.0
4	<b>Registration Status</b>						
	(a) State Directorate of Industries	92.3	96.2	97.1	100.0	100.0	90.0
	(b) Factories Act	17.3	32.1	58.8	80.0	88.2	60.0
	(c) Excise Department	13.5	49.1	91.2	85.0	94.1	15.0
5	<b>Source of finance</b>						
	(a) Self/Family	92.3	64.2	79.4	80.0	85.3	75.0
	(b) Relation/Friends	23.1	52.8	50.0	70.0	41.2	55.0
	(c) Banks/Pub. Instns	40.4	47.2	55.9	55.0	58.8	65.0
	(d) Pvt. Inst./Indvs.	3.8	3.8	2.9	5.0	5.9	0.0
	(e) Central Govt Incentives	0.0	0.0	0.0	0.0	0.0	0.0
	(f) State Govt Incentives	0.0	1.9	0.0	0.0	0.0	0.0
6	<b>Background of the Owner</b>						
	(a) Investor	46.2	34.0	38.2	20.0	32.4	55.0
	(b) Entrepreneur with experience	25.0	22.6	20.6	35.0	17.6	15.0
	(c) Technically qualified entrepreneur	9.6	24.5	32.4	30.0	44.1	15.0
	(d) Others	11.5	11.3	2.9	0.0	5.9	25.0
7	<b>Sister Unit Cases</b>	3.8	5.7	2.9	25.0	5.9	15.0

S.No.	Particulars	Size Class (Output in Rs lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units		Dutiable Units			Non Dutiable Units
8	<b>Availment of State Govt. Incentives</b>						
	(a) None	71.2	83.0	70.6	85.0	61.8	85.0
	(b) Only one	9.6	5.7	2.9	10.0	26.5	5.0
	(c) More than one	19.2	11.3	26.5	10.0	11.8	5.0
9	<b>Type of Product</b>						
	(a) Consumer durable	25.0	24.5	5.9	40.0	41.2	45.0
	(b) Other Consumer Goods	15.4	30.2	2.9	10.0	11.8	25.0
	(c) Capital Goods	19.2	13.2	17.6	25.0	23.5	0.0
	(d) Intermediate Products	25.0	37.7	55.9	35.0	50.0	25.0
10	<b>Not Producing reserved item</b>						
	(a) No Reserved Items	67.3	58.5	67.6	65.0	73.5	55.0
	(b) One and more reserved items	32.7	41.5	32.4	35.0	26.5	45.0
11	<b>Quality(at least One code)</b>						
	(a) ISO-9000 series	0.0	0.0	0.0	0.0	0.0	0.0
	(b) ISI/FPO Agmark	1.9	7.5	8.8	30.0	2.9	5.0
	(c) Prescribed by State Govt.	1.9	5.7	0.0	10.0	2.9	15.0
	(d) Purchasers specification	55.8	64.2	55.9	60.0	91.2	30.0
	(e) Unclassified	38.5	35.8	44.1	85.0	23.5	85.0
12	<b>Brand(at least one code)</b>						
	(a) Own	25.0	37.7	58.8	65.0	85.3	40.0
	(b) Others	3.8	5.7	0.0	10.0	29.4	0.0
	(c) None	69.2	56.6	67.6	55.0	38.2	80.0
13	<b>Market Composition</b>						
	<i>(1) Exports</i>						
	(a) None	100.0	100.0	97.1	100.0	94.1	95.0
	(b) Partly	0.0	0.0	2.9	0.0	5.9	5.0
	(c) Wholly	0.0	0.0	0.0	0.0	0.0	0.0

S.No.	Particulars	Size Class (Output in Rs lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units		Dutiable Units			Non Dutiable Units
	<i>(2) Supply to Industrial units</i>						
	(a) None	57.7	35.8	44.1	45.0	38.2	50.0
	(b) Partly	5.8	17.0	17.6	10.0	11.8	20.0
	(c) Wholly	36.5	47.2	38.2	45.0	50.0	30.0
	<i>(3) Domestic Sale</i>						
	(a) None	36.5	50.9	41.2	50.0	58.8	30.0
	(b) Partly	5.8	18.9	17.6	10.0	8.8	25.0
	(c) Wholly	57.7	30.2	41.2	40.0	32.4	45.0
14	<b>Reporting "Below Avg" Performance</b>	36.5	20.8	23.5	20.0	8.8	20.0
15	<b>Ranks 1 or 2 or 3 given to</b>						
	(a) Initial subsidy/incentives	44.2	30.2	26.5	25.0	47.1	35.0
	(b) Subsidy/incentives for additional capital	36.5	28.3	20.6	15.0	26.5	35.0
	(c) Subsidy/incentives for modernisation	28.8	24.5	26.5	25.0	41.2	55.0
	(d) More central excise concessions	13.5	39.6	58.8	35.0	47.1	30.0
	(e) More IT concession	19.2	37.7	35.3	25.0	20.6	45.0
	(f) More concessional finance through banks	50.0	58.5	50.0	60.0	38.2	35.0
	(g) Better infrastructure	34.6	28.3	32.4	30.0	29.4	25.0
	(h) More incentive for product standardisation	25.0	18.9	11.8	10.0	5.9	25.0
	(i) More reservation	17.3	24.5	26.5	20.0	17.6	20.0
	(j) More incentive/facility for marketing	34.6	17.0	11.8	30.0	8.8	15.0

