UNIT-1

ENTREPRENEURSHIP

1.0 LEARNING OBJECTIVES

At the end of this unit you will be able to:

- Understand importance of an entrepreneur and entrepreneurship.
- Explain the characteristics, functions and types of Entrepreneurs.
- Explain various classification of entrepreneurship.
- Explain steps involves in incorporation of business.
- Explain Forms of business.
- Understand role and Importance of entrepreneurship in developing economics.
- Explain significance of Start-ups for economic development

1.1 INTRODUCTION

Economic development of a nation largely depends on entrepreneurship development. Entrepreneurship development generates employment; employment generates individual and household income; household income increases human consumptions, consumptions creates demands for goods and services; selling of these goods and services generates income for the state/ nation that takes care of development projects such as health and education for a healthy and prosperous society. Business as an organ of society contributes to health of a nation. Therefore, it is significant to understand entrepreneurship which is often used interchangeably as synonymous with business from a holistic perspective. Keeping this in mind, this unit is prepared for the students to (i) understand importance of an entrepreneur and entrepreneurship; (ii) explain the characteristics, functions and types of Entrepreneurs; (iii) various classification of entrepreneurship; (iv) steps involves in incorporation of business; (v) forms of business; (vi) role and Importance of entrepreneurship in developing economics; and (vi) significance of Start-ups for economic development.

Industrial development of any region is the outcome of the purposeful human activity and entrepreneurial thrust. Entrepreneur is presently at the crest of popularity. In India a large number of people are seeking entrepreneurship as a career option. Increasing number of unemployed youth are getting attracted to entrepreneurship and are planning to set up their business ventures. Entrepreneurship development is considered as a vital factor for the development of the country. The problems of economic growth, social justice and diffusion of economic power can be addressed through entrepreneurship development. However, it is evident from the past that there has been a lacuna in the plans and policies of the State, due to which proper infrastructural facilities could not be developed and the new generation of entrepreneurs have not been able to come up. After the liberalization of economy and resultant increase in competition, the emphasis is shifted from efficient utilization of resources to being innovative and opportunity seeker. Hence, it is felt that the industrial activity can be generated by promoting good entrepreneurs and a positive attitude towards entrepreneurship. It is in this direction, the planners in India have been putting efforts and stressing on the development of entrepreneurs and entrepreneurship. The development of entrepreneurs will optimize the use of unexploited natural resources; generate self-employment and self-sufficiency of economy.

1.2. MEANING AND DEFINITIONS OF ENTREPRENEUR

The word ‘entrepreneur’ is derived from the French word ‘entreprendre’ which refers to ‘undertake’ i.e., the individual who undertake the risk of new enterprise. Today, we take it for granted the meaning of the

word entrepreneur. It suggests spirit, zeal, ideas, diversity etc. But we tend to apply the word loosely to describe it as anyone who runs the business for example the person who presides over a multinational company or owns a corner fruit stand, or who owns a tea stall. In the past, the word 'entrepreneur' implied limited meanings. It described only those who created their own business. The definitions evolved over period of time. The definitions of entrepreneur are as follows:

The American Heritage Dictionary defines entrepreneur as a "person who organizes, operates and assumes the risk for a business venture". Oxford English dictionary (in 1897) defined entrepreneur simply as "the directory or manager of a public musical institution one who 'gets up' entertainments especially music performance." Not until its supplement appeared in 1933 did the dictionary recognize that the word had a place in business and would mean one who undertakes an enterprise especially as a contractor, acting as intermediary between capital and labour. In early 16th century, the Frenchmen who organized and led military expeditions were referred to as 'entrepreneurs'. Later in the 17th century, the term was used to other types of adventures, and civil engineering works like construction of roads, building, bridge etc. The word 'entrepreneur' has an interesting history starting from French language to till date which can be understood with the help of following definitions given by eminent entrepreneurs and economists.

1. **Richard Cantillon:** An Irishman living in France in the early 18th century used the word 'entrepreneur' for the first time in his writing. He is considered as pioneer for the introduction of the word 'entrepreneur'. According to him entrepreneur is a person who pays certain price for a product to resell it at uncertain price thereby making decision about attaining and using resources while assuming 'the risk of enterprise'. Hence, he is conceived as a bearer of non-insurable risk. Cantillon opines that entrepreneur's function is to combine factors of production into a producing organism. Entrepreneurs make very conscious decisions regarding resource allocation for high commercial gain. Therefore, Cantillon's definition of entrepreneur clearly envisages that the entrepreneur carries on production and exchange of goods at some risk when the demand for the product declines. He also emphasized that the entrepreneur would be unaware of price which he gets for his product.
2. **J.B.Say:** The ideas of Cantillon have been expanded by another Frenchman J.B.Say. According to him, "an entrepreneur is an economic agent who unites all means of production, the labour, the capital or land and who finds the value of production which results from their employment, the reconstitution of the entire capital that he utilizes and the value of wages, the interest and the rent that he pays as well as profit belonging to himself." Say emphasized on bringing together all factors of production and the provision of continuing management as well as risk bearing. He opined that entrepreneur may or may not possess the capital but he must have the quality of judgment, perseverance and knowledge of global business. Thus, the entrepreneur is considered as an organizer of the business firm, central to its distributive and productive functions.
3. **Adam Smith:** Adam Smith, the father of political economy, opined that entrepreneur has a role of an industrialist. In his popular book, 'The Wealth of Nations', he explained the entrepreneur as an individual who forms an organization for commercial purpose. He is a proprietary capitalist, a supplier of capital and at the same time a manager who co-ordinates labour and consumer. He also treated the entrepreneur as an employer, master, merchant and more explicitly considered him as a capitalist. Entrepreneur is considered as one who has unusual foresight to recognize potential demand of goods and service. He transforms potential demand into supply. He possesses certain arts and skills of creating new economic enterprises. He is a person with exceptional insights into the needs of society and possesses the abilities to fulfill these satisfactorily. Thus, he is perceived as 'Economic Risk Takers' of Cantillon and 'Industrial Manager' of Adam Smith.
4. **F.H. Knight:** According to Knight, entrepreneurs are a specialised group of persons who undertake the risk and deal with uncertainty. Entrepreneur is the economic functionary who undertakes responsibility which cannot be insured. Knight tried to differentiate risk and uncertainity. A risk can be insured through the principle of insurance whereas uncertainty is the risk which cannot be calculated. According to Knight, the entrepreneur must possess the qualities of ability, willingness and power to guarantee specific sums to others in return for the assignments made to him.

5. **Carl Menger** According to Carl Menger of Australia, economic changes do not arise from the circumstances but from the individuals' awareness and understanding of the circumstances. He was of the view that entrepreneur transforms the available resources into useful goods and services. Menger's classic theory of production indicates that resources having no direct use in terms of fulfilling human needs were transformed into highly valuable products and services that directly fulfill the human needs. Thus, the transformation of resources into useful goods and services creates the circumstances leading to industrial growth and entrepreneur is rewarded with profits.

1.3 NATURE AND IMPORTANCE OF ENTREPRENEUR

Entrepreneurs play a vital role in economic development. Economic development is essentially a process to increase the real per capita income of the country over a period of time. Entrepreneurs serve as catalysts in the process of industrialization and economic growth. He puts to use capital, labour and technology and acts as an economic agent. According to Joseph Schumpeter, the rate of economic progress of a nation depends upon its rate of innovation which in turn depends on rate of increase in the entrepreneurial talent in the population. According to Meir and Baldwin, development does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst is needed which results in entrepreneurial activity to a considerable extent, the diversity of activities that characterizes rich countries, can be attributed to the supply of entrepreneurs. Thus, entrepreneurs are the key to creation of enterprises. They play a vital role for the economic development of a country in the following ways:

1. **Formation of Capital**

   Entrepreneur's efforts to mobilise the capital result in motivating the investors to divert their idle savings to the industrial securities. Investment of public money in industrial sector helps the country to use such resources for productive purposes. The growth rate of capital formation will be increased which is highly essential for rapid economic development of a country. Robert Rostand has rightly said that entrepreneur is the creator of wealth. It is in the sense that entrepreneurs generate the capital at a rapid rate and capital formation increases which is vital for the industrial development.

2. **Balanced Regional Development**

   Entrepreneurs in the public and private sectors help to remove regional disparities by setting up industries in the backward areas. It is because the government extends various concessions and subsidies to the entrepreneurs who take initiative to set up industries in the undeveloped regions. Thus, the central and state governments offer concessions and subsidies to the entrepreneurs results in balanced regional development.

3. **Generates Employment**

   Entrepreneurs help in generating employment directly and indirectly. Entrepreneur becomes self-employed and self-sufficient to lead an honorable life. They do not depend on the government jobs or private jobs and directly employ themselves by starting their own enterprise. Indirectly, they also provide jobs to many unemployed by setting up large and small scale industries. Thus, entrepreneurs play important roles to reduce the unemployment problem in the country and pave the way for economic development.

4. **Improvement of Per Capita Income**

   Entrepreneurs have the skills of locating and identifying the opportunities to establish their own enterprises. They possess the capacities to convert the latent and idle resources like land, labour and capital into goods and services. This results in increased national income and wealth of a nation. The increase in national income is the indication of increase in net national product and per capita income of the country. The increasing tendency reflects the economic growth and industrialization that is taking place in the nation.

5. **Improvement of Standard of Living**

The initiative taken by entrepreneurs to set up industries helps in removing scarcity of essential commodities. New products, varied products and qualitative products would be manufactured to suit the requirements of different segments of market. Large scale production helps to offer goods at a lower costs and purchasing power of the consumers also increases. Further, the small scale industries set up by entrepreneurs help to avoid scarcity of goods and improve the standard of living of the consumers. Thus, the efforts of entrepreneurs to set up large scale and small scale industries, offer goods at affordable prices to consumers and increase variety to their consumption.

6. National Self-Reliance

Entrepreneurs are very much required for national self-reliance. It is because they help to manufacture indigenous substitutes to imported products which reduce the dependence on products manufactured in foreign countries. There is also a possibility of exporting goods and services which leads to earning of foreign exchange for the country. Hence, the import substitution and export promotion ensure economic independence and the country will become self-reliant.

7. Planning Production

Entrepreneurs are considered as economic agents since they unite all means of production. All the factors of production i.e., land, labour, capital and enterprise are brought together to get the desired production. This helps to make use of all the factors of production with a proper judgment, perseverance and with knowledge of the world of business. Thus, a true entrepreneur is skillful in organizing and coordinating the various factors of production to achieve optimum profit.

8. Backward and Forward Linkages

Always the entrepreneur initiates change and tries to optimize profits through innovations. Setting up of an enterprise in accordance with the changing technology, has several backward and forward linkages. For example, the establishment of textile unit generates several ancillary units and expands demand for cotton, chemicals, dyes, spinning mills etc. These are considered as backward linkages. By increasing the supply of textiles, the textile unit facilitates the growth of Ginning, Spinning, Machine building and other units which is considered as forward linkage. These backward and forward linkages are very much required for the long term sustainability of the enterprise.

9. Dispersal of Economic Power

The modern world is dominated by economic power. Economic power is the natural outcome of industrial and business activity. Industrial development may lead to concentration of economic power in few hands which result in growth of monopolies. The increasing number of entrepreneurs helps in dispersal of economic power into the hands of many efficient managers of new enterprises. Hence, setting up of a large number of enterprises helps in weakening the evil effects of monopolies.

Thus, the entrepreneurs are the keys to wealth creation.

1.4 CHARACTERISTICS OF AN ENTREPRENEUR

Entrepreneurial qualities are in born. But, some of the qualities can be acquired by training and experience. Robert D. Hisrich identified adequate commitment, motivation and skills to start and build as some of the important qualities of an entrepreneur. An entrepreneur should be one who bears, innovates or initiates and organises the business. He is expected to combine all factors of production in a manner as to maximize output at minimum cost of production. There are various factors that influence the effectiveness of his entrepreneurial functions. Such functions are determined by how effectively he understands the nature of quality control, cost reduction scenario, significance of improved labour relations, profit earning etc. All these are possible if he has entrepreneurial competencies like capacity to assume risk, technological knowledge, alertness to new opportunities, willingness to accept change and ability to initiate, ability to leverage resources and ability of organisation and administration.

Professor David C. Mc Clelland of Harvard University found that entrepreneurs are likely to do well if they have the following traits:

1. **Innovation:** Entrepreneur is more than an inventor because, an inventor only makes invention, whereas, an entrepreneur goes much further by leveraging it commercially. He deals with complexities of business situations. He does not continue with the old ideas. He innovates.
2. **Risk Taking:** Any new business poses risk for entrepreneurs. They may succeed or fail. Nevertheless, they take risks. Successful entrepreneurs tend to launch ventures that fall between these two extremes, a middle ground in which the risk is neither too high nor too low. Moreover and contrary to popular belief, entrepreneurs generally avoid ventures that are pure gambles. They would rather depend on themselves than on luck.
3. **Self Confidence:** Entrepreneurs believe in themselves. They firmly believe that they can excel in their field. They have the confidence that they can change the existing position.
4. **Smart Work:** Entrepreneurs are smart workers. They use more mind than muscles. Driven by their desire to excel entrepreneurs they put in longer hours of work.
5. **Goal Setting:** Entrepreneurs get happiness by setting and striving for goals. They may not always achieve those goals. What is more important for an entrepreneur is that of setting a meaningful goal. To entrepreneurs, merely choosing a new meaningful goal is self-renewing planning and carrying out the steps needed to reach their goal are stimulating. Reaching one goal set by entrepreneur will lead to the setting up of another goal.
6. **Accountability:** Entrepreneurs take success or failure to their stride. They take onus for success and failure. It is the profit that best tells entrepreneurs how well they are doing in the market. However, profits really serve as one of the major yard-sticks of performance, not as a goal.
7. **Leadership: Bert F. Hoselitz (1952)**, states that "a person who is to become an industrial entrepreneur must have additional personality traits to those resulting from expectations of profit, he must also have some managerial abilities and more important, he must have ability to lead." Leadership represents an abstract quality of a man. According to **Koontz and O'Donnell**, leadership is the ability of a manager to induce subordinates (followers) to work with confidence and zeal. It is the process of directing, guiding and influencing the people to do their best for the attainment of specified goals. The entrepreneur's leadership acts like a motive power to group efforts. It is an aid to authority and helps in better utilisation of manpower. An effective leadership is able to attain good two-way communication and elicit co-operation from the working force. Hence, the entrepreneur must possess good leadership qualities to become a successful entrepreneur.
8. **Managerial Skills:** According to Hoselitz, managerial skills are the most important facets of entrepreneurship. Financial skills are only of secondary importance. He stated that a person who is to become an industrial entrepreneur must have the drive to earn profits and a mass wealth. Hence, the entrepreneur requires the following managerial skills for achieving the goals of the enterprises;

i) He must be able to formulate a clear and well thoughtout policy.

ii) He should be able to accept improvement whenever necessary and adjust the policies and programmes according to the dictate of the situation.

iii) He must ensure proper balance between the duties, responsibilities, rights and authority of different personnel.

iv) He must be able to place everybody in his assigned job according to his skills, knowledge, aptitude and experience to ensure efficiency and understanding.

v) He must offer proper training, wages and maintain human relations and healthy surroundings to increase the individual skills.

vi) He must make the functioning of his organisation as simple as possible. It means plant used in production, procedures followed in routine jobs and the way in which men and materials are used should be simple.

vii) He must be able to follow the principle of specialisation which increases the productivity. Quality of product improves on account of specialisation.

viii) He must be able to adopt standardisation which helps in marketing the product. Quota and quality production is ensured with the help of standardisation.

ix) He must be able to develop a plan of work which ensures smooth running of an enterprise. Plans decide as to what, when, how and of course, by whom a work is to be accomplished.

x) He must be able to supervise and control the activities of the people working in the Organization

xi) He must be able to bring confidence and mutual respect which is possible by cooperation. He must have skills of bringing co-operation among all sections of the enterprise.

Thus, these managerial skills of an entrepreneur will help the enterprise to come out successful in the growing competition.

Various research studies reveal the following Entrepreneurial Characteristics

Capacity to assume risk, technical knowledge and willingness to change, total commitment, drive to achieve and grow, innovation, organising abilities, motivation, taking initiative and personal responsibility, persistent problem solving, seeking and using feedback, integrity and reliability, dynamism, aptitude, will power, creativity, self-confidence, self-control, realism and sense of humour, mental ability, business secrecy, human relations ability, effective communication, public relations, high degree of ambition, flexibility and sociability, ability to marshal resources, and will to prove superior to others.

1.5 FUNCTIONS OF AN ENTREPRENEUR

The literature available on functions of an entrepreneur does not give full understanding of functions of an entrepreneur. Classical economists were of the view that entrepreneurs are the owners of the business to which they supplied the capital. They did not distinguish between a capitalist and an entrepreneur. But in modern times, ownership is separated from control. Shareholders who bear risk do not exercise any control. The board of directors of a small group of insiders bears little risk, but receives huge perks and perquisites as remuneration even when no dividend is paid to the shareholders. Thus, the classical theory does not suit in the case of a large public company.

An entrepreneur must recognize commercial viability of the product or services formulating strategies for marketing, production, product development etc. Peter Kilby identified thirteen functions of an entrepreneur which also included some of the managerial functions. They are: (a) Identifying marketing opportunities, (b) Gaining command over scarce resources, (c) Purchasing of input, (d) Marketing of the products and facing the competition, (e) Dealing with public bureaucracy, (f) Customer and supplier relations,(g) Human resources management, (h) Financial management (i) Production management, (j) Factory control, (k) Industrial engineering, (l) Upgrading process and product quality, and (m) Introducing new product techniques.

Arthur H. Cole described an entrepreneur as a decision maker and described the following functions of an entrepreneur; (a) determination of objectives. (b) development of an organization (C) securing of adequate financial resources (d) requisition of efficient technology equipment, (e) development of a market for the products and (f) maintenance of good public relations.

Modern writers have emphasised that an entrepreneur is supposed to perform the following functions;

1. Innovation

The word entrepreneur is associated with innovation. Innovation means doing new things or the doing of things that are already being done in a new way. According to Schumpeter the basic function of an entrepreneur is to innovate. Innovation includes production of new products, creation of new markets, introduction of new method of production, discovery of new and better channels of supply of raw materials and creation of new organisational structure.

Innovation should be different from research and invention. Research gives us knowledge and innovation results in application of knowledge to produce objects. Innovation is not based on research. Innovation can be completely independent of research. More often innovations are not based on research but on ingenious combinations of existing materials and components.

Innovation is also different from invention. Invention implies discovery of new ideas, new articles and new methods, whereas, innovation means the application of inventions and discovery to make new and desired products and services that can be successfully sold in the market. It is also not true that only big firms can carry out innovations. Facts show that small and medium sized firms due to their intensive flexibility are making a very significant contribution to technical development.

2. Risk Bearing

Due to unforeseen contingencies like changes in consumer tastes, techniques of production, government policies and new inventions, there may be losses which are borne by the entrepreneurs. Entrepreneurs in the game of business wherein risks and rewards are a plenty will be ready to accept them. An enterprising person is willing to assume risks involved in inventions, new ventures and expansions. J.B. Say and others stressed risk taking as the specific function of the entrepreneur.

3. Organisation and Management

As rightly said by Alfred Marshall, organisation and management of the enterprise is the main function of an entrepreneur. The entrepreneur has to decide the nature and type of goods and services to be produced. He brings together the various factors of production. Land, labour, capital are separately owned and scattered all over the world. It is the entrepreneur who brings them together and harnesses them productively to yield results. He is a decision maker. In order to minimize the losses, entrepreneur allocates resources more judiciously. He makes required alternation in the size of the business, its location, techniques of production etc. Entrepreneur also undertakes the managerial functions like formulation of production plans, organisation of sales and personnel management.

4. Business Planning

An entrepreneur must provide a logical and scientific basis for planning the business operations, raw materials, people, production schedules, sales, inventory, advertising, budgetary allocation, customer needs, competitors strength and weaknesses etc. For a systematic business planning, the entrepreneur must be able to formulate goals, policies, procedures, programmes and budgets. If this function is properly discharged, the firm will be able to avoid chaos in production, marketing, purchasing, recruiting, selection and in many other activities.

Proper planning facilitates executions of various planned activities and minimizes the cost of production. It guides the business along predetermined channel and highly helpful in performance of other managerial functions. Hence, the entrepreneurs have to give utmost importance to this function as it pervades all other managerial functions.

5. Decision Making

Another important function discharged by entrepreneur is the decision making. He has to take decisions on various activities of the enterprise. He is expected to take a number of decisions on running and maintenance of the business concerned. According to **Arthur H. Cole**, *the entrepreneurs have to discharge many functions for the success of the firm*. But the function of

decision making is considered as vital for the success and growth of any business entity. Hence, entrepreneur as a decision maker has to perform the following functions;

i) Determining the objective of an enterprise;
ii) Making necessary changes or alterations or modifications in the objectives to suit the changed conditions;
iii) Development of suitable organisation;
iv) Developing good relations with all the employees for improving work efficiency;
v) Securing adequate financial resources;
vi) Maintaining good relations with existing and potential investors;
vii) Introducing the new technology to cope up with the changed manufacturing techniques;
viii) Development of markets for the products *i.e.* Market penetration decision;
ix) Developing the new products or modifying the existing product to suit the changing consumer fashions, tastes and preferences;
x) Undertaking consumer surveys to study the consumer requirements;
xi) Maintaining good relations with public authorities to get the things done easily and smoothly;
xii) Maintaining cordial relations with society at large for improving firm's image;

Thus, the entrepreneur has to play an important role in taking all these decisions. Any delay in taking timely decisions will ruin the prospects of the firm.

1.6 TYPES OF ENTREPRENEURS

India has produced a large number of entrepreneurs. Many of them are active in social and cultural causes. Entrepreneurs can be found among various sections of society viz., farmers, arstisans, workers etc. In a study of American Agriculture, Danhof has classified entrepreneurs into four categories, they are *(a)* Innovating entrepreneurs; *(b)* Adoptive or imitative entrepreneurs; *(c)* Fabian entrepreneurs and *(d)* Drone entrepreneurs.

We find a large number of entrepreneurs contributing for the development of a country. A number of factors are responsible for driving a person to become entrepreneur. The entrepreneurs may be classified on various bases such as gender, age, area, scale of operation, skills, stage of development, growth, motives, motivation, technology, type of business and other factors.

SL.NO	BASIC OF CLASSIFICATION	TYPES OF ENTREPRENEURS
1	Gender	1. Men entrepreneurs 2. Women entrepreneurs
2	Age	3. Young entrepreneurs 4. Middle entrepreneurs 5. Old entrepreneurs
3	Area	6. Rural entrepreneurs 7. Urban entrepreneurs 8. National entrepreneurs 9. Inter-national entrepreneurs
4	Scale of operation	10. Micro unit entrepreneurs 11. Small scale entrepreneurs 12. Medium scale entrepreneurs 13. Large scale entrepreneurs
5	Skills	14. Skilled entrepreneurs 15. Unskilled entrepreneurs
6	Stage of development	16. First generation entrepreneurs 17. Modern entrepreneurs 18. Classical entrepreneurs

7	Growth	19. Growth entrepreneurs 20. Super growth entrepreneurs
8	Motives	21. Managing entrepreneurs 22. Innovative entrepreneurs 23. Controlling entrepreneurs
9	Motivation	24. Pure entrepreneurs 25. Induced entrepreneurs 26. Motivated entrepreneurs 27. Spontaneous entrepreneurs
10	Use of technology	28. Technical entrepreneurs 29. Non-technical entrepreneurs 30. Professional entrepreneurs 31. Non-professional entrepreneurs 32. High-tech entrepreneurs 33. Low-tech entrepreneurs
11	Type of business	34. Business entrepreneurs 35. Trading entrepreneurs 36. Industrial entrepreneurs 37. Corporate entrepreneurs 38. Agricultural entrepreneurs 39. Retail entrepreneurs 40. Service entrepreneurs
12	Others	41. Imitating entrepreneurs 42. Inherited entrepreneurs 43. Forced entrepreneurs 44. Bureaucratic entrepreneurs 45. Intrapreneurs 46. Immigrant entrepreneurs 47. Fabian entrepreneurs 48. Drone entrepreneurs 49. Individual entrepreneurs 50. Institutional entrepreneurs

1. Gender

On the basis of gender, the entrepreneurs are classified as men and women entrepreneurs.

a. Men Entrepreneurs: They are the entrepreneurs belonging to male population who initiate, organize and operate a business enterprise. They combine all the four factors of production i.e. land, labor, capital and enterprise for achieving the specific goal of the organization.

b. Women Entrepreneurs: Women entrepreneurs are those entrepreneurs who run an enterprise owned and controlled by female population. They should have minimum financial interest up to 51% of the capital and offer at least 51% of employment to women. Hence, women entrepreneurs are the lady entrepreneurs who initiate organize and operate a business enterprise with required amount of financial interest.

2. Age

According to the age of the entrepreneurs, they are classified as young, middle aged and old entrepreneurs.

a. Young Entrepreneurs: These are the entrepreneurs who initiate, organize and operate a business enterprise and fall in the age group of 18-30 years.

b. Middle aged Entrepreneurs: The middle aged entrepreneurs are those entrepreneurs who initiate, organize and operate a business enterprise and fall in the age group of 30-60 years.

c. Old Entrepreneurs: These entrepreneurs fall in the age group of 60 years and above and they take initiate, organize and operate a business enterprise.

3. Area

On the basis of area, the entrepreneurs are classified as rural, urban, national and international entrepreneurs.

a. Rural Entrepreneurs: These are the entrepreneurs who set up business enterprise in rural areas for utilizing the available resources. They set up the business at village level with the initiation from central and state government's schemes for educated unemployed belonging to rural areas.

b. Urban Entrepreneurs: They are the entrepreneurs who set up business at urban areas. They have the target of urban customers and promote their goods and services only for such customers.

c. National Entrepreneurs: These entrepreneurs set up their business within the boundaries of a nation. Their operations are confined to country level only and do not cross the boundaries of such nation.

d. International Entrepreneurs: These entrepreneurs set up their business at international level. They promote their goods and services in various countries to widen their areas of operation and cover the customers globally.

4. Scale of Operation

According to scale of operation, the entrepreneurs are classified as micro unit entrepreneurs, small scale entrepreneurs, medium scale entrepreneurs and large scale entrepreneurs.

a. Micro Entrepreneurs: Micro entrepreneurs are those entrepreneurs who invest capital in plant and machinery (manufacturing of goods) up to Rs 25 lakhs. In case of services sector, the investment in plant and machinery is up to Rs 10 lakhs made by entrepreneurs, and then they are considered as micro unit entrepreneurs. The number of employees must be less than 10.

b. Small scale Entrepreneurs: Small scale entrepreneurs are those entrepreneurs who invest capital up to Rs 5crores but more than Rs 25lakhs (In case of manufacturing units). In case of service sector, the capital employed in plant and machinery must be more than Rs 10 lakhs but less than Rs 2 crores. The number of employees employed must be less than 250. If these conditions are fulfilled, they are considered as small scale entrepreneurs.

c. Medium scale Entrepreneurs: Medium scale entrepreneurs are those entrepreneurs whose investment in plant and machinery in case of manufacturing unit is more than Rs 5 crores but less than Rs 10 crores. In case of service sector, the capital must be more than Rs 2 crores but less than Rs 5 crores. The number of employees employed must be less than 250 only.

d. Large scale Entrepreneurs: Large scale entrepreneurs are those entrepreneurs whose investment in plant and machinery is more than Rs 10 crores in case of manufacturing sector and more than Rs 5crores in case of services sector. The number of employees employed must be more than 250.

5. Skill

On the basis of skill, the entrepreneurs are classified as skilled entrepreneurs and unskilled entrepreneurs.

a. Skilled Entrepreneurs: Skilled entrepreneurs are those entrepreneurs who acquire skills and knowledge by experience or through Entrepreneurship Development Programs (EDPs). These entrepreneurs possess unique skills such as problem solving skills, persuading skills, negotiating skills, selling, proposing, strategic thinking, networking, convincing skills etc. These are useful to become a successful entrepreneur.

b. Unskilled Entrepreneurs: These are the entrepreneurs who do not possess specialized skills such as problem solving, negotiating, selling, persuading, networking etc. They acquire these skills only after gaining experience in the field.

6. Stage of Development

On the basis of stage of development, the entrepreneurs are classified as first generation, modern and classical entrepreneurs.

a. First Generation Entrepreneurs: These entrepreneurs do not possess any entrepreneurial background. They start an industrial unit by means of their own innovative skills.

b. Modern Entrepreneurs: These entrepreneurs undertake the business as per changing needs, tastes and fashions of customers.

c. Classical Entrepreneur: He is a stereotyped entrepreneur whose main aim is to maximize his economic returns at a level consistent with the survival of the unit but with or without an element of growth.

7. Growth

On the basis of stage of growth of entrepreneurs, they are classified as growth entrepreneurs and super growth entrepreneurs.

a. Growth Entrepreneurs: Growth entrepreneurs are those entrepreneurs who necessarily take up a high growth industry which has substantial growth prospects. The chances for improvement and growth of business are bright for such entrepreneurs.

b. Super Entrepreneurs: These entrepreneurs are those entrepreneurs who have shown high growth of performance in their business. The performance is measured in terms of liquidity, solvency and profitability.

8. Motives

On the basis of motives of entrepreneurs to act in a particular way, they are classified as managing entrepreneurs, innovation entrepreneurs and controlling entrepreneurs.

a. Managing Entrepreneurs: These are the entrepreneurs whose main motive is security in business. They undertake and manage only such business activities which ensure high security for them.

b. Innovation Entrepreneurs: Schumpeter's entrepreneur was of this type. He introduces new products, new methods of production and opens new markets. These entrepreneurs are aggressive in nature. Innovating entrepreneur experiments and converts the attractive possibilities into practice.

c. Controlling Entrepreneurs: These are the entrepreneurs who desire to have control and monitor the business activities. They try to fulfill their desire for power.

9. Motivation

On the basis of motivational factors, the entrepreneurs are classified as pure, induced, motivated and spontaneous entrepreneurs.

a. Pure Entrepreneurs: Pure entrepreneur is one who undertakes every activity to satisfy his ego. He is motivated to achieve or prove his excellence. He is status conscious and wants recognition.

b. Induced Entrepreneurs: These are induced or motivated by financial and other assistance, concessions, and subsidies, training etc by the Government or Non-Government agencies.

c. Motivated Entrepreneurs: These entrepreneurs are motivated to become entrepreneurs by their desire to make use of their knowledge and skills. They have confidence in their abilities, possess initiate and boldness. They are highly ambitious and not satisfied with the slow progress in their jobs.

d. **Spontaneous Entrepreneurs:** Spontaneous entrepreneurs are in quite contrast with induced entrepreneurs. They commence their business out of their confidence and talent. They are not induced by other agencies.

10. Use of Technology

On the basis of technology used, the entrepreneurs are classified as technical, non-technical, professional, non-professional, high-tech and low-tech entrepreneurs.

a. **Technical Entrepreneurs:** Technical entrepreneurs are more of a producer rather than a marketer. They develop new/improved goods and services out of their specialization and skills.

b. **Non-Technical Entrepreneurs:** These entrepreneurs are more concerned about developing alternative marketing and channels of distribution. They try to promote their business. Non-Technical entrepreneurs are not concerned with the product development. Their target is not to change the production techniques but to increase the demand for the product by alternate course of actions.

c. **Professional Entrepreneurs:** Professional entrepreneurs make it as a profession in commencing a business. They develop a business and sell it to somebody and start another business only to sell it to others. They are not interested in managing or operating a business which is established by them.

d. **Non-Professional Entrepreneurs:** These are the entrepreneurs who are interested in managing or operating a business which is established by professional entrepreneurs.

e. **High-Tech Entrepreneurs:** These are the entrepreneurs who have more knowledge and high technical skills and they are capable of formulating a capital intensive project on their own.

f. **Low-Tech Entrepreneurs:** These entrepreneurs have less technical knowledge and they possess less technical skills. They conceive an alternative project of labor intensive and capital requirements are also less when compared to high tech project.

11. Type of Business

According to the type of business, the entrepreneurs are classified as business, trading, industrial, corporate, agricultural, retail and service entrepreneurs.

a. **Business Entrepreneurs:** These entrepreneurs conceive an idea for a new product or service and then create a business (small or big) to materialize their idea into reality.

b. **Trading Entrepreneurs:** These entrepreneurs identify market opportunities and stimulate demand for their products. They do not engage themselves in manufacturing activity. Trading may be national or international.

c. **Industrial Entrepreneurs:** Industrial entrepreneur through research or otherwise estimates customer needs and wants and manufactures the products to cater to their needs. He is essentially a manufacturer.

d. **Corporate Entrepreneurs:** Corporate entrepreneur is one who promotes a corporation. A corporate undertaking is formed and registered under a statute which gives a separate legal entity. A corporate entrepreneur may engage either in business or trade or in industrial activity.

e. **Agricultural Entrepreneurs:** Agricultural entrepreneurs are normally engaged in the activity of raising crops and marketing crops, fertilizers and other inputs of agriculture. They are also engaged in allied agricultural activity.

f. **Retail Entrepreneurs:** Retail entrepreneurs are those entrepreneurs who purchase goods from the producer or wholesaler to sell them to final consumers. They establish their business where consumers are located. These entrepreneurs create place and time utilities for goods and services.

g. **Service Entrepreneurs:** These are the entrepreneurs whose main aim is not to earn profit but to render valuable service to the members of society. They provide services through the establishment of educational institutions, hospitals etc.

12. Other Entrepreneurs

There are many entrepreneurs who do not fall under the categories discussed so far. These entrepreneurs are imitating, inherited, forced, fabian, drone, individual and institutional entrepreneurs.

a. **Imitating Entrepreneurs:** Entrepreneurs of this type are found in underdeveloped countries. This type of entrepreneurs instead of innovating new things they just adopt the successful innovations innovated by others. However, some of the innovations made by others may not suit to the needs of underdeveloped countries. In such cases the imitative innovators may make some changes in the innovations made by the innovative entrepreneur so as to suit their requirements.

b. **Inherited Entrepreneurs:** This type of entrepreneurs are found in India, where a person inherit the business of the family through succession. They are also called as second generation entrepreneurs, since they inherit the family business firms and pass it from one generation to another.

c. **Forced Entrepreneurs:** Circumstances force people to become entrepreneurs. Rich people from agricultural sector, unemployed youth; non-resident Indians may belong to this group. One finds more failure in this category because of not having proper training and understanding.

d. **Fabian Entrepreneurs:** These entrepreneurs neither fall in innovative entrepreneur category nor in adoptive entrepreneur category. These are very cautious people. These entrepreneurs are rigid and fundamental in approach. They follow the foot-steps of their successors. They are shy to introduce new methods and ideas. Fabian entrepreneurs are no risk takers.

e. **Drone Entrepreneurs:** Fabian entrepreneurs are lazy in nature in adopting new methods, but Drone entrepreneurs are more rigid than Fabian entrepreneurs. They resist changes. They are laggards. They may close down their business but they don't accept for changes. Drone entrepreneurs refuse to adopt changes.

f. **Individual Entrepreneurs:** These are found in small scale business firms. When an individual sets up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business with an intention to earn profits, he is called as an individual entrepreneur.

g. **Institutional Entrepreneurs:** In case of business organizations where complex decisions are required to be taken, group entrepreneurs or institutional entrepreneurs emerge to arrange finance, bear the risk and adopt latest technological changes with an intention to earn profits.

1.7 ENTREPRENEUR AND INTRAPRENEUR

Entrepreneur is one, who commences his own business with his innovative ideas. He works for himself and for profits. Intrapreneurs, on the other hand, work for entrepreneurs.

The term entrapreneur was put to use in America in the late seventies. In America some of the business executives left their jobs and started their own small businesses because they were not given chance to test and implement their innovative ideas. Later this group achieved a phenomenal success in their new ventures. In India, one may also find many of such cases; these executive turned entrepreneurs posed threat to the organizations they left.

Normally, ideas about new products and services come to the executives working in the organization. These persons have strong desire of personal achievement. If they are allowed to test and implement their new ideas in the organization, it will enable to organization to grow. There should be a system and organization structure/culture within a large organization that would allow the executives to operate like entrepreneurs. The companies should provide enough opportunities, financial and technical assistance to intrapreneurs necessary for the development and application of their ideas. The executives/managers inside the organisation should be encouraged to act as entrepreneur within the firm.

But, in most of the cases entrepreneurs like to run their own business rather than taking orders from others.

This led to lack of enthusiasm among the executives which results in the closure of such undertakings. Both the 'entrepreneur' and 'intrapreneur' are innovators and both perform the functions of management. Yet they differ in the following ways:

Distinction between Entrepreneur and Intrapreneur

Entrepreneur	Intrapreneur
Entrepreneur is the owner of the business.	Intrapreneur works for the business.
Entrepreneur is independent.	Intrapreneur is semi independent.
Entrepreneur raises the requisite capital himself.	Intrapreneur does not raise any capital.
Entrepreneur guarantees the money to suppliers.	No such guarantee is required to be given by the Intrapreneurs.
Entrepreneur is one who bears full risks of his business.	Intrapreneur does not bear any risks of business.
Entrepreneur operates from outside an organization.	Intrapreneur operates from within the organization. He is an organization's man.
Entrepreneur converts the ideas of intrepreneur into reality.	Intrapreneur creates new idea.

1.8 ENTREPRENEUR VS. PROFESSIONAL MANAGER

More often the terms entrepreneur and professional managers are used as synonyms. In the strict sense of the words, they are different. Entrepreneurs are persons who initiate, organise, manage and control the affairs of a business unit that combines the factors of production to supply goods and services.

According to Sachar Committee on Company Law, a professional manager is an individual who (a) belongs to the profession of law, accountancy, medicine, engineering or architecture or *(b)* is a member of a recognised professional body or (c) is a holder of degree or diploma in management from any recognised university and possesses not less than five years of experience in an executive capacity in a company, corporation or in the government, or possesses minimum of ten years experience in the same capacity and in the same institutions mentioned in the third category. A professional manager is one who specializes in the fields of planning, organising, directing, leading and controlling the efforts of others by the systematic knowledge.

Both the professional managers and entrepreneurs have similarities in their approach. They are equally responsible for results, they work with people, they follow sound principles like delegation of authority, responsibility, planning etc., and they also take strategic decisions.

However, an entrepreneur is different from a manager in the following cases:

1. **Ownership:** Entrepreneur is the owner of the business and self-employed whereas professional manager is a paid employee and not independent.
2. **Innovation:** Entrepreneur works to change in accordance with his personal vision. Entrepreneur innovates the things, changes the factors of production and thereby increases productivity and profit, whereas, professional manager deals with day-to-day affairs of a going concern. He keeps running a business on established lines.
3. **Business:** While an entrepreneur launches a new business, a manager operates an existing business.

4. **Risk bearing:** Entrepreneur is a careful person. He takes a calculated risk and faces uncertainty whereas a manager does not share business risks. Manager is less tolerant of uncertainty of new venture.
5. **Profit:** Entrepreneurs work for profits, often they are uncertain and even negative. But a manager on the contrary gets a fixed salary and can never be negative.
6. **Qualifications:** Entrepreneur does not require any formal qualifications from any university or institution. He needs intuition, innovation, creative thinking etc., whereas a manager needs to have basic academic qualifications.

1.9 INTRODUCTION TO ENTREPRENEURSHIP

Entrepreneurship plays a vital role in the growth of our economy. Besides being the vehicle of industrial development, entrepreneurship can solve acute problems like unemployment, concentration of economic power in the hands of a very few, imbalanced regional development, increasing wastage of youth power in destructive activities etc. Recently, economists have shifted the emphasis from the growth of capital to the growth of high level man power such as entrepreneurship as a major determinant of the rate of economic growth of a country. Entrepreneurship is the ability to identify an investment opportunity and to organise an enterprise in order to contribute for the real economic growth. Entrepreneurship combines many qualities such as innovation, risk taking, combining factors of production etc. Entrepreneurship lies more in the ability to minimize the use of factors of production and to exploit them to maximum advantage. Entrepreneurship largely depends on personal qualities like accepting the challenge and bearing the risk. This is the reason as to why entrepreneurship is a complex subject. Entrepreneurship is the function of handling economic activity, undertaking risk, creating something new and organising and co-ordinating resources.

