

Plus One Business Studies Notes

Chapter 9

Small Business

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Types of Small business units in India:

On the basis of the capital invested, small business units can be categorized into various categories.

They are:

1. Small scale industry:

A small scale industrial undertaking is defined as one in which the investment in fixed assets of plant and machinery does not exceed rupees one crore.

2. Ancillary small industrial unit:

An ancillary industrial unit is one which supplies not less than 50% of its output to another parental unit. It can manufacture parts, components, subassemblies, tools or intermediate products for the parent unit. Also, it can do business on its own

3. Export oriented units:

Export-Oriented unit is one which exports more than 50% of its output and wherein investment in plant and machinery does not exceed rupees one crore.

4. Small scale industries owned and managed by women entrepreneurs:

An enterprise promoted by women entrepreneurs is a small-scale industrial unit in which she/they individually or jointly have share capital of not less than 51 percent. Such units get concessions offered by the government, like low-interest rates on loans, etc.

5. Tiny Industrial Unit:

A tiny unit is defined as an industrial or business enterprise whose investment in plant and machinery is not more than ₹ 25 lakhs.

6. Small scale service and business enterprise:

It is one whose investment in fixed assets of plant and machinery excluding land and building does not exceed ₹ 10 lakhs.

7. Micro business enterprises:

Micro enterprises are those whose investment in plant and machinery does not exceed rupees one lakh.

8. Village industries:

Village Industry has been defined as means any industry located in a rural area which produces any goods, renders any service with or without the use of power and in which fixed capital investment per head does not exceed ₹ 50,000.

9. Cottage industries:

cottage industries are characterised by certain features

- These are organised by individuals, with private resources;
- Normally use family labour and locally available talent;
- The equipment used is simple
- Capital investment is small

- Produce simple products, normally in their own premises;
- Production of goods using indigenous technology.

Type of Industries	Investment Limit Rs.	Features
1. Small scale Industries	One Crore	For specific production it is 5 Crore
2. Ancillary small Industrial Unit	One crore	50% of output supplied to the parent unit
3. Export Oriented Units (EOU's)	One crore	It exports more than 50% of its production. It can sell 25% in domestic market.
4. Tiny Industrial Unit	25 Lakhs	Investment Limit in plant and Machinery is not more than 25 lakh.
5. Women Enterprises	Any of the above	Owned and managed by woman and have capital not less than 51%
6. Micro Business Enterprises	One lakh	Those whose Investment in plant and Machinery does not exceed Rs. 1 lakh
7. Village Industries	Investment Worker per head Rs. 50,000/-	Location in Rural Areas Produces any goods without the use of power.
8. Cottage Industries	Not defined by Capital Investment	Normally use family labour. Used Simple machine, use small capital.

Administrative setup for the Small scale, Agro and Rural Industries:

For the promotion and development of small scale industries in India, the Government created two ministries, i.e

1. Ministry of Small Scale Industries:

The Ministry of Small Scale Industries designs policies, programmes, and schemes for the promotion and growth of SSIs. The Small Industries Development Organisation (SIDO) is responsible for implementing and monitoring of various policies and programmes formulated.

2. Ministry of Agro and Rural Industries:

Ministry of Agro and Rural Industries is the nodal agency for coordination and development of Village and Khadi industries, tiny and micro enterprises in both urban and rural areas.

Various programs and policies are implemented by the ministry through the Khadi and Village Industries Commission (KVIC), Handicrafts Board, Coir Board, Silk Board etc.

State Governments also provide different promotional and developmental projects and schemes to provide a number of supporting incentives for development and promotion of

SSIs. These are executed through the State Directorate of Industries and District Industries Centres (DICs).

Role of small business in India:

- 1.Small industries are labour intensive and less capital intensive. They generate more number of employment opportunities.
- 2.The share of product from small industries is 45% of total export from India. So it earn valuable foreign exchange
- 3.Small scale Industries produces a wide variety of goods e.g. readymade garments, stationery, soaps, leather goods, plastic and rubber goods.
- 4.The contribution of small industries to the balanced regional development of the country is very significant.
- 5.Small industries provide ample opportunity for entrepreneurship.
- 6.It enjoys the advantage of low cost of production because they used local resources in their product.
- 7.Due to the small size of the organisation, quick and timely decisions can be taken without consulting many people.
- 8.Small industries are best suited for the products which are designed according to the taste, needs and preferences of the customers.
- 9.Small industries maintain good personal relations with both customers and employees.

Role of small business in Rural India:

- 1.Cottage and rural industries provide employment opportunities in the rural areas especially for the traditional artisans and the weaker sections of society.
- 2.It prevents migration of rural population to urban areas in search of employment.
- 3.Small business helps to eradicate poverty, income inequalities etc in rural area.

4. Small scale industries are powerful instrument for the accelerated industrial growth and creating productive employment in rural and backward areas.

