Small-Scale Industries in India and Other Countries: A Conceptual Analysis

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Abstract:
Small scale industries (SSIs) are the most important part of any economy of the world, because they generate more employment by less capital investment in comparison Large and Medium industries. They also contribute in earning foreign currency by contributing in exports. In this context every country of the world gives prominent place to SSIs in their Industrial Policy. This paper discusses the definitional differences among various countries of the world and definitional changes in India. The definition of SSI is very important to understand the industrial structure of the economy. In response to Industrial Policy changes the terms Small scale Industry (SSI) has under gone a substantial change over a period of time nationally and internationally. In this context how the concept of SSI has changed need to be look to the greater detail to obtain a scientific understanding of a structural change in the industrial development.

Keywords: *Criteria, Enterprise, SME, SSIs*

Small scale industries (SSIs) have been recognized as engine of economic growth all over the world. SSIs not only generate the highest employment per capita investment but they also remarkably contribute in export. In context of this view SSIs has been given prominent place in Industrial Policy in every country.
In response to Industrial Policy changes the terms Small scale Industry (SSI) has under gone a substantial change over a period of time nationally and internationally. In this context how the concept of SSI has changed need to be look to the greater detail to obtain a scientific understanding of a structural change in the industrial development.

1. Meaning of SSI in Foreign Countries

Industries may be divided into three sections, viz; (1) large-scale industrial units (i.e., front-line industries) (2) medium-scale industrial units, and (3) small-scale industrial undertaking. There is no globally accepted definition of Small scale industry. Different countries use different criteria. Among them the most important ones are: (a) the amount of capital invested, (b) the number of people employed, (c) the character of organization and management and (d) the value of annual turnover. Small and Medium Enterprises (SMEs) are companies whose headcount or turnover falls bellow certain limits. Apparently the abbreviation 'SME' occurs most commonly in European Union (EU). The term Small or Medium sized Business (SMB) has become more standard elsewhere. In India, the most common usage is 'Small scale Industries (SSIs)'. [i]

EU member states traditionally had their own definition of what constitutes SME. For example, the traditional definition in Germany had a limit of 500 employees, while (for example) in Belgium, it could have been 100. But since 6th May 2003 Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total.[ii] A medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million.

A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

In most economies, smaller enterprises predominate. In the EU, SMEs comprise approximately 99% of all firms and employ between them about 65 million people. In the United States, there is no standard definition for a Small Business. Generally, it is determined by the industry in which it competes, where income and number of employees will determine whether a company is small business or not. Many government contracts are “set aside” (i.e. competition is limited to small businesses only, most often involving services or minor construction).

Out of the four different criteria (i) the amount of capital invested, (ii) the number of people employed, (iii) the character of organization and management and (iv) the value of annual turnover, some countries are found to be using only one and some are found to be using more than one criteria. Australia, Brazil, USA, Indonesia, Canada, Korea, Netherland, Thailand are found to be using only one criteria i.e. number of persons employed in the unit and it is varies from minimum 10 persons to 500 persons. It is also found that Thailand is using two difference limits for SSIs on the base of production method. The maximum limit in Thailand for labour intensive SSI is 200 persons and for capital intensive SSI is 100 persons. Further, some countries are found to be using more than one criteria to define SSI. Japan, Italy, Vietnam are found to be using two criteria i.e. (i) number of persons employed and (ii) capital invested in the unit. In these countries it is found that the maximum employment limit is varies from 29 to 300 persons. The comparison of variation in investment limit in these countries is quite difficult because it is measured in different currencies i.e. Italy is using its own currency Lire, Japan using Yen where Singapore, Vietnam and Thailand are using Dollar. The investment limit given in Dollars is varies from \$65 thousands to \$1.17 million while Mexico and United Kingdom (UK) are found to be using the two criteria i.e. (i) number of persons employed in the unit and (ii) annual turnover of the unit. UK is found to be using employment criteria for manufacturing and construction sectors. Mostly a criteria of annual turnover is found to be used for service sector. The service sector is also divided in different parts Retail trade, Wholesale trade and Transport services. It is also found that two different limits are used for retail and wholesale trade where for transport service the number of vehicles is used as criteria. Singapore is found to be using investment criteria for manufacturing units and employment criteria for services. Malaysia is found to be using two criteria i.e. (i) number persons employed and (ii) Shareholder fund. Thus the definition of SSI differs from country to country on the base of different criteria. The definition of SSI is also changed over a period of time in every country due to inflation and other factors viz; up to 2003 the unit employing 100 people is taken as SSI in USA but after 2003 the limit is extended to 500 persons. Thus, the definition of SSI is changing over a period of time so; it is very difficult to compare the performance of SSI even in a single country. It is also noted that the definition of SSI is varies among the countries, in this context the compression across country is also very difficult. The different measures used for defining SSIs by different countries are briefly narrated in table- 1.