1.10 DEFINITIONS OF ENTREPRENEURSHIP

Like other concepts, the concept of entrepreneurship has long been debated. It has been used in various ways and various senses.

i) According to **A.H. Cole,** entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain to earn profit by production or distribution of economic goods and services.

ii) For **Peter F. Drucker,** entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends; that are by practice. Entrepreneur is a potential and enterprising individual, endowed with special ability to innovate or imitate and for decision making, interested in advancing technology and willingness to assume risk involved in it. Entrepreneurship is meant for creating something new, organising and coordinating and undertaking risk and handling economic uncertainty.

iii) According to **B. Higgins** "Entrepreneurship meant the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing new techniques and commodities, discovering new sources of raw materials, selecting top managers of day-to-day operations of the enterprise."

iv) **Johnken and Howard Stevenson** defined entrepreneurship as "an attempt to create value through recognition of business opportunity, the management of risk taking appropriate to see the opportunity and through the communicative and management skills to mobilise human, financial and material resources necessary to bring a project to fruition."

Entrepreneurship is the de facto barometer of overall economic, social and industrial growth. It facilitates large scale production and distribution and increases the scope of marketing of goods and services.

1.11 DISTINCTION BETWEEN ENTREPRENEUR AND ENTREPRENEURSHIP

Most often the terms entrepreneur and entrepreneurship are used interchangeably, yet they are conceptually different. The following table may help us to understand the distinction between entrepreneur and entrepreneurship;

Distinction between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
1. He is a person	1. It is a plan of action.
2. He is an administrator.	2. It is an administration.
3. He is a risk bearer.	3. It is a risk bearing activity.
4. He is an innovator.	4. It is a process of innovation.
5.He combines factors of production.	5. It is the process of use of factors of production.
6. He is an initiator.	6. It is taking an initiative.
7. He is a leader	7. It is nothing but leadership.

1.12 INCORPORATION OF BUSINESS

Most entrepreneurs regard incorporation as a complex process that requires a lawyer's assistance. While it is advisable for the small business to enlist the services of a lawyer to assist in incorporating the business, some entrepreneurs with relatively uncomplicated businesses have incorporated their businesses successfully on their own. Incorporating a business has four steps:

1. Selection of a name for the business. This name must be submitted to and approved by the provincial government department that handles incorporations. The selection is facilitated by having a computer search done to ensure that no similar names are currently being used.
2. Development of the share structure, directors, and restrictions on share transfers, etc. The owner must determine the number of shares to authorize, the number of shares to issue, the number of directors, the timing of meetings and approvals required for shares to be bought or sold.
3. A description of company operations. This section describes what the business can and cannot do.
4. Acquiring the necessary supplies. This includes such items as the corporate stamp, the minute book, and the necessary journals and ledgers.

Advantages

- The continuity of the business exists even if owner dies
- The owners have limited liability
- May have a manager with professional training of expertise.
- Easier to raise finds as lending and equity investors usually look more favourably to incorporate companies
- The corporate tax rate on small business can be lower than one's personal rate.
- Incorporation can assist in establishing commercial credibility
- Liability insurance may be less expensive.

Disadvantages

- There is greater reporting requirement to government.
- Flexibility may be reduced because of the binding procision of the corporate charter.

- Losses cannot be deducted from other personal income of the owner.
- Lenders often require a personal guarantee

1.13 FORMS OF BUSINESS ORGANISATION

Presently, we find a number of different commercial and industrial enterprises which are owned and managed in different forms. The development of trade, industry and commerce paved the way for developing the different types of business organisations. A number of forms of organizations exists to suit the requirements of different kinds of business. Broadly, there are three types of business organisations. They are:

i) Private Undertakings ii) Public Undertakings iii) Joint Sector Undertakings.

The details of these undertakings are shown in the following chart:

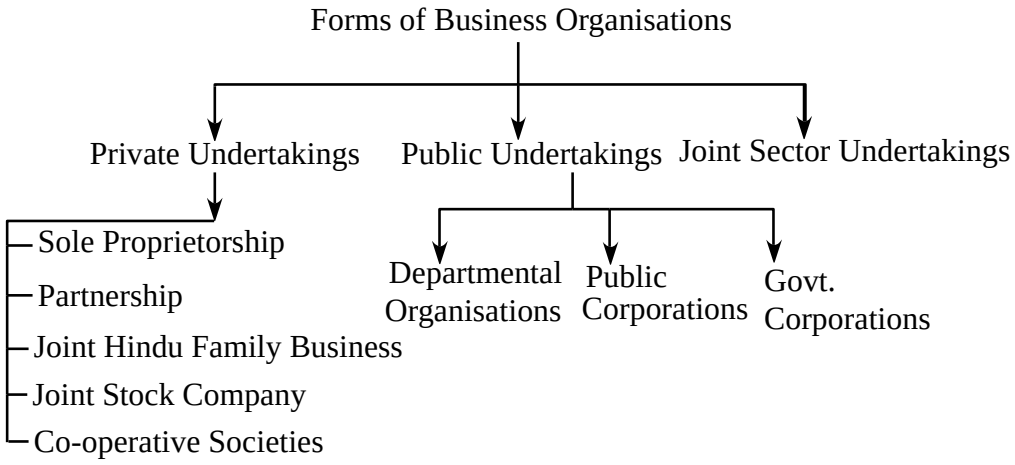


Chart 1.1: Forms of Organisations

A brief explanation of these undertakings is given in the following paragraphs:

1.13.1 Private Sector Undertakings

Private sector is usually comprises of organisations that are privately owned and not part of the government. This sector consists of business activity that is owned and run by private individuals. These businesses may be small firms owned by just one person or large multinational businesses that operate around the world (globally). In case of large businesses, there might be many thousands of owners involved. The goal of the businesses in the private sector is to make a profit. The business organisations may be owned and managed by an individual or group of individuals establishing a partnership firm or a Joint stock company. In India, the principal types of business organisation are as follows:

i) Sole Proprietorship

ii) Partnership

iii) Joint Hindu Family Firm

iv) Cooperative organisation

v) Joint Stock Company

The meaning of these types of business organisation is given in the following paragraphs:

i) Sole Proprietorship: Sole Proprietorship is that form of business ownership which is owned and controlled by a single individual, who receives all the profits and risks all of his property in the

success or failure of the enterprise. Thus, a sole proprietor is an individual who establishes and carries a business or trade exclusively by and for himself.

Feature of the sole proprietorship

The main characteristics of sole-proprietorship are as follows:

1. **Single Ownership:** Sole-proprietorship form of organization is owned by an individual.
2. **Individual Management and control:** Such organization is managed and controlled by the sole proprietor. Competent people can be employed for the efficient management of such enterprises.
3. **Individual Accountability**: Sole-proprietor is the sole beneficiary of the profits. He has to bear the losses, if any. In this sense, the sole Proprietor and employed person are accountable to the sole proprietor.
4. **Unlimited liability:** The liability of sole- proprietor is unlimited. In other words if the business assets are not sufficient to meet the business liabilities, this private assets (after meeting private liabilities) are to used to discharge the business liabilities.

Advantages

- This can be started in small way lesser capital
- Organisation will be small and simple. Can be enlarged later on based on progress
- Decision making is centralized, fast and effective.
- Since owner gets all the profits, there will be lot of sincere and hand work put in.
- It is possible to keep costs, pricing, profit margins secret and price can be varied any time in competitive market.
- There will be least paper work, formalities and legal matters.
- This is ideally suited for small workshops, repair centres, provision stores, canteens, wholesalers, traders and various types of services.

Disadvantages

- If there is loss in business, the owner is likely to shift to some other activity which causes inconvernience to customers.
- Quite a few sole traders did not maintain proper account and this style of functioning does not help to get blank loans.
- The businessmen will face unlimited liability for debts and losses
- The employees job and job satisfaction entirely depends upon knowledge and attitude of the owner.
- Present and future of the organization entirely depends upon health and longevity of the owner. Hence business is relatively uncertain in the long run.

ii) Partnership: In sole proprietorship business, financial resources and managerial skills are limited. This has resulted in the need for partnership form of organisation. Further, the increasing demand for the products and reduced risk bearing capacity of the sole proprietor has resulted in the establishment of partnership firm.

Partnership is the relationship between two or more persons who have agreed to share profits of a business carried in by all or any of them acting for all.

Partnership deed is a document containing all the matters according to which mutual rights, duties and liabilities of the partners in the conduct and management of the affairs of the firm are determined. The deed must be signed by all the partners and duly stamped.

Advantages

- Pooling of funds will be easier
- Variety of talents and skills will be readily available.

- Formation of company is easy and there is legal binding to share profit/ losses.
- Income tax burden will be distributed on partners.
- This type better suited for polyclinics, engineering units, legal and firms and trading firms.

Disadvantages

- Management of firm is difficult if more than one person handles a division or responsibility.
- The difference of opinion and mistrust is likely to hamper work and progress of the firm.
- If the main partner is sick, injured or disinterested, it affects the organisation's functioning.
- Partners will be very keen and interested if business is doing well. They will keep away once business is down and losses increase.

Types of Partners

1. **Active Partner:** An active partner is also called as working partner. The partner who participates actively in the day - to - day - operations of the business is called active partner. These partners may take active part in the business by performing different roles such as manager, organiser, adviser, and controller of business activities.
2. **Sleeping Partner:** Sleeping partner is also known as dormant partner. A sleeping partner contributes capital and shares profits and losses but do not participate in the day - to - day operations of the business. He is not knows to the public as a partner, but liable for all debts and obligations of the firm.
3. **Secret Partner:** A secret partner is he whose membership is kept secret. His liability is unlimited. He can take part in the working of the business. Thus, the position of a secret partner lies between active and sleeping partner.
4. **Nominal Partner :** The partner who allows the firm to use his/her name as a partner but do not contribute capital nor share the profits of the firm is known as nominal partner. A nominal partner does not take part in the management of the business. The firm may get credit in the market due to the name and fame of such persons. This may help the firm in promoting the sales. However, a nominal partner is liable to third parties like any other partner.
5. **Partner in Profits:** A Person Who shares the profits of the business without being liable for the losses is known as 'partner in profits'. A partner may enter into special contract with other partners to become a 'partner in profiles'. He contributes capital and liable for third parties like any other partner. He is not allowed to take part in the management of the firm. Normally, partner in profits is allowed into the firm for their goodwill and capital contribution. However, this is applicable only to the minors who are admitted to the benefits of the firm and their liability is limited to their capital contribution.
6. **Sub-Partner:** A sub partner is one who enters into an agreement with the partner of the firm to share his profits. He cannot exercise any claim against other partners, or the firm. In the eye of law, he is not a partner of the firm. He is not liable for the debts of the firm. The contractual relationship is between the sub-partner and the partner but it is not between the sub - partner and the firm.
7. **Limited Partners:** Limited partners are those partners whose liability is limited to the extent of their capital contribution. These partners are found in Limited Partnership firms in some European countries and USA. So far, limited partnership concept is not prevalent in India. However, the limited partnership Act is very much under consideration of the parliament.

8. **General Partners:** The partners having unlimited liability are called general partners or partners with unlimited liability. Every partner who is not a limited partner can be treated as a general partner.
9. **Minor Partner:** A minor is a person who has not yet attained the age of 18 years. According to Indian Contract Act and Indian Partnership Act, a minor cannot enter into a contract. But section 30 of the Indian Partnership Act reveals that a minor can be admitted to the benefits of a firm with the consent of all the partners.

iii) Joint Hindu Family Form of Business Organisation: A unique form of business organisation that prevails only in India among the Hindus is known as Joint Hindu Family business. This kind of business organisation is run by Hindu Undivided Family. In this form of business, the family members of three successive generations own the business jointly. The head of the family known as 'Karta' manages the business. The other members are called co-partners and all of them have equal ownership right over the properties of the business. The membership of the JHF is acquired by virtue of birth in the same family.

Features of Joint Hindu Family Business

1. **Creation:** It arises by status or operation of Hindu Law.
2. **Membership:** A male member becomes a member merely by his birth. The membership is restricted to three successive generations
3. **Management:** The Joint Hindu family business is managed by the senior most member of the family called Karta. The other members may assist him in the management of business.
4. **Liability:** The liability of the Karta is unlimited whereas the liability of other members limited to the extent of their share in the property of the family business. Karta is personally liable of business assets are not sufficient to discharge business liabilities.
5. **Right to accounts:** The member other then Karta do not have right to inspect and copy the account books and ask for the account of past dealings.
6. **Dissolution of Business:** The Hindu Undivided Family continues to operate even after the death of coparcener. Joint Hindu Family business comes to an end when the members so decide by mutual agreement

iv) Cooperative Organisation: In order to protect the interest of weaker sections of society, the concept of co - operation gained popularity. According to ILO, Co-operative organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic goal through the formation of a democratically controlled organisation, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.

Thus, a co-operative organisation is a voluntary association with open membership formed for rendering service and ensures social justice.

Advantages

- It is a kind of participative and democratic ownership.
- Common man is benefited by way of getting essential commodities at reasonable prices.
- Hoarding, black marketing is a avoided.
- Since materials are procured in wholesale and from manufactures the cost advantages can be shared by members.
- The office bearers are generally made to work on honorary basis and hence overhead costs are less.
- Individual domination is avoided as office bearers are elected by voting

Disadvantages

- Thought office bearers are elected, there could be possibility of non involvement and hence inefficiency.
- Some members in high position may dictate the office bearers
- Routine check and verification on quality and quantity is difficult due to some other occupation of office bearers.

v) **Joint Stock Company:** Owing to inadequacy of funds and unlimited liability, sole trading concern and partnership firm have failed to sustain and keep pace with the growth of industry and commerce. This has necessitated the need for establishment of a new form of business organisation, i.e., the joint stock company.

A company is a person, though artificial, i.e, unlike human beings, it exists only in contemplation of law and has no physical existence. It has an independent legal entity, a common seal and perpetual succession. It is an association of many persons who contribute money or money's worth to a common stock and employs it in some trade or business, and share the profit and loss.

Advantages

- A company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in a public company.
- Due to its separate legal existence, it has perpetual existence.
- Large scale production of modern days is the result of company form of organization.
- The shares in a company are transferable and members can transfer their shares without the consent of other members of the company.

Disadvantages

- To act as a legal entity a company has to fulfill various legal and procedural formalities making it a complicated process.
- Company needs to pay tax for the earned profits and again the shareholders are taxed for the earned income.
- All the legal and procedural formalities which are required to fulfill before making policies of the company delay the policy decisions.

1.13.2 Public Undertakings

Business organizations owned and operated by public authorities are known as public or state undertakings. In these organisations, whole or most of the investment is made by the government. The objectives of these organisations are to provide goods and services to the people at reasonable prices though profit earning is not entirely ruled out. These undertakings have the following forms of organisation.

i) Departmental organisation

ii) Public Corporations

iii) Government Companies.

i) **Departmental Organisation:** This is the oldest forms of organisation for managing state enterprises. In this form,the enterprise works as a part of government and management is in the hands of civil servants who work under the control and direction of minister who is accountable to parliament. This form of organisation is suitable for public utility services and strategic industries. In India, railways, post & telegraphs , radio and television are the examples for this form of business organization.

ii) **Public Corporations:** These corporations are created by a special statute of a State or Central Government. A legislative act is passed by defining the sphere of worth and mode of management. It is a special legal entity created for a specific purpose. In india, the Reserve Bank of India, IFC are some of the corporations created by special act of parliament.

iii) **Government Companies:** A company owned by State Government or Central Government is called a Government company. In these companies whole of the capital or majority of the shares are owned by the government. Government companies are registered as public limited and private limited companies. However, the management of both of these companies remains with the government.

Difference between Private and Public Sector

The difference between private and public sector is that the public sector is usually composed of organizations that are owned and operated by the government, while private sector is usually composed of organizations that are privately owned and not part of the government .The public sector is not totally profit-driven, while this is the case with the private sector.

More specifically, the following are the differences between private and public sector undertakings

1.**Ownership**	A private sector undertaking is fully owned by the private entrepreneurs. It may be owned by one individual or by a group of individuals jointly. When owned by one person, it is called sole proprietorship. A group of persons may jointly own the firm in the form of Joint Hindu family business, partnership, Joint stock company or cooperative society.	In case of a public sector undertaking the ownership is vested with the state. It could be in the nature of Central, State or local government ownership or any instrumentality of the state too can have the ownership of a public undertaking.
2.Control	These undertakings are fully controlled by private entrepreneurs. There is no participation of the central or State Governments either in the ownership or control of a private sector undertaking.	Public Sector undertakings are controlled by the Government both in its management and functioning. The government has the direct responsibility to manage the affairs of the enterprise through various devices and exercises control through a number of agencies.
3.Motive	The main motive of private sector undertakings is earning profits. Profits provide the reward for the risk assumed and the required return on capital.	Though profit making is not the sole motive of public sector undertakings, this objective need not be set aside totally.
4.Finances	The capital of a private sector undertaking is arranged by its owners. The sole trader contributes the capital of a sole proprietorship. In case of partnership, capital is invested by the partners. A joint stock company raises capital by the issue of shares and debentures. A private sector undertaking can also raise loans to meet its long-term and short-term needs of funds.	Public Sector undertakings are funded through public money.
5.Accountability	Private sector undertakings are not accountable to people. However, in case of partnership and joint stock company form of undertakings, they are accountable to partners and shareholders at large.	Public Sector undertakings owe accountability to people as they are funded through public money. This accountability is realized through legislature and its committees, ministers, audit institutions and other specialized agencies.

6.Management	A private sector undertaking is managed by its owners. In case of sole proprietorship and partnership, the owners directly manage the firm. The management of a joint stock company lies in the hands of directors who are the elected representatives of the shareholders.	Public Sector undertakings function with utmost autonomy under given situations. They are free from day-to-day interference in their affairs and management. They are managed by professional managers.
7.Coverge	Since profit making is the sole motive of these undertakings, the owners do not prefer to undertake the businesses that are highly risky and less profitable.	The public sector undertaking traverses all areas and activities. There is hardly any field of activity, which is not covered by the operations of public enterprises.

1.13.3 Joint Sector Undertakings

Joint Sector consists of business undertakings where in the ownership control and management are shared jointly by the Government, the private entrepreneurs and the public at large. According to the guidelines laid down by the Government of India, the share capital of a joint sector undertaking (without foreign participation) is to be divided as follows: government 26%, private business men 25% and the public 49%.No single individual or organization can hold more than 25% of the paid-up capital of a joint sector enterprise without the permission of the Central Government. In case of foreign participation, the respective shares will be: Government 25%, Indian entrepreneur 20%, foreign investor 20% and the investing public 35%.In our country, Maruti Udyog, Cochin Refineries and Gujarat State Fertilizers are examples of joint sector undertakings.

The main characteristics of joint sector undertakings are as follows:

i. **Mixed Ownership:** The government, Private entrepreneurs and the investing public jointly own a joint sector undertaking.

ii. **Combined Management:** The management and control of a joint sector undertaking lies with the nominees or representatives of the Government, Private business men and the public.

iii. **Share Capital:** The shares of the Government, Private businessmen and the public in the capital are 26%, 25% and 49% respectively. The aim is to pool the financial resources and technical know-how of the State and the private individuals.

Thus, joint sector is a form of partnership between the private sector and the government. Management of these undertakings will be in the hands of private sector. The overall supervision will be with the Board of Directors with adequate representation to government representatives. Joint sector undertakings use development technology and resources of both government and private sector.

Characteristics of an Ideal form of Organization

Business organizations differ in ownership, control, size and in many other aspects. Each form of business organization has its own merits and limitations. As such, quite often, a businessman is confronted with the problem of selecting a suitable form of ownership for his business. The decision pertaining to the choice of a form of business assumes importance as the decision once taken cannot be reversed easily. Further, such a decision will have long run impact on the conduct of business operations. As such, the form of ownership should be selected carefully after due consideration and thought.

An ideal form of business organization possesses the following characteristics:

i. **Ease of Formation:** A business organization should facilitate its easy formation without lengthy procedures, hurdles and legal formalities. The formation should be less expensive. It should be easy to select proper business partners and associates. From this point of view, sole trader and partnership form of business organizations are preferable to company form of organizations.

ii. **Adequacy of capital:** In order to run the business effectively and efficiently, the firm should able to mobilize sufficient amount of capital and other resources. In order to attract investments, the type of business organizations should assure the investors safety for their investment and fair rate of return on their investment.

iii. **Limited Liability:** Depending on the form of business organization, the liability of the owners may be limited or unlimited. Since, business involves risks and uncertainties, The owners of the business prefer limited liability.. An ideal form of business organization is one which keeps the liability of the owners in proportion to the prospects of profits.

iv. **Transferability of Interest:** The degree of risk and liability can be reduced if the investment is transferable easily. An ideal form of business organization enables the owner to transfer his interest without obtaining the consent of other owners.

v. **Efficient Management:** An ideal form of organization is one which enables maximum possible efficiency in management and control of the firm. It permits division of labour and specialization. The effectiveness of management depends on three factors, namely, (a) motivation, (b) skill, and (c) flexibility. Motivation for effective management is highest where ownership and management go hand in hand.

vi. **Stability or Continuity:** An ideal form of organization enjoys uninterrupted existence over a long period of time. Stable firm alone can provide continuous employment to its workers and fair returns to owners. Society is also interested in the continuity of business as such ideal organizations alone can provide the consumers with quality goods and services at reasonable prices. From the point of view of Stability or Continuity Company form of organization is considered to be an ideal form of organization.

vii. **Flexibility of Operation:** Flexibility and adaptability to changes is yet another distinguishing feature of an idle form of organization. Changes may take place in market conditions, production methods, consumer preferences and in the conditions of supply of factors of production. There may be changes in government policies towards the industry. Depending on the circumstances, the policies of management should also be changed to enable the scope for expansion and grown of the firm. In view of this, the organization should permit to incorporate the changes in the environment. From this point of view, sole trader form of business organization is an ideal form of business.

viii. **Retention of Business Secrets:** Usually, the form of organization which enables the retention of business secrets is preferred to the one wherein business secrets are difficult to preserve. From this point of view, the sole proprietorship is considered to be an ideal organization.

ix. **Management Needs:** Managerial and administrative requirements also influence the decision regarding the choice of a particular form of business organization. When the business caters to the requirement of local people, a single person known as sole trader can manage the affairs of the business. If the business caters to more number of areas, then more persons may be required to look after the business activities. Then partnership form of business organization may be more suitable. On the other hand when the business is run on a large scale, it requires specialized professional managers. Under these circumstances, company form of business organizations is desirable.

x. **Government Regulations:** The choice of a particular form of business organization may also depend on the rules and regulations governing that form of organization. Usually, sole trader and partnership form of organizations are free from the Government rules and regulations. On the other hand, company form of organizations and cooperatives are governed by several government controls and regulations. As such, if the persons desire to enjoy freedom from the rules and regulations of government, they have to prefer sole trader or partnership form of business organizations.

xi. Impact of Taxation Different forms of business organizations are levied taxes in a different manner. Though taxes like excise duties, sales tax, and property tax are charged similarly for all types of businesses, Income-Tax rates are different for sole trader, partnership and companies. Companies have higher tax liability when compared to sole trader and partnerships. As such, the choice of a particular form of business organization is influenced by the impact of taxation. In practice, all the above mentioned features are seldom found in any form of organization. As such, no single form of organization fulfills all these conditions. Therefore, the best of form of ownership is one that enables the achievement of the business objectives in the most efficient manner.

1.14 ROLE OF ENTREPRENEURS IN ECONOMIC DEVELOPMENT OF COUNTRY

Entrepreneurship development is a prerequisite for an overall economic development in any country. Entrepreneurial development is a process in which persons are prepared to face business uncertainties and risks. Growth of an enterprise depends upon entrepreneurial development.

1. Employment opportunities
2. Balanced Regional Development
3. Mobilization of Local Resources
4. Optimization of Capital
5. Promotion of Exports
6. Consumer Demands
7. Social Advantage
8. Increase per capita income
9. Capital formation
10. Growth of capital market
11. Growth of infrastructure
12. Development of Trader
13. Economic Integration

1. Employment Opportunities

New businesses need to hire employees. Entrepreneurs employ labour for managing their business activities and provide employment opportunities to a large number of people. They remove unemployment problem. They create jobs and these economic opportunities uplift and support communities through increasing the quality of life and overall standard of living.

2. Balanced Regional Development

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more number of industries leads to development of backward regions and thereby promotes balanced regional development. When the new entrepreneurs grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of backward regions.

3. **Mobilization of Local Resources**

Entrepreneurs help to mobilize and utilize local resources like small savings and talents of relatives and friends, which might otherwise remain idle and unutilized. Thus they help in effective utilization of resources.

4. Optimization of Capital

Entrepreneurs aim to get quick return on investment. They act as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.

5. **Promotion of Exports**

Entrepreneurs reduce the pressure on the country's balance of payments by exporting their goods they earn valuable foreign exchange through exports.

6. **Consumer Demands**

Entrepreneurs produce a wide range of products required by consumers. They meet the demand of the consumers without creating a shortage for goods.

7. **Social Advantage**

Entrepreneurs help in the development of the society by providing employment to people and paves for independent living They encourage democracy and self-governance. They are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

8. **Increase per Capita Income**

Entrepreneurs help to increase the per capita income of the country in various ways and facilitate development of backward areas and weaker sections of the society.

9. Capital Formation

Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities leads to value addition and creation of wealth, which is very essential for the industrial and economic development of the country

10. **Growth of Capital Market**

Entrepreneurs raise money for running their business through shares and debentures. Trading of shares and debentures by the public with the help of financial services sector leads to capital market growth.

11. Growth of Infrastructure

Entrepreneurs play a major role in the growth of infrastructural facilities such as roads, bridges, buildings, factories, etc., which are the cornerstones of economic growth. Establishment of factories and industries in a particular locality pre-supposes the growth of infrastructural facilities.

12**. Development of Trader**

Entrepreneurs play an important role in the promotion of domestic trade and foreign trade. They avail assistance from various financial institutions in the form of cash credit, trade credit, overdraft, short term loans, secured loans and unsecured loans and lead to the development of the trade in the country.

13. Economic Integration

The modern world is dominated by economic power. Economic power is the natural outcome of industrial and business activity. Industrial development normally can lead to concentration of economic power in few hands. This concentration tiff power in few hands has its own evils in the form of monopolies. The increasing number of entrepreneurs helps in dispersal of economic power into the hands of many efficient managers of new enterprises. Hence, setting up of a large number of enterprises for the goods creates competitiveness and weakens business monopoly.

1.15 Start-Ups

Starting up of a new venture is not a small game to pay. It involves a strong need, and motivation seasoned with new ideas and to achieve something great. In the pursuit of setting up a new enterprise, an enterprise is expected to:

- Seek Opportunities
- Constantly scan environment
- Plan strategically
- Generate Ideas
- Create and sustain teams
- Arrange for source

Venture Capital

A venture can be an attempt experiment endeavor or a proposal developed with an aim to achieve certain predetermined goals and objectives as dreamt of by an entrepreneur. To establish an

enterprise or create a venture an entrepreneur or the imitator has to follow the sequence of activities as given bellow.

- Conceptualization or developing a concept based on a sensed opportunity
- Initial strategic planning

A venture can take the form of either of the following

- Setting up a new division
- Integrating the new product in the existing operation structured
- Spinning of the new project into a subsidiary

A venture can be established by following "Spontaneous Team" or carrying out well structured formal process approach.
Consigning on a will structured.

The Spontaneous Team

Pinchot identified four stages of spontaneous team development. These are illustrated in figures and described as follows.

1. **Solo Phase Stage**

In which a single innovator cautiously nature an idea to the point where he or she has sufficient confidence in the project to confide in one or two close associates, During the solo phase, innovators are likely to be reclusive, sipping into laboratories after hours, working at home on weekends, a and very quietly fleshing out their ideas.

2. **Network Phase Stage**

The second stage evolves in innovators reach out for advice and support friends, experts, or sponsors who can find resources to back ideas, this is called "Network Phase" and it is process of gaining allies and sponsors.

3. **Bootleg Phase Stage**

When an informal team beings to take shape. The innovator is no longer insolated in the endeavor, and team members actually do work of a substantial nature such as helping to develop a prototype, gathering market information, lining up production resources and gathering essential information needed to write a proposal. The proposal is the business plan "in corporate terminology and it is and almost exactly the same documentation that an independent entrepreneur uses to attract investors. In this, the proposal is taken to corporate management of secure support and formal reorganization of the project.

4. **Formal Team Phase Stage**

When corporate support is given, the final stage is launched. This is the "Formal Team Phase" where team members are given authority to manage the project, budgets are allocated, and resources are lined up for a well defined commercial development process.

Four stage model of spontaneous team

Solo Phase	Individual consciences and innovative idea and works it to develop self confidence in the idea
Network Phase	Innovator looks towards sponsors, and experts for developing the idea.
Boot Leg Phase	The team work informally to develop the project to seek formal organizational approval.
Formal Team Phase	Formal approval is granted of the team is officially allowed to pursue the new venture.

Features of Venture Capital

1. It assumes a high degree of risk
2. It finances high-technology project.
3. The gestation period is usually high.
4. It is basically long-term investment.
5. It has previsions to have conditional financial assistance.

Merits of Venture Capital

- It helps in accelerating the pace of industrialization in the country.
- It helps in developing new technologies and new methods of production.
- It helps the first generation entrepreneurs in both small and medium scale to translate their ideas into reality
- It generates employment opportunities.
- It promises entrepreneurship in the country.

Source of Venture Capital

For starting a high-risk and high-return project, venture capital is instrumental and thus, entrepreneurs search for the sources from which venture capital can be obtained. Due to liberalization and privatization in the economy a number of companies have established venture capital divisions to assist the entrepreneurs. The important funds and the schemes by which the venture capitalists in our country provide financial assistance can be depicted as follows:

Programme for Advancement of Commercial Technology (PACT)

The first venture capital funding in India was US AID's Programme for Advancement of Commercial Technology which started in 1955 to provide finance to Indian firms in commercializing the innovative technologies by Indo-US joint ventures.

Technology Development and Investment Corporation of India (TDICI)

This was the first venture capital company of India and was promoted by CICI in 1986. The following are the salient features of its scheme:

- TDICI invests in companies with high earning and growth potential with a view to achieve long-term capital gains.
- The scheme spearheads towards assisting entrepreneurs involved in manufacturing products which are commercially viable by indigenously developed or ultramodern yet untested technologies on commercial scale.
- The financial assistance may be up to Rs. 2 cores in the form of equity or conditional loan and the equity would be held for a period of 5-8 years and then either sold to the promoter or disposed in the secondary market.
- The most important aspect of this type of assistance is in the developmental phase, the conditional loan would carry no interest, but after this period, the interest rate would depend upon the effectiveness of the project.

Risk Capital and Technology Finance Corporation (RCTFC)

This institution is independent body launched by Industrial Finance Corporation of India (IFCI) to enhance the purview of venture-capital operations. It assists the entrepreneurs especially those who engage themselves in technological development.

Venture Capital Scheme of lDBI

IDBFs venture capital fund has been set up with an initial corpus of Rs. 10 crores. This scheme of IDBI has been emerging as major source of venture capital funding. Its aims are the following:

- It is designed especially to assist projects which promote new and untested technologies in Indian conditions.
- The funding amount may vary between Rs. 5 lakhs and Rs. 250 lakhs which include both capital and operating expenses.
- This part of funding is usually 80 to 90 percent of the total project cost.

- The assistance may be in the form of equity or Joan.
- The equity component carries a service charge of 1 percent while the loan component carries an interest of 6 percent in the developmental phase and 14 percent thereafter.
- It enjoys a 3-year moratorium period and is repayable in about 10 years.
- If the project does not succeed, IDBI can insist or transfer of technology to some other promoter or the entrepreneur who is interested to take over the firm or mutually agreeable terms.

Apart from the above organizations, the following are some of the players in the venture capital finance in the country:

- ANZ Grindlays Bank
- Credit Capital Venture Fund (India) Ltd.
- 20th Century Venture Capital Corporation
- APIDC Century Capital Ltd.
- Canbank Venture Capital Fund
- Gujarat Venture Finance Ltd.
- Industrial Development Bank of India
- IL and FS Venture Corporation
- SBI Capital Venture Fund
- SIDBI Venture Capital Fund
- Pardeshiya Industrial land Investment Corporation of Uttar Pradesh Ltd. (PICUP).

Hire-Purchase Scheme

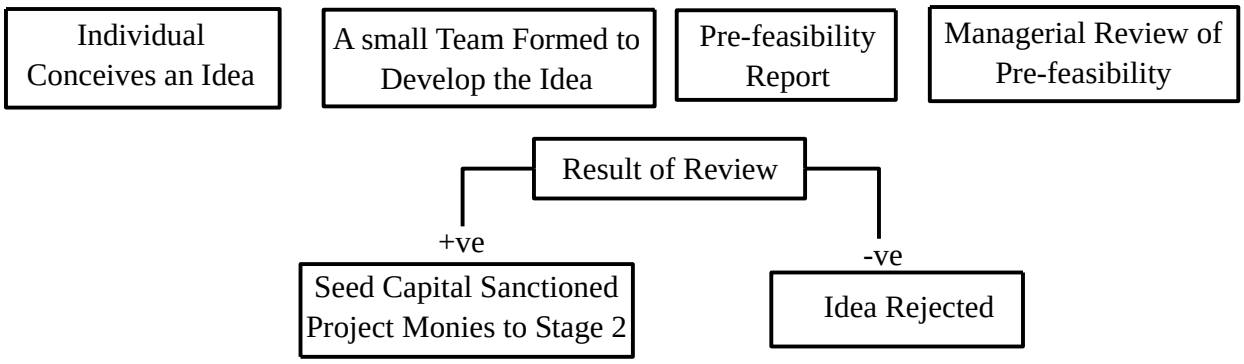
The type of loan which is advanced for the purchase of plant and machinery on hire-purchase basis is known as hire-purchase scheme. The organizations which provide hire-purchase loans are usually national small industries corporations, state small industries corporations, private finance companies and other financial institutions. The ownership of the plant and machinery is vested with the lender until the final payments are made. The interest is generally charge at a flat rate and the borrower has to furnish collateral security.

Formal Process Concept

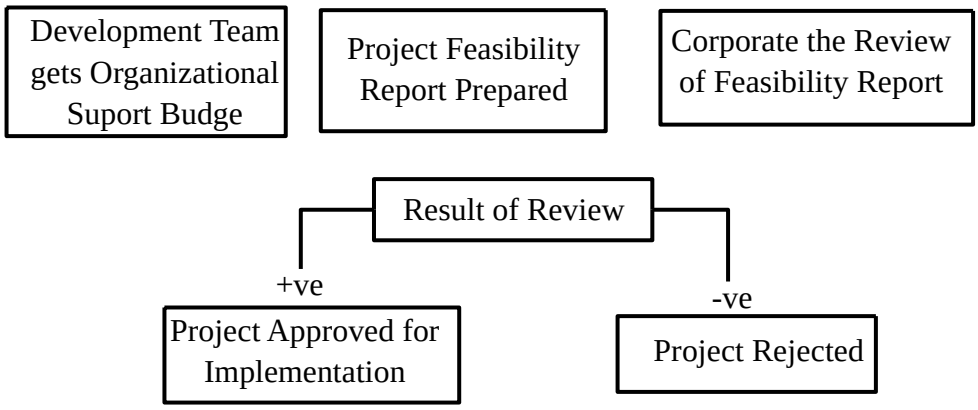
A formal team can be understood as an intentionally created group of people with some predetermined objectives to be attained through collective efforts.

Three stage model of formal team

Stage-1 Initiation



Stage-2 Feasibility Study



Stage-3 Implementation

Opportunity sensing/ Opportunity Analysis

To be a successful entrepreneur, it is necessary to have an ability of sensing opportunities. For this, an entrepreneur constantly under takes the scanning of environment till a time he finds the most lucrative opportunity for preparation of his business plan, The process of opportunities sensing involves five Steps:

1. Scanning the Environment
2. Project Development and Selection
3. Project Report Preparation
4. Project Appraisal
5. Resourcing

1. Scanning the Environment

It refers to the understanding of socio culture economic, technological, fashion and even the change in lifestyle of local people. It's done by collecting information from various sources.

1. Personal Informal Sources
   a) Family
   b) Customers
   c) Friends
   d) Colleagues
   e) Salesman
   f) Social Contacts
   g) Employees
2. Personal Formal Source
   a) Bankers
   b) Business Councilors
3. Impersonal Written Sources
   a) Magazines
   b) Journals
   c) Books
   d) (d)News letters
   e) (e)News papers
   f) (f) Internet
4. Impersonal Oral Sources
   a) Trade shows

b) Seminar and workshops
c) Professional organization
d) Small business organization
e) Suppliers and dealers

2. Product Development and Selection

There are number of ways of selection and development of new product and service.

a. Solving people's problem
b. Com lining two or more ideas
c. New ways of doing old things (gas lighters)
d. Improving the product and service (sachet/tetra packs)
e. Adding new value to an old product
f. Doing market research
g. Use of hobby
h. Turning waste materials into something useful
i. Talking and listening to people
j. Day dreaming
k. Yellow page directory

i. Changing fashion and lifestyle

3. Project Report Preparation

1. Brief Introduction of the proposed project
2. Brief History (why deal the entrepreneur decide to set up this particular project)
3. The unit (constitution - partnership Private etc., nature of the unit)
4. The promoter (Director, Proprietorship - names)
5. Product (Description)
6. Marketing and competition:
   a. General market trends
   b. Overall demand
   c. Segmentation of estimated demand
   d. How does the unit proposed to meet the competition
   e. Price and quality
   f. Marketing Strategies (direct selling or by agents)
7. Manufacturing process:
   a. Techniques
   b. Input/ Output ratio between raw material and finish goods
   c. Sequence of operations and time taken for each operation
8. Plant and Machinery capacity:
   a. Price of each machine
   b. Spare parts required
   c. Details of suppliers
   d. Procurement time and availability in market
9. Raw Material:
   a. Detail of various raw materials required
   b. Specifications of each type of raw material
   c. Availability (Where available, how easily available etc.)
   d. Names of suppliers
   e. Source.
10. Land and Building (in case own building is to be constructed):
   a. Total area and cost of land required.
   b. Cost of land development
   c. Covered and Uncovered area

d. Estimate of building including utilities (water, electricity etc.)

11. General Management and technical staff:
    a. Duties of promoter(s)
    b. Indirect staff such as sales-cum purchase assistant, accountant-cum store keeper etc.
    c. Direct labour strength such as skilled workers, unskilled workers and semi-skilled workers
    d. Salary or wages, incentives, bonus, etc. of each workers

12. Cost of the project

Land, building, plant and machinery, furniture and fixture, pre-oprative expenses, contingencies, working capital required.

13. Means of finance
    a. Term loan from Bank
    b. Government subsidy.
    c. Deferred payments.
    d. Loans from friends etc.

14. Working Capital required:
    a. Anticipated monthly sales.
    b. Cost of raw material consumed per month.
    c. Total monthly production cost.

5. Cost of production and profitability:
    a. Details of raw material content for each item.
    b. Details of monthly expenses.
    c. Bifurcation of monthly expenses into fixed and variable expenses.

16. Profitability and Breakeven point (BEP)
17. Project implementation schedule.
18. Repayment schedule as desired by promoters (s)
19. Internal rate of return.
20. Security offered.

4. **Project Appraisal**

A final view on the proposal is taken which is based on combination of factors like technical, financial, commercial, managerial and operational. Weakness or deficiency in any project does not prepare a ground for its rejection but care is taken to initiate suitable action to minimise its impact on the project.

1. Objective of Project Appraisal

Identifies and estimates the expected costs and benefits to a project appraisal undertaken by the financial institutions furnish necessary information on the following aspects:

- The specific and predicted results of a project
- The information necessary to determine the success or failure of a project
- The standard yard sticks to be applied while determining the rate of success or failure of a project

2. Aspects of Project Appraisal

A comprehensive appraisal of a project can be performed by covering the following perspectives :

- Technical appraisal
- Economic appraisal
- Operational appraisal
- Financial appraisal
- Management appraisal
- Organization appraisal

5. Resourcing

The implementation stage comprises all spade work required to set up the business venture:

1. Assistance may be sought from the following

- Small business club ' Supplies
- College/University business departments.

- Exhibitions, Trade fairs
- Entrepreneur's association
- Bankers
- Technical consultant
- Research Laboratories
- Trade association.
- Chamber of commerce

2. **Categories of Resources**

- Physical Resources: Premises, tools, equipments, machinery etc.
- Technical Resource: Technical Know - How, designs, technical training.
- Financial Resources: Funds needed for physical, technical facilities etc.
- Human Resources: Workers/managers.
- Marketing Resources

3. Resourcing Fund

Finally for the implementation of the venture, the financial resources have to be arranged. An entrepreneur may need a blend of both - fixed capital and working capital to actually transform his dream into reality.