**NB:** Group I includes major cities/area : Mumbai, Calcutta, Hyderabad - Secundrabad & Noida

Table B.2

## Basic Characteristics of Small Scale Industrial Units, Group II

(Percentage)

S.No.	Particulars	Size Class (Output in Rs. lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units		Dutiable Units			Non Dutiable Units
1	<b>Total No of Sample Units</b>	46	10	18	16	23	4
2	<b>Type of Location</b>						
	(a) Metro	4.3	10.0	5.6	6.3	0.0	0.0
	(b) Urban	95.7	90.0	94.4	93.8	87.0	100.0
	(c) Rural	0.0	0.0	0.0	0.0	13.0	0.0
3	<b>Type of Organisation</b>						
	(a) Proprietorship	82.6	30.0	33.3	0.0	8.7	25.0
	(b) Partnership	17.4	70.0	66.7	81.3	73.9	0.0
	(c) Ltd Co.	0.0	0.0	5.6	18.8	17.4	75.0
	(d) Co-operative Society	0.0	0.0	0.0	0.0	0.0	0.0
	(e) Others	0.0	0.0	0.0	0.0	0.0	0.0
4	<b>Registration Status</b>						
	(a) State Directorate of Industries	100.0	100.0	100.0	93.8	95.7	75.0
	(b) Factories Act	0.0	20.0	66.7	93.8	78.3	25.0
	(c) Excise Department	0.0	10.0	61.1	81.3	82.6	25.0
5	<b>Source of finance</b>						
	(a) Self/Family	93.5	80.0	88.9	68.8	78.3	75.0
	(b) Relation/Friends	17.4	60.0	55.6	62.5	52.2	0.0
	(c) Banks/Pub. Instns	15.2	40.0	61.1	68.8	73.9	75.0
	(d) Pvt. Inst./Indvs.	0.0	0.0	0.0	6.3	4.3	0.0
	(e) Central Govt Incentives	0.0	0.0	0.0	0.0	4.3	0.0
	(f) State Govt Incentives	0.0	10.0	0.0	0.0	4.3	0.0
6	<b>Background of the Owner</b>						
	(a) Investor	37.0	40.0	27.8	6.3	8.7	0.0
	(b) Entrepreneur with experience	43.5	30.0	55.6	62.5	69.6	75.0
	(c) Technically qualified entrepreneur	15.2	0.0	11.1	12.5	8.7	0.0
	(d) Others	4.3	10.0	0.0	12.5	4.3	25.0

S.No.	Particulars	Size Class (Output in Rs. lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units		Dutiable Units			Non Dutiable Units
7	<b>Sister Unit Cases</b>	0.0	0.0	5.6	6.3	4.3	0.0
8	<b>Availment of State Govt. Incentives</b>						
	(a) None	91.3	90.0	83.3	68.8	87.0	100.0
	(b) Only one	8.7	10.0	16.7	31.3	13.0	0.0
	(c) More than one	0.0	0.0	0.0	0.0	0.0	0.0
9	<b>Type of Product</b>						
	(a) Consumer durable	15.2	40.0	22.2	37.5	52.2	50.0
	(b) Other Consumer Goods	8.7	0.0	0.0	6.3	8.7	25.0
	(c) Capital Goods	32.6	60.0	66.7	50.0	34.8	0.0
	(d) Intermediate Products	4.3	60.0	5.6	12.5	4.3	0.0
10	<b>Not Producing reserved item</b>						
	(a) No Reserved Items	39.1	20.0	33.3	12.5	56.5	25.0
	(b) One and more reserved items	60.9	80.0	66.7	87.5	43.5	75.0
11	<b>Quality(at least One code)</b>						
	(a) ISO-9000 series	0.0	0.0	0.0	0.0	0.0	0.0
	(b) ISI/FPO/Agmark	0.0	10.0	0.0	31.3	21.7	0.0
	(c) Prescribed by State Govt.	2.2	0.0	16.7	6.3	8.7	25.0
	(d) Purchasers specification	23.9	30.0	22.2	18.8	0.0	25.0
	(e) Unclassified	37.0	60.0	72.2	50.0	52.2	25.0
12	<b>Brand(at least one code)</b>						
	(a) Own	15.2	60.0	61.1	56.3	65.2	50.0
	(b) Others	2.2	30.0	0.0	0.0	0.0	25.0
	(c) None	39.1	30.0	55.6	31.3	34.8	0.0
13	<b>Market Composition</b>						
	<i>(1) Exports</i>						
	(a) None	100.0	90.0	88.9	93.8	100.0	100.0
	(b) Partly	0.0	0.0	11.1	6.3	0.0	0.0
	(c) Wholly	0.0	10.0	0.0	0.0	0.0	0.0

