

**ENTREPRENEURSHIP AND
INNOVATION**
**MASTER OF BUSINESS ADMINISTRATION
(INTERNATIONAL BUSINESS)**
FIRST YEAR, SEMESTER-II, PAPER-VII

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Entrepreneurship and Innovation

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A+' grade from the NAAC in the year 2024, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 221 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.Sc., B.A., B.B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavors.

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**MASTER OF BUSINESS ADMINISTRATION
(INTERNATIONAL BUSINESS)
FIRST YEAR, Semester-II, Paper-VII
207IB26: Entrepreneurship and Innovation
SYLLABUS**

This Course provides a clear and concise outline of essential topics in entrepreneurship, aligning with the needs of MBA (IB) students.

Course objectives:

1. To make the student understand about various legal forms of Business organizations.
2. To enable the student in knowing various sources of generating new ideas and preparation of project report in setting up of New Start ups
3. To facilitate the student in knowing various sources of finance in starting up of a business
4. To impart knowledge about various government schemes which provide financial assistance to entrepreneurs/ women entrepreneurs and various benefits offered to them.
5. To sensitize the student about important macroeconomic variable effecting businesses.

Course Outcomes: At the end of the course, students will be able to:

1. Understand the concept of Business and challenges in the world of competition.
2. Apply the Knowledge in generating ideas for New Ventures.
3. Explore various sources of finance and subsidies to entrepreneur/women Entrepreneurs.
4. Evaluate the role of central government and state government in promoting Entrepreneurship.
5. Create and design business plan structure through incubations and understand the influence of macroeconomic factors affecting business.

Unit 1: Legal Forms of Entrepreneurial Business Organizations: Sole Proprietorship: Features and characteristics-Partnership: Formation, characteristics, advantages, and disadvantages. Cooperative Organizations: Management and operational aspects. Companies: Definition, nature, and types-Characteristics and procedure for starting a company-Important documents: Memorandum of Association (MOA), Articles of Association (AOA), and Prospectus-Legal requirements for company establishment-Raising capital: Short-term and long-term options-Board of Directors: Powers, functions, and meetings of shareholders-MSME (Micro, Small, and Medium Enterprises): Establishment procedures and registration process-Setting up export organizations.

Unit 2: Innovation and Entrepreneurship: Concept of Entrepreneurship: Nature, significance, and common myths-Characteristics of successful entrepreneurs and their role in economic development-Development of Entrepreneurship: Steps in entrepreneurship development-Idea generation: Process, techniques, and screening-Creativity and Innovation:Imagination and creativity in entrepreneurship-Creative thinking processes and developing creativity-Innovation process: Types, sources, myths, and principles.

Unit 3: Entrepreneurship and Incubation: Opportunity Recognition and Feasibility Analysis: Steps for identifying opportunities-Trend spotting and the creative process-

Feasibility analysis: Market, technical/operational, financial, and competitor analysis-Preparing and presenting project reports and business plans-Appraisal techniques for project reports-Incubation-Process and benefits of incubation for startups.

Unit 4: Institutional Support for Small Business: Institutional Finance: Central and state-level schemes for small businesses and startups-Central Level Institutions: National Bank for Agriculture and Rural Development (NABARD)-Commercial Banks-Small Industries Development Bank of India (SIDBI)-National Small Industries Corporation (NSIC)-Khadi and Village Industries Commission (KVIC)-Small Industries Development Organization (SIDO)-MUDRA, Stand Up India, Startup India-State Level Institutions:State Financial Corporations (SFC)-State Industrial Development Corporations (SIDCO)-District Industries Centres (DICs)-Additional Support: Policy support for women entrepreneurs-Supporting schemes for exporters: ECGC-Schemes for entrepreneurship and skill development.

Unit 5: Macro Economic Environment Affecting Business: Overview of Indian Economy: Basic structure and policies-Economic Policies: Agricultural, industrial, monetary, and fiscal policies-Trade and EXIM policies-NITI Aayog: Objectives, structure, and functions-Economic Analysis: Economic Survey and Union Budget-Current status of India's foreign trade, Balance of Payments (BOP), and foreign exchange reserves.

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LESSON -1

CONCEPT AND ROLE OF ENTREPRENEURSHIP

The growing significance of entrepreneurship is evident from the increasing number of educational programs and resources dedicated to the subject worldwide. For instance, Erudera reports that there are 336 entrepreneurship study programs available at 228 schools and universities globally. Additionally, Coursera, a leading online learning platform, offers approximately 7,000 courses across various subjects, including entrepreneurship. Furthermore, Hotcourses Abroad lists 356 universities offering entrepreneurship courses internationally

Objectives of the lesson:

After studying this lesson you should be ready to understand:

- Understand the concept, meaning, and definition of entrepreneurship and its significance in the contemporary global economy
- Explain the four key elements of entrepreneurship: process, value creation, unique resource combination, and opportunity-driven behavior
- Identify the three primary reasons why individuals become entrepreneurs: to be their own boss, to pursue their own ideas, and to realize financial rewards
- Analyze the four main characteristics of successful entrepreneurs: passion for the business, product/customer focus, tenacity despite failure, and execution intelligence
- Evaluate the role of entrepreneurs in economic development through employment generation, innovation, knowledge spillovers, and enterprise creation

Structure of the lesson:

- 1.0: Introduction
- 1.1: what is Entrepreneurship?
 - 1.1.1: Economic Activity
 - 1.1.2: Innovative Activity
- 1.2: who is an Entrepreneur?
 - 1.2.1 Reasons for becoming entrepreneurs
- 1.3: Characteristics of Entrepreneur
- 1.4: Attributes of a successful Entrepreneur
 - 1.4.1 Five common myths about Entrepreneurs
 - 1.4.2 Case study of Rajendra
- 1.5: Entrepreneur Vs Manager
- 1.6: Entrepreneur Vs Intrapreneur
- 1.7: Classification of Entrepreneurs
 - 1.7.1: Innovative Entrepreneurs?
 - 1.7.2: Adoptive or Imitating Entrepreneurs

- 1.7.3: Fabian Entrepreneurs
- 1.7.4: Drone Entrepreneurs
- 1.7.5: Other Types of Classification of Entrepreneurs
- 1.8: Role of Entrepreneurs in Economic Development
- 1.9: Summary
- 1.10: Self assessment Questions
- 1.11: Key words
- 1.12: Further Readings / Reference books



Exhibit - 1

Life Story of Dhirubhai Ambani

Dhirubhai Ambani was the most enterprising Indian entrepreneur. His life journey is reminiscent of the rags to riches story. He is remembered as the one who rewrote Indian corporate history and built a truly global corporate group. Dhirubhai Hirachand Ambani, the founder of Reliance Industries, came from a family of moderate means. He started his entrepreneurial career by selling "pakora" to pilgrims in Mount Girnar over the weekends. When he was 16 years old, he moved to Aden, Yemen. He worked with A. Besse & Co. for a salary of Rs.300. Two years later, A. Besse & Co. became the distributors for Shell products, and Dhirubhai was promoted to manage the company's filling station at the port of Aden. In 1962, he returned to India and started the Reliance Commercial Corporation with a capital of Rs.15,000. The primary business of Reliance Commercial Corporation was to import polyester yarn and export spices. Ambani's greatest achievement was that he showed Indians what was possible. With no Oxford or Yale degree and no family capital, he achieved to build an ultramodern, profitable, global enterprise in India itself. He created an equity cult in the Indian capital market. Reliance is the first Indian company to feature in Forbes 500 list. Dhirubhai Ambani was named the Indian Entrepreneur of the 20th Century by the Federation of Indian Chambers of Commerce and Industry (FICCI). A poll conducted by The Times of India in 2000 voted him "greatest creator of wealth in the century".

1.0: Introduction

In this lesson you will study the concept of entrepreneurship and characteristic of entrepreneur, besides the importance of entrepreneurship in economic development. This chapter will also help you to understand the meaning and significance of start-ups.

Generally speaking, entrepreneur refers to a person who establishes his own business or industrial undertaking with a view to making profit. An entrepreneur is considered to be an originator of a business venture. He takes the role of an organizer in the process of production.

The word 'Entrepreneur' is derived from the French word 'Entreprendre' meaning "to undertake". The word was originally used to describe people who "Take on the risk", between buyers and sellers or who "undertake" a task such as starting a new venture. Inventors and entrepreneurs differ from each other. An inventor creates or invents something new. An entrepreneur transforms the new invention into a commercially viable business proposition. An entrepreneur assembles and integrates all the resources required – money, people and business model, the strategy and the risk bearing ability – for converting the invention into a business.

In fact, in the 16th century, the Frenchmen who undertook military expeditions were referred to as 'Entrepreneurs.' Later on, in the 18th century, this term got associated with persons who started their own enterprises. Richard Cantillon, an Irish man living in France, was the first economist who introduced the term 'entrepreneur' referring to the risk-taking function of establishing a new venture.

1.1: what is Entrepreneurship?

Entrepreneurship is the process by which individuals pursue opportunities without regard to resources they currently control. The essence of entrepreneurship is identifying opportunities and putting useful ideas into practice. This requires creativity, drive and a willingness to take risk. The founder of eBay, Pierre Omidyar, saw an opportunity to create a market place where buyers and sellers could find each other online, he risked his career by quitting his job to work on eBay fulltime, and he worked hard to build a profitable company that delivers a creative and useful service to consumers.

Of the available perspectives, one definition captures the essence of entrepreneurship by integrating its core elements. Entrepreneurship is "the process of creating value by bringing together a unique combination of resources to exploit an opportunity" (Stevenson and Jarillo-Mossi, 1986). This definition has four key elements. First, entrepreneurship involves a process, this means it is manageable, can be broken down into steps or stages, and is ongoing; moreover, as a process, entrepreneurship can be applied in any organizational context. Second, entrepreneurs create value where there was none before, they create value within organizations and they create value in the marketplace. Third, entrepreneurs put resources together in a unique way. Unique combinations of money, people, procedures, technologies, materials, facilities, packaging, distribution channels, and other resources represent the means by which entrepreneurs create value and differentiate their efforts.

Fourth, entrepreneurship is opportunity- driven behavior. It is the pursuit of opportunity without regard to resources currently controlled. The abilities to recognize new opportunities in the external environment, evaluate and prioritize these opportunities, and then translate these opportunities into viable business concepts lie at the heart of the entrepreneurial process.

Timmons (2000) takes us further in elaborating on what entrepreneurs do. He views entrepreneurship as the ability to create and build a vision from practically nothing. Fundamentally, it is a human, creative act. It is the application of the energy to initiate a novel concept or build an enterprise of venture, rather than just watching or analyzing. This vision requires a willingness to take calculated risks- and then to do everything possible to reduce the chances of failure. Entrepreneurship also includes the ability to build a team with complementary skills and talents. It is the knack for sensing opportunity where others see chaos, contradiction, and confusion. It is possessing the knowhow to find, marshal, and employ resources- resources often controlled by others.

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably using various traits like leadership, decision making managerial caliber etc. It is a set of activities performed by an entrepreneur in a way entrepreneur precedes Entrepreneurship. The main features of entrepreneurship are as under.

1.1.1: Economic Activity: Although classical economics like Adam Smith and Richard Cantillon and many others didn't recognize entrepreneurship as an economic activity but since last few decades entrepreneurship is catching up and is primarily becoming an economic function because it involves creation and operation of an enterprise.

1.1.2: Innovative Activity: According to Schumpeter, entrepreneurship is essentially a creative and an innovative activity. They are five ways of being innovative.

- a) the introduction of a new good;
- b) the introduction of a new method of production;
- c) opening of a new market;
- d) the conquest of a new source of supply of raw material; and
- e) the creation of a new organization of an industry

1.2: who is an Entrepreneur?

An entrepreneur is defined as a person who innovates, organizes, operates, and assumes the risk for a new business venture. The term entrepreneur has been derived from old French word 'entreprendre', which means to undertake. A venture is a business enterprise involving risk in expectation of gain.

The above definition of entrepreneur has four components, which highlight the facets of an entrepreneur. Firstly, an Entrepreneur innovates, i.e. comes up with a new concept, product or service. Secondly, an entrepreneur organizes a new business venture, i.e. initiates or starts a new business enterprise. Thirdly, an entrepreneur operates, i.e. runs a new business venture and strives hard to sustain and grow it. Fourthly, an entrepreneur assumes the risk, i.e. takes the responsibility of the (positive or negative) outcomes of a business enterprise.

“Whatever the type, everyone is an entrepreneur only then he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their business. In contrast to this view Cantillion (1755) described the entrepreneur as a rational decision- maker “who assumed the risk and provided the management of the firm” .Thus, in this view the entrepreneur’s role encompasses the activity of managing of the firm after having started it.

If you wish to start and succeed in your enterprise, you need to play different roles at different stages. Some essential qualities for entrepreneurs are:

- 1) **A strong desire to win. (NEED FOR ACHIEVEMENT):** Most people dream of success, but seldom do anything to implement it. In contrast, entrepreneurs have a strong desire to continuously hit new goals and will not rest till they win.
- 2) **An approach of never-say-die. (PERSEVERANCE):** Once committed to a goal and a course of action, entrepreneurs never retract. Difficulties do not deter them and they work hard till the entire project is successfully accomplished.
- 3) **Entrepreneurs prefer a middle-of-the-road strategy while handling tricky situations. (MODERATE RISK TAKER):** They don’t take high risks; they are not gamblers. They prefer a moderate risk to a wild gamble, high enough to be exciting and containing a reasonable winning chance.
- 4) **Alert to opportunities and seizing them to their advantage. (ABILITY TO FIND AND EXPLORE OPPORTUNITY):** Entrepreneurs are innovative and can convert crisis into opportunities. But they are realistic enough to ensure that the opportunity suitably dovetails into realizing their goals.

- 5) **They have a dispassionate approach to problems. (ANALYTICAL ABILITY):** Entrepreneurs will not let personal likes or dislikes come in the way of their taking a business decision based on ground realities. They seek out experts for assistance rather than friends and relatives. Their decisions are objective and not emotional or impulsive.
- 6) **It is important for them to know how they are faring when they work on their goals. (USING FEEDBACK):** Entrepreneurs take immediate feedback on performance and prefer prompt and accurate data, irrespective of whether they are favourable or not. Unfavourable news spurs them into making amends to attain their goals.
- 7) **Entrepreneurs do not get deterred by unfamiliar situations but interesting situations. (FACING UNCERTAINTY):** Achievement-driven people are optimistic even in unfamiliar situations. Even if they find the odds daunting, they see no reason why they can't succeed with their treasure of abilities. They march undeterred, making the best of the fine opportunities that come their way even without guidelines. They quickly come to grips with the new environment and present a picture of boldness and prudence. They apply their special insight and skill. Applying their special insight and skill, they quickly understand the environment and adjust to it.
- 8) **They dislike working for others. (INDEPENDENCE):** Entrepreneurs do not like to work for others and therefore start off on their own. They wish to be their own masters and be responsible for their own decisions.
- 9) **They are flexible. (FLEXIBILITY):** Successful entrepreneurs have an open mind and do not hesitate to change their decisions, if after weighing the pros and cons, find that the situation so demands.
- 10) **Entrepreneurs think ahead of others and plan for the future. (PLANNER):** Most successful people set goals for themselves and plan to realize them in a time frame.
- 11) **Entrepreneurs can deal with people at all levels. (INTERPERSONAL SKILLS):** An entrepreneur comes across all kinds of people. He has to make them work for him and with him to help realize his objectives. He likes working with people and has skills to deal with them.
- 12) **They can influence others. (MOTIVATOR):** A successful entrepreneur can influence others and motivate them to think and act in his way.
- 13) **They can work for long hours and simultaneously tackle different problems. (STRESS TAKER):** As a key figure in his enterprise, the entrepreneur has to cope with several situations simultaneously and take right decisions, even if it involves physical and

emotional stress. This is possible if one has the capacity to work long hours and still keep cool.

- 14) **They know themselves. (POSITIVE SELF-CONCEPT):** An achiever channelises his fantasies into worthwhile, achievable goals and sets standards for excellence. He can do this for he knows his strengths and weaknesses, as well as adopts a positive approach. He is seldom negative.
- 15) **Entrepreneurs think ahead. (ORIENTATION FOR FUTURE):** They have the ability to look into the future. They won't allow the past to bother them and think only of the present and the future. "Bygones are bygones, what of now?" This is their usual response.

An individual may not have all these qualities, but most will have many. The first step for a person aspiring to become an entrepreneur is to make an inventory of his traits. This self-awareness and analysis will help him define his strengths and overcome weaknesses.

1.2.1 Reasons for becoming entrepreneurs: The three main reasons that people become entrepreneurs and start their own firms are: (1) to be their own boss (2.) to pursue their own ideas, and (3) to realize financial rewards.

Many entrepreneurs want to be their own boss, because either they have had a long time ambition to own their own firm or they have become frustrated working in traditional jobs. There are also people who want independence, a desire that can be satisfied by owning their own business and being their own boss. If self-help is the best help, then self -employment is the best employment and entrepreneurship, the most exciting level of self-employment. In employment one works for others, one works as others want one to do. There is no scope for doing as you wish, doing what you wish, doing how you wish. But entrepreneurship is the opposite of employment. You work for yourself, achieve a target or a goal set by yourself and reap the satisfaction of having achieved the goal yourself. As an entrepreneur, one is not only employed, but creates employment for others- one is not only realizing the goal in his life but is also a source of livelihood for so many. The pride of being a lord of one's own destiny is coupled with the satisfaction of being the benefactor of so many.

The second reason people start their own firms is to pursue their own ideas. Some people are naturally alert and when they recognize ideas for new products or services they have a desire to see those ideas realized. Because of their passion and commitment, some

employees with good innovative ideas chose to leave the firm employing them in order to start their own business as the means to develop their own ideas. Some people, through a hobby, leisure activity or just everyday life recognized the need for a product or service i.e. not available in the market place. If the idea is viable enough to support a business, they commit tremendous time and energy to convert their idea into a part time or full time business.

Finally, people start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. Entrepreneurship is not a matter of heritage, it is entirely a manifestation of such potentialities that any individual born in any caste, community and class can have. As such, any person having a certain set of behavioral traits and mental aptitudes in him/her can become an entrepreneur. Besides, there is no need for such a person to be groomed from the very childhood for becoming an entrepreneur. Even if he is grown-up, has worked on a different line, and has developed these traits or aptitudes, he or she can be groomed and developed as an entrepreneur through counseling and motivational measures.

1.3: Characteristics of Entrepreneur

Four main characteristics of Successful Entrepreneurs: The following are the four most important characteristics of a successful entrepreneurs:

1. Passion for the business
2. Product / customer focus
3. Tenacity despite failure
4. Execution intelligence

1. **Passion for the business:** The number one characteristic shared by the successful entrepreneurs is a passion for the business, whether it is in the context of a new firm or an existing firm. In this passion stems from the entrepreneur's belief that the business will positively influence people's life. This passion makes the people to life secure jobs and to start their own firm. Passion is important for entrepreneurs because, although rewarding, the process of starting and building a new firm is demanding. Entrepreneurship is not for the person who is only partially committed. Investors carefully watch and try to determine an entrepreneur's passion for his business idea. However it is important to be enthusiastic about a business idea, but it

is also important to understand its potential flaws and risks. An entrepreneur must also remain flexible enough to modify the idea when it is necessary to do so.

- 2. Product/Customer Focus:** A second defining characteristic of successful entrepreneurs is a product/customer focus. The two most important elements in any business are - products and customers. While it's important to think about the management, marketing, finance and the like, none of these functions makes any difference, if a firm doesn't have good products with the capacity to satisfy the customers. Most successful entrepreneurs are passionate in making products that meet their customer's needs. Michael Dell wrote that "We introduced technology that meets the needs of our customers, rather than introducing technology for its own sake". Successful entrepreneurs create products that meet unfilled needs of the customers.
- 3. Tenacity despite failure:** Because entrepreneurs are typically trying something new, the failure rate associated with their effort is naturally high. Further, the process of developing a new business is somewhat similar to what a scientist experiences in the laboratory. Developing a new business idea requires certain degree of experimentation before success is attained. Setbacks and failures inevitably occur during this process. The litmus test for entrepreneurs is their ability to persevere through setbacks and failures.
- 4. Execution intelligence:** The ability to convert a solid business idea into a viable business is a key characteristic of successful entrepreneurs and is called "Execution Intelligence". In many cases execution intelligence is the major factor to determine whether a start-up is a successful or failure one. A famous Chinese saying says "To open a business is very easy; but to keep it open is very difficult". The ability to execute a business idea means developing a business model, creating a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees and making arrangements for marketing the product or service and so on. It also demands the ability to translate thought, creativity and imagination into action and measurable results. Ideas are easy but execution is very hard.

Activity: Identify four main characteristics of successful entrepreneurs.

1.4: Attributes of a successful Entrepreneur

- He should be a technically qualified person
- Have adequate shop floor experience to guide the machine operation in tool- setting techniques or die-maker on the specific needs of his machine tools
- Be familiar with the raw materials, their specifications, quality, sources of availability, price sheet etc.
- Have knowledge of marketing channels, distribution network, agency practices, transport intricacies and the economics of packaging
- Know how to ensure the stipulated quality of his product
- Know taxation principles and laws governing SSIs
- Be willing to put up with bureaucratic regulations and insults and move with the situation
- Know how to avail himself of the various benefits available for the SSI
- Possess the following qualities-expertise, shrewedness, resourcefulness and perseverance (No substitute for hard work).
- Have the guts to withstand the polluted climate in which he has to build his unit

Activity: Identify a local entrepreneur of your area and list out the attributes for his/her success in Business.

1.4.1 Five Common Myths about Entrepreneurs: There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their own ideas.

Myth 1: Entrepreneurs are born, not made.

Myth 2: Entrepreneurs are gamblers.

Myth 3: Entrepreneurs are motivated primarily by money.

Myth 4: Entrepreneurs should be young and energetic.

Myth 5: Entrepreneurs want public attraction.

Myth 1: Entrepreneurs are born, not made: This myth is based on the wrong belief that some people are genetically prone to be entrepreneurs. Several studies on entrepreneurship revealed that entrepreneurs are not genetically different from other people. No one is born to be an entrepreneur; every one has the potential to become an entrepreneur. A studies also show that people with parents who were self employed are more likely to become entrepreneurs. After witnessing father's or mother's independence in the work place, a child may find it appealing.

However, there are personality traits, characteristics and qualities commonly associated with entrepreneurs

Following are the qualities of a good entrepreneur:

- High level of administration capability
- Sound technical knowledge
- Capable of taking decisions correctly and quickly
- Good at communication

It is the possession of these scarce qualities that makes an entrepreneur to have an advantage over others who lack these, for success. In addition, he should also be a generalist so that he can discharge his function without delegating it to others. He should have sufficient organizational skills to perform the organizational functions effectively and efficiently. To some extent, entrepreneurial qualities are innate (not all). Some can be improved or enhanced by training or experience. Eg: analytical ability, computation skills etc.

A successful entrepreneur should have:

- Technical competence
- Initiative
- Good judgment

- Intelligence
- Leadership qualities
- Creativeness
- Self confidence
- Energy
- Attitude
- Fairness
- Honesty
- Tactfulness, and
- Emotional stability

Myth 2: Entrepreneurs are gamblers: The second myth about entrepreneurs is that they are gamblers and take big risks. The truth is that entrepreneurs are moderate risk takers like most of the people

Myth 3: Entrepreneurs are motivated primarily by money: Studies also revealed that money is rarely the primary reason for starting new firms by entrepreneurs.

Myth 4: Entrepreneurs should be young and energetic: While it is important to be energetic, investors relay mainly on the strength of the entrepreneur to fund new ventures. Venture capitalists express that they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. The strength of an entrepreneur here means experience in the area of the proposed business, skills and abilities required for the business, a solid reputation, a track record of success and a passion about the business idea. The first four of these five qualities favor older entrepreneurs than rather than younger entrepreneurs. One study reported that 32% early retirees who return to work start their own businesses.

Myth 5: Entrepreneurs attract public attention : While some entrepreneurs are popular, majority entrepreneurs do not attract public attention. In fact, many try to avoid public appearance.

Activity:

Mr. Pradeep has always wanted to be an entrepreneur. He is intelligent, works hard, and has saved a substantial amount of money that would help him launch a firm. But he is hesitant because his close friend once told him “Entrepreneurs are born not made”. If he asked you about it what would you tell him.

To be successful, what is needed is not luck, influence or high risk. What an entrepreneur achieves is a result of his capabilities to work hard, to take moderate risk and to take advantages of the opportunities. The skills and capability of a person decide the probability of success as an entrepreneur. Though many external factors influence any outcome, understanding and managing the environment with one's own entrepreneurial ability help achieve success. Many of those who have already become successful entrepreneurs have reached this stage after a long struggle but with determination. Most of them had started their ventures as small entrepreneurs and it is mainly because of their own competence that they reached the top.

You Too can Do it: You too can become a successful entrepreneur if you have a keen desire to succeed, initiative and positive problem solving attitude and you identify a sound business opportunity. Many young persons like you have become successful entrepreneurs, even though they didn't have much money of their own or a business background. What they had was good entrepreneurial capability. The following example will prove this statement and inspire you.....

1.4.2 Case Study of Rajendra :

After Rajendra's graduation from a science college, his father, a government servant wanted him to look out for a job. Though he did have some openings, Rajendra hesitated to commit himself to a job. He was drifting without direction with only one thought in his mind 'I want to do something'. Day by day he was getting more frustrated when it dawned on him that he would have to search for an opportunity. He enthusiastically started surveying his environment with the aim to find an appropriate project in which to pour his energies.

One day, while talking with his panwalla, Ramlal, he causally asked where Ramlal purchased the dhanadal (corriander seeds) he stocked. Rajendra was surprised when Ramlal told him that the dal was bought from a factory out of town. Rajendra started asking more Panwallas and retailers of dhanadal and discovered that

though there was a high consumption of dhanadal there was not a single unit which produced it in town.

He saw that, if he could produce the dhanadal, he would have an edge over the other out- of-town manufacturers. He found the names of some manufacturers and went to meet them. But not surprisingly, no one was prepared to even talk to him, leave alone give him advice on how to produce the dhanadal. As he could not get into the unit he decided to get the information from someone inside, so he started hanging around the unit and talking to the workers when they came out for their tea breaks. He made friendship with Rakesh, a dissatisfied employee of the unit and in between cups of tea and casual talk he got information on where from the 'whole dal' can be procured, the machinery and the names of their manufacturers, the production- process, the number of people employed in the unit etc. Then he roughly estimated the cost of the project and the size of the shed in which to set- up the unit.

He came home elated. But the feeling was short-lived as his family started asking him certain down-to-earth questions like where he was going to find the money to implement his 'fancy ideas'. Rajendra was certainly concerned about this major hurdle. But so set was he on his plans that he decided to approach the nearby bank to get some advice. The manager explained to him about the loan facilities extended, the formalities he would have to undergo and the percentage of capital that he would be required to put in. He was nice enough to guide him to meet another customer of the bank who had premises near an industrial area.

Rajendra was happy to discover that this land-owner was willing to rent premises to him and that the place was just right for his factory. He started writing to the manufacturers and persuaded his family to part with the required capital from their savings. Very soon he was busy co-ordinating the procurement of his loan, arranging the delivery of machinery, talking to suppliers and customer etc. Within a short span of 10 months his factory was working and in another six months he was able to earn profit.

So if you have made the major decision of setting up an enterprise, check up on as many details as possible, and pursue the idea vigorously.

1.5: Entrepreneur Vs Manager

Many people are of the view that the terms entrepreneur and manager means the same. It is wrong notion since one can find a lot of differences between these two as given below:

Entrepreneur	Manager
<p>1. Owner: an entrepreneur is the owner of the enterprise which he establishes himself.</p> <p>2. Profit: the reward for an entrepreneur is profit which is highly uncertain.</p> <p>3. Full risk bearing: as a owner, the entrepreneur has to bear all risks and uncertainties involved in running the business.</p> <p>4. All functions: An entrepreneur has to perform many functions in order to run the enterprise successfully.</p> <p>5. Innovator: An entrepreneur mainly acts as an innovator and prepares plans for execution.</p>	<p>1. Servant: A manager is acting in the capacity of a servant in the enterprise.</p> <p>2. Salary: the reward for a manager is salary and his salary is certain and fixed.</p> <p>3. No risk bearing: As a servant, the manager need not bear any risk involved in the enterprise.</p> <p>4. Managerial functions only: A manager renders only the managerial services in an enterprise.</p> <p>5. Executor: A manager mainly acts as an executor of plans prepared by the entrepreneur.</p>

1.6: Entrepreneur Vs Intrapreneur

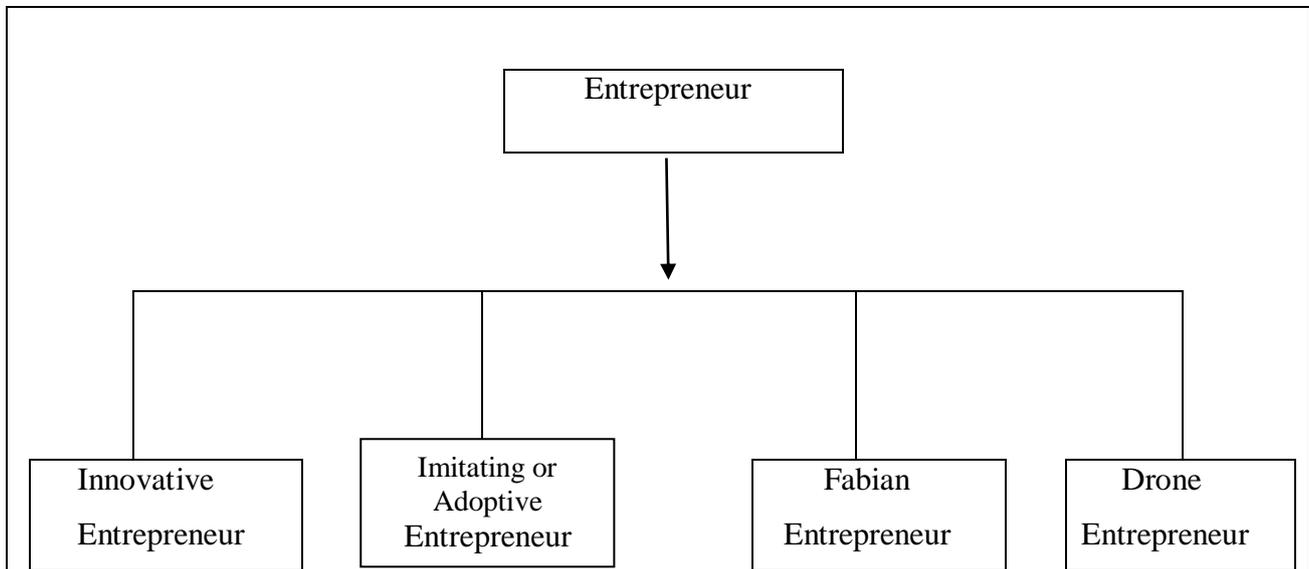
In recent times, a new brand of corporate entrepreneurs called “intrapreneurs” has come into picture. Since they emerge within the frontiers of an existing enterprise, they are called intrapreneurs. “In” refers to “within.” In big organisations, the top executives with entrepreneurial talents are encouraged to generate new ideas and then covert them into products through research and development carried out within the organization itself. If the talent inside an organisation is regarded, the entrepreneur could avoid stagnation and decline in his enterprise.

The differences that exist between these two types of business leaders are given below:

Entrepreneur	Intrapreneur
<ol style="list-style-type: none"> <li data-bbox="240 257 794 398">1. Independent: An entrepreneur is an independent person in his business operations. <li data-bbox="240 528 794 837">2. Need not be highly educated: It is not necessary that an entrepreneur should have a high education. He can learn everything by experience provided he has the basic qualities of a successful entrepreneur. <li data-bbox="240 860 794 1059">3. Fund raising: An entrepreneur himself raises funds necessary for starting and establishing his enterprise. <li data-bbox="240 1081 794 1223">4. Risk bearing: An entrepreneur has to bear all the risks involved in the business by himself. <li data-bbox="240 1245 794 1496">5. Routine work: An entrepreneur is more concerned with doing routine work and sometimes he may not know the important details of his own business. <li data-bbox="240 1518 794 1718">6. Operation from outside: An entrepreneur always operates from outside. The owner is different and the enterprise he owns is different. <li data-bbox="240 1740 794 1881">7. Strong authoritarian: Generally, an entrepreneur operates with a strong authoritarian backup. 	<ol style="list-style-type: none"> <li data-bbox="865 257 1417 508">1. Dependent: On the other hand, an intrapreneur is completely depending on the entrepreneur for everything in the organisation. He cannot take any decision by himself. <li data-bbox="865 530 1417 784">2. Highly educated: An intrapreneur enters into an existing organisation with a high education and qualification. He is indeed a business specialist in the chosen field. <li data-bbox="865 860 1417 1001">3. No fund raising: An intrapreneur is completely free from the botheration of raising funds. <li data-bbox="865 1023 1417 1164">4. No risk bearing: An intrapreneur need not bear any risk involved in the business. <li data-bbox="865 1187 1417 1328">5. Specialist: An intrapreneur acts as a specialist in his chosen field and serves as an outside professional. <li data-bbox="865 1462 1417 1662">6. Operation from inside: But, an intrapreneur operates from within the organisation itself. He is a part and parcel of the organisation. <li data-bbox="865 1684 1417 1883">7. Less authoritarian: On the contrary, intrapreneur is less authoritarian. He is more “adaptable” in the organisation.

1.7: Classification of Entrepreneurs

Entrepreneurs are classified under four major heads as shown in



1.7.1: Innovative Entrepreneurs? As per Schumpeter, only the innovating persons are designated as entrepreneurs. The ordinary producers repeat the same production for years whereas innovators produce new goods in new ways and enter into new markets by undertaking new methods of organisation.

