CHAPTER 9

SMALL BUSINESS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning and nature of small business;
- appreciate the role of small business in India;
- analyse the problems of small business; and
- classify the different forms of assistance provided by the government to small business, particularly in rural and hilly areas.

Amar, Akbar and Anthony are three good friends who have completed a vocational course in entrepreneurship, after their school education. Finding the job market tough, they were contemplating the idea of setting up a small business, using the skills they had learnt in their course. However, they knew very little about business. They were wondering what business to start, where to locate it, how to procure machinery and materials needed for the business, how to raise money and how to market. They came across a notification given by the District Industries Centre located near the Industrial Estate in Balanagar, Ranga Reddy district of Andhra Pradesh regarding a seminar on government's assistance for a small business, aimed at young entrepreneurs. Excited with the news, the three friends decided to attend the seminar. They were told about the financial and other assistance offered by the Central and State Governments under the Rural Employment Generation Programme to the educated youth. They found that toys were in demand and decided to manufacture toys. They started a small scale industry in their village by taking financial assistance with the help of Khadi and Village Industries Commission. Today, they are successful makers of toys and in the near future, they plan to get into export market as well.

© BSEBHSE NOT TO BE REPRINTED

9.1 Introduction

In the pervious chapters, the concepts of business, trade, commerce and industry were discussed. The present chapter discusses the issue of size of business, with reference to small industries and small business establishments. It also describes the role of small business and the major problems faced by the small sector units. Further, the assistance provided by the government to small business, particularly in the rural and hilly areas has been discussed.

9.2 Meaning and Nature of Small Business

In India, the 'village and small industries sector' consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and powerlooms. The last two come under the modern small industries, while the others come under traditional industries. Village and small industries together provide the largest employment opportunities in India.

Before understanding the nature and meaning of small business, it is important to know how size is defined in our country, with reference to small industries and small business establishments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, volume of output or value of output of business and power consumed for business activities. However, there is no parameter which is without limitations. Depending on the need the measures can vary.

The definition used by the Government of India to describe small industries is based on the investment

in plant and machinery. This measure seeks to keep in view the socio-economic environment in India where capital is scarce and labour is abundant.

The emergence of a large services sector has necessitated the government to include other enterprises covering both Small Scale Industries (SSI) sector and related service entities under the same umbrella. Expansion of the small scale enterprises was taking place growing into medium scale enterprises and they were required to adopt higher levels of technologies in order to remain competitive in a fast globalising world. Thus, it was necessary to address the concerns of such enterprises micro, small and medium and provide them with a single legal framework. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues relating to definition, credit, marketing and technology upgradation. Medium scale enterprises and service related enterprises also come under the purview of this Act. The MSMED Act, 2006 came into force w.e.f. October, 2006. Accordingly, enterprises are classified into two major categories viz., manufacturing and services.

Manufacturing

In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, there are three types of enterprises:

(i) Micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees.

(ii) Small enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees.

(iii) Medium enterprise, where the investment in plant and machinery is more then five crore rupees but does not exceed ten crores rupees.

Services

In the case of enterprises engaged in providing or rendering of services there are three types of enterprises:

(i) Micro enterprise, where the investment in equipment does not exceed ten lakh rupees.

(ii) Small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

(iii) Medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Village industries: Village industry has been defined as any industry located in a rural area which produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or artisan or worker is specified by the central government, from time to time.

Cottage industries: These are also known as Rural Industries or Traditional Industries. They are not defined by capital investment criteria as in the case of other small scale industries. However, cottage industries are characterised by certain features like the following:

- 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.

9.3 Administrative Setup for the Small Scale, Agro and Rural Industries

The Government of India created the Ministry of Micro, Small and Medium Enterprises as the nodal ministry for formulation of policy and coordination of central assistance for the promotion and development of small scale industries in India. The Small Industries Development Organisation (SIDO), also known as the Office of the Development Commissioner (SSI) which is attached to this ministry is responsible for implementing and monitoring of various policies and programmes formulated. The Ministry of Micro, Small and Medium Enterprises designs policies, programmes and schemes for promotion and growth of SSIs. The National Small Industries Corporation (NSIC), a public sector enterprise of the Ministry, has been providing marketing support to the medium and small enterprises under the Marketing Assistance Scheme.