Fixed Capital

Fixed capital is the money required to buy premises, furniture and fixtures, machinery tools, equipments and vehicles - assets that last long sources of such capital can be equity shares. Preference shares, debenture term loan, return earnings etc.

Working Capital

It is the money required to buy raw material and for turning it into finished goods for sale of customers - such sales may be on credit bases. It is the amount of funds necessary to cover the cost of operating the enterprise.

1.15 SUMMARY

Entrepreneurship development is significant for development of the nation. Entrepreneur is an individual who performs the task of bringing labour and material at a certain price and selling the resultant product at a contracted price. The entrepreneur play a commendable role in the formation of capital, balanced regional development, generation of employment, improves per capita income and standard of living, making nation self reliant, planned production, forward and backward linkages are established and dispersal of economic power. All these activities of entrepreneur lead to economic development of the country.

An entrepreneur is characterized by certain attributes. These attributes are innovation, risk taking, self confidence, hard work, goal setting, accountability, leadership and managerial skills. These attributes, indeed, impact his entrepreneurial functions.

The entrepreneurs are classified as innovating, adoptive, fabian, drone, individual, institutional, forced, business, trading, industrial, corporate, agricultural, pure, induced, spontaneous, technical, non-technical, professional, first generation, and classical entrepreneurs.

An Intrapreneur is different fron and entrepreneur. Intrapreneur is an individual who works for the business. Both the entrepreneur and intrapreneur are innovators in their own ways and perform their respective functions. They, nevertheless, differ in number of ways. They differ with regard to various aspects such as ownership, innovation, business, risk bearing, profit and qualifications.

Entrepreneurs create value for society. They recognize business opportunity, undertake risk appropriate to business opportunity and through the communicative and management skills, they mobilize human, financial and material resources necessary to yield desired results.

Presently, there are a number of different commercial and industrial enterprises which are owned and organised for operation by different forms or types of business organisation. In India, the principal

types of business organisations include sole proprietorship, partnership, Joint Hindu Family, cooperative organisation and Joint stock companies. Every form of organisation has its characteristics, merits and limitations. Usually, one form of organisation is more suitable in a particular business context and environment than the other. As such, the choice of the form of business depends on nature of business, ease of formation, scale of operations, adequacy of capital, limit of liability and risk, degree of control desired, continuity and stability, etc. of its operation.

1.6 REVIEW QUESTIONS

I. Long Answer Questions

1. Define entrepreneur. Give a brief account of nature and importance of an entrepreneur.
2. Explain the characteristics of an entrepreneur.
3. Discuss how the managerial skills are important facets of an entrepreneurship.
4. Explain in detail the functions of an entrepreneur.
5. Explain the various types of entrepreneurs.
6. How do you justify the leadership and managerial skills required for the entrepreneurs?
7. Define Intrapreneur. How he differs from entrepreneur.
8. Explain how entrepreneur is different from a manager.
9. What is meant by entrepreneurship? Distinguish between entrepreneur and entrepreneurship.
10. Define a business organisation and discuss various forms of business organisation.
11. Explain the factors influencing the choice of a particular form of business organisation.
12. Distinguish between private and public sector.
13. What is Joint sector? Discuss its main characteristics.
14. Explain the steps involved in the process of opportunity analysis.

II. Short Answer Questions

1. Who is adoptive entrepreneur?
2. What is meant by risk bearing?
3. What is innovation?
4. Who is drone entrepreneur?
5. Who is a fabian entrepreneur?
6. Differentiate inventor and innovation.
7. What do you mean by leadership?
8. Who is a intrapreneur?
9. How entrepreneur differs from professional manager?
10. Define entrepreneurship.
11. Who is a pure entrepreneur?
12. Who is forced entrepreneur?
13. What is an organisation ?
14. What is a business organisation ?
15. Who is a sole trader?
16. Define partnership.
17. What is a company ?
18. What is a Joint Sector?
19. What is private sector?

20. Define public sector.
21. Explain the concept of venture capital.

1.17 MULTIPLE CHOICE QUESTIONS

1. The ability of a manager to induce subordinates to work with confidence and zeal is known as
   (a) Motivation (b) Leadership
   (c) Inspiration (d) None of the above
2. Which one of the following is the characteristic of entrepreneur?
   (a) capacity to assume risk (b) organizing abilities
   (c) effective communication (d) All of the above.
3. Which one of the following is not a function of entrepreneur?
   (a) Innovation (b) Risk bearing
   (c) Business planning (d) Delegating decision making
4. Classifying the entrepreneurs on the basis of sex is called as
   (a) Gender classification (b) Marital status classification
   (c) Motive classification (d) None of the above
5. Classifying entrepreneurs as small scale, medium scale, and large scale entrepreneurs is known as
   (a) Stage of development classification (d) Growth classification
   (c) Scale of operation classification (d) Type of business classification
6. Classifying entrepreneurs as first generation, modern and classical entrepreneurs is called as
   (a) Stage of development classification (b) Growth classification
   (c) Scale of operation classification (d) Age classification
7. Classifying entrepreneurs as managing, innovative and controlling entrepreneurs is called as
   (a) Motives classification (b) Motivation classification
   (c) Inspiration classification (d) Type of business classification
8. Classifying entrepreneurs as professional and non-professional entrepreneurs is referred as
   (a) Technology classification (b) Type of business classification
   (c) Motivation classification (d) Non technology classification
9. Classifying entrepreneurs as pure, induced and spontaneous entrepreneurs is called as
   (a) Motives classification (b) Type of business classification
   (c) Technology classification (d) Motivation classification
10. Classification of entrepreneurs as young, middle aged and old entrepreneurs is known as;
    (a) Gender classification (d) Age classification
    (c) Scale classification (d) None of the above
11. Micro entrepreneurs comes under the classification of
    (a) Scale of operation classification.
    (b) Area of operation classification.
    (c) Skill of operation classification
    (d) None of the above
12. Large scale entrepreneurs are those entrepreneurs whose investment in plant & machinery is
    (a) More than Rs 5crores (b) More than Rs 10crores
    (c) More than Rs 15crores (d) More than Rs 20crores

13. The first generation entrepreneurs come under the classification of
    (a) Stage of development classification (b) Growth classification
    (c) Innovation classification (d) Controlling classification
14. Controlling entrepreneurs come under the classification of;
    (a) Motives classification (b) Motivation classification
    (c) Inspiration classification (d) Professional classification
15. The entrepreneurs who are interested in managing or operating a business which is established by professional entrepreneurs is called as;
    (a) Professional entrepreneurs (b) Non-professional entrepreneurs
    (c)Skilled entrepreneurs (d) Motivated entrepreneurs
16. The entrepreneurs who are shy to introduce new methods and ideas are called as;
    (a) Drone entrepreneurs (b)Fabian entrepreneurs
    (c)Forced entrepreneurs (d) Imitative entrepreneurs
17. ——— entrepreneurs resist changes and they may close their business but they do not accept for changes
    (a) Drone (b) Individual
    (c)Fabian (d)Adoptive
18. The second generation entrepreneurs are
    (a) Forced entrepreneurs (b) Entrepreneurs by inheritance
    (c)Business entrepreneurs (d)Trading entrepreneurs
19. The entrepreneurs who identify market opportunities and stimulate demand for their products and services are called as ——— entrepreneurs
    (a) Business (b) Trading
    (c)Industrial (d)Corporate
20. The entrepreneur is one who undertakes any activity to satisfy his ego is called as —— entrepreneurs
    (a) Induced (b)Spontaneous
    (c)Pure (d)Technical
21. The entrepreneurs whose main aim is to maximize his economic returns at a level consistent with the survival of the unit is called as ——— entrepreneurs.
    (a) Classical (b) Professional
    (c)Induced (d)Non-technical
22. Which quality is not suitable for the intrapreneur?
    (a) He works for the business (b)He is dependent
    (c)He does not raise any capital (d)He creates new idea
23. Which one of the following makes the entrepreneurs different from the manager?
    (a) He is owner of the business (b)He launches a new business
    (c)He is less tolerant of uncertainty of new venture.
    (d)He works for profit, often uncertain and even negative
24. An attempt to create value through recognition of business opportunity is called as———
    (a) Entrepreneurship (b)Administration

(c)Initiative (d)Leadership

25. The process of direction, guiding and influencing the people to do their best for the attainment of a specified goal is called as ———
    (a) Directing (b)Coordinating
    (c) Guiding (d) Leadership
26. The ownership of a public sector undertaking is vested with
    (a) Accountant (b) Auditor
    (c) Entrepreneur (d) State
27. The objective of a business organization is
    (a) Profit making (b) Social service
    (c) Loss (d) None of the above
28. The capital of a private sector undertaking is contributed by
    (a) Banks (b) SEBI (c) Owners (d) IDBI
29. Public sector undertakings function with utmost
    (a) Autonomy (b) Restrictions (c) Fear (d) None of these
30. One of the characteristics of Joint Sector is
    (a) Private ownership (b) Public ownership (c) Mixed ownership (d) Foreign ownership
31. The over all supervision of a Joint Sector Undertaking will be with
    (a) Board of Directors (b) RBI (c) SEBI (d) Stock Exchanges
32. An organization is a team of persons coming together for the purpose of achieving a
    (a) Reward (b) Common objective (c) Personal benefit (d) Credit
33. A company owned by the State Government is called
    (a) Government company (b) State company (c) Private company (d) Voluntary organization
34. Reserve Bank of India is an example for
    (a) Govt. company (b) Corporation (c) Public corporation (d) Stock Exchange
35. Company form of business organizations need
    (a) Civil servants (b) Professional managers (c) Supervisors (d) Brokers
36. Which of the following would generally have unlimited liability
    (a) A limited partner in a partnership
    (b) A shareholder in a company
    (c) The owner of a sole proprietorship
    (d) A member in a limited liability company
37. Limited liability companies generally possess no more than two of the four (desirable) characteristics
    (a) Limited liability
    (b) Centralized management,
    (c) Unlimited life
    (d) The ability to transfer ownership interest without prior consent of the other owners.
38. A limited liability associated with the corporate form of ownership results from
    (a) Corporations existing as legal entities, separate and apart from their owners

(b) Corporations being much less likely to experience losses

(c) Banks that offer loans to corporations at low interest rates

(d) Lower tax on dividends

39. The structure in which there is a separation of ownership and management is called

(a) Sole proprietorship (b) Partnership (c) Company (d) all organizations

40. In a cooperative society, the principle followed is

(a) One share one vote (b) One man one vote (c) No vote
(d) none of these

ANSWERS

1. b	2. d	3. d	4. a	5. c	6. a	7. a
8. a	9. d	10. b	11. a	12. b	13. a	14. a
15. b	16. b	17. a	18. b	19. b	20. c	21. a
22. b	23. c	24. a	25. d	26. d	27. a	28.c
29.a	30.c	31.a	32.b	33.a	34.c	35.b
36.c	37.c	38.a	39.c	40.b		

UNIT-2

IDEA GENERATION AND OPPORTUNITY ASSESMENT

2.0 LEARNING OBJECTIVES

At the end of this unit you will be able to understand

- Meaning and importance of business idea
- Explain sources of business idea
- Explain the steps involved in opportunity recognition

2.1 INTRODUCTION

Good answers are not always the result of brilliance and intuition, but the result of asking the right kind of question defining (a) what is our business? or (b) what it should be?. This facilitates emanation of fundamental strategy of business-OBJECTIVES. Indeed, this starts with ideation and opportunity assessment. This helps the business to create customer from which a series of objectives derives. Ideation requires certain techniques. Opportunities represent a wider area. The techniques for idea generation lead to realization of product or service specifications which become instrumental in converting into an entrepreneurial venture. These techniques for idea generation include conscious efforts and range from fairly simple and mechanical to highly complex processes. Opportunity evaluation is a key theme in entrepreneurship. An entrepreneur cannot simply expect that the opportunity and the organizational effort he plans to make in order to exploit it will be viewed by the market as attractive and in the right place at the right time. It is not certain that the market can and will fulfill the value that the opportunity and its organizational implementation represents. The opportunity may simply prove to be unprofitable. Therefore, the entrepreneurial process involves the evaluation of each opportunity, whereby the entrepreneur seeks to determine whether the idea that he or she intends to pursue, creates value in the eyes of the market and can thus be considered as a real, strong and feasible option. This unit elaborately discusses the significance of ideation and opportunity assessment for an entrepreneurial venture.

2.2 BUSINESS IDEA

The task of promotion begins with the search for a suitable business idea or opportunity. When a person wants to setup an enterprise the first action is to generate ideas for products or businesses. The business idea arises from an opportunity in the market. It originates from any need or wants for any product or service that an entrepreneur can identify. The idea may relate to the starting of a new business or to takeover an existing enterprise. The idea should be sound and workable, so that it may be exploited. It should yield a reasonable return on investment and the one which can be converted into a business. It

should be manageable by the entrepreneur. The entrepreneur should have a keen and open mind to look for opportunities and generate business ideas.

2.3 SOURCES OF IDEAS

The entrepreneur should use as many sources as possible for scanning product ideas from the environment. A business idea may be discovered from the following sources:

1. Careful observation of markets
2. Contact with prospective consumers
3. Developments in other nations
4. Study of project profiles
5. Government organisations
6. Trade fairs and exhibitions
7. Research and development

1) Careful Observation of Markets: Careful observation of market can reveal a business idea or opportunity. Market surveys can also reveal the demand and supply position for various products. It is necessary to estimate future demand and to take into account anticipated changes in fashions, income levels, technology, etc. In this connection, it will be useful whether the demand is elastic or inelastic and whether the product is repeat purchase or not. Attempt should be made to determine the trend of demand and the composition and pattern/of potential users of the product. A survey of the available channels of distribution should also be made so that selling campaign can be properly planned well in -advance of the production. Advice of professional experts like-dealers, commercial consultants, bank managers, advertising agencies may also be obtained to supplement product analysis and market surveys.

Competition and price trends can also be found through market surveys. From the data collected through market observation, one can identify products which are in demand and which require increase in supply. A promoter can then find out the most profitable line of business. For example, the scarcity of edible oil prompted firms to enter into the production and supply of edible oils in India.

2) Contact with Prospective Customers: Costumers know best what they want and the habits and tastes which are going to be popular in the near future. Contacts with prospective consumers can also reveal the features that should be built into a product or service. These days, good business firms generally conduct a survey among prospective consumers before choosing the product to be manufactured. These firms also conduct a market test of the prototype product before launching it into the market. The customer is the foundation of a business and it is he who keeps it going. Therefore, data on consumer needs and preferences must be collected. Initially, a new enterprise should concentrate on one or a limited range of products. More products can be added to complete the line later on as the business becomes well established.

3) Developments in other Nations: People in underdeveloped countries generally follow the fashion trends of developed countries. For example, video, washing machines, micro ovens, etc., which are now the "in things" in India were being used in United States and Europe before the eighties. Therefore, an entrepreneur can discover good business ideas, by keeping in touch with developments in advanced nations. Sometimes, entrepreneurs visit foreign countries in search of ideas for new products or processes. Trade delegates of various chambers of commerce, etc., visit foreign markets to explore foreign collaborations and other types of business ideas.

4) Study of Project Profiles: Various government and private agencies publish periodic profiles of various projects and industries. These profiles describe in detail the technical, financial and market requirements and prevailing position. A careful scrutiny of such project I profiles is very helpful in choosing the line of business. Technical and other types of experts may be employed to carry out a specialised study of project profiles and to suggest the most promising projects or industries for further evaluations.

5) Government Organisations: Government of India and all state Governments have sponsored different organizations to help entrepreneurs in search, coordination and evaluation

6) Trade Fairs and Exhibitions: National and international trade fairs are a very good source of business ideas. At these fairs, producers and dealers in the concerned industry put up their products for display and sale. A visit to these fairs provides information about new products and machines. Negotiations for the purchase, production, collaboration, dealership, etc., may also be made at these fairs.

Trade fairs have now become a regular feature. The Trade Fair Authority of India, established in 1976 is the apex agency for the organisation and control of trade fairs and exhibitions in India and abroad. It periodically organises trade and industrial fairs at Pragati Maidan in New Delhi. Trade fairs and exhibitions provide opportunities for.

a. Assessing the market trends in terms of demand potential and types of products required.
b. Meeting a large number of buyers from different states and countries.
c. Assessing the attitude of the competitors in a particular product or marketing area.
d. Comparing the price and quality of similar products.
e. Establishing personal contacts with dealers, importers and customers.
f. Projecting new ideas on commercial publicity for promoting sales in the country and abroad.

7. Research and Development: The largest sources of new ideas are the entrepreneur's own ".research and development" efforts that may be a formal endeavour connected with one's current employment or an informal lab in the business or garage. A more formal research and development department is often better equipped and enables the entrepreneur to conceptualise and develop successful new product ideas.

In addition to the above, business ideas can be discovered from other sources like a new invention awaiting commercial exploitation, an unexploited resource, an unsatisfied demand, an inferior product etc. For example, housewives need a product that can tell them the quantity of gas left in the cylinder. But no such product is available in India at the moment.

2.4 GENERATION OF BUSINESS IDEAS

Even with a wide variety of sources available, coming up with an idea to serve as the basis for a new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brainstorming and problem inventory analysis.

1. Focus Groups: Focus groups have been used for a variety of purposes since the 1950s. A moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participants' response. For a new product area, the moderator focuses the discussion of the group in either a directive or a non-directive manner. The group of 8 to 14 participants is stimulated by comments from other group members in creating conceptualizing and developing a new product idea to fulfill a market need.

In addition to generating of new ideas, the focus group is an excellent method for initially screening ideas and concepts. Using one of several procedures available, the results can be analysed more quantitatively making the focus group a useful method for generating new product ideas.

2. Brainstorming: Brainstorming is a group method for obtaining new ideas and business solutions. This method is extensively used for generating ideas for new product packing and distribution. The groups are organized for sitting together and stimulate greater creativity by exchange of mutual experiences and participating in the discussions. The brainstorming ideas are canalized to a particular segment of product line or services. The group are normally informed of the broad areas of subject or area of discussions.

Brainstorming is an useful tool that promote creativity in an enterprise. It helps in generating a large number of product ideas. The brainstorming method for generating new product ideas is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organised group experiences. Although most of the ideas generated from the group have no basis for further development, often a good idea emerges. This has a greater frequency of occurrence when the brainstorming effort focuses on a specific product or market area. When using this method, the following four rules should be followed:

1. No criticism is allowed by anyone in the group-no negative comments
2. Freewheeling is encouraged - the wider the idea the better
3. Quantity of ideas is desired - the greater the number of ideas, the greater the likelihood of the emergence of useful ideas
4. Combinations and improvements of ideas are encouraged.

Ideas of others can be used to produce still another new idea.

A large commercial bank successfully uses brainstorming to develop a journal that would provide quality information to its industrial clients. The brainstorming among executives focused on the characteristics of the market, the information content, and the frequency of issue and the promotional value of the journal for bank.

3. Problem Inventory Ideas: Formal individual analysis uses individuals in a manner that is analogous to focus groups to generate new ideas. However, instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem. This method is often effective since it is easier to relate known products to suggested problems and arrive at a new product idea than to generate an entirely new product idea by itself. Problem inventory analysis can also be used to test a new product idea. Results from product inventory analysis must be carefully evaluated, as they may not actually reflect a new business opportunity. To ensure the best results, problem inventory analysis should be used primarily to identify product ideas for further evaluation.

4. Utilising Waste Material: Conservation and environment protections are presently getting a lot of attention. Recycling waste or turning them into useful products are good product ideas. Presently energy conservation products also have good potential.

5. Converting Hobby into Business: Some people are adept at doing something or the other as a hobby or for use in the house only. It is possible to use such skills to setup an enterprise. Hobbies like photography, interior decoration, fashion designing, etc., are often developed as business ventures.

Business Idea: The starting point of an innovation is the generation of an idea that is new and appears to be worthwhile for further use. The business idea arises from an opportunity in the market. It originates from any need or wants for any product or service that an entrepreneur can identifies. Entrepreneur should have a keen and open mind to look/or opportunities and generate business idea.

2.4. SELECTING A BUSINESS IDEA

The business idea must be relevant to the entrepreneur. It should be based on a fact that the entrepreneur should be able to sell the product or service at a profit. The business idea should be selected so as to:

1. Enable the entrepreneur to utilise to skills. An entrepreneur may have technical, market or any other skills. This gives much greater confidence in entering the market.
2. Enable the use of locally available raw materials for product or service. As compared to imported materials local materials are easy to procure and convert
3. Help entrepreneur to make products that have a demand, but are not freely available in the market. It is potentially a good idea to start with a product that can be sold. In this case the entrepreneur has to learn production technology and locate the sources of raw materials.

4. Enable use of any technical know-how of the entrepreneur or some specific machines, the entrepreneur is familiar with. If an entrepreneur has knowledge of some special manufacturing techniques because of previous experience or otherwise, it is easier for the entrepreneur to manufacture the product
5. Enable the entrepreneur to solve a current problem existing in the market. Products may be available in the market but do not meet the demand fully or in a satisfactory manner. Sometimes an existing product is used in combination with another, which is not available. Attempts to solve such market problems do give rise to business ideas.

Choosing an idea is quite difficult and the entrepreneur has to weigh objectively his intrinsic capabilities in finalizing the idea.

2.5 IDEA PROCESSING AND SELECTION

The following steps are involved in idea processing and selection of business idea:

I) Preliminary Evaluation and Testing of Ideas: The starting point of innovation is the generation of a idea that is new and appears to be worthwhile for further use. The business idea arises from an opportunity in the market. It originates from any need for a product or service. Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significant in the evaluation and testing of business ideas.

a. **Technical Feasibility:** It refers to the possibility of producing the product. Technical feasibility of an idea is judged in terms of availability of necessary technology, machinery and equipment, labour skills and raw-materials. The advice and assistance of technical experts may be necessary to judge the technical feasibility of various business ideas.

b. **Commercial Viability:** A cost-benefit evaluation is required to ascertain the profitability of the ideas. An elaborate study of market conditions and prevailing situation is made to assess the viability and prospects of the proposed project. This is known as "feasibility study of the project". A number of calculations have to be made about the likely demand, expected sales volume, selling price, cost of production, break-even point, etc. The services of market analysts and financial experts may be necessary for this purpose.

II. Detailed Analysis: After preliminary evaluation of the idea, the promising idea is subject to a thorough analysis from all angles. Full investigation is carried out in the technical feasibility and economic viability of the proposed project. Financial and managerial feasibility of the idea is tested. At this stage a lot of information is required. Consultations with experts in various areas of the industry may be necessary to carry out detailed analysis. Due care should be exercised at this stage because the idea is finally accepted or rejected at this stage. After the evaluation of a business idea is completed, the findings are presented in me form of a report known as "feasibility report" or "project report this report helps in

the final selection of a project. It is also useful for procuring licenses, finance, etc., from governmental agencies.

III. Idea Selection: The feasibility report is analysed to finally choose the most promising idea. Generally, the following considerations influence the selection of idea for a product or service.

1. Products whose imports are banned or restricted by the government
2. Products which can be exported easily and profitably
3. Products whose demand exceeds their supply so that there exists ready demand
4. Products in which the entrepreneur has manufacturing and marketing experience
5. Products which showed high profitability
6. Products based on the expansion or diversification plans of existing firms of the family or friends or relatives
7. Products favoured by the country's industrial policy
8. Products for which incentives and subsidies are available
9. Products which ensured specific advantages. The advantages might accrue because of the scale of the industry or the location of the factory or technology of manufacture. While considering these various factors, an entrepreneur would generally come across a mix of some encouraging and some discouraging factors with reference to every product. It therefore, becomes necessary to analyse and compare the pros and cons. A selection matrix may be prepared for this purpose.

IV. Input Requirements: Once the promoter is convinced of the feasibility and profitability of the project he assembles the necessary resources to launch the enterprise. Decisions have to be made about the size, location and layout of the enterprise. The form of ownership organisation has to be selected. He has to collect the required finance etc. The main inputs required for lanuching an enterprise are as follows:

1) Information and Intelligence: In the turbulent business environment information and intelligence have become the key input in entrepreneurial success. An entrepreneur requires relevant data on the following aspects:

a. Size and nature of demand for the product or service
b. Volume and sources of supply
c. Price, cost volume relationship
d. Sources of raw-material
e. Type and suppliers of technology, machinery and equipment
f. Number and type of personnel required and their sources
g. Amount and sources of funds required for the enterprise
h. Nature and degree of competition

i. Government policies and regulations concerning the industry. A sound management information system supplies 'the right amount of information at the right time to the right person. The use of computers helps to improve the effectiveness of management information system.

2. Finance: Finance is the life blood of business and it serves as the lubricant for the wheels of business machinery. A business enterprise requires finance for fixed assets as well as for current assets.

3. Personnel: People are the most valuable asset of an enterprise. An entrepreneur has to make the following decisions concerning the personnel:

a) Number of personnel required for management, technical and other positions in the enterprise

b) Procedure and methods of selecting the best candidates.

Planning and development of a new product

There are seven steps in the planning and development of a new product. They are as under:

1. New Product Ideas: The business idea arises from an opportunity in the market. It originates from any need or wants for any product or service that an entrepreneur can identify. Ideas may be contributed by scientists, professional designers, rivals, customers, sales, force, top management, dealer's etc. We may need sixty new ideas to get one commercially viable product.

2. Idea Screening: The company should motivate its employees to submit their ideas to an idea chairman in written form. These ideas should be reviewed periodically and sorted into three groups: promising ideas, marginal ideas and rejects. Each promising idea should be thoroughly studied by a committee and then they are moved to a full scale screening process. The company should offer payments or rewards to the employees submitting the best ideas. In screening ideas, the company must avoid two types of errors. A "drop-error" occurs when the company dismisses an otherwise good idea. A "go-error" occurs when the company permits a poor idea to move into development and commercialization. The purpose of screening is to drop poor ideas as early as possible.

3. Concept Development and Testing: All ideas that survive the process of screening will be studied in detail. They will be developed into mature product concepts. We will have a precise description of the ideas and features of the proposed product. At this stage, we can incorporate consumer preference into our agenda for concept development and testing product ideas. Concept testing is done to choose the best among alternative product concepts. Consumers are called upon to offer their comments on the precise written description of the product concept.

4. Business Analysis: Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital, etc. Business analysis is a combination of market research, Cost-benefit analysis and assessment of competition. We have demand analysis, cost analysis and -profitability analysis. Business analysis will prove the economic prospects of the new product concept. It will also prove the soundness and viability of the selected product concept

from a business view point. Now we can proceed to concentrate on product development programme. The proposed product must offer a realistic profit objective.

5. Product Development Programme: We have three steps in this stage when a paper idea is duly converted into a physical product - a) Prototype development giving a visual image of the product, b) Consumer testing of the model or prototype, and c) Branding, packaging and labeling. Consumer testing of the model product provides the ground for the final selection of the most promising model for mass production and mass distribution.

6. Test Marketing: The entire product-marketing programme is tried out for the first time in a small number of well-selected test markets i.e., test cities or test areas. Test marketing is necessary to find out the viability of a full marketing programme for national distribution. Customer reactions can be tested under normal market conditions. It helps the company to learn through trial and error and to get additional valuable cues for product improvement and for modifications in the marketing mix. We can use test markets for testing the effectiveness of all ingredients of our marketing mix. Test marketing can answer such questions as: Is the new product labelled and packaged properly? Is the new product liked by the consumer? Is the firm justified in spending large sums on productive capacity? Positive answers will reassure marketers.

6. Commercialisation: Once the test marketing gives the green signal for the production, the company can take care of attributes of the product. Now marketing management can launch a full-fledged advertising and promotion campaign for mass distribution. Mass production will start and all distribution channels will be duly organised. The product is now born and will start its life cycle in due course.

Marker testing presumably gives management necessary information to decide whether to launch the new product or not. In commercializing a new product, the critical points like market-entry time. Whether to launch in one region or several region etc; and target market prospects and how to introduce into the markets. To sequence and coordinate the many activities involved in launching a new product, network planning techniques like critical path scheduling can be used.

2.6 OPPORTUNITY RECOGNITION

Some entrepreneurs have the ability to recognize a business opportunity which is fundamental to the entrepreneurial process as well as growing a business. A business opportunity represents a possibility for the entrepreneur to meet a large enough unsatisfied need that is worthwhile. There has been significant research done on the opportunity recognition process and several model developed.

As is indicated the keys to recognizing an opportunity lies in the knowledge and experience of the individual entrepreneur and where appropriate the entrepreneurial business. This prior knowledge is a result of a combination of education and experience and the relevant experience could be work related or could result from a variety of personal experience or events. The entrepreneur needs to be aware of this

knowledge and experience and have the desire to understand and make use of it. The other important factors in this process are entrepreneurial alertness an entrepreneurial networks. There is an interaction effect between entrepreneurial alertness and the entrepreneur's prior knowledge of markets and customer problems. Those entrepreneurs who have the ability to reciognize meaningful business opportunities ate in a strategic position to successfully complete the product planning and development process and successfully launch new ventures.

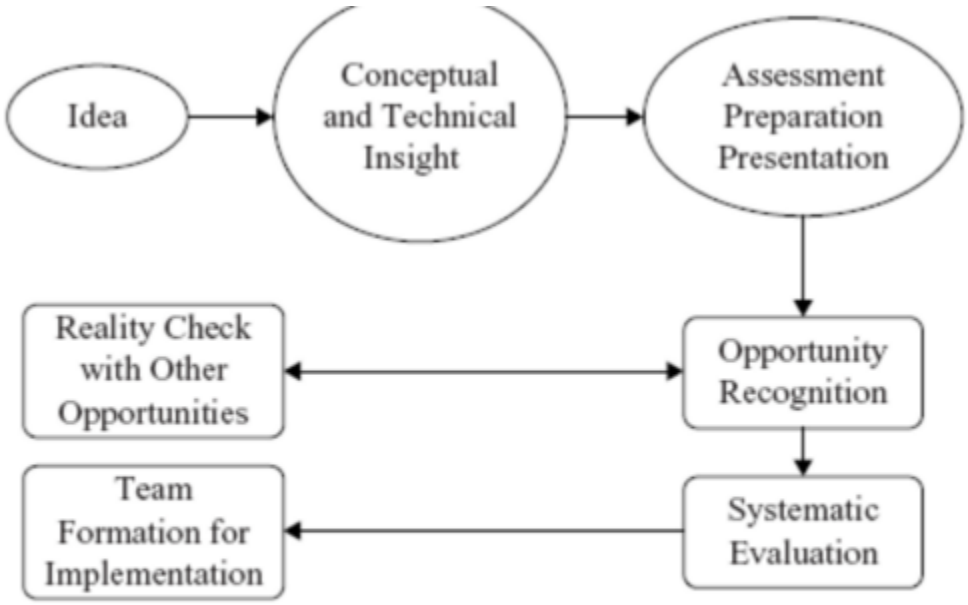
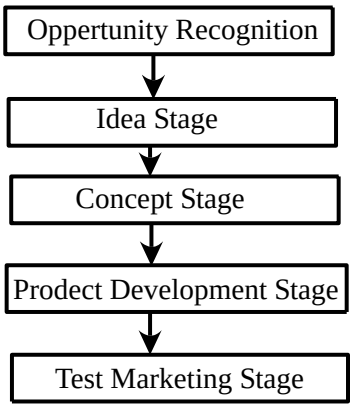


Figure 5.3 Opportunity Recognition

Enhanced Opportunity Recognition

1. Expose to a broad range of business experience
2. Learning to search in the best places (e.g. focusing on changes in technology, demographics, and markets. Etc)
3. Learning to search in the best ways (e.g. seeking emergent patterns)
4. Exposure to a broad range of business opportunities

2.7 STAGES INVOLVED IN OPPORTUNITY RECOGNITION



Stages involved in opportunity recognition

Ideation Stage

Promising new product ideas should be identified and impractical ones eliminated in the ideation stage, allowing maximum use of the company's resources. One evaluation method successfully used in this stage is the systematic market evaluation

The entrepreneur must ensure that each new product idea is expressed in terms of its chief values, merits, and benefits. Consumers are presented with clusters of new product values to determine which, if any, new product alternatives should be pursued and which should be discarded. A company can tea many new product idea alternatives with this evaluation method; promising ideas can be further developed and resources not wasted on ideas that are incompatible with the market's values.

It is also important to determine the need for the new product as well as its value to the company. The new product idea should not be supported if it does not add any benefit or value to the firm. In order to accurately determine the need for a new product, it is helpful to define the potential needs of the market in terms of timing, satisfaction, alternatives, benefits and risks, future expectations. Price-versus-product performance features- market structure and size, and economic conditions. A form for helping in this need determination is indicated in Table 5.4. The factors in this table should be evaluated not only in terms of the characteristics of the potential new product but also in terms of the new product's competitive strength relative to each factor. This comparison with competitive products will indicate the proposed product's strengths and weaknesses.

The need determination should focus on the type of need, its timing, the users involved with trying the product, the importance of controllable marketing variables, the overall market structure, and the characteristics of the market. Each of these factors should be evaluated in terms of the characteristics of the new idea being considered and the aspects and capabilities of present methods for satisfying the particular need. The analysis will indicate the extent of the opportunity available.

In determining the value of the new product to the firm, financial scheduling—such as cash outflow, cash inflow, contribution to profit, and return on investment—needs to be evaluated in terms of

other product ideas as well as investment alternatives. Using the form indicated in Table 5.5, the dollar amount of each of the considerations important to the new product idea should be determined as accurately as possible so that a quantitative evaluation can be made. These figures can then be revised as better information becomes available and the product continua to be developed.

Concept Stage

After a new product idea has passed evaluation in the idea stage, it should be further developed and refined through interaction with consumers. In the concept stage, the refined product idea is tested to determine consumer acceptance. Initial reactions to the concept are obtained from potential customers or members of the distribution channel when appropriate. One method of measuring consumer acceptance is the conversational interview in which selected respondents are exposed to statements that reflect the physical characteristics and attributes of the product idea. Where competing products exist, these statements can also compare the primary features of existing products. Favorable as well as unfavorable product features can be discovered by analyzing consumers' responses, with the favorable features then being incorporated into the product.

Features, price, and promotion should be evaluated for both the concept being studied and any major competing products by asking the following questions.

How does the new concept compare with competitive products in terms of quality and reliability? Is the concept superior or deficient compared with products currently available in the market? Is this a good market 'opportunity for the firm? Similar evaluations should be done for all the aspects of the marketing strategy.

Product Development Stage

In the product development stage, consumer reaction to the physical product is determined. One tool frequently used in this stage is the consumer panel, in which a group of potential consumers are given product samples. Participants keep a record of their use of the product and comment on its virtues and deficiencies.

The panel of potential customers can also be given a sample of the product and one or more competitive products simultaneously. Then one of several methods—such as multiple brand comparisons, risk analysis, level of repeat purchases, or intensity of preference analysis—can be used to determine consumer preference.

Test Marketing Stage

Although the results of the product development stage provide the basis of the final marketing plan, test marketing should be initiated to ascertain viability of the product in the market. This last step in the evaluation process, the test marketing stage, provides actual sales results, which indicate the acceptance

level of consumers. Positive test results indicate the degree of probability of a successful product launch and company formation.

2.8 STEPS INVOLVED IN TAPPING AN OPPORTUNITY

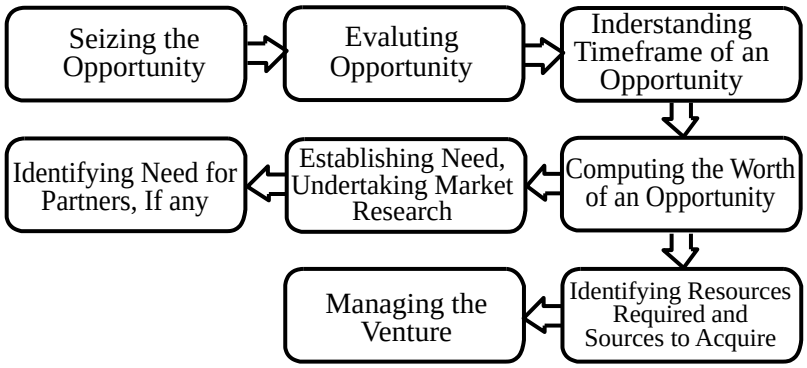


Figure: Steps Involved in Tapping an Opportunity

1. Seizing the Opportunity

Seizing an opportunity implies defining a set of criteria that would give confidence to an entrepreneur that an opportunity is worthwhile to pursue. Pursuing for opportunity will invariably require time and money and therefore one has to necessarily ensure seizing the opportunity at a right time so that one can fetch commensurate returns from investment. The opportunity should not only be profitable but also ensure reasonable profitability from the venture vis-a-vis the competitors in the area. A business opportunity emerges from change, chaos and uncertainty in the environment. Business ventures require an eye on these to come up with solutions to the problems that can turn into big business opportunities. One has to be alert to the government legislation that endangers existing business models and create scope for new business opportunities; product or service issues related to the environment, health and safety; and an activist group that targets your product or business model. Seizing an opportunity implies understanding the risks associated with the opportunity, so as to be ready with the right strategy to improve the bottom line of a business.

2. Evaluating Opportunity

Opportunity evaluation basically starts with customer pain points or the needs that can be fulfilled. There should be concrete evidence backed up by a customer's responses to a proposed solution and its acceptance by the customer. This should help in a clear identification of a target market for the product/service. One should be able to estimate the market potential at a given point of time and over a period. At this stage, one needs to undertake competitive analysis of the strengths and weaknesses of the

offering made in the same product/service line by others. The obviously successful products could be the ones that have great competitive advantage in terms of such things as cost, delivery, quality, price and revenue generation vis-a-vis competitors. One needs to clearly define a value proposition to the customer with the help of clearly and concretely identified gains.

3. Understanding the Timeframe

Every opportunity has a time horizon for which it exists. Opportunity does not exist before a particular time and ceases after a given time horizon. Therefore, entrepreneurs need to be ready with delivery of their product/service exactly at a time during which opportunity exists. For a good and unique opportunity having no or least barriers to avail would attract competitors to quickly flood into the market and squeeze the share market for all those players operating in it. Therefore, 'entrepreneur must get in quickly and get out before revenues become dispersed in an overdeveloped market (Jiambalvo 2001)'. Therefore, for a special niche created in the market by start-ups, they always gain a lot until others do not enter into the market or they are able to retain their niche because a proprietary item or secrecy is involved in duplication or governmental protection through patenting. Successful ventures identify and exploit markets in time, while others miss those opportunities because of lack of sense about timings.

4. Computing the Worth of an Opportunity

From a business perspective, whenever one has exclusive choices to be made, the cost of making a particular choice becomes the best alternative course of choice forgone by one. Opportunity cost is defined as the cost related to the next-best choice available to someone who has picked from among several mutually exclusive choices.13 The notion of opportunity cost plays a crucial part in ensuring that scarce resources are used efficiendy.14 For example, the opportunity cost of going in for an MBA programme after completing a BE would be two years of salary through a job plus expenses to be incurred on doing the MBA programme. Of course, one hopes to earn more during one's career and expects to have a faster career progression. Similarly, if a farmer decides to grow turmeric in S acres of land, their opportunity cost will be the forgone earnings through the best alternative crops such as tomatoes, ladys finger and groundnut that might have been grown instead on the same 5 acres of land.

Suppose one has 5 acres of land in the heart of a city and decides to build a hotel on it. The opportunity cost of building a hotel is the value of the benefits that would be forgone by putting the funds on the next-best alternative use to which the same land could have been put to. By putting the land to hotel use, the possible alternative opportunities forgone could be building a hospital, school and shopping complex. It is important to remember that the total opportunity costs of choosing an option amongst

exclusive alternative options can never be estimated with certainty, and are therefore called 'hidden costs' or 'hidden losses' as what has been prevented from being produced cannot be seen or known.

5. Establishing Need Through Preliminary Market Research

'Entrepreneurs are often so passionate about their ideas, they can lose objectivity,' adds Nancy A. Shenker, president of the ONswitch LLC, a full-service marketing firm in Westchester, New York. 'Rather than taking the time to thoroughly plan and research, they sometimes plow ahead with execution, only to spend valuable dollars on unfocused or untargeted activities.' 15 This highlights the need for prima facie market research before plunging into greater depth to establish viability of an idea or taking a risk for launching a venture.