Table 1Definitions of SMEs in Selected countries

Country/ Region	Number of Employees	Other Conditions	Reference Year
Australia	Small: less than 100	-------------	2003
Canada	Less than 100	-------------	
Belgium*	Less than 100	-------------	
Denmark*	More than 5 and less than 500	-------------	
France*	10 to 499	-------------	
Germany*	Less than 500	-------------	
Greece*	Less than 50	-------------	
Ireland*	Less than 500	-------------	
Italy*	Small: 11-50 Artigiano: less than 10	Capital: less than Lire 3 billions	2003
Netherland*	Less than 10	-------------	
UK*	Mfg.: less than 200 Construction: less than 25	**Trade: (Turnover)** Retail: less than £50000 Wholesale: less than £200000 **Transport:** less than 5 vehicles	
EU	Less than 50	Annual turnover and/or annual balance sheet total: less than EUR 10 million.	2013
Malaysia	Less than 75	Shareholder fund : less than RM 2.5 million	
Mexico	15 to 99	Income / Sale : US$175000	
Singapore	Services: less than 100	Manufacturing: less than Singapore $12 million in fixed assets	
Sweden	Less than 200	-----------	
Thailand	Labour Intensive Sector: less than 200 Capital Intensive Sector: less than 100	-----------	
Brazil	less than 100	-----------	2003
Argentina	Medium: Up to 300	Annual Sales: up to US$18 millions Production Assets: up to US$10 millions	2003
Japan	Medium: Up to 300	Capital: up to ¥100 millions	2003
U.S.A	Up to 500	-----------	2003
Indonesia	Up to 20	-----------	2005
Thailand	Small: Up to 49	Capital: less than $1.17 millions	2005
Vietnam	Small: Up to 29	Capital: less than $65 thousands	2005
China	Small: 50 - 100		2005

Source:*(i) India : The State of Development of Small and Medium Enterprises- 2005, Institute of Small Enterprises and Development (ISED)*
(ii) Soundarapandian, M. (2009), Economic Reforms and Small Scale Industries, Concept Publishing Company, New Delhi, p.p. 9-12
Note: ** These countries were using different definitions for SSIs but since 6 May 2003 European Union is found to be using common definition for all EU member countries*

2. Meaning of SSI in India

Form the earliest beginnings of the known history of India, cottage industries and handicrafts are an integral part of the economy. Cottage industries grew through the period when society was organized more or less into self-sufficient and self-contained units. The careful labours of cottage producers and their unique products found their fullest application till the British came to India.

Indian industries, suffered a serious setback during British rule. The impact of British rule and industrial revolution led to the decay of Indian handicrafts. Machine-made goods started dumping in the country. The decline of handicrafts was not followed by the rise of modern industry in India because of the British policy of encouraging the import of manufactured goods and export of raw materials from India. Therefore, our national leaders, made every effort during their struggle for independence to preserve, revive and sustain the traditional but decaying industries and to establish new ones. Our industries, established by Indian entrepreneurs received step-motherly treatment from the British. Indian industries including Small and cottage industries had received some patronage during the Second World War.