An innovative entrepreneur is one who always looks at providing an opportunity for introducing a new technique of production process or a new commodity or a new market or arranges reorganisation. Schumpeter's concept of entrepreneur was of this type.

Peter F. Drucker opines that the innovation has the following principles.

- Systematic and objective analysis of various opportunities, to explore the possibilities of project ideas.
- For effective innovation, it has to be simple and easy. Otherwise, decisions would be difficult.
- Complete, comprehensive trail of opportunities for better choice.
- Invention should be based on certain concepts.
- Innovation emerges from the deep and wide insight to problems.
- Innovation should result in a bundle of knowledge, a purposeful activity creating profitability of the market.

1.7.2: Adoptive or Imitating Entrepreneurs: What these persons do is to just imitate the successful entrepreneurs in techniques, technology innovated by others. Due to lack of funds, technology and technical skills, the entrepreneurs in developing nations would find it most convenient to imitate rather than to innovate and hence these persons imitate the successful innovators of developed nations. Further, Innovation takes more time.

1.7.3: Fabian Entrepreneurs: These are traditionally bounded entrepreneurs who would always be cautious and they neither introduce new changes nor adopt new methods innovated by the most enterprising entrepreneurs. They are lazy, follow old customs, traditions, sentiments etc. Hence they are totally uninterested in taking risk and imitating successful entrepreneurs.

1.7.4: Drone Entrepreneurs: These entrepreneurs never allow any change in their production and the style of functioning. They never explore opportunities nor are prepared to take any risk. They may even meet losses due to obsolete methods of production but do not change their production methods and continue to adopt traditional ways in the production process. Also called as ‘Laggards’, who would be pushed out of the market when the product loses its marketability.

1.7.5: Other Types of Classifications of Entrepreneurs

This can be on the following basis:

- According to the type of business handled
- According to the use of technology
- According to the motivation
- According to the growth
- According to the stage of development
- According to the area
- According to the sex and age
- Miscellaneous

Classifications of Entrepreneurs

Type	Classification	
Business	<ul style="list-style-type: none"> • Business Entrepreneur • Trading Entrepreneur • Industrial Entrepreneur - Large-Small 	<ul style="list-style-type: none"> • Corporate Entrepreneur • Agricultural Entrepreneur Plantation-Dairy- Horticultural- Forestry

	- Medium-Tiny	<ul style="list-style-type: none"> • Retail Entrepreneur • Service Entrepreneur • Low tech Entrepreneur
Technology	<ul style="list-style-type: none"> • Technical Entrepreneur • Non-technical Entrepreneur • Professional Entrepreneur • High tech Entrepreneur 	
Motivation	<ul style="list-style-type: none"> • Pure Entrepreneur • Induced Entrepreneur 	<ul style="list-style-type: none"> • Motivated Entrepreneur • Spontaneous Entrepreneur
Growth	<ul style="list-style-type: none"> • Growth Entrepreneur 	<ul style="list-style-type: none"> • Super Growth Entrepreneur
Stage of Development	<ul style="list-style-type: none"> • First generation Entrepreneur • Modern Entrepreneur 	<ul style="list-style-type: none"> • Classical Entrepreneur
Area	<ul style="list-style-type: none"> • Urban Entrepreneur 	<ul style="list-style-type: none"> • Rural Entrepreneur
Sex and Age	<ul style="list-style-type: none"> • Men Entrepreneur 	<ul style="list-style-type: none"> • Women Entrepreneur -young, old, middle aged
Miscellaneous	<ul style="list-style-type: none"> -young, old, middle aged • Professional Entrepreneurs • Non – professional Entrepreneurs • Modern Entrepreneurs • Traditional Entrepreneurs • Skilled Entrepreneurs • Non- skilled Entrepreneurs • Imitating Entrepreneurs 	<ul style="list-style-type: none"> • Inherited Entrepreneurs • Forced Entrepreneurs • National Entrepreneurs • International Entrepreneurs • Bureaucratic Entrepreneurs • Intrapreneur Entrepreneurs • Immigrant Entrepreneurs

Classifications on the Basis of Type of Business

On the basis of type of business, the entrepreneurs can be classified as follows:

- 1. Trading Entrepreneur:** An entrepreneur who undertakes trading activities only is called trading entrepreneur. He identifies potential markets, and creates demand for his chosen product line.
- 2. Industrial Entrepreneur:** An entrepreneur is a product-oriented person who starts his industrial unit for manufacturing some new products.

3. **Business Entrepreneur:** The business entrepreneur conceives idea for a new product and create a business to materialize his idea into reality. He engages in both production and marketing activities.
4. **Corporate Entrepreneur:** An entrepreneur who demonstrates his skills in organising and managing a corporate undertaking is known as corporate entrepreneur.
5. **Agricultural Entrepreneur:** These entrepreneurs undertake agricultural activities. They raise the productivity of agriculture through modernisation and application of modern technology.

1.8: Role of Entrepreneurs in Economic Development

Entrepreneurs play an important role in the economic development of a region. From the fall of Rome (AD 476) to the eighteenth century, there was virtually no increase in per capita wealth generation in the West. With the advent of Entrepreneurship, however, per capita wealth generation and income in the West grew exponentially by 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the 1900s (Drayton, 2004). The Figure shows the various ways in which the Entrepreneurial activity results in economic development and growth.

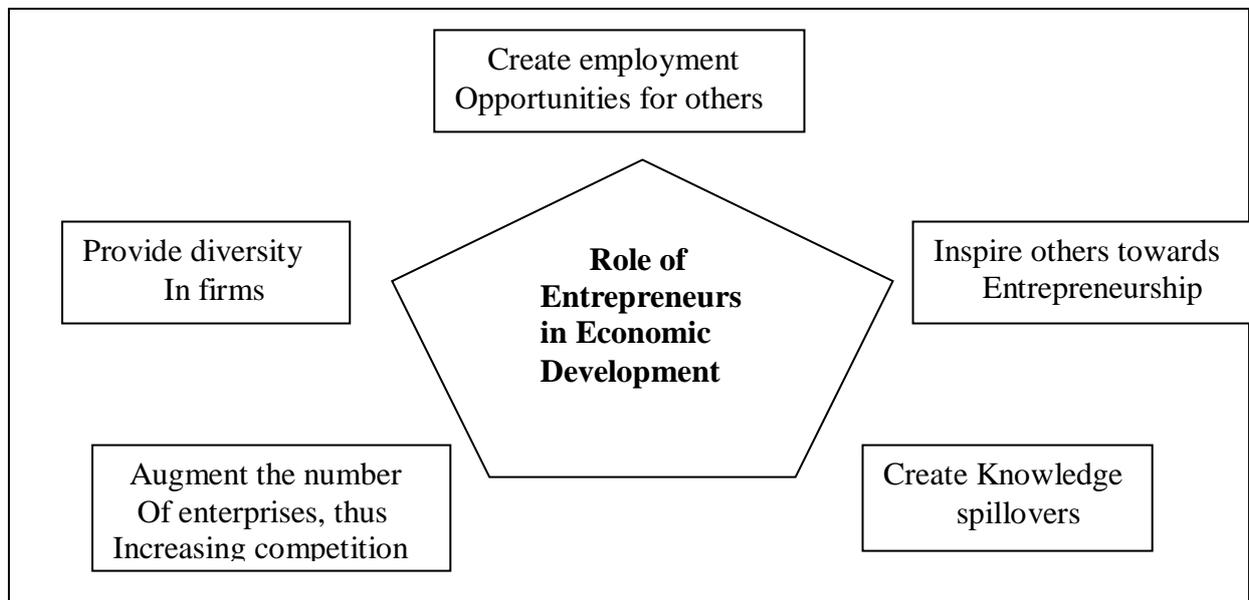


Figure: Role of Entrepreneurs in Economic Development

1.8.1: Create employment opportunities

By creating a new venture, entrepreneurs generate employment opportunities for others. Unemployment is a major issue, especially in the context of developing economies like India. Educated youth often are unable to get a suitable employment for themselves. Thus, entrepreneurs do a Yeoman's service by not only employing themselves into their Entrepreneurial ventures, but also by employing others. Within the last 15 years, Fortune 500 companies and large corporations have endured major retrenchment and eliminated millions of jobs, whereas discoveries in the Entrepreneurial sector have yielded new incorporations and generated millions of job opportunities.

1.8.2: Inspire others towards entrepreneurship

The team created by an entrepreneur for his new venture often provides the opportunity for the employees-cum-teammates to have a first-hand experience of getting involved in an entrepreneurial venture. This often leads eventually for these employees to become entrepreneurs themselves after being inspired by their earlier experience of working for an entrepreneur. Thus, this process helps in forming a chain reaction of entrepreneurial activity which directly contributes to the health of the economy.

1.8.3: Create knowledge spillovers

When a scientist, an engineer, or a knowledge worker (i.e. an economic agent with endowments of new economic knowledge) leaves an organization to create a new firm. Hence, entrepreneurship serves as a mechanism by which knowledge spills over to a new firm in which it is commercialized. Naturally, the new firm gets benefited by the experience and knowledge gained by founder in her erstwhile organization.

1.8. 4: Augment the number of enterprises

When new firms are created by entrepreneurs, the number of enterprises based upon new ideas/ concepts/ products in a region (say, a city, state, or country) increases. Not only does an increase in the number of firms enhance the competition for new ideas, but greater competition across firms also facilitates the entry of new firms specializing in a particular new product niche.

Provide diversity in firms: Entrepreneurial activity in a region often results into creation of a variety of firms in a region. These firms operate into diverse activities and it has been found that it is this diversity in firms which fosters economic development and growth rather than homogeneity. According to Jacobs (1969), it is the exchange of complementary knowledge across diverse firms and economic agents that yields as important return on new economic knowledge.

Importance of Entrepreneurship: Entrepreneurship's importance to the economy and society was first expressed by Joseph Schumpeter in his book "The Theory of Economic Development". He argued that entrepreneurs develop new products and technologies that over time make current products and technologies obsolete. Schumpeter calls this process creative destruction. Because new products and technologies are typically better than those they replace and these improved products and technologies increase consumer demand and stimulates economic activity. The new products and technologies may also increase the productivity of all elements of the society. Small firms that practice this art are called "innovators" or "agents of change".

Entrepreneurial firms are the firms that bring new products and services to market by creating opportunities. Entrepreneurial firms stress innovations which have had a dramatic impact on society. New products and services helped in making our lives easier, improved our productivity, improved our health, develop better communication and entertain people in new ways. Entrepreneurial firms contribute towards innovation, job creation and globalization.

1.9: Summary

Presently, the emerging economies are living in the age of entrepreneurial revaluation. The entrepreneurs are challenging so many myths, that are hindering the growth and positive mindset of the people. They are coming up with innovative ideas and creative thoughts and are able to solve, so many unanswered problems and challenges, even at the Government level. The entrepreneurs are omnipresent now- a- days and are making their mark not only in the corporate business arena, but also in Social and domestic sectors. Their scope of functioning so beyond that of the managers at the corporate or business level. While the inventors love and enjoy inventions, entrepreneurs love and enjoy translating them into reality by superior skills in execution.

Entrepreneurship is the process by which individuals pursue opportunities without regard to resources they currently control. Corporate entrepreneurship is the conceptualization of entrepreneurship at that firm level. Entrepreneurial firms are proactive, innovative, and risk taking. In contrast, conservative firms take a more “wait and see” posture, are less innovative, and are risk adverse.

Although reasons vary, the three primary reasons that people become entrepreneurs and start their own firms are as follows: to be their own boss, to pursue their own ideas, and to realize financial rewards.

The four main characteristics of successful entrepreneurs are passion for the business, product/ customer focus, tenacity despite failure, and execution intelligence.

The five most common myths regarding entrepreneurship are that entrepreneurs are born, not made; that entrepreneurs are gamblers; that entrepreneurs should be young and energetic; and entrepreneurs love the spotlight.

Entrepreneurial firms are the firms that bring new products and services to market by creating and seizing opportunities regardless of the resources they currently control. Entrepreneurial firms stress innovation, which is not the case for salary- substitute and lifestyle firms.

There is strong evidence that entrepreneurial behavior has a strong impact on economic stability and strength. The areas in which entrepreneurial firms contribute the most are innovation, job creation, and globalization.

The innovations produced by entrepreneurial firms have had a dramatic impact on society. It's easy to think of new products and services that have helped make our lives easier, that have made us more productive at work, that have improved our health, that have helped us better communicate with each other, and that have entertained us in new ways.

In addition to the impact that entrepreneurial firms have on the economy and society, entrepreneurial firms have a positive impact on the effectiveness of larger firms. There are many entrepreneurial firms that have built their entire business models around producing products and services that help larger firms become more efficient and effective.

1.10: Self assessment Questions

Multiple Choice Questions with Answers

****1. The word 'Entrepreneur' is derived from the French word 'Entreprendre,' which means:****

- A) To manage
- B) To undertake
- C) To innovate
- D) To invest

****Answer: B) To undertake****

****2. According to Stevenson and Jarillo-Mossi (1986), entrepreneurship is defined as:****

- A) The process of maximizing profits through existing resources
- B) The process of creating value by bringing together a unique combination of resources to exploit an opportunity
- C) The ability to manage a large corporation effectively
- D) The art of investing capital in established businesses

****Answer: B) The process of creating value by bringing together a unique combination of resources to exploit an opportunity****

3. Which of the following is NOT one of the three primary reasons people become entrepreneurs according to the lesson?

- A) To be their own boss
- B) To pursue their own ideas
- C) To achieve social status
- D) To realize financial rewards

****Answer: C) To achieve social status****

****4. The four main characteristics of successful entrepreneurs identified in the lesson are:****

- A) Intelligence, wealth, education, and connections
- B) Passion for business, product/customer focus, tenacity despite failure, and execution intelligence
- C) Risk-taking, luck, timing, and family support
- D) Technical skills, marketing skills, financial skills, and leadership skills

****Answer: B) Passion for business, product/customer focus, tenacity despite failure, and execution intelligence****

****5. According to the lesson, which myth about entrepreneurs is FALSE?***

- A) Entrepreneurs are gamblers
- B) Entrepreneurs are motivated primarily by money
- C) Entrepreneurs are born, not made
- D) All of the above are myths

****Answer: D) All of the above are myths****

Short Answer Questions

1. Define entrepreneurship and explain its four key elements as described in the lesson.
2. What are the three primary reasons that motivate individuals to become entrepreneurs?
3. List and briefly explain the four main characteristics of successful entrepreneurs.
4. Explain any five common myths about entrepreneurs and provide the reality behind each.
5. Distinguish between an entrepreneur and a manager based on ownership, risk-bearing, functions, and reward.

Case Study

From Paanwalla's Tip to Factory Owner: The Inspiring Journey of Rajendra

Rajendra, a fresh science graduate, was drifting without direction despite having job offers. His father, a government servant, wanted him to secure a stable job, but Rajendra harbored an undefined desire to "do something" meaningful. One day, while chatting with his local paanwalla, Ramlal, Rajendra casually asked where Ramlal purchased the dhanadal (coriander seeds) he stocked. He was surprised to learn that the dal was sourced from a factory outside town. Curiosity sparked, Rajendra began surveying multiple paanwallas and dhanadal retailers, discovering that despite high local consumption, there was no local manufacturing unit for dhanadal in his entire town. This represented a clear market opportunity—local production would have a natural advantage over out-of-town competitors due to lower transportation costs and faster supply.

Rajendra attempted to learn from existing manufacturers, but they refused to share any information. Undeterred, he befriended Rakesh, a dissatisfied employee of a manufacturing unit, and through casual conversations during tea breaks, gathered crucial information about raw material sources, machinery specifications, production processes, and workforce requirements. He estimated project costs and shed size requirements. When he shared his excitement at home, his family raised practical concerns about funding. Rajendra approached a nearby bank, where the manager explained loan facilities, required formalities, and the capital contribution needed. The manager also connected him with a landowner willing to rent premises near an industrial area. Rajendra wrote to machinery manufacturers, persuaded his family to contribute from savings, and coordinated loan procurement, machinery delivery, and supplier relationships. Within ten months, his factory was operational, and within sixteen months, it was generating profits. Rajendra's journey from aimless graduate to successful entrepreneur demonstrates that opportunity recognition, perseverance, and execution intelligence can overcome lack of initial capital and technical knowledge.

Case Study Questions

1. Identify and explain the entrepreneurial qualities Rajendra demonstrated throughout his journey. How did these qualities contribute to his success?

2. According to the lesson, what are the four main characteristics of successful entrepreneurs? Analyze how Rajendra exhibited each of these characteristics.
3. Which myths about entrepreneurship does Rajendra's story help dispel? Provide specific examples from the case that challenge these myths.

1.11: Key words:

Entrepreneur; Intrapreneur; Innovative entrepreneur; Adoptive or Imitating Entrepreneurs ; Fabian Entrepreneurs; Drone Entrepreneurs ,creative destruction.

1.12: Further Readings / Reference books

1. Five Printed/Published Textbooks

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2. Kuratko, Donald F., & Hodgetts, Richard M. (2007). *Entrepreneurship in the New Millennium*. Cengage Learning.
3. Bedi, Kanishka (2009). *Management and Entrepreneurship*. Oxford University Press, New Delhi.
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FORMS OF BUSINESS ORGANISATIONS

Objectives of the lesson:

- Understand the various forms of business organisations available to entrepreneurs including sole proprietorship, joint Hindu family business, partnership, cooperative society, and joint stock company
- Analyze the features, advantages, and limitations of sole proprietorship as the simplest and most suitable form for small businesses
- Examine the unique characteristics of joint Hindu family business as a traditional Indian form governed by the Hindu Succession Act
- Evaluate the partnership form of business including its formation, types of partners, advantages, and limitations
- Compare and contrast the different forms of business organisations to determine the most appropriate choice based on various factors

Structure of the lesson:

- 2.0 :Introduction
- 2.1: Sole Proprietorship
 - 2.1.1: Features
 - 2.1.2: Advantages
 - 2.1.3: Limitations
- 2.2: Joint Hindu Family Business
 - 2.2.1: Features
 - 2.2.2: Advantages
 - 2.2.3: Limitations
- 2.3: Partnership
 - 2.3.1: Features
 - 2.3.2: Types of Partners
 - 2.3.3 Types of partnership
 - 2.3.4: Advantages
 - 2.3.5: Limitations
- 2.5: Cooperative Society
 - 2.5.1: Features
 - 2.5.2: Types of Cooperative Society
 - 2.5.3: Advantages
 - 2.5.4: Limitations
- 2.6: Joint Stock Company
 - 2.6.1: Features
 - 2.6.2: Types of Companies
 - 2.6.3: Advantages
 - 2.6.4: Limitations
- 2.7: Choice of Forms of Business Organisation
- 2.8. Start Ups

- 2.9: summary
- 2.10: Self Assessment Questions
- 2.11: Key Terms
- 2.12: Further Readings / Reference books

Exhibit - 2

10 Indian Startup Success Stories That Will Inspire You

They had an idea in mind. They left their cushy jobs. They worked hard. They created history. India is witnessing a brand new generation of startups, making their presence felt not just in the domestic sphere, but also globally. They're inspiring success stories of people who have paved their own roads of innovation and dreams.

1. Make My Trip

Brainchild of Deep Kalra, an IIM Ahmedabad alumnus, MakeMyTrip has revolutionized the travel industry over the years. It was originally launched in the US market in 2000 to cater to the needs of NRIs for their Indo-American trips. It launched its operations in India in 2005, starting with flight tickets. After a few years, Make My Trip got listed in NASDAQ and in the next year went on to make 3 acquisitions. It has got worldwide recognition and innumerable rewards.

2. Flipkart

No one would be a stranger to this one! Flipkart achieved massive success a few years back owing to its first mover advantage in the online market in India. Sachin and Binny Bansal, both IIT-D alumni, worked with Amazon before, thus they introduced a similar concept into the Indian market. They started with books in 2007 and now sell almost everything, from personal care to jewellery, from CDs to stationery. It acquired Myntra for around INR 2000 crore. Flipkart.com has made it to the top five global billion dollar start-up club with a valuation of \$11 billion..

3. Zomato

Launched in 2008, Zomato hasn't been anything less of a sensation. It covers over 331,200 restaurants in 19 countries. Started as Foodiebay.com, in two years, it was named the most promising internet companies in India. In another two years, it went on to get international recognition. Deepinder Goyal and Pankaj Chaddah, the co-founders always wanted to create their own path, a path with its own obstacles. Zomato had no funding initially, their growth was excruciatingly slow. However, tables turned very soon and it made Zomato what it is now.

4. redBus

Started in 2006, redBus has grown phenomenally over the past few years. An online bus ticket booking and hotel booking site, this start-up achieved success for its innovative idea of making bus ticket booking easier for the common man. Phanindra, Sudhakar and Charan, the

budding entrepreneurs from BITS Pilani initiated this idea, when one of them, Phanindra couldn't go home for Diwali because he didn't get a bus ticket. All of them were working for reputed MNCs at that time; it was a huge risk for them to start redBus.in. That risk, however paid off and the rest, as they say, is history.

5. Housing.com

A Mumbai-based real estate search engine, Housing.com was co-founded by twelve IIT-B graduates with the idea to introduce transparency in the real-estate market. What is commendable about Housing.com is the exponential rate at which it has grown. It was just founded two years ago and the response they've got is amazing. Despite many hurdles, Housing.com managed to achieve enormous success. It has raised four rounds of funding since its founding in 2012.

6. InMobi

Founded in 2007, InMobi, a mobile ad network giant was a result of entrepreneurship expertise and an innovative idea. Naveen Tewari, an alumnus of Harvard Business School, who had previously worked at McKinsey, wanted to build something which he could call his own. Before tasting success, it had its own set of problems. Since, it operated internationally, people weren't sure if an Indian company could achieve success. Despite the obstacles, it has had a great reception around the world; it is now one of the largest mobile ad networks in China. Its growth from a start-up to an MNC is certainly inspiring.

7. FreeCharge

An e-commerce website, FreeCharge was founded in 2010 by Kunal Shah and Sandeep Tandon. It has made mobile recharge free by offering equal value back to the customers in form of retailers' coupons. It's success to be credited to the fact that it's a win-win situation for both the customers and the retailers. Like any start-up, there were many hurdles that FreeCharge had to face- everyone thought that it was too good to be true and weren't too serious about it. Some retailers felt that the concept of 'free' would harm their brand. However, FreeCharge has been able to overcome most of its problems. Now, they have tied up with various production houses like Sony Pictures, YRF, UTV etc.

8. Ola Cabs

Who would've thought that a few years back that booking cabs would be so much easier? Thanks to Ola Cabs, travelling in a cab now costs less than travelling in an auto rickshaw. Bhavish Aggarwal and Ankit Bhati who co-founded Ola Cabs were IIT-B graduates who were working in MNCs before going on the uncertain path of entrepreneurship. This idea was formed after a weekend trip on a rented car had gone bad for Bhavish. He wanted to bring transparency and convenience to consumers in this area. Last year in October, Ola Cabs has raised around \$210 million at a valuation of nearly \$1 billion, with this, it has joined the league of the most valued start-ups in the country.

9. Teach For India

A non-profit organization under the Teach For All global movement, Teach For India works towards ensuring excellent education for all children. Founded by Shaheen Mistri in

2007, TFI exists because of a deep belief that every child can and must attain an excellent education. For the same, TFI has a fellowship, wherein it recruits college graduates and young professionals to serve as full-time teachers in low-income schools for two years. Today, Teach For India is present in 7 cities and have 910 Fellows and 660 Alumni working towards eliminating educational inequity.

10. Make A Difference (MAD)

Michelle Obama dances with underprivileged children enrolled in the academic programme of Make A Difference in Mumbai. MAD has justified its slogan- ‘Don’t Stop BELIEVING!’ in almost a decade of its operations. It mobilizes young leaders to bridge the gap of education inequality. In 2005, MAD’s founders – Jithin C Nedumala, Gloria Benny and Sujith Abraham Varkey decided to visit a boys’ Home in Cochin to spend some time there. Children at shelter homes were talented and had aspirations and so they felt that more needed to be done. Soon, they started going back regularly, just to spend time with the children there. The MAD story started there. They have various programmes where various volunteers are recruited to teach kids from disadvantaged backgrounds. Currently around 2100 MAD volunteers teach close to 5200 children across India. It has received a lot of recognition from international organizations for its successful operations.

After studying this lesson, you should be able to: identify different forms of business organisation; explain features, merits and limitations of select forms of business organisation; distinguish between various forms of organisation; and analyse factors determining choice of an appropriate form of business organisation.

2.0 Introduction

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organisation. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organisation against one’s own requirements. Various forms of business organisations from which one can choose the right one include:

- (a) Sole proprietorship,
- (b) Joint Hindu family business,
- (c) Partnership,
- (d) Cooperative societies, and
- (e) Joint stock company.

Let us start our discussion with sole proprietorship—the simplest form of business organisation, and then move on to analysing more complex forms of organisations.

2.1: Sole Proprietorship

Do you often go to buy note books, pens, chart papers, etc., from a small neighborhood stationery store? Well, in all probability in the course of your transactions, you have interacted with a sole proprietor. Sole proprietorship is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself. The word “sole” implies “only”, and “proprietor” refers to “owner”. Hence, a sole proprietor is the one who is the only owner of a business. This form of business is particularly common in areas of personalised services such as beauty parlours, hair saloons and small scale activities like running a retail shop in a locality. payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner’s personal possessions such as his/her personal car and other assets could be sold for repaying the debt. Suppose the total outside liabilities of XYZ dry cleaner, a sole proprietorship firm, are Rs. 80,000 at the time of dissolution, but its assets are Rs. 60,000 only. In such a situation the proprietor will have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm’s debts.

Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business.

J.L.

Hansen

The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure.

L.H.

Haney

2.1.1: Features

Salient characteristics of the sole proprietorship form of organisation are as follows:

- (i) **Formation and closure:** Hardly any legal formalities are required to start a sole proprietary business, though in some cases one may require a license. There is no separate law that governs sole proprietorship. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.

- (ii) **Liability:** Sole proprietors have unlimited liability. This implies that the owner is personally responsible for
- (iii) **Sole risk bearer and profit recipient:** The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.
- (iv) **Control:** The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.
- (v) **No separate entity:** In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner. The owner is, therefore, held responsible for all the activities of the business.
- (vi) **Lack of business continuity:** Since the owner and business are one and the same entity, death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

Merits

2.1.2: Advantages

Sole proprietorship offers many advantages. Some of the important ones are as follows:

- (i) **Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard. consult others. This may lead to timely capitalisation of market opportunities as and when they arise.
- (ii) **Confidentiality of information:** Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.
- (iii) **Direct incentive:** A sole proprietor directly reaps the benefits
- (iv) **Sense of accomplishment:** There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.

- (v) **Ease of formation and closure:** An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.

2.1.3: Limitations

Notwithstanding various advantages, the sole proprietorship form of organisation is not free from limitations. Some of the major limitations of sole proprietorship are as follows:

- (i) **Limited resources:** Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long term loan to a sole proprietor. Lack of resources is one of the major reasons why the size of the business rarely grows much and generally remains small.
- (ii) **Limited life of a business concern:** In the eyes of the law the proprietorship and the owner are considered one and the same. Death, insolvency or illness of a proprietor affects the business and can lead to its closure.
- (iii) **Unlimited liability:** A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavorable circumstance can create serious financial burden on the owners. That is why a sole proprietor is less inclined to take risks in the form of innovation or expansion.
- (iv) **Limited managerial ability:** The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus decision making may not be balanced in all the cases. Also, due to limited resources, sole proprietor may not be able to employ and retain talented and ambitious employees. Though sole proprietorship suffers from various shortcomings, many entrepreneurs opt for this form of organisation because of its inherent advantages. It requires less amount of capital. It is best suited for businesses which are carried out on a small scale and where customers demand personalised services.

2.2: Joint Hindu Family Business

Joint Hindu family business is a specific form of business organisation found only in India. It is one of the oldest forms of business organisation in the country. It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is governed by the Hindu Law. The basis of membership in the business is birth in a particular family and three successive generations can be members in the business. The business is controlled by the head of the family who is the eldest member and is called karta. All members have equal ownership right over the property of an ancestor and they are known as coparceners. There are two systems which govern membership in the family business, viz., Dayabhaga and Mitaksh systems. Dayabhaga system prevails in West Bengal and

allows both the male and female members of the family to be co-parceners. Mitakshara system, on the other hand, prevails all over India except West Bengal and allows only the male members to be co-parceners in the business. Gender Equality in the Joint Hindu Family a Reality With the introduction of the Hindu Succession (Amendment) Bill 2004 in Parliament on December 20, 2004, the Government has gone a step further in fulfilling its commitment towards gender equality made in National Common Minimum Programme (NCMP).

The Bill to amend the Hindu Succession Act of 1956 gives women equal rights in the inheritance of ancestral wealth, something reserved only for male heirs earlier. It, indeed, is a significant step in bringing the Hindu Law of inheritance in accord with the constitutional principle of equality. The enactment of the proposed legislation would also implement the recommendations of the National Commission for Women (NCW) substantially to help bring social change in society. The Bill seeks to remove the discrimination as contained in section 6 of the Hindu Succession Act, 1956 by giving equal rights to daughters in the Hindu Mitakshara coparcenary property as the sons have. In what is known as the Kerala model, the concept of coparcenary was abolished and according to the Kerala Joint Family System (Abolition) Act, 1975, the heirs (male and female) do not acquire property by birth but only hold it as tenants as if a partition has taken place. Andhra Pradesh (1986), Tamil Nadu (1989), Karnataka (1994) and Maharashtra (1994) also enacted laws, where daughters were granted 'coparcener' rights or a claim on ancestral property by birth as the sons. Equality for women is not just a matter of equity for the so-called weaker sex, but a measure of the modernity of Indian society and the pragmatic nature of our civilisation.

2.2.1: Features

The following points highlight the essential characteristics of the joint Hindu family business.

- (i) **Formation:** For a joint Hindu family business, there should be at least two members in the family and ancestral property to be inherited by them. The business does not require any agreement as membership is by birth. It is governed by the Hindu Succession Act, 1956.
- (ii) **Liability:** The liability of all members except the karta is limited to their share of coparcenary property of the business. The karta, however, has unlimited liability.
- (iii) **Control:** The control of the family business lies with the karta. He takes all the decisions and is authorised to manage the business. His decisions are binding on the other members.
- (iv) **Continuity:** The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable. The business can, however, be terminated with the mutual consent of the members.
- (v) **Minor Members:** The inclusion of an individual into the business occurs due to birth in a Hindu Undivided Family. Hence, minors can also be members of the business.

Merits

2.2.2: Advantages

The advantages of the joint Hindu family business are as follows:

- (i) **Effective control:** The karta has absolute decision making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.
- (ii) **Continued business existence:** The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated and continuity of business is not threatened.
- (iii) **Limited liability of members:** The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.
- (iv) **Increased loyalty and cooperation:** Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family. This helps in securing better cooperation from all them.

2.2.3: Limitations

The following are some of the limitations of a joint Hindu family business.

- (i) **Limited resources:** The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.
- (ii) **Unlimited liability of karta:** The karta is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.
- (iii) **Dominance of karta:** The karta individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.
- (iv) **Limited managerial skills:** Since the karta cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions. His inability to decide effectively may result into poor profits or even losses for the organisation. The joint Hindu family business is on the decline because of the diminishing number of joint Hindu families in the country.

2.3: Partnership

The inherent disadvantage of the sole proprietorship in financing and managing an expanding business paved the way for partnership as a viable option. Partnership serves as an answer to the needs of greater capital investment, varied skills and sharing of risks.

The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.” Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain.

L H Haney

Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits there from between them.

The Indian Contract Act.

2.3.1: Features

Definitions given above point to the following major characteristics of the partnership form of business organisation.

- (i) **Formation:** The partnership form of business organisation is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement wherein the terms and conditions governing the relationship among the partners, sharing of profits and losses and the manner of conducting the business are specified. It may be pointed out that the business must be lawful and run with the motive of profit. Thus, two people coming together for charitable purposes will not constitute a partnership.
- (ii) **Liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case the business assets are insufficient. Further, the partners are jointly and individually liable for payment of debts. Jointly, all the partners are responsible for the debts and they contribute in proportion to their share in business and as such are liable to that extent. Individually too, each partner can be held responsible repaying the debts of the business. However, such a partner can later recover from other partners an amount of money equivalent to the shares in liability defined as per the partnership agreement.
- (iii) **Risk bearing:** The partners bear the risks involved in running a business as a team. The reward comes in the form of profits which are shared by the partners in an agreed ratio. However, they also share losses in the same ratio in the event of the firm incurring losses.
- (iv) **Decision making and control:** The partners share amongst themselves the responsibility of decision making and control of day to day activities. Decisions are generally taken with mutual consent. Thus, the activities of a partnership firm are managed through the joint efforts of all the partners.
- (v) **Continuity:** Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business. However, the remaining partners may if they so desire continue the business on the basis of a new agreement.
- (vi) **Membership:** The minimum number of members needed to start a partnership firm is two, while the maximum number, in case of banking industry is ten and in case of other businesses it is twenty.

- (vii) **Mutual agency:** The definition of partnership highlights the fact that it is a business carried on by all or any one of the partners acting for all. In other words, every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.

