



Business Studies Notes PDF

On

Formation of a Company

(Class – 11 / Chapter– 9)

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 crore.

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 Units	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

ROLE OF SMALL BUSINESS IN INDIA

- **Employment Opportunities:** After the agriculture sector, small industries provide the largest employment opportunities.
- **Diverse Variety:** Small businesses provide a wide variety of consumer and specialized products using simple technology and local resources.
- **Low cost of production:** SSI also enjoys the advantage of low cost of production because they used local resources in their product.
- **Complementary to large scale Industries:** SSI. supply various types of components, spare parts, tools etc, which are required by large scale enterprises.
- **Rural Development:** Through the provision of employment opportunities, encouraging locals to use their skills, regional development is made possible.
- **Balanced Development:** These business units can be set up anywhere at any location and region, as they are dependent on locally available resources, simple technology, and labour class people. This facilitates balanced development of the country.

ROLE OF SMALL BUSINESS IN RURAL INDIA

- Provides Employment in Rural Areas
- Improve Economic Condition
- Helps in reduction of income inequalities.

- It prevents the inclination and migration of rural population to urban areas.
- Balanced Regional development

Problems Associated with MSMEs

1. Finance: There is limited finance availability with these enterprises that makes the day to day working difficult. Also raising finance from banks is a challenge because of these enterprises' poor credit worthiness.

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. 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. Hence neither they are capable to manage the enterprises on their own, nor they can hire people for such work due to shortage of financial resources.

4. 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.

5. Technology: Use of outdated and obsolete technology creates issues in terms of high cost and low quality.

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

A. INSTITUTIONAL SUPPORT

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

NABARD was set up 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. Non availability of finance deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of 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. 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.

3. National Small Industries Corporation (NSIC)

This was setup in 1955 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.

4. Small Industries Development Bank of India (SIDBI)

Set up as an apex bank to provide direct/indirect financial assistance under different schemes, to meet credit needs of small business organisations. To coordinate the functions of other institutions in similar activities.

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.

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.

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.

8. Scheme of Fund for Regeneration 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.

9. The District Industries Centers (DICs)

The concept of DIC came during 1977, when the 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.

INCENTIVES

(I) The govt. 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 things from any payment during the initial years of operation.**

(III) The govt. 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.**

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