The concept of SSI, as we use it here, is quite recent. Earlier, we used to have a composite group of Village and small industries (some time called rural and cottage industries) which included a variety of industries ranging from bee-keeping to hand-spinning and weaving, manufacturing of cutlery etc. In fact, the term “cottage and small industries” was used in concurrence to the large scale industries established under the influence of Western ideas. Therefore, they were, indigenous or inhabitant to the country and were often regarded as a part of our heritage. The revival and encouragement of some of these industries was regarded, particularly during our independence struggle, as a nationalistic duty. Our national leaders under the leadership of Mahatma Gandhi assured to support and develop these industries as soon as we got an opportunity to operate at the Government level. This was first attempted during the very short period in which Congress Governments were in power in the States (Provinces) during 1937; though the period was so short that no concrete results could be expected.

The first attempt to study the position, problems and prospects of village and small scale industries at the national level was made by the National Planning Committee (NPC) set up by the Indian National Congress in 1938 under the Chairmanship of Pt. Jawaharlal Nehru. The NPC set up a sub-committee on Rural and Cottage Industries, but it could not submit its report due to various reasons. An Interim Report drafted by the Secretary of the Sub-committee, with notes and memorandum prepared by some members of the Sub-committee etc., was therefore, published in a separate volume edited by K. T. Shah, General Secretary of the NPC. This volume gives us an idea of the thinking on the subject at the official and non-official levels on the eve of independence. K. T. Shah in his valuable introduction to the volume summed up the views of the Sub-committee on various aspects like the definition of cottage, village and small scale industries, the use of power in these industries, their role in the economy, their relation to other sectors including agriculture on the one side and large scale industries on the other, their problems, their advantages, the assistance they need for development and so on.

K. T. Shah recognized that no satisfactory definition of small and rural industries had been attempted by any authority in the country so far. After assessing the various aspects of the situation, bearing the tendencies of our history in mind, he suggested a generally acceptable definition for this group as a whole. He realized, however, that the proposed definition was not complete and that it sometime overlapped. The definition suggested by him was:

“A Small Scale or Cottage Industry may be defined to be an enterprise or series of operations carried on by a workman skilled in the craft on his own responsibility, the finished product of which he markets himself. He works in his own home with his own tools and materials and provides his own labour or at most the labour of such members of his family as are able to assist. These workers work mostly by hand labour and personal skill, with little or no aid from modern power driven machinery and in accordance with traditional technique. Such supplementary energy as is provided by an animal power may add to the economy and efficiency of the industry. He works, finally, for a market in the immediate neighborhood, that is to say, in response to known demand with reference to quality as well as quantity."[iii]

In contrast to this, Pt. Jawaharlal Nehru, in a note submitted to the Sub-committee on 11th May 1940 adopted a more practical approach. According to him:
Cottage Industries may be those which have:

(a) No mechanical power and no hired labour
(b) No mechanical power and hired labour under 10 persons

They may also be with:

(c) No mechanical power but hired labour of over 10 persons
(d) Mechanical power under 10 B.H.P. but no hired labour

Small Scale Industries may be (c) and (d) as in cottage industries and also those with.

(e) Mechanical power under 10 B.H.P. and hired labour.

Large Scale Industries will generally with

(f) Mechanical power over 10 B.H.P. and hired labour.

Large Scale Industries may also include (c) and (e) above, that is, no mechanical power and hired labour of over 10 persons and mechanical power under 10 B.H.P. and hired labour. In both of these the largeness comes in from the large number of hired workers employed in one place, namely, glass or pottery works.[iv]

It may be seen that Pt. Nehru was clear in his mind that cottage industries and small scale industries should be treated as two separate entities and that the latter would necessarily overlap both with the former and the large scale industries. The small industry sector was, in his mind, the middle sector.