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. It also implements Prime Minister's Rojgar Yojana. The various policies, programmes and schemes related to agro and rural industries are implemented by the ministry through the Khadi and Village Industries Commission (KVIC), Handicrafts Board, Coir Board, Silk Board, etc. The KVIC may include the micro or tiny enterprises or the village enterprises as part of small enterprises depending upon the criteria or standards in respect of employment or turnover of the enterprise.

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

Category	Manufacturing* Investment Limit	Providing of Services Investment Limit
Micro enterprise	25 lakh	10 lakh
Small enterprise	Between 25 lakh and 5 crore	Between 10 lakh and 2 crore
Medium enterprise	Between 5 crore and 10 crore	Between 2 crore and 5 crore

* While calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items shall be excluded.

their respective states. These are executed through the State Directorate of Industries, who has District Industries Centres (DICs) under it to implement central/state level schemes.

9.4 Role of Small Business in India

Small Scale Industries in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The following points highlight their contribution.

(i) Small industries in India account for 95 per cent of the industrial units in the country. They contribute almost 40 per cent of the gross industrial value added and 45 per cent of the total exports (direct and indirect exports) from India.

(ii) Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.

(iii) Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc. Among the sophisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. A special mention should be made of handlooms, handicrafts and other products from traditional village industries in view of their export value. (see Box A which highlights the major industry groups that come under the

Box A
Major Industry Groups in the Small Scale Sector

- Food Products
- Chemical and Chemical Products
- Basic Metal Industries
- Metal Products
- Electrical Machinery and Parts
- Rubber and Plastic Products
- Machinery and Parts except Electrical Goods
- Hosiery and Garments — Wool Products
- Non-metallic Mineral Products
- Paper Products and Printing
- Transport Equipment and Parts
- Leather and Leather Products
- Miscellaneous Manufacturing Industries
- Beverages, Tobacco and Tobacco Products
- Repair Services
- Cotton Textiles
- Wool, Silk, Synthetic Fibre and Textiles
- Jute, Hemp and Mesta Textiles
- Other Services

purview of small industries as per the classification laid down by the government.)

(iv) The contribution of small industries to the balanced regional development of our country is noteworthy. Small industries which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialisation can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.

(v) Small industries provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business. Amar, Akbar and Anthony in our story proved that a small business can be started, if one has the determination to achieve.

(vi) Small industries also enjoy the advantage of low cost of production. Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side because of low overhead expenses. Infact, the low cost of production which small industries enjoy is their competitive strength.

(vii) Due to the small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations. New business opportunities can be captured at the right time.

(viii) Small industries are best suited for customised production. i.e. designing the product as per the tastes/ preferences/needs of individual customers, say for an example tailor-made shirt or trouser. The recent trend in the market is to go in for customised production of even non-traditional products such as computers and other such products. They can produce according to the needs of the customers as they use simple and flexible production techniques.

(ix) Last but not the least, small industries have inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees. The government does not have to interfere in the functioning of a small scale unit. Due to the small size of the organisation quick and timely decision can be taken without consulting many people as in large sized organisations. New business opportunities can be captured at the right time, thus providing healthy competition to big business which is good for the economy.

9.5 Role of Small Business in Rural India

Traditionally, rural households in developing countries have been viewed as exclusively engaged in agriculture. There is an increasing evidence that rural households can have highly varied and multiple sources of income and that, rural households can and do participate in a wide range of non-agricultural

activities such as wage employment and self-employment in commerce, manufacturing and services, along with the traditional rural activities of farming and agricultural labour. This can be largely attributed to the policy initiatives taken by the Government of India, to encourage and promote the setting up of agro-based rural industries.