Merits

2.3.2: Types of Partners

A partnership firm can have different types of partners with different roles and liabilities. An understanding of these types is important for a clear understanding of their rights and responsibilities. These are described as follows:

- (i) **Active partner:** An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm. These partners take actual part in carrying out business of the firm on behalf of other partners.
- (ii) **Sleeping or dormant partner:** Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.
- (iii) **Secret partner:** A secret partner is one whose association with the firm is unknown to the general public. Other than this distinct feature, in all other aspects he is like the rest of the partners. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.
- (iv) **Nominal partner:** A nominal partner is one who allows the use of his/her name by a firm, but does not contribute to its capital. He/she does not take active part in managing the firm, does not share its profit or losses but is liable, like other partners, to the third parties, for the repayments of the firm's debts.
- (v) **Partner by estoppel:** A person is considered a partner by estoppel if, through his/her own initiative, conduct or behaviour, he/she gives an impression to others that he/she is a partner of the firm. Such partners are held liable for the debts of the firm because in the eyes of the third party they are considered partners, even though they do not contribute capital or take part in its management.
- (vi) **Partner by holding out:** A partner by 'holding out' is a person who though Minor as a Partner Partnership is based on legal contract between two persons

who agree to share the profits or losses of a business carried on by them. As such a minor is incompetent to enter into a valid contract with others, he cannot become a partner in any firm. However, a minor can be admitted to the benefits of a partnership firm with the mutual consent of all other partners. In such cases, his liability will be limited to the extent of the capital contributed by him and in the firm. He will not be eligible to take an active part in the management of the firm.

2.3.3 : Types of Partnerships

Partnerships can be classified on the basis of two factors, viz., duration and liability. On the basis of duration, there can be two types of partnerships : 'partnership at will' and 'particular partnership'. On the basis of liability, the two types of partnership include: one 'with limited liability' and the other one 'with unlimited liability'. These types are described in the following sections. Classification on the basis of duration

- (i) **Partnership at will:** This type of partnership exists at the will of the partners. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.
 - (ii) **Particular partnership:** Partnership formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period is called particular partnership. It dissolves automatically when the purpose for which it was formed is fulfilled or when the time duration expires.
- Classification on the basis of liability
- (i) **General Partnership:** In general partnership, the liability of partners is unlimited and joint. The partners enjoy the right to participate in the management of the firm and their acts are binding on each other as well as on the firm. Registration of the firm is optional. The existence of the firm is affected by the death, lunacy, insolvency or retirement of the partners.
 - (ii) **Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. Such a partnership does not get terminated with the death, lunacy or insolvency of the limited partners. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory.

2.3.4: Advantages

The following points describe the advantages of a partnership firm.

- (i) **Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.
- (ii) **Balanced decision making:** The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements. As a consequence, decisions are likely to be more balanced.
- (iii) **More funds:** In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.
- (iv) **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.
- (v) **Secrecy:** A partnership firm is not legally required to publish its accounts and submit its reports. Hence it is able to maintain confidentiality of information relating to its operations.

2.3.5: Limitations

A partnership firm of business organisation suffers from the following limitations:

- (i) **Unlimited liability:** Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
- (ii) **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.
- (iii) **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners. Thus an unwise decision by some one may result in financial ruin for all others. In case a partner desires to leave the firm, this can result in termination of partnership as there is a restriction on transfer of ownership.

- (iv) **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity. However, the remaining partners can enter into a fresh agreement and continue to run the business.
- (v) **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm. As a result, the confidence of the public in partnership firms is generally low.

Activity : In what ways a partnership firm is superior to a sole trader firm ?

2.5: Cooperative Society

The word cooperative means working together and with others for a common purpose. The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. Cooperative organisation is “a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act, 1912. The process of setting up a cooperative society is simple enough and at the most what is required is the consent of at least ten adult persons to form a society. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration.

2.5.1: Features

The characteristics of a cooperative society are listed below.

- (i) **Voluntary membership:** The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.
- (ii) **Legal status:** Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.
- (iii) **Limited liability:** The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.
- (iv) **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character.
- (v) **Service motive:** The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates its working. If any surplus is generated as a result of its operations, it is distributed amongst the members as dividend in conformity with the bye-laws of the society.

Merits

2.5.2: Types of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

- (i) **Consumer's cooperative societies:** The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen. Profits, if any, are distributed on the basis of either their capital contributions to the society or purchases made by individual members.

- (ii) **Producer's cooperative societies:** These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale.
- (iii) **Marketing cooperative societies:** Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products. It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price. Profits are distributed according to each member's contribution to the pool of output.
- (iv) **Farmer's cooperative societies:** These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise of farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. This helps not only in improving the yield and returns to the farmers, but also solves the problems associate with the farming on fragmented land holdings.
- (v) **Credit cooperative societies:** Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans. Such societies provide loans to members out of the amounts collected as capital and deposits from the members and charge low rates of interest.
- (vi) **Cooperative housing societies:** Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs. The aim is to solve the housing problems of the members by constructing houses and giving the option of paying

in instalments. These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

2.5.3: Advantages

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows.

- (i) **Equality in voting status:** The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.
- (ii) **Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
- (iii) **Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.
- (iv) **Economy in operations:** The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of mbad debts is lower.
- (v) **Support from government:** The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.
- (vi) **Ease of formation:** The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

2.5.4: Limitations

The cooperative form of organisation suffers from the following limitations:

- (i) **Limited resources:** Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.
- (ii) **Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The

members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.

- (iii) **Lack of secrecy:** As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.
- (iv) **Government control:** In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organisation through the control exercised by the state cooperative departments also negatively affects its freedom of operation.
- (v) **Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive and the benefit of other members may take a backseat if personal gain is given preference by certain members.

2.6: Joint Stock Company

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. The company form of organisation is governed by the Companies Act, 1956. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

2.6.1: Features

The definition of a joint stock company highlights the following features of a company.

- (i) **Artificial person:** A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.
- (ii) **Separate legal entity:** From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those

of its owners. The law does not recognise the business and owners to be one and the same.

- (iii) **Formation:** The formation of a company is a time consuming, expensive and complicated process. It Joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.involves the preparation of several documents and compliance with several legal requirements before it can start functioning. Registration of a company is compulsory as provided under the Indian Companies Act, 1956.
- (iv) **Perpetual succession:** A company being a creation of the law, can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed.

2.6.2: Types of Companies

A company can be either a private or a public company. These two types of companies are discussed in detail in the following paragraphs.

Private Company: A private company means a company which:

- a. Restricts the right of members to transfer its shares;
- b. Has a minimum of 2 and a maximum of 50 members, excluding the present and past employees;
- c. Does not invite public to subscribe to its share capital; and
- d. Must have a minimum paid up capital of Rs.1 lakh or such higher amount which may be prescribed from time-to-time.

It is necessary for a private company to use the word private limited after its name. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.

The following are some of the privileges of a private limited company as against a public limited

Company:

1. A private company can be formed by only two members whereas seven people are needed to form a public company.
2. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.

3. Allotment of shares can be done without receiving the minimum subscription.
4. A private company can start business as soon as it receives the certificate of incorporation. The public company, on the other hand, has to wait for the receipt of certificate of commencement before it can start a business.
5. A private company needs to have only two directors as against the minimum of three directors in the case of a public company.
6. A private company is not required to keep an index of members while the same is necessary in the case of a public company.
7. There is no restriction on the amount of loans to directors in a private company. Therefore, there is no need to take permission from the government for granting the same, as is required in the case of a public company.

Public Company: A public company means a company which is not a private company. As per the Indian Companies Act, a public company is one which:

- (a) has a minimum paid-up capital of Rs. 5 lakhs or a higher amount which may be prescribed from time-to-time;
- (b) has a minimum of 7 members and no limit on maximum members;
- (c) has no restriction on transfer of shares; and
- (d) is not prohibited from inviting the public to subscribe to its share capital or public deposits. A private company which is a subsidiary of a public company is also treated as a public company.

2.6.3: Advantages

The company form of organisation offers a multitude of advantages, some of which are discussed below:

- (i) **Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.
- (ii) **Transfer of interest:** The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favourable avenue for investment purposes.
- (iii) **Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate

entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act.

- (iv) **Scope for expansion:** As compared to the sole proprietorship and partnership forms of organisation, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion. The investors are inclined to invest in shares because of the limited liability, transferable ownership and possibility of high returns in a company.
- (v) **Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations. The scale of operations in a company leads to division of work. Each department deals with a particular activity and is headed by an expert. This leads to balanced decision making as well as greater efficiency in the company's operations.

2.6.4: Limitations

- (i) **Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.
- (ii) **Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.
- (iii) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.
- (iv) **Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of

various proposals may cause delays not only in taking decisions but also in acting upon them.

- (v) **Oligarchic management:** In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in most large sized organisations having a multitude of shareholders; the owners have minimal influence in terms of controlling or running the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders. Dissatisfied shareholders in such a situation have no option but to sell their shares and exit the company.

Activity: what are the additional advantages in starting a Public limited company than a private limited company.

2.7: Choice of Forms of Business Organisation

After studying various forms of business organisations, it is evident that each form has certain advantages as well as disadvantages. It, therefore, becomes vital that certain basic considerations are kept in mind while choosing an appropriate form of organisation. The important factors determining the choice of organisation are listed in Table 2.4 and are discussed below:

1. **Cost and ease in setting up the organisation:** As far as initial business setting-up costs are concerned, sole proprietorship is the most inexpensive way of starting a business. However, the legal requirements are minimum and the scale of operations is small. In case of

partnership also, the advantage of less legal formalities and lower cost is there because of limited scale of operations. Cooperative societies and companies have to be compulsorily registered. Formation of a company involves a lengthy and expensive legal procedure. From the point of view of initial cost, therefore, sole proprietorship is the preferred form as it involves least expenditure. Company form of organisation, on the other hand, is more complex and involves greater costs.

2. Liability: In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. This may call for paying the debt from personal assets of the owners. In joint Hindu family business, only the karta has unlimited liability. In cooperative societies and companies, however, liability is limited and creditors can force payment of their claims only to the extent of the company's assets. Hence, from the point of view of investors, the company form of organisation is more suitable as the risk involved is limited.

3. Continuity: The continuity of sole proprietorship and partnership firms is affected by such events as death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like joint Hindu family business, cooperative societies and companies. In case the business needs a permanent structure, company form is more suitable. For short term ventures, proprietorship or partnership may be preferred.

4. Management ability: A sole proprietor may find it difficult to have expertise in all functional areas of management. In other forms of organisations like partnership and company, there is no such problem. Division of work among the members in such organisations allows the managers to specialise in specific areas, leading to better decision making. But this may lead to situations of conflicts because of differences of opinion amongst people. Further, if the organisation's operations are complex in nature and require professionalised management, company form of organisation is a better alternative. Proprietorship or partnership may be suitable, where simplicity of operations allow even people with limited skills to run the business. Thus, the nature of operations and the need for professionalised management affect the choice of the form of organisation.

5. Capital considerations: Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company form may be suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship. Further, from the point of view of expansion, a company is more suitable because of its capability to

raise more funds and invest in expansion plans. It is precisely for this purpose that in our opening case Neha's father suggested she should consider switching over to the company form of organisation.

6. Degree of control: If direct control over operations and absolute decision making power is required, proprietorship may be preferred. But if the owners do not mind sharing control and decision making, partnership or company form of organisation can be adopted. The added advantage in the case of company form of organisation is that there is complete separation of ownership and management and it is professionals who are appointed to independently manage the affairs of a company.

7. Nature of business: If direct personal contact is needed with the customers such as in the case of a grocery store, proprietorship may be more suitable. For large manufacturing units, however, when direct personal contact with the customer is not required, the company form of organisation may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable. It would not be out of place to mention here that the factors stated above are interrelated. Factors like capital contribution and risk vary with the size and nature of business, and hence a form of business organisation that is suitable from the point of view of the risks for a given business when run on a small scale might not be appropriate when the same business is carried on a large scale. It is, therefore, suggested that all the relevant factors must be taken into consideration while making a decision with respect to the form of organisation that should be adopted.

Activity : study the various forms of business enterprises and suggest which form is suitable for you and state the reasons for choosing that form.

2.8: Start-ups

What is a Start-up? : A Start-up company is an entrepreneurial venture which is typical, a newly emerged, fast growing business that aims to meet a market place need, by developing a viable business model around an innovative product, service, process or a platform.

2.8.1 Types of Start-ups

Starting one's own venture for the first time is a great shift from having a comfortable and cushioned salaried job. Starting a venture requires taking up the reins of a project, that is to say, becoming responsible for all the decisions regarding a project. The rewards for taking risk and responsibility come by way of profits or loss, depending upon the success or failure of a project. Therefore, it requires specific acumen and tools to sail through the venture successfully. Thus, start-ups are companies in their first stage of operations. These companies are rolled out through promoters and friends or through seed fund support from government organization or through banks. It has been found that because of limited funds vis-à-vis requirements and small-scale operations, these companies face great challenges for their sustainable growth.

The term 'start-up' became internationally very popular during the dot-com bubble when a large number of dot-com companies were founded in a short span of time.

A high-tech start-up company is a start-up venture that specializes in technology-driven solutions to address the pain points of customers. Normally, the term 'start-up' is associated with high-technology and high-growth ventures. It has been observed that successful start-ups are typically more scalable with limited resources than an established business. Technology-driven start-ups normally produce high returns to investors and their promoters, for example, the case of Infosys, Google and Apple. For technology-based start-ups, it is important that owners get intellectual property rights in their favour to derive full advantage from the technological innovation.

The news magazine *The Economist* estimated that up to 75 per cent of the value of US public companies is now based on their intellectual property (up from 40 per cent in 1980).¹ Often, 100 per cent of a small start-up company's value is based on its intellectual property. As such, it is important for technology-oriented start-up companies to develop a sound strategy for protecting their intellectual capital as early as possible.² Simultaneously, it is important to note that the failure rate of start-up companies is also very high.

Start-ups are classified, according to one classification, into three broad categories- (1) lifestyle firm (2) foundation company and (3) gazelles. **Lifestyle firms** spend limited

funds on research and market potential. Their employee strengths grow to 30 to 40 after several years of operations. They primarily exist for their owners and do have great opportunity to grow and expend. They merely provide reasonable living to their founders. These ventures normally have growth rates below 20 per cent per annum and are mainly funded through internal funds and rarely with outside equity funds. This category comprises around 90 per cent of start-ups.

Foundation companies have a backbone of investment on research and development, which acts as a foundation for new businesses. This category of firms may grow to an employee strength of 300 to 400 within a period of 10 years. These companies usually do not go public and therefore attract the interest of private but not of venture capitalists.

Gazelles are start-ups having high potential for growth. These ventures attract a lot of interest from investors, including venture capitalists. Their growth trajectory is unassuming, although they start as a foundation company. These companies are major job providers and are able to provide jobs to more than 500 people after 8 to 10 years of operation, which keeps expanding. These are typically companies that contribute a great deal to the economic development of an area in which they operate. A gazelle, according to Birch's definition, is a business entity having at least 20 per cent sales growth every year. Starting with a base of at least \$ 0.1 million. 3 Gazelles grow on the strength of their innovation. Which is a hallmark of their growth. It has been found that 'Gazelles produce twice as many product innovations per employee as do larger firms' and similarly 'new and smaller firms obtain more patents per sales dollar than do larger firms' (Kuratoko and Hodgetts 2007).

2.9: summary

Business Organizations take different forms, depending upon the suitability to the promoters, legal environment and societal conditions. The expected size and volume of operations of the business enterprises also influence the form of organization. For example, a business that is expected to serve the shopping needs of a village could be started in the form of a sole trader only. Similarly, if the business needs to operate at a large scale where the need for investments and capital is at a higher level, the promoters would opt for joint stock company form. However, various factors and parameters influence the option of different forms of organization. Each form has its own merits and demerits. Entrepreneur plays a predominant role in all these forms. He / She also play a significant role in startups and economic development

2.10: Self Assessment Questions

Multiple Choice Questions with Answers

****1. In a sole proprietorship, the liability of the owner is:****

- A) Limited to the business assets only
- B) Unlimited, extending to personal assets
- C) Limited to the capital invested
- D) Shared with the government

****Answer: B) Unlimited, extending to personal assets****

2. Under the Mitakshara system of Joint Hindu Family business, who can be coparceners?

- A) Only male members of the family
- B) Both male and female members
- C) Only the eldest male member
- D) All family members regardless of gender

****Answer: A) Only male members of the family****

****3. What is the minimum and maximum number of partners required for a partnership firm in non-banking business?***

- A) Minimum 2, Maximum 10
- B) Minimum 2, Maximum 20
- C) Minimum 5, Maximum 50
- D) Minimum 7, Maximum unlimited

****Answer: B) Minimum 2, Maximum 20****

****4. Which type of partner contributes capital but does not take part in the day-to-day activities of the business?***

- A) Active partner
- B) Nominal partner
- C) Sleeping partner
- D) Secret partner

****Answer: C) Sleeping partner****

****5. A joint stock company is characterized by:****

- A) Unlimited liability of shareholders
- B) Perpetual succession independent of its members
- C) Difficulty in transfer of ownership
- D) Restriction on maximum number of members

****Answer: B) Perpetual succession independent of its members****

Short Answer Questions

1. What are the five main forms of business organisations discussed in the lesson? Briefly describe each.

2. Explain any four advantages and four limitations of sole proprietorship.
3. Distinguish between the Dayabhaga and Mitakshara systems of Joint Hindu Family business.
4. What are the different types of partners in a partnership firm? Explain any four types.
5. Compare and contrast private limited company and public limited company based on membership, share transfer, and invitation to public.

Case Study

The Sharma Family's Business Transformation: From Tradition to Modernity

The Sharma family had been running a successful sweets and snacks business in Delhi for three generations as a Joint Hindu Family business under the Mitakshara system. The business, established in 1965 by great-grandfather Shyam Lal Sharma, now had five retail outlets and a small manufacturing unit. The current Karta, Mr. Ramesh Sharma (65 years), managed the business with the help of his two younger brothers and their sons. The family enjoyed the benefits of collective ownership and loyalty, with all members contributing to the business in various capacities. However, recent years brought significant challenges. The business needed expansion to compete with organized players like Haldiram's and Bikanerwala, requiring substantial capital investment of approximately ₹5 crores. The family's ancestral property was the primary source of funds, but it was insufficient. Banks were hesitant to lend large amounts to a Joint Hindu Family business due to the karta's unlimited liability and the lack of formal corporate structure. Additionally, Ramesh's eldest son, Vikram, an MBA from a top business school, wanted to introduce modern management practices, new product lines, and aggressive marketing. But his ideas faced resistance from some family members who preferred traditional methods. The younger generation was also concerned about the unlimited liability of the karta and the potential for disputes as the family grew. After extensive consultations with chartered accountants and business advisors, the family decided to convert their business into a private limited company. This transformation allowed them to raise capital by issuing shares to family members and external investors, limited their liability to the extent of their shareholding, and provided a formal governance structure with a Board of Directors. Vikram was appointed as the Managing Director, bringing in professional management while retaining the family's legacy and values. The transition was challenging—requiring legal documentation, registration under the Companies Act, and restructuring of operations—but ultimately enabled the business to expand to 25 outlets across Delhi NCR within five years, with annual turnover crossing ₹50 crores.

Case Study Questions

1. What were the advantages of operating as a Joint Hindu Family business that benefited the Sharmas for three generations? What specific limitations of this form prompted them to consider changing their business structure?
2. Why was it difficult for the Joint Hindu Family business to raise significant capital from banks and financial institutions? How did converting to a private limited company address this challenge?

3. What factors influenced the Sharma family's choice of a private limited company over other forms of organisation such as partnership or public limited company? Refer to the factors discussed in the lesson for choosing an appropriate form of business.

2.11: Key Terms

1. Sole Proprietorship**

A form of business organisation owned, managed, and controlled by a single individual who is the recipient of all profits and bearer of all risks. The sole proprietor has unlimited liability, meaning personal assets can be used to repay business debts, and there is no separate legal entity between the owner and the business.

****2. Joint Hindu Family Business****

A specific form of business organisation found only in India, governed by Hindu Law, wherein the business is owned and carried on by members of a Hindu Undivided Family (HUF). Membership is by birth, and the business is controlled by the eldest member called the karta, who has unlimited liability while other members have limited liability.

****3. Karta****

The head or eldest member of a Joint Hindu Family business who exercises absolute decision-making power and control over the business operations. The karta has unlimited liability and is authorized to manage the business, with his decisions being binding on all other members (coparceners).

****4. Partnership****

A form of business organisation defined under the Indian Partnership Act, 1932 as the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all. Partners have unlimited liability and are both jointly and individually liable for the debts of the firm.

****5. Limited Liability****

A legal concept wherein the liability of owners or members is restricted to the amount of capital contributed by them. In cooperative societies and joint stock companies, members' personal assets are protected from being used to repay business debts beyond their capital contribution.

****6. Perpetual Succession****

A characteristic of joint stock companies wherein the existence of the company is not affected by the death, retirement, resignation, insolvency, or insanity of its members. The company continues to exist even if all members die, and can be liquidated only as per legal provisions.

****7. Cooperative Society****

A voluntary association of persons who join together with the motive of welfare of the members, governed by the principle of "one man one vote" regardless of capital contribution. It is compulsorily required to be registered under the Cooperative Societies Act, 1912, and acquires a distinct legal identity after registration.

2.12: Further Readings / Reference books

Five Printed/Published Textbooks

1. Tulsian, P. C. (2018). *Business Organisation and Management*. 2nd Edition. Pearson Education.
2. Basu, C. R. (2017). *Business Organisation and Management*. McGraw-Hill Education.
3. Gupta, C. B. (2019). *Business Organisation and Management*. 19th Edition. Sultan Chand & Sons.
4. Bhushan, Y. K. (2018). *Business Organisation and Management*. 21st Edition. Sultan Chand & Sons.
5. Chhabra, T. N. (2016). *Business Organisation and Management*. 4th Edition. Sun India Publications..

LESSON -3

NEW IDEAS AND SOURCES OF NEW IDEAS

Objectives of the lesson:

- Understand the concept of an idea and its fundamental role as the starting point for any business organization and entrepreneurial venture
- Explain the process of idea generation and its importance in discovering new sustainable business opportunities
- Identify and analyze the various sources of new ideas including consumers, existing products and services, distribution channels, government policies, and research and development
- Examine the idea generation process through the four stages of generation, development, execution, and evaluation
- Evaluate the different idea fields that entrepreneurs can explore including natural resources, existing products, market-driven opportunities, trading, and service sector ideas

Structure of the lesson:

3.1: what is an Idea?

3.2 What is an Idea generation?

3.3 Idea generation-virgin company study

3.4. Activity

3.5 Idea fields

3.6: what are the Sources of New Ideas?

3.6.1: Consumers

3.6.2: Existing Products and Services

3.6.3: Distribution Channels

3.6.4: Government Policies and Priorities

3.6.5: Research and Development (R&D)

3.7. Idea Generation Process

3.7.1: Generation

3.7.2 Development

3.7.3: Execution

3.7.4: Evaluation

3.8 Activity

3.9: Summary**3.10: Self assessment Questions****3.11: Key Terms****3.12. Further Readings / Reference books****Top 10 Young Entrepreneurs in India**

India is a developing country and its development is truly the hard work of its people. India has produced many great scholars, scientists, intellectuals and even entrepreneurs. The sense of achieving is deep rooted in Indians and that's the reason Indians are doing great works in almost all countries. The young Indians are very enthusiastic and never settle for 'just ok'. They aspire for best in every field. They have surprised everyone with their business acumen. We proudly present you the list of top ten young entrepreneurs of India:

**1. Shravan Kumaran and Sanjay Kumaran - Age 14 and 12 years Old Respectively**

At a tender age of 14 and 12, most kids don't even think of venturing into fields usually occupied but Shravan and Sanjay thought out of box and became the youngest entrepreneurs. These techie kids are the founders of Go Dimensions.

2. Farrhad Acidwala - Age 23

Farrhad bought a domain name at the age of 16 with 500 INR he had borrowed from his dad. He started a web community devoted to aviation and sold it at a very good price when It became a hit. He is now CEO of his new company Rockstah Media.

**3. Sameer Gehlaut - Age 40**

An IITian from Delhi, Sameer started India's first online brokerage company in 2000, Indiabulls Group. The combined net worth of his diversified company is \$3.17 billion.

**4. Arjun Rai - Age 20**

Arjun was highly inspired by TV shows like 'The Oprah Show' and 'The Big Idea with Donny Deutsch'. He started working towards his company in 2009. Today he is CEO of OdysseyAds.

**5. Amir Rao - Age 29**

Amir is a studio director at Supergiant Games. He also a co-creator of role-playing action video game Bastion which has won many awards and so far, as sold around 2.2 million copies.

**6. Kavita Shukla - Age 29**

Kavita is the founder of FreshPaper which keeps the produces fresh for longer hours than today's conventional methods. She has patented her innovation.

**7. Neil Mehta - Age 29**

Neil is the founder of Greenoaks Capital which is an investment firm. At present, he is managing around \$600 million by investing in various industries ranging from insurance to e-commerce.

**8. Pranav Yadav - Age 28**

Pranav is the CEO of Neuro-Insight. It is a neuro-marketing firm that has designed and developed brain mapping technology to understand and improve the quality of commercials on TV.



9. King Siddharth - Age 20

Multi-talented Siddharth is an entrepreneur, artist, designer and public speaker. He dropped out of college to make his name known in the world through his great work. He writes an e-magazine 'Friendz' and has written books called 'Law of Attraction' and 'Bhagvad Gita'.



10. Sandeep Maheshwari - Age 33

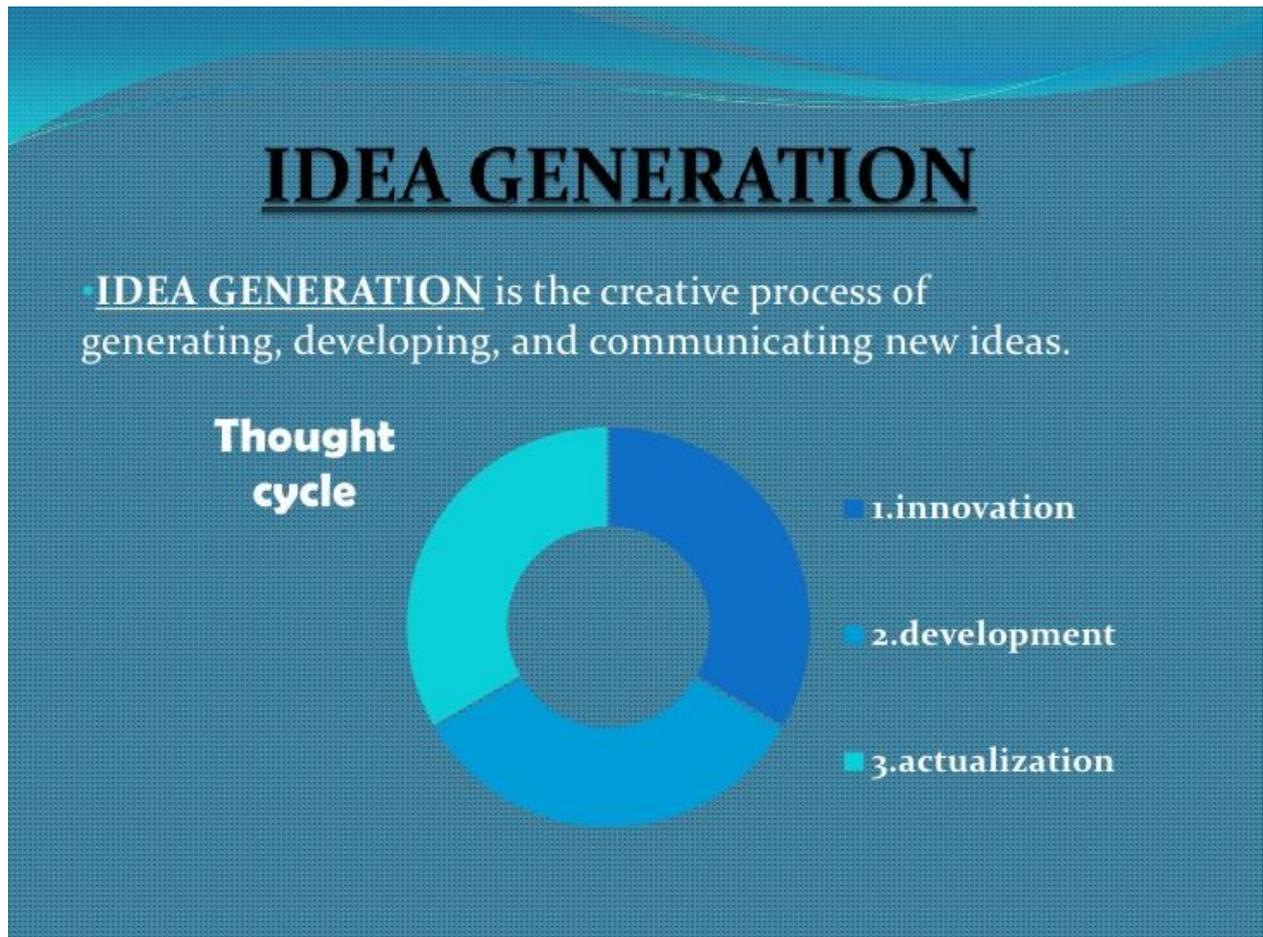
The founder of image bazaar, Sandeep, is a leading entrepreneur in the field of collection of amazing images. His company is the largest provider of images to various commercial companies. He also gives lectures in renowned universities and colleges.

3.1: what is an idea?

An idea is the result of creative thinking. An idea thinks and designs sense thing new, in order to solve problems in new and different ways. Idea looks at the problem as everyone else but thinks the solution from an innovative, a simple and ubiquitous way. It could be a new design for a mobile phone, a new way of publicity for a product/ service, a new arrangement for accommodating a large member of people in a vehicle which would be appealing to customers, so on.

3.2 What is an Idea Generation?

The starting point of any business organization is a powerful idea - an idea worth thinking about, an idea worth enhancing and developing, and an idea worth converting in to a business. Idea generation is the foundation of the process of discovering new sustainable business opportunities. New ideas often arise from simple questions like 'what is this?', 'what is it for?', and 'what could it be for?' Questioning is the basic uses of utensils we use in everyday life and common customs and rules opens up space for many new opportunities. Therefore, looking at things from a different angle is the first step to innovate and invent new solutions. This activity aims to boost participant's creativity and help them to develop creative ideas that make a difference.



3.3 Idea Generation – Virgin Company Study

Virgin was founded in 1970 by Richard Branson and is classified as a holding company for multiple ventures under the Virgin Group. When it comes to innovation Virgin is one of the top companies in the world. What began as a mail order record company has evolved into one of the most diverse companies in existence. Virgin invests in and builds companies that revolve around delivering fantastic customer experience and change the scope of industries. They do everything from space tourism to air travel, make comic books and video games. The company now holds over 200 companies and operates in 29 countries.

How Virgin Does It

When Virgin picks ideas they want them to have the following requirements:

1. Champion the consumer
2. Offer value for money
3. Deliver a quality product or experience

4. Drive innovation
5. Be competitively challenging in the market place
6. Be something fun

They've found that the most successful ideas they get are the ones that are marketing, sales, and customer focused, sit under the Virgin brand, have a well-defined and differentiated customer offer and oftentimes are delivered in partnership with experts in their field.

Virgin takes the ideas it gets and boils them down into several categories. Anything that doesn't quite fit into an existing company gets sent to corporate development for review. They take the time to read and respond to every proposal. They do not disclose how rewards are awarded but there are substantial ones for good ideas that are implemented.

Internally Virgin also sources business plans and ideas from employees. Once a flight attendant had an idea. It got presented to the CEO and before long she had a considerable role in starting up Virgin Brides (which beyond being a fantastic idea didn't quite work out in the market place). It's incredible that a flight attendant can have an idea that makes it that far in a company.

3.4 Activity

What requirements do you need to set in order to receive business plans and ideas? What kind of incentives can you give internal and external figures in your organization? When you get the ideas rolling in what will you do with them? Will they just sit in a pile or will your firm take action and do something with them? Can you convince top management to implement this program or will even that be denied?

3.5: Idea fields

The process of generation of ideas can be streamlined by developing an awareness of different 'idea fields'. This will help the entrepreneur in enlarging the scope of thinking, at the same time structuring the ideas according to convenient frames of reference.

1. Natural Resources Based Ideas. Ideas can be generated based on natural resources. A product or service may be desired from forest resources, agriculture, horticulture, mineral, marine or aqua mineral, animal husbandry, wind, sun and human resources. A further exercise with a field may generate many useful product ideas. For instance, if a person getting ideas in the field of forest resources, he can think of forest product, wood-based product, bio-fertilizer etc. Similarly if it is horticulture, he generate a number of ideas for food preservation, canning, freezing juices, squashes, pulp, jam, pickles etc.

2. Existing Products or Services Based Ideas. There is a constant and consistent effort on the part of many entrepreneurs to improve the products and services already in the market. When black and white computer screen came into use, many entrepreneurs started thinking of introducing color monitors.

Thinking about existing products and services can generate a number of ideas to improve them or to provide a cheaper substitute or to bring about a reduction in price. It can also help in deciding whether similar projects can be established, products can be developed from the waste or by products or existing units and whether there is scope for packaging and other services for existing products. For example, when an automobile unit is established in an area, attempts can be made to ascertain whether a few parts or components for the automobile can be produced in the small scale sector. Similarly where a perfume unit starts functioning, there is scope for growing and supplying aromatic plants. Or essential oil can be repurchased from existing units and final products (such as cosmetic products) may be manufactured. These types of backward and forward linkages of existing business activities are a good source for generating new ideas.

3. Market Driven Ideas. As we know, one important method for generating ideas is to carry out a market research. Such a study yields valuable data about trends of supply,

demand, consumer preferences etc. Sometimes information related out routine market surveys. Whatever may be the source of information about the market, it is a promising field for generation of ideas.