According to Shah, the programme for rural and cottage industries is not one of "wholesale revival to the point of eliminating factory production or mechanized industry altogether. It is simply a matter of proper adjustment and allotment, which can be made following considerations in addition to purely economic factors. It would not be to the advantage, either of the country or the small scale producer, if he is invited to live in something like hot house conditions of intensive, persistent artificial encouragement and protection, especially in industries already mechanized, modernized and rationalized in this country.[v] He was also of the opinion that "the home, as well as the workshop, farm as well as the factory must be mechanized; and all forms of work, whether production of material goods or rendering of service, carried out of with the aid of electrical energy, which can accomplish in one hour by one unit of such power, what the men working for hours might not able to provide".[vi]

It was also realized even at this stage that, there cannot be a rational separation of fields without overlapping between large scale and small scale industries. It was said that this should be made "after duly considering appropriate economies and social conditions in each group. Broadly speaking, industries, which are more in the nature of services than of material production of specific commodities, would be found to be more suitable for small scale operations".[vii] Even mechanized large scale industries organized on a mass production basis may leave corners or parts of the country not yet supplied with all the facilities of transport, marketing or credit, where the small scale producers will continue to flourish. Similarly, for industries which have small local markets, which process raw material scattered over

comparatively large areas, small scale industries may have a definite advantage. In fact, the different categories of industries will have to be properly coordinated in the same manner as the national transport system in which the railways, the roadways, the airways, the waterways etc. all contribute.
A list of cottage industries including SSIs in existence at that time was drawn up for the use of committee. It consisted of 14 broad categories like textiles, leather goods, processing of foods, wood, cane and bamboo and metal industries, the ceramic industries, engraving and inlay work, forest industries, toy-making, dairy-farming, perfumery, finishing and miscellaneous groups. Nearly 100 industries were listed under different heads.

3. National Planning Committee (NPC) Resolution
On the basis of the Interim Report of the Sub-committee presented by its Secretary, the NPC adopted a resolution on the subject. Stressing the importance of cottage and rural industries for improving the economic life of the large masses of the rural population in the country, the NPC recommended the setting-up of a permanent Cottage Industries Board and suggested various measures to strengthen and further develop the small scale industries sector. The Resolution noted that competition was likely to arise between large scale mechanized industries and cottage and rural industries and advised that such large scale industries should be owned by the State to ensure assistance in the form of provision of finance, improved process and equipment research, marketing and other facilities for rural and cottage industries (Rao, 1979). Finally, the resolution emphasized that:

"All measures pertaining to the regulation and the relation between cottage and mechanized industries should be planned and coordinated on an all India basis so as to avoid inter-regional conflict and competition. In doing so, the planning Authority shall, however, take care that infant industries in uneconomically undeveloped areas are not thereby put at a disadvantage in their development".[viii]
On the base of above paragraph we can say that our planners, even during pre-independence period, had a clear idea about the importance of village and small industries in the development of the country. Therefore, the measure of assistance and Central coordination of the whole development programmes regarding SSIs are needed.

For this purpose the first step taken by the Central Government soon after the independence was to arrange an Industrial Conference in December, 1947. This conference devoted attention to the problem of revival and development of cottage and small industries. The conference divided SSIs into three categories, namely:[ix]
- Those which are auxiliary to large scale industries.
- Those which are engaged in the supply of repair service.
- Those which are engaged in the manufacture of finished goods.

In short, SSIs are playing important role in Indian economy since inception of Indian history in context of employment generation, export, fulfillment of public demand for goods etc. The Indian handicraft industry and handloom industry are well-known all over the world but during the British rule they were obliterated due to dumping of machine made goods from Britain. As a result of our national leader's struggle for survival of these industries, the traditional industries could survive during British rule and the industry had received some benefaction from Second World War. There was no any definition existing for Small Scale Industries before 1937. The first attempt to define SSI and classification the industries was made after the setup of NPC in 1938. The first definition of SSI was given by K. T. Shah, General Secretary of NPC, but the definition given by him was not complete. So, in 1940 Pt. Jawaharlal Nehru redefined SSI and this definition was more practical and covered many dimensions. He used two criteria viz. electrification of the unit and employment generated by the unit to define SSI. After the independence the first official definition for SSI was implemented in 1950, using two criteria viz. capital invested in the unit and employed persons by the unit. This definition is found to have been revised many times during plan periods, which is examined in the following part.