S.No.	Particulars	Size Class (Output in Rs. lakhs)					
		<10	10-30	30-50	50-75	75-200	30-200
		All Units		Dutiable Units			Non Dutiable Units
	<i>(2) Supply to Industrial units</i>						
	(a) None	82.6	50.0	33.3	50.0	34.8	100.0
	(b) Partly	4.3	20.0	16.7	6.3	26.1	0.0
	(c) Wholly	13.0	30.0	50.0	43.8	39.1	0.0
	<i>(3) Domestic Sale</i>						
	(a) None	39.1	40.0	55.6	43.8	39.1	25.0
	(b) Partly	4.3	20.0	22.2	12.5	26.1	0.0
	(c) Wholly	56.5	40.0	22.2	43.8	34.8	75.0
14	<b>Reporting Below Avg Performance</b>	2.2	0.0	5.6	0.0	4.3	0.0
15	<b>Ranks 1 or 2 or 3 given to</b>						
	(a) Initial subsidy/incentives	58.7	90.0	61.1	43.8	56.5	0.0
	(b) Subsidy/incentives for additional capital	26.1	20.0	38.9	43.8	30.4	0.0
	(c) Subsidy/incentives for modernisation	28.3	40.0	22.2	31.3	34.8	25.0
	(d) More central excise concessions	13.0	40.0	33.3	62.5	69.6	25.0
	(e) More IT concession	10.9	40.0	61.1	56.3	43.5	25.0
	(f) More concessional finance through banks	67.4	30.0	27.8	12.5	43.5	50.0
	(g) Better infrastructure	15.2	10.0	11.1	12.5	4.3	25.0
	(h) More incentive for product standardisation	2.2	0.0	0.0	18.8	0.0	0.0
	(i) More reservation	4.3	0.0	11.1	6.3	13.0	50.0
	(j) More incentive/facility for marketing	43.5	30.0	16.7	12.5	8.7	50.0

NB: Group II includes the districts of Indore, Jalandhar and Ludhiana

**Table B.3**

**Selected Performance Indicators (Current Price) : All Units**

(Percentage)

Size Class (Output in Rs lakhs)	Average for the three years ending 1993-94		
	Gross Profit Ratio	Inventory/ Sales	Capacity Utilisation
<b>Group I</b>			
<b>All Units</b>			
<10	31.5	24.5	40.9
10-30	37.2	19.7	52.9
<b>Dutiable Units</b>			
30-50	36.1	25.5	52.0
50-75	24.6	28.4	63.5
75-200	20.6	23.7	67.8
<b>Non-Dutiable Units</b>			
30-200	33.9	23.9	47.8
<b>Group II</b>			
<b>All Units</b>			
<10	17.1	18.7	52.3
10-30	15.7	23.2	59.4
<b>Dutiable Units</b>			
30-50	14.1	26.7	76.9
50-75	13.9	16.4	71.4
75-200	20.8	23.5	74.8
<b>Non-Dutiable Units</b>			
30-200	16.1	25.2	66.8

**Table B.4**  
**Selected Performance Indicators (Current Price) - Reserved/Unreserved Cases**  
**Group I & II**

(Percentage)