4. Trading Related Ideas. Local trade, imports and exports, e-commerce, have all made trading a very wide area of enterprise. Trade in simple terms is buying goods and services and selling them to consumers at a profit. The advantages that trading has over other types of business is that it is easier to launch a trading firm and it is less risky.

An entrepreneur venturing into trading should be aware of the trends in the economy. With the opening of the Market to international companies, big departmental stores, chain shops and umbrella markets have become ubiquitous-competition has become intense and to survive in the market new entrants will have to acquire skills, competencies and knowledge required to launch, manage and expand business opportunities. Further, if a business is to be successful, it must satisfy some needs of enough number to consumers to generate profits. A trading enterprise that is based on this concept is more likely to be successful than an enterprise that is launched without adequately studying the consumer needs.

5. Service Sector Ideas. Service sector is the most growing field these days the world over, thanks to emerging knowledge society and advances in information Technology. So new opportunities can be identified by understanding the linkages to different business activities. For instance, with the existing industrial enterprises an entrepreneur think of several service-based units like transport, workshop, maintenance, security, catering, recruitment, training, communication etc. Similarly he can get ideas about linkages with commercial establishments like photocopy, courier service, printing, book-keeping, computer center, telecom center, advertisement etc. Many services that have the purpose of helping organizations satisfy their day to day needs like bill collection, water supply, water tank cleaning, and travel.

6. Creative Efforts of the Entrepreneur. Entrepreneurship is the ability to create and build something from practically nothing. Fundamentally, it is creative activity sensing an opportunity where others see chaos, contradiction, and confusion, Entrepreneurship can be viewed as a creative and innovative response to the environment and an ability to recognize, initiate and exploit an economic opportunity.

7. Other Considerations Selecting a Product/Service Idea. While electing a project, an entrepreneur may also have other considerations in mind. These include employment generation, area development, community enlistment, environment preservation, poverty alleviation, empowerment of women and so on. If most of the entrepreneurs follows these considerations, the result will be sustainable development. It may be noted that sustainable development is process of economic development which flutist the needs of the present generation without causing any harm to the ability of the future generation to fulfill their needs.

3.6: what are the Sources of New Ideas?

Entrepreneurs need to be very clear about sources that can provide them good ideas. Ideas that can make business sense are said be the foundation of any start-up venture. Basically, doing what one enjoys doing is fundamental a pre-requisite but the idea on which someone is working should result in a product or service that has a market backed up by willingness on the part of customers to pay.

Some of the prominent sources for business ideas could be understanding the consumers existing products and services, distribution channels and promotional techniques in use, government policies and priorities, and research and development priorities and outcomes

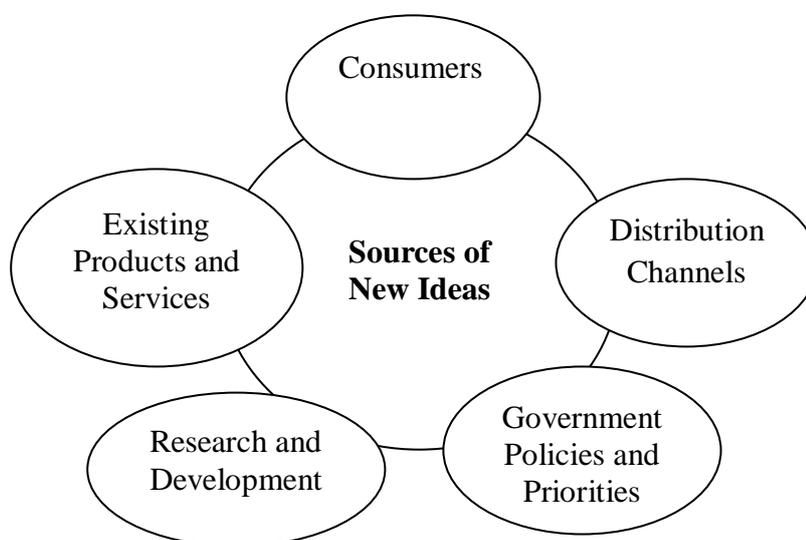


Fig 1.1 Sources of New Ideas

3.6.1: Consumers

Observing and studying consumers help potential entrepreneurs identify business ideas that make meaning and serve the purpose of customers. It requires a clear understanding of the psychology of a consumer, that is, the way they think, feel, reason and choose from among different alternatives. It also depends on understanding the way a consumer is influenced by their social, cultural, technological, legal competitive environments. Consumer choices about buying goods and services are influenced by external and internal factors. The external factors that govern their consumption are culture, demographics and social aspects, religious and regional subcultures, families and households, and peer groups. The internal factors that influence their decision to buy or not to buy a particular product and service are perception, learning, memory, motives, personality, emotions and attitude.

3.6.2: Existing Products and Services

Looking for new business ideas could be through monitoring and evaluation of existing manufactured products, the way these get distributed and the services are made available to consumers. One can get ideas from existing products/ services and existing markets, and new products/ services. The most difficult ideas come from new markets and new products/ services. In case entrepreneurs focus attention on the simplest category, they get exposed to higher risks associated with severe competition.

3.6.3: Distribution Channels

The people involved in the distribution chain are an excellent source of new ideas. It is this group of people who directly interact with the people chain after the product comes out of the production system. These people come up with suggestions for introducing new products and facilitate marketing of these products. To take advantage of the people involved in the distribution channel, they need to be trained to be conscious and alert to questions such as ‘What problems are your customers trying to solve when they buy from you?’; ‘Are there competitors providing similar products, and if so, what are their unique features?’; ‘Are there complementary services or products that come before or after they join?’ and ‘What other features in your product or service can dramatically enhance value for the customer?’.

3.6.4: Government Policies and Priorities

Government policies and priorities and regulatory mechanisms clearly indicate the opportunities that exist in any economy. Every government, irrespective of the political setup, comes up with yearly and long-term plans for the growth and development of its economy. These plans indicate the sources of money and the uses thereof in specific sectors and activities to promote development.

The government has initiated, sustained and refined many programmes since Independence to help the poor attain self-sufficiency in food production. Education, health and rural development have been the key focus of these programmes for the last few years. Thus, these sectors provide a scope for business ideas that can serve the need for ‘bottom of the pyramid’ and avail benefits arising out of resource flow to these sectors.

3.6.5: Research and Development (R&D)

The greatest source for an entrepreneur to come up with new ideas is the entrepreneur’s own research and development endeavors. These efforts could be of a formal nature within the organization or taken up in association with industry, these also could be informal, wherein entrepreneurs, on their own or with the help of a team, keep pursuing their research interests. Even the research and development efforts being pursued by competitors in the industry provide insights into where to focus efforts for product development.

3.7. Idea Generation Process

Entrepreneurs, who tend to focus solely on their day-to-day work, tend to fall into a routine. The creative spark often fades away when the stress and pressure of running a business takes over. Thinking creatively is important in every level and stage of development of the company. By inspiring forward thinking, the entrepreneurs create more cohesively-working teams of people, who feel motivated to share their ideas and work together towards executing these ideas and implementing them in the work process.

As the way to come up with new concepts varies from person to person, understanding the idea generating process gives every entrepreneur the ability to improve this process in order to successfully give rise to new innovative ideas.

To help busy entrepreneurs to monitor and encourage easier the generating, development and implementation of their ideas in their business models, here we are highlighting the four main steps to follow.

3.7.1 Generation

Creative people have many ideas passing through their heads on daily basis. As not all of these ideas are actually suitable to be evaluated, many of them later can come in hand. It is always a good idea to write down your insights and to keep them in one place – on your Smartphone or in a text book – it doesn't matter. The important part is to have them all at one place and to go through your notes regularly. You never know when something that has crossed your mind months ago can actually be very useful at the moment.

3.7.2 Development

In row form, the written idea may seem absurd, but if you look deeper in it, it is very likely to discover its full potential. The process of development of an idea may take time. It is essential to put a lot of thought, to do sufficient amount of research and to test the idea. Once you've done your trial period and you have solid evidence to believe in the future success of the idea, it is time to create a detailed execution plan to follow.

3.7.3 Execution

After you have crafted the thorough execution plan, it is time to start acting on it. The important part here is to make sure that you've introduced appropriately and comprehensively the plan to all the team members that are going to be involved in the work process. Plans are important, but the devotion and dedication of the team members is what will actually be the key indicator of success. Follow the steps of the execution plan, but also be flexible in your approach and be ready to change direction and pivot if the circumstances require that or if you see better opportunity in the new direction.

3.7.4 Evaluation

Many busy entrepreneurs overlook the importance of evaluating their work and the work of their teams. It can be a vital mistake. Evaluation is a great source of information, no matter if the project was successful or not. Failed projects can be a great source of important information that can show clearly where the things went wrong. A project may fail for many reasons and knowing these reasons can help the leaders to avoid certain mistakes with future tasks.

****Answer: B) A powerful idea****

2. Which of the following is NOT one of the five ways of being innovative according to Schumpeter?

- A) The introduction of a new good
- B) The introduction of a new method of production
- C) The introduction of higher prices
- D) Opening of a new market

****Answer: C) The introduction of higher prices****

3. The Virgin Company study revealed that the most successful ideas they receive are those that are:

- A) Technically complex and highly innovative
- B) Marketing, sales, and customer focused, with a well-defined and differentiated customer offer
- C) Focused only on cost reduction
- D) Developed exclusively by top management

****Answer: B) Marketing, sales, and customer focused, with a well-defined and differentiated customer offer****

4. Which source of new ideas requires understanding the psychology of consumers, including how they think, feel, reason, and choose from among different alternatives?

- A) Existing products and services
- B) Distribution channels
- C) Consumers
- D) Government policies

****Answer: C) Consumers****

5. The four main steps in the idea generation process, in correct sequence, are:

- A) Development, Generation, Execution, Evaluation
- B) Generation, Development, Execution, Evaluation
- C) Evaluation, Generation, Development, Execution
- D) Execution, Evaluation, Generation, Development

****Answer: B) Generation, Development, Execution, Evaluation****

Short Answer Questions

1. What is an idea and why is it important for business organizations?
2. Explain the four main steps in the idea generation process as outlined in the lesson.
3. What are the five sources of new ideas discussed in the lesson? Briefly explain each.
4. Describe the seven idea fields that entrepreneurs can explore for generating business ideas.

5. What lessons can entrepreneurs learn from the Virgin Company study about successful idea generation?

Case Study

From Observation to Innovation: How Rajendra Discovered His Business Idea

Rajendra, a fresh science graduate, was drifting without direction despite having job offers. His father, a government servant, wanted him to secure a stable job, but Rajendra harbored an undefined desire to "do something" meaningful. One day, while chatting with his local paanwalla, Ramlal, Rajendra casually asked where Ramlal purchased the dhanadal (coriander seeds) he stocked. He was surprised to learn that the dal was sourced from a factory outside town. This simple observation sparked curiosity. Rajendra began surveying multiple paanwallas and dhanadal retailers across his town, discovering that despite high local consumption, there was no local manufacturing unit for dhanadal in his entire town. This represented a clear market opportunity—local production would have a natural advantage over out-of-town competitors due to lower transportation costs and faster supply. Rajendra's idea was born from observing consumers (the paanwallas and their customers) and existing products (the dhanadal being sold). However, obtaining the necessary information to develop his idea proved challenging. When he attempted to learn from existing manufacturers, they refused to share any information. Undeterred, Rajendra employed creative methods to gather intelligence. He befriended Rakesh, a dissatisfied employee of a manufacturing unit, and through casual conversations during tea breaks, gathered crucial information about raw material sources, machinery specifications, production processes, and workforce requirements. He then moved to the development stage, estimating project costs and shed size requirements. When his family raised concerns about funding, he approached a bank where the manager explained loan facilities and connected him with a landowner willing to rent premises. Rajendra wrote to machinery manufacturers, persuaded his family to contribute from savings, and coordinated loan procurement, machinery delivery, and supplier relationships. The execution stage saw his factory operational within ten months. The evaluation stage came within sixteen months when his venture began generating profits. Rajendra's journey from aimless graduate to successful entrepreneur demonstrates how observation of consumers and existing products can spark ideas, and how systematic development, execution, and evaluation can transform a simple observation into a thriving business. His story exemplifies that ideas are not mysterious gifts but emerge from attentive observation of everyday life, persistent information gathering, and systematic execution.

Case Study Questions

1. Identify the sources of new ideas that Rajendra utilized in discovering his business opportunity. How did observation of consumers and existing products contribute to his idea generation?
2. Analyze Rajendra's journey using the four-stage idea generation process (Generation, Development, Execution, Evaluation). What specific actions did he take in each stage?
3. What lessons does Rajendra's story offer for aspiring entrepreneurs about the importance of persistence and creative information gathering when direct sources of information are unavailable?

3.11: Key Terms

****1. Idea****

The result of creative thinking that designs something new in order to solve problems in innovative and different ways. An idea looks at a problem as everyone else does but thinks of the solution from an innovative, simple, and ubiquitous perspective, serving as the foundation for new business opportunities.

****2. Idea Generation****

The foundation of the process of discovering new sustainable business opportunities, involving the creation, development, and communication of new concepts. It often arises from simple questions like 'what is this?', 'what is it for?', and 'what could it be for?' that open up space for many new opportunities.

****3. Innovation****

The process of introducing new goods, new methods of production, opening new markets, conquering new sources of raw materials, or creating new organizations of an industry. It transforms inventions into commercially viable business propositions and is the hallmark of entrepreneurial activity.

****4. Research and Development (R&D)****

The greatest source for entrepreneurs to generate new ideas, involving formal or informal efforts to pursue research interests. R&D endeavors can be conducted within the organization, in association with industry, or by entrepreneurs independently with their teams to develop new products and services.

****5. Distribution Channels****

The network of people and organizations involved in moving products from producers to consumers, serving as an excellent source of new ideas. Those who directly interact with customers after products leave the production system come up with suggestions for introducing new products and facilitating marketing.

****6. Market Research****

A systematic method for generating ideas by studying market trends, supply and demand patterns, and consumer preferences. Such research yields valuable data about consumer behavior and market opportunities, serving as a promising field for generating new business ideas.

****7. Sustainable Development****

A process of economic development that fulfills the needs of the present generation without causing any harm to the ability of future generations to fulfill their needs. Entrepreneurs considering employment generation, area development, community enlistment, and environment preservation contribute to sustainable development.

3.12: Further Readings / Reference books

1. Kumar, Arya (2012). *Entrepreneurship*. Pearson, Delhi. (Chapter on Creativity and Innovation)
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3. Bedi, Kanishka (2009). *Management and Entrepreneurship*. Oxford University Press, New Delhi. (Chapter on Creativity and Business Ideas)
4. Kuratko, Donald F., & Hodgetts, Richard M. (2007). *Entrepreneurship in the New Millennium*. Cengage Learning. (Chapter on Creativity and the Business Idea)
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LESSON-4

TECHNIQUES FOR GENERATING IDEAS

Objectives of the lesson:

- Understand the concept of lateral thinking and its five steps as propounded by Edward de Bono for creative problem-solving
- Explain the three key steps to solve a problem creatively: understanding the problem, working toward solving it, and using the brain effectively
- Master various idea generation techniques including mind mapping, SCAMPER, brainstorming, synectics, storyboarding, role playing, and attribute listing
- Apply creative thinking techniques such as reverse thinking, brainwriting, wishing, and forced relationships to generate innovative business ideas
- Understand the process of idea screening to evaluate and filter promising ideas from a larger set of possibilities

Structure of the lesson:

- 4.1: Techniques for Generating Ideas
 - 4.1.1: Understanding the problem
 - 4.1.2: Towards Solving the Problem
 - 4.1.3: Using Your Brain Effectively and Absurdly
 - 4.1.4: Mind Mapping
 - 4.1.5. SCAMPER
 - 4.1. 6. Brainstorming
 - 4.1.7. Synectics
 - 4.1.8. Storyboarding :
 - 4.1.9. Role playing
 - 4.1. 10. Attribute listing
 - 4.1. 11. Visualization and visual prompts
 - 4.1. 12. Forced relationships
 - 4.1. 13. Daydreaming
 - 4.1. 14. Reverse thinking
 - 4.1. 15. Brainwriting
 - 4.1.16. Wishing
 - 4.1. 17. Socializing
 - 4.1. 18. Collaboration
- 4.2 IDEA SCREENING
- 4.3: Summary
- 4.4: Key Terms
- 4.5 Self assessment questions.
- 4.6: Further Readings / Reference books

13 Successful Indian College dropout entrepreneurs

Steve Jobs and Mark Zuckerberg! Everyone has heard the names of these wildly successful founders of two equally revolutionary behemoths. Acknowledging their success, it is often highlighted that they were college dropouts. So we decided to figure out what exactly makes a college dropout stand out from the crowd, if at all? Is it their zeal to achieve or their out-of-the box thinking which sets them on the path of success? Or were they just one-off coincidences as are most successful startups and founders? We came up with a list of college dropouts turned entrepreneurs from the Indian startup ecosystem who have taken the country by storm.

1. Varun Shoor

A self-taught programmer at 13 and web designer, he took a natural interest in the development of web applications. Seeing a clear market gap for an easy to use, user centric approach to web-based ticketed support and visitor engagement, Varun established Kayako in 2001. He serves as Chief Executive Officer of Kayako Infotech Ltd. and oversees the overall direction as the leading product architect, takes an active role in the design and development of the product line. He started the company in 2001 when he was just 17 with its first office in Jalandhar after dropping out of college.

2. Kailash Katkar

Born in a small village at Rahimatpur in Maharashtra, Kailash Katkar worked his way to the top to be chairman and CEO of INR 200 Cr business. He is the man behind Quickheal technologies Pvt Ltd. He started with a job at local radio and calculator repair shop and later went ahead in 1990 to start his own calculator repair business. In 1993 he started a new venture, CAT computer services where around that time his younger brother Sanjay developed a basic model of antivirus software which helped in solving the biggest problem of computer maintenance at that time. Later in 2007 it was renamed as Quick Heal Technologies. He achieved all this without any formal education.

3. Deepak Ravindran

A computer science dropout from LBS College Of Engineering in his 5th semester in 2007 end, Deepak never let his ideas caged by book and syllabi, he broke all the bounds imposed

by the education system and followed his passion for computers which made him follow the entrepreneurial way. He founded Quest technologies which let people answer someone else's question which has been asked by a text message. His primary company was Innoz Technologies which was behind 'SmsGyan' handing internet's knowledge to people via texts. His latest venture is Lookup, which is a local commerce messaging app which lets users chat with local businesses and shops.

4. **Ritesh Agarwal**

Ritesh Agarwal is the man behind the 'OYO Rooms'. The startup is a network of technology – enabled budget hotels. This Gurgaon-based company, was founded by him in 2012. It is backed by Lightspeed Ventures, Sequoia Capital and Green Oaks Capital and has more than 700 hotels under its brand. A college dropout who founded Oravel when he was 18 received its share of fundings and accolades and later he rebranded it to OYO Rooms. He completed his higher schooling at St. Johns Senior Secondary School.

5. **Kunal Shah**

Freecharge, the famous platform which revolutionized the online recharge system with three step recharges along with providing offers of same value was the brainchild of Kunal Shah and Sandeep Tandon. The company was founded in 2010 and was recently acquired by Snapdeal. He did Bachelor of Arts in Philosophy from Wilson College and later went to Narsee Monjee Institute of Management Studies from which he dropped out later.

6. **Mahesh Murthy**

Mahesh has spent 29 years helping big brands with marketing counsel, and 13 years helping startups with marketing counsel and funding too. 19 of these years have been in digital media. Mahesh dropped out of Osmania University, sold vacuum cleaners door to door . He won notoriety and awards as Creative Director on Unilever, The Economist, Pepsi and MTV for whom he wrote and shot a series of top award-winning commercials. He is now the founder of advertising company pinstorm which is an ad firm offering pay-for-performance solution to companies across the world.

7. **Azhar Iqbal**

There must be something wrong with IIT, Delhi because this is second dropout who made 'news'. He dropped out in his 4rd year of college(seventh semester). He made news by

introducing News in Shorts the one and only app which cuts to the chase delivering only vital details in a news to all those lazy people and even to those who don't have enough to go through all of them. The app makes sure that each news is conveyed in less than 60 words. Got a minute to spare? Keep up with the world with news in shorts. It started as a Facebook page and now it has made its share of fame so well that it received INR25 Cr in funding three months back.

8. **Rahul Yadav**

The brain behind Housing.com's rise, Rahul Yadav is one the co-founders of the company and a dropout in his fourth year (seventh semester) from IIT Bombay. This didn't deter him from stopping what he wanted to achieve. He knew that he was building a brand and working to solve a problem which no one ever tackled head on. Being in a mire of controversies, he has played it cool, be it resigning or then taking it back or giving away half of his shares to his employees. This guy has a brash attitude with a load of confidence.

9. **Bhavin Turakhia**

Bhavin Turakhia is the founder and CEO of Directi, an internet domain name registrar company founded in 1998 by him and his brother, Divyank. He managed to have a vision about the internet industry in India, which only a few have rivaled. He is credited for the impressive growth of Directi into a global web products company, with a number of businesses and millions of customers worldwide! Though he is an engineering dropout who cut off from it after 12th, he never stopped dreaming big. In his words, "Everything the Byte touches should be our kingdom" is the vision that Directi is looking forward to."

10. **Pallav Nadhani**

Pallav Nadhani is the co-founder and CEO of Fusion Charts and RazorFlow and CEO at Collabion, seemingly a serial multi-tasker. He started this company in 2001 at the age of 16 from his bedroom as he found himself dissatisfied with Microsoft Excel's charting capability while completing his high school assignments. The company is a service provider of data visualization products and owing to its success it was included in NASSCOM EMERGE 50 leaders in 2009. Even after he dropped out from University of Calcutta, this setback didn't stop him from achieving what he aimed for. He later earned his degree in Masters Of Computer Science From University of Edinburgh.

11. Abhishek Gupta

He is an entrepreneur who loves to code and instill people with new ideas, being engrossed with the idea of connecting people through web and mobile, he co-founded Frankly.me with Nikunj Jain. Frankly is a platform which is based on the idea to expand the horizon of conversations that people take part in. It has onboarded various celebs and many people have taken it to the platform to ask anything from them and getting video answers in back. Prior to this he founded Zumbi.com. Though an IIT, Delhi dropout where he was pursuing Computer Science, he wants to increase the IQ of an average conversation on Internet.

12. Ankit Oberoi

Ankit Oberoi is co-founder of Adpushup, which provides optimization of ads so that publishers and bloggers can benefit from their existing website traffic without the need for any coding skills. The company uses A/B testing to compare between different ad variation like different placements and different sizes. He dropped out from Maharaja Agrasen College in the first semester because he found it was a waste of time, in his words, **“You don’t have to be at the college to learn something – Internet can teach you better”**. His fascination with internet made him find Tamranda Web Solution which provided web hosting, domain registration and more. He served as director as Innobuzz before starting up adpushup.

13. Amritanshu Anand

Amritanshu Anand is the co-founder of Retention.ai, which allows app developers and marketers to track uninstalled users and understand their behaviours. It also enables companies to re-target users who have uninstalled the app. He started his as an advisor at Entrepreneurship Cell at IIT Kharagpur where he worked to foster spirit of entrepreneurship in India. Though, he dropped out of IIT he didn’t let anything stop him from pursuing his interests which made him found his company in May 2013.

4.1: Techniques for Generating Ideas

The trick to creativity is thinking ‘out of the box’, that is, keeping aside pre-conceived notions, assumptions and prejudices. Edward de Bono propounded and developed the concept of lateral thinking and highlighted the process in the five steps:

- i. Escape from clichés and fixed patterns

- ii. Challenge assumptions
- iii. Generate alternatives
- iv. Jump to new ideas and then see what happens
- v. Find new entry points from which to move forward

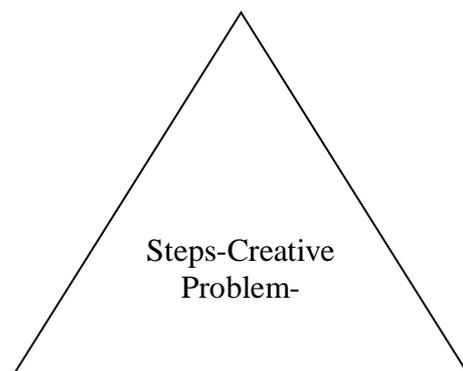
The first step to channelize one's creativity is to identify, understand and define the problem. This is the first and foremost step in the process of coming up with unique solutions to existing and future problems. Three key steps to solve a problem creatively are as follows (Fig. 1.2)

4.1.1: Understanding the problem

Defining the problem in simple terms, without over-simplifying it, is very important. E. F. Schumacher states: 'Any intelligent fool can make things bigger, more complex and more violent. It takes a touch of genius-and a lot of courage- to move in the opposite direction.' Even Albert Einstein stated, 'Everything should be made as simple as possible, but not simpler. As an entrepreneur, one should be able to communicate things in a simple way. One simple, single purpose of being in a business and what it means to them and to their prospective customers need to be well-defined. One should not complicate things, no matter how trivial they are. It is important to remember that simplicity has far more value proposition than complexity.

4.1.2: Towards Solving the Problem

While making an attempt to solve a well-defined problem, one should check all the major assumptions and their implications. One should pose questions such as what, why, how, when, where and who related to the problem under consideration. List the obstacles that seem to block the path in solving the problem. List all possible to the problem with an open mind. Complete a



Understanding the Problem

Towards Solving
the Problem

Using Your Brain Effectively
and Absurdly

Figure 1.2 Steps to Solve a Problem Creatively

list of solutions that are feasible to work on with the resources at your disposal. Select the best salvation, keeping in view the yardstick to evaluate and concretize the implementation programme, specifying dates or times for completion. Check the solution from all possible angles and make sure that the plan chalked is workable and realistic. Take feedback during implementation in the light of experience as you proceed.

4.1.3: Using Your Brain Effectively and Absurdly

While using creative problem-solving to come up with unique solutions, it is important to understand the way the two hemispheres of the human brain work. The left side deals with logic as enumerated through functions such as words, numbers and sequences, whilst the right side deals with more imaginative and intuitive functions, such as spatial relationships, daydreaming, music and art. To channelize our creative potential, we need to stimulate right-brain activity. This can be done through a number of techniques as given in Fig. 1.3. Although some of these techniques may seem vague, hazy, foolish and far remote from particular realities at first instance, they are important and can really help in working effectively. One of the best techniques is called mind mapping, pioneered by Tony Buzan. Mind Map is a registered trademark of the Buzan organizing our thoughts and stimulating creativity. Another good technique comes from Mindstore (1994), by Jack Black, which provides practical insights into motivation, self-awareness and creativity.

4.1.4: Mind Mapping

Mind mapping is a pictorial way of giving a shape to ideas and concepts. It is a visual-thinking technique that facilitates structuring information, better analysis and synthesis, quick recollection of information and generation of new ideas. The tool has become powerful because of its simplicity. In mind mapping, the information flow is structured more closely to

the way our brain actually works. As it is an activity that has both analytical and artistic facets, it allow flow of thoughts from the brain by engaging it in a much richer way. Above all, in this technique, it is fun coming up with worthwhile propositions to diagnose and solve problems. A mind map is a diagram that is used to represent a central theme or idea through words, ideas and tasks linked to, and arranged around, the idea. Mind maps are mainly used to create, visualize, structure

- Mind Mapping
- Focus Groups
- Brainstorming
- Reverse Brainstorming
- Synectics
- Gordon Method
- Scientific Method
- Value Analysis
- Problem Inventory Analysis

3 techniques for Creative Problem-solving

and classify ideas that facilitate in solving problems and making decisions by proper understanding.

4.1.5. SCAMPER

SCAMPER is an idea generation technique that utilizes action verbs as stimuli. It is a well-known kind of checklist developed by Bob Eberie that assists the person in coming up with ideas either for modifications that can be made on an existing product or for making a new product. SCAMPER is an acronym with each letter standing for an action verb which in turn stands for a prompt for creative ideas.

- **S** – Substitute
- **C** – Combine
- **A** – Adapt
- **M** – Modify
- **P** – Put to another use

- **E** – Eliminate
- **R** – Reverse

4.1. 6. **Brainstorming**

This process involves engendering a huge number of solutions for a specific problem (idea) with emphasis being on the number of ideas. In the course of brainstorming, there is no assessment of ideas. So, people can speak out their ideas freely without fear of criticism. Even bizarre/strange ideas are accepted with open hands. In fact, the crazier the idea, the better. Taming down is easier than thinking up.

Frequently, ideas are blended to create one good idea as indicated by the slogan “1+1=3.” Brainstorming can be done both individually and in groups. The typical brainstorming group comprises six to ten people.

4.1.7. **Synectics**

Synectics is a creative idea generation and problem solving technique that arouses thought processes that the subject may not be aware of. It is a manner of approaching problem-solving and creativity in a rational manner. The credit for coming up with the technique which had its beginning in the Arthur D. Little Invention Design Unit, goes to William J.J. Gordon and George M. Prince.

The Synectics study endeavored to investigate the creative process while it is in progress. According to J.J Gordon, three key assumptions are associated with Synectics research.

- It is possible to describe and teach the creative process
- Invention processes in sciences and the arts are analogous and triggered by the very same “psychic” processes
- Group and individual creativity are analogous

4.1.8. **Storyboarding :**

Storyboarding has to do with developing a visual story to explain or explore. Storyboards can help creative people represent information they gained during research. Pictures, quotes from the user, and other pertinent information are fixed on cork board, or any comparable

surface, to stand for a scenario and to assist with comprehending the relationships between various ideas.

4.1.9. Role playing

In the role playing technique, each participant can take on a personality or role different from his own. As the technique is fun, it can help people reduce their inhibitions and come out with unexpected ideas.

4.10. Attribute listing

Attribute listing is an analytical approach to recognize new forms of a system or product by identifying/recognizing areas of improvement. To figure out how to enhance a particular product, it is broken into parts, physical features of each component are noted, and all functions of each component are explained and studied to see whether any change or recombination would damage or improve the product.

4.11. Visualization and visual prompts

Visualization is about thinking of challenges visually so as to better comprehend the issue. It is a process of incubation and illumination where the participant takes a break from the problem at hand and concentrates on something wholly different while his mind subconsciously continues to work on the idea. This grows into a phase of illumination where the participant suddenly gets a diversity of solutions and he rapidly writes them down, thereby creating fresh parallel lines of thought.

4.12. Forced relationships

It is an easy technique involving the joining of totally different ideas to come up with a fresh idea. Though the solution may not be strictly unique, it frequently results in an assortment of combinations that are often useful. A lot of products we see today are the output of forced relationships (such as a digital watch that also has a calculator, musical birthday cards and Swiss army knife)..

4.13. Daydreaming

Though mostly not met with approval, daydreaming is truly one of the most fundamental ways to trigger great ideas. The word “daydream” itself involuntarily triggers an uninhibited

and playful thought process, incorporating the participant's creativity and resourcefulness to play around with the present problem. It enables a person to establish an emotional connection with the problem, which is beneficial in terms of coming up with a wonderful idea.

4.14. Reverse thinking

As the term 'reverse thinking' itself suggests, instead of adopting the logical, normal manner of looking at a challenge, you reverse it and think about opposite ideas. For example: 'how can I double my fan base?' can change into 'how do I make sure I have no fans at all?' You may notice that the majority of participants would find it easier to produce ideas for the 'negative challenge' simply because it is much more fun.

4.15. Brainwriting

Brainwriting is easy. Instead of asking the participants to shout out ideas, they are told to pen down their ideas pertaining to a specific problem or question on sheets of paper, for a small number of minutes. After that, each participant can pass their ideas over to someone else. This someone else reads the ideas on the paper and adds some new ones. Following another few minutes, the individual participants are again made to pass their papers to someone else and so the process continues. After about 15 minutes, you or someone else can collect the sheets from them and post them for instant discussion.

4.16. Wishing

This technique can be begun by asking for the unattainable and then brainstorming ideas to make it or at least an approximation of it, a reality. Start by making the wishes tangible. There should be collaboration among the members of the team to produce 20 to 30 wishes pertaining to your business. Everyone's imagination should be encouraged to run wild – the more bizarre the idea, the better. There should be no restrictions on thinking.

4.17. Socializing

If employees only hang around with colleagues and friends, they could find themselves in a thinking rut. Let them utilize all those LinkedIn connections to begin some fantastic conversations. Refreshing perspectives will assist with bringing out new thinking and

probably, one or two lightning bolts. Socializing in the context of ideation can also be about talking to others on topics that have nothing whatsoever to do with the present problem.

4.18. Collaboration

As the term indicates, collaboration is about two or more people joining hands in working for a common goal. Designers frequently work in groups and engage in collaborative creation in the course of the whole creative process.

4.2 IDEA SCREENING

Idea screening is a process that evaluates and contrasts new product ideas to get the most promising ones for your business. Not every idea is relevant to your company. In order to screen out a good idea from the not so good ones, there are certain criteria that should be followed like technical problems, strategic fit, and several market opportunities. Due to scarcity of available resources, it's difficult to develop several products at the same time. Through a successful idea screening process, it helps in focusing the whole product development process with a higher possibility of achieving success.

The idea screening process helps to reduce the amount of irrelevant ideas into a convenient amount which can further turned into prototypes. The purpose is to eliminate the number of ideas without screening away the potential ones. During the idea screening process, the company must focus on the following questions:

If the target customers will benefit from the product?

- What will be the size and growth forecast of the target market?

The current and future competitive pressure for the product idea?

- Is it technically possible to manufacture the product
- Is the product idea based on current market trend?

- Whether the product idea will be profitable when delivered to the target customers?
- The most identifiable needs/wants of the customers.
- Product's improvement or modification required.
- The scope of the research and development needed.
- Whether it fits best with business's objective.