Entrepreneurs need to precisely measure with facts and figures in quantifiable terms the need for the product or service. This would require specific estimates for sales in physical units and financial terms leading to expected return from the proposed product or service. It may be reiterated that in the beginning, the entrepreneur should get confidence by undertaking prima facie estimates for the sales in physical and financial terms which need to be investigated in detail in the market research module of the business plan at a later stage. Some of the pertinent questions that need to be investigated in the beginning are as follows:

- Will customers take interest in the proposed product or service, implying thereby establishment of customers' real needs. This has to respond to the question of what is it that customers are looking for in the product?
- Do you have a unique value proposition that makes it unique and different to create your niche over the competitors? What is stored in your product that will result in customers' preferring it to competitor's products?
- What is going to be the market opportunity for your product or service in terms of size of the market; growth potential in the market and competition in the market?
- Can you create exclusive rights on the product through patenting, copyright, design, trademark or trade secrets?
- What is the range in which customers will be willing to pay for the product? What will be the material, labour and other cost of production and distribution? How does the venture make money, that is, revenue model?
- How do you propose to expand the market by bringing under your fold new customers?
- What will be the distribution and packaging strategy and cost?
- Who are the competitors and what are their strengths and weaknesses? How are you going to be superior in delivering value to the customer vis-à-vis competitors?

- What does your team consist of by way of promoters and employees that give you extra edge?

It is important for a start-up venture to undertake preliminary market research to identify whether your idea has any gaps or weaknesses that need to be filled to ensure its success.

6. Market Research—Data Collection and Analysis

Given the problem and proposed solution being looked at as an opportunity, entrepreneurs need to collect data and undertake necessary research to establish the viability of their opportunity. Data collection needs to be focused and precise from reliable and dependable sources. Abundant data are available from a variety of sources; however, precision and specificity of data matters the most. Data can be obtained first from readily available sources that may not cost much such as Internet searches, government publications, publication of industrial and trade associations and research articles available in libraries. This being an initial phase to establish the viability of an idea, it would be desirable to be extensive but specific, to answer key questions posed earlier for undertaking market research. If greater insight into the problem and proposed solution does not come from secondary sources of data that are easily and cheaply available, one may have to necessarily go in for primary sources such as interacting with experts, undertaking surveys, questionnaires and interviews to collect data. The entrepreneur may have to collect data from the companies operating in the similar products and services. This may require a good networking and ability to catch hold of right people from whom relevant information could be obtained.

The next vital step is to analyse the collected data from different sources to establish or otherwise hypotheses about prima fade concerns that lead to success or otherwise of a venture. Analysis of data needs to be undertaken with the help of simple techniques to answer vital questions and estimate the future demand for the product or service. Analysis of data and its interpretation should result in a confirmatory test about prospects or otherwise of a venture and its sustainability.

Having analysed the basic data, one needs to prepare a plan to give it an actionable shape. This basically requires answering questions such as 'Who all will constitute the team?', 'What type of people does one need as employees and how would one go about inducting them?', 'What will be the decision-making process?' and 'How would one capitalize on all one's assets while maintaining a degree of flexibility to change paths as and when required?'. The key feature of the plan is being proactive and the ability to adapt to the unexpected changes for increasing the probability of success of the venture.

The need for developing a plan in writing is obvious from the quote by Casey Stengel 'If you don't know where you're going, you may end up going somewhere else.' Therefore, it is a solid plan that ensures degree of success of a venture by preparing your business for the future. A solid plan has an inbuilt action plan which your business will do in reference to competitors' action plan. That is why it is said to be a strategic document. It has to be a cohesive exercise resulting in developing a grand strategy of the business and the functional strategies with reference to different operational units of the venture. For

developing a grand strategy, an entrepreneur has to be very clear about their business and team's core competency and how to translate that competency into sustainable competitive advantage while responding to specific needs of the customer. The entrepreneur, for driving benefits from its sustainable advantage, needs to inbuilt it into different functional domains of a venture such as marketing, finance, human resources, operations and information technology. Above all, one has to validate the different strategies for different functional domains through data from primary and secondary sources.

7. Identifying the Need for Partners, if Any

While making a plan for the venture, the entrepreneur depending upon the business venture has to develop a clear understanding of the need for inducting co-founders if any. There are ventures that start lean with sole and single founder and with growth induct co-founders. While there are others that need to have a team in place from the beginning. This basically depends upon the nature of the business and size of operations. Of course, technologies and nature of business today are generally sophisticated to be fully developed by a single individual and deployed by any single organization. Therefore, early market research should identify possible collaborators to help develop and translate the opportunity into reality. One should have one's credibility in place while approaching potential partners and should settle and define terms and conditions clearly. It is always desirable to sign agreements to keep one's discussions confidential to the principals. Early execution of such 'non-disclosure agreements' amongst partners demonstrates care and attention to detail. Wherever required, it is desirable to engage such development partners in the beginning phase of the venture itself. These partners add a lot of value by way of technical and business expertise to the venture.

8. Identifying Resources Required and Sources to Acquire

Every business requires proper identification and acquisition of resources to give shape to the venture. A new venture should have some unique resource capabilities including technology to have an edge over existing competitors. Ultimately, it is the venture having unique skills and technology that survives in the market. The greatest asset that an entrepreneur needs to have is a skill to build personal contacts and develop networking with vendors, customers, business organizations, government and others. Keeping a time for networking is a daily routine that fetches high priority on the part of founders and key employees. A clear understanding of financial requirements and utilization of funds need to be chalked out. A venture should ensure good margins and flow of cash on a continuous basis, so that cash crunch situations do not arise in the execution of an idea. After the project starts delivering expected cash flows and returns, the entrepreneur looking at the future growth prospects may approach investors for further infusion of capital.

A successful implementation of a project idea requires a great knack and technical and human skills on the part of the venture team. In case required, founders of the venture should induct right people having these skills to ensure smooth implementation.

9. Managing the Venture

Managing a venture requires a management structure and style in place, to be duly filled up with a right set of people to respond to challenges, difficulties and blocks that may come on the way of implementation. To fetch returns on the investments made, the entrepreneur needs to invest on people—build team, operating procedures and practices, and information technology to make quick and good decisions.

Entrepreneurs should always under-promise and over-deliver to the customer, to ensure building customer good will. It is always desirable to provide a complete and total solution to customer needs, rather than a piecemeal solution. In the present business world, the customer will always love to deal with one supplier who takes care of all aspects of their particular need. A successful marketing of a product or a service is a major milestone in the life of a venture. However, long-term sustainable growth as seen earlier requires continuous innovation to market multiple offerings. The growth of the venture depends much upon developing several types of products around core competence and related themes. The concern is to provide customer experience as they are looking for by building a strong bond with them. As such, when more and more people develop and use the technology, other related applications keep emerging to provide new opportunities. Development requires more research and experimentation, and the unending cycle continues. Thus, innovation is a constant challenge for any venture and vital to retaining competitive advantage in the long term.

Summary

The root of an entrepreneurial venture is ideation and opportunity assessment. Ideation with a good and feasible intent kick starts the business where as opportunity assessment explores the business gap to which an entrepreneur can fill by offering products or services. He must identify the right source of ideation. Apart from relying on various sources for information, he can also employ the techniques like focus group discussion and brainstorming before plunging into execution of idea. The idea should be technically feasible and commercially viable. Planning and development of a new product requires a careful scrutiny. This should process through the phases such as (a) new product ideas; (b) idea screening; (c) concept of development and testing; (d) business analysis; (e) product development program; (f) test marketing and (g) commercialization. Opportunity assessment is as much important as the ideation of the product or services. The firm can conduct market research, obtain and analyse data to understand who the target customers are and what they need. The entrepreneur can also look for partners in business; identify

resources required and sources to acquire these resources, establish organization structure, adopt appropriate leadership styles and recruit right personnel and delegate responsibilities for smooth functioning of the enterprise.

Short questions

1. What is ideation?
2. Give one example of new business idea.
3. Mention 4 sources of ideas.
4. Why is careful observation of market important for ideation?
5. How do perspective customers help in generation of ideas?
6. How do Trade fairs and exhibitions help in generation of ideas?
7. What is a focus group discussion?
8. What is brain storming?
9. What do you mean by technical feasibility of the idea?
10. What do you mean by commercial viability of the idea?
11. What is test marketing?
12. Write short notes on product development stage.
13. Why is marketing research important for an entrepreneur?

Long Questions

1. Why is idea generation critical for an entrepreneurial venture?
2. Why is opportunity assessment significant for an entrepreneurial venture?
3. What are the various sources of ideation?
4. Explain various techniques of idea generation?
5. Explain various steps involve in opportunity recognition.
6. Explain the role of market research in idea generation and opportunity assessment.
7. Elaborately discuss the idea processing and selection process.
8. What are the various criteria used for selection of an entrepreneurial idea?
9. Explain the steps involved in planning and development of a new product.

Multiple Choice Questions

1. Market surveys reveal the …….position for various products. (c)

a. demand b. supply c. a and b d. none of above

2. People in underdeveloped countries generally follow the …… of the developed countries. (a)

a. fashion trends b. ideas c. a and b d. none of above

3. Focus groups have been used since (b)

a. 1960s b. 1950s c. 1980s d. 1970s

4. For a new product area , the moderator focuses the discussion of the group in …….manner (c)

a. directive b. in directive c. a and b d. none of above

5. The group of …… participants is stimulated by comments from other group members in creating conceptualizing. (c)

a. 6 to 12 b. 7 to 14 c. 8 to 14 d. 8 to 16

6. Brainstorming is extensively used for….. (a)

a. generating ideas for new product packing and distribution

b. generating ideas for only new product packing

c. generating ideas for only product distribution

d. modifying the old ideas

7. The brainstorming executives focused on the …… of the market (c)

a. ideas b. inventions c. characteristics d. all of above

8. Problem inventory analysis used to (b)

a. modify the old product idea

b. test a new product idea

c. a and b

d. none of above

9. The business idea arises from ……..in the market (a)

a. an opportunity b.

10. An entrepreneur have…… skills (c)

a. technical b. market c. a and b d. none of above

11. In detailed analysis…… feasibility of the idea is tested (c)

a. financial b. managerial c. a and b d. none of above

12. In idea screening idea should be reviewed periodically and sorted in to…… (d)

a. promising b. marginal ideas c. rejects d. all of above

13. In screening ideas, the company must avoids …….errors (d)

a. drop error b. go-error c. in-error d. a and b

14. Business analysis is a combination of …… (a)

a. market research, cost benefit analysis

b. market research, demand analysis

c. market research, cost analysis

d. none of above

15. Prototype development giving……..of the product (b)

a. cost b. visual image c. a and b d. none of above

16. How many steps in product development programme (b)

a. 2 b. 3 c. 4 d. 5

17. The new product is labeled and packed properly? For this question answer gives the (c)

a. idea screening b. business analysis c. test marketing d. commercialisation

Unit-III

PROJECT FORMULATION AND APPRAISAL

3.0 LEANING OBJECTIVES

At the end of this unit, the students will be able to:

- Understand the meaning of the project.
- Explain the effectiveness of a project
- Understand and prepare project report
- Use project appraisal technique
- Explain the financial and Market analysis

3.1 INTRODUCTION

Selection of right project is significant for an entrepreneur as it has the impact on the success or failure of its future course of actions. A project as a business proposal for an investment is to create and or develop facilities in order to optimize the production of goods and services to cater to the needs of the customers. If customers are happy with the company's products and services, the whole supply chain process functions well and yield results to benefit other stakeholders such as Board of Directors, employees, shareholders etc. Therefore, the project should be selected keeping the customers' needs into consideration. Appraisal of a project is as much important as the selection or formulation of a project. Project appraisal entails whether the project is able to deliver results as per the stated objectives or not. Project appraisal requires sophisticated techniques to measure its impact. This is an important groundwork of an enterprise and also very crucial to the entrepreneur.

MEANING AND DEFINITIONS

The term 'Project" connotes programme of action. Project is always interwoven with social economic and cultural activities. In other words, a project is a process of an adopted programme of an idea for technical and commercial success for the fulfillment of a predetermined objective.

Definitions

1. **The World Bank:** "Project as an approval for a capital investment to develop facilities to provide goods and services"
2. **Dr. Albert O. Hirchman:** "The development project connotes purposefulness, some minimum size, a specific location, the introduction of something qualitatively new, and the expectation that a sequence of further development moves will be set in motion. Development projects are privileged particles of the development process"

3. "a set of tangible, intangible and associated attributes capable of being exchanged for a value with ability to satisfy consumer and business needs".
4. **Alderson:** "Project is a bundle of utilities consisting of various product features and accompanying services".
5. **Schwartz:** "A product is something a firm markets that will satisfy a personal want or fill a business or commercial need and includes all the peripheral factors that may contribute to consumer's satisfaction".
6. **Little and Mirrless:** A project as scheme, as part of a scheme, for investing resources which can reasonably be analysed and evaluated as an important unit.
7. **Harrison:** A project can be defined as a non- routine, non- repetitive, one off undertaking, normally with discrete time, financial and technical performance goals.
8. **The Directory of Management:** "as an investment project carried out according to plan in order to achieve a definite objective within a certain time and which will cease when the objective is achieved.

3.1.1 Characteristics of a Project

1. **Life span:** A project cannot continue endlessly. It has to come to an end. When the project comes to an end is normally spelled out clearly in its objectives.
2. **Objectives:** A project has a set of objectives or a mission. Once the objectives are achieved the project is treated as completed.
3. **Single Entity:** A project is one entity and is normally entrusted to one responsibility centre while the participants in the project are many.
4. **Team Work:** Project is a team work. This team constitutes members belonging to different disciplines, organizations and even countries.
5. **Life Cycle**: A project has a life cycle. It is reflected by growth, maturity and decay. The life cycle has conception stage, definition stage, planning & organising stage, implementation stage and commissioning stage.
6. **Uniqueness:** Every project is unique and no two projects are exactly similar even if the plants are exactly identical or are merely duplicated. The location, infrastructure, agencies and the people make each project unique.
7. **Change:** A project sees many changes throughout its life. The changes may vary from minor changes with very little impact on the project, to major changes which may have a big impact or course of the project.

8. **Unity in diversity:** A project is a complex set of thousands of varieties. These may relate to adoption or upgradation of technology, equipment and materials, machinery and people, work, culture and others.
9. **Sub Contracting:** A high level of work in a project is done through contractors. The more the complexity of the project, the more likely will be the extent of contracting.
10. **Element of Risk:** Risk and uncertainty go hand in hand with project. A risk-free, it only means that the element is not apparently visible on the surface and it will be hidden underneath.

3.1.2 Classification of Projects

Project classification is a natural corollary to the study of a project. Different authorities have classified projects differently. The following are the major classifications of projects:

1. **Quantifiable and Non-Quantifiable Projects**
   a. **Quantifiable Projects:** Quantifiable projects are those projects whose benefits are assessable in quantitative terms. Projects on power generation, mineral development, and industrial development are the examples of quantifiable projects.
   b. **Non-quantifiable Projects:** Non- quantifiable projects are those projects whose benefits are not assessable in quantitative terms. Projects involving health, education and defense are the examples of non-quantifiable projects.
2. **Sectoral Projects:** According to this classification, a project may fall in any one of the following sectors:
   a. Agriculture and Allied Sector
   b. Irrigation and Power Sector
   c. Industry and Mining Sector
   d. Transport and Communication Sector
   e. Social Services Sector
   f. Miscellaneous Sector

   The project classification based on economic sectors is found useful in resource allocation, more especially at the macro levels.
3. **Techno-Economic Projects:** Project classification based on techno-economic characteristics fall in this category. This type of classification includes factor intensity-oriented classification, causation-oriented classification and magnitude-oriented classification. These are discussed as follows:
   i. **Factor Intensity-Oriented Classification:** Based on factor intensity classification, projects may be classified as capital intensive or labour intensive. If large investment is made in plant

and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large numbers of human resources will be termed as labour intensive'.

ii. **Causation-Oriented Classification:** Where causation is used as a basis of classification, projects may be classified as demand based or raw material based projects. The very existence of demand for certain goods or services makes the project demand-based and the availability of certain raw materials, skills or other inputs makes the project raw material-based.

iii. **Magnitude-Oriented Classification:** In the case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium scale or small scale projects.

3.3 PROJECT PLANNING

Project planning may be destined as establishing a predetermined course of action within a forecasted project environment. The predetermined course of action defines the very purpose and objectives or goals of the project. If the goals are formulated clearly, it would be easy to draw up the action plan. In formulating goals of the project, we have to take into account the needs and wants of the ultimate consumer. The project goals should not only be circulated to members of project formulation team but should also be discussed with them to bring out their full implications. Everyone in the project team should be able to comment on the project and contribute to its fuller understanding. The project manager is the key to successful project planning. He has to co-ordinate and execute the project in consultation with other members of the project team. Hence, successful project managers realize the project planning is an interactive process and must be performed throughout the life of the project.

Objectives of Project Planning: The following are the important objectives of the project planning :

1. To provide a basis for organizing the work on the project and allocating responsibilities to each project participant
2. To provide a means of communication and co-ordination between the members of the project formulation team
3. To induce the project participants to look ahead
4. To instill a sense of urgency and time consciousness in the minds of project participants for the early completion of project
5. To eliminate or reduce uncertainty in the implementation of the project
6. To improve the efficiency of the operation
7. To provide information flow requirements for the project
8. To obtain a better understanding of the project
9. To provide a basis for monitoring and controlling work.

Scope of Project Planning

Comprehensive project planning covers the following activities

a. **Planning the Project Work:** Here, the project manager shall have to identify the project activities and they must be clearly spelled out, properly scheduled and sequenced.
b. **Planning the Manpower Requirements:** Here, the project manager shall have to make estimation of manpower required for the project such as managers of different units, technologists, operators, etc.
c. **Planning the Organization:** Here, the project manager shall have to decide the organization structure required for the execution of the project. The responsibilities are to be determined for different personnel working on the project for carrying out the project work.
d. **Planning the Finance:** Here, the financial requirements for the execution of the project work must be estimated. The expenditure of money in a time-phased manner must be budgeted.
e. **Planning the Information System:** The success of any project depends upon the extent of information the project manager is getting from time to time. Here, the project manager shall have to define clearly the information needs for monitoring the project work.

3.4 PROJECT LIFE CYCLE

Projects are like living organisms in the sense that they are born as ideas which must be nurtured with information and studies in order to become realities. During this maturing process a project goes through different stages, at each of which resources are needed and decisions have to be made. This process is required in order to reduce the uncertainty associated with undertaking a given project. When a project is born as an idea only very rough estimates can be made about the expected cost and the benefits it is supposed to generate. Therefore, before deciding on spending scarce resources in implementing a give project, this uncertainty must be reduced to acceptable levels. The principal stages in the life of a project are:

- Identification
- Formulation
- Evaluation
- Appraisal
- Implementation
- Management

3.4.1 Project Identifications

Project identification is the first step of a new venture. A right direction may enable an entrepreneur to scale new heights. Otherwise, he has to undergo a number of hurdles in his way. It is therefore, very

crucial to entrepreneurs to identify projects. An attempt has been made in this chapter to analyse the various aspects of project identification.

Theoretically, an entrepreneur has an infinitely wide choice with respect to this project. The important dimensions of choice are: product/service, market, technology, equipment, scale of production, location, incentives, and time phasing. The task of identifying a feasible and promising project is somewhat difficult. Moreover it is interrelated with the government policies, infrastructure development and skills of people.

Project identification is of three kinds: additive, complementary and breakthrough. Additive opportunities which enable the decision-maker to better utilize the existing resources without a change in character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure. Breakthrough opportunities, on the other hand involve fundamental change in both the structure and character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. The element of risk is greater in the case of complementary opportunities and is greatest in the case of breakthrough opportunities. As the element of risk increases, it becomes more and more important to precisely define the scope and nature of the project objectives and to select the best possible approach so as to minimise both resource consumption and risks and to optimize the return or gains.

Human mind has an infinite capacity to observe and to innovate and deduct. Observation is one of the cost important sources of project ideas. The observant mind continuously comes across situations which can be utilized to develop investment opportunities. The observation may be made during the course of one's routine lead to the development of an industry which can provide the article or service short supply. The availability of a specified type of raw material or skill may lead to yet another type of industrial activity. The observant mind is always on the lookout for opportunities which can form the basis for the development of new project ideas. Observation of the existing processes can sometimes lead to new opportunities and financially beneficial project ideas.

This would, for instance, be the case when a processing unit decides to manufacture machines which it has so far been using for processing purpose only. The process of deduction is used to supplement on many occasions and rationales protect ideas based on pure observations. In innovative units, it is often necessary to depend upon the deductive process for the development of new approaches to the solution of existing problems.

Trade and professional magazines provide a very fertile source of project ideas. The statistics and information given by these magazines and reports and records of professional bodies often reveal opportunities which can be eventually developed into investment propositions. It is very important for

every person who is involved in the development of new investment opportunities to remain in touch with the latest developments in his own field of specialization. It is also necessary for him to keep in touch with developments in other fields which may be horizontally or even vertically liked with his own line of specialization. Study of technical and professional literature, besides keeping a person all courant, also stimulates thinking and helps in the process of development of new project ideas.

Bulletins of Research Institutes are also a very fertile source of information for new project ideas and opportunities. These bulletins generally give the broad outlines of the new process or product developed by research institution. However the information made available in the research Bulletin may not be adequate for concretization of ideas. Further correspondence with the research institute may become necessary.

In most developing countries where planned development has been accepted as an approach towards the removal of poverty, the plan document published by the Government provides a very useful source of project ideas. The plan document generally analyse the existing economic situation in a country and also pinpoints the investment opportunities which for into the overall planning effort. Considerable information can, therefore, be gathered from the plan document.

Departmental publications of various departments of Governments also provide useful information which can help in the development of new project ideas. These publications are either periodical in charter or, are issued on special occasions. The census document which is a periodical publication is a very useful source of information about the economic structure of the society and various trends in the growth of economy and purchasing power and can be used to develop new ideas.

The project idea is a user friendly concept of what a project should be like. It is the raw expression of the desire of the 'project sponsoring body to achieve something. The exact form in which the project idea is expressed is immaterial. In order to avoid unnecessary communication between the project sponsoring body and the project formulation team, the project idea should indicate broad objectives of the sponsor and limit these in time, space, function and structure. In case no limitation are envisaged^ the sponsoring body should state so and leave the project formulation team in no doubt about it.

Importance of Project Identification

Project identification is often of great importance for the following reasons:

1. They become the catalytic agents of economic development.
2. They initiate the process of development in terms of employment and income generation.
3. They have beneficial consequences which are long term in nature.
4. Projects provide the framework of the future pattern of activities and service of the enterprises.
5. Project usually involves substantial financial outlays.

6. They also initiate development of basic infrastructure and environment.
7. Project commitments cannot be easily reversed.
8. Project identification brings the necessary changes in society in course of time.
9. Project accelerates the process of socio cultural development.

3.4.2 Project Formulation

A step by step investigation of the resources and development project ideas is called as project formulation. Project formulation enables an entrepreneur to take sound decisions based on concrete set of facts. It is done mainly to achieve the objectives of the project waiting optimum resources with minimum expenditure within shortest possible time. The project formulation contains various elements which aid an entrepreneur in project decision making.

a. Feasibility analysis
b. Techno economic analysis
c. Project design and network analysis
d. Input analysis
e. Financial analysis
f. Social cost benefit analysis
g. Project appraisal.

a. **Feasibility Analysis:** This is conducted to analyze the viability of the identified project and to know the acceptability of new project from technical, financial, marketing, managerial, commercial and other considerations. External and internal constrains arc to be considered while examining the project idea to decide whether the project feasible, not fusible or we are not able decide for want of adequate data.
b. **Techno Economic Analysis:** Estimation of demand potential for the product and selection of optimal technology suitable for achieving the objectives of the project are considered in this analysis. An optimal Silt of the project and suitable technology adopted helps in deriving economics of .scale.
c. **Project Design and Network Analysis:** Project design defines individual activities comprising a project and their interrelationship with each other. The sequence of events of the project is provincial. A detailed work plan of the project is prepared with time allocation for each activity and presented in a network drawing. Project design and network analysis arc highly useful for identification and quantification of the project inputs and developing cost-benefit analysis.
d. **Input Analysis:** Input requirements during the construction and operation of the project arc assessed in this analysis. This related to identification, quantification and evaluation of the project inputs. It covers recurring as well as non recurring resource requirements. These input requirements constitute the basis for cost estimates of the project.

e. **Financial Analysis:** This analysis covers estimation of project costs, operating costs and fund requirements. This analysis helps in comparing various project proposals on a common scale, thereby helping in decision making. Various analytical tools used in financial analysis are discounted cash flow cost-volume profit relationship and ratio analysis.

f. **Social Cost — benefit Analysis:** Under this analysis an estimation of social costs and benefits is made for computing the social profitability of the project. The aim of this analysis is to ascertain all social costs and benefits with the purpose of finding out impact of the project on society.

g. **Project Appraisal:** It is independent examination of various aspects on technical. managerial, commercial, economic and financial with regard to the proposal. In this stage project is presented in such a way that the project sponsoring body. Project implementation body and the external agencies are able to decide whether to accept the proposal or not.

3.4.3 Project Evaluation

Apart from looking into the financial viability of a project in terms of investment costs and benefits which accrue to the project directly, it is necessary to consider the total impact of the project on the economy of the nation. With a view to evaluate the project, the social cost-benefit analysis is used. Most of the data required for the analysis would have already been gathered in the earlier stages. Social cost-benefit analysis does not look as just an investment proposition. Whatever be the impact of the project on the nation, it is taken into account just as the existing equilibrium of the economy. In the cost-benefit analysis also, the extent to which the project will help the society to improve its image or profile is indicated.

All costs and benefits can be classified into three categories as primary costs and benefits, secondary costs and benefits and tertiary costs and benefits. Primary costs and benefits is a category which will be exclusively incurred and which will accrue to the project-implementing body respectively.

Secondary costs and benefits accrue to parties other than the project-implementing body. Most of the projects contribute to the national exchequer by way of direct or indirect taxes. Besides a project has a direct impact on the community or the area of operation. This is what is called the spill-over effects and multiplier effect. Project can also have an impact on individual welfare. While primary and secondary costs and benefits are quantifiable, tertiary costs and benefits include all non-quantifiable spill-over and multiplier effects. Where the impact cannot be quantified, it is stated in descriptive terms. These are certain values which cannot be quantified at all.

Organizational Aspect

For the successful implementation of the scheme/project and for the day-to-day functioning of farm/enterprise, it is necessary to have adequate technical, skilled or unskilled manpower. For example, at the stage of establishment of a big dairy, it may call for assistance from Dairy Engineers or Dairy Experts and other technicians apart from the skilled personnel. These personnel should be available to the

entrepreneur at the time of needs. After the implementation of the project, the entrepreneur may need only some technical and other labour for daily operation and maintenance of the dairy.

Commercial Aspect

This involves the examination of the arrangements for buying or acquiring necessary inputs required for the implementation of the project as raw materials, labour, power, fertilizers, pesticides, etc. Adequacy and timeliness of the availability of these factors influence project implementation to a considerable extent. For example, in digging or deepening of wells, the non-availability of blasting material, bricks or cement may hold up the work of any length of time. In the case of dairy development, non-availability of improved breeds of cattle may hinder the progress of the scheme.

In the case of H.Y. variety crop cultivation, non-availability of improved seeds, fertilizers, etc. may prevent farmers from achieving optimum yields. Existence of suitable facilities for the marketing of the produce, market outlets and adequate demand should also be ensured.

While formulating the scheme, this factor should be examined carefully and the possibility of making the necessary arrangements to overcome any difficulty should be explored.

Legal Aspect:

Adequate security for different types of loans should be made available to the banks as per their requirements. Legal problems relating to title deeds, land legislations, etc. that influence the decision with regard to the mortgage or hypothecation of assets or implementation of the project or scheme should be looked into in depth before the scheme or project is financed.

It may be mentioned here that everywhere all the requirements for the successful implementation of a project may not exist or be available. On examining the various aspects, if some lacunae or gaps are found, possible alternatives of meeting these requirements should be considered and suggestions in this regard are incorporated in the project report,

Risk and Uncertainty in Investment Decisions

Each project is characterized by a certain amount of risk and uncertainty. As a matter of fact, each basic variable entering the project evaluating could be a source of uncertainty because it is not possible to predict or anticipate perfectly the future changes that will take place in respect of the variables.

The feasibility of a project depends, inter alia, on the size of investment, operating costs and sales revenue. Each of these is composed of quantity and price and a change in the estimated quantity or price may divert the actual from the estimated result.

There are two types of uncertainties relating to the project itself and the environment in which it operates.

Uncertainty usually arises because it is impossible to predict the different variables and consequently, the magnitude of the benefits and costs exactly as they will occur.

The important of uncertainty are:

1. Changes in the price of inputs and outputs.
2. Changes in technology.
3. False estimation of me rated capacity.
4. Length of construction and running-in periods.
5. Changes in the environment like changes in the tastes or preferences or the introduction of new substitutes etc.

However, distinction has to be drawn between project formulation and the preparation of the detailed project report. The object of project formulation is the preparation of the pre-investment report. This strategy is, therefore, an investigation process which precedes investment decision. A project idea is examined from the point of view of the overall objectives of the sponsoring body and the country as a whole, from the point of view of techno-economic and financial feasibility and of the social cost-benefit prospects. The purpose is to present whether a go-ahead signal should be given for the project or not. Detailed project report preparation is a post-investment decision exercise. It involves the preparation of detailed specifications and designs, engineering drawings, site investigation and foundation design for the project premises, detailed design of the process or other equipment and time schedules for the implementation of the project.

Project Constraints

Project formulation is accompanied with internal and external constraints. Internal constraints arise on account of the limitations of the management system which will eventually be responsible for the implementation of a project. Inputs, resources and outputs are the three major elements of the structural aspects of an existing management system.

External constraints depend upon the environment which imposes limitations on the size, nature, location and the extent of the project.

3.4.4 Project Implementation

The project cycle does not end when implementation is completed and project goes into operation. The main purpose is to learn lessons for the design of future projects and help ensure accountability. Ex-post evaluation should provide a comprehensive and detailed review of the elements of success and failure of the project for enchanting development impact of project work.

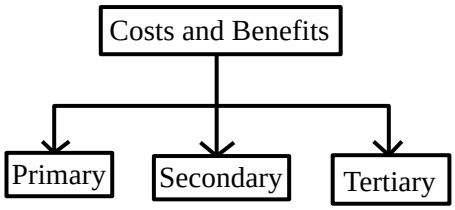
The dimensions that constitute work plan for implementation are:

- Identifying the project activities.
- Determination of their interdependence,
- Geographical representation in a logical sequence.

- Preparing a network design;

The Programme Evaluation Review Technique (PERT) and Critical Path Method (CPM) are widely used. Network design helps in completing project in time and even if an activity is delayed, the project can be completed in time by making the resources available and utilization thereof.

Project Evaluation considers the total impact of the project on the economy of the nation i.e. social cost benefit analysis. This is represented below.



a) Primary costs and benefits are the ones that are incurred and accrued to the project implementing body.
b) Secondary costs and benefits are accrued to the national exchequer by way of direct and indirect taxes. These have direct impact on the community or the area of operation and also impact the individual welfare. Primary & Secondary costs and benefits are quantifiable.
c) Tertiary costs and benefits include all non-quantifiable spill over and multiplier effects and are stated in descriptive terms.

The following aspects are taken care of during implementation of project

a. Organizational aspects such as requirement of technical, skilled or unskilled manpower and assistance from experts/ consultants/ engineers.
b. Commercial aspects such as arrangements for buying or acquiring necessary inputs required such as raw materials, labour, power, fertilizer, pesticides, etc taking in view the adequacy and timeliness of above inputs.

   For instance in case of a project -Digging or Deepening of well-Non availability of blasting material, bricks or cement may hold up the work for any length of time. While in case of Dairy Development project; Non-availability of improved breeds of cattle may hinder the progress of the scheme.

   In another project concerning " High yield variety crop cultivation" Non-availability of improved seeds, fertilizers, etc may prevent farmers from achieving optimum yields. Further, suitable distribution facilities, market outlets and adequate demand should also be ensured.

c. Legal aspects such as adequate security for different types of loans as per the requirements of banks. Problems relating to title deeds, land legislations etc. and hypothecation of assets.

3.4.5 Management

It includes judicious operation of a project enterprise with objectives like maximization of net present value, maximization of return and increase in the rate of return at low risk

The basic tenets of managing projects of all dimensions are:

1) Define the objective of the project

2) Determine the constituent tasks

3) Identify important milestones

4) Allocate resources to each task

5) Re-evaluate task relationships and scheduling, pinpointing resource conflicts

6) Execute the project.

The project management is all about total control - during inception, midwifing and delivery - in a business environment where perpetual change is the only constant.

Project management process integrates series of its actions as an action in one area usually affects another action in other areas. Successful project management requires actively managing the interactions. The common project management processes can be categorized into the following:

1) Operational management processes

2) Additional project management processes

3) Technical processes.

1. **Operational management processes:** These activities are seen as ongoing activities with neither a clear beginning nor an expected end. These activities include :
   a. **Planning:** Identifying objectives and devising a workable scheme to accomplish them.
   b. **Executing:** Coordinating people and other resources to carry out the plan
   c. **Controlling:** Ensuring that the objectives are met by measuring progress and taking corrective action when necessary.

2. **Additional project management processes:** Projects are temporary in nature. They have both an identifiable starting point and an emphasis on timely future termination. The additional process are:
   a. **Initiating :** Recognizing that a project should begin and committing to do so
   b. **Closing:** formalizing acceptance of the project and bringing to an orderly end.
3. **Technical processes:** These vary by application areas and are to be identified and handled by application experts. These processes are not discrete and in an actual project there will be many overlaps.

Basic process interactions occur within each phase such that one phase provides inputs for initiating the next. Thus the planning process must not only provide work done in the current phase for successful completion but must also provide some preliminary description of or to be done in later phases. The progressive detailing of the project plan is often called wave plan.

Project managers put far too much emphasis on the tie and budget aspects at the expense of other criteria. With enormous amount of analytical techniques and advent of information technology, numerous tools have been developed helping the project management professionals to manage the day-to-day activities more efficiently.

3.5 PROJECT REPORT

A project report incorporating relevant data in respect of a project serves as guide to management and records merits and demerits in allocating resources to production of specific goods or services. A project report is prepared for analyzing the extent of opportunities in the contemplated project.

A project report is a written document pertaining to any investment proposal. It contains relevant data, on the basis of which the project has been appraised and found relevant to the entrepreneur. This project report can be shown to the bankers or other financial institutions to acquire financial assistance. The efficiency of the project is decided by other organisations and suppliers on the basis of the project report. It is also used by the entrepreneur to check if he is deviating from what was decided earlier.

A project report is prepared by an expert after detailed study and analysis of the various aspects of project. It gives a complete analysis of the inputs and outputs of the project. It enables the entrepreneur to understand, at the initial stage, whether the project is sound on technical, commercial, financial and economic parameters.

3.5.1 Importance of a Project report

1. Project report serves as a master plan clearly indicating as to what are the goals and objectives of a project and how to achieve them.

2. It is like a road map, which describes the right direction to be followed.
3. It gives a general idea of various resource requirements such as raw materials, manpower, finance, infrastructure facilities and also means of procuring them.
4. It indicates the economic, financial, commercial, technical and social feasibility of the venture.
5. It clearly reveals the prospective financial rewards to the entrepreneur in the form of profits.
6. It anticipates the problems in advance and aids the entrepreneur in decision-making.
7. It ensures the successful survival of the business unit.
8. It convinces the financial institutions about its viability and paves the way for financial assistance.

3.5.2 Aspects of Project Report

Project report includes information on the following aspects.

1. **Economic Aspects:** The project report should be able to present economic justification for investment. It should present analysis of the market for product to be manufactured. Market analysis basically pertains to issues.
2. **Technical Aspects:** The appropriate report should give details about the technology needed, equipments and machinery required and the sources of availability.
3. **Financial Aspects:** The report should indicate the total investment required including sources of finance and the entrepreneur's contribution. It should present a comparison of cost of capital with the return on capital.
4. **Production Aspects:** It should contain a description of the product selected for manufacture and the reasons for such selection. The report should also bring out the fact whether the product is export worthy. It should also give details of the design of the product.
5. **Managerial Aspects:** The report should contain qualifications and experience of the person to be put on the management of the job. If the entrepreneurs will look after management, the report must emphasize as to how he is qualified to manage the venture.

3.5.3 Significance of Project Report

A project report is a written document pertaining to any investment proposal. It contains relevant data on which the project has been appraised and found relevant. It is a course of action what the entrepreneur wants to do in his business and the means to do it. Thus the preparation of project report is of great significance for the entrepreneur. The project report essentially serves two functions: It serves as a road map describing the direction of the enterprises it goals and how to achieve them. It also serves to attract investors and lenders. The preparation of project report is beneficial for those entrepreneurs seeking financial assistance from financial institutions and commercial banks. Financial institutions provide financial assistance based on project report. A project report is prepared by an

expert after detailed study and analysis of the various aspects of a project. It gives the complete analysis of the inputs and outputs of the project. It enables the entrepreneur to understand, at the initial stages whether the project is sound in technology, commercial aspects, financial and marketing aspects. There is no substitute for a well-prepared project report. The more concrete and complete the project report the more likely it is to gain quick acceptance by outsiders, investors, banks and other supporting and approving agencies. Hence the project report needs to be prepared with great care and consideration.

3.5.4 Contents of Project Report

The following are the contents of a good project report.

1. **General Information:** The report should contain general information regarding the company, product profile and product details and specifications.
2. **Promoter**: The details of promoter, name, educational qualifications, work experience, project related experience etc. are to be provided.
3. **Location**: Exact location of the project, lease or freehold, vocational advantages.
4. **Land and Building**: Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. **Plant and Machinery**: Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.
6. **Production Process:** Description of production process, process chart, technical knowhow, technology alternatives available, production programmed.
7. **Utilities**: Water, power, steam, compressed air requirements, cost estimates, sources of utilities.
8. **Transport and Communication**: Mode, possibility of getting, costs.
9. **Raw Material**: List of raw material required, its quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternate suppliers etc. are provided.
10. **Manpower**: Manpower requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. **Products**: Products produced, by-products, product mix, product quality and standard etc, are to be mentioned.
12. **Market:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices and proposed market research.
13. **Requirement of Working Capital:** requirement of working capital, source of working capital, nature and extent of credit facilities available, offered and required are to be provided.

14. **Requirement of Funds**: Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

3.5.5 Business Plan (Project Report Format)

Preparation of Project Report

Format of a Project Report

1. Convert Sheet (name of company, address, promoters)
2. Table of contents
3. Executive summary
4. The business
    a. Objective for setting up business
    b. Brief history of past performance
    c. Form of ownership
    d. Name, qualification of the owners
    e. Proposed/actual headquarters
    f. Proposed/actual capital structure
5. The funding requirements
    a. Debt
    b. Equity
6. The product/ Service
    a. Description of product/ service
    b. Comparative analysis with similar products/ substitute products
    c. Patents, trademarks, copyright, franchises and licensing agreements.
7. The Plan
    a. Marketing plan
        - Marketing demography, like profiles of customers and end-users; preferences and needs
        - Strengths and weaknesses of competitors
        - SWOT Analysis of the market
        - Marketing mix strategy
            - Product mix strategy
            - Promotion mix strategy
            - Pricing mix strategy

        - Distribution mix strategy

    b. Operational Plan
        a. Plant Location
        b. Plant Layout
        c. Material Requirement
        d. Inventory management
        e. Quality control
    c. Organizational Plan
        - Organizational Chart
        - Details about the board of directors
        - Manpower Planning
        - Legal Aspects of Labour
    d. Financial Plan for Two-five years
        - For existing companies, a summary of previous financial data
        - Projected sales
        - Projected Income and Expenditure Statement
        - Projected Break Even Point
        - Projected Profit and Loss Statement
        - Projected Balance Sheet
        - Projected Cash Flow
        - Projected Funds Flow
        - Projected Ratios

8. Critical Risks
9. Exit Strategy
10. Appendix
    a. Curriculum Vitae of the owners
    b. Ownership Agreement
    c. Certificate from pollution board
    d. Memorandum of Understanding
    e. Articles of Association
    f. Other documents that help in marketing the project viability.