The concept and definition of SSIs has modified from time to time since 1954 by the Government of India (GoI). The term SSIs refers to a group of units engaged in heterogeneous production lines but identifying their homogeneous character on the basis of some common accepted criteria such as the number of persons employed, capital invested, turnover, size of the market, the type and nature of activities engaged in or the technology adopted or a combination of any of these. Accordingly, there are numerous definitions, of SSI in different countries in different periods and for different purposes.

Broadly, various definitions can be divided into two categories, viz., (a) those using a quantitative measure and (b) those using functional characteristics for the purpose of distinction from large and / or medium industries. Here, the quantum of employment used to demarcate small from medium and large differs. Another quantitative variable used in classifying industries is the amount of capital investment as is the present policy of the Government of India.

In 1950, The Government of India grouped SSI undertaking into two categories -those using power but employing less than 50 persons and those not using power but employing less than 100 persons having a capital investment of less than Rs. 5 lakhs. The criteria of the number employed, however, was considered deceptive, as the figures 50 and 100 persons were purely arbitrary. None of these criteria taken singly would be a determining test as they undergo changes over a period of time. The third criteria, namely, the character of organization and management, can also be not considered a sound basis of classification. Apparently, the outstanding feature of SMEs seems to be the personal character of its organization and management in contrast with the predominantly impersonal organization and management of large corporation. In small enterprises management is predominantly proprietary with individual ownership or partnership. But the ownership and management may also be identical in some of the large-scale industries. It is merely a question of classifying the entrepreneurial function on a broad or a narrow basis. The criteria, therefore, becomes vague and inappropriate. In 1966 the small-scale enterprises were defined as undertakings with a fixed capital investment of less than Rs. 7.5 lakhs and ancillaries with a fixed capital investment of Rs. 10 lakhs. In 1975 the government had revised the definition of SSIs so as to include all industrial units with a capital investment in plant and machinery (fixed capital) of not more than Rs.10 lakhs irrespective of the number of persons employed and Rs.15 lakhs in the case of ancillary units manufacturing parts and equipment. Similarly, medium scale industries include industrial units with a fixed capital of more than Rs. 10 lakhs but not exceeding Rs. 25 lakhs and large-scale industries include industrial units with a fixed capital of Rs. 25 lakhs and above. The practical advantage of using only one criteria is that the enumeration of these enterprises becomes unambiguous.

SSIs had been divided into two main types, namely, small-scale enterprises and cottage industries. The basis of classification between the two is that in the case of cottage industries, there is the predominant use of manual processes, which is not true of small industrial concerns. Further, the cottage industries are mainly traditional industries and use traditional methods to make traditional products. They are "almost entirely household enterprises (employing little or no hired labour); most of them derives their raw materials from local sources; and they sell most of their product in local markets. They are, in sum, small-scale, rural, localized and technically backward." Thus, the distinction between small-scale and cottage industries rests on the mechanical (or manual) processes and the range of geographical coverage for deriving inputs and selling their output.

3.1 Definition of SSI in 1951

The industries (Development and Regulation) act, 1951, regarded units employing less than fifty workers if using power and less than hundred workers if not using power as forming the small scale sector.[x] In other words, SSI sector, meant those units which fell outside the scope of the industries Act 1951, thus, this was only an indirect definition.