Many companies suffer from a flood of generating new ideas when they are unable to prioritize them. Quantitative idea screening helps to identify those ideas that distinguish between greatest interest and greatest prospective for future growth of the business.

[large]The quantitative idea screening aims to filter out which ideas are worth considering and emerging. This process involves a lot of testing of different ideas and themes and that's how it gets important to make certain that this is done cost effectively and efficiently. Therefore, most companies perform idea screening online.

The purpose behind doing the idea screening is to determine the interest in those ideas and to find out which segment of the whole population can be easily attracted towards the product idea. For this step, a survey is conducted to ensure the uniqueness of the new idea which is associated with the product and whether it will enable to generate any switching behavior. The advantage of carrying out a survey is that it has a diagnostic element that allows the respondents to give feedbacks on what they find appropriate and appealing in a new product idea. As a result, it is essential to reshape new ideas and reassess their appealing elements before elimination.. Idea Screening is performed in different stages.

☑ Firstly, the ideas are examined to know if they are relevant to the basic objective of the company, if there are certain constraints factors in which the product idea might get crucial in a sequence, drop that idea immediately. The rest of the ideas are being scored against each other considering the important factors, after totaling the score the lower scoring ideas are dropped. The idea screening is the initial idea to assign resources to the product idea and decides whether the new product development should start or not.

4.3: Summary

Idea is the result of innovative thinking. That idea will take forward the entrepreneur in applying it for problem solving not only in business organizations but also in domestic sphere also. The point is how does one get an idea? What are the various techniques for generating new ideas? Simply, the most important technique shall be understanding and perceiving the problem in its right direction and right time.

Similarly other techniques like using the brain effectively in the required direction would also serve the purpose of idea generation. Depending upon the requirement and time, the entrepreneur should use different techniques for idea generation.

4.4: Key Terms

Key Words with Explanations

1. Lateral Thinking

A concept developed by Edward de Bono involving thinking "out of the box" by keeping aside pre-conceived notions, assumptions, and prejudices. It involves five steps: escape from clichés and fixed patterns, challenge assumptions, generate alternatives, jump to new ideas, and find new entry points from which to move forward.

2. Mind Mapping

A pictorial way of giving shape to ideas and concepts, developed by Tony Buzan. It is a visual-thinking technique that facilitates structuring information, better analysis and synthesis, quick recollection of information, and generation of new ideas by structuring information flow more closely to the way our brain actually works.

3. SCAMPER

An idea generation technique that utilizes action verbs as stimuli to prompt creative ideas. It is an acronym where each letter stands for an action verb: Substitute, Combine, Adapt, Modify, Put to another use, Eliminate, and Reverse.

****4. Brainstorming****

A process that involves generating a huge number of solutions for a specific problem with emphasis on the quantity of ideas rather than quality. During brainstorming, there is no assessment or criticism of ideas, allowing participants to speak freely without fear, and even bizarre ideas are accepted.

****5. Synectics****

A creative idea generation and problem-solving technique developed by William J.J. Gordon and George M. Prince that arouses thought processes the subject may not be aware of. It is based on the assumption that creative processes can be described and taught, and that group and individual creativity are analogous.

****6. Reverse Thinking****

A technique where instead of adopting the logical, normal manner of looking at a challenge, one reverses it and thinks about opposite ideas. For example, "how can I double my fan base?" can change into "how do I make sure I have no fans at all?" making it easier to produce ideas.

****7. Idea Screening****

A process that evaluates and contrasts new product ideas to identify the most promising ones for business development. It helps reduce the number of irrelevant ideas into a manageable amount by focusing on questions about target customers, market size, competition, technical feasibility, and profitability.

4.5 Self Assessment questions :

Multiple Choice Questions with Answers

****1. According to Edward de Bono, the first step in lateral thinking is:****

- A) Challenge assumptions
- B) Generate alternatives
- C) Escape from clichés and fixed patterns
- D) Find new entry points

****Answer: C) Escape from clichés and fixed patterns****

****2. The SCAMPER technique uses action verbs as stimuli. The 'C' in SCAMPER stands for:****

- A) Create
- B) Combine
- C) Criticize
- D) Calculate

****Answer: B) Combine****

****3. In brainstorming, which of the following is NOT permitted?***

- A) Speaking out ideas freely
- B) Accepting bizarre or strange ideas
- C) Assessment and criticism of ideas
- D) Blending ideas to create new ones

****Answer: C) Assessment and criticism of ideas****

4. Which technique involves developing a visual story to explain or explore, using pictures, quotes from users, and other pertinent information fixed on a board to represent a scenario?*

- A) Mind mapping
- B) Storyboarding
- C) Role playing
- D) Attribute listing

****Answer: B) Storyboarding****

****5. During idea screening, companies must focus on all of the following questions EXCEPT:***

- A) What will be the size and growth forecast of the target market?
- B) Is it technically possible to manufacture the product?
- C) How quickly can competitors copy the idea?
- D) Whether the product idea will be profitable when delivered to target customers?

****Answer: C) How quickly can competitors copy the idea?***

Short Answer Questions

1. What are the five steps of lateral thinking as propounded by Edward de Bono?
2. Explain the SCAMPER technique and what each letter represents with examples.
3. What is brainstorming and what are its key rules for effective implementation?
4. Describe any four techniques for generating ideas mentioned in the lesson.
5. What is idea screening and what questions should a company focus on during this process?

Case Study

From College Dropout to Successful Entrepreneur: The Story of Ritesh Agarwal and OYO Rooms

Ritesh Agarwal, a college dropout from Odisha, founded Oravel in 2012 at the age of 18, which later rebranded to OYO Rooms. His entrepreneurial journey exemplifies how creative thinking techniques can transform simple observations into billion-dollar businesses. The idea generation began when Ritesh, traveling and staying at budget hotels, repeatedly

experienced inconsistent quality, unhygienic conditions, and unreliable service. He applied **reverse thinking**—instead of asking "how can I build new hotels?" he reversed the question to "how can I standardize existing budget hotels without owning them?" This reversal opened up an entirely new business model. Using **brainstorming** with his small team, they generated numerous ideas about what could be standardized: cleanliness, bed linens, Wi-Fi, breakfast, check-in processes, and bathroom amenities. From hundreds of ideas, they identified the most critical elements that mattered to budget travelers. Ritesh then applied **forced relationships** by combining the technology platform model of aggregators like Uber with the hospitality industry, creating an entirely new category—technology-enabled budget hotel standardization. The team used **mind mapping** to visualize the entire customer journey from booking to check-out, identifying pain points and opportunities at each stage. They employed **attribute listing** by breaking down the hotel experience into components (booking, arrival, room, bathroom, food, check-out) and systematically improved each element. When facing resistance from hotel owners who were skeptical about sharing revenues, Ritesh applied **SCAMPER**—particularly the "Adapt" and "Modify" elements—by adapting the franchise model to create a win-win partnership where OYO guaranteed minimum revenue while hotels benefited from increased occupancy. The idea generation did not stop at launch. OYO continues to use **brainwriting** where employees anonymously submit ideas for improving operations, many of which have been implemented across their 23,000+ hotels in India and international locations. The **collaboration** between technology developers, hotel operations experts, and customer service teams has generated continuous innovation in their service offerings. Ritesh's journey demonstrates that successful entrepreneurs do not wait for lightning-bolt inspirations; they systematically apply creative techniques to generate, develop, and screen ideas. His observation that "the best ideas come from solving problems you personally experience" reflects the power of combining personal experience with structured creative thinking. Today, OYO is valued at over \$9 billion, proving that disciplined idea generation techniques can transform a college dropout's observation into one of India's most successful startup stories.

Case Study Questions

1. Identify and explain at least four idea generation techniques that Ritesh Agarwal applied in developing and refining the OYO business model. How did each technique contribute to the final concept?
2. How did Ritesh apply reverse thinking to transform the challenge of budget hotel standardization into a scalable business opportunity? What other techniques could he have used to generate additional innovations?
3. The case mentions that OYO continues to use brainwriting for employee idea submission.
Why is continuous idea generation important even after a business is established?
How can established companies maintain a culture of creativity and innovation?

4.6: Further Readings / Reference books

Five Printed/Published Textbooks

1. Kumar, Arya (2012). *Entrepreneurship*. Pearson, Delhi. (Chapter on Creativity and Innovation)
2. Murthy, C. S. V. (2010). *Entrepreneurship and Good Governance*. Himalaya Publishing House, New Delhi. (Chapter on Idea Generation Techniques)
3. Bedi, Kanishka (2009). *Management and Entrepreneurship*. Oxford University Press, New Delhi. (Chapter on Creative Problem Solving)
4. De Bono, Edward (1992). *Serious Creativity: Using the Power of Lateral Thinking to Create New Ideas*. Harper Business. (Original source on lateral thinking)
5. Kuratko, Donald F., & Hodgetts, Richard M. (2007). *Entrepreneurship in the New Millennium*. Cengage Learning. (Chapter on Creativity and Innovation)

LESSON-5

OPPORTUNITY RECOGNITION AND FEASIBILITY ANALYSIS

Objectives of the lesson:

After going through this lesson you should be able to understand:

- Understand the fundamental difference between an idea and an opportunity, and recognize that true opportunities are rare and highly valuable compared to mere ideas
- Apply the five key questions to determine whether an idea constitutes a genuine business opportunity worthy of pursuit
- Master the five keys to trend spotting: anticipating change, seeing it coming, distinguishing fads from trends, ensuring realistic solutions, and creating competitive advantage
- Analyze the five stages of the creative process: idea germination, preparation, incubation, illumination, and verification
- Evaluate the four components of feasibility analysis—product/service feasibility, industry/market feasibility, organizational feasibility, and financial feasibility—to determine business viability

Structure of the lesson:

5.1: Opportunity Recognition

5.1.1: Opportunity-Definition
Entrepreneurial Opportunity

5.1.2: Opportunity Recognition
How to Recognize an Opportunity?

5.2: Steps in Tapping Opportunities

- 5.2.1: Seizing the Opportunity
- 5.2.2: Evaluating Opportunity
- 5.2.3: Understanding the Timeframe
- 5.2.4: Computing the Worth of an Opportunity
- 5.2.5: Establishing Need through Preliminary Market Research

5.3: Trend Spotting

- 5.3.1: Anticipate Change
- 5.3.2: See it coming
- 5.3.3: Distinguish between short-lived fads and long-term trends
- 5.3.4: Make sure your solutions are realistic
- 5.3.5: Create a competitive advantage

5.4 Creative Process

- 5.4.1: Idea generation
- 5.4.2: Preparation
- 5.4.3: Incubation
- 5.4.4: Illumination
- 5.4.5: Verification

5.5 Innovation and Invention

5.5.1 Invention Vs. Innovation

5.5.2 Steve Jobs: The Poster Boy of Innovation

5.6 Protection of Intellectual Property Rights

5.6.1: International Trademark Association (INTA)

5.6.2: World Intellectual Property Organisation (WIPO)

5.6.3: Agreement between WIPO and WTO

5.6.4: Paris Convention

5.6.5: Berne Convention

5.6.6: Madrid Protocol

5.7 Feasibility analysis

5.7.1 Product/Service Feasibility Analysis

5.7.2 Industry/Market Feasibility Analysis

5.7.2 Organisational Feasibility Analysis

5.7.3 Financial Feasibility Analysis

5.7.4

5.8: Summary**5.9: Activity****5.10: Self Assessment Questions****5.11: Key Terms****5.12: Further Readings / Reference books****Exhibit - 5****Patriotism plus passion: Stories of 20 entrepreneurs from small towns in India**

The world's largest company in value-added spices, one of the world's Top 10 publishing BPOs, India's biggest exporter of hand-knotted carpets, largest machine tool manufacturer, largest honey exporter, and largest leather exporter all started up in small towns in India, not the big metros. Hunger for success, inspiration, diligence and persistence are also the hallmarks of success of entrepreneurs in smaller towns, where glamour may be lacking but the quieter and gentler way of life as well as the desire to hang on to local roots are assets in their own right.

1. Vinod Khutal grew up near Indore and studied architecture, before studying computer science. An ad by game developer Gameloft on Naukri.com led him to a job in their Hyderabad office, where he eventually became a game designer. In 2009, he founded Twist Mobile, with apps such as Age Effect. He tied up with VServ to use their app-wrapper technology for ads embedded in apps. Success stories included becoming the first Asian company with 10 million downloads on Noki's Ovi store. "Today's killer app is tomorrow's delete," says Khutal, who has now branched out into Android and iPhone apps.

2. Sriram Subramanya grew up in Pondicherry and started work in the auto ancillary business, with postings in Chennai and Bangalore and training in Germany. He later moved into the desktop publishing business, migrating from print designs to digital content. Sriram's wife had to sell her jewellery at one stage to fund the growth of the company, Integra. A tight focus on quality, precision and business culture helped grow the company into one of the world's Top 10 in publishing BPO. The company also won the Gender Inclusivity Award from NASSCOM.

3. Rohit Bhatt grew up in Udupi, Karnataka, and studied computer science. He started off with a Japanese company making Mac products. Exposure to Japanese passion, determination, pride and quality inspired him also to strike out on his own, in the area of Indian language computing. Rohit was also inspired by Taiwanese companies who started off with contract manufacturing then branched out with their own brands such as HTC and Acer. His company, Robosoft, also spawned product companies Global Delight (utility apps such as

Camera Plus) and 99 Games (such as Wordsworth and ‘Dhoom 3’ games).

4. Sanjay Vijaykumar, Sijo Kuruvilla George and Pranav Suresh were engineering students in Trivandrum, and started off their first business by selling SIM card packages for students. Their company MobME began with mobile content for movie and TV promotion. Investment also came from wealthy Keralites in India and overseas. But their biggest idea was to amplify their success via Startup Village: to create an innovation hub like YCombinator and ultimately create a ‘Silicon Coast’ – which eventually found support from the government and private sector. As a result, Kerala has become the first state in India with an official student entrepreneurship policy.

5. Deepak Dhadotti grew up in Belgaum in an agricultural family, studied engineering and then joined the UK company, Moog, in the area of servo-controls. He travelled extensively in Asia and Europe, building deep experience – and also causing worry to his parents that he may marry a foreign woman. They arranged a marriage for him with a local bride, and he moved back to India eventually. Deepak started Servo Controls India with his brother, bagging orders from HAL and then the steel and power industry. Tie-ups with Russian companies and the Tata group have also proven lucrative.

6. Dilafrose Qazi grew up in Kashmir, and refined her business skills while studying in a government college. She started part-time courses for women, and eventually set up the SSM College of Engineering, the first private engineering college in all of Kashmir. She ploughed on ahead, despite having her brother and husband kidnapped and being attacked by militants. Qazi even opened a sister college in Haryana for Kashmiris, helping ensure that the next generation would have sources of livelihood.

7. Nand Kishore Chaudhary grew up in Churu, Marwar, and started off his carpet business with weavers from the ‘chamar’ caste, regarded as untouchables. Today, Jaipur Rugs is India’s biggest exporter of hand-knotted carpets. The company connects woven products directly to global markets, and employs a range of weavers, including tribal women. A focus on local inclusion and global trends led the company to be profiled as a case study by the late great Prof. C.K. Prahalad.

8. C.V. Jacob grew up in Kolencherry, Kerala, with his father working in the construction industry. He started off in the resin industry, when a trip to Japan exposed him to oleoresins, or liquefied spice extracts. Jacob returned to India, picked up know-how from the Central Food Technology Research Institute in Mysore, and started the firm Synthite. He later on set up joint ventures in Europe and a factory in China, and his firm is now the world’s largest company in oleoresins.

9. Parakramsinh Jadeja grew up in Rajkot and excelled in cricket and chess as a student. He mastered lathe technology in school and eventually got into computerised numerical control (CNC) machines. Partnership with Siemens and exposure to machine tool fairs in Paris led him to master the tool business based out of India as Jyoti CNC, and the acquisition of a French company turned out to be a win-win situation. As the largest manufacturer of machine tools in India, Jyoti CNC is planning an IPO.

10. Jagjit Singh Kapoor’s parents were displaced from Pakistan during the Partition, and he grew up in Doraha, Punjab. He started off in the wine business but then moved into beekeeping and exporting of honey products. A trip to the UK to chase a non-paying customer ended up opening his eyes to a whole new world of quality, processing and technology. Today, Kashmir Apiaries is the largest exporter of honey from India, and Singh started the National Bee Board to increase awareness and networking for beekeepers.

11. Mukhtarul Amin grew up in Kanpur and left college to work in the family’s leather business. He tapped into the offshoring trend and partnered with European companies, importing their technology. Superhouse Group is now India’s largest leather exporter. Amin also gave back to society by starting schools and an engineering college to educate the next

generation.

12. Vivek Deshpande and **Kirit Joshi** met as engineering students in Nagpur, and started off by selling study materials for students as VK Publishers. They then set up a workshop for office furniture, where exposure to Canadian and German companies led them to launch Spacewood, a trend-setter in modular kitchen components.

13. Bahadur Ali grew up in Rajnandgaon in Madhya Pradesh. His father died at an early age, and he got into the poultry business. That also led him into the poultry feed business and soya bean processing, thus opening up the larger 'protein' market for his company, the India Broiler Group, with a turnover of Rs 2,200 crores.

14. Chandubhai Virani and his brothers started selling chips in a local cinema in Rajkot, and today their company Balaji Wafers has a 65% market share in five states, holding out against local and MNC competitors. They first tried the fertiliser business and then running a hostel, before settling on chips and snacks. Adherence to quality helped them get early customers, followed by importing Japanese machines and taking loans to grow their factory.

15. Sandeep Kapoor grew up in Jodhpur, and worked in his grandfather's photo studio. Later he joined ITC, getting exposure to Russia and China in the perfume business. He realised the potential of this sector in India, and returned to start Perfume Station. With a wide range of pricing and open minded customer care, he first expanded in Tier 2 and 3 cities before moving into the metros.

16. Srikumar Misra grew up in Bhubaneswar, studied engineering in Pune, and joined Tata Tea as part of the mergers & acquisitions team, criss-crossing the world in a jet-setting lifestyle. But the startup bug bit him, and he joined TiE London to interact with entrepreneurs. He returned to Orissa to set up a dairy company, Milk Mantra, plunging into the world of cows, distributors and packaging.

17. Muruganatham grew up in Coimbatore, with little material wealth but lots of nature and practical wisdom. In the face of criticism from his own family for acting like a 'mad man,' he developed a machine to make low-cost sanitary napkins. In the sustainable business model of his company, Jayashree Industries, machines are given to women entrepreneurs who make and sell the napkins to others. Interest in the machines has been received from other parts of Asia and Africa as well.

18. Chandrasekhar Sankurathri, a fisheries expert from Andhra Pradesh who became a well known researcher in Canada, lost his parents when he was a child – and his wife and children to the terrorist bombing of Air India's Kanishka aircraft en route from Canada to the UK. Deep soul searching led him to come back to Kakinada and set up the Srikiran Institute of Ophthalmology (with inputs from Aravind Eye Hospital) and Sarada Vidayalam School. He eventually converted his deep sense of anguish and loss into a force for successful social enterprise.

19. Vibhor Agrawal grew up in Meerut, studied in IIT Bombay and IIM Bangalore, worked abroad and then returned to scale up the family's engineering business, MultiMax. He has kept a keen eye on the cycles of the product business: growth, commodification and decay.

20. Abhijit Barooah grew up in Guwahati, studied in IIT Delhi and went to the US for graduate school. He returned to set up Premier Cryogenics, succeeding in a volatile part of India thanks to his business acumen and choice of customers like Oil India. India has never been in a better position for entrepreneurship than where it is today and young people must definitely take advantage of this, urges Barooah.

5.1: Opportunity Recognition

There exists a big difference between having a great idea and converting it into a great opportunity. At times, due to over excitement to plunge into an entrepreneurial venture, an entrepreneur may get confused between the two and miss a subtle difference between a great idea and a great opportunity. Entrepreneurs must learn the art of identifying a particular idea from amongst many ideas that could be said to be a genuine opportunity. As such, true opportunities at a particular point of time are a great treasure and are highly valuable.

The entrepreneur may have an opportunity that may appear to be an excellent one, but what matters the most is whether it can be converted into a profitable opportunity, which needs to be thoroughly explored and doubly ensured. The fundamental difference between an idea and an opportunity lies whether the entrepreneur can turn it into a product/service that would attract customer's attention and bring profits to the entrepreneur.

Thus, the fundamental difference between an idea and an opportunity lies in an idea having a value that can make a business out of it (Fig.1.4). An opportunity is an idea that, if successfully implemented, can yield a prosperous business. Therefore, opportunities are rare and highly valuable compared to ideas.

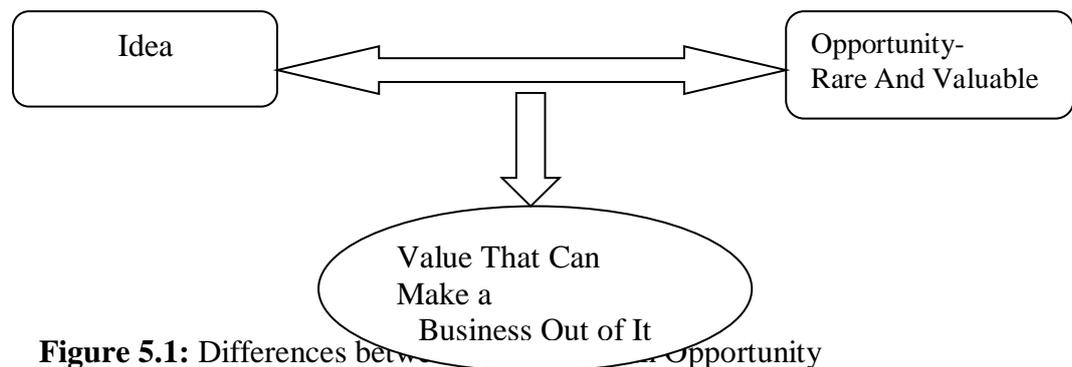


Figure 5.1: Differences between Idea and Opportunity

5.1.1: Opportunity-Definition

- Entrepreneurial Opportunity:** The Oxford English Dictionary defines opportunity as ‘A time, juncture or condition of things favourable to an end of purpose, or admitting of something being done or effected.’ An entrepreneurial opportunity, therefore, consists of a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them (Venkataraman 1997). Shane (2003) describes an entrepreneurial opportunity as ‘... a situation in which a person can create a new means-end framework for recombining resources that the entrepreneur believes will yield a profit’. This definition highlights two key aspects, namely an entrepreneurial event taking place in the environment by using resources and individual at the back of it who steers it through creation,

recombination and their belief system. The word belief has a special significance as ultimately all opportunities thought to be profitable may not turn out to be profitable and secondly there are opportunities that are not pursued with a pure profit motive.

5.1.2: Opportunity Recognition

- **How to Recognize an Opportunity?** Opportunity recognition is of central importance to entrepreneurship (Baron 2007). The decision to found a new venture often arises from a person's belief that they have recognized an opportunity with profit potential, suggesting that variance in the tendency of people to start business can be explained by the difference between them in their tendency to recognize entrepreneurial opportunities (Gaglio and Katz 2001). Opportunity recognition was perhaps best defined by Christensen, Madsen and Petersenas (1989), 'perceiving a possibility for new profit through (1) the founding and formation of a new venture or (2) the significant improvement of an existing venture'. From this opportunity recognition can be defined broadly as an activity that can occur both prior to establishment of a firm and after founding it (throughout the life of the firm and throughout the life of the entrepreneur) (Singh, Hills and Lumpkin 1999).

A simple way to find prima facie whether an idea that one has would be an opportunity lies in answering some of the following fundamental questions:

- Does your business idea respond to someone's pain, discomfort, displeasure, anxiety and so on?
- Do you find a large market for your idea as could be assessed from having a large number of people looking forward to relief from the aforementioned pains and discomfort?
- Do these people from the assessed target market consisting of individuals, companies or government have adequate money to pay for relieving themselves from their pain, anxiety and discomfort?
- Do they need your product or service immediately or can their need be postponed?
- Does your idea have something unique in it so that it can avoid competition?

Answering these questions scientifically and backed up by facts and figures help in opportunity recognition, which passes through the idea stage, concept stage, product/service development stage, test marketing stage and the product/service launch

stage. The real test of an idea lies in the market testing stage that could be a litmus test for the success or failure of a venture.

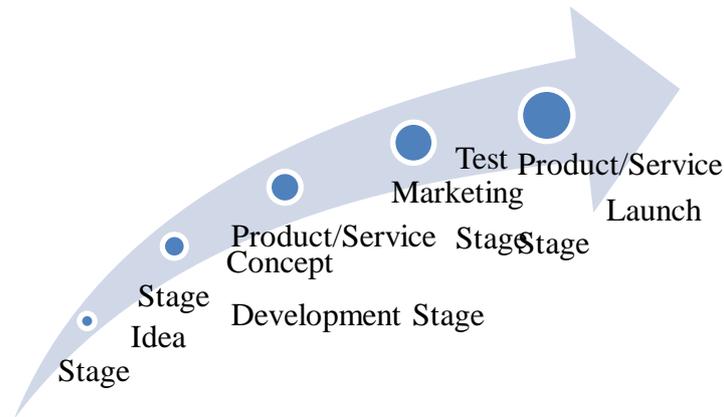


Figure 5.2: Stages Involved in Opportunity Recognition

Opportunity recognition can take place both prior to launching a venture and after launching throughout the life of a venture and throughout the life of an entrepreneur. A business opportunity has two vital components, namely, an ‘idea’ and an ‘entrepreneurial opportunity’, which have potential for generating profit in the future. Therefore, it is necessary to understand that an idea per se does not necessarily lead to an entrepreneurial opportunity, although it is a basic prerequisite and always at the heart of an opportunity

5.2: Steps in Tapping Opportunities

The greatest challenge that an entrepreneur faces is to identify the idea that can be said to be an opportunity to be tapped that can ensure commercial success. It requires a deep insight on the part of an entrepreneur to take concrete steps to see to it that an opportunity is seized successfully at the right time and right place.

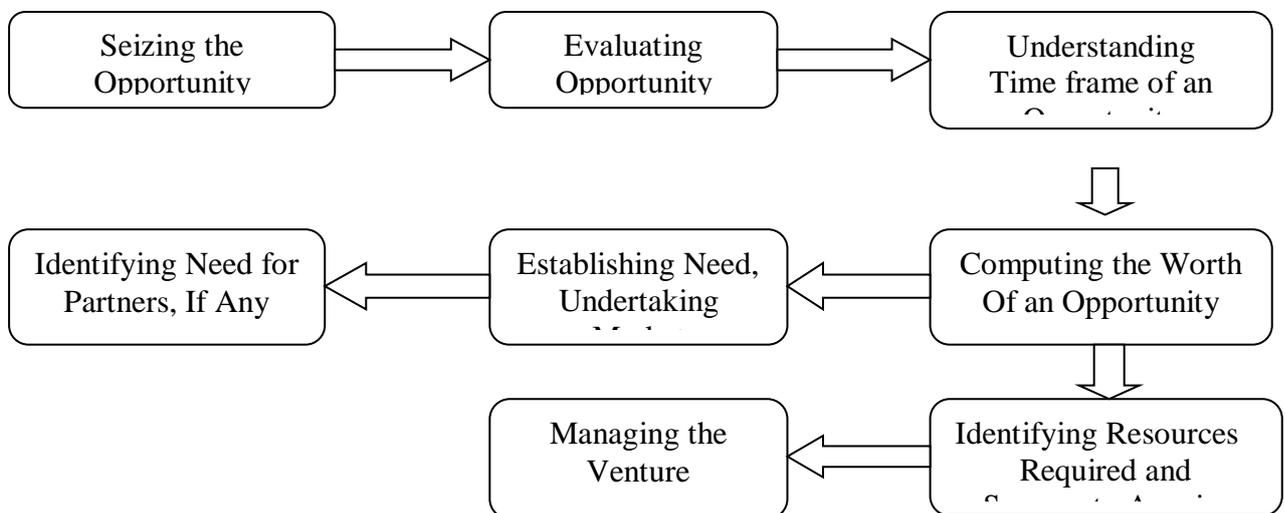


Figure 5.3: Steps Involved in Tapping an Opportunity

5.2.1: 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.

5.2.2: 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.

5.2.3: 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.

5.2.4: Computing the Worth of an Opportunity: 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. The notion of opportunity cost plays a crucial part in ensuring that scarce resources are used efficiently. 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.

5.2.5: Establishing Need through Preliminary Market Research: 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.

5.3. Trend Spotting

Many successful businesses were started by entrepreneurs with an ability to see a trend before everyone else. They were able to take their insight and capitalize on it in a new and creative way. Businesses from Uber, Ola, Airbnb and HomeAway are just some of the most recent examples of entrepreneurs benefiting from emerging trends. But just because it's

been done before doesn't mean it is easy to see trends first and find ways to capitalize on them.

Smart entrepreneurs are always looking for an edge. They want to know how they can identify trends and how they can use that skill to build and grow a business. Fortunately, there are steps you can take develop this skill yourself. Here are five keys to spotting trends and capitalizing on them before your competition does.

5.3.1 Anticipate change: Assume that change is coming and look for it. Change can be either social -- as in the rise of socially responsible business -- or technological, as exemplified by the growth of mobile commerce. Sometimes change can be both. Social media is a great example of that.

Don't forget the cyclical, up-and-down, back-and-forth nature of business while you are looking. Change doesn't have to be permanent to provide a viable opportunity for business creation and growth. When the real estate crisis hit in 2008, construction activity shrank, and many people were forced to make do with what they had. But trend-spotting entrepreneurs were able to adjust their plans depending on the market. For example, savvy interior designers marketed their services to those who wanted something new but couldn't find or afford a new home.

5.3.2 See it coming: The basic tools of the trend tracker are seeing, hearing, smell, taste and touch. In other words, every sense that can be used to get information about the world should be employed in looking for upcoming changes. Start by reading and watching everything you can. That should include general interest news outlets, trade publications, blogs, government reports and casual conversations overheard in elevators. Be especially alert for problems people are talking about.

Consider using trend-tracking tools like Google Trends, Topsy and Trendhunter to help you zero-in on trends that are worth investigating further. You won't be the only entrepreneur looking for business ideas on these platforms, but you can use them to dig deeper to validate hunches.

5.3.3 Distinguish between short-lived fads and long-term trends: Strive to identify big changes that create lasting problems that lots of customers will be happy to pay to solve. The idea is to wind up with a business model in which revenues are much

larger than costs for a long period, not one that limps by on slender profit margins before competitors take even that away.

To filter out fads, talk to the potential buyers of the solution to the problem. The more frustrated they are, the more likely they are to pay for a solution. In extreme cases, potential customers may be willing to fund the development of solutions. Also talk to experts. While they may not be able to write checks, they can provide insights and point to possible solutions that customers could not even imagine.

5.3.4 **Make sure your solutions are realistic:** Online retailer that aims to beat Amazon at its own game is unlikely to show up on top of any fast-growing startup lists very soon. Make sure the solution you envision is one you can realistically provide with features and costs that will compare favorably to established alternatives. Again, it's vital to talk to potential customers. Don't just brainstorm in-house. What you can do conveniently and inexpensively may be of little value to customers. The sweet spot for a trend-exploiting startup is at the intersection of business capability and customer need.

5.3.5 **Create a competitive advantage:** To get the biggest benefit, be the first mover. It is rare for any single entrepreneur to be the only one who sees an opportunity. Most will hesitate and not move at all. Many others will not move swiftly enough. Lasting competitive advantage usually goes to the first entrant to stake a market out and capture customer loyalty. Those who come later usually have to settle for slimmer profits and more competition.

Being first is not enough, of course. Business history is littered with well-financed startups directed by well-regarded leaders who committed too much, too early and in the wrong place. So test before committing. Again, look for revenues that overwhelm costs and customers who are overjoyed.

For every trend that supports a future startup star, any number go ignored, leaving potential customers searching for solutions and opportunities for established companies to fill their needs. But it only takes timely identification of one trend to get a startup in flight, and these techniques can point you to the one you need.

5.4 Creative Process

Ideation (**creative process**) Ideation is the **creative process** of **generating**, developing, and communicating new **ideas**, where an **idea** is understood as a basic element of thought that can be either visual concrete, or abstract.

Stages in Creativity

According to Schumpeter: "Entrepreneurs need ideas to pursue but ideas hardly materialise accidentally." Ideas normally pass through a long evolutionary process. In other words, ideas evolve through a creative process whereby a person with imagination germinates ideas, nurtures them and develops them successfully. There are five stage of the creative process: (a) idea germination, (b) preparation, (c) incubation, (d) illumination and (e) verification. It should be noted that these stages are different but interrelated. In fact, in each stage a creative individual behaves differently to move an idea from the initial stage of germination to the last stage, i.e., verification.

5.4.1. Idea Germination. The germination stage is the sowing stage of the process. History reveals that most creative ideas can be traced to an individual's interest in or curiosity about a specific problem or area of enquiry.

5.4.2. Preparation. Once a seed of curiosity has taken the shape of a focused idea, the creative person will make a thorough search for appropriate answers. If it is a problem that has to be solved, he would begin by seeking information about the problem and by looking at how others have tried to solve the same problem in the past. If it is an idea for a new product or service there is need to carry out appropriate market research. While scientists will carry out laboratory experiments, designers will start engineering new product ideas and marketers will study consumer buying habits. An individual with an idea will thereafter think about it and concentrate his energies on rational extensions of the idea and how this can be converted into a saleable product or service.

5.4.3. Incubation. Creative people and people with vision often concentrate intensely on an idea, but, in most cases, they simply allow ideas time to grow without intentional effort. Most ideas evolve in the minds of people with imagination and foresight while they go about other activities. The idea once sown and given substance through preparation is put on back-burner. This means that the subconscious mind is given enough time to assimilate information collected from diverse sources.

