

CHAPTER - 8

SMALL BUSINESS

- **Introduction:**

Small Business enterprises exist in every country of the world. But in a developing country like India, they occupy a special place in the industrial structure because they provide better opportunities for generating employment, for better utilization of local resources, for equitable distribution of national income.

- **Meaning:**

Small Scale Industry is one in which investment in plant and machinery does not exceed rupees one crore.

An ancillary industrial unit is one which supplies not less than 50% of its output to another parental unit.

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.

Small Scale Unit owned and managed by Women Entrepreneur is one in which women have a share capital of not less than 51%.

Tiny Industrial unit is an enterprise having investment in plant and machinery of not more than Rs.25 lacs.

Micro Business unit is one where investment in plant and machinery of not more than One lakh.

Village Industry 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 Rs.50,000.

Cottage Industry refers to industrial units which are traditional rural industries located in residential premises and in which manual techniques and simple tools are used.

- **Role of Small Business in India (With Special Reference to Rural Areas)**

- Small industries provide employment opportunities in rural areas
- They are the second largest employers of human resources
- They contribute nearly 40% of the gross industrial value added
- The development of village & rural industries leads to industrialization in rural areas
- They ensure equitable distribution national income & wealth by reducing income inequalities between rural & urban areas
- They help in mobilization & utilization of local resources & skills
- They help generate multiple sources of income to the rural house holds
- They prevent migrations of rural population to urban areas in search of employment.

- **Problems Of Small Scale Industries**

- Small scale industries find it difficult to get loans from banks & other financial institutions.
- They are not able to get quality raw materials at reasonable prices.
- They are usually run by people who may not have managerial skills.
- They cannot pay higher salaries to employees so they leave the business.
- They face competition from global enterprises.
- They use outdated machineries & technologies.
- Their quality of goods is low.
- Due to lack of marketing skills & lack of demand, half of the capacity is not utilized so the operating cost is more.

- **Government Schemes and Agencies for Small-Scale Industries (SSI)**

Government Measures and Schemes

- Land is supplied at a concessional rate to industries setup in back ward areas.
- Power is supplied at a concessional rate.
- Water is supplied on no profit no loss basis.
- In all union territories SSI's are exempted from sales tax.
- Scarce raw materials are supplied on priority basis.
- Loans are offered at concessional rate.
- They are exempted from payment of tax for 5 or 10 years.
- 800 items are reserved for exclusive production by SSI's.

- **Institutional support**

1. National small industries corporation

- It supplies imported machines and raw materials to SSI's on easy hire purchase schemes
- It exports the products of SSI's
- It provides technologies to SSI's and creates awareness on technological up gradation

2. District Industrial centers

- They provide an integrated administrative frame work at the district level
- They provide all the services and support facilities to the entrepreneurs for setting up small and village industries

3. Small industries development bank of India

- It was setup in 1989 for promotion, financing and development of small business in India.
- It provides term loans to SSI units for modernization, technology up gradation and diversification.
- It provides assistance for working capital requirements for SSI's and tiny industries.
- It provides assistance for rehabilitation of potentially viable sick units in SSI sector.

- It undertakes discounting of bills for small business.
- It provides services like factoring, leasing, etc.
- It extends financial support to various institutions engaged in the promotion of small business, such as the state financial corporation (SFC), state industrial development corporations (SIDC), etc.
- It has formulated a credit guarantee fund trust (CGFT) for small industries for guaranteeing the loans and advance up to Rupees 10 laky.

• **Very Short Answer Type Questions:**

1. Name the two categories of village and small industries sector in India.

Ans. Traditional small industries –handlooms, handicrafts, coir, sericulture, khaki, and village industries

Modern small industries- small scale industries and power looms.

2. Name the small scale unit in which investment in plant and machinery does not exceed rest 25 laths.

Ans. Tiny industrial units.

3. How much do small industries in India account for the total industrial units?

Ans. 95%.

4. How much do small industries contribute to total export from India?

Ans. 45%.

5. Give the full form of NABARD.

Ans. National Bank for Agriculture and Rural Development.

• **Short Answer Type Questions:**

1. How would you differentiate between an ancillary unit and tiny unit?

Ans. Aspin ancillary unit the investment in plant and machinery is up to 1 core and supplies 50% of its production to the parent unit

In tiny unit the investment in plant and machinery is up to 25 laths

2. What is the difference between small scale enterprise and cottage industries?

Ans. In small scale industry investment in fixed assets is up to 1 crore whereas in cottage industry produce simple products by using indigenous technology and the investment per person is RS 50,000.

3. Explain four important problems of small business in India.

Ans. The following points should be explained

- Finance
- Management skills
- Marketing
- Quality

4. Explain any 3 incentives offered by govt to small scale enterprise so that they can contribute

in the development of overpopulated country like India.

- Protective measures
- Credit and finance
- Marketing assistance
- Incentives
- Institutional support

• **Long Answer Type Questions:**

1. The path of small scale industries is full of hurdles." In the light of this statement, discuss the problems faced by small scale industries.

Ans. The following Problems of small scale industries should be explained

- Finance
- Management skills
- Marketing
- Quality
- Under utilization of capacity
- Raw materials
- Labor
- Technology
- Global competition

2. Describe the role of small business in rural India.

Ans. The following points should be explained

- Generation of employment in rural areas
- Multiple source of income
- Prevent migration
- Mobilization of local resources
- Rural industrialization

- Reduction in income inequalities
- Equitable distribution of national income

3. Identify any 6 major industry groups in the small sector in India.

Ans. 1. Food products

2. Chemicals and chemical products
3. Hosiery and garments
4. Leather and leather products
5. Repair services
6. Beverages, tobacco and tobacco products.

4. Mention the forms of support to small industries by the govt.

Ans. 1. Institutions for credit facilities.

2. Provision of training facilities.
3. Supply of machinery on hire purchase system.
4. Technical assistance.
5. Financial assistance for technological up gradation.
6. Incentives for setting up enterprises in backward areas.

- **Gist of the Lesson**

Role of small scale industries in socio economic development of India

- *Employment generation*
- *Output generation*
- *Export promotion*
- *Balance regional development*
- *Development of entrepreneurship*
- *Complementary to large scale industries*

Role of small scale industries in rural India

- *Generation of employment in rural areas*
- *Multiple source of income*
- *Prevent migration*
- *Mobilization of local resources*
- *Rural industrialization*
- *Reduction in income inequalities*
- *Equitable distribution of national income*

Problems of small scale industries

- *Finance*
- *Management skills*
- *Marketing*
- *Quality*

- *Under utilization of capacity*
- *Raw materials*
- *Labor*
- *Technology*
- *Global competition*

Measures taken by the government

- *Protective measures*
- *Credit and finance*
- *Marketing assistance*
- *Incentives*
- *Institutional support*