The emphasis on village and small scale industries has always been an integral part of India's industrial strategy, more so, after the second Five Year Plan. Cottage and rural industries play an important role in providing employment opportunities in the rural areas, especially for the traditional artisans and the weaker sections of society. Development of rural and village industries can also prevent migration of rural population to urban areas in search of employment.

Village and small industries are significant as producers of consumer goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment. These industries contribute amply to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.

In fact promotion of small scale industries and rural industrialisation has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.'

However, the potential of small industries is often not realised fully, because of several problems related to size. We shall now examine some of the major problems that small businesses whether in urban or in rural areas are encountering in their day-to-day functioning.

9.6 Problems of Small Business

Small scale industries are at a distinct disadvantage as compared to large scale industries. The scale of operations, availability of finance, ability to use modern technology, procurement of raw materials are some of these areas. This gives rise to several problems.

Most of these problems can be attributed to the small size of their business, which prevents them from taking advantages, which accrue to large business organisations. However, the problems faced are not similar to all the categories of small businesses. For instance, in the case of small ancillary units, the major problems include delayed payments, uncertainty of getting orders from the parent units and frequent changes in production processes. The problems of traditional small scale units include remote location with less developed infrastructural facilities, lack of managerial talent, poor quality, traditional technology and inadequate availability of finance.

The problems of exporting small scale units include lack of adequate data on foreign markets, lack of market intelligence, exchange rate fluctuations, quality standards, and

pre-shipment finance. In general the small businesses are faced with the following problems:

(i) Finance: One of the severe problems faced by SSIs is that of non-availability of adequate finance to carry out its operations.

Generally a small business begins with a small capital base. Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets. As a result, they heavily depend on local financial resources and are frequently the victims of exploitation by the money lenders. These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

(ii) Raw materials: Another major problem of small business is the procurement of raw materials. If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials. Their bargaining power is relatively low due to the small quantity of purchases made by them. Also, they cannot afford to take the risk of buying in bulk as they have no facilities to store the materials. Because of general scarcity of metals, chemicals and extractive raw materials in the economy, the small scale sector suffers the most. This also means a waste of production capacity for the economy and loss of further units.

(iii) Managerial skills: Small business is generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output. Moreover, they may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers.

(iv) Labour: Small business firms cannot afford to pay higher salaries to the employees, which affects employee willingness to work hard and produce more. Thus, productivity per employee is relatively low and employee turn over is generally high. Because of lower remuneration offered, attracting talented people is a major problem in small business organisations. Unskilled workers join for low remuneration but training them is a time consuming process. Also, unlike large organisations, division of labour cannot be practised, which results in lack of specialisation and concentration.

(v) Marketing: Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements. In most cases, marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible

© NCERT NOT TO BE REPUBLISHED

for small business firms as they lack the necessary infrastructure.

(vi) Quality: Many small business organisations do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low. They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology. In fact maintaining quality is their weakest point, when competing in global markets.

(vii) Capacity utilisation: Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.

(viii) Technology: Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.

(ix) Sickness: Prevalence of sickness in small industries has become a point of worry to both the policy makers and the entrepreneurs. The causes of sickness are both internal and external. Internal problems include lack of skilled and trained labour and managerial and marketing skills. Some of the external problems include delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.

(x) Global competition: Apart from the problems stated above small businesses are not without fears, especially in the present context of liberalisation, privatisation and globalisation (LPG) policies being followed by several countries across the world. Remember, India too has taken the LPG path since 1991. Let us look into the areas where small businesses feel threatened with the onslaught of global competition.

(a) Competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes. Opening up of trade results in cut throat competition for small scale units.

(b) It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities of the large industries and multinationals.

(c) There is limited access to markets of developed countries due to the stringent requirements of quality certification like ISO 9000.

9.7 Government Assistance to Small Industries and Small Business Units

Keeping in view the contribution of small business to employment generation, balanced regional development of the country, and promotion of exports, the Government of India's policy thrust has been on establishing, promoting and developing the small business sector, particularly the rural industries and the cottage and village industries in backward areas. Governments both at the central and state level have been actively participating in promoting self-employment opportunities in rural areas by providing assistance in respect

of infrastructure, finance, technology, training, raw-materials, and marketing. The various policies and schemes of Government assistance for the development of rural industries insist on the utilisation of local resources and raw materials and locally available manpower. These are translated into action through various agencies, departments, corporations, etc., all coming under the purview of the industries department. All these are primarily concerned with the promotion of small and rural industries.