Incubation is a stage of mulling it over while the subconscious intellect controls the whole creative process. This is, no doubt, a crucial aspect of creativity because when imaginative

people consciously focus on a problem, they behave rationally in their search for systematic solutions. In this context, one may refer to the art of synectics which means a joining together of different and often unrelated ideas. This means that when a person has consciously worked to resolve a problem without success, allowing it to incubate in the subconscious mind will often lead to a resolution.

5.4.4. Illumination. Illumination occurs when a certain idea resurfaces as a realistic creation. Most creative people normally pass through numerous cycles of preparation and incubation, searching for full meaning of the idea. When a cycle of creative behavior fails to result in a catalytic event, the cycle is repeated until the idea takes shape or disappears. This stage is most crucial for entrepreneurs because ideas by themselves carry little practical living in a world of illusion from creative people who find a way to creative value.

5.4.5. Verification. An idea illuminated in the mind of an individual still has little meaning until verified as realistic and useful. The significance of entrepreneurial effort lies in the fact that it is essential to translate an illuminated idea into a verified, realistic and useful application. In fact, verification refers to the development stage of refining knowledge into application. During this stage, many ideas will be rejected as they do not appear to be fruit-bearing or having practical relevance. It is often found that a good idea has already been developed or the eager entrepreneur finds that competitors already exist in the market. Inventors often face such a situation when they seek patent protection only to discover similar inventions already registered.

5.5 Innovations and Inventions

Innovation implies doing new things or doing things that are already being done in new ways.

It may occur in the following forms:

- (i) Introducing a new manufacturing process that has not yet been tested and commercially exploited.
- (ii) Introduction of a new product with which the consumers are not familiar or introducing a new quality in an existing product.
- (iii) Locating a new source of raw material or semi-finished product that was not exploited earlier.
- (iv) Opening a new market, hitherto unexploited, where the company products were not sold earlier.
- (v) Developing a new combination of means of production.

Schumpeter has made a distinction between ‘an innovator’ and ‘an inventor’. An inventor discovers new methods and new materials. On the other hand, an innovator is one who utilises or applies inventions and discoveries to produce newer and better quality goods that give greater satisfaction to tin- consumers and higher profits to the entrepreneur. An inventor produces ideas and an innovator implements them for economic gain. An inventor adds to the knowledge of the society while an innovator adds to their satisfaction by means of newer and better products and services. It is an innovator who commercially exploits an invention.

5.5.1. INVENTION VS. INNOVATION: THE DIFFERENCE

In its purest sense, “invention“ can be defined as the creation of a product or introduction of a process for the first time. “Innovation,” on the other hand, occurs if someone improves on or makes a significant contribution to an existing product, process or service.

Consider the microprocessor. Someone invented the microprocessor. But by itself, the microprocessor was nothing more than another piece on the circuit board. It’s what was done with that piece — the hundreds of thousands of products, processes and services that evolved from the invention of the microprocessor — that required innovation.

5.5.2. STEVE JOBS: THE POSTER BOY OF INNOVATION

If ever there were a poster child for innovation it would be former Apple CEO Steve Jobs. And when people talk about innovation, Jobs’ iPod is cited as an example of innovation at its best.

But let’s take a step back for a minute. The iPod wasn’t the first portable music device (Sony popularized the “music anywhere, anytime” concept 22 years earlier with the Walkman); the iPod wasn’t the first device that put hundreds of songs in your pocket (dozens of manufacturers had MP3 devices on the market when the iPod was released in 2001); and Apple was actually late to the party when it came to providing an online music-sharing platform. (Napster, Grokster and Kazaa all preceded iTunes.) So, given those sobering facts, is the iPod’s distinction as a defining example of innovation warranted? Absolutely.

What made the iPod and the music ecosystem it engendered innovative wasn’t that it was the first portable music device. It wasn’t that it was the first MP3 player. And it wasn’t that it was the first company to make thousands of songs immediately available to millions of users. What made Apple innovative was that it combined all of these elements — design, ergonomics and ease of use — in a single device, and then tied it directly into a platform that

effortlessly kept that device updated with music .Apple invented nothing. Its innovation was creating an easy-to-use ecosystem that unified music discovery, delivery and device. And, in the process, they revolutionized the music industry.

5.6. Protection of intellectual Property Rights

Intellectual Property (IP) has been traditionally categorized into Industrial **property** and Copyright. The term Industrial **Property** includes patents, trademarks, industrial designs, and geographic indications of source. Copyright **protection** is granted to **protect** literary, artistic and musical works.

There are a number of international organizations and agencies that promote the use and protection of intellectual property:

1. International Trademark Association (INTA)
2. World Intellectual Property Organization (WIPO)
3. Paris Convention
4. Berne Convention (for the protection of literary and artistic works)
5. Madrid Protocol
6. North American Free Trade Agreement (NAFTA)
7. General Agreement on Tariffs and Trade (GATT)

5.6.1. International Trademark Association (INTA): The International Trademark Association (INTA) is a worldwide not-for-profit advocacy association of trademark owners and professionals dedicated to supporting trademarks and intellectual property in order to protect consumers and to promote fair and effective global commerce.

2. INTA's members are more than 6,500 organizations from 190 countries. The Association's member organizations represent some 30,000 trademark professionals and include brand owners from major corporations as well as small and medium-sized enterprises, law firms and nonprofits. There are also government agency members as well as individual professor and student members.
3. INTA undertakes advocacy work throughout the world to advance trademarks and offers educational programs and informational and legal resources of global interest.
4. **History:** INTA, originally known as the United States Trademark Association (USTA), was established in November 1878 in New York City by 17 merchants and

manufacturers to protect and promote the rights of trademark owners, secure useful legislation.

5. In 1908, the Association became a business corporation under the Business Corporation Law of the State of New York, and it was given broad powers to act for the protection of trademarks in the United States and around the world. In 1926, the USTA became a not-for-profit member organization. In 1993, the Association changed its name to the International Trademark Association.
6. **Activities:** INTA provides services to its members and the public in three main areas: Global Trademark Resources, Programs & Events, and Policy & Advocacy.

5.6.2. World Intellectual Property Organization (WIPO):

World Intellectual Property Organization (WIPO), international organization designed to promote the worldwide protection of both industrial property (inventions, trademarks, and designs) and copyrighted materials (literary, musical, photographic, and other artistic works). The organization, established by a convention signed in Stockholm in 1967, began operations in 1970 and became a specialized agency of the United Nations in December 1974. It is headquartered in Geneva, Switzerland. WIPO currently has 188 member states, administers 26 international treaties.

Organization (WIPO), international organization designed to **History:** The origins of WIPO can be traced to 1883, when 14 countries signed the Paris Convention for the Protection of Industrial Property, which created intellectual-property protections for inventions, trademarks, and industrial designs. The convention helped inventors gain protection for their works outside their native countries. In 1886 the Berne Convention required member countries to provide automatic protection for works that were produced in other member countries. The two organizations, which had established separate secretariats to enforce their respective treaties, merged in 1893 to become the United International Bureau for the Protection of Intellectual Property (BIRPI), which was based in Bern, Switzerland. In 1960 BIRPI moved its headquarters to Geneva.

Purpose: The purposes of WIPO are twofold: (1) to promote the protection of intellectual property throughout the world through cooperation among states and, where appropriate, in

collaboration with any other international organization; and (2) to ensure administrative cooperation among the unions.

5.6.3 Agreement between the WIPO and WTO: To facilitate the implementation of the TRIPS Agreement, the Council for TRIPS concluded with WIPO an agreement on cooperation between WIPO and the WTO, which came into force on 1 January 1996. As explicitly set out in the Preamble to the TRIPS Agreement, the WTO desires a mutually supportive relationship with WIPO. The Agreement provides cooperation in three main areas, namely notification of, access to and translation of national laws and regulations, implementation of procedures for the protection of national emblems, and technical cooperation.

5.6.4. Paris Convention: The Paris Convention for the Protection of Industrial Property, signed in Paris, France, on 20 March 1883, was one of the first intellectual property treaties. It established a Union for the protection of industrial property. The Convention is currently still in force. The Paris convention is based on the principle of reciprocity, so that foreign trademark and patent owners may obtain in a member country the same legal protection for their marks and patents as can citizens of those countries. It is administered by WIPO. After a diplomatic conference in Paris in 1880, the Convention was signed in 1883 by 11 countries: Belgium, Brazil, France, Italy, the Netherlands, and Portugal are six of them. As of September 2014, the Convention has 176 contracting member countries, which makes it one of the most widely adopted treaties worldwide.

5.6.5. Berne Convention:

The Berne Convention for the Protection of Literary and Artistic Works, usually known as the Berne Convention, is an international agreement governing copyright, which was first accepted in Berne, Switzerland, in 1886. It has 171 contracting parties. The United States became a part to the Berne convention in 1989. It is administered by WIPO. And is based on the percept that each member nation must treat nationals of other member countries like its own nationals for purpose of copyright.

5.6.6. Madrid Protocol:

The Madrid Protocol (Protocol), an international treaty, was adopted in 1989 in order to remove the difficulties that were deterring some countries from acceding to the Madrid Agreement (Agreement), the 1891 treaty that established the system for the

international registration of trademarks. The Protocol, which has been in force since April 1, 1996, has become a convenient and economical means of securing trademark registration in member countries in Asia, Africa, Europe, and the Middle East, the Pacific Rim and the Western Hemisphere and the like. Total Contracting Parties are 97.

5.7 : Feasibility analysis :

The next step after recognition of an opportunity is doing feasibility analysis. Many hasty entrepreneurs take a business idea and race ahead with the development of a product or service without conducting feasibility analysis and waste their scarce resources when negative feedback from customers are received.

Feasibility analysis is the process of determining whether a business idea is viable or not. It is a preliminary evaluation of a business idea., conducted for the purpose of determining whether the idea is worth pursuing. The proper time to conduct a feasibility analysis is early in thinking about the prospects for a new business idea. It follows opportunity recognition but comes before the development of a business plan / project report.

The following are the four key areas in feasibility analysis:

1. Product / service feasibility
2. Industry / market feasibility
3. Organizational feasibility
4. Financial feasibility.

Before undertaking a feasibility analysis, a **concept statement** should be developed. A concept Statement is a preliminary description of a business and includes the following:

- a) **Product:** This section details the features of the product or service and may include a sketch of it as well. A computer generated simulation of the functionality of the product or service is also helpful.
- b) **Target Market:** This section lists the business or people who will buy the product or service.
- c) **The benefits of the product or service:** How the product or service adds value and/or solve a problem.
- d) **A description of how the product will be positioned relative to similar ones in the market:**

e) **A description of how the product or service will be sold and distributed:**

5.7.1 Product / Service feasibility Analysis: It is an assessment of the overall appeal of the product or service being proposed. It requires two primary tests viz., (1) Concept testing and (2) usability Testing.

Concept Testing: This requires showing a representation of the product or service to potential users to judge customers reactions, interest, desirability , and purchase intent. There are three main purposes for Concept testing as given below;

1. It helps in validating the underlying premises of a product or service idea that an entrepreneur thinks is essential . To test his idea, an entrepreneur must ask prospective customers and industry experts what they think about his idea.
2. It helps in further refining the idea based on feedbacks from customers creates confidence in Entrepreneur that the product / service satisfies a defined need of prospective customers.
3. It helps in estimating potential market share the product / service might command. The number of people willing to buy will give an indication of the degree of consumer interest in the firms' product / service.

Usability Testing: a concept test is usually followed by the development of a prototype or model of the product. The model of the product is refined and refined again until the customer and designer agree on the final design. Normally, a basic prototype is developed and is used to know the customer interest and to conduct usability testing.

Usability testing requires that users of a product perform certain tasks to measure the ease of the product's use and to know the user's perception of the experience. Conducting usability test is a good investment of an entrepreneur's resources. There are many types of usability tests. Some entrepreneurs with limited budget may develop a basic prototype and ask friends and colleagues to use the product, and get feedback. Other companies use elaborate usability tests. Usability testing is particularly important for software and web site design. According to one survey, in USA 36 percent of all web site owners conduct usability tests.

5.7.2 Industry / market Feasibility Analysis: Industry / market feasibility analysis is an assessment of the overall appeal of the market for the product or service being proposed. There are three primary issues to consider in this analysis: (1) industry attractiveness (2) market timeliness and (3) the identification of a niche market.

Industry attractiveness: Industries vary in terms of their growth rates.

A primary determinant of a new venture feasibility is attractiveness of the industry it chooses. Most attractive industries are characterized by the following features:

- a) Being large and growing
- b) Being important to the customer: Customers “Must have” rather than “Would like to have” these products.
- c) Being fairly young rather than older or more matured.
- d) Having high rather than low operating margins.
- e) Not being crowded: A crowded market, with lots of competent will have fierce price competition and low margins.

The entrepreneur should also conduct a thorough research about the industry to assess the overall attractiveness of the industry he wants to enter

Market timeliness: The second consideration is the timeliness of the introduction of a particular product or service. This depends on whether the product is a new product or an improvement over the existing product. For new products there will be “first mover advantage” to move into a new market.

The identification of a niche market: A niche market is a place within a larger market segment that represents a narrower group of customers with similar interest. Most successful entrepreneurial firms do not start by selling to broad markets. Instead most start by identifying an emerging or underserved niche market within a larger market.

5.7.3 Organizational Feasibility Analysis: It is conducted to determine whether a proposed business has sufficient management expertise, organizational competence and resources to successfully launch the business.

- a) **Management Ability & Organisational Competence:** The entrepreneur must make a self-assessment of his ability to manage the new business. Managers with extensive professional experience and social networks have an advantage.

- b) **Resource Competence:** The entrepreneur has to determine whether the potential new venture has sufficient resources to move forward and to successfully develop a new product/service. Since financial feasibility is separately considered, non-financial resources such as availability of office space, quality of labour pool, possibility of obtaining intellectual property protection are important factors to be considered here.

5.7.4 Financial Feasibility Analysis: It is the final stage of a comprehensive feasibility analysis. At this stage a quick financial assessment is usually sufficiently. More rigorous assessment is not requirement at this stage. The most important issues to consider at this stage are: Capital Requirements, Financial Rate of Return and Overall Attractiveness of Investment. If the proposed new venture move beyond the feasibility stage, it will need to prepare projected financial statements to show the firm's financial viability for the initial first, second or third years of existence.

5.8: summary

There exists a big difference between having a great idea and converting it into a great opportunity. At times in over excitement to plunge into an entrepreneurial venture, an entrepreneur may get confused between the two and miss a subtle difference between a great idea and a great opportunity. Entrepreneurs must learn the art of identifying a particular idea from amongst many ideas that could be said to be genuine opportunity. As such, true opportunities at a particular point of time are a great treasure and are highly valuable.

The entrepreneur may have an opportunity that may appear to be an excellent one, but what matters the most is whether it can be converted into a profitable opportunity, which needs to be thoroughly explored and doubly ensured. The fundamental difference between an idea and an opportunity lies in whether the entrepreneur can turn it into a product/service that would attract customers' attention and bring profits to the entrepreneur. Therefore, before plunging into risk of investing money on an idea, the entrepreneur must analyse critically the various facts of an idea to find out whether it would a worthwhile opportunity to convert it into a reality.

Trend spotting, technique for opportunity recognition is the ability to see a trend before everyone else. Uber, Ola, Airbnb and HomeAway are examples of most recent businesses based on trend spotting.

Another technique of opportunity recognition is creative process or ideation. Creative process or ideation is the process of generating, developing and communicating new ideas. The five stages in the creative process are: Idea Generation, Preparation, Incubation, Illumination and Verification.

Shumpeter distinguished between invention and innovation. Invention is creation/discovery of something new, whereas innovation is converting that into a viable business proposition. According to him, an inventor discovers the new methods and new materials whereas; an innovator utilizes or applies inventions and discoveries to produce new and better productions.

Intellectual Property (IP) has been traditionally categorized into Industrial property and Copyright. The term Industrial Property includes patents, trademarks, industrial designs, and geographic indications of source. Copyright protection is granted to protect literary, artistic and musical works

Feasibility analysis is the process of determining whether a business idea is viable. It is a preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business idea. It follows opportunity recognition but comes before the development of a business plan.

The feasibility analysis should be preceded by the development of a concept statement. A concept statement is a preliminary description of a business. The concept statement should include a description of the product or service being offered, the intended target market, the benefits of the product or service, and description of how the product or service will be sold and distributed.

Product/service feasibility analysis is an assessment of the overall appeal of the product or service being proposed. Concept testing and usability testing are the two primary issues that a proposed business should consider in this area.

There are three primary purposes for concept testing: to validate the underlying premises behind a product or service idea, to help develop an idea rather than just test it, and to estimate the potential market share the potential product or service might command.

Usability testing is a method by which users of a product or service are asked to perform certain tasks in order to measure the product's ease of use and the user's perception of and satisfaction with the experience.

Industry/market feasibility analysis is an assessment of the overall appeal of the market for the product or service being proposed. For feasibility analysis, there are three primary issues that a proposed business should consider: industry attractiveness, market timeliness and the identification of a niche market.

Organizational feasibility analysis is conducted to determine whether a proposed business has sufficient management expertise, organisatioin competence, and resources to successfully launch its business. There are two primary issues to consider in this area: management prowess and resource sufficiency

Financial feasibility analysis is a preliminary financial analysis of whether a business idea is prudent. The most important issue to consider are capital requirements, financial rate or return and overall attractiveness of the investment.

5.9: Activity

Reason

1. The following are some hypothetical statements pertaining to customer needs. Identify the solutions to fulfill these needs by recognizing an opportunity behind each situation.
 - I. A going out of business signboard placed in a local store.
 - II. 10 new working couples with young children in the age group of three to eight years have just shifted to your locality.
 - III. 4,000 students in a residential college not liking their mess food.
 - IV. S campus wherein faculty members are not finding gardeners to maintain their garden.
2. Small and medium industries catering to local demand and are not able to afford advertising and sales promotion. What specific opportunity can be recognized to satisfy their need?

5.10: Self Assessment Questions

Multiple Choice Questions with Answers

1. According to Shane (2003), an entrepreneurial opportunity is described as:

- A) Any business idea that comes to mind
- B) A situation in which a person can create a new means-end framework for recombining resources that the entrepreneur believes will yield a profit
- C) An invention that has received patent protection
- D) A market gap identified through market research

****Answer: B) A situation in which a person can create a new means-end framework for recombining resources that the entrepreneur believes will yield a profit****

****2. Which of the following is NOT one of the five keys to trend spotting discussed in the lesson?*****

- A) Anticipate change
- B) See it coming
- C) Invest heavily in marketing
- D) Distinguish between short-lived fads and long-term trends

****Answer: C) Invest heavily in marketing****

****3. The five stages of the creative process in correct sequence are:*****

- A) Preparation, Idea Germination, Incubation, Illumination, Verification
- B) Idea Germination, Preparation, Incubation, Illumination, Verification
- C) Illumination, Preparation, Incubation, Idea Germination, Verification
- D) Verification, Incubation, Illumination, Preparation, Idea Germination

****Answer: B) Idea Germination, Preparation, Incubation, Illumination, Verification****

****4. Which type of feasibility analysis assesses the overall appeal of the market for the product or service being proposed, considering industry attractiveness, market timeliness, and identification of a niche market?*****

- A) Product/service feasibility analysis
- B) Organizational feasibility analysis
- C) Industry/market feasibility analysis
- D) Financial feasibility analysis

****Answer: C) Industry/market feasibility analysis****

****5. The Madrid Protocol is an international treaty related to:*****

- A) Patent protection
- B) Copyright protection
- C) International registration of trademarks
- D) Protection of industrial designs

****Answer: C) International registration of trademarks****

Short Answer Questions

1. What is the fundamental difference between an idea and an opportunity? Explain with examples.
2. What are the five fundamental questions that help determine whether an idea constitutes a genuine business opportunity?

3. Explain the five keys to trend spotting and how entrepreneurs can use them to identify opportunities.
4. Describe the five stages of the creative process as outlined in the lesson.
5. What are the four components of feasibility analysis? Briefly explain what each component assesses.

Case Study

From Personal Frustration to Global Innovation: The Story of Muruganantham and Low-Cost Sanitary Napkins

Arunachalam Muruganantham grew up in Coimbatore, Tamil Nadu, with little material wealth but abundant practical wisdom and curiosity. His entrepreneurial journey began not with a grand business idea but with a simple, deeply personal observation. Shortly after his marriage, he noticed his wife gathering old, dirty rags and newspapers to use during her menstrual period. When he questioned her about it, she explained that commercial sanitary napkins were too expensive and that women in their community could not afford them. This observation sparked his opportunity recognition process. Muruganantham asked himself the five fundamental questions: Did this business idea respond to someone's pain? Absolutely—millions of women suffered from unhygienic practices and health risks. Was there a large market? Yes—hundreds of millions of women across India faced the same affordability challenge. Did they have adequate money to pay? They needed an affordable solution, meaning costs had to be dramatically reduced. Did they need it immediately? The need was urgent and ongoing. Did the idea have uniqueness? Creating low-cost manufacturing technology would be entirely innovative. Recognizing this opportunity, Muruganantham embarked on a journey of trend spotting. He anticipated change—growing awareness about women's health and hygiene. He saw it coming—increasing education and discourse about menstrual health. He distinguished between fads and long-term trends—this was a fundamental health need, not a passing fashion. He ensured his solution was realistic—creating simple, low-cost machines that could be operated in villages. He created competitive advantage by being the first to develop appropriate technology for local manufacturing. The creative process unfolded over several years. **Idea germination** occurred when he observed his wife's situation. **Preparation** involved extensive research—he traveled, talked to women (despite social taboos), studied napkin composition, and even used his own money to purchase samples for analysis. **Incubation** took years of experimentation, during which he faced ridicule from his community and even temporary separation from his family. **Illumination** came when he finally understood the machine mechanics and developed a simple, decentralized manufacturing process. **Verification** occurred when he tested his machines in villages and women confirmed they could produce affordable, high-quality napkins. Feasibility analysis followed multiple dimensions. **Product/service feasibility** was established through concept testing with women and usability testing of prototypes. **Industry/market feasibility** revealed a massive underserved market with high social impact potential. **Organizational feasibility** emerged as he developed a sustainable business model where women entrepreneurs operate the machines. **Financial feasibility** demonstrated that napkins could be sold at a fraction of commercial prices while sustaining the business. Today, Muruganantham's company, Jayashree Industries, has installed machines across India and received interest from other parts of Asia and Africa. His story illustrates that genuine opportunities lie hidden in everyday observations, and systematic opportunity recognition combined with creative persistence can transform personal frustration into social innovation and commercial success.

Case Study Questions

1. Apply the five fundamental questions for opportunity recognition to Muruganantham's idea. How did answering these questions help validate the business opportunity?
2. Trace Muruganantham's journey through the five stages of the creative process. What specific actions characterized each stage?
3. How did Muruganantham apply the five keys to trend spotting in developing his business? What competitive advantage did he create through being a first mover?

5.11: Key Terms

1. Opportunity Recognition

The process of identifying a genuine business opportunity from among many ideas, defined as perceiving a possibility for new profit through the founding and formation of a new venture or the significant improvement of an existing venture. It involves answering fundamental questions about customer pain points, market size, ability to pay, urgency, and uniqueness.

2. Trend Spotting

The ability to identify emerging trends before competitors, enabling entrepreneurs to capitalize on changes in social, technological, and economic environments. It requires anticipating change, using all senses to gather information, distinguishing short-lived fads from long-term trends, ensuring realistic solutions, and creating competitive advantage through first-mover advantage.

3. Feasibility Analysis

The process of determining whether a business idea is viable, conducted as a preliminary evaluation early in thinking about a new business idea, following opportunity recognition but before developing a business plan. It comprises four key areas: product/service feasibility, industry/market feasibility, organizational feasibility, and financial feasibility.

4. Concept Statement

A preliminary description of a business developed before undertaking feasibility analysis, including details about the product or service, target market, benefits, positioning relative to competitors, and how the product or service will be sold and distributed.

5. Prototype

A model or representation of a product developed after concept testing, which is refined repeatedly until the customer and designer agree on the final design. A basic prototype is used to gauge customer interest and conduct usability testing to measure ease of use and user satisfaction.

6. Niche Market

A place within a larger market segment that represents a narrower group of customers with similar interests. Most successful entrepreneurial firms start by identifying an emerging or underserved niche market within a larger market rather than selling to broad markets initially.

7. Intellectual Property Rights (IPR)

Legal rights that protect the use of information and ideas of commercial value, traditionally categorized into industrial property (patents, trademarks, industrial designs, geographic indications) and copyright (literary, artistic, and musical works). International organizations promoting IPR include INTA, WIPO, Paris Convention, Berne Convention, and Madrid Protocol.

5.12: Further Readings / Reference books

Five Printed/Published Textbooks

1. Kumar, Arya (2012). *Entrepreneurship*. Pearson, Delhi. (Chapter on Opportunity Recognition and Feasibility Analysis)
2. Murthy, C. S. V. (2010). *Entrepreneurship and Good Governance*. Himalaya Publishing House, New Delhi. (Chapter on Opportunity Identification)
3. Bedi, Kanishka (2009). *Management and Entrepreneurship*. Oxford University Press, New Delhi. (Chapter on Project Identification and Selection)
4. Kuratko, Donald F., & Hodgetts, Richard M. (2007). *Entrepreneurship in the New Millennium*. Cengage Learning. (Chapter on Opportunity Recognition and Feasibility Analysis)
5. Morris, Michael H. (2008). *Entrepreneurship and Innovation in Corporations*. Cengage Learning. (Chapter on Opportunity Recognition)

LESSON - 6

PREPARATION OF PROJECT REPORT

Learning Objectives:

- Understand the concept of a project as a temporary endeavor undertaken to create a unique product or service, involving a series of activities and tasks that consume resources
- Define a project report and recognize its equivalence to a business plan in the Indian entrepreneurial context, including its role in securing financial assistance
- Identify the various parties interested in a project report including financial institutions, commercial bankers, investors, and government agencies

- Analyze the scope of a project report across economic, technical, financial, production, and managerial aspects
- Master the complete structure and contents of a project report including all essential sections from cover page to appendices
- Understand the formulation process of a project report through eight systematic steps
- Differentiate between a Preliminary Project Report (PPR) and a Detailed Project Report (DPR) and understand their respective purposes

Structure of the lesson:

- 6.1: Definition of a Project
- 6.2: Meaning of a Project Report
- 6.3: Parties interested in Project Report
- 6.4: Scope of a Project Report
- 6.5: Need and Significance of Report
- 6.6: Contents of Project Report
- 6.7: business plan format for micro and small enterprises
- 6.8: Formulation of Project Report
- 6.9: Preliminary Project Report
- 6.10: Summary
- 6.11: Key Terms
- 6.12: Self Assessment Questions
- 6.13: Further Readings / Reference books

Success stories of 5 Indian entrepreneurs who successfully started with almost nothing. These stories hopefully will inspire you through your startup journey and will keep you motivated.

1. Patricia Narayan (Winner of this year's 'FICCI Woman Entrepreneur of the Year' award is amazing)

She started her career 30 years ago as an entrepreneur, selling eateries from a mobile cart on the Marina beach amidst all odds — battling a failed marriage, coping with her husband, a multiple addict, and taking care of two kids. Today, she has overcome the hurdles and owns a chain of restaurants

“I started my business with just two people. Now, there are 200 people working for me in my restaurants. My lifestyle has changed too. From travelling in a cycle rickshaw, I moved to auto rickshaws and now I have my own car. From 50 paise a day, my revenue has gone up to Rs 2 lakh a day. The 'Ficci entrepreneur of the year' award is the culmination of all the hard work I have put in over the last 30 years. It came as a surprise as this is the first time I have received an award.

Advice to young entrepreneurs

“Do not ever compromise on quality. Never lose your self-confidence. Believe in yourself and the product you are making. Third, always stick to what you know. When you employ people, you should know what you ask them to do”.

2. Karsanbhai Patel - Man behind NIRMA

The 'Nirma' success story of how an Indian Entrepreneur took on the big MNCs and rewrote the rules of business. It was in 1969 that Dr. Karsanbhai Patel started Nirma and went on to create a whole new segment in the Indian domestic detergent market. During that time the domestic detergent market only had the premium segment and there were very few companies, mainly the MNCs, which were into this business. Karsanbhai Patel used to make detergent powder in the backyard of his house in Ahmedabad and then carry out door to door selling of his hand made product. He gave a money back guarantee with every pack that was sold. Karsanbhai Patel managed to offer his detergent powder for Rs. 3 per kg when the cheapest detergent at that time was Rs.13 per kg and so he was able to successfully target the middle and lower middle income segment.

Nirma became a huge success and all this was a result of Karsanbhai Patel's entrepreneurial skills. The best case of – Give your consumer what he wants, when he wants, where he wants and at the price he wants, selling will be done quite automatically. This is the marketing 'mantra' of Nirma. The company that was started in 1969 with just one man who used to deliver his product from one house to the other, today employs around 14 thousand people and has a turnover of more than \$ 500 million. In 2004 Nirma's annual sales were as high as 800000 tonnes. According to Forbes in 2005 Karsanbhai Patel's net worth was \$640 million and it's going to touch the \$1000 million mark soon.

3. Prem Ganapathy

The Dosawala Prem Ganapathy, was stranded at the bandra station, when the person accompanying him left him and ran away. Prem had no local acquaintances or knowledge of the language. Out of pity, a fellow Tamilian guided him to a temple and appealed worshipers to contribute money for his return ticket to Chennai. Prem refused to go back and decided to work in Mumbai and started cleaning utensils in a restaurant. He appealed to his owner, to let him become a waiter as he was class 10 pass. The owner refused, because of regional politics and Prem bided his time till a neighborhood dosa restaurant opened and offered him a job from a dishwasher to a tea boy.

Prem became a huge hit with the customers because of his excellent customer service, initiatives and relationship and brought business Rs. 1000 daily which was almost 3 times as compared to other tea boys. The life was good. A customer made him an offer. He was planning to open a tea shop in Vashi in Mumbai. He wanted Prem to be his 50 – 50 partner where the owner would invest the money while Prem would run the shop. The shop started doing brisk business when the owner became greedy. It hurt him to share 50 % of the profit with Prem and he threw Prem out replacing him with an employee.

Prem was made of a different material and he was never going to be defeated. He took a small loan from his uncle and with his brother, opened his own tea stall. Unfortunately the neighbourhood residents objected. He then started a hand cart but that also did not work out. He found a spot and set up a south Indian stall. He did not know a thing about dosas and idli but learnt by observation, trial and error. The dosa stall was a huge hit and flourished during the 5 years from 1992-1997. But why was the tiny dosa stall was so successful in spite of competition from ubiquitous eateries prevalent in Mumbai. According to Prem it was its hygiene, proper appearances of the waiters and fresh ingredients which stood out as a difference.

He saved a couple of lakhs of Rupees and instead of heading home he took the biggest risk of his life and opened a new shop near Vashi station and named it as Dosa Plaza. His Chinese plaza next to the Dosa Plaza flopped miserably and was shut down in 3 months. Undaunted, Prem realized some lessons from it. He applied those lessons in making Chinese cuisine in his dosas which worked very well. He got passionate and invented a variety of dosas with Chinese style like American Chopsuey, Schezwan Dosa, Paneer chilly, Spring roll dosa etc. The 108 types of Dosas in his menu gets him a lot of publicity. A chance encounter with a customer who was part of the team setting up a food court in a mall in New Bombay advised him to take a stall at the food court and again Prem was ready and willing to grow and expand. His vision was to grow by better offerings and better customer service. He also went to ad agencies to create the brand identity including the logo, brands, menu card, waiters dress etc.

He started getting a lot of offers for franchising and had to find out the meaning of franchising and its modus operandi. Dosa Plaza currently has 26 outlets and 5 of them are company owned. It has 150 employees and a turnover of 5 crore. All the branches are connected and networked and there are training managers and proper manuals to maintain standard and uniform product and services.

4. Ramesh Babu, the barber who owns a Rolls Royce

Ramesh Babu, the barber who became a millionaire, did exactly this when he was shaping his dazzling destiny. Stories of personal perseverance, the ones where heroes overcome severe obstacles and achieve dizzying heights of success, have been around since the beginning of time but they never get old. They inspire us and inflame our passions, making us believe we too can follow suit.

Ramesh Babu bought a Maruti Van with his meagre savings in 1994. By 2004, he had a fledgling car rental business with seven regular cars. In 2014 he has a fleet of 200 cars. What is even more extraordinary is the 75 luxury cars on the fleet- a range of Mercedes, BMW's, Audi's, five and ten seater luxury vans and, his ultimate pride, a Rolls Royce.

Building a successful business:

From 1994 onward I seriously got into the car rental business. The first company I rented it out to was Intel because that's where Nandini akka was working and she helped arrange it. Gradually, I started adding more cars to the fleet. Till 2004, I only had about five to six cars. I was focused on getting the saloon business off the ground, so this was not my priority. The business was not doing well as the competition at this level was intense. Everyone had small cars. I thought of getting into luxury cars because that is something that no one else was doing.

On Taking Risks:

When I was buying my first luxury car, in 2004, everyone told me that I was making a big mistake. Forty lakhs in 2004 for a car, even a luxury car, was a very big deal. I was extremely apprehensive, but simply had to take the chance. I told myself that I would sell off the car if worse came to worst. Fortunately for me, the risk paid off remarkably. No other car rental service had luxury cars of this stature. There were ones who had purchased second hand models and the conditions of those cars were far from pristine. I was the first person in Bangalore to invest in a brand new luxury car and it did very well.