3.2 Definition of SSI in 1955

The Karve Committee in 1955 defined a SSI as one with an overall investment limit of Rs. 5 lakhs and employing less than fifty workers when using power and less than hundred persons when not using power. The GoI accepted this as the official definition of industry, with the change that the ceiling of Rs. 5 lakhs will apply only to the capital assets i.e. land, building, machinery and equipment.[xi] In fact this was the first official definition of SSI by the GOI. It was realized later that working definition of SSI units did not help in maximum utilization of equipment and capital outlay. The Board felt a need for the revision of the definition of SSI. In September 1957, a meeting of the board took place. The Board defined SSI as follows:

"A unit employing less than fifty persons if using power and less than hundred persons if not using power PER SHIFT."[xii]

3.3 Definition of SSI in 1960

As the tempo of the development of SSIs picked up, it was felt that the employment criteria was coming in the way of promotion of programmes for the small scale sector. The revised definition put forward by the ministry of commerce and Industries maintained: "Small scale Industries will include all industrial units with a capital investment of not more than Rs. 5 lakhs, irrespective of the number of persons employed.[xiii]

3.4 Definition of SSI in 1966

On the recommendations of the Small Scale Industries Board on 8th July 1966, the Ministry of Commerce and Industries put forward a new definition of SSIs, as follows;
"Small Scale Industries will include all industrial units with an investment of not more than Rs. 7.5 lakhs irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only." [xiv]

3.5 Definition of SSI in 1977

The Industrial Policy Resolution of 1977 was directed towards removing the distortions of the past and meeting the aspirations of the people within a time bound programme of economic development. The main thrust was on the effective promotion of the cottage and small scale industries that were widely dispersed in rural areas and small towns. Thus the new sector called "Tiny" sector was created for the first time and it was defined as "All industries with a capital investment of Rs. 1 lakh in plant and machinery and located in rural area and small towns."[xv] GoI revised the investment limit for SSIs from Rs. 7.5 lakhs to Rs. 10 lakhs and for ancillaries Rs. 15 lakhs.

3.6 Definition of SSI in 1980

In the context of the increase in the cost of machinery and plant and in order to encourage the development of small-scale industries, investment limits had been raised for definitional purposes as follows:

1. For small-scale units from Rs.10 lakhs to Rs.20 lakhs
2. For ancillaries from Rs.15 lakhs to Rs.25 lakhs

3. For tiny units from Rs.1 lakh to Rs.2 lakhs

This enhancement of the investment limits had been intended to eliminate the tendency to circumvent the previous limits by understanding the value of machinery and equipment, falsification of accounts or resort to benami units. The enhancement of the limit in terms of investment in plant and machinery had intended also to help genuine small-scale units particularly those being setup by entrepreneurs to come. It is hoped that this measure will facilitate the long overdue modernization of many of the exiting small-scale units.[xvi]

3.7 Definition of SSI in 1985

In 1985 the ceiling on investment in plant and machinery in respect of the small-scale units was raised from Rs20 lakhs (which was fixed in 1980) to Rs.35lakhs. Within the small scale sector, there is a special category known as tiny sector industrial undertaking with investment in plant and machinery not exceeding the value of Rs.2lakhs and located in a village or a town with population of less than 50,000 in regarded as a tiny unit.

We may include the ancillary units also in the small-scale sector. Ancillary unit is an undertaking having investment in plant and machinery up to Rs.45 lakhs and engaged in the manufacture of parts, components, sub-assemblies, tooling or intermediates or rendering of service (or proposing to supply or render). 50 percents or more of the total output being meant for mother units, provided that no such undertaking shall be a subsidiary of or owned or controlled by any other undertakings. In 1985, the new concept of Small Scale Service Establishment (SSSE) introduced. The investment limit for SSSE was ceiled on Rs. 2 lakhs. [xvii]

3.8 Definition of SSI in 1991

The Government of India announced fresh policy measures to promote and strengthen Small, Tiny, and Village industries, on 21st August 1991, wherein it increased the investment limits as under;

1. "Tiny units" are those units where the investment in plant and machinery is less than Rs. 5 lakhs, irrespective of the location of the unit.
2. The investment in the Small Scale Units was raised from Rs. 35 lakhs to Rs. 60 lakhs and in case of units under takings to export Rs. 75 lakhs.
3. In case of ancillary units the investment limit was increased from Rs. 45 lakhs to Rs. 75 lakhs.
4. The SSSEs classification was suspended in and replaced by the Small Scale Service Business Enterprise (SSSBE) with investment limit of Rs. 5 Lakhs.