Explanation of Preparation of Project Report

1. **Cover Sheet:** Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.
2. **Table of Contents:** Again, the table of contents is like the table of contents of a book; it guides the person reviewing the project report to the desired section quickly. A good methodology would be to divide the project report into sections and number or label the sections like 1, 2, 3 or I, II, III or A, B, C and then divide each section into subsections by using numerals after the decimal like 1.1, 1.2, 1.3 or I-I, II-2, III-3 or A-a, B-b, C-c. No matter which method is used for classification, once a method is picked up the entire report should uniformly adopt the same procedure.
3. **Executive Summary:** Executive summary is the first impression about the business proposal. As the saying goes, the first impression is the last impression. A careful presentation of information should be done to attract the attention of the evaluators. It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability. It should briefly describe the company; mention some financial figures and some salient features of the project. Generating interest in the minds of the readers is the prime motive of the executive summary.
4. **The Business:** This will give details about the business concept. It will discuss the objective of the business, a brief history about the past performance of the company (if it is an old company), what would be the form of ownership (whether it would be a single proprietor, partnership, co-operative society or a company under company law). It would also label the address of the proposed headquarters.
5. **Funding Requirement:** Since the investors and financial institutions are one of the key bodies examining the project report and it is one of the primary objectives of preparing the project report, a careful, well-planned funding requirement should be documented. It is also necessary to project how these requirements would be fulfilled. Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.
6. **The Product or Services:** A brief description of product/services is given in this subsection. It includes the key features of the product, the product range that would be provided to the customers and the advantages that the product holds over and above the similar products/ substitute products available in the market. It also gives derails about the patents, trademarks, copyrights, franchises, and licensing agreements.
7. **The Plan:** Now the functional plans for marketing, finance, human resources and operations are to be drawn.

a. **Marketing Plan:** Marketing mix strategies are to be drawn, based on the market research. The market research will provide information about the following parameters:

   1. Market demography like profiles of customers and end-users; preferences and needs of the customers
   2. Strengths and weaknesses of competitors
   3. SWOT analysis of the market.

   A thorough market research is the backbone of success and failure of any product in the market. Based on the information collected through market research, marketing mix strategies for product/services, price, promotion and distribution are presented meticulously and reasons are displayed in relation to why the targeted market is so attractive. How can the market provide gains to the organization? What marketing strategies would ultimately lead to the success of the organization? The budgets for the marketing plan are drawn at the end.

b. **Operational Plan:** The operational plan would give information about

   1. Plant location: why was a particular location chosen: Is it in the vicinity of the market, suppliers, labour or does it have an advantage of government subsidies for that particular location or are there any other specific reasons for choosing the particular location.
   2. Plant layout is also at times mentioned in the project report to provide a pattern of arrangement of the organization and would indicate the exhaustive planning for the business
   3. Plan for, material requirements, inventory management and quality control are also drawn for identifying further costs and intricacies of the business. Finally, the budget for operational plan is also drawn.

c. **Organizational Plan**: The organizational plan indicates the pattern of flow of responsibilities and duties amongst people in the organization, it provides details about the board of directors, it can also enlist the manpower plan that would be required to put life into the company and it would also enlist the details about the laws that would be governed in managing the employees of the organization. In the end the organizational plan is also budgeted.

d. **Financial Plan:** The financial plan is usually drawn for two to five years for an existing company. A summary of previous financial data is given, whereas for a new organization the following projections are drawn:

   - Projected Sales
   - Projected Income and Expenditure Statement
   - Projected Break Even Point
   - Projected Profit and Loss Statement
   - Projected Balance Sheet

- Projected Cash Flows
- Projected Funds Flow
- Projected Ratios

8. **Critical Rides:** The investors are interested in knowing the tentative risks to evaluate the viability of the project and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.
9. **Exit Strategy:** The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding-up of the organization. It further helps in measuring the risks involved in investing.
10. **Appendix:** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement. Certificate from Pollution Board, Memorandum of Understanding, Articles of Association and all the supporting agreements/ document that can help in marketing the project viability at large.

3.6 GUIDELINES FOR PROJECT REPORT PREPARATION

The guidelines given by the Planning Commission or the steps in the preparation of a project report can be summarized as follows.

1. **General Information:** It should contain general information regarding the company/enterprise. The project report should also contain an analysis of the industry to which the project belongs. It should contain the past performance of the industry, the priority of the industry, role of the industry, change in production over a period of time, allocation or investment of funds, choice of technique, etc.
2. **Preliminary Analysis of Alternatives:** The report should next present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would to be available from the projects are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and level of production actually attained, a list of all projects for which letters of intents/licenses have been issued and a list of pro-posed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project as well as its implication should also be shown. An account of the foreign exchange requirements should also be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Also, the alternative cost calculations against the returns should be presented.

3. **Project Description:** The project report should provide a brief description of the technology/process chosen for the project. Information relevant to determining optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a project, every report must present the information on specific project, i.e., population, water, air, land, flora and fauna, effects arising out of project pollution, other environmental descriptions, etc. The report should contain a list of the operational requirements of the plant, requirements of water and power, personnel, organisational structure envisaged, transport costs activity-wise phasing of construction and factors affecting it.
4. **Marketing Plan:** It should contain data on marketing plan, i.e., demand and prospective supply in each of the areas to be served. The methods and data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should also be shown. It should also contain an analysis of past trends in prices.
5. **Capital Requirement and Costs:** Information on all items of costs should be carefully collected and presented. The estimates of costs should be reasonably complete and properly classified.
6. **Operating Requirements and Costs:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating costs should be collected. Operating costs relate to the cost of raw materials and intermediates, fuel, utilities, labour, repair and maintenance, setting expenses and other expenses.
7. **Financial Analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A proforma Balance Sheet for the project data should be presented. Depreciation should be allowed for, on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The report should take into account income-tax rebates for priority industries, incentives and subsidy for backward areas, accelerated depreciation, etc. The report most also analyze the sensitivity of the rate of return to changes in the level and pattern of product prices.
8. **Economic Analysis:** Social profitability analysis needs some adjustment in the data relating to the costs and returns to the enterprise. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified, they should be analysed and their importance emphasized.
9. **Miscellaneous Aspects:** Other aspects relevant to the enterprise, which is collected, should also be included. For e.g. Cash flow statements, methods of accounting, use of computers or any new technology used, must be specified.

3.6.1 Project reports Errors

Project report formulation is very important and not an easy task. The entrepreneurs often make errors while preparing project report. The following are some of the widely noticed errors in project report:

1. **Product Selection:** It is noticed that some entrepreneurs commit mistakes by selecting a wrong product for their enterprise. They select the product without giving due attention to product related and other aspects such as demand for that product. market need. competition, life cycle. availability of resources like raw materials. skilled labour, technology etc.
2. **Capacity utilization estimates:** The entrepreneurs many times make over optimistic estimates of capacity utilisation. Their estimates are based on completely false premises and are made in complete disregard of present performance of the enterprise. prevailing market conditions, competitive atmosphere. the technical snags etc.
3. Market Study: Production of goods is ultimately meant for sale. Hence market study plays viral role and is %cry important. Market study is a difficult task. Some entrepreneurs assume that there will be good market for their product without conducting effective market study. leading to failure.
4. **Technology selection:** The technology varies from product to product. Selection of wrong technology leads to wrong product or product with inferior quality. Selection of right technology is very important.
5. **Location Selection** There are two types of errors made by some entrepreneurs in selecting the location of enterprise. First. they are attracted by the concessions and government offers. Financial incentives to establish industries at a particular location. This may lead to problems like marketing. non availability of resources like raw materials, skilled labour etc. Secondly the entrepreneur selects a location merely because it is nearer to his place of living, or own land available. That may not be an appropriate location for the plant.
6. **Selection of Ownership Form:** Man enterprises fail merely due to the ownership fort of enterprises is not suitable.

3.7 PROJECT APPRAISAL

Project appraisal means the assessment of a project in terms of its economic, social and financial liability. This makes it necessary to recognize the interrelationship of various aspects of a project. This exercise is critical as it calls for a multidimensional analysis of the project. Project appraisal is the analysis of costs and benefits of a proposed project with the goal of assuring a rational allocation of limited funds among alternative investment opportunities in view of achieving the specified goals. Project appraisal is considered to be an import task to be taken up by the entrepreneur. It is because the number of projects to satisfy the identified needs would exceed the availability of resources and a choice among alternative projects is to be made to achieve the proposed project objectives.

The Exercise of project appraisal simply means the assessment of a project in terms of its economic, social and financial viability.

Definition

Project appraisal is the 'process of transmitting information accumulated through feasibility studies into a comprehensive form in order to enable the decision maker undertake a comparative appraisal of various projects and embark on a particular project or projects for allocating scarce resources. Hence, appraisal brings out facts on quantitative basis while business decisions are taken after going through the various facets of the facts and its comparative examination.

3.7.1 Differences between appraisal and evaluation of project

Generally appraisal and evaluation are taken as complementary to each other. However, the following differences can be identified between these two concepts;

Appraisal	Evaluation
It is an independent examination of the facts whereas.	It is a comparative study and thereafter a conclusion is drawn.
These facts are brought out in the process of examination while.	These facts are further compared with the alternatives available for either to accept or reject.
It is a first and starting examination.	It is the second stage in the total process of appraisal and evaluation
Appraisal gives the facts	Evaluation gives conclusion

3.7.2 Objectives of Project Appraisal

Project appraisal is a tool for exact analysis of a designed scheme. It identifies and estimates the expected costs and benefits of a project. It is a conscious scrutiny which helps to design a conceptual framework that helps to monitor and evaluate the actions. Project appraisal is undertaken with the following objectives;

i. To arrive at specific and predicted results of a project.
ii. To identify the probable costs and anticipated profit from the project underway.
iii. To get necessary information to determine the success or failure of a project.
iv. To evaluate the project feasibility from technical aspect.
v. To finally realize the ultimate goals of the project
vi. To apply standard yardsticks for determining the rate of success or failure of a project.
vii. To identify the expected costs and benefits of a project.

3.7.3 Scope of Project Appraisal

The appraisal of a project is undertaken by the financial institution with the twin objectives of determining the market potential of a project and selecting and optimal strategy. The methods of analysis vary from project to project, Nevertheless certain common aspects of study from the angle of technology and engineering are with a mention:

- Choice of technical process and appropriate technology.
- Technical collaboration arrangement, if any,
- Size and scale of operations
- Vocational aspects of the project and availability of infrastructural facilities
- Selection of plant. Machinery and equipment together with background, competence and capability of machinery equipment suppliers
- Technical engineering services
- Plant layout and factory building
- Project design and network analysis for the assessment of project implementation schedule
- Project cost and its comparison with other similar projects, based on technology, equipment, product mix and time spread.
- Determination of project cost estimates profitability projections
- Sensitivity analysis

  It must be remembered that the different aspects of a project are not highly inter-related and a meaningful project appraisal depends upon the appreciation of this fundamental fact. For example, the size of the total market for a product as it exists now and the year to year, estimate of the future progressive call for future progressive call for expansion of demand would determine planned capacity of the proposal unit and he phasing of production over the years.

  These in turn would influence the project cost and profitability which would influence the project cost and profitability are influenced to a significant extent by its location, over and above this the management behind the project, has decisive role to play in almost all aspects of the project.

3.8 ASPECTS OF PROJECT APPRAISAL

A final view on the project proposal is taken on the basis of combination of factors like technical, financial, commercial, managerial aspects etc. Weakness or deficiency in any project does not prepare a ground for its rejection but care is taken to initiate suitable action to minimize its impact on the project.

Normally, banks and financial institutions require examining the viability of a project before deciding whether to provide financial assistance or not. Financial institutions are very much concerned with the return on investment. The surplus available from project should be sufficient to pay interest on term loans and repay the principal amount within a reasonable period. Hence, a comprehensive appraisal

of a project should be done so as to get the desired result from the proposed project's execution. It is essential to consider the following aspects of project viability, before deciding on further investment in the project.

1. Technical Appraisal
2. Financial Appraisal
3. Economic Appraisal
4. Managerial Appraisal
5. Commercial Appraisal
6. Operational Appraisal
7. Environmental Appraisal

3.8.1 Technical Appraisal

Technical appraisal covers technical feasibility of the project which includes the study of adequacy of the proposed plant and equipment to produce the products within the prescribed norms. It is to be ascertained as to whether the technical know how is available with the entrepreneur or it is to be procured from elsewhere. In case of foreign technical collaboration the entrepreneur needs to be aware of legal provisions in force from time specifying the list of products for which such collaboration is allowed under specific terms and conditions. Appraisal of technical feasibility of the project covers the following.

(i) Location of the project

(ii) Availability of infrastructural facilities like water, power, transport, communication and repair shop etc.

(iii) Availability of raw material as per required quantity and quality

(iv) Availability of right type of work force in requisite member.

(v) Manufacturing process or technology selected.

(vi) Technical collaboration arrangement made if any and their details.

(vii) Size of the project or scale of operation.

(viii) Layout of the plant.

(ix) Rate of obsolescence.

In nutshell technical appraisal refers to the review of product mix, production capacities, process of manufacture, location of plant, sources of raw material, building, plant and equipment, manpower requirement, technical collaboration, if any, infrastructural facilities like road, bridges, railway, airways, water, power and other facilities, availability of research and development facilities for updation and updating of project.

Technical Feasibility

Appraisal of technical aspects of a project involves scrutiny of such aspects of the project as

- Manufacturing process/ technology selected.
- Technical collaboration arrangement made, if any.
- Capacity/ size of the project and the scale of operations.
- Location of the project
- Availability of physical and social infrastructures facilities.
- Availability of various input covering raw materials as well as utilities.
- Selection of plant, machinery and equipment together with background, competence and capability of machinery/ equipment suppliers.
- Plant layout and factory services.
- Project design and network analysis for assessing the project's implementation schedules, etc.

The technical feasibility study should consider the adequacy and suitability of the plant, the equipments and their specifications, plant layout, balancing of different sections of the plant, proposed arrangements for procurement of the plant equipments, reputation of the machinery suppliers, etc.

The feasibility study should also consider the technology required for a particular project, evaluate technological alternatives and select the most appropriate technology in terms of optimum combination of project components. The various implications of the acquisition of such technology should be assessed, including contractual aspects of technology licensing where applicable, etc.

Government of India's policy in the respect clearly states that while evaluating applications for industrial licensing, the following factors will be specifically considered.

i. Whether the proposed capacity is of economic size.
ii. Whether the process proposed to be adopted is efficient from a techno- economic point of view.
iii. The extent to which diversification and expansion proposals will result in fuller utilization of capacity and economies of scale.

Besides, proper evolution of alternative technologies is essential for selection of the appropriate one. This evaluation should be related to plant capacity and should commence with a quantitative assessment of output, production build-up and gestation period and qualitative assessment of product quality and marketability.

The selection of technology has to be related to the nature of the principal inputs the may be available for a project and to appropriate combination of factor resources for both short and long periods.

3.8.2 Financial Appraisal

Implementing projects, involving large expenditure is a strategic decision - it is both long term and not easily reversible. The projects involving large capital outlays have to be appraised from financial point of view. It is required for the successful implementation of the project proposal. A detailed coverage of

financial aspects such as cost estimates, production costs, profitability analysis and profitability indices is required to examine the financial viability of the project.

Profitability Analysis

Keeping the overall objectives of the enterprise and specifically those of the project, a project analysis is to be undertaken to calculate the profitability indices which are discussed hereunder;

a) Payback Period
b) Average Rate of Return
c) Net Present Value
d) Benefit Cost Ratio, and
e) Internal Rate of Return

a) Payback Period (PBP)

It is also called pay-out or pay-off period or recoupment or replacement period. Payback period method is traditional method which is very simple to understand and most widely used for profitability analysis of a project. Payback period is the time required to recover the original investment through income from the project. It is a breakeven point of the project, where the accumulated returns equal investment.

$$\text{Payback period (No. of years)} = \frac{\text{Original cost of investment}}{\text{Annual cash in flow}}$$

The annual cash inflows will be computed as gross earnings less total operating costs excluding depreciation, however, if the annual income is not uniform, the payback period will be counted as the number of years over which the income accumulated together will equal the original money invested.

Example: If the cost of a project is 10, 00,000 and the firm receives annual cash inflow 4, 00,000 find out he payback period

Solution:

$$P = I/R$$

Where

P = Payback period

I = Investment or cost of project

R = Return from investment

Given

Cost of Project (I) = 10,00,000

Return from investment (R) = 4,00,000

$$P = \frac{I}{R}$$

$$P = \frac{10,00,000}{4,00,000} = 2.5 \text{ years}$$

Payback period is 2 years and 6 months.

Advantages: Payback period has the following advantages;

i) It is simple to understand and has easy application

ii) It is highly suitable method when the project has shorter gestation period and the project cost is also less.

iii) It is highly useful to projects which belong to high risk category and is susceptible to rapid technological changes.

iv) It is very important for cash forecasting, budgeting and cash flow analysis.

v) Since this method considers the cash flows during the payback period of the project, the estimates would be reliable and results will be accurate.

vi) It is most suitable to decide the overseas investments when there is political uncertainty in such countries.

Limitations: The Payback period suffers from the following limitations;

i) Payback period method emphasises more on liquidity than profitability concept. It is because this method gives importance for the early recovery of cash outlay and liquidity,

ii) It does not cover the earnings beyond the Payback period, which may lead to wrong selection of investment projects. Profitable projects with long gestation period or projects which generate high returns in the longer period may be rejected.

iii) It provides for the recovery of the original investment and not for the cost of funds committed to such investments. But in practice, the investible funds of a business are not free of cost.

b) Average Rate of Return (ARR)

Average rate of return is also called as 'Return on Investment'. This method is an improvement over the Payback period method. It considers the earnings of a project during its entire economic life. This ratio relates earning to investment. The following formula may be used for calculating the profitability of a new investment;

$$\text{ROI} = \frac{\text{Average annual carnings after tax}}{\text{Average book investment after depreciati on}}$$

If the ARR is high, then the project is considered to be lucrative. If the projects are mutually exclusive, the project with the highest rate of return would be selected. If the calculated ARR is equal to or more than the company's target rate of return, the project will be accepted. If the calculated ARR is loss than the cotnpan's target rate of return, the project will be totally rejected.

Advantages: Following are the advantages of ARR method;

i) It is an easy method to understand and easy to apply.

ii) Rate of return is considered the earnings of the project during its entire economic life.

iii) Rate of return is a profitability concept since it considers net earnings after depreciation and taxes.

iv) Projects of different nature and character can be compared using this method

v) It helps in comparing the projects which defers widely in character.

vi) Rate of return may be readily calculated if the accounting data is available

Disadvantages : The limitations of ARR method are as follows;

i. It does not take into consideration the time value of money

ii. It requires to resolve a host of variants relating to its components viz., earnings; gross, net or average investment.

iii. It stipulates the minimum rate and if the profits do not attain this rate, they are out rightly excluded from consideration.

iv. It ignores the fact that profit can be reinvested

c) Net Present Value (NPV)

In the net present value method time value of investment is taken into consideration which has not been done in the previous example or the method explained earlier. For example, the value of a rupee today would be more in comparison to its value after one year because it would get reduced by the amount of interest on it for one year. In other words, all amounts receivable in future are to be discounted by the applicable rate of interest for determination of their current value. In conclusion we can say, net present value of the project is the excess of inflow over the outflow. Generally, only that project is selected which has the highest present value. This can be calculated with the help of following formula

$$PV = S \times \frac{1}{(1+r)^2}$$

where, PV refers to present value

'S' refers to cash flow

't' year and

'r' refers to interest rate (also known discount rate)

Net present value for any project is the aggregate present value of net cash flows over the operating life of the project.

Advantages: The advantages of NPV are as follows;

i. It takes into account the time value of money

ii. It focuses attention on the objective of maximization of the wealth of the project.

iii. It considers the cash flow stream over the entire life of the project.

iv. It is very useful in case of mutually exclusive projects.

v. It is best suited when the cash inflows are not uniform.

vi. It is consistent with the objective of maximising the welfare of the owners.

Limitations: The following are the limitations of NPV;

i. It involves complicated calculations

ii. It is difficult to select the discount rate.

iii. It may not give a satisfactory answer when the projects being compared involve different amount of investment.

iv. In this method, profitability is not related to the capital. The project may be having a high NPV but it may not be attractive owing to its high capital outlay.

v. Selection of a discount rate is another weakness of this method.

d) Benefit Cost Ratio (BCR):

BCR method is a modified form for the NPV method. It is the ratio of gross discounted benefits to gross discounted costs. Hence, this may be used as an extension of NPV and expressed in co-efficient or percentage. The following formula may be used to calculate the BCR;

$$\text{BCR} = \frac{B}{C} \times 100$$

(or)

$$\text{Profitability Index (PI)} = \frac{B - C}{C} \times 100$$

where

B = Gross discounted benefits

C = Gross discounted cost

In this method, higher the benefit - cost ratio the better is the project. Projects to be accepted must have benefit cost ratio higher than 1.

BCR is highly useful for ranking the projects on the basis of their profitability. It suffers from the same limitations of the NPV technique.

e) Internal Rate of Return (IRR)

IRR method is known by many names viz., yield on investment method, marginal efficiency of capital method, marginal productivity of capital method, rate of return method, time adjusted rate of return method, discounted cash flow method, yield method etc. This method is used when the cost of investment and the annual cash inflows are known and the unknown rate of return is to be calculated. It takes into

account time value of money by discounting inflows and cash flows. IRR defined as that rate of interest when used to discount the cash flows of an investment, reduce its NPV to zero.

In order to calculate the IRR, firstly the net cash flow is to be determined by deducting the costs other than depreciation from the annual sales. Secondly, obtain the capital cost and thirdly, calculate the present value of the net cash flow by using an appropriate rate of interest.

Advantages

The advantages of IRR are as follows:

i) It recognises the time value of money and considers cash flows over the entire life of the project.

ii) It has a psychological appeal to the user, since values are expressed in percentages.

iii) It does not require discount rate or cost of capital.

iv) It is also consistent with the firm's objective of maximising owners' welfare.

Limitations

Following are the limitations of the IRR:

i) It is very difficult to use, as it involves complicated computations.

ii) It assumes that the re-investment rate of cash flows is at IRR which may be different for different projects considered by a firm.

iii) It may yield multiple rates when cash outflows take place at different periods and decision making becomes more complicated.

iv) It may yield inconsistent results with NPV if, projects differ in their expected lives, or cash flows or timing of cash flows.

3.8.3 Economic Appraisal [Social cost benefit analysis]

Appraisal of economic aspects is most important because even the bank will not finance a project unless it is satisfied that the project reflects a high priority use of region's resources. The economic appraisal should cover as to whether the project fits into national priorities, contributes to the development of desired sector of economy and other benefits justify the allocation of scarce resources of the economy. This appraisal is called Social Cost Benefit Analysis (SCBA). This concept of SCBA was evolved by Jules Dupuit, a French engineer, who referred to it in his paper on measurement of "Utilities of public works", Flood Control Act of 1936 of USA provided that a project should be deemed feasible only if sum total of benefits to whom so ever they may accrue exceed the estimated costs, high lighting the social nature of investment decisions. India has taken 'lead amongst third world countries in applying SCBA in appraising projects especially in public sector. SCBA also referred to as economic analysis is a methodology developed for evaluating investment projects from the point of view of the society as a whole. The need for SCBA has been felt due to the following reason :

(a) Evaluating Investments: In developing countries, where governments are playing a significant role m economic development. SCBA is used for evaluating public investments. SCBA can also be used for evaluating private investments especially in those countries where these are to be approved by governmental agencies, keeping in mind the impact of these investments on national interests.

(b) Evaluating Individual Projects: SCBA assists in appraising individual projects within the planning framework which spells out- national economic objectives, and allocation of resources to different sectors. SCBA is concerned with tactical decision making within the framework of broad strategic choices defined by planning at macro level.

(c) External Aspects: A project may be a boon or bane for the neighboring areas. It may result benefiting the neighboring areas by way be development of ancillary industry and development of the area or it can have adverse effect on the ecology and environment. In SCBA all costs and benefits irrespective to whom they accrue are considered.

(d) Taxes and Subsidies: In financial analysis, taxes are considered as monetary costs and subsidies all treated as monetary gains. In SCBA taxes and subsidies are generally considered as transfer payments and hence regarded as irrelevant.

(e) Consumption and Savings: In financial analysis a private sector firm will not give differential value to consumption and savings. On the other hand the concern of society for savings and investment is duly reflected in SCBA where in a higher valuation is placed on savings and lower valuation is put on consumption. UNIDO (United Nations Industrial Development Organisation) has come out with a comprehensive framework for SCBA and it involves five stages,

(i) Calculation of financial profitability of the project measured at market prices,

(ii) Obtaining the net benefit of project measured in terms of economic prices,

(iii) Adjustment for the impact of project on savings and investments,

(iv) Adjustment for the impact of project on income distribution,

(v) Adjustment for the impact of project on merit goods and demerit goods whose social values differ from their economic values.

SCBA in India

India has been one of the pioneers in the use of SCBA for public sector projects. ICICI was the first financial institution to introduce economic appraisal of projects and was followed by IFCI and IDBI. Project Appraisal Division of Planning Commission also follows economic analysis.

3.8.4 Managerial Appraisal

To judge the managerial capability of promoters, an appraisal should be made regarding their resourcefulness, understanding and commitment. The resourcefulness of promoters is judged in terms of their past experience, the progress achieved in organising various aspects of the project and the skill with

which the project is presented. The understanding of the promoters is assessed in terms of the credibility of the project plan including, the organisation structure, the estimated costs, the financing pattern, the assessment of various inputs and the marketing programme and the details furnished to financial institutions. The commitment of promoters is gauged by the resources i.e., financial, managerial etc., applied to the project and the zeal with which the objectives of the project, short-term as well as long term, are pursued.

Managerial appraisal includes not only judging the managerial capability of promoters, it also includes the assessment of the caliber of the key technical and managerial personnel working on the project, the schedule for training them and the remuneration structure for rewarding and motivating them.

3.8.5 Commercial Appraisal

In setting up an industrial project, estimation of demand for the product/group of products proposed to be manufactured by a promoter is the first important step. Ideally, the market analysis should give a comprehensive account of the market opportunity, as well as of the marketing strategy appropriate for converting the opportunity into a reality, Marketing strategy in this context could be defined as an ever evolving design or blue print consisting of a set of inputs like product quality, price, design, dealer/ agency discounts, distribution network/channels, packaging, etc.

To be of maximum benefit to a promoter, whether new or already established, market analysis should cover the following major aspects:

i. Analysis of market opportunity and specifying marketing objectives. This involves a scientific assessment of:

a. Total size of the market for a product.

b. The share that could be secured by a firm, existing or new.

ii. Planning the process of marketing the product,

iii. Organisation of the marketing process.

iv. Control of the implementation of the marketing plan, which facilitates taking corrective action when the actual results deviate from the estimates or expectations.

An intensive scanning and analysis of the proposed environment in which the industrial unit has to function should from the basis for analysing market opportunities as well as for specifying the marketing strategy. This is because the ever changing environment, in which the industry sector functions, restricts or expands the opportunities available to and the threats to be faced by an industrial unit. Market opportunities expressed in terms of demand forecasts and market shares are based on a host of factors outside the control of the promoter, whereas marketing strategy and marketing process are largely under his control. Hence, the formulation of a detailed marketing plan, specification of a proper marketing strategy, and the manner in which the marketing process should be undertaken would enable the promoter to copy with the uncertainties in the market place

more effectively than otherwise. It is also a fact that the estimated markets share of a promoter and his marketing strategy influence and reinforce each other and should never be viewed in isolation.

3.8.6 Operational Appraisal

Operational appraisal of a project helps in studying the capability of the project. The marketing exercise provides the basic input for deciding the installed capacity requirement for the project. The capability of the project must be sufficient to cater to meet the demand for the entire spectra of the plant product mix. Hence, the operational appraisal forecast a progressive build up on capacity utilisation over the initial years of the operation of the project and targets an initial period of 3-4 years within which the facility must attain its final capacity utilization level. This progressive built up of capacity utilization is translated into the number of shifts of operation that is required of each major plant and equipment. An attempt would also be made to economize on the number of shifts to be operated for each plant and equipment in the initial stages when the overall capacity utilization is not likely to reach its ultimate goal. Once the operational details are prepared, a broad requirement of manpower at different stages of capacity utilization is estimated.

3.8.7 Environmental Appraisal

Environmental is demand to include everything external to man. It includes region, surroundings or circumstances in which anything exists. Environmental management refers to environmental planning, protection, monitoring, assessment, research, education, conservation of resources etc. All human activities may be economic, social or anything else are essentially aimed at satisfying needs and wants of man through altering and using environmental resources. Production oriented projects refer to those projects which produce physical goods like cement paper steel, chemicals fertilizers etc. These projects convert j the natural resources into saleable and exchangeable products. Thus they cause a large number of physical changes and disruptions or, environment. Service oriented projects are concerned with rendering different types of services such as education, health, power, defenses, banking and insurance etc. Most of these projects are non physical in nature and do not directly affect the environment. A wide range of legislations have come into force for effective environment management. It has now become mandatory to obtain environmental clearance for all major projects on the basis of their Environmental Impact Statement.

After completion of comprehensive appraisal of a project on the basis of technical, financial, economic, managerial, operational and environmental aspects, the financial institutions or lending institutes may advise the entrepreneur to submit detailed project proposal. The financial institutions task does not end with proper appraisal and sanction of financial assistance. For proper implementation of a project, the financial institutions should ensure prompt disbursement, close supervision and follow up action. Project appraisal thus paves way for getting the clearance for project implementation.

Instruments of environmental appraisal

Environment is demand include every external to man. It includes region, surroundings or circumstances in which anything exists. Environmental management refers to environmental planning, protection, monitoring.

Considerations in Environmental Appraisal

In the environmental appraisal of a project, the following aspects must be covered;

a) A description of the project proposed by the entrepreneur should cover the details of materials, manpower and resources which are involved in undertaking such project.
b) The relationship of the proposed action to the land-use plans, policies and controls in the -affected areas or the project vicinity.
c) The probable impacts of the proposed project on environmental attributes.
d) Alternatives to the proposed action, including those not within the existing authority or agency.
e) Any probable adverse environmental effects that cannot be avoided.
f) Stating the method as to how each avoidable impact will be intimated.
g) The relationship between local short term uses of man's environment and the maintenance and enhancement of long term productivity.
h) Any irreversible and irretrievable commitments of resources including natural, cultural, labour and materials.

Thus, the environmental appraisal gives an opportunity to the entrepreneur to consider the effects of his project on the environment.

Once a comprehensive appraisal of a project is performed on the basis of technical aspects, financial aspects, economic aspects, managerial aspects, commercial aspects, operational aspects and environmental aspects, the financial institutions or the banks may advise the entrepreneur to submit the required information in the prescribed application form if the proposal is primafacie satisfactory. The entrepreneur of smaller projects will have to provide less information when compared with the large sized projects. The financial institution or lending institution task does not end with proper appraisal and sanction of financial assistance. For proper implementation of a project, the lending institution should ensure prompt disbursement, close supervision and follow up action. Thus, the project appraisal paves the way for getting the clearance of project implementation.

1.9 SUMMARY

The project is a significant groundwork of an enterprise and is also very crucial to the entrepreneur. It is an organized programme of pre-determined group of activities. Project management is an organized venture for managing projects. The location, type, technology, size, scope and speed are normally the factors which determine the effort needed in executing a project. Project can be classified under different heads. The project ideas as a process of identification of a project begin with an analytical survey of the

economy. Project undergoes various phases during its life cycle. These phases are: (i) Identification; (ii) Formulation; (iii) Evaluation; (iv) Appraisal; (v) Implementation; and (vi) Management.

Project report is a summery course of actions what the entrepreneur wants to achieve in his business and how he is going to achieve it. Project appraisal is made for both proposed and executed projects. For appraising a project, its economic, financial, technical, market and social aspect are analyzed. There are several tools and techniques which contribute significantly towards effective project management.

3.10 QUESTIONS

I. Short Questions

1. Define Project. Explain the definition of a project.
2. Explain the characteristics of a project.
3. What is project identification?
4. What is project formulation?
5. Define project report.
6. What is a payback period?
7. What is average rate of return?
8. Explain the net present value
9. Explain the Benefit Cost Ratio.
10. What is internal rate of return?
11. Expand SCBA. Explain the following reason need for SCBA.
12. Discuss about technical appraisal of a project.
13. Explain the operational appraisal.

II. Long Questions

1. What is project and explain the characteristics and classifications of project?
2. What is project plan?
3. What is a project report? Explain the scope of project report?
4. Explain the project life cycle.
5. What are the contents of a project report?
6. Describe the planning commission guidelines for formulation of the project report.
7. Define project appraisal and explain its objectives.
8. Explain the concept ‘payback period’ and discuss its advantages and disadvantages.
9. Discussed about economic appraisal.
10. Explain operational and environmental appraisal

1.10 MULTIPLE CHOICE QUESTIONS

1. Project appraisal is a (c)

a) Export Analysis b) Expert Analysis

c) Profitability Analysis d) None of the above

2. Power generation project, mineral development, and industrial development are the examples of ……. projects. (a)

a) Quantifiable b) Non-quantifiable

c) Sectoral d) Techno-economic

3. SWOT means (c)

a) Strengths, weaknesses, offers and threats

b) Strong, weaknesses, opportunities and threats

c) Strengths, weaknesses, opportunities and threats

d) Strengths, weaknesses, opportunities and task

4. Project life cycle consists (d)

a) Implementation b) Identification c) Formulation d) All the above

5. Gestation period is concerned with (c)

b) Idea creation period b) Incubation period

c) Implementation period d) Commercialization period

5. _____ analysis is to identify the financial characteristics

a) Economic b) Financial c) Input d) Operational

6. NPV method relates with: (c)

c) Time value of money b) inflated value of money

c) present value of money d) None of the above

7. Which of the following is physical resources? (c)

d) Marketing b) Finance

c) Resources d) None of the above

8. What is required for fixed capital and working capital of any enterprise? (a)

e) Finance b) Marketing

c) Planning d) None of the above

9.Which of the following is included in technical resources ? (c)

f) Production b) Marketing

c) Process of production d) None of the above

10.Resources is the medium for one's doing the work (a)

g) Essential b) Not essential

c) Neither (a) nor (b) of the above d) Both (a) and (b) about

11.Project identification deals with (a)

h) Viable b) Logical opportunity

c) Effective demand d) None of these

12. Following is not considered with quantifiable projects (c)

i) Power generation b) Mineral production

c) Family welfare d) Water supply

13. Lack of standardization of the equipment is due to: (b)

a) Internal constrains b) External constrains

c) Government barriers d) Regulatory barriers

14. Factor intensity oriented projects (d)

a) Capital oriented project b) Labour intensive project

c) Technology oriented project d) Both (a) and (a)

15. A project is : (a)

a) Cluster of activities b) Single activity

c) Group of innumerable activities d) None of the these

16. Project life cycle is not concerned with the following : (d)

a) Pre-investment stage b) Constructive stage

c) Normalization stage d) Stabilization stage

17. Project is not concerned with : . (d)

a) Innovation b) Vision

c) Risk d) Creativity

18. Project management is no concerned with: (d)

a) Functional Approach b) Centralization policy formulation

c) Decentralized implementation d) Decentralized policy formulation

19. Expansion project helps in : (c)

a) Supplementing the existing resources b) Capturing supply of critical inputs

c) Encashing additional opportunities d) None of these

20. Modernization improves: (d)

a) Products b) Production c) Processes d) Capacity

21. Project appraisal id made for project preparation (a)

a) Project b) Entrepreneur c) Product d) None of these

22. Every new business opportunity is Unique (c)

a) Easy b) Difficult c) Unique d) Above these

23. In case of site selection labour situation is considered as external factor (a)

a) External b) Internal c) Financial d) None of these

24. PV = $S \times \frac{1}{(1+r)^2}$, S refers to …… (a)

a) Cash flow b) funds flow c) years d) present value

25. PERT means (b)

a) Project Evaluation Review Technique

b) Programme Evaluation Review Technique

c) Programme Evaluation Review Tools

d) Plan Evaluation Review Technique

26. SCBA means (c)

a) Strength Cost Benefit Analysis

b) Science Cost Benefit Analysis

c) Social Cost Benefit Analysis

d) None of the above

27. CPM means (a)

a) Critical Path Method

b) Critical Path Material

c) Critical Path Mutual

d) None of the above

28. UNIDO means (a)

a) United Nations Industrial Development Organisation

b) Union Nature Industrial Development Organisation

c) United Nations Investment Development Organisation

d) None of the above

29. Market appraisal called as (b)

a) Managerial appraisal b) Commercial appraisal

c) Operational appraisal d) Environmental appraisal

30. Internal Rate of Return method is known as (d)

a) Yield on investment method b) Marginal efficiency of capital method

c) Marginal productivity of capital method d) all the above

Unit-4

Institutions Supporting Small Business Enterprises

4.0 LEANING OBJECTIVES

At the end of this unit you will learn

- Functions of NABARD
- Disused about NSIC
- Explain the functions of DICs
- Objectives of KVIC

4.1 INTRODUCTION

Financial institutions both at central and state levels play significant role in building Indian economy. They render supports to entrepreneurial projects with financial assistance to kick up business. So that,business enterprise, its stakeholders and nation prosper. Government of India has established various financial institutions named NABARD, SIDBI, NIC, KVIC, SIDIO etc to support the entrepreneurs with easy access to loans for entrepreneurial ventures. It has led to a boom of entrepreneurial activities in the country especially in the last two decade in the fields of machine tools, electrical and engineering goods, chemicals etc. Over the years, financial institutions are playing a key role in providing finance and counseling to the entrepreneurs to start up new ventures as well as modernise diversify, even rehabilitate sick enterprises. This unit discusses the roles played by various financial institutions in entrepreneurship development in India.

1.3 CENTRAL LEVEL INSTITUTIONS

There are many central level financial institutions which have been playing vital role in supporting financial assistance to entrepreneurs in India. They are:

1. National Bank for Agriculture and Rural development (NABARD)
2. Small Industries Development Bank of India (SIDBI)
3. NIC
4. Khadi and Village Industries Commission (KVIC)
5. SIDIO
6. National Small Industries Commission (NSIC)

1.3.1 NABARD (NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT)

The importance of institutional credit in boosting rural economy has been clear to the Government of India right from its early stages of planning. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into these very critical aspects such as the credit related issues for rural development. This has led to establishment of a unique development financial institution named National Bank for Agriculture and Rural Development (NABARD). It was approved by the Parliament through Act 61 of 1981. NABARDs resources were initially contributed by the central government and the reserve bank of India. To meet its loan requirement, it drew funds from the central government, the World Bank and other agencies. It is empowered to raise funds from the market also.

Functions of NABARD

1. NABARD acts as a refinancing institution and advances loans to agriculture, small scale and cottage industries.
2. It also provides financial assistance to handicraft sector, rural artisans, agriculturists, and entrepreneurs engaged in allied non farm sector activities.
3. It provides short term, medium term and long term credit to regional rural banks, co-operative banks and other financial institutions to promote integrated rural development.
4. It undertakes entrepreneurship development programmes, skill up gradation programmes for tiny, small and medium scale entrepreneurs, workshops and seminars to promote integrated rural development both in agriculture and industrial sectors.
5. NABARD is entrusted with the responsibility of co-ordination among union and state governments, the planning commission and other state level institutions engaged in promotion and establishment of small-scale, village and cottage industries, rural arts and crafts and micro-enterprises.

The following are the innovative initiatives of NABARD:

a. Micro-finance programme.
b. Natural resources management initiatives.
c. Empowerment of rural women through micro-credit, micro-enterprise and self-help group programmes.

d. Creation of special funds to support innovations in neglected areas.
e. Creations of millions of rural employment opportunities through initiatives like cluster development and rural entrepreneurship development programmes.
f. Construction of infrastructure like roads, bridges and rural hats etc.

Over a period of time, NABARD has ensured transfer of funds from urban India. This institution has grown in to dynamic organization worth Rs.62000 crores helping the rural masses in up liftsment of their economic conditions and physical quality of life.

Achievements of NABARD

NABARD plays an important role in economic upliftment of farmers, weaker sections by providing financial assistance in the form of loan. Thereby, it reduces regional disparities of the society. It is an institution in the organised rural credit structure. The term credits of NABARD are follows:

1. Short Term Credit: The NABARD sanctioned Rs.8,764 crores in 2002-03 as short term credit to SCBs and RRBs for financing seasonal agricultural operations, marketing of crops, purchase and distribution of fertilisers, and working capital requirements of cooperative sugar factories.

2. Medium Term Credit: The NABARD sanctioned Rs.496 crores in 2002-03 as medium term credit to SCBs and RRBs for approved agricultural purposes.

3. Long Term Credit: The NABARD provides long term loans not exceeding 20 years to State Governments to enable them to contribute to the share capital of the cooperative credit institutions. In 2002-03 it sanctioned Rs.62 crores to State Governments for this purposes.

