INTRODUCTION

Small-Scale Industries in India: Definition,

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports. The Government of India is focusing on Startup and Make in India. But Make in India and Startup India is not possible without contribution from SMEs of India. It is non debatable question that SMEs increase the social justice by distribution of wealth among large numbers of people. It also creates more local employment than big entities. The SMEs, by number, dominate the world business stage. There is no debate on the importance and contribution of SMEs in the economic development of any country. The last census of the SMEs in India was 4\textsuperscript{th} censes of SMEs held in the year 2006-07. The precise and up -to date data on SMEs are difficult to obtain due to scattered and unorganized sector. The main challenge in identification of SMEs is that there is no universal accepted definition of SMEs in the world.

Definition: The official definitions of a small scale unit are as follows:

(i) Small-Scale Industries: These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

(ii) Small-Scale Service Establishments: These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

Characteristics of Small-Scale Industries:

I Ownership: Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

II Management and control: A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is activity involved in all the decisions concerning business.

III Area of operation: The area of operation of small units is generally localized catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.
**IV Technology:** Small industries are fairly labor intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labor.

**V Gestation period:** Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

**VI Flexibility:** Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

**VII Resources:** Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labor and raw materials.

**VIII Dispersal of units:** Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

**Objectives of Small Scale Industries:** The objectives of small scale industries are:

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilize and ensure optimum utilization of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

**Micro, Small & Medium Enterprises:** In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes: Manufacturing Enterprises—he enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and...
machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

**Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Indian Small and Medium Enterprises (SME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. SMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural areas. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The SME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.

SMEs also play a significant role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defense Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training.

Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic & global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient skilled manpower, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully to
contribute 22% to GDP. Indian SMEs are always ready to accept and acquire new technologies, new business ideas and automation in industrial and allied sectors.

The Government of India is focusing on Startup and Make in India. But Make in India and Startup India is not possible without contribution from SMEs of India. It is non debatable question that SMEs increase the social justice by distribution of wealth among large numbers of people. It also creates more local employment than big entities. The SMEs, by number, dominate the world business stage. There is no debate on the importance and contribution of SMEs in the economic development of any country. The last census of the SMEs in India was 4th censes of SMEs held in the year 2006-07. The precise and up-to-date data on SMEs are difficult to obtain due to scattered and unorganized sector. The main challenge in identification of SMEs is that there is no universal accepted definition of SMEs in the world. Even different regulator and law in India has defined SMEs in different ways. We have attempted to study the evolution of Definition of SMEs in India after independence. The study attempted to highlight the issues and different approach in defining the SMEs in India by different regulator and law. This has often created confusion in identification of SMEs in India.

**EVOLUTION OF DEFINITION OF SSI IN INDIA:** In India there was no official definition of SMEs till 1950. In1950 the Fiscal Commission, Government of India, New Delhi, for the first time defined a small-scale industry (SSI) as, one which is operated mainly with hired labor usually 10 to 50 hands. During that time word used to defined small business was Small Scale Industry (SSI) as the concept of small business was mainly confined to manufacturing sector. The Industries (Development and Regulation) Act, (IDRA), came into force on 8th May 1952 under a notification of the Central Government published in the Gazette of India. Section 11-B of the Industries Development and Regulation) Act 1951 has given power to Central Government to specify the definition of SSI in consideration of factors relating to investment of unit in fixed assets, nature of ownership, the number of workers employed, Nature, cost and quality of products, etc. The Central Government started defining the SSI based on investment in plant and machinery and other criteria. Fixed capital investment in a unit has also been adopted as main criteria to make a distinction between small-scale and large-scale industries. This limit is being continuously raised upwards by the government time to time. In order to promote small-scale industries in the country, the Government of India set up the Central Small Scale Industries Organization and the Small-Scale Industries Board (SSIB) in 1954-55. In 1955 the Small Scale
Industries Board defined SSI as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs 5 lakhs. The definition of SSI was mainly based on number of employees employed linked with use of power and value of capital assets used by an entity. This limit was revised from time to time to offset the impact of inflation and to meet the technological needs.

**MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006:**
This Act has introduced service sector in the definition of Micro, Small & Medium enterprises and extended the scope to medium enterprises. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSMED) are classified into two Classes is Manufacturing Enterprises and Service Enterprises. The Manufacturing Enterprises is engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule of the industries (Development and regulation) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. It is defined in terms of investment in Plant & Machinery. The Service Enterprises is engaged in providing or rendering of services.

The dynamic role of small scale enterprises in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. After nearly two decades of structural adjustment programs in India, the state of industrialization and efforts to build or rehabilitate technological capacities, it was industry and every more technology has been largely ignored in nearly two decades of structural adjustment and that there is a serious mismatch between policies being pursued in the region and measures that are needed to rebuild industrial and technological capabilities. The interest in the role of small scale industry in the development process continues to be in the forefront of policy debates in developing countries.

The advantage claimed for the small scale industry are various, including the encouragement of entrepreneurship, the greater likelihood that small scale industries will utilize labor intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns. Small scale industries development can encourage the process of both inter- and intra-regional decentralization; and they may well become a countervailing force against the economic power of larger enterprises. More generally, development of small scale industries is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation. Typically, Smaller
Enterprises face higher costs than larger enterprises in obtaining credit. Insufficient funding has been made available to finance working capital. Poor management and accounting practices to raise finance, information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. An approach to learning how small enterprises (SSEs) perceive the impact of financial, regulatory, technical, marketing, and other input constraints, and to evaluating the results in relation to other empirical indicators. Lack of access to finance emerges as the binding constraint for smaller, less established firms in Ghana and for all the SSEs—not only is informal financing limited for Ghanaian firms, even firms of adequate size and experience have difficulty borrowing from banks, and, if they do borrow, have difficult relations. Some SME Definitions: According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees.

SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. According to Boon (1989), the size of the enterprises employment is the most important criterion used in Ghana. But one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definition out-dated.

UNIDO defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers and these include manufacturing firm and exporting companies.

The dynamic role of small and medium enterprises (SMEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). The sector employs about 15.5% and 14.09% of the labor force in Ghana and Malawi respectively (Parker et al, 1994), has experienced higher employment growth than micro and large scale enterprises (5% in Ghana and 11% in
Malawi). In Ghana, the sector’s output as a percentage of GDP accounted for 6% of GDP. This paper seeks to identify the achievements of the SME sector, to consider the constraints to the development of the sector, and to highlight the role governments, internal and external support institutions have played in promoting the sector in Ghana in 1998.

There is growing recognition of the important role small and medium enterprises (SMEs) play in economic development. The SMEs constitute about 90% of total business units in Ghana and account of 60% of Ghana’s employed labor force (KDI, 2008). They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). This is also supported by a research done on small businesses in the United States by Dr. Charles Ou in June 2006, which indicated that U.S. small businesses numbered 23 million in 2003, and it employed about half of the private sector work force, and also produces about half of the nation’s private sector output.

Another area of constraint, which tends to block the flow of credit to SMEs, is lack of information. Small business owners most often possess more information about the potential of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business as the financiers want. Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors (Winborg and Landstrom, 2000).

Most literature states that differences in the financial institution structure and lending infrastructure affect the availability of funds to SMEs (A.N, Berger & G.F Udell, 2004). These differences may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies (be it transaction lending or relationship lending) in which they have comparative advantage to provide fund to different businesses. Transaction lending technologies are primarily based on “hard” quantitative data such as the financial ratios calculated from certified audited financial statement among others. Relationship lending on the other hand is based on “soft” qualitative information gathered through contact overtime with SMEs. This soft information may include the character and
reliability of the SME’s owner based on direct contact overtime by the financial institution. Also by lending infrastructure, they were talking about the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers. living standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al. 1993)

**Meaning of Bank:** You know people earn money to meet their day-to-day expenses on food Clothing, education of children, housing, etc. They also need money to meet future expenses on marriage, higher education of children house building and other social functions. These are heavy expenses, which can be met if some money is saved out of the present income. Saving of money is also necessary for old age and ill health when it may not be possible for people to work and earn their living. The necessity of saving money was felt by people even in olden days. They used to hoard money in their homes. With this practice, savings were available for use whenever needed, but it also involved the risk of loss by theft, robbery and other accidents. Thus, people were in need of a place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. People who wish to borrow money for business and other purposes can also get loans from the banks at reasonable rate of interest.

Bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

Banks also render many other useful services – like collection of bills, payment of foreign bills, safekeeping of jeweler and other valuable items, certifying the credit-worthiness of business, and so on.

Banks accept deposits from the general public as well as from the business community. Any one who saves money for future can deposit his savings in a bank. Businessmen have income from sales out of which they have to make payment for expenses. They can keep their earnings from sales safely deposited in banks to meet their expenses from time to time. Banks give two assurances to the depositors – on deposits, banks give interest, which adds to the original amount of deposit. It is a great incentive to the depositor. It promotes saving habits among the public. On the basis of deposits banks also

**Role of Banking:** Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. Let us know about the role of banking.

It encourages savings habit amongst people and thereby makes funds available for productive use.
• It acts as an intermediary between people having surplus money and those requiring money for various business activities.

• It facilitates business transactions through receipts and payments by cheque instead of currency.

• It provides loans and advances to businessmen for short term and long-term purposes.

• It also facilitates import export transactions.

It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which lead to balanced economic development in the country.

It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.

**Types of Banks:** There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types:

Types of Banks

- Central Bank (RBI, in India)
- Development Banks (SIDBI, NABARD) Commercial Banks
- Specialized Banks (EXIM Bank)
- Co-operative Banks
  - (i) Public Sector Banks
  - (ii) Private Sector Banks
  - (iii) Foreign Banks
  - (i) Primary Credit Societies
  - (ii) Central Co-operative Banks
  - (iii) State Co-operative Banks

Now let us learn about each of these banks in detail.

a) **Central Bank:** A bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its Central bank. Such a bank does not deal with the general public. It acts essentially as Government’s banker, maintain deposit accounts of all other banks and
advances money to other banks, when needed. The Central Bank provides guidance to other banks whenever they face any problem. It is therefore known as the banker’s bank. The Reserve Bank of India is the central bank of our country.

b) Commercial Banks: Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial banks are also providing housing loan on a long-term basis to individuals. There are also many other functions of commercial banks, which are discussed later in this lesson.

c) Development Banks: Business often requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporation’s (SFCs) are examples of development banks in India.

d) Co-operative Banks: People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.

Types of Co-operative Banks: There are three types of co-operative banks operating in our country. They are primary credit societies, central co-operative banks and state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

(i) Primary Credit Societies: These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.

(ii) Central Co-operative Banks: These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies
and state co-operative banks.

(iii)**State Co-operative Banks:** These are the apex (highest level) co-operative banks in all the states of the country. They mobilize funds and help in its proper channelization among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

e) **Specialized Banks:** There are some banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. EXIM Bank, SIDBI and NABARD are examples of such banks. They engage themselves in some specific area or activity and thus, are called specialized banks. Let us know about them.

**I Export Import Bank of India (EXIM Bank):** If you want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide you the required support and assistance. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.

**II Small Industries Development Bank of India (SIDBI):** If you want to establish a small-scale business unit or industry, loan on easy terms can be available through SIDBI. It also finances modernization of small-scale industrial units, use of new technology and market activities. The aim and focus of SIDBI is to promote, finance and develop small-scale industries.

**III National Bank for Agricultural and Rural Development (NABARD):** It is a central or apex institution for financing agricultural and rural sectors. If a person is engaged in agriculture or other activities like handloom weaving, fishing, etc. NABARD can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative credit, in the field of agriculture, small-scale industries, cottage and village industries handicrafts and allied economic activities in rural