

Small Business and Entrepreneurship

SMALL BUSINESS

❖ Meaning and Nature of Small-Scale Business

In India, the industries where the **amount of investment in fixed assets is less than Rs 1 crore** are regarded as small-scale industries (SSIs). However, **for export-oriented units, this limit is Rs 5 crores.**

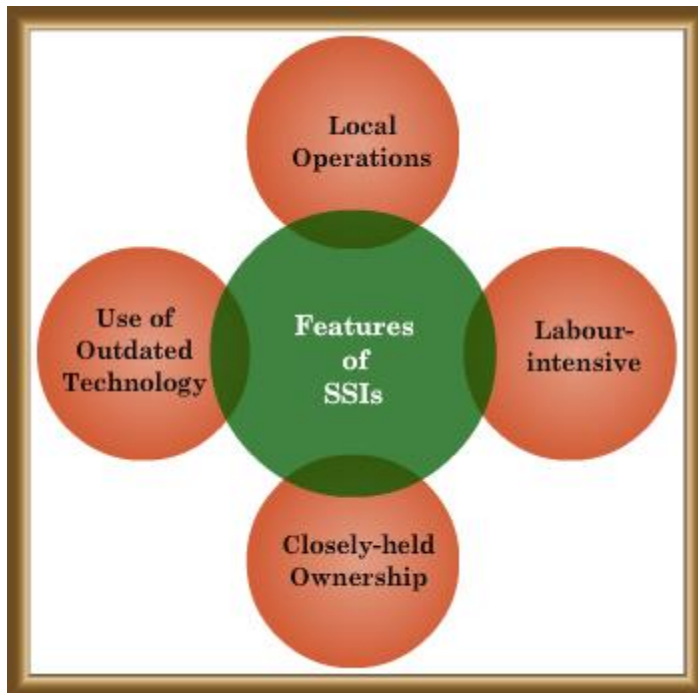
The following are some of the parameters that are used to categorise small-scale industries:

- i. Number of people hired in the business
- ii. Amount of capital invested in the business
- iii. Volume or value or units of output produced by the business
- iv. Power consumption by the business

❖ Features of Small-Scale Enterprises

The following are some of the main features of SSIs:

- i. Are **labour-intensive** and require very less amount of capital for investment in plant and machinery
- ii. **Operations/activities are generally confined to the local areas** as per the demands of the local people
- iii. **Use indigenous raw materials and outdated technology** for production
- iv. **Mostly owned by individuals** (partnership firm/private limited company), with decision-making power and managerial rights lying in the hands of a few people



❖ **Micro, Small and Medium Enterprises according to MSMED Act.**

The Act differentiates between the three types of enterprises on the basis of the investment made in plant and machinery.

Manufacturing Enterprises	Investment in Plant and Machinery
a. Micro enterprises	Less than Rs 25 lakhs
b. Small enterprises	Between Rs 25 lakhs and Rs 5 crores
c. Medium enterprises	Between Rs 5 crores and Rs 10 crores
Service Enterprises	Investment in Equipment
a. Micro enterprises	Less than Rs 10 lakhs
b. Small enterprises	Between Rs 10 lakhs and Rs 2 crores
c. Medium enterprises	Between Rs 2 crores and Rs 5 crores

❖ **According to the Government of India, the following are the definitions of small-scale industries:**

Small-Scale Industry	Definition criteria
<i>Ancillary small industrial units</i>	Supply a minimum of 50% of their production to their parent industries
<i>Tiny industrial units</i>	Have a maximum investment of Rs 25 lakhs in plant and machinery
<i>Micro business enterprises</i>	Have a maximum investment of Rs 1 lakh
<i>Export-oriented units</i>	Export more than 50% of their final production
<i>Small-scale industries owned and managed by women entrepreneurs</i>	At least 51% of the capital is jointly or individually held by women
<i>Khadi and village industries</i>	Set up by the Khadi and Village Industries Commission in 1957 and engaged in the manufacturing of products such as handloom, spices, pottery wares and candles
<i>Agro-based industries</i>	They either <ul style="list-style-type: none"> • process agricultural products or • supply the inputs required for agricultural activities
<i>Small-scale service and business enterprises</i>	Investment in fixed assets (excluding building and land) is less than Rs 10 lakhs