Some of the support measures and programmes meant for the promotion of small and rural industries are discussed below:

A. Institutional Support

1. National Bank for Agriculture and Rural Development (NABARD)

NABARD was setup in 1982 to promote integrated rural development. Since then, it has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country. Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It offers counselling and consultancy services and organises training and development programmes for rural entrepreneurs.

2. The Rural Small Business Development Centre (RSBDC)

It is the first of its kind set up by the world association for small and medium enterprises and is sponsored by NABARD. It works for the benefit of socially and economically disadvantaged individuals and groups. It aims at providing management and technical support to current and prospective micro and small entrepreneurs in rural areas. Since its inception, RSBDC has organised several programmes on rural entrepreneurship, skill upgradation workshops, mobile clinics and trainers training programmes, awareness and counselling camps in various villages of Noida, Greater Noida and Ghaziabad. Through these programmes it covers a large number of rural unemployed youth and women in several trades, which includes food processing, soft toys making, ready-made garments, candle making, incense stick making, two-wheeler repairing and servicing, vermicomposting, and non conventional building materials.

3. National Small Industries Corporation (NSIC)

This was set up in1955 with a view to promote, aid and foster the growth of small business units in the country. This focuses on the commercial aspects of these functions.

- Supply indigenous and imported machines on easy hire-purchase terms.
- Procure, supply and distribute indigenous and imported raw materials.
- Export the products of small business units and develop export-worthiness.
- Mentoring and advisory services.

© BSTBC NOT TO BE REPUBLISHED

- Serve as technology business incubators.
- Creating awareness on techno-logical upgradation.
- Developing software technology parks and technology transfer centres.

A new scheme of **'performance and credit rating'** of small businesses is implemented through National Small Industries Corporation (NSIC) with the twin objectives of (i) sensitising the small industries about the need for credit rating and (ii) encouraging the small business units to maintain good financial track record. This is to ensure that they score higher rating for their credit requirements as and when they approach the financial institutions for their working capital and investment requirements.

Marketing Assistance Scheme

Marketing, a strategic tool for business development, is critical for the growth and survival of micro, small and medium enterprises.

Ministry of Micro, Small and Medium Enterprises, through National Small Industries Corporation (NSIC), a Public Sector Enterprise of the Ministry, has been providing marketing support to Micro and Small Enterprises (MSEs) under the Marketing Assistance Scheme.

Objectives

The broad objectives of the scheme are:

(i) To enhance marketing capabilities and competitiveness of the MSMEs.
(ii) To showcase the competencies of MSMEs.
(iii) To update MSMEs about the prevalent market scenario and its impact on their activities.
(iv) To facilitate the formation of consortia of MSMEs for marketing of their products and services.
(v) To provide platform to MSMEs for interaction with large institutional buyers.
(vi) To disseminate/propagate various programmes of the Government.
(vii) To enrich the marketing skills of the micro, small and medium entrepreneurs.

Marketing Support to MSMEs

Under the Scheme, it is proposed to enhance competitiveness and marketability of their products, through following activities:

(i) Organising International Technology Exhibitions in Foreign Countries by NSIC and Participation in International Exhibitions/Trade Fairs: International Technology Expositions/ exhibitions may be organised by NSIC with a view to providing broader exposure to Indian micro, small and medium enterprises to facilitate them in exploring new business opportunities in emerging and developing markets.

This helps in promoting trade, establishing joint ventures, technology transfers, marketing arrangements and image building of Indian MSMEs in foreign countries. In addition to the organisation of the international exhibitions, NSIC would also facilitate participation of Indian MSMEs in the select international exhibitions and trade fairs. Participation in such events exposes MSMEs to international practices.