3.9 Definition of SSI in 1997

In 1997, the Government has increased the investment limit in plant and machinery in respect of small scale / ancillary industrial units up to Rs. 3 Crore. The investment limit for tiny industries has been increased up to Rs. 25 lakhs irrespective of the location of the plant.

3.10 Definition of SSI in 1999

In context of the requests of the individual SSIs and SSI associations to reduce the investment limit on plant and machinery in respect of SSIs/ancillaries, the government decided to reduce the investment on plant and machinery from Rs. 3 Crore to Rs. 1 Crore. The investment limit for Tiny and SSSBEs were not changed.

3.11 Definition of SSI in 2001

The Government had changed the investment limit only for Small-scale Service and Business Enterprises (SSBEs) from Rs. 5 Lakhs to Rs. 10 Lakhs in fixed assets, (excluding land and building), subject to the condition that the unit is not owned, controlled or is subsidiary of any other industrial undertaking.

3.12 Definition of SSI in 2006

(RBI Notification dated October 5, 2006)[xviii]

Prior to the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, SSIs in India comprised Tiny, Cottage, Traditional, Village and Modern Small Industries. These Industries were fragmented across various Ministries/Departments o the Government of India for the purpose of development schemes and concessions. Sectors like handloom, powerloom, handicrafts, khadi, coir, suffered greater neglect than other manufacturing and service-based industries. In order to correct these discrepancies and neglect, Micro, Small and Medium Enterprises Development Act was enacted on June 16, 2006 and become operational from October 2, 2006. This Act provides the first-ever legal framework recognizing the concept of enterprise (comprising both manufacturing and service entities), defining medium enterprises and integrating the tires of these enterprises, namely micro, small and medium.

This Act introduces the concept of enterprises as opposed to the earlier concept of industry. According to the Act MSMEs are classified into (a) 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 and (b) enterprises engaged in providing or rendering services. According to this Act Micro, Small and Medium Industries are defined as follows and also given in table 1.3;

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified follow:

i) A **micro enterprise** is an enterprise where investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) **does not exceed Rs. 25 lakhs;**

ii) A **small enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is **more than Rs. 25 lakhs but does not exceed Rs. 5 Crore;** and

iii) A **medium enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is **more than Rs.5 Crore but does not exceed Rs.10 Crore.**

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakhs), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakhs) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakhs of which not more than Rs.2 lakhs should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakhs with a sub-ceiling of Rs.3 lakhs for working capital requirements).

(i) A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakhs**;

(i) A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakhs but does not exceed Rs. 2 Crore**; and

(ii) A **medium enterprise** is an enterprise where the investment in equipment is **more than Rs. 2 Crore but does not exceed Rs. 5 Crore**.

4. Main Provisions of the MSMED Act, 2006

This act is made for to promote, develop and enhance the competitiveness of micro, small and medium industries of India. In this context the act following facilities;

1. The Act defines enterprise instead of industry to give due to recognition to the service sector.
2. The Act defines medium enterprises to facilitate technology upgradation.
3. Two-stage registration process of SSI substituted with optional fillings of memorandum with District Industries Centers (DICs) by all micro and small enterprises.
4. Filling of memorandum by medium enterprises rendering services also optional.
5. Filling of memorandum by manufacturing medium enterprises with District Industries Centres (instead of Central Government).
6. The Act Provides st5atutory basis (legally enforceable) to procurement preference policies of Central and State Governments for goods and services provided by micro and small enterprises.
7. It strengthens the legal provisions to check delayed payments to micro and small enterprises.
8. Representatives of Enterprise Associations included in the MSE Facilitation Councils for adjudicating on cases of delayed payment.
9. Provision for ensuring timely and smooth flow of credit to MSMEs.
10. All schemes / programmes of assistance to be notified under the Act.
11. The Act provides for a statutory National Board for Micro, Small and Medium Enterprises to advise the Central Government on matters under the Act.