4. Schematic Lending: The NABARD provides refinance facilities relating to minor irrigation, land development, farm mechanisation, plantation, horticulture, poultry, sheep breeding, piggery, fisheries, dairy development, storage, market yards, IRDP, etc.

5. Assistance to Non-Farm Sector: The NABARD provides financial assistance to the non-farm sector. The ceiling on individual loans under Composite Loan Scheme is Rs.50,000 and under Integrated Loan Scheme Rs.7.5 lakhs to enable the financing banks to meet the credit requirements of entrepreneurs for setting up cottage, tiny, village and small scale industries.

Further, State Cooperative Banks have been permitted to get refinance on an automatic basis from the NABARD through CCBs for financing industrial cooperative societies up to Rs. 7.5 lakhs. The Integrated Loan Scheme has also been extended to Land Development Banks for financing non-farm activities up to Rs. 7.5 lakhs.

SCBs have been permitted to draw refinance on automatic basis for loans to industrial cooperative Societies for modernisation of existing units up to Rs. 7.5 lakhs. With the introduction of Swarnajayanti Gram Swarozgar Yojna from April 1999 in rural areas, the NABARD provides refinance to commercial banks for loans extended by them under the scheme.

A wide spectrum of activities covering agricultural allied activities, industries, services and business that are bankable and viable are eligible for refinance.

6. Other Types of Assistance

The NABARD has started the following types of assistance recently:

a. It undertakes on a modest scale co-financing/direct financing of hi-tech and other special projects.
b. Beginning 1995-96, it has started sanctioning a separate Short Term (Seasonal Agricultural Operations) Credit limit to each of the SCBs/RRBs operating in the 114 identified districts in the country.
c. To step up credit flow to weaker sections including SCs/STs, the NABARD has earmarked a sum of Rs. 150 crores for refinance under the "SC/ST Action Plan" for allocation among commercial and cooperative banks. The level of refinance is 100 per cent.

7. Institutional Development: One of its important function is institutional development. In addition to inspection of cooperative banks and RRBs, it helps in their rehabilitation, reorganisation and re-establishment.

8. Cooperative Development Fund (CDF): NABARD set up CDF in 1993 for strengthening the cooperative credit institutions in the areas of organisational structure, human resource development, resource mobilisation, recovery position, etc. The assistance is provided to SCBs, CCBs, etc. by way of a grant or a soft loan or both. At the end of March 2003, cumulative loans sanctioned from CDF amounted to Rs. 65 crores.

9. Rural Infrastructure Development Fund (RIDF): KIDF-I was set up in 1995-96 with a corpus of Rs. 2,000 crores for providing funds to State Governments and State owned corporations to enable them to complete various types of rural infrastructure projects. This scheme had been continued in subsequent years as RIDP-II with Rs.2,500 crores in 1996-97, RIDF-III with Rs. 2,500 crores in 1997-98, RIDF-IV with Rs. 3,000 crores in 1998- 99, RIDF-V with Rs. 3,500 crores in 1999-2000, RIDF-VI with Rs. 4,500 crores in 2000-01, RIDF-VIl with Rs. 5,000 crores in 2001-02, RIDF-VIII with Rs. 5,500 crores in 2002-03 and RIDF-IX with Rs. 5,500 crores in 2003-04. The amount mobilised under various RIDF schemes amounted to Rs. 16,145 crores as at ending March 2002. The cumulative sanctions of loans under RIDF were Rs. 29,475 crores as at 31 March, 2003.

10. Memorandum of Understandings (MOUs): The NABARD signs MOUs with the' Cooperative banks and the concerned State Government for revamping and improving the cooperative credit structure. Similar MOUs exist between the RRBs and the sponsor banks.

11. Research and Development: It has been providing financial assistance for research and training to the staff of rural banking structure out of its R & D Fund and for strengthening the technical, monitoring,

and evaluation cells of RRBs. Its three staff colleges, CAB, and Banker Rural Development Institute have been providing research and training facilities in rural credit and development to the staff of banks. Despite its manifold achievements, NABARD has yet to become an apex regulator and development bank for farm lending.

1.3.2 SIDBI (SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA)

Small Industries Development Bank of India (**SIDBI**) is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. Set up on April 2, 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. Currently, the ownership is held by 34 Government of India owned / controlled institutions. Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries, it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India. Besides, it has been playing the development role in several ways such as support to micro-finance institutions for capacity building and on lending.

The main functions of SIDBI are the promotions and development of small scale industries by way of financing. The initial authorized capital of SIDBI was Rs.250 crores which can be extended up to Rs.1000 crores. The following functions are undertaken by SIDBI:

1. To promote small scale industries in semi-urban areas to create more employment opportunities.
2. To undertake technological up gradation and modernization of existing small scale industries.
3. To expand the channel for marketing the products of SSI sector both domestic and international markets.
4. To extend seed capital or soft loan assistance under national equity fund scheme and mahila udayam Nidhi scheme.
5. To grant direct assistance and refinance for exports of small scale sector.
6. To provide financial assistance to SFCs, SIDCs, commercial banks, regional rural banks through existing credit delivery system.
7. To provide factoring and leasing service.
8. To provide financial assistance to the institutes and organizations for undertaking entrepreneurship development programmes.

SIDBI Eligibility: New entrepreneurs setting up projects in tiny and small sector or existing sick SSI units, found potentially viable by the financial institutions and undertaking rehabilitation can apply to SIDBI for loan. All industrial activities and service industries except road transport, hotel, restaurant and hospital/nursing schemes are eligible for assistance under the scheme. The unit should be located in village/town having population not exceeding 5 lacs. However, in the cases of rehabilitation proposals, the project could be located in Towns.

SIDBI Project Cost: Project cost (including margin for working capital) should not exceed Rs.50 lacs in the case of new projects. In the case of existing limits Rs.25 lacs. Minimum promoters' contribution is 10% of project cost. Maximum loan eligibility Rs.10 lacs or 25% of the project cost. Only service charges of 5% p.a. are payable as interest -4% to SIDBI and 1% to be retained by the eligibility PUIs. Loan is repayable within 7 years inclusive of initial moratorium up to 3 years, security including collateral to be insisted upon.

1.3.3 NATIONAL INFORMATICS CENTRE (NIC)

National Informatics Centre (NIC) was established in 1976, and has since emerged as a "prime builder" of e-Government / e-Governance applications up to the grassroots level as well as a promoter of digital opportunities for sustainable development. NIC, through its ICT Network, "NICNET", has institutional linkages with all the Ministries /Departments of the Central Government, 36 State Governments/ Union Territories, and about 688 District administrations of India. NIC has been instrumental in steering e-Government/e-Governance applications in government ministries/departments at the Centre, States, Districts and Blocks, facilitating improvement in government services, wider transparency, promoting decentralized planning and management, resulting in better efficiency and accountability to the people of India.

"Informatics-led-development" programme of the government has been spearheaded by NIC to derive competitive advantage by implementing ICT applications in social & public administration. The following major activities are being undertaken:

- Setting up of ICT Infrastructure
- Implementation of National and State Level e-Governance Projects
- Products and Services
- Consultancy to the government departments
- Research and Development
- Capacity Building

During the last three decades, NIC has implemented many "network centric" application software for Programme implementation in various ministries and departments, using state-of-the-technology software tools. During 1980s and early part of 1990s, the policy thrust was on creating "Management Information System (MIS)" and "Decision Support System (DSS)" for development , planning and responsive administration in governments which led to the genesis of present day "e-Governance" / "e-Government". "Bridging the Digital Divide", "Social and Financial Inclusion through ICT" and "Reaching- the-Unreached" concepts were tried and made operational in the late nineties. NIC has vast expertise and experience in the design, development and operationalisation of various e-Government projects in the areas of Public Administration and Governance like Agriculture & Food, Animal Husbandry, Fisheries, Forestry & Environment, Industry, Health, Education, Budget and Treasury, Fiscal Resources, Transport, Water Resources, Court Management, Rural Development, Land Records and Property registration, Culture & Tourism, Import & Exports facilitation, Social Welfare Services, Micro-level Planning, etc. With increasing awareness leading to demand and availability of ICT infrastructure with better capacities and programme framework, the governance space in the country witnessed a new round of projects and products, covering the entire spectrum of e-Governance including G2C, G2B, G2G, with emphasis on service delivery.

NIC provides Nationwide Common ICT Infrastructure to support e-Governance services to the citizen, Products and Solutions designed to address e-Governance Initiatives, Major e-Governance Projects, State/UT Informatics Support and district level services rendered.

NIC has set up state-of-the-art ICT infrastructure consisting of National and state Data Centres to manage the information systems and websites of Central Ministries/Departments, Disaster Recovery Centres, Network Operations facility to manage heterogeneous networks spread across Bhawans, States and Districts, Certifying Authority, Video-Conferencing and capacity building across the country. National Knowledge Network (NKN) has been set up to connect institutions/organizations carrying out research and development, Higher Education and Governance with speed of the order of multi Gigabits per second. Further, State Government secretariats are connected to the Central Government by very high speed links on Optical Fibre Cable (OFC). Districts are connected to respective State capitals through leased lines.

Various initiatives like Government eProcurement System(GePNIC), Office Management Software (eOffice), Hospital Management System (eHospital), Government Financial Accounting Information System (eLekha), etc. have been taken up which are replicable in various Government organizations.

As NIC is supporting a majority of the mission mode e-Governance projects, the chapter on National e-Governance Projects lists the of details of these projects namely National Land Records Modernization Programme (NLRMP), Transport and National Registry, Treasury Computerisation, VAT, MG-NREGA, India-Portal, e-Courts, Postal Life Insurance, etc. NIC also lays framework and designs systems for online monitoring of almost all central government schemes like Integrated Watershed Management (IWMP), IAY, SGSY, NSAP, BRGF, Schedule Tribes and other Traditional Forest Dwellers Act etc.

ICT support is also being provided in the States / UTs by NIC. Citizen centric services are also being rendered electronically at the district level, such as Income Certificate, Caste Certificate, and Residence Certificate etc. along with other services like Scholarship portals, permits, passes, licenses to name a few.

In executing all these activities, NIC has been given recognition in terms of awards and accolades in International as well as National levels, which are listed in the Awards Section.

Thus, NIC, a small program started by the external stimulus of an UNDP project, in the early 1970s, became fully functional in 1977 and since then has grown with tremendous momentum to become one of India's major S&T; organizations promoting informatics led development. This has helped to usher in the required transformation in government to ably meet the challenges of the new millennium.

1.3.4 KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

As per the provisions of a special parliamentary Act 1956, the government has established Khadi and Village Industries commission.

Objects of KVIC

1. To preserve the traditional arts and crafts in India.
2. To equip the artisans and craftsmen to take up the challenges of the modern market.
3. To promote the handicrafts, khadi, village, and cottage industry by facilitating them with the necessary inputs like raw materials, equipments, capital, etc.
4. To develop a market for these products.

5. To introduce the products even in the international market.

To Achieve these objectives, the following schemes are provided by KVIC

a. Financial assistance for purchase of land, building, workshop, shed, machinery, and equipment at 4% rate of interest.
b. Working capital provision.
c. Equity capital.
d. Loan provision for purchase of raw materials.
e. Marketing avenues and selling centers for the products of artisans and craftsmen.
f. Subsidies for the registered societies of artisans and craftsmen belongings to scheduled castes, Scheduled tribes, ex-service men, women, etc.

In addition to these schemes, KVIC provides various facilities for cottage industry like integrated village development programe , special beneficiary schemes, silk industry development scheme, interest subsidy scheme, artisans employment guarantees etc. The government has defined "Gramodyog" (village industry) as

1. Population of the village should not be more than 10 thousand people.
2. Investment in the place of products, machines and equipment should not exceed Rs.15 thousand.
3. Manufacturing can be done either with power or with out power. It has approved nearly 96 industries Under the preview of the KVIC. These industries are grouped under the following categories:
   a. Material based industries.
   b. Industries based on products from forests.
   c. Agro-based industries.
4. Polymer and other chemical based industries.
5. Khadi and textile industry.
6. Service industry.

In order to popularize the schemes of the KVIC and to promote the products of the khadi and village industry, KVIC organizes exhibitions of these products. It arranges special shows on TV and radio. It also publishes a magazine called "Gramodyog". It organizes conferences and get-together of artisans and craftsmen. Thus, KVIC plays a significant role in the promotion and development of the khadi and village industry.

1.3.5 SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)- India's SME Development Agency

The Small Industries Development Organization (SIDO) is the national SME Development Agency of India. It is a major constituent of the Ministry of Small Scale Industries of the Government of India.

Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management, consultancy, industrial investigation, possibilities for development of different types of small-scale industries, industrial estates, etc.

The main functions of the SIDO are classified into:

(i) Co-ordination,

(ii) Industrial development, and

(iii) Extension.

ADVERTISEMENTS:

These functions are performed through a national network of institutions and associated agencies created for specific functions. At present, the SIDO functions through 27 offices, 31 Small Industries Service Institutes (SISI), 37 Extension Centres, 3 Product-cum -Process Development Centres, and 4 Production Centres.

All small-scale industries except those falling within the specialized boards and agencies like Khadi and Village Industries (KVI), Coir Boards, Central Silk Board, etc., fall under the purview of the SIDO.

The main functions performed by the SIDO in each of its three categories of functions are:

Functions Relating to Co-ordination:

a. To evolve a national policy for the development of small-scale industries,

b. To co-ordinate the policies and programmes of various State Governments,

c. To maintain a proper liaison with the related Central Ministries, Planning Commission, State Governments, Financial Institutions etc., and

d. To co-ordinate the programmes for the development of industrial estates.

Functions Relating to Industrial Development:

a. To reserve items for production by small-scale industries,

b. To collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance,

c. To render required support for the development of ancillary units, and

d. To encourage small-scale industries to actively participate in Government Stores Purchase Program by giving them necessary guidance, market advice, and assistance.

Function Relating to Extension:

a. To make provision to technical services for improving technical process, production planning, selecting appropriate machinery, and preparing factory lay-out and design,

b. To provide consultancy and training services to strengthen the competitive ability of small-scale industries.

c. To render marketing assistance to small-scale industries to effectively sell their products, and

d. To provide assistance in economic investigation and information to small- scale industries.

1.3.6 NSIC (NATIONAL SMALL INDUSTRIES CORPORATION LTD)

एन एस आई सी
NSIC
ISO 9001 : 2008
The National Small Industries Corporation Ltd

NSIC was started by the Central Government in 1955 with a view to promoting, aiding and fostering the growth of SSIs in the country focus on commercial aspects of these functions. It started with multiple objectives of helping SSI units for :(a) providing machinery on hire purchase, (b) assisting, marketing and exports, (c) enlisting SSI units for tender participation in Government purchases, (d) organizing supply of raw materials, (e) training of personnel and (f) assistance in modernization of the units.

The important functions of NSIC can be summed as under:

1. Financial assistance by way of hire purchase scheme for purchase of local and imported machinery.
2. Provision of various equipment on lease basis.
3. Assistance for marketing the produce in the country and also to help in exporting the products of SSI units.

4. Enlisting quality conscious good SSI units for sending enquiries of GOVT. stores and purchase departments.
5. Training of workers in various trades required for SSI units.
6. Assistance in up gradation of technology, processes and modernization of plant and machinery.
7. To make bulk purchases of important raw materials and distribute to SSI units at reasonable rates. This avoids speculation and exploitation by the traders.
8. To develop industrial estates and testing facilities in the industrial areas.

NSIC has got offices in various industrial cities and towns and is having socio-economic approach in industrialization of non-industry areas. It aims to create an industrial atmosphere with facilities and management support so that small entrepreneurs take up new projects. As a nodal agencies in playing supportive role to small industries it has helped to reduce the control of private traders who were exploiting the small industries in many ways. Its other objective of developing backward areas is still to prove successful in view of the various problems of business activities and demoralization set in due to failures of industries started in backward areas. The corporation has been assisting the sector through the following schemes and activities;

a. Hire-Purchase Scheme

Supply of indigenous and imported machinery (the value of which would not exceed Rs 30 million inclusive of the value of machinery and equipment already installed) on easy financial terms, special focus on first-generation entrepreneurs, women entrepreneurs, weaker sections, physically challenged and ex-servicemen.

b. Equipment Leasing

It is done mainly finance to facilitate SSIs in diversification and technology upgradation tax rebate on fully-year rentals.

c. Financial Assistance Scheme

Five financial centers in operation at New Delhi, Mumbai, Ahmedabad, Banglore and Goa provide finance to SSIs for the following activities.

- Marketing
- Bills discounting
- Raw material purchases
- Exports

d. Raw Material Assistance

- Supply under the off- the- shelf basis scheme
- Import of raw materials
- Providing scarce material on priority basis

- Supplies through NISC depots/ go downs

e. Marketing Assistance

The objectives of the marketing programme of NSIC are the following.

- Ensure fair margin to producers of goods
- Standardisation and quality control with testing facilities
- Market products under a common brand name
- Provide publicity to SSI products
- Upgrade technology by supplying sophisticated machinery and equipment

f. Government Store Purchase Programme

Eligible SS's (those competent to execute government orders) are registered under the Single Point Registration Scheme of the NSIC. I3onafide SSI units registered with the Directorate of Industries/ District industries Centres are enlisted under this scheme and become an important source of supplies to Central and State governments, public sector undertakings and others. The units registered under the Single Point Registration Scheme with the NSIC are given the following facilities.

- Issue of tender forms/sets free of cost
- Advance intimation of tenders issued by DGSandD
- Exemption from payment of earnest money
- Waiver of security deposit up to the monetary limit for which the unit is registered
- Issue of competency certificate in case the value of an order exceeds the monetary limit, after due verification

In addition, these units also get other facilities such as consideration of price preference upto 15 per cent on merit over the price quoted by large units and the procurement as per the reserved list.

g. Technology Transfer Centre (TTC)

To upgrade technology in the changed economic scenario following reforms. NSIC has established a TTC at Okhla (Delhi). At the enterprise level, the primary concern is to assist small-scale enterprises in technology acquisition, adoption, and upgradation through its technology information and promotion services. The services offered to industries include the following.

- Information dissemination on technology, business, and investment opportunities
- Matching of business partners and search for technology worldwide
- Training, consultancy, and technology evaluation

- Technology transfer programmes, such as technology missions/delegations and expositions
- Facility for a reference library publications (periodicals/catalogues)

h. Tender Marketing: It Participates in bulk local or global tender on behalf of small scale industries or enterprises. It is aimed at assisting SSIs with the ability to manufacture quality products but which lack brand equity and credibility or have limited financial capabilities.

1.4 STATE LEVEL INSTITUTIONS

State level institutions supporting entrepreneurs are below

1. State Small Industries Development Corporation (SSIDC)
2. District Industries Centers (DICs)
3. State Financial Corporation (SFC)

1.4.1 SSIDC (STATE SMALL INDUSTRIES DEVELOPMENT CORPORATION)

Under the companies Act, SSIDC were started in 1956 in all the states under the companies Act. These state government undertakings take care of the growth development needs of village industries, tiny industries and small industries. Different states give focus and important to different industries based on the raw-materials and skills availability in their states.

In other words Small-Scale Industries Development Corporation is state level corporation. It caters to the marketing requirements of the small-scale entrepreneurs.

The main functions of SSIDC are as under:

1. Assist for procurement of machineries on hire purchase scheme.
2. Assist in marketing of the products.
3. Keep stock of vital and scares raw-materials and distribute to small industries.
4. Develop industries sheds, estates and go downs for use of small industries.
5. Assists entrepreneurs in identifying products and preparing project reports.
6. Organizes entrepreneurship training programmes.
7. Supplies scarce raw material at reasonable rates by procuring these materials in a bulk quantity
8. From their main suppliers.
9. Arranges imported raw materials.
10. Assist entrepreneurs in identifying products and preparing project reports.
11. Provides credit facilities for raw material products.
12. Arranges for marketing assistance to products manufactured by small entrepreneurs.
13. Provides permanent display, exhibition and sale facilities for small entrepreneurs.

1.4.2 DICS (DISTRICT INDUSTRIES CENTERS)

After establishing various state level industrial support organizations, a need for district level centers was felt necessary. In view of this DICs were started in 1978 to focus on district level and rural level promotion of small scale industries. All the procedures and formalities for starting a small industry were provided through a single window in DICs. Thus it was felt the implementation of central and state government policies will be easier and smoother through DICs. This is a state government body and managerial level personnel are employed to take care the responsibilities in all the DICs.

The main functions of DICs are follows:

1. To conduct service about industrial growth possibilities with reference to skilled work force, market infrastructures etc.
2. Organize techno commercial reports on the identified lines and then give advice to new Entrepreneurs on these aspects.
3. Provide technical guidance to entrepreneurs regarding selection of machinery, imports, imports Substitution and raw-materials.
4. Advice entrepreneurs about favourable and unfavourable factors pertaining to various schemes And projects put up to them.
5. To help small industries in marketing their products.
6. To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in industrial sector, service sector and business sector.
7. To prepare and keep model project profiles for reference of the entrepreneurs
8. To prepare action plan to effectively implement the schemes already identified.
9. To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for importing machineries.
10. To provide guidance for appropriate loan amount and documentation.
11. To assist entrepreneurs for availing land and shed, equipment and tools, furniture and fixtures.
12. To appraise the worthiness of the project-proposals received from entrepreneurs.
13. To assist the entrepreneurs in obtaining required licenses / permits / clearance.
14. To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation.
15. To conduct product development work appropriate to small industry.
16. To help the entrepreneurs in clarifying their doubts about-the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to Government departments.
17. To conduct artisan training program.
18. act as the nodal agency for the district for implementing Prime Minister Rojgar Yojana (PMRY).

19. To function as the technical consultant of DRDA in administering the IRDP and TRYSEM program.
20. To help the specialised training organisations to conduct.

District Industries centre are supposed to provide pre-investment, investment and post-investment assistance to entrepreneurs under one roof. These centres have done commendable work in the promotion of small industries, development of entrepreneurship and generation of self-employment. DICs function as torch-bearer to the beneficiaries or entrepreneurs in setting up and running the business enterprise from the concept to commissioning. But much is still desired to be done to make the DIG really one-window service. Steps should be taken to strengthen and suitably restructure the District Industries Centres for playing a leading role in district level industrial development.

1.4.3 SFC (STATE FINANCIAL CORPORATION)

The State Financial Corporation Act was passed by Parliament on 1951, to finance small and medium sized financial concerns. The first SFC was set up in Punjab in 1933. Subsequently in other State too, SFCs were set up. At present there are, in all, 18 SFCs in the country. Normally, operations of SFCs are confined to their respective States. However, in some cases they extend to neighboring States or Union Territories. Finance is another important factor of production. The easy availability of financial resources is an impetus for the speedy development of industries. Particularly, new entrepreneurs have a severe problem of dearth of capital.

Objectives of State Financial Corporation: The principal object of the SFCs is to provide medium and long-term financial assistance to small and medium enterprises, particularly when normal banking accommodation is not available.

SFCs collectively sub serve the broad national objective of economic growth with accent on promotion of small enterprises, balanced regional growth and widening of the entrepreneurial base through encouragement of new entrepreneurs.

It gives long term loans for the purchase of fixed assests like land, building, machinery and equipment. Loans are given for the new industrial units as well as for the modernization of the exiting unit. Loans are not given for the repayment of the working capital. Recently, SFC gives financial assistance for the repayment of working capital worth Rs.10 lacs. For this purpose the total project cost limit is Rs.20 lacs.

Industrial units entitled for the loans from the SFC are.

1. Proprietary concern.
2. Partnership concern.
3. Hindu undivided family.
4. Public limited company.

5. Registered co-operative society.

Functions and Types of Assistance : The SFCs have been set up to extend long-term finance to small and medium-scale industrial undertakings organized as public or private companies, co-operatives, partnerships or proprietary concerns. The SFCs render assistance in the following forms:

(i) Granting loans or advances, or subscribing to the debentures of industrial concerns; loans to be repayable within 20 years;

(ii) Guaranteeing the loans raised by industrial concerns on such terms and conditions as may be mutually agreed upon, but they should be repayable within 20 years;

(iii) Guaranteeing deferred payments of any industrial concern which purchases capital goods within India;

(iv) Underwriting the issue of stocks, bonds or debentures of industrial concerns, subject to their being disposed of in the market within 7 years;

(v) providing foreign exchange loans under the World Bank Scheme;

(vi) Participating in the equity capital of the small-scale industrial units coming up in backward areas; and

(vii) Providing for discounting of bills of exchange.

Besides, the SFCs act as agents of the Central Government, State Government, the JFCI or any other financial institution for the grant of loans or advances to, or subscribing to the debentures of an industrial concern.

The SFCs cannot grant assistance to a concern whose paid-up capital and free reserves together do not exceed Rs. 1 crore.

Resources : The resources of the SFCs consist of:

1. capital and reserves
2. bond and debenture issue
3. borrowings from the Reserve Bank of India, the State Governments and refinancing from the Industrial Development Bank of India, and
4. fixed deposits.

1. Capital and reserves: The paid-up capital of all the SFCs taken together was Rs. 1,004.45 crores in 1992. The share capital of the SFCs has increased substantially over the years. Before 1975 the share capital of the SFCs was distributed among (i) State Governments (ii) The Reserve Bank of India (iii) The Industrial Development Bank of India (iv) Scheduled banks, Insurance companies and other financial institutions, and (v) Other parties.

Reserves maintained by the SFCs have been classified as: (i) General Reserve Fund (ii) Special Reserve Account (iii) Reserve for Bad and Doubtful Debts; and (iv) Reserves for Bad Investments. Reserve funds of SFCs stood at 205.58 crores in 1992.

2. **Bonds and debentures:** The SFCs can also float bonds or debentures in order to raise resources. They are, however, required to consult the Reserve Bank in regard to bond or debenture issues. The SFC's bonds and debentures are mostly subscribed by Commercial Banks, the Life Insurance Corporation of India and other financial institutions. As on March 1992 the bonds and debentures outstanding aggregated Rs. 2,568.32 crores. They are presently an important source of the SFCs' resources, accounting for about 34.0 percent of them.

3. **Borrowings** : Apart from bond and debenture issues and acceptance of deposits, the SFCs borrow also from the Reserve Bank, the State Governments IDBI and SIDBI. The borrowings of the SFCs including the bond issues at any time should not exceed 10 times their paid-up capital and reserves.

In recent years refinance from the IDBI and SIDBI has become the most important source of funds for the SFCs. As in March 1992 it contributed around 40 percent of the total resources of the SFCs. The IDBI and SIDBI provide assistance to small entrepreneurs and industrial undertakings located in backward areas through the SFCs under the refinance arrangements. The SFCs get 100 percent refinance in respect of their term loans to

(i) small-scale units

(ii) units in backward areas, and (iii) other units up to Rs. 5 lacs.

In all other cases, the maximum refinance obtainable is 80 percent of loan.

4. **Fixed deposits** : The SFCs are permitted to accept deposits from the respective State Governments. They can accept deposits from local authorities and public with the prior approval of the government. Deposits are made for periods exceeding five years and are guaranteed by the government. The statutory condition in respect of deposits is that they must not exceed the paid-up capital of SFCs.

Operations:

1. **Cumulative assistance**: The SFCs had started their operations on the modest scale and their lending was rather small in the early years of their existence. So much so that until March 1975 their cumulative loans sanctions aggregated only Rs. 437/- crores. Their loans and advances picked up thereafter in a big way. In 1992-93 assistance sanctioned by SFCs stood at Rs. 2,151.70 crores as against Rs. 1,988.40 crores in 1991-92. Assistance disbursed in 1992-93 stood at Rs. 1,652.80 crores as against Rs. 1,540.10 crores in 1992. Cumulative sanctions of loans by SFCs up to end-March 1993 stood at Rs. 15,629.40 crores while cumulative disbursements were Rs. 11,835.10 crores.

Thus, the assistance provided by the SFCs has increased significantly in the recent years, but a disquieting feature of their operations has been the deteriorating over dues position. The increasing over dues, which are largely on account of delays in implementation of projects and industrial sickness, has considerably cut into the resources available to the SFCs for recycling. The SFCs are primary lending institutions. Their interest in underwriting is rather limited. This judgment about them is clearly supported by the fact that underwriting does not account for even 1 percent of their financial assistance.

1. **Assistance to small enterprises**: The SFCs were established to provide financial assistance to both small and medium enterprises. Since the concept of small unit has changed over the years, it is somewhat difficult to determine quantitatively how much financial assistance has been provided to small enterprises.
2. **Assistance to backward areas**: As important aspect of the SFCs lending policies assistance to industrial enterprises located in backward areas. This is in conformity with the national policy, which attempts to reduce regional imbalances. The SFCs have worked out a scheme of confessional financial assistance to industrial units located in backward areas with the purpose of inducing industrial activity in these regions. In terms of this scheme industrial concerns in these areas get soft loans at confessional rates, lower margins, reduced services charges and so on. The IDB1 also encourage the SFCs to provide increased assistance to units in backward areas by providing liberal refinancing facility. The impact of these measures is now visible as industries are now being set-up at places where not one would have otherwise taken by initiative.

In 1970-71 the SFCs entered a new field by providing assistance to business entrepreneurs. This kind of assistance is provided liberally to technically competent persons to encourage them to start their own industries. In fact, it is in conformity with the self-employment program of the government. The terms and conditions of the loans in respect of interest, margin requirements etc., are relatively easy. For a long time the SFCs have made an arrangement with the IDBI, whereby they can provide assistance in foreign currency. In fact, it is the IDA credit that reaches the SFCs through the IDBI under its refinance scheme.

Industry-wise the SFCs funds have reached a variety of traditional as well as modern industries. Initially the major part of their loans had gone to agro-based industries. Later on their share in the SFCs loan sanctions declined to about one-fifth. Now modern industries like chemicals and fertilizers, machinery manufacturers, transport equipment, metal products, basic metal industries, electrical goods and so on, account for a little more than two-fifths of the SFCs' loans.

Critical appraisal: The Working Group appointed by the Reserve Bank of India to look into the functioning of the SFCs has found that the performance of the various State Financial Corporation has not

been very satisfactory. The SFCs have failed to meet the demands of medium and small industries adequately. Apart from the soft loans, which they now sanction, on all other loans their rates of interest are high and terms and conditions stringent. In recent years a disquieting feature of their operations has come to limelight. Their overdue have risen steadily over the last few years cutting into the resources available for recycling.

Some important beneficiaries are listed below:

1. General loan scheme for the technically and feasibly viable projects.
2. Purchase of machinery.
3. Modernization.
4. Quality standardization and testing facility.
5. Medical professionals.
6. Hospitals and nursing homes.
7. Small nursing homes and diagnostic centers.
8. Ex-servicemen.
9. Women entrepreneurs.
10. Hotel and restaurants.
11. Tourism.
12. Joint loans.
13. Single window.
14. To avoid the sickness of the unit.
15. Nation equity fund.
16. Mobile vans.
17. Marketing avenues for the village and cottage industry products.
18. Service industry as enlisted by SFC.
19. Qualified professionals.
20. Purchase of computers.
21. Vehicles.

Important aspects and conditions considered by SFC while scrutinizing the loan proposals are:

1. Promoter's contribution.
2. Debt-Equity ratio.
3. Margin.
4. Security and collateral security.

1.5 OTHER FINANCIAL ASSISTANCE

Other Financial Institutions in India: The various institutions which provide finance with the type of assistance to the entrepreneurs in the country are listed below:

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India Ltd. (IFCI)
3. Industrial Credit and Investment Corporation of India
4. Life Insurance Corporation of India (UC)
5. Unit Trust of India (UTI)
6. Industrial Reconstruction Bank of India (IRBl)
7. Export Bank of India (Exim Bank)
8. National Industrial Corporation of India Ltd. (NIDC)
9. Regional Rural Banks
10. Commercial Banks

These institutions are discussed as follows:

1) Industrial Development Bank of India (IDBI): The IDBI was established on July 1, 1964 by the Reserve bank of India under the Act of parliament as the Principal financial institution in the country. Initially, it was a wholly-owned subsidiary of Reserve Bank of India and in February 1976, the IDBI was made an autonomous organisation and its ownership passed on to the government of India from the Reserve Bank of India. The main functions of IDBI are as follows:

i. The IDBI provides assistance to the small-scale sector through its scheme of refinance and bills rediscounting scheme
ii. The financial assistance has been indirect in the form of refinancing of loans granted by the commercial banks and the State Financial Corporations
iii. In order to assist the small-scale sector, IDBI has setup "Small Industries Development Fund" in May 1986. This fund basically aims at providing a focal point to co-ordinate financial and non-financial inputs required for growth of small industries sector
iv. In association with Government of India, IDBI has constituted "National Equity Fund" to provide equity type of support to tiny and small-scale units which are engaged in manufacturing activities. The scheme is administered by IDBI through nationalised banks
v. The IDBI has also introduced the "single window assistance scheme" for grant of terms loans and working capital assistance to small, tiny and medium scale enterprises
vi. The IDBI has also setup a "Voluntary Executive Corporation Cell" to utilise the services of experts, professionals for counselling small units and for providing consultancy support in specified areas.

2) Industrial Finance Corporation of India Ltd (IFCI):

The Industrial Finance Corporation of India was established on 1st July 1948; under Industrial Finance Corporation Act 1948 as the first development financial institution in the country to make the medium and long-term finance more readily available to industrial concerns in India. On July 1st 1993 it was converted into a public limited company.

Financial Resources. The IFCI was set up with an authorised capital of Rs. 10.00 crores divided into 20,000 shares of Rs. 5,000/- each. Later on, this authorised capital was raised to Rs. 20.00 crores. Originally, the Government of India, Reserve Bank of India, Insurance concerns, Scheduled banks and Co-operative banks were the shareholders. In 1964, the share capital held by the Central Government and the Reserve Bank of India was transferred to the Industrial Development Bank of India. Thus, the IFCI became the subsidiary of the IDBI. Now the IDB1 alone holds 50% of its share capital and the remaining portion is held by the Insurance Corporations, Commercial Banks and Co-operative Banks.

The Corporation is authorised to issue bonds and debentures to raise additional resources. It can borrow from the government, RBI and IDBI. It can also collect resources through Public Deposits. It can also borrow in foreign currency. There are certain restrictions on its borrowing as per the Act.

Functional or Activities of IFCI Ltd. Varshney and Mittal has classified the functions of IFCI into following three categories : (i) Project finance (ii) Financial services (including Merchant Banking and Allied services) (iii) Promotional services

Following are the important functions of IFCI Ltd. :

(i) Subscribing to the shares of any industrial concern,

(ii) Guaranteeing loans in foreign currency (with the prior approval of the Central Government) raised from or credit arrangements made with any bank or financial institution in any country outside India by industrial concerns, (iii) Granting loans or subscribing to debentures repayable with a period not exceeding 25 years.

(iv) Underwriting the issue of shares or debentures by industrial concerns, subject to their disposal by the Corporation within a period of seven years. This limit may be waived with the permission of the Union Government.

(v) Guaranteeing deferred payments due from any industrial concern;

(vi) In connection with the import of capital goods from outside India

(vii) In connection with the purchase of capital goods within India,

(viii) Guaranteeing loans;

(ix) raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the market

(x) raised by industrial concerns from scheduled banks or State cooperative banks.

(xi) Acting as agent for the Central Government or with its approval, from the World Bank in respect of loans granted or debentures subscribed by either of them.

(xii) Acquiring, with the approval of the IDBI, an undertaking including the business assets and liabilities of any institution, the principal object of which is the promotion or development of industry in India or the grant of financial assistance for such promotion or development.

In recent years, IFCI has started new promotional schemes, such as:

(i) Interest subsidy scheme for women entrepreneurs.

(ii) Consultancy fee subsidy schemes for providing marketing assistance to small-scale units.

(iii) Encouraging the modernization of tiny, small-scale and ancillary units and

(iv) Control of pollution in the small and medium-scale units.

Since 1988-89, IFCI introduced two new schemes of financial assistance, viz., a scheme for equipment leasing and a scheme for equipment procurement. Under the Equipment Leasing Scheme, IFCI provides equipment (imported or indigenous) to the existing industrial concerns by financial lease. Under the Equipment Procurement Scheme, IFCI agrees to procure equipment and then to resell the same, by endorsement of documents, to the eligible existing industrial concerns in the corporate or co-operative sectors.

IFCI is also diversifying its activities in the field of merchant banking to encompass other financial services, particularly project counselling, syndication of loans, formulation of rehabilitation programmes, assignments relating to amalgamations and mergers, etc.

Evaluation: The Corporation has rendered a very useful service in relation to industrial development in the country during the last 46 years of its existence. A commendable service of the Corporation is in the direction of extending assistance to co-operatives. It has fulfilled the task of assisting new entrepreneurs and technocrats or professionally qualified persons. It has also extended its activities to public sector undertakings.

The net cumulative financial assistance sanctioned by the IFCI up to 31st December, 1992 aggregated to Rs. 14,609/- crores in respect of 4211 projects. The total assistance disbursed on that date was Rs. 9,756/- crore. Important industries which received assistance from the IFCI are fertilizers, textiles, sugar, paper, cement, iron and steel, automobile types, industrial chemicals, etc. The Corporation has assisted projects in the co-operative sector, joint sector and the public sector.

IFCI has sponsored Risk Capital Foundation in 1972 and the Management Development Institute in 1974-75.

All these things have resulted in:

(i) Provision of employment to lakhs of people,

(ii) Encouragement to new entrepreneurs,

(iii) Creating a broad based investing class,

(iv) Diversification of industrial production in the country,

(v) Correction of regional imbalances in the country.

Over the years, in its developmental and promotional role, IFCI had identified several gaps in the institutional infrastructure and promoted various specialized institutions. Some of these are as follows :

(i) Management Development Institute.

(ii) Risk Capital & Technology Finance Corporation Ltd. (RCTC)

(iii) Tourism Finance Corporation of India Ltd. (TFCI) (iv) Rashtriya Gramin Vikas Nidhi (RGVN) (v) Investment Information & Credit Rating Agency of India Ltd.(ICRA) (vi) Tourism Advisory & Financial Services Corporation of India Ltd. (TAFSIL)

(vii) Institute of Labour Development (ILD)

Besides the above, IFCI has recently (1995) established the following:

(a) IFCI Financial Services Ltd. This will provide merchant banking and allied services to its clients.

(b) IFCI Investor Services Ltd. It is intended to provide registrar and transfer agent services.

(c) IFCI Custodial Services Ltd. It will render custodial services to its clients

Institutions Co-sponsored by IFCI

IFCI has also co-sponsored the following national institutions :

(i) Entrepreneurship Development Institute of India

(ii) A B Homes Finance Ltd.

(iii) Over the Counter Exchange of India

(iv) Stock Holding Corporation of India Ltd.

(v) Securities Trading Corporation of India Ltd.

(vi) National Stock Exchange of India Ltd.

(vii) Biotech Consortium India Ltd.

(viii) LIC Housing Finance Ltd.

(ix) QIC Housing Finance Ltd.

IFCI has also established 17 Technical Consultancy Organizations in various States. IFCI is focusing on enlarging the network of institutions that can provide it a strategic edge in the redefined market place, which is becoming global. As part of this program, IFCI has promoted three subsidiary companies, viz., IFCI Financial Services Ltd., IFCI Investors Services Ltd., and IFCI custodial services. IFCI has also decided to set up IFCI Bank and a clearing house for Securities.

3) **Industrial Credit and Investment Corporation of India Ltd. (ICICI):** Industrial Credit and Investment Corporation of India (ICICI) It was founded on January 5, 1955 as a public limited

company with government support and under the sponsorship of the World Bank, and representatives of the Indian industry.

Features: The type of assistance and scope of activities of the ICICI were more or less similar to those of the IFCI. It was one of the earliest organizations to start merchant banking services in India through its merchant banking division; it has developed the field of lease finance and installment sales; it has played an important role in setting up institutions, such as Over-the-Counter Exchange, TDICI, SCICI, CRISIL, and venture capital funds, through which it provides a variety of financial services.

The resources of ICICI are in the form of (a) share capital, (b) initial interest-free loan by the Government of India (GOI), (c) advance in foreign currency by the World Bank, (d) rupee loans by IDBI, (e) borrowings from the RBI, (f) lines of credit from the World Bank, (g) bond issues in India and foreign capital markets, (h) issues of shares to Indian public, and (i) reserves.