(ii) Organising Domestic Exhibitions and Participation in Exhibitions/Trade Fairs in India: Certain theme based exhibitions/ technology fairs etc. may be organised by NSIC, focused on products and services offered by MSMEs, including technologies suitable for employment generation, products from specific regions or clusters (like North Eastern Region, food processing, Machine-tools, Electronics, Leather etc.).

Participation in such events is expected to help the MSMEs in enhancing their marketing avenues by way of capturing new markets and expanding existing markets.

(iii) Support for Co-sponsoring of Exhibitions Organised by other Organisations/Industry Associations/Agencies: This support would be in the form of co-sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation/agency must fulfill the centre criteria/ conditions.

(iv) Buyer-Seller Meets: Bulk and departmental buyers such as the Railways, Defense, communication departments and large companies are invited to participate in buyer-seller meets to bring them closer to the MSMEs for enhancing their marketing competitiveness. Participation in these programmes enables MSMEs to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of MSMEs for their purchases.

(v) Intensive Campaigns and Marketing Promotion Events: To disseminate information about the various schemes for the benefit of the micro, small and medium enterprises. They are also facilitated to enrich their knowledge regarding latest developments, quality standards etc. and improve the marketing potential of their products and services.

(vi) Other Support Activities

- Development of Display Centres, show windows and hoarding etc. for promoting products and services of MSMEs.
- Printing of Literature, Brochures and Product-specific catalogues and CDs etc. and preparation of short films for disseminating information.
- Development of website/portal for facilitating the marketing of MSME products and services.
- Development and dissemination of Advertising and Publicity material about various programes/schemes for MSME sectors and events.
- Preparation and Upgradation of MSME Manufacturers/ Suppliers/ Exporters Directory.
- Documentation of the success stories of MSMEs.
- Conducting studies to explore and assess new markets/ businesses and product ranges for both domestic and international markets.
- Hosting international delegations and networking events.

4. Small Industries Development Bank of India (SIDBI)

- Set up as an apex bank to provide direct/indirect financial assistance

© DSTEC WEBCOPY NOT TO BE PUBLISHED

under different schemes, to meet credit needs of small business organisations.
- To coordinate the functions of other institutions in similar activities.

Thus so far, we have learnt about the various institutions operating at the central level and state level in support of the small industries.

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 considered necessary for improving the productivity of small enterprises in the informal sector.
- To generate more employment opportunities on a sustainable basis, particularly in the rural areas.
- To enhance the competitiveness of the sector in the emerging global environment.
- To develop linkages of the sector with other institutions in the areas of credit, raw materials, infrastructure, technology upgradation, marketing and formulation of suitable arrangements for skill development.

The commission has identified the following issues for detailed consideration:
- Growth poles for the informal sector in the form of clusters/hubs, in order to get external economic aid.
- Potential for public-private partnerships in imparting the skills required by the informal sector.
- Provision of micro-finance and related services to the informal sector.
- Providing social security for the workers in the informal sector.

6. Rural and Women Entrepreneurship Development (RWED)

The Rural and Women Entrepreneurship Development programme aims at promoting a conducive business environment and at building institutional and human capacities that will encourage and support the entrepreneurial initiatives of rural people and women. 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 any other 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.

Apart from these, there are several schemes to promote the non-farm

sector, mostly initiated by the Government of India. For instance, there are schemes for entrepreneurship through subsidised loans like Integrated Rural Development Programme (IRDP), Prime Minister Rojgar Yojana (PMRY), schemes to provide skills like Training of Rural Youth for Self Employment (TRYSEM), and schemes to strengthen the gender component like Development of Women and Children in Rural Areas (DWCRA). There are schemes to provide wage employment like Jawahar Rojgar Yojana (JRY), food for work etc., on rural works programmes to achieve the twin objectives of creation of rural infrastructure and generation of additional income for the rural poor, particularly during the lean agricultural season. Last, but not the least, there are schemes for specific groups of industries such as khadi, handlooms and handicrafts.