5. Naina Lal Kidwai, 55, is presently the Group General Manager and Country Head of HSBC India.

Naina has a Bachelor's degree in Economics from Delhi university and an MBA from Harvard Business school. In fact, Kidwai was the first Indian woman to graduate from Harvard Business School. She started her career with ANZ Grindlays. Presently, she is also serving as a non-executive director on the board of Nestle SA. Kidwai is also global advisor at Harvard Business school. Indian government conferred Padma Shri award on Naina for her contributions in the field of Trade and Industry.

6.1: Definition of a Project

A project is a temporary endeavour undertaken to create a unique product or service (Project Management Institute, 2004,p.5). A project can be considered to be achievement of a specific objective, which involves a series of activities and tasks which consume resources (Munns & Bjeirmi, 1996).

In the context of entrepreneurship, a project is a business venture. Let us closely look at some of the keywords used in the above two definitions of a project.

- The term temporary endeavor indicates that the project would be over as soon as the unique product or service gets created (which the project endeavoured to create). In the case of entrepreneurship, the project is completed when the new venture gets started and sees the light of the day.
- The word unique signifies that tasks undertaken on a day-to-day routine basis cannot be considered as a project. There has to be some uniqueness in the tasks to constitute a project.
- The term specific objective is important here because a clearly spelt-out objective is imperative for a project, which the project term strives to achieve.
- The phrase series of activities and tasks implies that a project requires activities and tasks to be undertaken in a sequence as per their precedence requirements.

6.2: Meaning of Project Report

In the Indian contest, a project report for an entrepreneurial venture is same as the **business plan**. Many stage governments in India provide subsidies to the entrepreneurs in the preparation of project report. Some of these states are Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Kerala, Maharashtra, Meghalaya, Manipur, and Tripura. The subsidies offered vary from 100% to 50% with some ceiling on subsidies (Verma & Singh, 2002).

Soon after the identification of a project and its implementation, the project report is formulated after examining various relevant aspects. Usually, the entrepreneur gets a project report prepared before a project or investment is undertaken. That project report prepared before a project of investment is undertaken. That project report assesses the demand of the proposed product to be produced, works out the costs of investment as well as operational costs and thus estimates the expected profitability of the proposed investment. It is on this basis that not only the entrepreneur takes his decision on whether to proceed on the proposed project, but also financial backers, banks and state departments involved in the project base their decisions on the ways and the extent to which the help should be provided. If the entrepreneur has to go to 'the money market to raise some risk capital for his venture, the project report may serve as his main instrument in convincing the investors about the profitability of his venture.

6.3: Parties interested in Project Report

Financial institutions and commercial bankers are the interested parties in the project report which is prepared for direct submission to financial corporations, banks for getting loans. It does not contribute substantially to future operations.

The entrepreneur gets the report prepared by a consultant. As such, these parties providing term loans go for the report because it spells out how production should be organised to yield maximum results.

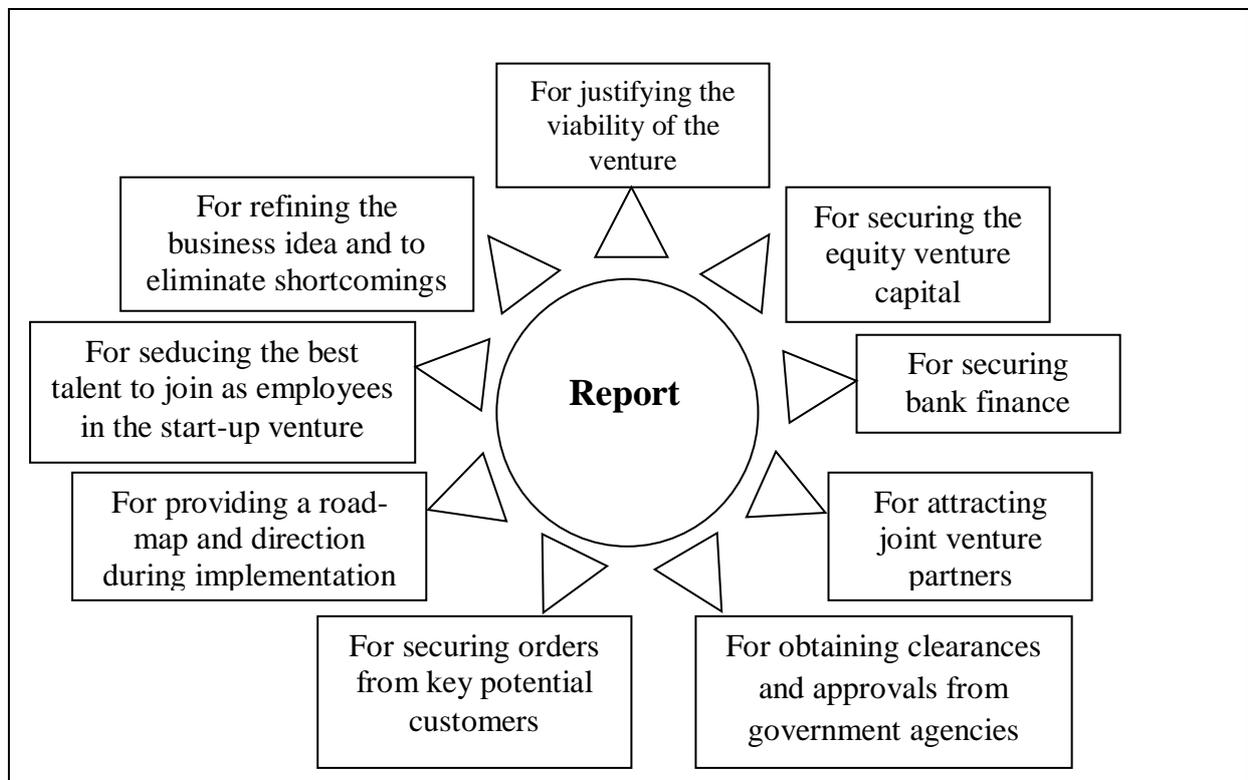
6.4: Scope of a Project Report

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 the product to be manufactured. Market analysis basically pertains to the following issues: (a) How big is the present market? (b) How much is it likely to grow? (c) How much of the future market the proposed project can capture after allowing a margin for future entrants? It provides an analysis of the economics of production.
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 persons to be put on the management of the job. If the entrepreneur will look after management, the report must emphasise as to how he is qualified to manage the venture.

6.5 : Need and Significance of Report

The following Figure enumerates the need and significance of the project report. Let us discuss these points



- **For refining the business idea and to eliminate shortcomings.** The project report is a means to put the business idea in black and white, to meticulously think-through the various intricacies, and to eliminate any shortcomings in the business plan.
- **For justifying the viability of the venture.** The project report serves as a powerful mechanism to justify the viability of the venture before the venture partners, family, friends and relative willing to invest as equity partners in the venture. It become a good reality-check before the process of convincing outsiders about the feasibility of project commences.
- **For securing the equity venture capital.** There are angel investors and silent partners who invariably require the business plan in the form of a project report before considering sanction of equity venture capital for the project.
- **For securing bank finance.** The debt portion of the funding is to be secured from the bank and financial institutions. The project report is a mandatory requirement for this purpose.

- **For attracting joint venture partners.** In some instances, some existing firms may be willing to partner with you to create a joint venture, for which they would require the project report to assess the “fit” between the firms, intellectual property protection, synergies which would be created, etc.
- **For obtaining clearances and approvals from governmental agencies.** In certain industries, government clearances are required and the project report becomes an essential document in such instances. For example, there are some environmental clearances required for chemical industries.
- **For securing orders from key potential customers.** The risk involved in a new business venture can be minimized up to a great extent if some potential key customers are willing to commit orders at the outset. It is easier said than done unless the customers are indeed convinced about the credibility and viability of the start-up venture. The project report serves as an excellent tool in this regard.
- **For providing a road-map and direction during implementation.** The project report becomes a major help during the project implementation stage to provide necessary information to one and all about exactly what the original plan of the project is. This is especially true for key employees and partners in the firm who join at a later stage when the project is already under implementation.
- **For securing the best talent to join as employees in the start-up venture.** The best of talent in the industry usually prefers to work for established firms and multinational corporations rather than for start-up ventures, which of course have some degree of risk involved in them. The entrepreneur may like to showcase the project report before potential employees for key positions to convince and seduce them towards the merits of joining the start-up firm.

6.6: Contents of Project Report

The contents of a project report would depend upon the kind of business being proposed. However, in general, the contents would be more or less similar to the one listed below.

It is advisable that the entrepreneur should align the contents of the project report as per the unique requirements of the new proposed venture rather than following a set standers format.

1. Cover Page

2. Table of Contents
3. Executive Summary
4. Company Information and Industry
5. Product of Services (Technical Plan)
6. Marketing Plan
7. Manufacturing/ Operations Plan
8. Management Team (Organizational Plan)
9. Project Timeline (Network Diagram)
10. Critical Risks and Assumptions
11. Social Plan
12. Exit Strategy
13. Financial Plan
14. Conclusion
15. Appendices

- **Cover Page:** The cover page of the project report should contain the title of the project on top and the name/ address (including phone numbers, website address and email ID) so that the readers of the report (like investors) may easily contact you when required.
- **Table of contents:** The table of contents are compiled after the main body of the project report is finalized. Each topic covered in the report should be enumerated in the table of contents with page number of the starting page of the topic clearly mentioned against it. The various appendices used in the report should also be enumerated with page numbers.
- **Executive summary:** The executive summary should be written after the main part of the project report is ready. It should not be more than two pages in length, as the idea here is to entice the usually time-poor reader (say, potential investors) to read the main part of the report. Thus, the executive summary should briefly summarize the key issues related to the project.
- **Company information and industry:** Here you should explain the ownership form of your company, the reasons for venturing into the proposed business, how you plan to satisfy the needs and expectations of the potential customers and the existing competitors in the industry. A Strength-Weakness-Threat-Opportunity (SWOT)

analysis, whereby the strengths and weakness of the proposed venture in addition to the threats and opportunities offered by the environment should be explained.

- **Technical plan:** In this section of the report, you should highlight the key factors of the technical feasibility performed earlier during the feasibility analysis. You should justify the choice of your product/service. It is important to highlight what uniqueness/innovation the proposed product/service has compared to the ones already existing in the marketplace, i.e. how your company would gain a competitive advantage.
- **Marketing plan:** This section of the report would draw heavily from the industry/market feasibility study done earlier. Here, you would need to describe your pricing policy, findings of the marketing research done, viz. how large is the market for your proposed product/service, how you plan to promote the product (advertising strategy), how you plan to sell the product (through departmental stores, direct selling through sales force, etc.), and so on.
- **Operations plan:** Here you should describe the manufacturing/ service-delivery process to be utilized for production/ rendering of the product/ service chosen. You should explain about any innovations brought about in the process, which makes it better compared to that of the competitors. The machinery and equipment to be utilized in the process should be detailed out.
- **Organizational plan:** An impressive list of names that would be a part of your management team, would increase the impact factor of your project report. You would need to highlight how the technical skills and business management skills coupled with suitable qualifications and experience of these people in the term would complement each other's profile. You should include the resumes of these people in the appendices of the report. An organizational structure showing the various positions these people would fill-in, should also be included in the appendices.

In addition, it should be highlighted as to why these people in the management term are willing to take up these positions despite much lesser compensation than what they can command in other established firms. This will make the case of your proposed venture stronger, when senior people in the management team show confidence in joining your start-up firm. This part of the report would bank heavily upon the organizational feasibility study done earlier.

- **Project timeline (network diagram):** We shall study in the subsequent part of this chapter about the creation of a network diagram for the proposed project. In this diagram, various activities in a project are sequentially organized and the time duration required for the execution of the project is arrived at by estimating the time duration of various activities.

This diagram should be include in the appendices of the report and should be summarized in this part to provide an overview to the reads about the timelines proposed to be followed in the project. This will give a realistic idea to the readers about the gestation period involved in the proposed business venture.

- **Critical risks and assumptions:** In a business plan, there are several assumptions made. For example, the sales projections and forecasts of a new innovative product may be based upon expert opinion rather than past sales data (which would not be available for such new products which are yet to hit the market). Similarly, there may be many types of risks like an established competitor reducing the price of its similar products drastically to prevent you from entering the market.
- **Social plan:** Social plan is assuming more and more importance in today's times. In this part of the report, you should explain how your project would result in employment generation, skill development of local people, provision of goods and services produced by the company to the local population, utilization of local raw material resources, etc.

The government agencies support projects in many ways which help in community development, especially in rural and un-industrialized regions of the country. Many financial institutions have a mandate from the government to fund such projects at concessional interest rates.

- **Exit strategy:** This is a negative aspect of the proposed business venture, but is equally important. Here you are expected to formulate a strategy for exiting the business in case things go haywire. The investors are most interest to know about this strategy as to how they would recover their money from a failed business venture. You would need to present various possibilities here like divesting the business as a going-concern to an established business house; in case there are no buyers for the business, you may need to liquidate the various tangible assets of the firm and sell them off to separate buyers, etc. A realistic exit strategy would instill a sense of security in the minds of the lenders who are planning to invest in your venture.

- **Financial plan:** This is the most important part of the report, as the content of all the previous sections would be integrated here to come up with numbers in monetary terms. The possible sources and uses of capital for the venture, the projections of revenue and costs in terms of rupees, the break-even analysis, etc. would be required here. Key financial ratios should be arrived at, for example, the debt- equity ratio, etc. to present a realistic picture of the financial aspects involved in the project.
- **Conclusion:** The conclusion of the report should summarize the key aspects of the report in a concise manner. It should end the report on a positive note so the readers think favourably for the proposed venture.
- **Appendices:** Appendices follow the conclusion of the report and contain the supplementary data which is important, but cannot be incorporated in the main body of the report as it would disrupt the flow of the storyline there. Appendices should be clearly marked with letters like A, B, C,..., etc. with suitable titles of the content presented in them.

6.7: business plan format for micro and small enterprises

A business plan helps the entrepreneur set out objectives, targets and benchmarks. It is also a prerequisite to get credit from lending agencies like banks and State Financial Corporations, etc. It is a blueprint or a road map for your business.

The purpose of a business plan is:

- to arrange thoughts logically
- to highlight resource needs and their sources
- to raise funds from a bank or other source
- to demonstrate viability of the business proposition and potential to repay credit
- to stimulate reality and anticipate pitfalls before they occur

Your business plan must answer these questions:

- What do you intend to do/how do you intend to do it/when do you intend to do it?
- How much do you wish to borrow?
- When will you repay it?
- Will you be able to pay the interest?
- Can your business survive a setback in its plans?
- What is the security available for lending?
- How many jobs will be created?
- Is the business proposal commercially viable?

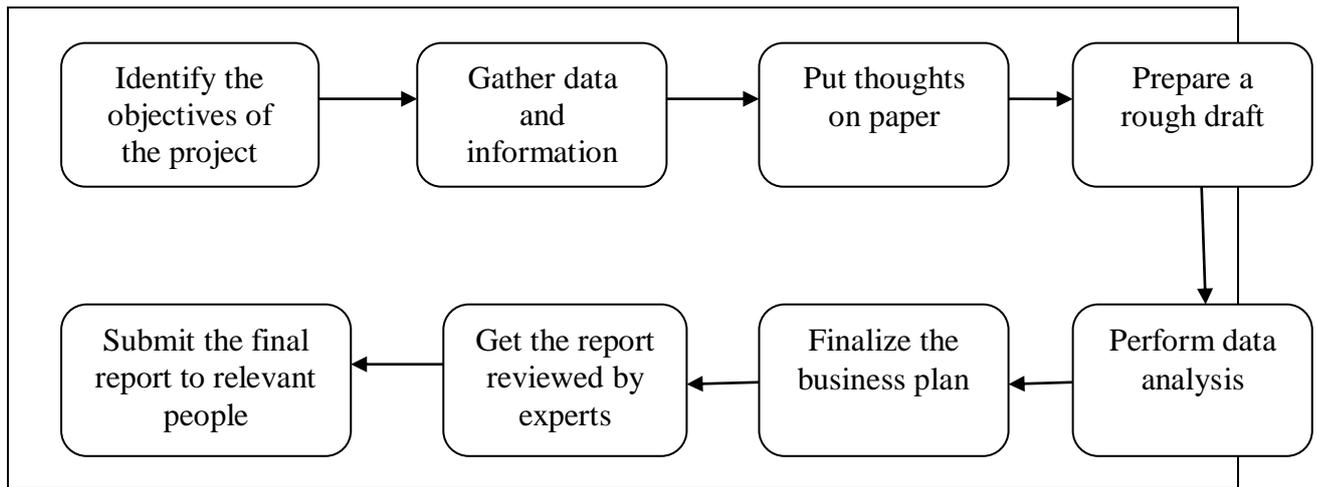
- Will the business be profitable?
- Can the business cope with inflation?

Your business plan must include the following in sequential order:

- Summary of the Project/ Project at a Glance
(The purpose of the business plan, location, resource needs, volume of business, brief note on market, customers, promoters and financial highlights)
- General information
(About the business and promoter's qualification, training and relevant experience)
- Details of the Proposed Project
(Requirement of fixed and working capital, project cost and means of finance)
- Market Potential
(A note on marketing strategy, potential customers, competition, market size and future prospects)
- Manufacturing Process
(Step-by-step description of the manufacturing process, plant capacity, expansion plans and quality control procedures, etc)
- Production Programme/Sales Revenue
(Plant capacity, capacity utilization, quantity produced/sold and sale realization)
- Cost of Manufacturing
(Cost of raw material, utilities, manpower, repairs and maintenance, selling and distribution expenses, administrative overheads, interest on loans availed, depreciation and any other expenses)
- Profitability Projects
(Sales, cost of manufacturing, tax liabilities, repayments, retained profit/loss)

6.8: Formulation of Project Report

The following figure shows the steps in formulating a project report



- **Identify the objectives of the project report.** A project report can have various objectives. For example, an objective can be to secure funding from a venture capitalist. The other objective can be to convince some potential business partners. Yet another objective can be to convince a potential client for placing an order. There is no harm in having multiple objectives.
- **Gather data and information.** A good project report should contain reasoning backed with data and therefore, it is imperative that the entrepreneur tries to collect data from all possible sources. The data could be related to market trends, product pricing, customer preferences, competitors and so on. At this stage of report formulation, the approach should be to gather as much data and information as possible without worrying too much about which data would be incorporated where in the final version of the report.
- **Put thought on paper.** Having gathered enough data and information, it is time for crystallizing the thoughts. At this stage, the sequence of thoughts is not important. Whatever tentative structure for the business plan is in mind, the entrepreneur should put thoughts on paper accordingly. The approach here should be to create enough content to be critically examined at a later stage.
- **Prepare a rough draft.** At this stage, the content written earlier should be categorized into sections and the sequence of such sections should be decided upon. The grammatical and typographical errors have to be corrected. If there are some information gaps here and there, these should be removed by incorporating relevant data collected earlier.
- **Perform data analysis.** The data incorporated in the report has to be analyzed using appropriate tools to convert it into useful information. Break-even analysis, revenue

projections, pro-forma financial statements, etc. should be done and suitably summarized in the report. Care should be taken to avoid superfluous or unreliable data during the analysis as it may reflect negatively upon the project later.

- **Finalize the business plan.** In this leg of formulation, the calculation in the data analysis done earlier should be meticulously reviewed, the rough draft of the report should be properly formatted, any typos and grammatical errors should be rectified and the data to go in appendices should be decided upon. This is the time to write the executive summary of the report, the table of contents and the cover page. It is necessary that the whole report is reviewed a couple of times to identify any glitches which might have prevailed before the printing of the report is done.
- **Get the report reviewed by experts.** It is always good to have views of others on your project report. Therefore, you may take the helps of experts, friends, academicians etc. to review the report for you. The recommendations made by them should be carefully considered by you and if necessary, changes should be incorporated in the report.
- **Submit the final report to relevant people.** The formulation of the report culminates in submission of the report to the relevant people like the potential investors. In most instances, people receiving the report would be experts in their own right. Therefore, their comments at the end of the presentation would also be useful in further refining the report for future presentations before another audience.

6.9: Preliminary Project Report:

As a prospective entrepreneur, you are required to decide at the outset the product that you have to manufacture. If you decide to get into 'service sector', you must decide the type of 'service activity' for your venture. Having made such a decision tentatively, you must answer certain questions before you spend time and resources required to make a detailed study of the project for getting financial assistance.

The questions that you have to answer are:

- i) Can I do it?
- ii) Can I sell it?
- iii) Can I earn out of it?

1. What is a Preliminary Project Report?

Preliminary Project Report, in short PPR, is a simple brief data-sheet that gives you an insight into the following:

- i) How much money, manpower and material would be required to set up the project?
- ii) What type of machines would be required?
- iii) What are the sources of technology that would be required? and
- iv) What would be the economic gains from the project?

In short, PPR is a brief outline of the project that tells you quickly about the viability of the project, so as to help you decide whether it is worth pursuing further or not.

2. Why Preliminary Project Report?

At the stage of preparing a PPR you may have in mind not just one venture/product, but 3 or 4 ideas to choose from. Since it calls for considerable time and resources to prepare a Detailed Project Report (DPR) it would not be advisable to prepare a DPR for every product idea that may be floating in your mind.

Even if you could prepare DPR for all the product idea that you have in mind, the time required to do so would be so much that it would make the first DPR obsolete or outdated by the time you complete all DPR.

Further, the money, time and information required to prepare DPRs for all the product ideas that you have in mind only to examine their viability may make the very exercise of DPR preparation unviable. This does not mean that PPR can substitute a DPR. It only means that it is desirable to prepare a PPR prior to spending resources on preparation of a DPR.

There are other advantages of preparing a PPR also:

- i) You get enough data quickly to fill up the form required for provisional registration of your unit with the state government. It is a must before commencing various time consuming formalities connected with planning and setting up of a small - scale unit.
- ii) The data you get from PPR will help you in completing certain formalities in anticipation of setting up a project. For example, if you want to set up an electronic unit, you have to get your production programme approved from the concerned State/Central Government

department. For this, you have to supply data about the projected production level and raw-material requirement, which you could get from PPR.

- iii) The data collected by preparing a PPR forms a good take-off point for preparing a DPR when you desire to do so.
- iv) It will help you identify in advance the infrastructural requirement for your project and sound the concerned government agencies accordingly so that you can get necessary facilities such as land/shed at the right time.
- v) Finally, the major contribution of a PPR at the nascent stage of your entrepreneurial career is that it instills confidence in you and motivates you to start the time-consuming process of data collection and preparation of a DPR.

3. How to Prepare a PPR?

To help you prepare a PPR systematically, a proforma is adjoined to this section at Annexure -1. A quick perusal of the proforma will indicate that the information called for could be collected and presented quickly as well as systematically.

6.10. Summery

Project report is an important step in any business organization, even before starting of a business a business. It involves defining the purpose of objectives of business and various activities or stages involved in achieving the ultimate purpose of the business. Therefore the project report is the blue print of the project that takes shape in the future. It covers all this functional areas of the business like finance, production, marketing and Human Resources Planning. Therefore project report service the purpose of understanding all the activity of a business. In this lesson the reader can also understand the contents of a project report and the process of formulation of a project report.

Preliminary Project Report, in short PPR, is a simple brief data-sheet that gives you an insight into the following: 1. How much money, manpower and material would be required to set up the project? 2. What type of machines would be required? 3. What are the sources of technology that would be required? And 4. What would be the economic gains from the project?

In short, PPR is a brief outline of the project that tells you quickly about the viability of the project, so as to help you decide whether it is worth pursuing further or not.

6.11: Key Terms

****1. Project****

A temporary endeavor undertaken to create a unique product or service, involving a series of activities and tasks that consume resources. In entrepreneurship, a project is a business venture with a clearly spelt-out objective that the project team strives to achieve through sequential activities.

****2. Project Report****

In the Indian context, a project report for an entrepreneurial venture is the same as a business plan. It assesses the demand for the proposed product, works out investment and operational costs, and estimates expected profitability. It serves as the main instrument for convincing investors about the venture's viability.

****3. Executive Summary****

A concise summary of the entire project report, typically not exceeding two pages, written after the main report is ready. Its purpose is to entice time-pressed readers (such as potential investors) to read the main part of the report by briefly summarizing key issues related to the project.

****4. Exit Strategy****

A crucial section of the project report that formulates a strategy for exiting the business in case things go wrong. It presents various possibilities like divesting the business as a going concern or liquidating tangible assets, instilling a sense of security in lenders planning to invest in the venture.

****5. Preliminary Project Report (PPR)****

A simple, brief data-sheet that provides insight into the money, manpower, material, machines, technology sources, and economic gains required for a project. It helps entrepreneurs quickly assess viability before investing resources in preparing a Detailed Project Report (DPR).

****6. Detailed Project Report (DPR)****

A comprehensive report prepared after the PPR confirms project viability, containing detailed analysis of all aspects including technical specifications, market potential, financial projections, and implementation schedules. It is required for obtaining financial assistance from banks and institutions.

****7. SWOT Analysis****

A strategic planning tool included in the project report that analyzes the Strengths, Weaknesses, Opportunities, and Threats of the proposed venture. It helps in understanding the internal capabilities and external environment factors that may affect business success.

6.12: Self Assessment Questions

Multiple Choice Questions with Answers

****1. According to the Project Management Institute, a project is defined as:****

- A) Any business activity undertaken for profit
- B) A temporary endeavor undertaken to create a unique product or service
- C) A permanent organizational structure
- D) A routine operational activity

****Answer: B) A temporary endeavor undertaken to create a unique product or service****

****2. Which of the following is NOT mentioned as a party interested in the project report?*****

- A) Financial institutions
- B) Commercial bankers
- C) Competitors
- D) State government departments

****Answer: C) Competitors****

****3. The scope of a project report includes which of the following aspects?*****

- A) Economic aspects only
- B) Technical aspects only
- C) Financial aspects only
- D) Economic, technical, financial, production, and managerial aspects

****Answer: D) Economic, technical, financial, production, and managerial aspects****

****4. Which section of the project report is described as a "negative aspect" but equally important, formulating a strategy for exiting the business if things go wrong?*****

- A) Social plan
- B) Critical risks and assumptions
- C) Exit strategy
- D) Financial plan

****Answer: C) Exit strategy****

****5. A Preliminary Project Report (PPR) is best described as:****

- A) A detailed financial analysis requiring months of preparation
- B) A simple brief data-sheet providing quick insight into project viability
- C) A legally binding document for bank loans
- D) A marketing brochure for investors

****Answer: B) A simple brief data-sheet providing quick insight into project viability****

Short Answer Questions

1. What is a project? Explain its key characteristics as described in the lesson.
2. What is a project report and why is it important for entrepreneurs?

3. List and briefly explain the five aspects covered in the scope of a project report.
4. What are the fifteen contents of a project report as outlined in the lesson?
5. What is a Preliminary Project Report (PPR) and what are its advantages?

Case Study

From Street Food Vendor to Restaurant Chain Owner: The Inspiring Journey of Prem Ganapathy

Prem Ganapathy's entrepreneurial journey is a testament to the power of vision, perseverance, and systematic planning, even without formal business education. Originally from a small village in Tamil Nadu, Prem arrived in Mumbai with nothing but dreams. He was stranded at Bandra station when the person accompanying him left him and ran away. With no local acquaintances or knowledge of the language, Prem's situation seemed hopeless. Out of pity, a fellow Tamilian guided him to a temple and appealed to worshippers to contribute money for his return ticket to Chennai. But Prem refused to go back. Instead, he decided to work in Mumbai, starting as a utensil cleaner in a restaurant. His journey from dishwasher to owner of a successful restaurant chain demonstrates how a well-conceived project report, even if only in one's mind, can guide entrepreneurial success. After years of working in various restaurants and observing the business closely, Prem identified an opportunity in the Mumbai food scene. His idea germination occurred when he noticed that while there were hundreds of vada pav vendors on the streets, the market was huge but unorganized. He asked himself the fundamental questions: Could he do it? He had years of restaurant experience. Could he sell it? Mumbai's love for vada pav was insatiable. Could he earn from it? With proper systematization, yes. Prem's project report, though not formally written, contained all essential elements. His **product** was vada pav, but with a twist—he would offer variety. His **target market** was the millions of Mumbai commuters passing through railway stations daily. His **benefits** were hygiene, consistent quality, and variety. His **positioning** was organized vada pav retailing in a chaotic market. His **operations plan** involved outsourcing patty manufacturing to vendors while focusing on frying and sales in-store. When he started his first outlet just outside Malad railway station with Rs. 2 lakh capital, he had already formulated his **financial plan**—reinvest every profit back into the business for expansion. His **marketing plan** relied on location and word-of-mouth. His **organizational plan** was simple—he and his brother ran the operations. The **critical risks** were numerous: competition from thousands of street vendors, rising raw material costs, and the challenge of maintaining consistency. But Prem's execution intelligence transformed these challenges into opportunities. When his Chinese food outlet next to Dosa Plaza failed within three months, he conducted his own **evaluation**, realized the lessons, and applied them to invent Chinese-style dosas like American Chopsuey Dosa, Schezwan Dosa, and Spring Roll Dosa. Today, Dosa Plaza has 26 outlets with 150 employees and a turnover of Rs. 5 crore. Prem's story proves that while formal project reports are essential for bank funding, the entrepreneurial mindset—identifying objectives, gathering information, analyzing data, and executing systematically—is what ultimately builds successful ventures. His advice to young entrepreneurs echoes the essence of project planning: "Do not ever compromise on quality. Never lose your self-confidence. Believe in yourself and the product you are making. Stick to what you know."

Case Study Questions

1. Although Prem Ganapathy did not prepare a formal written project report, he effectively followed the project report formulation process. Identify and explain how he addressed the key elements of a project report in his entrepreneurial journey.
2. What were the critical risks and assumptions in Prem's business idea, and how did he address them through his execution strategy?
3. Prem's Chinese food outlet failed, but he learned from it and innovated. How does this demonstrate the importance of evaluation and adaptation in the entrepreneurial process? What lessons can other entrepreneurs derive from this experience?

6.13: Further Readings / Reference books

Five Printed/Published Textbooks

1. Bedi, Kanishka (2009). *Management and Entrepreneurship*. Oxford University Press, New Delhi. (Chapter on Project Report Preparation)
2. Kumar, Arya (2012). *Entrepreneurship*. Pearson, Delhi. (Chapter on Project Formulation and Report Preparation)
3. Murthy, C. S. V. (2010). *Entrepreneurship and Good Governance*. Himalaya Publishing House, New Delhi. (Chapter on Project Report Preparation)
4. Kuratko, Donald F., & Hodgetts, Richard M. (2007). *Entrepreneurship in the New Millennium*. Cengage Learning. (Chapter on Business Plan Development)
5. Morris, Michael H. (2008). *Entrepreneurship and Innovation in Corporations*. Cengage Learning. (Chapter on Project Planning and Execution)

LESSON- 8

CENTRAL INSTITUTIONS SUPPORTING SMALL BUSINESS UNITS - I : NABARD

Objectives of the lesson :

- Understand the need for institutional support to small business entrepreneurs and the various central and state level institutions supporting Micro, Small and Medium Enterprises (MSMEs)
- Examine the formation, history, and evolution of the National Bank for Agriculture and Rural Development (NABARD) as a premier development financial institution
- Analyze the main functions of NABARD categorized into financial, developmental, and supervisory activities
- Evaluate the various refinance schemes offered by NABARD including short-term refinance, long-term loans, and schemes for the off-farm sector
- Understand the government-sponsored schemes implemented through NABARD including Dairy Entrepreneurship Development Scheme, Agrilclinic and Agribusiness Centres Scheme, and Solar Schemes

Structure of the Lesson : -

8.1 Institutional support to Small Business Entrepreneurs

8.2 NABARD

8.2.1 Main functions of NABARD

8.2.2 Government Sponsored Schemes

8.3 : Summary

8.4 : Self assessment Questions

8.5 : Key Terms

8.6 : Further Readings / Reference books



One of the reasons why Bill Gates is so successful is that he isn't afraid of what he doesn't know. Through his work with the Gates Foundation, he is clearly passionate about helping people all over the world lead healthy, productive lives that aren't hindered by a lack of access, whether it be to clean water or an education. Gates always takes to social media and his blog to talk about the books that have opened his eyes and taught him more about the global issues that he is working to help solve.

Entrepreneurship is a multifaceted phenomenon, which has gained popularity around the world. Becoming an entrepreneur is a challenging task, which requires various resources and facilities. Small-scale enterprises find it difficult to have their own recourses. Finance has

been an important resource to start and run an enterprise. In addition to finance, a minimum built-up space and other infrastructural facilities such as transport and communication are also needed to start any enterprise. Creation of infrastructural facilities require huge funds, which the small entrepreneurs do lack. The phrase, "whosoever has the gold makes the rule," brings out the significance of the need for adequate finances for a small industry. The entrepreneur must clearly know about his financial needs before actually setting up his unit. Considering the difficulties of Small entrepreneurs, the Government of India, as a part of policy of promotion of Small Scale sector in the country, has set up a host of institutions to meet the financial requirements of small entrepreneurs.

This Chapter provides an insight into the support and facilities provided by various Central and State level institutions to small business units in general and various schemes of assistance extended to small units by National Bank for Agriculture and Rural Development (NABARD) in particular.

8.1 Institutional support to Small Business Entrepreneurs

Small scale industries play a key role in our planned economy with their advantages of low investment, high potential for employment generation, diversification of the industrial base and dispersal of industries to rural and semi-urban areas. This sector has, therefore, been appropriately given a strategic position in our planned economy. It has a vital role to play in the fulfillment of the socio-economic objectives, particularly, in achieving equitable growth.

As said above, the development of small scale industries depends upon various factors like availability of raw-materials, skilled labour, advanced technical know-how adequate, easy and cheap finance and right type of management. Among these, finance is crucial in the development of small scale industries. Non-availability of finance at the right time and in right quantities with low rate of interests poses a serious threat to the development of small scale industries. With the availability of adequate finance, it is easy to run the unit successfully without any hindrance.