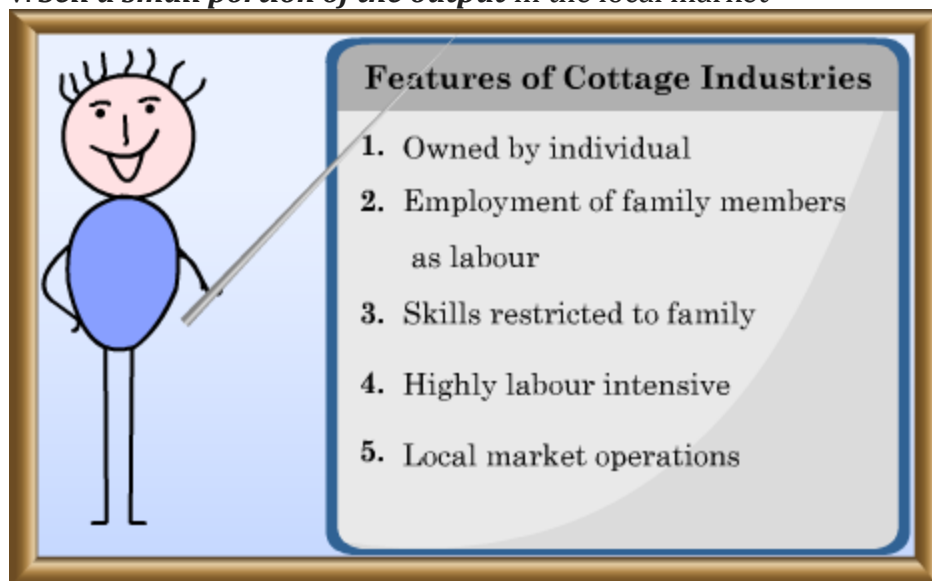


Cottage industries	Perform agricultural activities along with other supplementary activities at home
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Features of Cottage Industries

The following are a few important features of cottage industries:

- i. **Owned and operated by individuals** who invest their private resources in these units
- ii. **Employ family members** as labour
- iii. **Require talent and skills that are generally passed on from one generation to the next** in the family
- iv. Are **highly labour-intensive** and indigenous, with very less amount of capital required
- v. **Sell a small portion of the output** in the local market



❖ Administrative Setup for Small-Scale, Agro and Rural Industries

The administrative setup for small-scale, agro and rural industries comprises the following three organisations:

- **The Small Industries Development Organisation (SIDO):** Implements various programmes and policies related to small-scale industries
- **The National Small Industries Corporation (NSIC):** Provides marketing support to these industries
- **The Ministry of Agro and Rural Industry:** Responsible for the economic growth and development of village and khadi industries and tiny and micro enterprises

❖ Role of Small Business in India

The following points highlight the role of small businesses in India:

- i. **Market share:** SSIs make up **95 percent of the industrial units** in India and contribute about **40 percent of the gross industrial value added** and **45 percent of India's total exports**.
- ii. **Employment generation:** Being **labour-intensive** units, SSIs have a greater employment generation potential.

- iii. **Wide range of products:** SSIs are engaged in the production of a huge variety of products ranging from **consumption goods to ready-made goods to agricultural tools**.
- iv. **Regional balance:** SSIs in rural and backward areas promotes the growth and development of these areas, thereby balancing regional development in the country.
- v. **Customised goods:** These units **adapt perfectly to specific needs of consumers** and provide customers with products best suited to their tastes and preferences.
- vi. **Opportunity for entrepreneurship:** SSIs being low on capital investment encourage entrepreneurship.
- vii. **Low cost production:** The overall cost of production in small-scale enterprises is low because of low overhead expenses.
- viii. **Timely decision making:** As in these industries, there are lesser people to consult, the decision-making process is faster.
- ix. **Good relations:** These enterprises are in direct contact with their employees and consumers and hence are able to maintain friendly relations with them.



❖ Role of Small Business in Rural India

Some of the major roles of small-scale businesses in rural India are as follows:

- i. **They provide employment opportunities**, particularly to the people in rural and backward areas.
- ii. **They mitigate disguised unemployment and help alleviate poverty.**
- iii. By providing employment and entrepreneurship, **they enable equitable distribution of income.**
- iv. They contribute a lot towards **economic growth and development** in rural and backward areas.
- v. They **facilitate rural development and reduce migration** from rural to urban areas.



❖ *Problems Faced by Small Business*



The following are the major problems faced by small-scale industries (SSIs) in India:

- i. **Inadequate finance and credit** because of lack of proper sources of credit
- ii. **Inadequate raw materials** because of the shortage of funds and finance
- iii. **Lack of skilled labour** for production activities
- iv. **Lack of efficient systems for marketing** and promoting products
- v. Use of **obsolete/outdated technology**, which, in turn, lowers productivity and efficiency
- vi. **Non-adherence to quality standards** and use of low-quality inputs to reduce cost
- vii. **Regarded as sick units** because of low productivity
- viii. **Stiff competition** from MNCs in terms of quality of products and price
- ix. **Lack of proper managerial skills**
- x. **Operate below full capacity** because of low demand and lack of proper managerial skills

❖ Government Assistance to Small-Scale Industries

This can further be categorised into:

- Protective measures
- Institutional support
- Incentives

➤ **Protective Measures**

The following are some of the protective measures taken by the government for the promotion of small-scale industries in India:

- a. **Reservation-** Certain items are exclusively reserved for the production by small-scale industries.
- b. **Concessions-** Various concessions such as low excise duty, low sales tax, subsidised loans and many more are provided to these industries to help them face the growing competition.
- c. **Preference-** The items produced by these industries are given preference in the purchases made by the government.