Diversification: It has now diversified into a wide range of financial services such as investment banking, commercial banking, asset management, investor services, and broking through the setting up of many specialized subsidiaries which include: (i) ICICI Banking Corporation Ltd., (ii) ICICI Securities and Finance Company Ltd., (iii) ICICI Asset Management Company Ltd., (iv) ICICI Trust Ltd., (v) ICICI Investors' Services Ltd., (vi) ICICI Brokerage Services Ltd., (vii) ICICI Credit Corporation Ltd., (viii) SCICI Securities Ltd. It has 50 per cent shareholding in TDICI Ltd., which, therefore, belongs to the ICICI Group. SCICI Ltd. has been merged with the ICICI with effect from April 1, 1996.

Recent Developments: ICICI Bank, The original ICICI has now ceased to exist as a separate or an independent entity. In May 2002, the merger of ICICI, ICICI PFS and ICICI Capital with ICICI Bank was effected, creating what is now referred to simply as ICICI Bank. The organisation structure of ICICI Bank is divided into five principal groups: (a) Retail banking; (b) Wholesale banking; (c) Project finance & special assets management, (d) International business; and (e) Corporate centre.

Services of ICICI Bank: Today, ICICI Bank is the largest bank in the private sector in India. It has approximately 540 branches and over 1000 ATM machines. It offers diversified financial services at both the corporate and retail level. The firm's success is based on a strategy that focuses on technology, low-cost branches and strong management.

Role of Technology: Technology is a very important aspect of ICICI Bank's innovations, as the firm has taken advantage of the affordability of technology to enhance its business. The financial services company has allied itself with a number of other companies in order to offer innovative services. They have partnered with: (a) Orange and Airtel to provide WAP-based m-commerce (mobile/telephone banking), (b) Compaq to develop a payment gateway, (c) Yahoo to provide online financial information, and (d) Satyam Infoway to offer retail financial products over the Internet. ICICI and its subsidiaries have portals that allow its customers to access accounts and products on-line, offering cutting-edge web-based

tools. ICICI was the first of the Indian financial services firms to aggressively pursue an e-commerce strategy and has established a reputation as the leader in this area. The firm has invested in the development of its e-commerce group and has dedicated resources to utilise the technological advantage for better customer service and increased internal efficiencies.

4) Life insurance Corporation of India (LIC):

The Life Insurance Corporation of India (LIC) was established under the LIC Act in 1956 as a wholly-owned corporation of the Government of India, on nationalization of the life insurance business in the country. LIC offers a variety of insurance policies to extend social security to various segments of society. It has been deploying its funds in accordance with plan priorities.

As per its investment policy, it invests 75% and above of the accretion to its Controlled Fund in Central and State Governments' securities including government-guaranteed marketable securities and in the socially oriented sectors. It also provides loans for various purposes like housing, water supply, rural electrification, etc. to benefit individuals and groups. LIC also provides term loans and underwriting/direct subscriptions to shares and debentures of corporate sector.

During the year 1994-95, LIC sanctioned assistance to corporate sector (including term-loans to other financial institutions) Rs. 1790 crore of which Rs. 1343 crore were disbursed. Of the total assistance sanctioned, term-loans accounted for 31.4%. Cumulatively, up to end March 1995, LIC's sanctions stood at Rs. 11,563 crore including term-loans of Rs. 3,758 crore (32.5% of total sanctions).

During 1994-95, assistance sanctioned to corporate sector stood at Rs. 113 crore. The private sector claimed the higher share (57.8%) in total sanctions. It was distantly followed by public sector (34.1%) and co-operative sector (8%). As regards the purpose-wise assistance sanctioned, the new projects claimed maximum share of 37.3% in total sanctions, followed by expansion/diversification (31.2%) and modernization/rehabilitation/balancing equipment (12. 4%).

5) **Unit Trust of India (UTI):** The Unit Trust of India was setup by the Government of India in 1964 under an Act of parliament. The main objectives of Unit Trust of India are:

   a) To mobilise savings of small investors through sale of units

   b) To channelise these savings towards corporate investment. The UTI has introduced many schemes which aimed at common investors. These schemes are mainly primary Equity Fund, Retirement Benefit Plan, Grihalaxmi Unit Plan, Unit Scheme 1995 and Columbus India Fund. The UTI also provides financial assistance to corporate sector in the form of term loans, and underwriting direct subscription to shares and debentures.

6) **Industrial Reconstruction Bank of India (IRBI):** Industrial Reconstruction Corporation of India was setup in 1971 under the Indian Companies Act to act as an agency to rehabilitate the sick units. But in the year 1984, the Government of India renamed the 1RCI as Industrial Reconstruction Bank

of India by an Act of Parliament. Thereafter, it acts as a reconstruction agency to revive, reconstruct and rehabilitate the sick industrial concerns. The Bank plays a significant role in promoting entrepreneurial and industrial development in the country. The IRB undertakes the following functions:

1) It provides financial assistance to industrial concerns

2) It acts as an agency of State Government as well as Central Government and also of other financial institutions as per the authorisation of the Government

3) It provides consultancy and merchant banking services for reconstruction and development of industrial units

4) It also helps in providing infrastructural facilities, raw-materials, machineries and other tools on the basis of hire-purchase and lease schemes.

7) **The Export-Import Bank of India:** The Export and Import Bank of India commonly known as the Exim Bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers and to function as the principal financial institution for coordinating the working of other institutions engaged in financing of exports and imports of goods and services. The Exim banks provide refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

Capital Resources of the Exim Bank. The issued and paid-up capital of the Exim bank is now Rs. 440/- crores and is Rs. 100/- wholly subscribed by the Capital Government. The Bank raises additional resources through borrowing from the Government of India, from RBI and from the market through the issue of bonds and debentures. It borrows foreign currency from other countries.

Functions of Exim Bank. The functions of the Exim Bank include: (i) financing of exports and imports of goods and services, not only of India but also of third world countries, (ii) financing of exports and imports of machinery and equipment on lease basis. (iii) financing joint ventures in foreign countries, (iv) providing loans to Indian parties to enable them to contribute to the share capital of joint ventures in foreign countries, (v) undertake limited merchant banking functions such as underwriting of stocks, shares, bonds or debentures of companies engaged in export or import; and (vi) provide technical, administrative and financial assistance to parties in connection with export or import.

At present, the Exim Bank undertakes 9 lending operations under three broad categories, as for example:

1. Loans to Indian companies are provided under the following: (i) direct financial assistance to exporters (ii) technology and consultancy services, (iii) overseas investment financing for equity participation by an Indian company in joint ventures abroad; and(iv) pre-shipment credit in case of export contract for capital goods.
2. Loans to foreign governments, companies and financial institutions are provided under:

(i) overseas buyers' credit scheme

(ii) lines of credit to foreign governments, and

(iii) re-lending facility to banks overseas.

3. Loans to commercial banks in India include ;

(i) export bills re-discounting scheme (short term bills); and

(ii) refinance of export credit.

8) Regional Rural Banks (RRBs): These banks came into existence with the sponsorship of Central Government, State Government and a specific commercial banks. The functions of regional rural banks are as follows:

1) To provide loans and advances to small and marginal-farmers, agricultural labourers, artisans, etc.
2) To advance financial assistance to small entrepreneurs for establishing small and tiny enterprises
3) To provide financial assistance to small entrepreneurs for development of trade, commerce, industries, agriculture and other allied activities in rural areas.

9) National Industrial Development Corporation Ltd. (NIDC): This was established in the year 1954 to bring about a balanced development of industries both in private and public sectors. Its main objective is to promote small and medium - scale industries- The following functions are being undertaken by the N.I.D.C:

1) It gives emphasis on manufacture of capital goods and machine tools
2) It extends financial assistance for rehabilitation and modernisation of industries like cotton textiles, machine tools industry
3) It also can supply machinery, technical counselling and any other facility which the industrial units need from time to time.

10) Commercial Banks: Commercial banks assist in providing finance to the entrepreneurs. Financial assistance may take the form of term loan or working capital. In general, Commercial banks provide short-term loans in the shape of working capital to the small entrepreneurs. In recent times commercial banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their progress and development. They have now entered the challenging field of promoting new small-scale entrepreneurs through entrepreneurship development programmes.

1.6 SUMMARY

Growth and development of SSI in India is unthinkable without the support of cetral and state financial institutions. To boost entrepreneurship development in rural area, the Government of India has come up with establishment of NABARD, SIDBI, NIC, KVIC, SIDO. There are also financial institutions such as

DICs, SFC, SSIDC etc. at state levels who have instrumental in bringing about economic changes. Especially, in the last two decades, there is a boom of entrepreneurial activities in the country especially in the fields of machine tools, electrical and engineering goods, chemicals etc. and the role of the financial institutions cannot be underestimated.

The State Small Industries Development Corporations established under the Companies Act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the state under their jurisdiction. These corporations enjoy operational flexibility and can undertake a variety of activities for development of the small sector.

1.7 REVIEW QUESTIONS

Short Questions

1. Explain the functions of NABARD
2. Explain the achievements of NABARD
3. Short notes on SIDBI
4. What are the roles of SIDO in Entrepreneurship development?
5. Write a short note on NIC.
6. Explain the schemes of NSIC
7. Discuss about functions of SSIDC

Long Questions

1. Describe the national bank for agriculture and rural development.
2. Explain the small industries development bank of India.
3. Discuss the Khadi and village industries commission.
4. Explain the national small industries corporation.
5. Describe the state small industries development corporation.
6. Explain the state financial corporation.
7. Explain the roles of SIDO in entrepreneurship development in India.

1.8 MULTIPLE CHOICE QUESTIONS

1. Stands for NABARD (a)
   a. National bank for agricultural and rural development
   b. National bank for agricultural and rural design
   c. National bank for agricultural and rural democracy
   d. National bank for agricultural and rural dealing
2. NABARD provides …….. credit to regional rural banks (d)
   a. Short term b. Medium term c. Long term d. All of the above
3. The NABARD sanctioned ……. crores in 2002-03 as medium term credit to SCBs and RRBs for approved agricultural purposes. (b)

a. 726 b. 496 c. 361 d. 520

4. CDF Stands for (c)

a. Cooperative democracy fund

b. Cooperative development finance

c. Cooperative development fund

d. Crops development finance

5. SIDBI Stands for (a)

a. Small industries development bank of India.

b. State industries development bank of India.

c. Small investment development bank of India

d. State investment development bank of India.

6. SIDBI was established in the year (c)

a. 1985 b. 1982 c. 1989 d. 1980

7. …….. schemes are not eligible for assistance under the SIDBI scheme (d)

a. Road transport b. Hotels & Restaurant

c. Hospitals and Nursing Homes d. All of the above

8. KVIC was established in the year (b)

a. 1955 b. 1956 c. 1957 d. 1958

9. KVIC Stands for (b)

a. Khadi and Village Indian Commission

b. Khadi and Village Industries Commission

c. Khadi and Village Individual Commission

d. Khadi and Village Investment Commission

10. NISC was stated in the year …… (c)

a. 1966 b. 1959

c. 1955 d. 1958

11. Hire purchase Scheme comes under …….. institution (d)

a. IDBI a. NABARD

c. SIDO d. NSIC

12. SIDBI is …….. level bank (b)

a. National b. Central

c. State d. None of the above

13. TTC stands for (a)

a. Technology transfer center

b. Technology transfer commission

c. Tender transfer commission

d. Technology transfer communication

14. NISC stands for (a)

a. National industries small corporation

b. National industries stage corporation

c. National investment small corporation

d. National investment small cooperative

15. State small industries development corporation comes under ….. level institute (c)

a. National level b. Central level c. State level d. None of the above

16. DICs standards (a)

a. District Industries centers

b. District Industries commissions

c. District Industries committees

d. District Industries co-operatives

17. DICs were started in (c)

a. 1988 b.1987 c. 1978 d. 1957

18. DICs provide guidance to entrepreneurs to selection of……. (c)

a. machinery, imports b. raw-material

c. a and b d. none of above

19. DICs conduct the service about…. (b)

a. financial growth b. industrial growth

c. a and b d. none of above

20. SFC standards (c)

a. State Financial Center b. State Financial Commission

c. State Financial Corporation d. State Fund Corporation

21. SFC established in the year (d)

a. 1955 b.1960 c.1958 d.1951

22. SFC established to full fill the financial needs of ……..scale industries (b)

a. large, medium b. medium, small c. small, large d. large, medium, small

23. The prime objective of SFC is to cater to the …..financial requirements of the entrepreneur (a)

a. long term b. medium term c. short term d. all of above

24. SSIDC standards (a)

a. State Small Industries Development Corporation

b. State Small Industries Democracy Corporation

c. State Small Industries Development Committee

d. State Small Industries Democracy Committee

25. SSIDC were started in (b)

a. 1953 b. 1956 c. 1958 d. 1960s

Unit-V Government Policy and Taxation Benefits

5.0 LEANING OBJECTIVES

At the end of this unit, you will be able to understand

- Meaning of small scale industries
- Government policy for SSI
- Tax Incentives and Concessions
- Non-tax Concessions –Rehabilitation and Investment Allowances

INTRODUCTION

Small Scale Industries play a very vital role in the national economy. They help in generating employment with minimum possible investment and play a very vital role in promoting exports. Therefore, the Government has announced various schemes and policies for the promotion of Small Scale Industries to ensure that control over production is widely distributed. As per the present definition, an industry having investment of upto Rs. 1 crore in plant and machinery is defined as Small Scale Industry.

Industrial units are generally classified on the basis of their size, capital resources and the number of labourers engaged in. Industries in India are classified into four broad categories:

a. Cottage industries

b. Small-industries

c. Medium-scale industries. and

d. Large-scale industries.

The cottage and small-scale industries are collectively called as the "small-scale industries". The small-scale sector, broadly, consists of

1. Traditional cottage and household industries, viz, handloom, khadi and village industries, Seri-culture, handicrafts, and coir
2. Modern small-scale industries including tiny units and power looms.

This unit discusses various policy measures undertaken and incentives provided by government of India for the promotion and development of SSIs in India.

5.1.2 Definition of small-scale Industry

The first official definition of small-scale industry in India was coined in 1950 in terms of the size of gross investments in fixed assets as well as on the strength of the workforce in the unit concerned. These criteria underwent a number of modifications over the years. In 1966, the small-scale enterprises were defined as undertakings with fixed capital investment of less than Rs. 7.5lakhs, and ancillaries with a fixed capital investment of Rs.10lakhs. Investments will imply investment in fixed assets, whether held in

ownership term or by lease or by hire purchase. Subsequently, under the industrial policy statement of 1980, this limit was further raised to Rs.20lakhs in case of small-scale units, and 25lakhs in case of ancillary units. During 1997, on the recommendation of Abid Hussain Committee, the government has raised the investment limit on plant and machinery for small unit, and ancillaries from Rs.75lakhs to 3crore. Thus, the investment limit has been continuously raised upwards. But the government of India in 2000 reduced the investment limit on plant and machinery from Rs.3crore to Rs.1crore. Hence, small-scale industries unit can be defined as "that industrial unit in which the investment limit on plant and machinery at cost is Rs.1crore". The above definition highlights two important aspects:

1. Cost of land and factory building is not included, and
2. The investment in plants and machinery is taken up "at cost".

Appreciation or depreciation in the value of plant and machinery is not taken into consideration

5.1.3 Features of Small-scale Industries

The following are the main features of small-scale industries:

1. Over 80 percent of small units are proprietary concerns, about 17 percent are partnerships, and 3 percent are limited companies. Thus, the dominant type in the ownership pattern is proprietary, with a small fraction operation as limited companies
2. Most of the small units are located in rural and semi-urban areas. Only 27.6 percent are in the urban areas
3. Some of the units provide employment opportunities within the household premises and some others near the place of residence.
4. Small industrial units are labour intensive. They require very little capital than required by large-scale industrial. They are called light and skill light.
5. There has been an increase in the variety of products manufactured by the small-scale sector. They have ventured into the manufacturing of many new and sophisticated items.
6. They enjoy now support of the government. The government has taken a number of protective and promotional measures for their growth and sustainability.
7. Some items are reserved for exclusive development in the small-scale sector.

5.1.4 Expansion of Small-scale Sector

All the five year plans and industrial policy resolutions have stressed the need to accelerate development of small industrial units. The government both central and states have taken a number of steps to foster the development of small-scale sector or enterprise. The number of small-scale units has grown from 4.2lakhs in 1973-74 to 32.3lakhs in 1999-2000. During these years, the output has increased from Rs.7200crore to Rs.5, 78,470 crore, and the employment has grown from 4 million to 17.85 millions. The growth rate of employment is commendable and strengthens the belief that tsmall

scale sector can absorb surplus labour. Both production and employment indications show better performance of small-scale sector as compared to large- scale sector. India remains mainly a country of small-scale production

Objectives of small industries: The main objectives of the development of small industries have been the following:

1. To assist in the growth and wide spread dispersal of industrial units.
2. To increases the level of earnings through self-employment.
3. To ensure regular supply of goods and services through the use of local skills and resources.
4. To develop entrepreneurship in combination with improved methods of production through appropriate training and package of incentives.
5. To preserve craftsmanship and art heritage of the country.

5.1.5 Characteristics

The small scale industries posses the following unique features:

1. **Personal Character:** A small scale unit is generally owned and controlled by one person or a family. These operate inform of a sole proprietorships venture or in few cases as a partnership venture.
2. **Labour Intensive:** Small Scale Industries are largely labour intensive with comparatively smaller capital investment. These employ simple and small tools and technology.
3. **Gestation Period:** These units start yielding returns on investment in a short period.
4. **Limited area of Operation:** The scope or area of operation of small scale units is generally localized catering to the local or regional demand. The operation of these enterprises are confined to a limited area; However, the products of these units may be exported to several countries.
5. **Simple Technology:** Small Scale Industries employ simple labour intensive technology for their operation. Therefore, these are suitable for economics with scarce capital and abundant labour supply.
6. **Use of Local Resources:** Small Scale units use local or indigenous resources and therefore have the flexibility of being located in any area.

5.2 Importance and Role of Small Scale Industries

The small-scale industries of India have a decisive role to play in the economic development of the country. They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income, and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. By and large, small enterprises have certain advantages. They are:

1. **Employment Generation:** Small-scale industries generate a large volume of employment. They have high employment potential. A given amount of capital invested in a small-scale industry provides more employment than the same amount of capital invested in a large-scale industry- Since capital is scarce and labour is abundant in India, generation of employment is the strongest advantage that can be put forward for the support of small-scale industries in India. Moreover, these industries can be established at the very door steps of workers and thereby provide work for the unemployed, more work for the underemployment, and supplementary work for the seasonably unemployed workers. Small industries provide vast scope for employment of special categories of people like women, children, old-aged, physically handicapped etc. Employment opportunities also can be provided to a number of educated people in small-scale sector through a number of self-employment schemes. So, small-scale sector is a solution to the unemployment problem. Hence, the Karve Committee emphasizing this point stated "the principle of self-employment is at least as important to a successful democracy as that of self-government".
2. **Low Capital Requirements:** Small industries are capital-light. They require only a smaller amount of capital than required by large-scale industries. Where there is scarcity of capital and economizing capital is essential, small-scale sector is the only effective solution. As the capital is very scarce in underdeveloped countries like India, it may is used to greater advantage in small-scale sector. As the capital equipment and machinery used in these industries is not very expensive, the capital required is very less.
3. **Mobilisation of Capital and Entrepreneurial Skill:** Small-industries are at an advantage as far as the mobilisation of capital and entrepreneurial skill is concerned. Small - industries are well - suited for mobilisation of savings, particularly from rural areas and semi-urban areas. But large-scale industries are not so suited for mobilisation of savings from rural areas. A number of entrepreneurs are spread over villages and small towns all over the country. Small-scale industries, which are distributed over the entire length and breadth of the country, can utilise their services. Therefore, a large quantity of latent resources of the economy can be mobilised for purposes of industrial development by expanding the small-scale sector.
4. **Better Distribution of Wealth and Income:** The decentralisation of industries in the small-scale sector secures even or equitable distribution of income and wealth. Large-scale industries tend to concentrate large wealth in a few hands, which is undesirable in a socialistic pattern of society. Large-scale industries promote monopolistic trends and unequal distribution of incomes. On the contrary, small enterprises create equitable distribution of incomes. Incomes get spread over a vast number of persons throughout the country.

5. **Balanced Regional Development:** Small-scale industries are suitable for decentralisation of economic activities. These industries can be established at low cost and not required elaborate economic infrastructure. Besides using local resources, these industries will reduce the imbalances among regions, and between urban and rural areas. Further, small industry will not create slumps, housing problems, sanitation, disease and squalor as in the case of large-scale industries.
6. **Reduce the need for Foreign Capital:** Small-scale industries require mostly indigenous machines and equipment, and they need not depend too much on imported materials. In the case of large-industries, heavy engineering equipment, machines, technical skill and even raw-materials have to be imported which would create problems of foreign exchange earnings. Small-industries reduce the need for foreign capital or foreign exchange earnings.
7. **Quick Yielding:** The time-lag between investment and return in the case of small industries is very short and as such the project would give quick returns. The gestation period in this sector is very small. Production can, therefore, be increased fast to meet the increase in demand. Dependence on these industries can help in controlling the price rise and hence ensure price stability. But in the case of large-industries, the time-lag will be very long leading to inflationary spiral and rising prices without material output. So quick yielding industries are particularly suitable for developing countries like India.
8. **Beneficial to Large-scale Industries:** Small-scale industries are engaged in manufacturing of various types of tools, components and spare parts which are used by large-scale industries. Thus, small-scale sector is complimentary to the large-scale sector.
9. **Contribution to Exports:** Small-scale industries contribute to the foreign exchange kitty of the country through adding to exports. The value of exports increased to Rs. 1643croresin 1980-81, and to a record high figure of Rs. 59,753 crores in 2000-2001. A significant feature of exports from the small-scale sector is their share in non-traditional exports. The share of exports from the small-scale sector represents about 35 percent of total exports in 2000-2001.

Thus, in a developing country like India, there is a need for the development of small-scale sector in view of the followings:

1. its greater employment potential,
2. the opportunity it offers for wider dispersal of industrial and commercial units in the less developed areas, and
3. the contribution, it can make towards better utilisation of local resources and skills which would otherwise remain unutilised.

The small -scale sector is also essential to ensure a more equitable distribution of national income and reduce the concentration of economic power. The small industries have attracted more positive attention in recent years in ecological dimension. These industries pollute less than the large-scale industries. The importance of developing the small industries has been emphasized in all the Industrial policy resolutions and five year plans as well. A number of protective and promotional measures have been taken accordingly to support their survival and encourage growth. Various economic policy measures of the government aim at the growth and development of small-scale sector. The objective is to bring about an all round development of the country.

5.3 NEED AND RATIONALE OF SSIs

In countries like India where plenty of labour is available and not enough capital, Small-scale industries have a vital role to play in the industrialization and economy. Generally small-scale industries have a cry high potential of employment with low capital investment. SSIs help encouraging entrepreneurship. Providing jobs and improving economy particularly in semi-urban and rural areas. SSIs have high potential for local employment. Promote entrepreneurship and promote earnings and improve economy of the country. The following are some of the important points that stress the need and rationale of SSIs.

i. **Innovation:** Small units are generally highly innovative with limited resources.
ii. **Self Satisfaction:** It gives lots of self-satisfaction to workers for doing good jobs with limited facilities.
iii. **Caters to Individual Taste and Styles:** SSIs can change or alter the process of production according to the changes in taste and fashions of the customers.
iv. **Small in Operation**: SSIs utilizes local labour small in operation and leads to satisfaction of the entrepreneur.
v. **Strength of Nation:** Small-scale industries arc generally locally owned and well controlled. This leads to strengthening of a family and other social systems and thus strengthening of nation.
vi. **Spread over Wide Areas:** Unlike large-scale industries that are concentrated in a few places, SSIs can spread over the entire nation leading to uniform development of country. Government is also supporting SSIs in backward areas through start up India Programs with an aim to develop the nation.

Thus SSIs play a vital role in the industrialization of a developing country. SSIs need smaller investment. Offer a means of equal distribution of national income. Better utilization of local skills and

resources. They create the growth of industrial entrepreneurship and promote a wide spread ownership location.

5.4 OBJECTIVES OF SSIs

The objectives of SSIs are listed below:

a. Creation of employment opportunities.
b. Improvement of output Income and better standard of living.
c. Elimination of economic backwardness of rural and underdeveloped areas.
d. To reduce regional imbalances.
e. To provide employment and means of a regular source of income to the needy people living in rural and semi-urban areas.
f. To improve the quality of industrial products produced in cottage industries and increase production and profits.
g. To facilitate import substitution.
h. To encourage entrepreneurship and self-reliance.
i. To mobilize regional resources of capital.

Development of SSIs has gained a remarkable importance in Five Year Plans of India. Promotional plans like development of entrepreneurship, supported by consultancy services, technology knows how, institutional support, allocation of site in industrial estates, rebates etc., are provided by Government for setting up SSIs.

5.5 PROBLEMS OF SMALL-SCALE INDUSTRIES

Small-scale and cottage industries play a vital role in the Indian economy. In terms of employment and growth small-industrial sector has recorded a high rate of growth since independence. At present, SSIs are facing stiff competition from the large-scale industries. They are plagued by a number of problems which often force them to closure. A large number of small-scale units have become sick because of certain problems. The following are some of the problems faced by the small-scale units:

1) Inadequate financial resources: Lack of adequate finance and credit is the main obstacle for the development of small-scale units. Finance is required for purchase and stock of raw-materials, holding finished products till they are sold out. This affect payment of wages to labourers employed in the unit. Manytimes small-scale units are not able to raise sufficient money for fixed and working capital. Their capital base is very week. The profits earned by them are not adequate to finance investment need. Cheap credit facilities are not available adequately to them. Many small units face financial crisis. As a result, they have to depend on money-lenders for finance at exorbitant rates of interest, and at times they have to make "distress sales". However the problem is solved to a certain extent after the nationalisation of some

of commercial banks. Small-scale units could secure required credit to some extent from banks because they are included in the priority sector.

2) Shortage of Raw-materials: Regular and uninterrupted supply of raw-material helps small industrial units in increasing production. But the quantity, quality and regularity of the supply of raw-materials are all unsatisfactory. Large-scale industries through their better buying capacity and arrangements comer the material of good quality at cheaper rates. As a result, the small industrial units suffer from actuate shortage of basic raw-materials. Most of the small-scale industries also depend on large-scale industries for some raw-materials. For instance, the handloom industry is wholly dependent on the supply of yarn from cotton mills. In the absence of proper organisation channelising the flow of materials from the large-sector to small-scale sector, the cost of raw-materials becomes very high. Inadequacy or non-availability of inputs or raw-materials of proper quality at reasonable price is an important problem facing a number of small units.

3) Difficulties in Marketing: Marketing is the one of the major problems of mall-scale industries. Small-scale industries face many problems in marketing their products because of many reasons. They are:

i. The cost of production is relatively high. As a result of which they are not able to compete with large-scale industries units.
ii. In absence of their own suitable marketing channel and expertise to market their products effectively, they have to rely on intermediaries who exploit lion share of profit.
iii. SSI goods are not of uniform quality, therefore, comes under scrutiny from quality aspect.
iv. Sometimes small industrial units have to sell their products at throw- away prices due to poor bargaining power and urgent requirement of money. At times, they have to make "distress sales".
v. In some cases, they are faced with the problem of costly transport.
vi. Financial constraints do not permit them to offer attractive credit terms and the like to the marketing intermediaries.

Efficiency in production and quality of the product can widen the Market for the goods produced by these units. Though the Government has taken some steps, marketing arrangements for selling the products of the small units are still quite inadequate and unsatisfactory.

4) Obsolete Equipment: Almost all units in small-scale sector carry on production with outdated and obsolete tools or equipment and the method of production is antiquated. They do not have the facilities of research and training to increase the output with modernised equipment. They do not pay much attention to the changing tastes fashions and needs of the people. It is because of the use of obsolete

equipment, the cost of production of small units is higher than that the large-scale units. This impacts profit margin per sale and impede innovation.

5) Competition from Large-scale Industries: Small-scale units have been facing competition from large-scale industries and imported goods. Large-scale industries adopt latest production technology and can easily outsell the small producers. Small-scale units suffer from limitations of finance and marketing capability in competing with large enterprises. The increasing global competition poses big challenge to the small-scale units. Liberalisation of the economy aggravated the problem further. For this reason, Government has reserved 820 items for the exclusive production of the small scale sector.

6) Inadequate Organizational set up and Management: In most of the small industrial units, the ownership and management functions are not separated. They are performed by the same set of people. It generally happens that the persons who finance the business operations may not possess the necessary skills which are required for the efficient management of the enterprise. There is no proper division of work among the people working in the enterprise. Such enterprises cannot reap the advantages of specialization. Management of enterprises requires a lot of knowledge, foresightedness and training which are not found in small business units.

In addition to the above problems, small-scale units face a number of other problems such as non-availability of cheap power, inadequate transport facilities, burden of local taxes, and so on. The Planning Commission observes that low level of technology resulting in poor productivity and inadequate returns continue to characterise small industries. Coupled with this, the problem of obtaining raw-materials of desirable quality ait reasonable prices and lack of marketing arrangements for selling their products at fair prices have deprived the small units of a sound return on investment.

Promotional Measures: A number of measures have been undertaken by both central and state Governments to promote growth and protect the small-scale sector from the onslaught of the large sector. Measures undertaken by the government from time to time include reservations, increasing credit flows, preference in Government purchases, modernisation, technology upgradation and improving export performance. In the post-reform period, a number of new steps have been initiated by the government with regard to foreign direct investment, development of infrastructural facilities, establishment of growth centers, export promotion, and marketing, etc., The important protective and promotional measures include the following:

a) Reservation of Products: Protection has been provided to the small-scale units by the reservation of items for exclusive production in the small-scale sector. By 1983, the reserved list included several items. Over the years there had been an increase in the number of items so reserved, but has significantly

reduced it recently. At present 812 products or items are reserved for exclusive production in small sector.

b) Reservation and Preference in Government Procurement: Small scale industrial units have been given protection from competition in the matter of purchases of different products by the Government. A large number of items have been reserved for exclusive purchase from the small scale sector, while a number of items have been provided price preference up to 15 percent over units in the large-scale sector

c) Infrastructural and Institutional Support: Infrastructural and institutional supports are provided through industrial estates, district industries centers, small industries service institute, khadi and village industries commission, and other specialised institutions which provide technical assistance and testing facilities, etc.,

With a view to encouraging entrepreneurs to set up small industries and to expand existing units, a programme for the establishment of industrial estates was started in the year 1955 by the Government of India. The important objectives of this programme were to: (a) facilitate the growth of small-scale units, (b) shift industries from congested areas to estate premises (c) achieve decentralised development in small towns and villages, (d) establish common facility service centre's, etc., In 1979, this programme was transferred to the State Industrial Corporations.

The scheme of Integrated Infrastructural Development in rural and backward areas was announced by the Government of India on 7th march 1994. This scheme aimed at augmenting infrastructural facilities in the rural and backward areas with a special emphasis on the linkage between agriculture and industry.

d) Machinery on Hire Purchase: The National Small Industries Corporations arranges supply of machines on hire-purchase to small-scale units.

e) Financial assistance: Several measures have been taken to help small scale sector in getting financial assistance on easy terms. State Financial Corporations have been set up in all states to help small sector. These corporations provide long-term loans on the security of machinery, land and buildings. Regional rural banks and state co-operative banks also have been set up to provide financial assistance to small-sector. Under the direction of the Reserve Bank of India (RBI), the commercial banks supply credit to small-sector. At present, commercial banks supply about 40% of credit required by small-sector. The credit offered is both for long-term and short-term needs. A large percentage of credit is supplied at concessional rates of interest. RBI also launched "Credit Guarantee Scheme" in order to guarantee the loans given to small-industries. Consequently, various banks and other financial institutions have started giving loans to small industries more liberally at low rates of interest.

In order to step up the flow of assistance to the small sector, and to provide a focal point to co-ordinate at the apex level the availability of both financial and non-financial inputs required for the orderly growth of this sector, the Small Industries Development Bank of India was established in 1990.

f) Supply of Raw Materials: Arrangements have been made to ensure the supply of raw-materials to small-scale sector. Import policy is also made flexible to favour the small-scale sector for the import of certain raw-materials. As far as the crucial inputs like iron and steel are concerned, efforts are made to see that the small-scale sector does not suffer.

g) Marketing assistance: Government has also been making attempts to improve marketing of products of small-scale industries. The mass media is also utilised for the purpose of consumer education and sales promotion. Co-operatives are also promoted to undertake marketing of small-scale sector products. Marketing assistance including export promotion assistance are provided by institutions, such as National Small Industries corporation, the Small Industries Development corporation, Handicrafts and Handloom Export corporation, khadi and village Industries commission etc.,

Special incentives for firms, small or large, to undertake manufacturing of export items for export from India have been provided by the Government through Specified Economic Zones etc.,

h) Training: Training for existing and potential entrepreneurs and others associated with the working of the small units are offered by Entrepreneurship Development Institute of India, Technical consultancy organisations, financial institutions and commercial banks, management institutes, etc.,

i) Improving skills and technology: Government support is also available for skill formation and technological upgradation. These facilities are made available through training institutes, demonstration centres, mobile training units, etc., At the technological front, efforts are also being made to develop suitable technologies, which ensure better utilisation of labour abundant resources. Emphasis is also laid on the improvement of the quality of products and production of new products. For all this, Government utilises the expertise and facilities available with such institutions as National Laboratories, IITs, Regional Institutions of Technology and other research-oriented organisations.

Thus, the Government has taken a number of protective and promotional measures to support the survival, and to encourage the growth of small scale industries. Besides these, State Governments also offer a range of incentive measures for providing impetus to industrialisation. These incentives to small-scale units are mainly by way of providing land and developed plots or sheds on concessional terms, industrial infrastructural facilities, subsidy on investment in selected areas, sales tax and stamp duty exemptions, water supply at reduced rates, seed capital assistance for setting up units etc., In spite of various measures taken by Governments, central and state, the small-scale sector still suffers from various handicaps because these measures are not being effectively applied. A large number of small-units are sick or weak. The centre-theme of the Government policy should be to raise the efficiency and competitive strength of the small industries and not just mere protection. India should follow the footsteps of Japan in improving and protecting small-scale industries. Efficiency, dynamism and strategy are needed to survive in a competitive world.

5.6 ROLE OF SSI IN ECONOMIC DEVELOPMENT

Economic development is defined as an increase in per-capita income of a person resulting in improvement in the levels of living. The development of SSIs contributes to the increase in per-capita income. SSIs generate immediate employment opportunities with relatively low capital investment, promote evenly spread of national income, make effective mobilization of untapped capital and human skills and lead to dispersal of manufacturing activities all over the country. This in turn results in the growth of villages, small towns and economically lagging regions. This creates balanced regional development. Increase in number. Production employment and exports of small scale industries over a period of time are some of the parameters that indicate the role played by SSIs in India. The production has improved from Rs. 7,200crore during 1973-74 to about Rs. 700,000crore during 2006-07 and much more by now. The employment has increased from about 40lakhs in 1973-74 to about 200lakhs during 2006-07. Exports also have gradually increased to about Rs. 75.000lakhs.

The small-scale industries have registered phenomenal growth in their number from about 2.5lakhs during 1973-74 to about 36lakhs by 2006-07. Statistics reveal that SSIs account for about 35% of the gross value of the out-put in manufacturing sector, about 78 to 80% of total employment in industries and about 38% of the total exports of the country.

Advantages of SSIs

SSIs have both economic and social advantages some of them are listed below:

(i) SSIs don't require to a high level of technology.

(ii) They do not require large capital.

(iii) The source and capabilities of under employed and unemployed people can be used for productive purpose.

(iv) The projects related to SSIs can be completed in short period and hence can become productive in a short period.

(v) SSIs can be based on the processing of locally produced raw materials like agricultural goods. Forest and mineral resources etc.

(vi) Possibility of earning and saving foreign exchange by exporting goods produced from local resources.

(vii) Source of employment for local people. Either full time or pat time.

(viii) SSIs act like training area for local entrepreneurs.

(ix) SSI can bring about more uniform distribution of income in the society.

(x) SSIs create immediate employment at a relatively small capital investment.

(xi) SSIs have small gestation period.

(xii) They offer a method of equitable distribution of national income.

(xiii) SSIs facilitate mobilization of capital and skills which often remain unutilized.

(xiv) They meet the increased demand of consumer goods and mass consumption goods.

(xv) They help in economic growth of the country.

(xvi) SSIs make it possible to shift manufacturing activities from busy towns to rural areas. This helps in geographical distribution of skills and technology in the country.

(xvii) SSIs help in creating jobs for unemployed.

(xviii) They help in developing rural areas.

5.7 GOVERNMENT POLICY FOR SSI

Government of India incorporated several provisions in industrial policy resolution for the growth and development of SSI.

1948-Industrial Policy Resolution

In 1948, government stressed the role of SSIs for balanced industrial growth. It was stated that SSIs are particularly suited for the utilization of local resources and creation of employment opportunities. Under this policy, state government is vested to create requisite infrastructure for the growth and development of SSI. Central government frames the broad policies and coordinates the efforts of State Governments for the development of SSIs.

1956-Industrial Policy Resolution

It was stated that besides continuing the policy support to cottage, village and small industries by differential taxation or direct-subsidies, the aim of state policy would be that the development of this sector is integrated with that of large scale industry. The focus was to improve the competitive strength of SSIs. To achieve this, 128 items were exclusively reserved for production in SSIs and 166 items were reserved for exclusive purchase by government from this sector.

1977-Industrial Policy Resolution

The main thrust of this policy was effective promotion of cottage, village and small industries widely dispersed in rural areas and small towns. This thinking statured the following things:

1. Technological up gradation was emphasized in traditional sector.
2. Special marketing arrangements through the provision of services such as product standardization, quality control, and market survey were laid down.
3. 504 items were reserved for exclusive production in the SSIs.
4. The concept of District Industries Centers was introduced, so that in each district, a single agency could meet all the requirements of SSIs under one roof.

1980-Industrial Policy Resolution

This policy focused on the need of promoting SSIs through integrated industrial development between large and small sectors. Industrially backward districts were identified for faster growth of existing network of SSIs. Following measures were specified in the policy:

1. Investment limit was raised for tiny, small, and ancillary units to Rs.2lacs, Rs.20lacs, and Its 25lacs, respectively.
2. 'Nucleus plants' in each industrially backward district replaced the 'District Industries Centers.' These were to concentrate on assembling the products of SSIs and to produce inputs needed by large number of small units.
3. Reservation of items and marketing support for small industries was to continue.
4. Availability of credit to growing small scale units was continued.
5. Buffer stocks of critical inputs were to continue.
6. Agricultural base was to strengthen by providing preferential treatment to agro-based industries.
7. An early warning system was to establish to avoid sickness and take appropriate remedial measures.

1990-Industrial policy resolution

Main features of this policy for SSIs are as follows:

1. It raised the investment ceiling in plant and machinery for SSIs.

2. It created central investment subsidy for this sector in rural and backward areas and also assistance was granted to women entrepreneurs for widening the entrepreneurial base.

3. Reservation of items to be produced by SSIs was increased to 836.

4. Small Industries Development Bank of India (SIDBI) was established to ensure adequate flow of credit to SSIs.

5. Stress was reiterated to upgrade technology to improve competitiveness.

6. Special emphasis was laid on training of women and youth under Entrepreneurial Development Programme.

7. Activities of Khadi and Village Industries Commission and Khadi and Village Industries Board were to expand.

1991-Industrial policy resolution

The basic thrust of this policy resolution was to simplify regulations and procedures by delicensing, deregulating, and decontrolling. Its salient features are:

1. SSIs were exempted from licensing for all articles of manufacture.

2. The investment limit for tiny enterprises was raised to Its 5Lakhs irrespective of location.

3. Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs.

4. Services were to launch to solve the problem of delayed payments to SSIs.

5. Priority was accorded to small and tiny units in allocation of indigenous and raw materials.

6. Market promotion of products was emphasized through co-operatives, public institutions and other marketing agencies and corporations.

2000-Industrial Policy Resolution

From the year 1999 onwards the ministry MSME earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) came into being to provide specific attention to the promotion and development of the sector. The new Policy Package announced in August
2000 sought to address the persisting problems relating to credit, infrastructure, and technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology upgradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly, the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was also increased and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were on with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year.