Table 2:New Nomenclature and Classification of SSIs under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

Sr. No	Enterprises		
(1)	(2)	Manufacturing Enterprises (ceiling on investment in plant and machinery) (3)	Manufacturing Enterprises (ceiling on investment in equipment) (4)
1.	Micro	Rs. 25 lakhs	Rs. 10 lakhs
2.	Small	Rs. 5 Crore	Rs. 2 Crore
3.	Medium	Rs. 10 Crore	Rs. 5 Crore

Source: Industrial Policy resolution- 2009, Industrial commissionerate, Government of Gujarat, Gandhinagar, Gujarat.

The above discussed definitions can be presented in the table form as below. It is seems from the table the main two criteria considered for defining SSI in India, which are investment and other one is employment. But since 1960 only one criteria has been used – investment in plant and machinery to define SSI.

Table 3: Periodical Revision of Investment Limits for SSIs in India

Sr. No	Year	Investment Limit	Other Condition
(1)	(2)	(3)	(4)
1.	1951	Up to Rs. 5 lakhs in fixed assets	Employing less than 50 workers if using power and less than 100 workers if not using power per shift.

2.	1955	As above	As above
3.	1957	As above	As above
4.	1960	Up to Rs. 5 lakhs in plant & machinery	No Condition
5.	1966	Up to Rs. 7.5 lakhs in plant & machinery	No Condition
6.	1977	Up to Rs. 10 lakhs in plant & machinery	No Condition
7.	1980	Up to Rs. 20 lakhs in plant & machinery	No Condition
8.	1985	Up to Rs. 35 lakhs in plant & machinery	No Condition
9.	1991	Up to Rs. 60 lakhs in plant & machinery	No Condition
10.	1997	Up to Rs. 3 Crore in plant & machinery	No Condition
11.	1999	Up to Rs. 1 Crore in plant & machinery	No Condition
12.	2001	Up to Rs. 1 Crore in plant & machinery	No Condition
13.	2006	Up to Rs. 5 Crore in plant & machinery	No Condition

5. Conclusion

n this chapter the concept and definitions of SSIs across the world have been discussed. Country by country, there are many differences in the definition of SSI have been seen and it has been changed many time over a period of time. Some countries are found to be using employment criteria where some are found to be using investment criteria. It is also noted that the definition among the country also changed many time. The definition for SSI has been changed twelve times during 1951 to 2006 in India; where the EU member countries are using common definition for SSI since 2003. Due to these variation and changes the comparison of the status and development of SSIs across the country as well as among the country is very difficult. The chapter also summarizes the development of definition for SSI and changes in the definition overtime in India. The importance of SSIs also discussed in this chapter with the conceptual aspect. It is noted that the SSIs are very important part of any economy in the context of employment generation, utilisation of local resources and technology, export, income generation and equality etc.

Endnotes

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(ii) http://europa.eu/legislation_summaries/enterprise/business_environment/n26026_en. htm, 1st September 2013, 4:45pm.
(iii) Rural and Cottage Industries- N. P. C. Series, pp. 24-25
(iv) Rural and Cottage Industries- N. P. C. Series, p. 53
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(vi) Rao, R. V. (1979). Small Industrie and the Developing Economy in India. New Delhi: Concept Publishing Company, p. 15
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(xv) T. Gurubasappa R. (2008), Role of SSIs in the Development of Backward Region, Abhijeet Publications, New Delhi.
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