➤ **Institutional Support**

➤ **National Bank for Agriculture and Rural Development (NABARD)**

- Established in **1982**
- Main objective – To **promote rural development**
- Is the **apex institution** governing the operations of rural and gramin banks
- Main focus- To provide **cheap and easy credit facility** to small, cottage and rural industries

➤ **The Rural Small Business Development Centre (RSBDC)**

- **Set up by the World Association of Small and Medium Enterprises**
- **Funded by NABARD**
- Mainly **targets the socially and economically disadvantaged** people
- **Provides management and technical support** to the micro and small entrepreneurs in the village areas
- **Organises training programmes and awareness and counselling** programmes



➤ **National Small Industries Corporation (NSIC)**

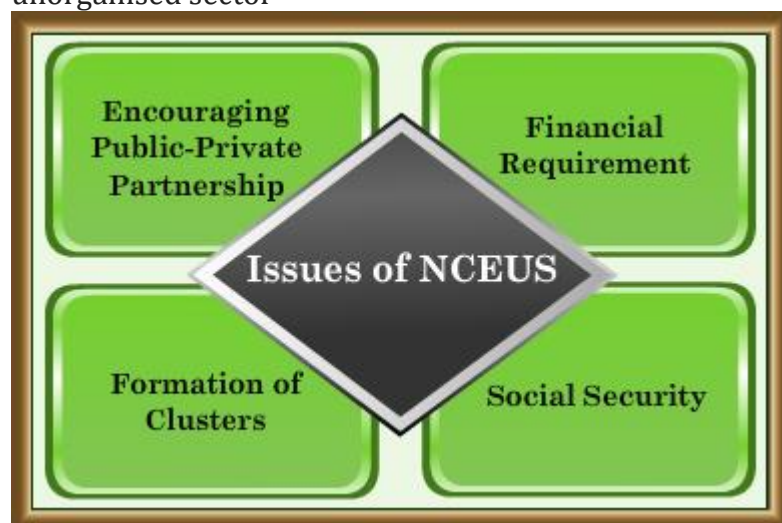
- Set up in **1955**
- Objective- To promote **growth of small industries**
- Main functions-
 - **Supplies indigenous as well as imported machines** on hire-and-purchase basis
 - Helps in **increasing the competitiveness** by exporting the produced items
 - Helps in the development and **upgradation of technology** by creating awareness
 - Provides **marketing support** by organising technology exhibitions and encouraging participation in international trade fairs and exhibitions

➤ **Small Industries Development Bank of India (SIDBI)**

- Objective- To provide **direct and indirect financial assistance** to small businesses under different schemes
- To **coordinate similar activities** of other institutions

➤ **The National Commission for Enterprises in the Unorganised Sector (NCEUS)**

- Established in **September 2004**
- Objectives
 - **Recommends necessary measures for enhancing the productivity** of small industries
 - **Generates employment opportunities** on a long-term basis
 - **Increases global competitiveness** by improving efficiency
- Issues identified for special attention:
 - **Provision of microfinance** to the unorganised sector
 - **Provision of social security** to the workers in the informal sector
 - **Formation of hubs and clusters** in the informal sector, with an objective of receiving economic aid from external sources
 - **Encouraging private and public partnership** to inculcate the required skills in the unorganised sector



➤ **Rural and Women Entrepreneurship Development (RWED)**

- Objective- **Promoting and encouraging women entrepreneurs** in the rural areas

- Major services provided are:

- **Forming suitable business environment** for women entrepreneurs
- Arranging **training** for women
- **Improving the human and institutional resources** to improve productivity and efficiency
- Providing advisory services

➤ **World Association for Small and Medium Enterprises (WASME)**

- An **international non-governmental organisation** that addresses the problems of small- and medium-scale enterprises

- Set up **International Committee for Rural Industrialisation** with the aim of designing a model for the growth and development of rural industries

➤ **Scheme of Fund for Re-generation of Traditional Industries (SFURTI)**

- Set up in **2005** with the **Rs 100 crore initial investment**

- Objectives:

- **To create and develop traditional industries** in the form of small clusters in various parts of India
- **To make traditional industries more competitive** against large-scale industries
- **To develop innovative skills** by adopting new technologies and market intelligence
- **To strengthen the local governance system of industrial clusters** with the help of rural entrepreneurs

➤ **The District Industries Centres (DICs)**

- Launched in **1978**

- Is an **institutional support measure** established by the government

- Objective- To **provide unified administrative structure** at the district level

➤ **Development and Employment Generation Programmes**

Some of the important programmes are:

- The Prime Minister's Rozgar Yojana (PMRY)
- Integrated Rural Development Programme (IRDP)
- Training of Rural Youth for Self-Employment (TRYSEM)

❖ **Incentives**



The following are some of the major incentives for setting up industries in rural and backward areas:

- i. The government provides **land at concessional rates** in backward regions.
- ii. **Electricity is supplied at a discounted rate of 50 percent.** In addition, some states **exempt such units from any payment during the initial years of operation.**
- iii. The government provides **loans at a concessional rate and offers subsidies of 10–15 percent for the accumulation of capital assets.**
- iv. **Raw materials are provided on the priority basis** to industries located in backward areas.
- v. **Tax exemption** (for 5–10 years) is granted to industries set up in rural and backward areas.
- vi. Many states have **banned octroi.**