Size Class	Gross Profit Ratio			Average	Inventory/Total Sales			Average	Capacity Utilisation			Average
	92	93	94		92	93	94		92	93	94	
<b>Unreserved</b>												
<b>All Units</b>												
<10	15.0	16.9	20.9	17.6	24.8	24.4	27.1	25.4	45.5	33.7	32.8	37.3
10-30	23.9	19.5	13.0	18.8	19.3	20.9	24.6	21.6	51.5	43.2	48.1	47.6
<b>Dutiable Units</b>												
30-50	28.1	24.4	29.4	27.3	24.5	25.8	23.4	24.6	69.3	64.7	73.1	69.0
50-75	8.1	8.2	10.2	8.8	25.4	19.5	31.4	25.4	62.6	65.5	73.7	67.3
75-200	23.3	18.4	30.6	24.1	22.4	29.8	25.3	25.8	65.7	70.1	75.4	70.4
<b>Non- Dutiable units</b>												
30-200	51.9	47.0	43.3	47.4	10.7	9.4	12.5	10.9	53.1	65.1	60.2	59.5
<b>Reserved</b>												
<b>All Units</b>												
<10	23.6	19.7	15.8	19.7	24.1	26.7	28.4	26.4	59.2	60.6	63.2	61.0
10-30	14.8	15.2	21.6	17.2	24.1	26.2	22.9	24.4	40.3	70.3	60.7	57.1
<b>Dutiable Units</b>												
30-50	22.2	19.7	23.7	21.9	29.2	30.9	28.0	29.4	50.5	56.1	61.3	56.0
50-75	23.1	18.4	12.2	17.9	21.6	21.5	25.9	23.0	78.8	80.2	80.4	79.8
75-200	10.1	13.1	15.8	13.0	21.0	22.3	17.2	20.2	70.1	73.9	81.1	75.1
<b>Non-Dutiable Units</b>												
30-200	20.8	30.3	18.7	23.3	40.2	25.7	26.1	30.7	55.2	66.0	58.5	59.9

Table B.5

## Administrative Cost Ratio

(Percentage)

Size Class (Output in Rs lakh)	1991-92	1992-93	1993-94	Average
<b>Group I</b>				
<b>All Units</b>				
<10	6.2	7.6	7.8	7.2
10-30	5.1	5.4	5.6	5.4
<b>Dutiable Units</b>				
30-50	3.4	3.5	3.4	3.4
50-75	2.9	2.9	3.4	3.1
75-200	2.1	2.3	2.6	2.3
<b>Non-Dutiable Units</b>				
30-200	3.0	2.5	2.4	2.7
<b>Group II</b>				
<b>All Units</b>				
<10	1.01	2.38	1.93	1.77
10-30	0.24	0.85	0.86	0.65
<b>Dutiable Units</b>				
30-50	0.14	0.65	0.60	0.46
50-75	0.12	0.55	0.61	0.43
75-200	0.05	0.34	0.38	0.26
<b>Non-Dutiable Units</b>				
30-200	0.09	0.31	0.38	0.26

**Table B.6**  
**Output, Employment & Capital and Technical Ratios (1993-94)**

Size Class (Output in Rs lakhs)	No. of Units	Average per SSI unit			Technical Ratios		
		Output (O) (Rs '000)	Capital (K) (Rs '000)	Emp. (L) (Nos.)	O/K	K/L	O/L
<b>Group I</b>							
<b>All Units</b>							
<10	48	403	256	7.3	1.6	35.0	55.0
10-30	52	2011	702	13.8	2.9	51.1	146.3
<b>Dutiable Units</b>							
30-50	30	4514	690	18.8	6.5	36.8	240.5
50-75	19	5727	971	26.7	5.9	36.4	214.6
75-200	34	12492	1592	46.9	7.8	33.9	266.1
<b>Non-Dutiable Units</b>							
30-200	20	7455	1228	23.7	6.1	51.9	315.2
<b>Group II</b>							
<b>All Units</b>							
<10	43	241	176	4.6	1.4	38.3	52.3
10-30	10	1885	424	13.2	4.5	32.1	142.8
<b>Dutiable Units</b>							
30-50	18	4110	1068	31.6	3.9	33.8	130.3
50-75	16	6600	763	33.8	8.7	22.6	195.6
75-200	23	12887	1378	38.5	9.4	35.8	334.5
<b>Non-Dutiable Units</b>							
30-200	3	10529	1581	24.3	6.7	65.0	432.7
<b>Group I &amp; II</b>							
<b>All Units</b>							
<10	91	326	218	6.0	105	36.2	54.2
10-30	62	1991	657	13.7	3.0	48.0	145.3
<b>Dutiable Units</b>							
30-50	48	4363	832	23.6	5.2	35.2	184.9
50-75	35	6126	876	29.9	7.0	29.3	204.6
75-200	57	12651	1506	43.5	8.4	34.6	290.8
<b>Non-Dutiable Units</b>							
30-200	23	7856	1274	23.8	6.2	53.6	330.4

## **A BRIEF HISTORY OF CENTRAL EXCISE CONCESSIONS TO SSI**

### **Historical Background**

For the first time in the history of the world, it was Britain who introduced during eighteenth century the concept of duty of excise. Duty of excise is a tax levied on home produced goods unrelated to and not dependent on any commercial transaction and thing of a specified class or description. The word "levy" includes both imposition and assessment. The term 'imposition' connotes levy of a tax or duty by legislature provisions and the rates at which it has to be taxed. The term 'assessment' denotes the actual procedure adopted in fixing the liability to pay tax on account of particular goods in a particular case and determining its amount. In British India, salt was the first item which was levied duty of excise in 1870. Thereafter, requisite provisions were also notified under Sea Customs Act 1978 to levy duty on salt imported by land into any part of India at the specified rates. Under the provisions laid down in Mumbai Salt Act 1890, every proprietor of a private salt works was entitled on an application to a licence to manufacture or excavate or collect natural salt or salt earth. A procedure was also prescribed to withdraw or withhold licence. In 1917 motor spirit was also brought under the purview of excise duty. Thereafter, kerosene was brought under the purview of excise duty in 1922, silver in 1930, power alcohol in 1931. The list of products falling under excise net went on increasing year after year.