Industrial policy 2000 was actually a comprehensive policy package for SSIs and tiny sectors. Main focus of this policy is as follows:

1. The exemption for excise duty limit raised from 50lakhs to its 1crore to improve the competitiveness.
2. Credit linked capital subsidy of 12% against loans for technology up gradation was provided in specified industries.
3. The third census of SSIs by the Ministry of SSI was conducted, which also covered sickness and its causes in SSIs.
4. Credit Guarantee Trust for Small Industries (CGTSI) was advised to reduce the one time guarantee fee from 2.5 to 1.5 % for all loans.
5. Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters, under the CGTSI. The sum assured would be Rs.2,00,000 per beneficiary and the premium will be paid by CGTSI.
6. The emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in nine sectors including Khadi and Village Industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.
7. From above discussion, it is observed that the Government has recognized importance of SSIs for the economy and its intertie towards promotion of SSIs is reflected in various Industrial Policy Resolutions right from the year 1948.
8. Government is aware of the challenges faced by SSIs and has been trying to improve their competitiveness through various measures. These consist of the following;

a. Tax concessions have been provided to SSIs to promote investment in this sector and also to grant relief to small entrepreneurs.
b. Technological facilities have been increased.
c. In order to facilitate adequate flow of credit and efforts have been done.
d. Measures have also been taken to improve infrastructure facilities and promote marketing of products.
e. To improve access to latest information, automation of the Ministry of SSI Office of DC (SSI), Directorate of Industries and District Industries Centers have been set up.
f. Other initiatives such as Advisory and Monitoring Services, Technology Business Incubators, Suppliers Rating Accreditation Services have been taken up.

2003-Industrial Policy Resolution

The following are the highlights of this Endeavour:

1. 73 items reserved for exclusive manufacture in the SSI sector were de-reserved in June 2003.
2. The composite loan limit for SSI was raised from 25lakhs to 50lakhs.
3. 417 specialized bank branches were nude operational for SSIs.
4. Small and Medium Enterprise (SME) fund of Rs.10000crores was set up under SIDBI to solve the problem of inadequate finance for SSIs.
5. 60 clusters were identified in July 2003 for focused development.

2004-Industrial Policy Resolution

Policy initiatives during this period are as follows:

1. The investment limit on plant and machinery was raised from 1crore to 5crores in October 2004 in respect of 7 items of sports goods is help to upgrade the technology and enhance competitiveness.
2. The Small and Medium Enterprise (SME) fund of Rs.10000 crofts was started by SIDBI since April 2004, with 80% of the lending for SSI units. The interest rate was 2% below the prevailing Prime Lending Rate (PLR) of the SIDBI.
3. The Reserve Bank of India (RBI) raised the composite loan limit from 50lakhs to 1crore.
4. Promotional package of small enterprises was initiated.

2005-Industrial Policy Resolution

Industrial policy resolution 2005-06 offered the following to SSI:

1. SMEs were recognized in the services sector and were treated on par with SSIs in the manufacturing sector.
2. Tax concessions were provided to SSI to promote investment and to grant relief.

3. Automation of the Ministry of SSI, Office of District Commission (DC), Directorate of Industries and DICs have been taken up to improve access to latest information.
4. Initiatives like Advisory and Monitoring Services, Technology Business Incubators, Suppliers Rating Accreditation Services, etc., have been taken up.

In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small Medium Enterprises Act 2006. In March 2007, a third Package for the Promotion of Micro an d Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of The fast changing economic environment, wherein to be competitive is the key to success.

2007-Industrial Policy Resolution

The Industrial Policy 2007 had the following features towards SSI:

1. The SIDBI will scale up and strengthen its credit operations for micro enterprises and cover 50lakhs additional beneficiaries over five years beginning 2006-07. Government will provide grant to SIDBI to augment SIDBI's Portfolio Risk Fund for this purpose.
2. Government will also provide grant to SIDBI to enable it to create a Risk Capital Fund (as pilot scheme in 2006-07) so as to provide, directly or through intermediaries, demand-based small loans to micro enterprises.
3. The existing scheme of assisting the attainment of ISO 9000 and 14001 standards will be operated as a continuing scheme during the 11th five Year Plan. The scope of the above mentioned scheme will be expanded to cover "Hazard Analysis and Critical Control Points (HACCP) Certification obtained by MSE.
4. 20 per cent of the Entrepreneurship Development Programme (EDP) will be organized for SC/ST, women and physically challenged persons with a stipend to 500 per capita per month for the duration of the training.
5. 50,000 entrepreneurs will be trained in information technology, catering. Agro and food processing, pharmaceuticals, biotechnology, etc., through specialized courses run by SISIs, over the period co-terminus with the 11th Plan.
6. A new scheme will also be formulated to provide financial assistance to 5 select universities/colleges to run 1200 entrepreneurial clubs.
7. A new scheme will be launched for capacity building. Strengthening of database and advocacy by industry/ Enterprise Associations, after consultation with the Association and States.
8. To facilitate export by women entrepreneurs, the National Small Industries Corporation Ltd. (NSIC) will assist them to participate in 25 exhibitions over the period co-terminus with the 11th Plan.

2017- Industrial Policy Resolution

Despite a lot of policy measures being initiated by the government, SSIs, nevertheless, face a lot of constraints such as inadequate infrastructural development, labour laws restrictively applicable to formal sectors, complicated business environment, slow technology adoption, low productivity, trade challenges, inadequate expenditure for research and development and innovation.

The policy aims to set a clear vision for the role of industry and industrial growth in the growth and development of the economy. A shared vision to develop a globally competitive Indian industry with skill and scale which leverages technology will be developed through engagement with stakeholders. Strategic objectives have to be delineated with measurable outcomes.

The policy has to also ensure that it embeds into itself sectoral objectives and provides an overarching umbrella policy framework.

The timeframe for implementation of the policy needs to be decided taking into consideration the changing economic and business cycles of the world and the Indian economy, geo-political trends and broad policy directions in the country.

To begin with, the following strategic objectives are set forth for the policy, to enable commencement of work. They have been developed to provide a picture of the policy intent. Illustrative outcomes and questions that trigger the search for solutions have also been spelt out.

Under the policy, provisions are made to (a) establish global linkages; (b) enhance industrial competitiveness; (c) employ gainfully, a growing workforce; (d) ensure sustainability and responsible industrialization; (e) enable ecosystem for technology adoption and innovation.

Access to Capital for MSMEs was highlighted under this policy resolution. The basic questions that were addressed under this policy are:

- What alternatives to banks, can be developed improve access to capital for MSMEs -Peer to Peer Lending, Crowd funding etc.
- Can a credit rating mechanism for MSMEs be looked upon to provide them easier access to funds?

The result of the exercise is to formulate an outcome oriented actionable industrial policy that provides direction and charts a course of action for a globally competitive Indian industry which leverages skill, scale and technology. Consultations will be held with industry bodies, industry captains, central government departments, state governments, think tanks, academia and R&D institutes to understand perspectives of all stakeholders.

IMPACT OF INDUSTRIAL POLICY:

The key element of the liberalised industrial policy is the fresh approach towards foreign investment and technology tie ups. The policy changes are designed to attract significant capital flows. A number of significant policy changes have been undertaken to make investment in India an easier an d more rewarding proposition. It is seen that Foreign Direct Investment (FDI) including NRI investment plays an important role in the development process of the country. It has the potential of making a

contribution to development through the transfer of financial resources, technology and improved management techniques. It facilitates marketing the exports of the country. Apart from generating employment, foreign exchange and taxable incomes it also raises the productivity of the locally owned firms.

As already mentioned the liberalised Economic Policy formulate d by the Government of India aims at rapid and substantial economic growth and integration with the global economy in a harmonised manner. It has greatly contributed to the rapid industrial growth in the private sector. The Industrial Policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment (FDIs) as already mentioned. The Government has pledged to launch a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialistic, prosperous and forward-looking India. "The Central Government is considering further liberalisation of the FDI Policy to channel funds into the Country's infrastructure"- according to the Finance Minister Mr. Pranab Mukherjee.

While Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. The Government is also committed to development and utilisation of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.

It is felt that there is a need to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man.

The Government of India with the support of the various State Governments will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation. It has taken various steps to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activity to competition. It will also ensure that the public sector plays its rightful role in evolving the socio-economic scenario of the country and runs on profitable business lines.

The major objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. All sectors of industry whether small, medium or large, belonging to the public, private or cooperative will be encouraged to grow and improve on their past performance. The growth of the industrial sector at a higher rate and on a sustained basis is a major determinant of a country's overall economic development. In this regard, the Government of India has issued various industrial policies, from time to time, to facilitate and foster the growth of Indian industry and maintain its productivity and competitiveness in the world market. Since independence, as stated above the Government of India has formulated a total of six Industrial Policy Resolutions /Statements with a view to promote industrial growth in the country.

All these policies have also covered the small-scale sector, in general. To attain higher growth in SSI sector, various incentives per training to financial, fiscal and infrastructure related measures were designed and extended to SSI units. These policies have been devised to guard the SSIs against competition from the large scale sector. Later, on the lines of economic liberalisation, it was decided to have a plan towards the reservation policy with the objective of enhancing the potential of SSI sector in their export orientation and enable them to be competitive.

5.8 TAX CONCESSIONS

For industries coming up in backward and hill regions the, Govt. either exempts them from various taxes (excise duty, sales tax and octroi) for a certain period or gives them concessional rates. This is especially

very helpful to tiny and small industries as they cannot afford this procedure and the cost of their output will increase and make them difficult to compete in the market.

For some backward regions tax holiday is declared for 5 years for both sales tax and income tax. This holiday is applicable to all units where more than 10 workers are employed.

Advantages of Incentives

• Incentives acts as motivators and encourage both potential industrialists and also existing industrialists.

• Incentives help as compensatory factors for various disadvantages for starting industries in backward areas.

- Regional development and employment opportunities improve.
- The assistance for modernization and upgradation of technology improves competitive ability.
- Promotion of industries and development of national economy will enhance by popularizing and investing on the incentives.

Disadvantages of incentives

- Past records and studies have proved that about 25% of the industries in backward areas were started mainly to exploit subsidies and financial institutions.
- The benefit disbursements have been made mainly on considerations of favouritism and gains to officials.
- In the paper work the prices of capital investments have been jacked up to increase the subsidy by dishonest applicants and officials.
- The schemes and incentives and subsidies have been treated as opportunities for unethical practice by Govt. officials.
- The purpose for which the scheme is started is not well taken care due to (a) delays in disbursements and (b) unethical practices in Govt. offices.

5.8.1 Incentives to Exporters

In order to improve the export prospects the Government has started various institutions and bodies for different type of assistance. They are aimed to help in financial, materials, tax rebates, sales exhibitions and promotions, simplified procedures and duty drawbacks etc. Such assistance is required more to small scale and medium scale industries who are lacking in terms of knowledge and resources to take care of the exports. Only few big industries can afford to take care of the international business without the

assistance of Government subsidies. The organisations which assist in export activities are explained below.

NON-TAX CONCESSION

Non- Tax concessions are given in the forms of subsidies by the Government of India for promotion and development of SSI in India. They are:

a. Subsidy relating to investment: Government has initiated a different scheme of investment subsidy for the benefits of entrepreneurs so that they may be encouraged to establish more and more SSI units. These schemes are capital investment subsidy, transport subsidy, power generations subsidy, special investment scheme for women entrepreneurs, provision for seed capital, subsidy for technical/feasibility study etc. SIDBI, besides being an apex bank for the SSI sector, is also arranging equity type assistance, venture capital scheme etc. to accelerate the pace of investment in small scale sector.

b. Export/Import subsidies and Bounties: 100% export-oriented units (EOUs) and units in the export processing zones (EPZs) enjoy a package of incentives and facilities, which include duty free imports of all types of capital goods, raw materials, and consumables in addition to tax holidays against exports.

c. Subsidy relating to Research and Development: To encourage continuous research and development activities in the small scale sector, government provides subsidy by keeping aside certain amount of money toward research so that more encouragement is given to small scale entrepreneurs.

e. **Subsidy relating to resources:** small industries are given a lot of subsidies relating to resources such as purchase of testing tools, subsidy for industrial estates and parks, allotment of land and buildings at concessional rates, supply of water at concessional rates, arrangement of developed or constructed production sheds, and arrangement of raw materials at concessional / controlled Rates etc.

f. **Capital subsidy scheme for Technology Upgradation**: This scheme facilitates technology by induction of proven technologies in respect of specified products/sub-sectors. This would apply to introduction of the latest technology, improvement of productivity, quality of production and environmental conditions and installation of improved techniques as well as anti-pollution measures and energy conservation. However, for availing this scheme, the entrepreneur has to fulfill certain conditions such as replacement of the existing equipment/technology with a new one. The same equipment or technology would not qualify for the scheme and it is also not applicable to units going for the upgradation with second-hand machinery.

5.9 TAX BENEFITS

Several concessional finance benefits arc made available to the entrepreneurs. Indian Government has identified 299 districts as Specified Backward Areas (SBAS) and grouped them into A, B, and C

categories depending upon the gravity of backwardness. To speed up industrialization in these backward areas, a package of concessional finance facilities arc provided by the IFC1, IDBI and ICICI. These schemes are available since 1st April 1983.

Tax Concessions

• **Tax Holiday:** Under the Section 80J of the Income Tax Act. 1961, new industrial undertakings, including small-wale industries, are exempted from the payment of income-tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production. A small-scale industry has to satisfy the following two conditions to avail this tax exemption facility:

(a) The unit should not have been formal by the splitting or reconstitution of an existing unit.

(b) The unit should employ 10 or more workers in a manufacturing process with power or a least 20 workers without power.

• **Depredation:** Under section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depredation on block of assets at the prescribed rate. In the case of the small-scale industry, deduction from the actual cost of plant and machinery is allowed subject to a maximum of rupees 20 Lakhs. The amount of depreciation is calculated by the diminishing balance method. In case of an asset acquired before the accounting period, depredation is calculated on its written down value. For plant and machinery that are used in manufacturing in double or triple shift, an additional allowance called 'Extra Shift Allowance' is available. A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

1. The asset must be owned by the assesses.
2. The asset must actually be used for the purpose of the itStitta business or profession.
3. Depreciation allowance or deduction is allowed only on fixed assets, i.e., building, machinery, plant and furniture.
4. All the prescribed particulars must be furnished to the income-tax officer as required under section

34(I) of the Income- Tax Act, 1961, From assessment year 1991.92, in the case of the company, depreciation will be limited to 7590 of the amount calculated at the specified percentages on the written down value of the Mock of assets.

• **Rehabilitation Allowance:** Rehabilitation allowance A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income-Tax Act 1961. The allowance is given to those small businesses that had to suffer on account of the following reasons:

• Rood, typhoon, hurricane, cyclone. earthquake, or other natural upheavals;

• Riot or civil disturbance,

• Accidental fire or explosion; and

• Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for the business purposes within three years of the unit's re-establishment, reconstruction of revival. The rehabilitation allowance is allowed to the unit equivalent of 60% of the amount of the deduction allowable to the unit.

The purpose of the rehabilitation allowance is to provide economic security during rehabilitation. The rehabilitation allowance is available if you are between 16 and 67 years of age and the goal of your rehabilitation process is to help you enter, remain in or return to working life. Furthermore, you must have a rehabilitation decision for example from Kela, an occupational health provider or your home municipality which entitles you to a rehabilitation allowance. The rehabilitation allowance can also be paid for the duration of apprenticeship training or an adaptation training course supported by lottery proceeds. Persons under 20 can also be paid a rehabilitation allowance for young persons during intensified rehabilitation.

Work During Rehabilitation	**Types of Benefits**
No paid employment is possible because of rehabilitation	Rehabilitation allowance
Working hours must be reduced by at least 40% from normal hours	Partial rehabilitation allowance
Working hours are not reduced, or are reduced by less than 40%	No entitlement to rehabilitation allowance or partial rehabilitation allowance

One can receive rehabilitation allowance payments for days in which he/ she participate in a rehabilitation measure that lasts at least four hours (including travel time) or otherwise prevents his/ her from working and earning a living.

A partial rehabilitation allowance may be available if his/ her daily working hours have been reduced by 40% or more on account of participation in rehabilitation.

Coordination with other benefits

Rehabilitation allowance is not available if, while in rehabilitation, you receive

- an old-age pension
- a full compensation for loss of income paid under a motor insurance, compulsory workers' compensation insurance, or military accidents or injuries scheme.

Other benefits may affect the amount of the rehabilitation allowance.

• **Investment Allowance:** The investment allowance was introduced way back in 1976 to replace the initial depreciation allowance. The investment allowance under the section 3M of the Income-Tax Act 1961 is allowed at the rate of 25% of the cost of acquisition of new plant or machinery installed. Although the investment allowance has been made available for the ankle or things except certain items of low priority, yet, as per the 114 schedule to the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. In comparison with other industries, small-scale industries arc at an advantage in claiming a deduction of investment allowance. A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year, failing which the benefit will be forfeited.

• **Expenditure on Scientific Research:** Under Section 35 of the IT Act 1961, the deductions in respect of expenditure on scientific research are allowed.

1. Any revenue expenditure incurred on scientific research related to the business of the asses in the previous year.

2. Any sum that it pays to a scientific research association or a university, college, institution or to a public company, which has as its object, the undertaking of scientific research.

3. Any capital expenditure incurred on scientific research related to the business of the assessee subject to the provision of section 35(2) of the Income Tax Act, 1961. In case of any unabsorbed capital expenditure incurred on scientific research, the provisions of the Income Tax Act allow to carry it forward for adjustment against the profits earned by the business in the subsequent years, for an indefinite time period.

- **Investment Allowance:** A new section 32 AC has been inserted by the Finance Act, 2013 to provide a tax incentive by way of investment allowance to encourage huge investment in plant or machinery.

This is a new policy of the government which attract the attention of businessman in respect of investment in new plant and machinery. The deduction under section 32 AC is investment linked.

Under this new section 32AC, a manufacturing company is entitled to an investment allowance @ 15% of actual cost of new plant and machinery acquired and installed during the financial years 2013-14 and 2014-15, if the actual cost of new plant and machinery exceeds Rs.100 Crore.

The benefit of this section is available only to a company and not to any other assessee. Section 2(17) of IT Act,1961 defines a company means:-

1) Any Indian company, or

2) Any body corporate incorporated by or under the laws of a country outside India,or

3) Any institution, association or body which is or was assessable or was assessed as a company for any assessment year under the Indian Income tax Act,1922(11 of 1922),or which is or was assessable or was assessed under this Act, as a company for any assessment year commencing on or before April 1,1970, or any institution, association or body whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Board to be a company:

Provided that such institution, association or body shall be deemed to be a company wholly for such assessment year or assessment years(whether commencing before April1,1971 or on or after that date) as may be specified in the declaration.

Under this section "New Plant or machinery" does not include-

1) Any plant or machinery which before its installation by the assessee was used either within or outside india by any other person;

2) Any plant or machinery installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house;

3) Any office appliances including computers or computer software;

4) Any vehicle;

5) Ship or aircraft; or

6) Any plant or machinery, the whole of the actual cost of which is allowed as deduction (whether by way of deprecation or otherwise) in computing the income chargeable under the head "profits and gains of business or profession' of any previous year.

"Actual cost" means

The cost of the asset to the assessee reduced by the portion of the cost thereof, if any met by any person. Further, the definition of the term "actual cost" does not specifically reduce the amount of any deduction under the IT Act,1961 except under section 35 in respect of scientific research assets.

As per section 32 AC of IT Act, 1961 a company assessee would be entitled to deduction @ 15% of aggregate investment in new plant and machinery if it is:-

a) Engaged in the business of manufacture of an article or thing; and

b) Invests a sum of more than Rs.100 crore in new plant or machinery during the period beginning from 1st April,2013 and ending on 31st March,2015.

The Investment allowance @15% under this section is in addition to the depreciation and additional deprecation allowable under section 32(1).

Further, the investment allowance would not be reduced to arrive at the written down value of plant and machinery.

Deduction under section 32 AB is available while computing the business income under Chapter IV-D of the Act, and therefore the deduction has to be claimed before arriving at the gross total income and thereafter deduction can be claimed under sections 80 IA and 80 IC of the Act.

Minimum lock in period

The new plant and machinery in respect of which investment allowance has been claimed under section 32 AC of IT Act,1961 cannot be sold or otherwise transferred for a period of five years from the date of installation.

Effect of failure to not fulfill lock in period

If new plant and machinery is sold or transferred within the period of five years from the date of installation, the deduction allowed earlier would be deemed as income chargeable to tax under the head "profits and gains of business or profession" of the previous year in which such new plant and machinery is sold or otherwise transferred.

This would be in addition to the taxability of gains on transfer of such plant and machinery.

In case of amalgamation or demerger, this restriction would continue to apply to the amalgamation company or resulting company, as the case may be, as it would have applied to the amalgamating or demerged company.

• **Tax concessions to SSI in Rural Areas:** Under Six-lion 80-HH A in the IT Act 1961, the tax-payers are entitled to a deduction of 20% of the profits and gains derived by running SSI in rural areas.

• **Expenditure on acquisition of Patents and Copyrights:** Under Section 35-A of the IT Act, 1961, any expenditure of a capital nature incurred in acquiring a patent and copyright by a SS1 is deductible from its income. But the expenditure should be incurred after 28th February, 1966.

5.10 REGISTERING YOUR SSI UNIT

The main purpose of Registration is to maintain database and maintain a roll of such units for the purposes of providing incentives and support services. States have generally adopted the uniform registration procedures as per the guidelines. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

Benefits of Registering

The registration scheme has no statutory basis. Units would normally get registered to avail some benefits, incentives or support given either by the Central or State Government. The regime of incentives offered by the Centre generally contains the following:

- Credit prescription (Priority sector lending), differential rates of interest etc.
- Excise Exemption Scheme
- Exemption under Direct Tax Laws.
- Statutory support such as reservation and the Interest on Delayed Payments Act.

It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though, in many cases, they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI.

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

Objectives of the Registration Scheme

They are summarised as follows:

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSL

Features of the Scheme

Features of the scheme are as follows:

- DIG is the primary registering centre.
- Registration is voluntary and not compulsory.
- Two types of registration is done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.

- PRC is normally valid for 5 years and permanent registration is given in perpetuity.

Provisional Registration Certificate (PRC)

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
- Obtain facilities for accommodation, land, other approvals etc.
- Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

Permanent Registration Certificate

Enables the unit to get the following incentives/concessions:

- Excise exemptions
- Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.

Procedure for Registration

A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-Ill and items not listed in Schedule-I or Schedule-II of the licensing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.

Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.

PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.

Once the unit commences production, it has to apply for permanent registration on the prescribed form. The following form basis of evaluation:

The unit has obtained all necessary clearances whether statutory or administrative, e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.

Unit does not violate any locational restrictions in force, at the time of evaluation.

Value of plant and machinery is within prescribed limits.

Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

De-Registration

A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration:

- It crosses the investment limits.

- It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

Various Forms for SSI Registration

GOVERNMENT OF _____

DIRECTORATE OF INDUSTRIES

APPLICATION FORM FOR PROVISIONAL REGISTRATION AS SMALL SCALE INDUSTRIES

(TO BE FILLED IN DUPLICATE)

Instructions

1. Write/type in block (capital) letters.
2. Fill up whichever is applicable
3. Use English alphabets/Arabic numbers while filling up block (to help computerization). Leave one blank after each word.
4. While filling the form, use the following procedure.

i) Name of the unit e.g. KAMAL ENTERPRISES/G.K ENTERPRISES

V	I	V	E	K		E	N	T	E	R	P	R	I	S	E	S			
M		G		E	N	T	E	R	P	R	I	S	E	S					
ii)	Pin Code : e.g. 110041													1	1	0	0	4	1
iii)	Date: e.g. 23rd June 1959													2	3	0	6	5	9
iv)	Date: e.g. 23rd June 1959													0	0	0	0	9	0
v)	Amount (Rs in thousands) e.g. Rs.5000/-														0	0	0	0	5

vi) Fill up appropriate codes in the blocks wherever applicable

	Example 1: Yes-1, No-2, NA-3						3

If NA fill up-3

Example 2:Category: SSI-1, Anc-2, Tiny-3 SSSBE-4,

	EOU-5						3

If Tiny fill up-3

5. Block/boxes marked (*) are to be filled by office
6. Applicant should sign all copies.

Abbreviations used:

SSI: Small Scale industries, ANC: Ancillary Industrial Undertaking, SSSBE: small Scale Service and business enterprise, TINY: Tiny enterprise, EOU: Export Oriented Unit, NA: Not applicable.

1. Name of the Unit/ Applicant.

2. Address for communication.

	Tel:															Pin Code:									

3. Category of Unit

   SSI-1, Anc-2, SSSBE-3,

   TINY-4, EOU-5.

4. Location:

Place/Town																			
Tehsil/Taluk																			
District																			
State																			

5. Type of Organisation:

   Proprietary-1, Partnership-2, Pvt. Company-3, Cooperative-4,

Others																			

6. Nature of activity

Manufacturing/Assembly (01)		
Processing (02)		
Job Work (04)		

Repairing/Servicing (08)		

Note: For any combination of activities, add the respective to get the required code.

7. Main items of manufacture/ activities.

i) Name																							
Code																							
ii) Name																							
Code																							
iii) Name																							
Code																							
iv) Name																							
Code																							
v) Name																							
Code																							
vi) Name																							
Code																							

8. Investment in Fixed Assets (Rs. In ‘000)

i) Land																			
ii) Building																			
iii) Plant & Machinery																			
iv) Other Fixed Assets																			
Total																			

9. Investment in plant & machinery

(original value Rs. In ‘000)													

Note: It should exclude items whose value is not taken into account while computing the investment. Please enclose project profile in case value of investment in plant and machinery exceeds Rs.40lacs.

10. Power Load H.P.

(1 H.P.=0.795 K.W) K.W.	

11. Employment

i) Management & Office Staff	
ii) Supervisory and Workers	

12. Date of commencement of production

Production	

(Estimated)

Date:	

Signature of Applicant (Authorised Person)

Name of proprietor/partner/managing director

For office use only

Application No.										NIC Code								
Block Code						District Code							State Code					
Location of Unit																		

(Conforming-1, Non-Conforming-2)

Whether the items of manufacture/activity require an industrial licence.

Yes-1, No-2	

No industrial licence is required for items listed in Schedule II of the licensing notification dated 25.7.1991 if the unit employs less than 50/100 workers with/without power)

Provisional Registration

The application is accepted for provision Registration as a SSI/SSSBE Unit for the manufacture of items/activities as stated in the application form.

Provision Registration No:	
Date of issue:	

Category of unit (S.No.3): _____

Signature

Name & Designation of Registering Authority

1. The endorsed application form is a part of the certification of registration
2. The provisional registration will automatically lapse at the end of the validity period or the date of commencement of production, whichever is earlier?

3. The provisional registration is valid for a period of five years from the date if issue
4. If an applicant/unit is unable to set up the unit within the validity period, the applicant/unit has the option to apply afresh for provisional registration using standard procedure.
5. The provisional registration is given to enable the unit obtain all facilities/clearance etc. requirement in the pre-production stage.
6. The provisional registration is subject to any or all conditions that may be imposed by the registering Authority.

AFFIDAVIT FOR PERMANENT REGISTRATION

AS

SMALL SCALE INDUSTRIES

FORMAT

I/We_____ son/daughter/wife/widow of _____ resident of _____do hereby solemnly affirm and declare as under:-

1. That I/We have submitted an application dated_____ for permanent registration of the unit as small scale/ancillary/tiny/ export oriented unit/small scale services and Business enterprise.
2. That I/We am/ are proprietor(s)/partner(s) Managing Director of the unit whose name and address is given below:-

   Name:_____

   Address:_____
3. That all particulars furnished in the application form are factual and correct
4. That the location of the unit does not violate any locational restrictions for the time being in force and that I/We have obtained the necessary locational clearances from the competent authority
5. That I/We have obtained all the statutory clearances/No Objection Certificates/ permissions required to carry out the manufacture/activity under the prevalent laws, regulations and rules in force
6. That I/We have also obtained the necessary registration/Lincence, wherever required, under the relevant laws, rules or orders, for the time being in force, for carrying out the said industrial activity.
7. That the unit does not required an industrial licence because:

   a) The unit employs less than 50/100 workers with/without use of power.

b) The items proposed to be manufactured are reserved for exclusive production in the small-scale industries sector.

c) The unit does not manufacture any items, which is included in Schedule-II of Notification No.S.O477(E) dated 25.7.1991 and is not reserved for exclusive manufacture in the SSI sector as included in Schedule-III of the above notification

8. That the original value of investment in plant and machinery installed at the unit is within the limits prescribed for tiny/SSI/SSSBE/ancillary/export-oriented unit as per existing provisions
9. That the units not owned or controlled or subsidiary or any other industrial undertaking in terms of the Notification No.S.O.2(E) dated. 1.1.93.
10. That I/We undertake to inform the registering authority within 30 days of the crossing of the investment limits in plant and machinery and submit the registration certificate/EOU/tiny enterprise/Small Scale Service and Business Enterprise.
11. That I/We understanding that if at a future date the said unit does not satisfy any of the conditions laid down in the notification No.S.O.232 (E) dt. 2.4.92, or does not comply with any of the conditions or restrictions for the time being in force or includes manufacture items that required an industrial Licence, than in such an eventuality, I/We shall be liable and required to surrender our registration as a SSI unit.
12. That I/We undertake to inform the Directorate of Industries/Registering authority immediately in case a situation arises as mentioned at para 11 above.
13. That I/We undertake to inform and to keep informed the Directorate of Industries/Registering Authority on all parameters and changes, if any as, required from time to time.
14. That I/We undertake to refund to the Central or State Government any or all financial incentives or benefits given under various schemes of assistance for small scale industries along with 18% interest, as may be demanded by the appropriate authority of Central/State Govt, in case it is found that the information or particulars submitted to obtain registration were wrong and fraudulent
15. That I/We fully understand that we have to comply with the above conditions failing which we are liable for action by the Registering authority for cancellation of the Registration as well as under other relevant provisions of the laws and rules in force.

Signature

DEPONENT

VERIFICATION:

Verification that the contents of the affidavit are true to the best of my knowledge and belief.

DEPONENT

Date:

Place:

(*Note) Strike out whichever is not applicable.

5.11 SUMMARY

The government of India has been promoting development of SSIs since independence for multiple reasons. Some of the reasons are attributed to the facts that it helps in equitable distribution of wealth and income across the country through employment generation with low capital, quick return on investment, balanced regional development etc. These benefits have led the government to bring about policy measures that suits the growth and development of SSIs in India.

Over a period of time, SSIs in India suffered from various problems such as inadequate financial resources, shortage of raw materials, difficulties in marketing, outdated equipments, competition from large scale industries, inadequate organizational set up and managerial skills.

To address these problems, a number of promotional measures have been undertaken by both central and state Governments to promote growth and protect the small-scale sector from the onslaught of the large sector. Measures undertaken by the government from time to time include reservations, increasing credit flows, preference in Government purchases, modernisation, technology upgradation and improving export performance. In the post-reform period, a number of new steps have been initiated by the government with regard to foreign direct investment, development of infrastructural facilities, establishment of growth centers, export promotion, and marketing, etc

Under the policy resolution, the Government of India has been providing various subsidies, tax and non tax concession to promote SSIs especially in rural India. The Government has also created a database of SSIs through registration to extend support through various means so that they prosper, rural India smiles and the nation develops.

5.12: Long Answer Questions

1. Define SSIs and explain various categories of SSIs.

2. What are the basic characteristics and objectives of SSIs in India?
3. Explain the evolution of SSIs in India.
4. Explain the need and rationale of SSI in India.
5. How do SSIs play a significant role in economic development of the nation?
6. Explain the problems faced by SSIs in India.
7. Explain various promotional measures undertaken by central and state governments for development of SSIs in India.
8. Explain various industrial policy resolution made by the Government for promotion and development of SSIs in India.
9. Explain various tax concessions and incentives provided to SSIs.
10. Explain various non- tax concessions provided to SSIs.
11. Explain objectives and features of registration Schemes for SSIs.
12. Explain the process of registration for SSIs. Under what conditions, SSIs are de-registered?

Short Answer Type Questions

1. What is a SSI?
2. What is the investment limit on plant and machinery to consider it as a SSI?
3. Name the classification of industries.
4. Write some of the examples of small scale industries.
5. What are the features of SSIs?
6. What are the objectives of small industries?
7. What are the characteristics of small scale industries?
8. What are the roles played by SSIs in India?
9. List out four problems faced by SSIs in India.
10. List out four promotional measures undertaken by Government of India for promotion and development of SSIs. India.
11. What are the steps initiated by Government in the post reform period.
12. What was the focus of Industrial Policy Resolution 1948?
13. What was the focus of Industrial Policy Resolution 1956?
14. What was the focus of Industrial Policy Resolution 1977?
15. What was the focus of Industrial Policy Resolution 1980?
16. What was the focus of Industrial Policy Resolution 1990?
17. What was the focus of Industrial Policy Resolution 1991?
18. What was the focus of Industrial Policy Resolution 2000?
19. What was the focus of Industrial Policy Resolution 2003?
20. What was the focus of Industrial Policy Resolution 2004?
21. What was the focus of Industrial Policy Resolution 2005?
22. What was the focus of Industrial Policy Resolution 2007?
23. What are the various tax concession provided to the entrepreneurs to promote SSIs in India?
24. List out some of the non- tax concession provided to the entrepreneurs to promote SSIs in India?

25. Why is rehabilitation allowance given?
26. What is investment allowance?
27. Why is registration of SSIs required?
28. What are the objectives of SSIs registration?
29. Briefly write the registration process.
30. What are the conditions under which one SSI will be de-registered?

Multiple Choice Questions

1. The investment limit on Plant and machinery of a SSI is
   a. 50 lakhs
   b. 1 crore
   c. 2 crores
   d. 5 crores
2. Industrial units are generally classified on the basis of
   a. Size
   b. Capital resources
   c. No. of labourers engaged
   d. All of the above
3. Which of the following is not true about SSIa in India?
   a. Investment on Plant and machinery is up to 1 crore.
   b. Cost of land and factory building is not included, and
   c. The investment in plants and machinery is taken up "at cost".
   d. All are true
4. Which of the following is not true?
   a. The cottage and small-scale industries are collectively called as the "small-scale industries".
   b. Traditional cottage and household industries, viz, khadi and village industries, Seri-culture, handicrafts, and coir
   c. Handloom is kept beyond the purview of SSIs.
   d. Modern small-scale industries including tiny units and power looms.
5. Which form of SSIs is dominant in India?
   a. Proprietorship
   b. Partnership
   c. Limited companies
   d. None of the above
6. Most of the small units in India are located in
   a. Rural areas
   b. Semi rural areas
   c. Urban areas
   d. Semi urban areas
7. Small Industrial units are

a. labour intensive.
b. require very little capital than required by large-scale industrial
c. called light and skill light.
d. All of the above

8. Which one of the followings is not the objective of small scale industries?
   a. To assist in the growth and wide spread dispersal of industrial units.
   b. To develop entrepreneurship without any support from government agencies.
   c. To increases the level of earnings through self-employment.
   d. To ensure regular supply of goods and services through the use of local skills and resources.
9. Which one of the followings is not the characteristic of small industries?
   a. Limited area of operation
   b. Use of local resources
   c. Less labour, more technology
   d. ROI in a short period
10. Which of the followings is not true about SSIs in India?
   a. It generates good number of employment.
   b. It requires more capital than large scale industries
   c. Helps in equitable distribution of wealth and income
   d. It balances regional development
11. Which of the followings is not true about SSIs in India?
   a. Reduce the need for foreign capital
   b. Its return on investment comes within a very short span of time.
   c. Does not contribute in export
   d. Support large scale industry
12. Which of the followings is not true about the problems faced by SSIs in India?
   a. Inadequate financial resources
   b. Shortage of raw material
   c. Difficulties in marketing
   d. All these are problems
13. Which of the followings is not true about SSI in India?
   a. It uses upgraded technology
   b. It gets stiff competition from large scale industry
   c. Inadequate organizational set up
   d. Poor managerial skills of management
14. Which of the followings is not a promotional measures initiated by Government?

a. Reservations, increasing credit flows
b. Preference in government purchases
c. Modernization and technological upgradation
d. All are promotional measures

15. Which of the followings is not true about the promotional measures initiated by Government in post reform period?
    a. Foreign direct investment
    b. Development of infrastructural facilities
    c. Establishment of growth centers
    d. No Export promotion, and marketing
16. What was the main focus of Industrial policy resolution 1948 for SSIs?
    a. To create requisite infrastructure
    b. To integrate with that of large scale industry
    c. To promote cottage, village and small industries
    d. To promote SSIs through integrated industrial development between large and small sectors.
17. What was the main focus of Industrial policy resolution 1956 for SSIs?
    a. To create requisite infrastructure
    b. To integrate with that of large scale industry
    c. To promote cottage, village and small industries
    d. To promote SSIs through integrated industrial development between large and small sectors.
18. What was the main focus of Industrial policy resolution 1977 for SSIs?

a. To create requisite infrastructure
b. To integrate with that of large scale industry
c. To promote cottage, village and small industries
d. To promote SSIs through integrated industrial development between large and small sectors.

19. What was the main focus of Industrial policy resolution 1980 for SSIs?

a. To create requisite infrastructure
b. To promote women entrepreneurship
c. To promote cottage, village and small industries
d. To promote SSIs through integrated industrial development between large and small sectors.

20. Industrial Policy Resolution……Promoted cottage, village and small industries widely dispersed in rural areas and small towns.
    a. 1977
    b. 1980

c. 1948

d. 1990

21. Industrial Policy Resolution…… promoted SSIs through integrated industrial development between large and small sectors.

a. 1977

b. 1980

c. 1948

d. 1990

22. SIDBI was established under which Industrial policy resolution?

a. Industrial Policy Resolution 1977

b. Industrial Policy Resolution 1980

c. Industrial Policy Resolution 1948

d. Industrial Policy Resolution 1990

23. What was the Industrial policy resolution that promoted rural women entrepreneurship?

a. Industrial Policy Resolution 1977

b. Industrial Policy Resolution 1980

c. Industrial Policy Resolution 1948

d. Industrial Policy Resolution 1990

24. What was the thrust of Industrial Policy Resolution 1991?

a. To promote rural women entrepreneurship.

b. To simplify regulations and procedures by delicensing, deregulating, and decontrolling

c. To promote SSI through integrated industrial development between large and small sectors.

d. None of the above

25. What was the policy resolution that offer comprehensive policy package for SSIs and tiny sectors.

a. Industrial Policy Resolution 2000

b. Industrial Policy Resolution 1980

c. Industrial Policy Resolution 1948

a. Industrial Policy Resolution 1990

26. Which of the Industrial Policy Resolution increased investment limit on plant and machinery from 1crore to 5crores

a. Industrial Policy Resolution 2004

d. Industrial Policy Resolution 2000

e. Industrial Policy Resolution 1948

b. Industrial Policy Resolution 1990

27. Which of the Industrial Policy Resolution recognized SMEs in the services sector and treated on par with SSIs in the manufacturing sector.

a. Industrial Policy Resolution 2005

b. Industrial Policy Resolution 2000

c. Industrial Policy Resolution 2004

c. Industrial Policy Resolution 1990

28. Which of the Industrial Policy Resolution provided access to Capital for MSMEs.

a. Industrial Policy Resolution 2000

b. Industrial Policy Resolution 2004

c. Industrial Policy Resolution 2017

d. Industrial Policy Resolution 1990

29. What are questions addressed in Industrial Policy Resolution 2017?

a. What alternatives to banks, can be developed improve access to capital for MSMEs -Peer to Peer Lending, Crowd funding etc.

b. Can a credit rating mechanism for MSMEs be looked upon to provide them easier access to funds?

c. Both a and b

d. neither a nor

30. Rehabilitation allowance is given for

a. Rood, typhoon, hurricane, cyclone. earthquake, or other natural upheavals;

b. Riot or civil disturbance and accidental fire or explosion;

c. Action by an enemy or action taken in combating an enemy

d. All of these

31. What are the purposes of registration of SSIs in India?

a. To maintain database to promote them

b. To maintain a roll of such units for the purposes of providing incentives and support services

c. Both a and b

d. Neither a nor b

32. What are the benefits of registration of SSIs in India?

a. Credit prescription (Priority sector lending), differential rates of interest etc.

b. Excise Exemption Scheme and Exemption under Direct Tax Laws.

c. Statutory support such as reservation and the Interest on Delayed Payments Act.

d. All of the above

MCQ Answers

1. **b**
2. **d**
3. **d**
4. **c**
5. **a**
6. **a**
7. **d**
8. **b**
9. **c**
10. **b**
11. **c**
12. **d**
13. **a**
14. **d**
15. **d**
16. **a**
17. **b**
18. **c**
19. **d**
20. **a**
21. **b**
22. **d**
23. **d**
24. **b**
25. **a**
26. **a**
27. **a**
28. **c**
29. **c**
30. **d**
31. **c**
32. **d**