

**Revision Notes**  
**CHAPTER 8**  
**SMALL BUSINESS**

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A business which operates on a small scale and required less capital, less labour and less machines is called small business. The goods are produces on a small scale. This business is operated and managed by the owner of the business. In India, the village and small Industries sector consists of both traditional Handlooms, Handicrafts, khadi and Village Industries. Modern small Industries - Small scale industries and Power looms.

According to The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, a small scale enterprise defined as one where the investment in Plant and Machinery is more than Rs. 25 lakhs but does not exceed Rs. 5 crore.

Several parameters can be used to measure the size of business. These include

- the number of persons employed in business,
- Capital invested in business,
- Volume of output of business and
- power consumed for business activities.

The definition used by the Government of India to describe small Industries is based on the investment in plant and machinery. It can be divided as follows:

| Category          | Manufacturing Unit                  | Service Providers                   |
|-------------------|-------------------------------------|-------------------------------------|
| Micro Enterprise  | Less than Rs. 25 Lakhs              | Less than Rs. 10 Lakhs              |
| Small Enterprise  | Between Rs. 25 Lakhs to Rs. 5 Crore | Between Rs. 10 Lakhs to Rs. 2 Crore |
| Medium Enterprise | Between Rs. 5 Crore to Rs. 10 Crore | Between Rs. 2 Crore to Rs. 5 Crore  |

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## **ROLE OF SMALL SCALE INDUSTRIES IN SOCIO ECONOMIC DEVELOPMENT OF INDIA**

- 1. Employment:** Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country. These enterprises are labour intensive and labour is available in abundants amount is rural areas of India.
- 2. Variety of product:** Small scale Industries produce an enormous Variety of goods e.g. readymade garments, stationery, soaps, Leather's goods Plastic and rubber goods.
- 3. Export:** The share of product from SSI is 45% of total export from India. So it earn valuable foreign exchange and solve the problem of balance of payment.
- 4. Balance regional development:** SSI can be set anywhere in the country. They use local resources, less capital and simple technology.
- 5. Complementary to large scale Industries:** SSI. supply various types of components, spare parts, tools etc, which are required by large scale enterprises.
- 6. Low cost of production:** SSI also enjoy the advantage of low cost of production because they used local resources in their product.
- 7. Quick and timely decision** Due to the small size of the organization quick and timely decisions can be taken without consulting many people.
- 8. Development of entrepreneurship:** SSI provide opportunity of young men and women to start their own business.

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## **ROLE OF SMALL BUSINESS IN RURAL INDIA**

- 1. Provides Employment in Rural Areas:** Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available.
- 2. Improve Economic Condition:** Small business provide multiple source of income to the rural households. SSI improves economic conditions and standard of living of people living in those Areas.
- 3. Prevent migration:** Development of rural and village industries can also prevent

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migration of the rural population to urban areas in search of employment.

**4. Utilisation of Local Resources:** SSI use local resources e.g. coir, wood and other products.

**5. Equitable distribution of national income:** Small Scale Industries and cottage Industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country.

**6. Balanced Regional development** - These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.

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### **Problem of Small Scale Industries:**

**1. Finance:** Non-availability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Bank sit at to grant financial help to these units.

**2. Raw Material & Power:** Small scale units are unable to buy raw materials in bulk due to lack of funds and storage facilities. Shortage of power is another factor which leads to under utilization of plant capacity.

**3. Marketing:** Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. They depend on intermediaries who exploit them.

**4. Technology:** Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipment necessary for modernising product. As a result, their cost of production increases.

**5. Competition:** Small scale firms face competitions not only from large industries but also from multinational companies.

### **6. Other problems:**

- Lack of Managerial Efficiency.
- Lack of Demand of Produced Goods.
- Labour Problems.

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- Burden of Local Taxes.
  - Poor Product Quality.
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## **GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS**

### **(A). INSTITUTIONAL SUPPORT:**

#### **I. National Small Industries Corporation (NSIC)**

This was set up in 1955 to promote, aid and foster the growth of small scale units in India. Main constraint faced by entrepreneurs is shortage of funds to purchase machinery and equipment. Non availability of finance, deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

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#### **Main functions of NSIC:**

1. It supplies imported machines and raw materials to small industries on easy hire-purchase schemes.
  2. It export the products of small units.
  3. It provides technology to Small Scale Industries.
  4. Helps in up gradation to technology.
  5. Provides in up gradation of technology
  6. Provides various equipment on lease basis.
  7. Undertakes construction of industrial estates.
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#### **II. District Industries Center (DIC)**

The concept of DIC came during 1977, when Government of India announced the new Industrial policy on 23rd Dec, 1977. The main objective of DICs is to make available all necessary services at one place. The finance for setting up DICs in a state are contributed equally by particular state Govt. and Central Govt.

#### **Functions of District Industries Center**

1. Act as the focal point of industrialization of the district
2. Identifies projects for setting up of SSI units.

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3. Issues permanent registration certificate to SSI units.
  4. Provides marketing support to SSI units
  5. Act as a link between the entrepreneurs and the lead bank of district.
  6. Helps businessman in obtaining license from Electricity board, water supply board etc.

### **Govt. Incentives to hilly backward and Rural Areas**

1. **Power:** Some states supply power at a concessional rate of 50%.
2. **Tax holidays:** Exemption from payment of tax for 5 years.
3. **Land and Water:** Availability of land at concessional rate. Water is supplied on no profit no loss basis.
4. **Octroi:** Most of the states have abolished octroi.
5. **Protective Measures:** The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines.
6. **Marketing Assistance:** Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.
7. **Finance:** Subsidy of 10-15% for building capital asset. Loans are offer data concessional rates.
8. **Sales Tax:** In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years.

### **III. National Bank for Agriculture and Rural Development (NABARD)**

### **IV. The Rural Small Business Development Centre (RSBDC)**

### **V. Small Industries Development Bank of India (SIDBI)**

### **VI. The National Commission for Enterprises in the Unorganised Sector (NCEUS)**

### **VII. Rural and women Entrepreneurship Development (RWED)**

### **VIII. World Association for Small and Medium Enterprise(WASME)**

### **IX. Scheme of Fund for Re-generation of Traditional Industries (SFURTI)**