### **The Central Excises & Salt Act, 1944**

The Central Excises and Salt Act 1944 was given assent to by the Governor General of India on 24.2.1944. This Act was to consolidate and amend the law relating to Central Duties of Excise on other goods besides salt. Duties specified in the First Schedule were levied on goods other than salt which were produced or manufactured in 'British India' and duty on salt manufactured in or imported by land into any part of India as and at the rates set forth. The First Schedule contained 46 Items. This Act provided powers to the Central

Government for assessment and collection of duties imposed by the State Act and to apply in the adapted form set out in the provisions of Sea Customs Act 1878. The word British India was substituted by 'Provinces of India' in 1948 and later replaced by "certain parts of India" in 1950. "Certain parts" excluded J & K State, but in 1954 the word except J & K State was also omitted. Thus these rules called as Central Excise Rules 1944 were extended to whole of India. It provided that every person who produced or manufactured any excisable goods or who stored such goods in a warehouse should pay the duty leviable on such goods. The value of goods was to be determined on the basis of normal price at which it was sold in the wholesale trade.

The Act also specified conditions for granting a licence by the Collector for specified salt works/Factories, besides specifying the procedures for sale of salt, control of salt factories and warehouses.

### **Important changes made from time to time**

Year after year changes have been made in the excise tariff as well as bringing additional items under the excise net besides giving certain concessions. Important changes are given hereunder:-

1. In the year 1957, the condition for obtaining licence for salt manufacture, excavation, collection and removal was removed and no fee was leviable on manufacturing or refining of salt w.e.f. August 1957.
2. In the year 1963, Central Board of Excise and Customs was constituted under the Central Board of Revenue Act 1963 and granted various powers.
3. In the year 1971, Central Government exempted all excisable goods produced in Technical, Educational and Research Institutes during the course of imparting technical training of an academic or vocational nature or carrying out experiments or research, from the whole of excise duty leviable thereon.

4. In the year 1972, excisable goods donated for the welfare of defence personnel were also exempted from the whole of the duty of excise and the additional duty of excise leviable thereon.
5. In the year 1974, manufacturing units located at Kandla Free Trade Zone were exempted from payment of excise duty on inputs and goods brought into the free trade zone for use in the manufacturing process.
6. In the year 1975 the disputes regarding assessment of value at normal wholesale trade price, were overcome by levying excise duty only on manufacturing cost plus manufacturing profits.
7. In the year 1975, all excisable goods brought into or supplied to Santa Cruz Electronics Export Processing Zone, Mumbai were exempted from excise duty.
8. The administration of excise tariff did not pose much problem till 1975 as the practice had been to specify description of the goods on which the Government desired to levy excise duty. In 1975, when Residuary Tariff Item 68 (all goods N.E.S) was inducted, it created a total chaos because of its non-specific character which not only encroached upon the rest of the tariff items of the excise tariff, but also took in its purview the goods at intermediate stages. Government tried to dilute the adverse effect by commencing certain measures such as general set off scheme, exemption to job works, exemption to capital consumption, acceptance of invoice prices as assessable value etc.
9. Simplified procedure for payment of duty of Central Excise by small manufacturers was devised on the recommendation of S.R.P. (Self Removal Procedure) Committee and made effective from 1.3.1976.
  - (i) The eligible units were those manufacturing any of the 46 items specified in

the First Schedule, if annual value of such goods produced by them during the preceding 36 months or 12 months did not exceed Rs.5 lakhs.

(ii) The small manufacturers had the advantage that once the duty liability was determined, it would not be altered unless there was a revision in the rate of duty or value of goods produced in the 12 months exceeded past performance by more than 50%.

(iii) Further, when payments were made in advance for the month, the assesseees were free to move the goods during that month on their own gate pass/invoices.

(iv) The small scale units who did not opt for S.R.P had to pay duty under physical control.

(v) The small scale units were virtually entitled to avail specially reduced rates of duty when computed for the block year. All SS units were to pay duty at 9/10th of the normal effective duty rate while those opting for SRP were in addition entitled to duty exemption for clearances upto value not exceeding Rs. one lakh made during any financial year provided the total value of clearances did not exceed Rs.2 lakhs.