8. Scheme of Fund for Re-generation of Traditional Industries (SFURTI)

To make the traditional industries more productive and competitive and to facilitate their sustainable development, the Central Government set up this fund with Rs. 100 crores allocation to begin within the year 2005. This has to be implemented by the Ministry of Agro and Rural Industries in collaboration with State Governments. The main objectives of the scheme are as follows:

- To develop clusters of traditional industries in various parts of the country;
- To build innovative and traditional skills, improve technologies and encourage public-private partnerships, develop market intelligence etc., to make them competitive, profitable and sustainable; and
- To create sustained employment opportunities in traditional industries.

9. The District Industries Centers (DICs)

The District Industries Centers Programme was launched on 1 May 1978, with a view to providing an integrated administrative framework at the district level, which would look at the problems of industrialisation in the district, in a composite manner. In other words 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. Broadly DICs are trying to bring change in the attitude of the rural entrepreneurs and all other connected with economic development in the rural areas. Even within the narrow spectrum, an attempt is being made to look at some of the neglected factors such as the rural artisan, the skilled craftsman and the handloom operator and to tune up these activities with the general process of rural development being

WEBCOPY NOT FOR SALE PUBLISHED

taken up through other national programmes. The DIC is thus emerging as the focal point for economic and industrial growth at the district level.

B. Incentives

Special emphasis on the industrial development of backward, tribal and hilly areas has been the concern of the Government of India expressed in all the Five Year Plans and industrial policy statements. Realising that backward areas development is a long-term process, several committees were appointed to identify the criteria for identifying backward areas and also to suggest schemes to take up the Herculean task of balanced regional development. The implementation of integrated rural development programme is one such attempt made by the government to develop backward areas. The rural industries project programme initiated by the Government of India was meant to develop small business units in select rural areas. Though the backward area development programmes varied from state to state, they cumulatively represented a significant package of incentives to attract industries in backward areas.

Some of the common incentives offered are discussed as below:

Land: Every state offers developed plots for setting up of industries. The terms and conditions may vary. Some states don't charge rent in the initial years, while some allow payment in instalments.

Power: Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.

Water: Water is supplied on a no-profit, no-loss basis or with 50 per cent concession or exemption from water charges for a period of 5 years.

Sales Tax: In all union territories, industries are exempted from sales tax, while some states extend exemption for 5 years period.

Octroi: Most states have abolished octroi.

Raw materials: Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron and steel etc.

Finance: Subsidy of 10-15 per cent is given for building capital assets. Loans are also offered at concessional rates.

Forms of Support Offered to Small Industries by the Government

- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic and export marketing
- Technical and financial assistance for technological up-gradation
- Special incentives for setting up of enterprises in backward areas

Industrial estates: Some states encourage setting up of industrial estates in backward areas.

Tax holiday: Exemption from paying taxes for 5 or 10 years is given to industries established in backward, hilly and tribal areas.

To sum up, it may be stated that the small business sector in India is getting the support of government through various institutions in different forms for different purposes. Despite special attention being given to backward areas, it is observed that imbalances in development are still there. There is a need to develop infrastructural facilities in these areas, as no amount of subsidies or concessions can overcome the natural handicaps caused by a lack of such facilities.

9.8 The Future

The present era is the regime of the World Trade Organisation (WTO), in which the rules of trade are subject to frequent changes as per global expectations. As a founder member of WTO, India too has committed itself to the policy framework of WTO. As a result, small business is also moving away from the pre-liberalisation era of protection. With the Indian economy getting integrated with the global economy, it is inevitable for the small businesses to gear up their capabilities to explore, penetrate and develop new markets. They have to steadily reorient themselves to face the challenges posed by increased competition, domestically and internationally too. With their dynamism, flexibility and innovative entrepreneurial spirit, small businesses have to adapt themselves to the fast changing needs of the market driven economy. Government should reorient its assistance to the small business sector by acting as a facilitator and promoter and not as a regulator. New strategies have to be evolved to foster partnership between large and small industries, adopt cluster approach, develop creative marketing, improve technological skills by upgradation, building export competitiveness by identifying the core competencies of the small businesses.