Problems of small business:

Small businesses are faced with the following problems.

1. Small scale industries find it difficult to get adequate finance from banks and other financial institutions.
2. They are not able to get quality raw materials at reasonable prices.
3. Small business is generally operated by people who may not have all the managerial skills required to run the business.
4. Small business firms cannot afford to pay higher salaries to the employees. So productivity per employee is relatively low and employee turnover is generally high.
5. Small business depends excessively on middlemen for marketing the products. Middlemen exploit them by paying low price and delayed payments.
6. Small business organization uses out dated technology to produce products. So they cannot compete with global enterprises with low quality products.
7. Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity.
8. Use of outdated technology results low productivity and uneconomical production.
9. Small-scale units find it very difficult to compete .with the product of multinational companies which are comparatively very cheap and of better quality
10. Other important problems are poor project planning, inefficient management, transportation problems, lack of power, and lack of adequate warehousing, etc.

Government assistance to small Industries and Small Business:

A. Institutional Support:

1. National Bank for Agriculture and Rural Development (NABARD):
NABARD was set up in 1982 to promote integrated rural development.
Functions of NABARD:

- It provides financial support to small Industries, cottage and village industries and agriculture.
- It provides counseling and consultancy services.
- It also organises training and development programme for rural entrepreneurs.

2. The Rural Small Business Development Centre (RSBDC):

It aims at providing management and technical support to current and prospective micro and small entrepreneurs in rural areas. RSBDC has organized several programmes on rural entrepreneurship, skill upgradation workshops, training programmes etc.

3. National small Industries Corporation (NSIC):

This was set up in 1955 to promote, aid and foster the growth of small scale units in India.
Functions of NSIC:

- It supplies imported machines and raw materials to small scale industries on easy hire-purchase schemes.
- It exports the products of small units.
- It provides technology to small scale Industries.
- Helps in up-gradation of technology
- Provides advisory service
- Developing software technology parks and technology transfer centres.

4. Small Industries Development Bank of India (SIDBI):

SIDBI was set up in 1980. SIDBI is the main financial Institution for financing and development of small Business in India.

Functions of SIDBI.

- Helps SSI unit for modernisation and technology upgradation by providing loan
- Meet working capital requirements of SSI.
- Provides means for the rehabilitation of sick units
- Provides service like leasing, hire purchase, venture capital financing etc.

- Provide equity support to small entrepreneurs.

5. The National Commission for Enterprises in the Unorganised Sector (NCEUS):
The NCEUS was constituted in September, 2004, with the following objectives.

- To recommend measures for improving the productivity of small enterprises
- To generate more employment opportunities in rural areas
- To enhance the competitiveness of the sector in the emerging global environment.
- To link the sector with other institutions in the areas of credit, raw materials, infrastructure, technology upgradation etc.

6. Rural and Women Entrepreneurship Development (RWED):
RWE provides the following services.

- Creating a business environment that encourages initiatives of rural and women entrepreneurs.
- Enhancing the human and institutional capacities required to foster entrepreneurial dynamism and enhance productivity.
- Providing training manuals for women entrepreneurs and training them.
- Rendering all types of advisory services.

7. World Association for Small and Medium Enterprises (WASME):

It is the only International Non-Governmental Organisation of micro, small and medium enterprises based in India, which set up an International Committee for Rural Industrialisation. Its aim is to develop an action plan model for sustained growth of rural enterprises.

There are several schemes to promote the non-farm sector initiated by the Government of India, i.e. IRDP, PMRY, TRYSEM, JRY, Development of Women and Children in Rural Areas (DWCRA) etc.

8. Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

To make the traditional industries more productive and competitive, the Central Government set up a fund with ₹ 100 crores. The main objectives of the scheme are as follows:

- To develop clusters of traditional industries in various parts of the country
- To make traditional industries competitive, profitable and sustainable
- To create employment opportunities in traditional industries.

9. The District Industries Centers (DICs):

DICs were established in May 1978. District Industries Centers is the institution at the district level which provides all the services and support facilities to the entrepreneurs for setting up small and village industries.

Identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services are the main activities undertaken by these centers.

B. Incentives:

The incentives offered by the government to develop backward areas are:

- 1.Availability of land at concessional rate.
- 2.Supply power at a concessional rate of 50% or exempt such units from payment in the initial years.
- 3.Water is supplied on a no-profit, no-loss basis or with 50 percent concession or exemption from water charges for a period of 5 years.
- 4.All union territories, industries are exempted from sales tax,
- 5.Most states have abolished octroi.
- 6.Units located in backward areas get scarce raw materials at concessional rates.
- 7.Subsidy of 10-15% for building capital assets. Loans are offered at concessional rates.
- 8.Some states encourage setting up of industrial estates in backward areas.
- 9.Exemption from paying taxes for 5 or 10 years is given to industries established in backward, hilly and tribal areas.

HSS Learner