(vi) There was a provision of refund of excise duty on exports.

(vii) Remission of duty on goods used for special industrial purposes were also given.

(viii) Two kinds of excise duties were specified -

- a) Where excise duty was charged on the basis of weigh area, number etc. of the manufactured goods, it was called "specific excise duty."
- b) Where it was charged on value of manufactured products whether on the basis of valuation or on the basis of tariff values fixed by the

Government, it was called "ad-valorem". Tariff values were being fixed by the Central Government by notification in the official gazette for the purpose of levying Central Excise duties in respect of excisable goods i.e. articles enumerated either specially or under general headings in the First Schedule to the Act.

10. With effect from 1.4.1978, the Central Government had exempted 70 specific items from levy of excise duty in respect of first clearance upto an aggregate value not exceeding Rs.15 lakhs.
- 11a. During 1981, 100% export-oriented units undertaking production or manufacturing processes were also exempted from payment of excise duty.
- 11b. In 1985, Faulta Export Processing Zone and Madras Export Processing Zone was also brought under the exemption umbrella of excise duty.
- 11c. In 1979, the Central Government constituted a technical study group and based on the recommendation of this group, Government moved a bill which was passed by both Houses of Parliament into an act - the Central Excise Tariff Act 1985. The schedule thereunder known as Central Tariff, contained 96 chapters grouped into 20 sections comprising of excisable goods with rates at which excise duties were to be levied. This tariff grouped all goods right from the raw material to finished goods manufactured therefrom relating to one industry under one chapter in a progressive manner. Central Excise Tariff Act delinked the Central Excises and Salt Act 1944, and provided emergency powers to the Central Government to increase duty of excise in respect of any goods by notifications. These Rules came into force with effect from 28.2.86. Excise Tariff was based on Harmonised System of Nomenclature (HSN).
- 11d. The goods produced in Free Trade Zones or 100% Export Oriented Undertakings were exempted from the purview of special excise duty @ 10%. The net effect was that w.e.f. 1.3.86, all the goods were exempted from special excise duty.

- 11e. The General scheme for exemption from licensing to units exempted from payment of excise duty was revised. Hitherto the units exempted on the basis of value of clearances in a financial year were required to take out a Central excise licence on reaching 80% of the exemption limit.
- 11f. Special excise duty at the rate of 5% of basic excise duty was imposed on all excisable goods barring certain exemptions with effect from 1.3.1988 to 31.3.1989.
- 11g. Modvat Rules came into force from 1.3.1986. Modvat credit of duty paid on excisable goods used as inputs was added to Central Excise Rules 1944. These new rules sought to introduce a new scheme for allowing credit of the duty paid on specified inputs used in the manufacture of specified final products. The main features of this Modvat Credit Scheme were:-
- (i) All inputs including packing materials were eligible for the relief. Duty paid on packaging materials whose value was not included in the excisable value were also not entitled for the credit. Credit was also not available in respect of cylinders for packaging gases etc. However, modvat relief was not available for duty paid on non-consumable capital goods used in the manufacture of final products such as plant and machinery till 28.2.94.
  - (ii) Modvat credit was made normally eligible only to the extent of amount of duty actually paid.
  - (iii) Modvat credit of duty paid on inputs was not eligible when the final products were exempt from excise duty.
  - (iv) If the quantum of modvat credit in a particular year claimed had been more than the excise duty realised from the sale of excisable goods, it could be carried over for next year.

- 12a. Exemptions to small scale units were notified under the new scheme applicable with effect from 2.4.86 as under:

<b>Value of clearance</b>	<b>Rate of duty</b>
Upto Rs.15 lakhs	nil
Above Rs.15 lakhs to Rs.75 lakhs	normal duty minus 10 percentage points ad valorem (subject to a minimum of 5% ad valorem.
Above Rs.75 lakhs and upto Rs.1,50,000	Normal duty

In case of units which manufacture more than one article falling under different tariff headings, the limit of full exemption could go upto Rs.30 lakhs.

- 12b. Small scale manufacturers manufacturing goods falling under erstwhile Tariff Item 68 with the value of clearances of all excisable goods not exceeding Rs.75 lakhs in the year 1984-85 and investment in plant and machinery not exceeding Rs.20 lakhs would enjoy total exemption from duty on first clearance of Rs.20 lakhs, 75% concession on next Rs.10 lakhs, 25% concession on next Rs.10 lakhs during the year 1985-86.
13. The units availing the benefit of new scheme were also allowed availment of proforma credit (notional credit) limited to a maximum of 5% ad valorem in respect of inputs produced by small scale sector and purchased from small scale units which had paid excise duty at concessional rates.
14. In 1986, Cochin Export Processing Zone and Noida Export Processing Zone were also brought under the exemption umbrella of excise duty for units established within these zones and undertaking manufacturing activities.
15. All excisable items supplied to Defence Ministry were declared duty free in the year 1986.
16. Products sent abroad as exhibits for demonstration or trial were exempted from excise duty. This exemption has been withdrawn during 1993-94.