In fact small business sector should view globalisation as an opportunity for its active participation as suppliers of specialised component and parts. If small businesses are to maintain their market share and healthy growth, they have to create a level-playing field for themselves. The long-term competitive position for the small businesses will depend on how well they learn to manage, adopt and improve their competitive strength.

In short the mantra of success for small businesses in this modern era has to be 'think global, act local.'

© NCERT NOT TO BE REPUBLISHED

Key Terms

Small scale industries	Cottage industries	Micro business enterprises
Expert oriented units	Rural industries	Women enterprises
Ancillary	Khadi industries	Tiny industries

SUMMARY

On the basis of the capital invested, small business units can be categorised into various categories, which include Small Scale Industry, Ancilliary Small Industrial Units, Export Oriented Units, Small Scale Industries owned and managed by Women Entrepreneurs, Tiny Industrial Units, Small Scale Services and Business (Industry related) Enterprises, Micro Business Enterprises, Village Industries and Cottage Industries.

Administrative setup: The administrative setup for small scale industry consists of two ministries viz., the Ministry of Small Scale Industries and Ministry of Agricultural and Rural Industry, Government of India, the Ministry of SSIs is the nodal ministry for formulation of policy and coordination of central assistance, for the promotion and development of SSIs in India.

Similarly, the 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 area. State Governments also execute different promotional development projected schemes to provide a number of supporting incentives for development and promotion of SSIs in their respective states.

Role of small business in India: Small Scale Industries play a very important role in the socio economic development of the country. These industries account for 95 per cent of industrial units, contributing up to 40 per cent of the gross industrial value added and 45 per cent of the total exports. SSIs are the second largest employers of human resources, after agriculture and produce a variety of products for the economy. These units contribute to the balanced regional development of the country by using locally available material and indigenous technology. These provide ample scope for entrepreneurship; enjoy the advantage of low cost of production; quick decision making, and have quick adaptability and are best suited to customised production.

Role of small business in rural India: Small business units provide multiple source of income, in wide range of non-agricultural activities and provide employment opportunities in rural areas, especially for the traditional artisan and weaker sections of the society.

Problems of small industries: Small Industries suffer from various problems including that of (i) Finance, (ii) Non-availability of raw material,

(iii) Managerial skills, (iv) Skilled labour, (v) Marketing of their goods, (vi) Maintaining Quality standards, (vii) Low capacity utilisation, (viii) Use of traditional technology, (ix) Prevalence of sickness, and (x) Facing global competition.

Governmental assistance to small industries: In view of the contribution of small business in various areas including employment generation, balanced regional development, and promotion of export the central and state government have been providing assistance in respect of infrastructure, finance, technology, training etc., to SSI units.

Some of the major institutions providing support include National Bank for Agriculture and Rural Development, Rural Small Business Development Centre, National Small Industries Corporation, Small Industries Development Bank of India (SIDBI)), The National Commission for Enterprises in Unorganised Sector (NCEUS), Rural and Women Entrepreneurship Development (RWE), World Association for Small and Medium Enterprises (WASME), Scheme of Fund for Regeneration of Traditional Industries (SFURM) and the District Industries centre (DIC).

© BSTBPC WEB COPY - NOT TO BE REPUBLISHED

EXERCISES

Short Answer Questions

1. What are the different parameters used to measure the size of business?
2. What is the definition used by Government of India for Small Scale Industries?
3. How would you differentiate between an ancillary unit and a tiny unit?
4. State the features of cottage industries.

Long Answer Questions

1. How do small scale industries contribute to the socio-economic development of india?
2. Describe the role of small business in rural India.
3. Discuss the problems faced by small scale industries.
4. What measures has the government taken to solve the problem of finance and marketing in the small scale sector?
5. What are the incentives provided by the Government for industries in backward and hilly areas?

Projects/Assignments

1. Prepare a questionnaire to find out the actual problems faced by an owner of a small scale unit. Prepare a project report on it.
2. Survey about five small scale units in your vicinity and find out if they have received any assistance by the institutions setup by the Government.