17. Export goods manufactured in bond allowed free of excise duty were also exempted from special duty.
18. Exports to countries other than Nepal and Bhutan were made eligible for rebate of special duty if rebate of basic duty had been allowed.
19. Additional excise duty on all excisable goods produced in free trade zones was exempted.
20. For promoting industrial growth and cost competitiveness it requires reasonable rates of duty as well as simpler tax system. A beginning has been made in 1994-95 Budget towards this direction. Duty rates have been reduced to a reasonable level, multiplicity of rates of duty was also reduced besides substantial changes have been made in the excise duty structure.
21. In 1989-90, the eligible limit of Rs.150 lakhs was raised to Rs.200 lakhs while the full exemption available to small scale units was allowed upto Rs.30 lakhs. Even in cases where units manufactured more than one item falling under different tariff headings the limit was restricted to Rs.30 lakhs only.
22. Modifications were further made in the exemption limits as under:-

<b>Value of clearances</b>	<b>Rate of duty</b>
Upto Rs.30 lakhs	Full exemption
Exceeding Rs. 30 lakhs but not exceeding Rs. 50 lakhs.	Normal duty minus 10 percentage point (subject to a minimum of 5% <u>ad valorem</u> duty).
Exceeding Rs. 50 lakhs but not exceeding Rs. 75 lakhs.	Normal duty minus 5 percentage points (subject to a minimum of 5% <u>ad valorem</u> duty).
Exceeding Rs. 75 lakhs but not exceeding Rs. 200 lakhs.	Normal duty

These concessions are not available to units whose clearances in the preceding financial years exceeded Rs. 200 lakhs.

23. Other special features are:
- a) Removal of the existing distinction between one chapter clearance and more than one chapter clearance.
  - b) Levy of excise duty on commodities manufactured by units but having brand names of other persons.
  - c) Withdrawal of higher notional credit of 5%.
  - d) Levy of excise duty on goods manufactured without the aid of power.
  - e) Excise duty exemption made available to unregistered units also by removing the restriction of obtaining SSI registration certificate from the Directorate of Industries.
  - f) Introduction of Modvat Credit on the duty paid on capital goods.
  - g) Small scale industries exempted from payment of excise duty on clearances upto Rs.30 lakhs were also allowed option with effect from 1.3.94 to pay duty at normal rate by exercising their option in order to claim modvat credit.
  - h) With effect from 1.3.94, modvat credit is being allowed on capital goods also which include not only machines, machinery appliances, components, spare parts and accessories but also moulds and dies. The credit is also available to generating sets and weigh bridges installed and used in the factory of the manufacturer. The credit has been allowed in respect of excise duty or the countervailing duty of customs paid on the capital goods on or after 1st March 1994.

24. In 1994-95, 330 exemption notifications were rescinded and multiplicity of rates of duty were reduced, besides, converting duties from specific to ad valorem in most cases.
25. With effect from 1.7.94, Central excise duty has been administering service tax scheme on services provided by Telegraph authority, General Insurance Business and stock brokers at the rate of 5%.
26. Duty exemptions for goods required by 100% export-oriented units have been rescinded. 100% export-oriented units can avail duty exemption at par with list of goods for which the customs exemption is available.
27. In the year 1995-96, the eligibility limit of Rs.200 lakhs has been raised to Rs.300 lakhs without changing the exemption limits. However, the condition of the unit having SSI registration has been withdrawn.

## INCOME TAX CONCESSIONS AVAILABLE TO SSI UNITS

Most of the income tax concessions were/are available to industrial undertakings employing ten or more workers with the aid of power or 20 or more workers without the aid of power. In the case of Section 80 HHA only SSI Units which otherwise fulfilled the employment condition were eligible for the concession. Several of the concessions were available simultaneously, giving the option to claim the concessions under a particular Section: sometimes one section had priority over the others; and for some years two or three concessions could be claimed simultaneously. Generally, companies have been allowed higher quantum of concession while co-operative societies are entitled to higher quantum of concession and/or for longer periods as compared to ordinary undertakings. The important sections of the Income Tax Act which provide the details of these concessions are 80 J, 80 HH, 80 HHA, 80 I, 80 IA, and 32 A. The main provisions of these sections are summarised below.

**Section 80 J :** This Section applied to all industrial undertakings fulfilling the employment condition specified above and which had begun or began to manufacture at any time during the period 1-4-48 to 31-3-81. In case the undertaking was manufacturing the articles specified in Schedule XI then the eligibility period terminated on 31-3-79. The nature of concession was in the form of a deduction from the profits and gains of the concerned assessee amounting to 6 per cent of the capital employed by the undertaking (7.5 per cent if the undertaking had started production during 1-4-76 to 31-3-81). Subsequent to the announcement of this concession, Sections 80 HH and 80 HHA came into the effect.

During the period when all these three Sections were in force, the industrial undertaking could get the rebate under Section 80 HH or 80 HHA before further rebate under Section 80 J. The Section 80 J itself prescribed no restriction on the location of the undertaking whereas Section 80 HH applied to the undertakings located in backward areas

only and Section 80 HHA to SSI undertakings located in rural areas only. The concession under Section 80 J was available for 4 years in case of ordinary undertakings and 6 years in case of cooperative societies.

The Dandekar Committee (1980)<sup>18</sup> had recommended discontinuance of Section 80 J as its provision had a *prima facie* bias in favour of capital intensive technology.

**Section 80 HH :** This Section was inserted w.e.f. 1-4-74 and applied to all industrial undertakings fulfilling the employment condition mentioned earlier and which commenced production between 1-1-71 and 31-3-90 in the backward areas. Under this Section, the undertakings could claim a deduction of 20 per cent from the profits and gains for ten assessment years. If the undertaking was located in a rural area, it could claim similar concession under Section 80 HHA instead of under this section. If the assessee is also entitled to the concession under Section 80 I or 80 J, then effect was first given to the provisions of this Section.

**Section 80 HHA :** This Section was inserted w.e.f. 1-4-78 and applied to SSI undertakings which otherwise fulfilled the minimum employment condition specified earlier and which commenced production between 1-10-77 and 31-3-90 in any rural area of the country. As in the case of Section 80 HH, the undertakings could claim a deduction of 20 per cent from profits and gains for 10 years. If the undertaking prefers to claim the concession under Section 80 HH, then it can not claim the same under this Section. If the assessee is also entitled to the concession under Section 80 I or 80 J, then effect was to be given first to the provisions of this Section.

**Section 80 I :** This Section was inserted w.e.f. 1-4-81 and applied to all the industrial undertakings which fulfilled the minimum employment condition mentioned earlier and which began production during the period from 1-4-81 to 31-3-91. Under this Section, the undertaking can claim a deduction of 20 percent from the profits and gains for a period of 8 years. There was, however, no restriction regarding the location of the undertakings. On the

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<sup>18</sup> Expert Committee on tax measures to promote employment set up by Department of Revenue, Ministry of Finance.

other hand, the SSI undertakings manufacturing all articles without restriction could claim the concession whereas the bigger industrial undertakings manufacturing articles other than those listed in Schedule XI alone could claim the concession.

**Section 80 IA** : This Section was inserted w.e.f. 1-4-91 and is applicable to all industrial undertakings which fulfilled the earlier mentioned employment condition and which commenced production between 1-4-91 and 31-3-95. There is no restriction regarding the location of the undertakings. The concession is in the form a deduction of 25 per cent from profits and gains for a period of 10 years. The bigger undertakings (non-SSI) could claim the concession only if they are manufacturing articles other than those listed in the Schedule XI whereas there is no such curb on SSIUs. This concession has been extended by five more years for the SSI undertakings in the 1995 budget.

There are certain special provisions under this Section. Those industrial undertakings which began/begin production between 1-4-93 and 31-3-98 in backward States are entitled to 100 per cent concession for the first five years and 25 per cent for the next five years. The undertakings which began/begin production between 1-10-94 and 31-3-99 in backward districts can claim similar concessions. There is no restriction regarding the articles or things to be manufactured.

Current tax incentives for all industrial undertakings including SSIUs with special provisions for backward states/districts are all contained in this Section only.

**Section 32 A** : A deduction of 25 per cent of the actual cost of plant & machinery (P&M) installed or first put to use was available to non-SSI undertakings producing articles other than those listed in Schedule XI and to SSI undertakings producing any articles during the period from 1-4-76 to 31-3-90, subject to certain conditions. Higher level of deduction was permitted in certain special cases, viz. in respect of certain years if production was based on technology developed by Public Sector/Government Institutions or for the use of equipments for control of pollution or for protection of environment. This is the only Section where no minimum employment conditions were prescribed. The incentive under S 32-A could be claimed along with the concessions under S 80 HH (or 80 HHA) and S 80 I.

SSI undertakings among others can also get tax exemption in respect of profits derived from the exports of their products either directly or indirectly through other agencies or manufacturers under Section 80 HHC w.e.f. 1-4-86.

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