The main sources of finance for small scale industries are funds of promoters, institutional agencies, and non-institutional agencies. Because of their poor financial background, the capacity of the promoters to invest in their respective units is limited. Likewise, the non-institutional agencies are always reluctant to invest in these small scale

industries, due to their limited earning capacity as well as poor reputation of the entrepreneurs. There are different financial institutions to cater to the long term financial needs of the small-scale industries and commercial banks, regional rural banks (RRBs) and co-operative banks are providing most of the working capital financial needs of these units.

In view of this, various Central and State Government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities in order to facilitate the growth of the SSI sector. Financial assistance is available to the small scale sector from the State Small Industries Development Corporations (SSIDCS) at the state level and National Small Industries Corporation (NSIC) at the national level.

The Industries Development Bank of India (IDBI), the Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD) and other national level development banks provide refinance facilities to banks and other grassroots level agencies for financing small scale industries. The Deposit Insurance and Credit Guarantee Corporation (DICGC) assists the small scale industries by guaranteeing advance to these industries. Moreover, the Export-Import Bank of India (EXIM) facilitates external trade by rediscounting the bills of these industries. Likewise, the Industrial Reconstruction Bank of India (IRBI) assists in rehabilitating the sick units of these industries.

Further, the policy measures of the Government of India include the setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities and marketing assistance through the agencies created for the specified functions. They provide infrastructure and support services to small enterprises through Small Industries Development Organisation (SIDO), National Small Industries Corporation (NSIC), National Institute of Small Industry Extension Training (NISIET), Hyderabad, Indian Institute of Entrepreneurship (IIE), Guwahati and National Institute for Entrepreneurship and Small Business Development (NIESBD), New Delhi.

Having discussed the basic information about financing schemes being operated by various financial institutions or agencies, the details regarding the schemes of assistance rendered by NABARD are explained in this chapter and other Institutions like SIDBI, NSIC, KVIC, SIDO, IDBI, IFSI, SSIB DICGC, ExIm Bank, IRBI, NISIET, NIE, NIESBD and State level institutions such as State Financial Corporations (SFCs), State Small Industries Development Corporations (SSIDCS), District Industries Centre (DICs) etc are presented in the subsequent five Chapters.

Activity: List out various Central Level Institutions supporting small Business Units in India.

8.2 National Bank for Agriculture and Rural Development (NABARD) :

NABARD works towards integrated rural development and helps promote rural businesses and small industries, agriculture and cottage industries. They offer various training and development and consultancy services as well as credit facilities to support these businesses. 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. The Committee was formed on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India.

The Committee's interim report, submitted on 28 November 1979, outlined the need for a new organizational device for providing undivided attention, forceful direction and pointed focus to credit related issues linked with rural development. Its recommendation was formation of a unique development financial institution which would address these aspirations and formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act 61 of 1981. NABARD came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982.

Set up with an initial capital of Rs.100 crore, NABARD'S paid up capital stood at Rs. 5,000 crore as on 31 March 2016. Consequent to the revision in the composition of share

capital between Government of India and RBI, the Government of India today holds Rs. 4,980 crore (99.60%) while Reserve Bank of India holds Rs. 20.00 crore (0.40%).

8.2.1 Main functions of NABARD

NABARD initiatives are aimed at building an empowered and financially inclusive rural India through specific goal oriented departments which can be categorized broadly into three heads: (A) **Financial**, (B) **Developmental** and (c) **Supervision**.

Through these initiatives NABARD could touch almost every aspect of rural economy. From providing refinance support to building rural infrastructure; from preparing district level credit plans to guiding and motivating the banking industry in achieving these targets; from supervising Cooperative Banks and Regional Rural Banks (RRBs) to helping them develop sound banking practices and onboarding them to the CBS platform; from designing new development schemes to the implementation of GoI's development schemes; from training handicraft artisans to providing them a marketing platform for selling these articles.

Over the years, NABARD's initiatives have touched millions of rural lives across the country. The SHG Bank Linkage Project launched by NABARD in 1992 has blossomed into the world's largest micro finance project. Kisan Credit Card, designed by NABARD has become source of comfort for crores of farmers. NABARD financed one fifth of India's total rural infrastructure. It is the pioneer in the field of watershed development as a tool for sustainable climate proofing.

8.2.1 (A). Financial Initiatives of NABARD

(A). **Financial Initiatives of NABARD** : Under the financial initiatives, NABARD provides both **Direct finance** and **Refinance Assistance**.

Direct finance:-

The following activities come under **Direct finance** :

1. Loans for food parks and food processing Units.
2. Loans to Ware houses, cold Storage and Cold chain Infrastructure
3. Credit Facilities to Marketing Federations
4. Rural Infrastructure Development Fund

5. Direct Refinance to Cooperative Banks.
6. Financing and supporting Producer organizations
7. Alternative Investment Funds
8. More Direct Finance

Activity: Interact with an official of NABARD and make a report on its assistance to food parks and food processing units

Refinance Schemes of NABARD:

Refinance Schemes of NABARD include (i) Short Term Refinance and (ii) Long Term Refinance.

Short Term Refinance

Modern agriculture, as distinguished from traditional cultivation, involves substantial investment of recurring nature for using high yielding varieties of seeds, fertilisers, insecticides and costly agricultural implements. In such a situation, arrangements for credit should go much beyond the simple provision of credit and must be linked operationally with productivity and other services. Production and productivity, marketing and raising the level of surplus and savings must, therefore, be the major functions of credit. The benefit of modern technology, the advantages of institutional credit, infrastructural arrangements etc., should accrue to all classes of farmers. Besides, on the supply side, there must be an arrangement for assessing the requirements of funds on the basis of actual cost and raising the resources there for. It was in this context, the crop loan system or the production oriented system of lending was evolved and conceived as the most appropriate mechanism for mass disbursement of production credit.

(i) Short Term (Seasonal Agricultural Operations)

Refinance is provided for production purposes at concessional rate of interest to State Cooperative Banks (SCBs) and Regional Rural Banks (RRBs) by way of sanction of credit limits. Each withdrawal against the sanctioned credit limit is repayable within 12 months.

(ii) Short Term (Others):

The Short Term (Others) consist of different purposes viz. Agriculture and Allied Activities, Marketing of crops, Fisheries Sector, Industrial Cooperative Societies (other than weavers), Labour Contract and Forest Labour Cooperative Societies including collection of Minor Forest produce. Rural artisan including weavers members of PACS/LAMPS/FSS, Purchases, Stocking and Distribution of Chemical Fertilisers and other Agricultural Inputs on the basis of bank wise RLP for respective purposes. The limit is sanctioned to SCBs and RRBs.

(iii) Short Term (Weavers) :

Refinance support is available under Weavers as under:

1. Working Capital requirement of Primary/Apex/Regional Weavers Coop Society - through State Coop Banks/DCCBs
2. Working Capital requirement of Primary Weavers Coop Society – through Scheduled Commercial Bank
3. Working Capital requirement of State Handloom Development Corporation – through Scheduled Commercial Banks & State Cooperative Banks
4. Working Capital and Marketing requirement of Individual Weavers, Handloom Weavers Groups, Master Weavers, Mutually aided Coop Societies, Societies outside Coop fold and Producer Group Companies – through Scheduled Commercial Banks & RRBs.

Long Term Loans :

Investment credit leads to capital formation through asset creation. It induces technological upgradation resulting in increased production, productivity and incremental income to farmers and entrepreneurs. NABARD provides Long Term and Medium Term Refinance to banks for providing adequate credit for taking up investment activities by farmers and rural artisans etc. It is intended to create income generating assets in the following sectors:

- Agriculture and allied activities

- Artisans, small scale industries, Non-Farm Sector (Small and Micro Enterprises), handicrafts, handlooms, powerlooms, etc.

- Activities of voluntary agencies and self help groups working among the rural poor

Eligible schemes for Refinance under Off-Farm Sector

Automatic Refinance Facility (ARF) : Automatic Refinance Facility (ARF) will be extended to the Commercial Banks/State Coop Banks/ Regional Rural Banks/Primary Urban Coop Banks/DCCBs/ ADFCs/NEDFi/NBFCs without any upper ceiling on quantum of refinance, bank loan or TFO for all kinds of projects under Farm Sector (FS) & Non Farm Sector (NFS). However, ARF will be extended to the SCARDBs for projects with TFO up to 50.00 lakh for all kinds of projects under Farm Sector (FS) and Non- Farm Sector (NFS).

The various schemes formulated over the years have been categorized into five distinct and compact schemes.

- **A. Composite Loan Scheme (CLS) :** Under this scheme, refinance is given to meet the block and /or working capital requirements of small/micro enterprises. Maximum refinance available is Rs. 10 lacs per unit.
- **B. Integrated Loan Scheme (ILS) :** Under this scheme, refinance is given to block capital and working capital for one operating cycle. Maximum refinance available is Rs. 15 lacs per borrower.
- **C. Self-Employment Scheme for Ex-servicemen (SEMFEX) :** The scheme has been in operation since 15 January 1988. SEMFEX is specially designed to provide a comprehensive package of credit for encouraging ex-servicemen to undertake agricultural and allied activities or to set up off-farm units in rural areas to earn their livelihood and lead a dignified life. NABARD provides refinance assistance under Automatic Refinance Facility (ARF) to eligible banks for a wide spectrum of manufacturing, processing and service sector activities under RNFS (Investment Credit).
- **D. Soft Loan Assistance for Margin Money (SLAMM):** The scheme is to provide financial assistance to prospective entrepreneurs who have the requisite talent and skill of entrepreneurship but lack necessary monetary resources to meet the margin requirements stipulated under relevant refinance schemes of NABARD.
- **E. Small Road and Water Transport Operators (SRWTO) :** Under this scheme, financial assistance is provided for acquisition of transport vehicles, which are to be used for transportation of farm produce/industrial products to rural/urban marketing centers,

including passenger transport vehicle and water transport units. Margin money assistance will be extended on a very selective basis, up to 10% of the cost of the vehicle.

Activity: Write a brief note on NABARDs assistance to ex-servicemen

(B) DEVELOPMENTAL ACTIVITIES OF NABARD : Assistance to the following activities are covered under the developmental activities of NABARD :

“Institutional Development (ID) initiatives” : NABARD is responsible for regulating and supervising the functions of Cooperative Banks and RRBs in the country. As part of its “Institutional Development (ID) initiatives”, NABARD supports the following institutions:

- Rural Credit Cooperatives
- State Cooperative Banks (StCBs)
- Central Cooperative Banks (CCBs)
- Primary Agricultural Credit Societies (PACS)
- State Cooperative Agriculture and Rural Development Banks (SCARDBs)
- Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

Farm Sector Development;

Off Farm Sector assistance for reducing rural India’s over dependence on agriculture by providing alternate livelihood options and thereby curbing large-scale migration of small and marginal farmers and agricultural laborers to urban areas;

Financial Inclusion to ensure access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost ;

Micro Credit Innovation: Acting as facilitator and mentor of microfinance initiatives ;

Rendering **Research & Development support;**

Extending **Core Banking Solution** To Co-Operative Banks;

Climate Change : NABARD has taken various initiatives in addressing the challenges posed by Climate Change particularly in the areas of agriculture and rural livelihood sectors.

(C) SUPERVISORY ACTIVITIES OF NABARD: Section 35(6) of the Banking Regulation Act, 1949 empowers NABARD to conduct inspection of State Cooperative Banks (StCBs), Central Cooperative Banks (DCCBs) and Regional Rural Banks (RRBs). In addition, NABARD has also been conducting periodic inspections of state level cooperative institutions such as state Cooperative Agriculture and Rural Development Banks (SCARDBs), Ape Weavers Societies, Marketing Federations etc., on a voluntary basis.

Government Sponsored Schemes of NABARD :

The following schemes are covered under this category:

Dairy Entrepreneurship Development Scheme

The Department of Animal Husbandry, Dairying and Fisheries (DAHD&F), GoI launched a pilot scheme titled “Venture Capital Scheme for Dairy and Poultry” in the year 2005-06. The main objective of the scheme was to extend assistance for setting up small dairy farms and other components to bring structural changes in the dairy sector. The scheme was revised with effect from 1 September 2010. Objectives of the scheme are (i). to promote setting up of modern dairy farms for production of clean milk; (ii). to encourage heifer calf rearing, thereby conserving good breeding stock; (iii). to bring structural changes in the unorganised sector so that initial processing of milk can be taken up at the village level itself; (iv). to upgrade the quality and traditional technology to handle milk on a commercial scale; and (v). to generate self-employment and provide infrastructure mainly for unorganised sector. Farmers, individual entrepreneurs, NGOs, companies, groups of organised and unorganised sectors, etc. Groups of organised sector include Self-help Groups (SHGs), dairy cooperative societies, milk unions, milk federations, etc. are eligible to apply under this scheme. An individual will be eligible to avail assistance for all the components under the scheme but only once for each component. More than one member of a family can be assisted under the scheme provided they set up separate units with separate infrastructure at different locations. The distance between the boundaries of two such farms should be at least 500 metres.

Capital Investment Subsidy Scheme for Commercial Production Units for organic/ biological Inputs

Under National Project on Organic Farming, a Capital Investment Subsidy Scheme for Commercial Production Units for organic/ biological Inputs has been introduced. The scheme is being implemented by the Department of Agriculture & Cooperation through National Centre of Organic Farming (NCOF) in collaboration with NABARD or National Cooperative Development Corporation (NCDC). The scheme is being implemented since 2004-05. Objectives of the Scheme are (i). to promote organic farming in the country by making available organic inputs, such as biofertilisers, biopesticides and fruit & vegetable market waste compost and thereby generate better return for the produce; (ii). to increase agricultural productivity while maintaining soil health and environmental safety; (iii). to reduce the total dependence on chemical fertilizers and pesticides by increasing the availability and improving the quality of biofertilisers, biopesticides and composts in the country; (iv). to convert organic waste into plant-nutrient resources; and (v). to prevent pollution and environment degradation by proper conversion and utilization of organic waste. Biofertilisers and biopesticides production Units, Fruit & vegetable waste compost units, individuals, group of farmers/growers, proprietary, and partnership firms, Co-operatives, fertilizer industry, Companies, Corporations, Non-Governmental Organizations (NGOs), Agricultural Produce Market Committees (APMCs) and Municipalities and Private entrepreneurs are eligible to apply under this scheme.

Agriclinic and Agribusiness Centres Scheme

The scheme aims to promote the establishment of Agri-Business Centres (ACABC) all over the country. Agri-Business Centres are commercial units of agri-ventures established by trained agriculture professionals. Such ventures may include maintenance and custom hiring of farm equipment, sale of inputs and other services in agriculture and allied areas, including post-harvest management and market linkages for income generation and entrepreneurship development. The scheme covers full financial support for training and handholding, provision of loan and credit-linked back ended composite subsidy. Objectives of the scheme are (i). to supplement efforts of public extension by necessarily providing extension and other services to the farmers on payment basis or free of cost as per business model of agripreneur, local needs and affordability of target group of farmers; (ii). to support agricultural development; and (iii). to create gainful self-employment opportunities for unemployed agricultural graduates, agricultural diploma holders, intermediate in agriculture and biological science graduates with Post Graduation in agri-related courses.

The scheme is open to the (i). Graduates in agriculture and allied subjects from State Agriculture Universities (SAUs)/Central Agricultural Universities/Universities recognized by ICAR/UGC; (ii). Diploma (with at least 50% marks)/Post Graduate Diploma holders in Agriculture and allied subjects from State Agricultural Universities, State Agriculture and Allied Departments and State Department of Technical Education; (iii). Biological Science Graduates with Post Graduation in Agriculture & allied subjects; (iv). Degree courses recognised by UGC having more than 60 percent of the course content in Agriculture and allied subjects; (v). Diploma/Post Graduate Diploma courses with more than 60 percent of course content in Agriculture and allied subjects, after B.Sc. with Biological Sciences, from recognised colleges and universities; and (vi). Agriculture related courses at Intermediate (i.e. plus two) level, with at least 55% marks.

Solar Schemes

The Ministry of New and Renewable Energy (MNRE), Government of India has launched a new scheme to support 30000 solar pumping units per year which is effective from 3 November 2014. Main objective of the scheme is to replace diesel pumpsets with solar pumpsets as also to reduce dependence on grid power. The solar pumpsets are environment-friendly and offer tremendous benefits to farmers. They involve very low operating cost and provide uninterrupted power supply to farmers enabling increase in agriculture production and income. Subsidy under the scheme is available only for solar systems that are procured from empanelled manufacturers/entrepreneurs by MNRE, GoI for solar water pumping programme. Individuals, group of individuals, SHGs, JLGs, NGOs, Farmers' Clubs, Farmers Producer Organisation and Farmers Producer Company are eligible to apply under this scheme. Private/Public Limited Companies/Corporates are not eligible.

Activity: write a brief note on “Government Sponsored Schemes of NABARD”

8.3 : Summary :

Several Central and State level Institutions have been established to cater to the financial , technical and marketing requirements of micro, small, and medium enterprises considering their relative importance in the economy in terms of low investment, high potential for

employment generation, diversification of industrial base and dispersal of industries to rural and semi urban areas.

NABARD is one among such premium institutions that came into existence on 12 July, 1982 for fostering rural prosperity. It aims at promoting sustainable and equitable agricultural and rural development through participative financial and nonfinancial interventions, technology and institutional development for securing prosperity. It renders financial support, both direct and refinance, developmental assistance and supervisory help for building an empowered and financially inclusive rural India. It supports several government sponsored schemes for providing self-employment for Farmers, individual entrepreneurs, NGOs, companies, groups of organised and unorganised sectors, etc.

8.4 : Self assessment Questions

1. Multiple Choice Questions with Answers

****1. NABARD was established on July 12, 1982 by transferring the agricultural credit functions of which institution?***

- A) State Bank of India
- B) Reserve Bank of India (RBI)
- C) Industrial Development Bank of India (IDBI)
- D) Ministry of Finance

****Answer: B) Reserve Bank of India (RBI)****

****2. The SHG Bank Linkage Programme launched by NABARD in 1992 has become:***

- A) India's smallest microfinance project
- B) The world's largest microfinance project
- C) A failed experiment in rural banking
- D) A government subsidy program

****Answer: B) The world's largest microfinance project****

****3. Under the Automatic Refinance Facility (ARF), NABARD provides refinance to eligible banks:***

- A) With strict upper ceiling on quantum
- B) Without any upper ceiling on quantum of refinance
- C) Only for agriculture projects
- D) Only for large corporations

****Answer: B) Without any upper ceiling on quantum of refinance****

****4. The Kisan Credit Card (KCC) scheme, designed by NABARD, primarily aims to:***

- A) Provide farmers with credit cards for shopping
- B) Provide farmers with timely and adequate credit for agricultural operations
- C) Replace all other forms of agricultural credit

- D) Provide loans for purchasing tractors only

****Answer: B) Provide farmers with timely and adequate credit for agricultural operations****

****5. Which of the following is a government-sponsored scheme implemented through NABARD that provides financial assistance for setting up modern dairy farms?*****

- A) Solar Schemes
- B) Dairy Entrepreneurship Development Scheme
- C) Agriclinic and Agribusiness Centres Scheme
- D) Composite Loan Scheme

****Answer: B) Dairy Entrepreneurship Development Scheme****

Short Answer Questions

1. What was the need for establishing NABARD? Explain the circumstances that led to its formation.
2. List and briefly explain the three broad categories of NABARD's functions.
3. What are the different types of refinance schemes offered by NABARD? Explain any two.
4. Describe any three government-sponsored schemes implemented through NABARD.
5. What is the SHG Bank Linkage Programme and why is it significant for rural development?

Case Study

From Marginal Farmer to Successful Dairy Entrepreneur: The Transformative Impact of NABARD's Dairy Scheme

Ramulu, a marginal farmer from a small village in Medak district of Telangana, owned just two acres of dry land that barely sustained his family of five. Like millions of small farmers across India, he faced the perpetual challenge of inadequate income, unreliable monsoons, and mounting debt from local moneylenders who charged exorbitant interest rates. His wife, Lakshmi, supplemented their income by working as a daily wage laborer, but their combined earnings were insufficient to provide quality education for their children or break the cycle of poverty. In 2019, Ramulu attended a village-level awareness camp organized by the local branch of the District Cooperative Central Bank, which was promoting NABARD's Dairy Entrepreneurship Development Scheme. The scheme, launched by the Department of Animal Husbandry, Dairying and Fisheries, aimed to promote setting up of modern dairy farms for production of clean milk, encourage heifer calf rearing, and generate self-employment in the unorganized sector. Ramulu learned that under this scheme, farmers, individual entrepreneurs, and even self-help groups were eligible to apply for financial assistance. The key features attracted him: he could avail assistance for setting up a small dairy farm with modern infrastructure, and the scheme provided both financial support and technical guidance. However, Ramulu faced multiple challenges. He had no land to spare for a dairy shed, limited knowledge of modern dairy farming practices, and no experience dealing with formal banking institutions. The village-level worker from the cooperative bank helped him

navigate these obstacles. First, he identified a small plot of government land near his village that could be leased for dairy farming. Second, he connected Ramulu with the local veterinary hospital for training on animal husbandry, scientific feeding practices, and disease management. Third, he guided Ramulu through the loan application process, helping him prepare a simple project report. Ramulu applied for a loan of Rs. 1.5 lakhs to purchase two high-yielding cross-bred cows and construct a small shed. The bank, assured by NABARD's refinance support and the scheme's viability, sanctioned the loan within weeks. Within two years, Ramulu's dairy venture transformed his family's fortunes. From two cows, he expanded to five, selling an average of 50 liters of milk daily to the local dairy cooperative. His monthly income increased from Rs. 3,000 to over Rs. 15,000. Lakshmi, who now manages the dairy along with him, no longer works as a daily laborer. Their children attend a better school in the nearby town. Ramulu has repaid half his loan and is confident of clearing it entirely within the next year. He has become a role model in his village, with several neighbors approaching him for guidance on starting their own dairy ventures. The local cooperative bank branch manager, reflecting on Ramulu's transformation, noted: "This is exactly what NABARD's developmental role is about. It's not just about providing refinance to banks; it's about changing lives at the grassroots. Ramulu's story is repeated thousands of times across India, thanks to the institutional framework NABARD has built over four decades." Ramulu's journey from marginal farmer to successful dairy entrepreneur illustrates how NABARD's financial and developmental interventions, working through grassroots institutions, can transform rural livelihoods. The Dairy Entrepreneurship Development Scheme provided not just credit but a comprehensive package including training, technical support, and market linkage through the cooperative structure. It exemplifies NABARD's "Credit Plus" approach—going beyond mere credit to ensure sustainable income generation for rural families.

Case Study Questions

1. How did NABARD's Dairy Entrepreneurship Development Scheme address the multiple challenges faced by marginal farmers like Ramulu? What specific components of the scheme contributed to his success?
2. Explain the role of grassroots institutions (cooperative bank, veterinary hospital, dairy cooperative) in implementing NABARD's developmental objectives. How does this illustrate NABARD's "Credit Plus" approach?
3. What broader lessons about rural development and institutional support for small entrepreneurs can be derived from Ramulu's transformation? How can such successes be replicated at scale?

8.5 : Key Terms

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

A premier development financial institution established on July 12, 1982 under the Act 61 of 1981, dedicated to fostering rural prosperity through integrated rural development. It works towards promoting sustainable and equitable agriculture and rural development through participative financial and non-financial interventions, technology, and institutional development.

****2. Refinance****

A facility provided by NABARD to banks and financial institutions against the loans they have extended to ultimate borrowers. It includes short-term refinance for production purposes and long-term refinance for investment credit leading to capital formation through asset creation.

****3. Automatic Refinance Facility (ARF)****

A refinance scheme extended by NABARD to Commercial Banks, State Cooperative Banks, Regional Rural Banks, and other financial institutions without any upper ceiling on quantum of refinance for all kinds of projects under Farm Sector and Non-Farm Sector, facilitating smoother credit flow to eligible sectors.

****4. Rural Infrastructure Development Fund (RIDF)****

A fund established by NABARD to provide loans to state governments for completing ongoing rural infrastructure projects. It represents NABARD's commitment to building rural infrastructure, with the institution financing one-fifth of India's total rural infrastructure.

****5. SHG Bank Linkage Programme****

A pioneering microfinance initiative launched by NABARD in 1992 that has blossomed into the world's largest microfinance project. It links self-help groups (SHGs) of rural poor, particularly women, with formal banking institutions to provide them access to financial services.

****6. Kisan Credit Card (KCC)****

A scheme designed by NABARD that has become a source of comfort for millions of farmers, providing them with timely and adequate credit for their agricultural operations. It simplifies the credit disbursement process and ensures farmers have access to funds when needed.

****7. Climate Change Initiatives****

NABARD's various programs addressing challenges posed by climate change, particularly in agriculture and rural livelihood sectors. These include watershed development programs, sustainable agriculture practices, and promoting climate-resilient farming techniques.

8.6 : Further Readings / Reference books:

1. ****<https://www.nabard.org>**** - Official website of NABARD containing comprehensive information about all schemes, functions, and developmental initiatives.
2. ****Shodhganga (n.d.). *Institutional Support for MSMEs*****. Available at: http://shodhganga.inflibnet.ac.in/bitstream/10603/27524/1/11_11_chapter%204.pdf (Academic resource on institutional support systems for MSMEs).
3. ****Ministry of Micro, Small & Medium Enterprises (n.d.). *MSME*****. Government of India. Available at: msme.gov.in (Official portal for MSME policies and institutional support).

4. **DC-MSME (n.d). *Policies*****. Available at:
www.dcmsme.gov.in/policies/policies.htm (Resource on central government policies and institutional support for small industries).
5. **Small Enterprise India (2011). *Institutions Supporting SME Growth*****. Available at:
www.smallenterpriseindia.com (Article on various institutions supporting SME development in India)..

Lesson – 9

CENTRAL INSTITUTIONS - II : SIDBI

Objective of the lesson :

- Understand the formation, establishment, and evolution of the Small Industries Development Bank of India (SIDBI) as the principal financial institution for MSME sector development
- Analyze the business domain of SIDBI and its contribution to the Indian economy through MSME financing and development
- Examine the four basic objectives of SIDBI: Financing, Promotion, Development, and Co-ordination for orderly growth of the small scale sector
- Evaluate the various activities of SIDBI including its inclusive agenda, Missing Middle Programme, Poorest State Inclusive Growth (PSIG) Programme, and soft infrastructure support
- Assess SIDBI's recent initiatives aligned with national missions including Digital India, Start-Up India, Make in India, Skill India, and Clean India

Structure of the Lesson :

9.0 Small Industries Development Bank of India (SIDBI)

9.1 Business Domain of SIDBI

9.2 Objectives of SIDBI

9.3 activities of SIDBI

9.4 SIDBI initiatives in the recent past

9.4 Summary

9.5 Self assessment Questions

9.6 Key Terms

9.7 Further Readings / Reference books

13 SUCCESS STORIES OF ENTREPRENEURS SUPPORTED BY SIDBI

1. Mrs. Bector's CREMICA: Way back in 1978, Mrs. Rajni Bector started an enterprise unveiling her love for baking, Swirling remarkable ice-creams, breads and biscuits. Cremica began its journey on the foundation of quality, freshness and taste. The small enterprise in due course of time has become a huge food product conglomerate known as Cremica. It is known for its innovative offerings, packaging and its commitment to quality. Keeping up with changing consumer preferences, the company has also introduced a health range for the health-conscious consumers.

In 2015-16, the company has achieved a turnover of Rs.561 cr with a net profit of Rs.27 cr. The company was rated A+ by ICRA(report dated August 05, 2015) on the long term scale.

2. UEW: United Engineering Works (UEW) has been promoted by a Women entrepreneur Mrs. Ambalal Kalidas Panchal, now aged 71. UEW is a first generation women entrepreneur and customer of SIDBI since December 2008. While it was setup in 1986 it operated in a small shop. When it approached SIDBI in 2008, SIDBI supported it to go for technological up gradation under CGTMSE coverage. UEW has taken 4 loans in past out of which one has been fully repaid with impeccable repayment record. It has consistent record of growth in top line and bottom line. A small unit starting from scratch has crossed turnover of Rs.6 crore. It started in one small shop followed by scattered small units. SIDBI has recently supported it to set up a state of art manufacturing unit. It stated recently that SIDBI has made it to realise its dreams.

3. AJANTHA PAACKS : Ajantha Packs is a partnership firm, promoted by Smt. N. Subhashini and Smt. P. Kalavathi in July 2013, for manufacture of corrugated boxes. Smt Subhashini is a postgraduate in Commerce and the Chief Promoter of the unit. Smt. Kalavathi has only formal school education, but has experience in the line of activity. In July 2013 SIDBI extended financial assistance of R. 25 lakh for part-financing the establishment of the set up along with Rs. 25 lakh for working capital. Started from scratch the unit has recorded a turnover of Rs.1 crore plus in the first full year of its operations with a decent 10% net profit. The unit is also servicing the debt promptly.

4. DOCTORS ONLINE: Company provides integrated solutions in the healthcare sector through internet and mobile platform.
Post SIDBI assistance: revenue of the company grew from Rs.7 Lakh in FY2012 to Rs.5.38 crore in FY2014.

5. SOFTTECH (EMPOWERING TRANSFORMATION): Company is into software development for AEC (Architecture, Engineering and Construction) space.
Post SIDBI assistance: revenue of the company grew from Rs.7.50 crore in FY2009 to Rs. 25.75 crore in FY2014.

6. COMMTEL NETWORKS: Company provides solutions in telecom space.
Post SIDBI assistance: company's revenue grew from Rs.20.64 crore in FY2010 to Rs.99.47 crore in FY2014.

7. AUTOCOP (AUTOCOP (INDIA) PVT. LTD): Company is into manufacturing & marketing of car accessories.
Post SIDBI assistance, revenue of the company grew from Rs.140 crore in FY2010 to

Rs.400 crore in FY2014.

8. FLASH (FLASH ELECTRONICS (INDIA) PVT. LTD): Flash Electronics (India) Private Limited (Flash) is engaged in the manufacture of auto electrical and electronics accessories for two wheeler industry.

Post SVCL investment: the turnover of the company has increased from & 21 crore in FY 2007 to R 350 crore in FY 2014.

9. Bill Desk (ALL YOUR PAYMENTS – SINGLE SOLUTION): Indiaideas.com Pvt Ltd, the promoter of “Billdesk.com” is engaged in payments solutions which has facilitated the growth of e-commerce business in India.

Post SVCL investment: last year, “Billdesk” has been valued at over Rs.1400 crore the largest company of its kind with a substantial share of the Indian market.

10. KRAFT POWERCON: Kraft Powercon India Pvt Ltd is engaged in rectifier market with a range of products for pollution control, water purification, uninterruptible power supply devices etc.

Post SVCL investment, the turnover of the company has increased from Rs.25 crore in FY2008 to Rs.400 crore in FY2014 besides setting up manufacturing facilities in Sweden and China.

11. GIBSS : Company provides green building solutions.

Post SIDBI assistance: revenue of the company grew from Rs.2.75 crore in FY2012 to Rs.9.35 crore in FY2014. Rs.9.57 crore in FY2015 and poised to reach Rs.20plus crore in FY2016.

12. WILDCRAFT: Company provides backpacks, bags and other travel accessories.

Post SIDBI assistance: company’s revenue has grown from Rs. 4.81 crore (FY2009) to Rs. 106 crore (FY2014). Recently, Sequoia Capital invested Rs. 70 crore in the company.

13. KEJRIWAL BEE CARE INDIA (PVT.) LTD : Company is engaged in processing and exporting of Honey.

Post SIDBI assistance: revenue of the company grew from Rs.40.65 crore in FY2009 to Rs.131.81 crore in FY2014.

9.0 Small Industries Development Bank of India (SIDBI) :

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and

for Co-ordination of the functions of the institutions engaged in similar activities. As the name suggests, SIDBI was primarily set up to provide financial assistance to small scale industries in India. It is one of the leading government bodies that provides various financial schemes across a range of industries and services.

Some of the schemes are Direct Assistance Scheme, Indirect Assistance Scheme, Promotional and Development Activities, National Equity Fund Scheme, Technology Development and Modernization Fund Scheme, Single Window Scheme, Mahila Udyam Nidhi (MUN) Scheme and Equipment Finance Scheme. The SIDBI has been regularly fulfilling its commitments like assistance to up gradation and modernisation, marketing the products of SSIs and creating employment opportunities in the rural belt thereby preventing exodus of workers from country to town.

The SIDBI's financial assistance to SSIs is channelized through the Development Corporations, Commercial Banks and Regional Banks. The SIDBI also provides financial support to National Small Industries Corporations for providing leasing, hire purchase and marketing support to the industrial units in the SSI sector. SIDBI is created "To facilitate and strengthen credit flow to MSMEs and address both financial and developmental gaps in the MSME eco-system". It emerged as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant and globally competitive.

9.1 Business Domain of SIDBI:

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 5.1 crore units, creating employment of about 11.7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports in terms of value, about 37% of GDP.

The business strategy of SIDBI is to address the financial and non-financial gaps in MSME eco-system. Financial support to MSMEs is provided by way of (a) Indirect / refinance to banks / Financial Institutions for onward lending to MSMEs and (b) direct finance in the niche areas like risk capital, sustainable finance, receivable financing, service sector financing, etc. As on March 31, 2017, SIDBI has made cumulative disbursements of about `4.80 lakh crore benefitting about 350 lakh persons. By this way, SIDBI would be complementing and supplementing efforts of banks/ FIs in meeting diverse credit needs of MSMEs.

9.2 Objectives of SIDBI

Four basic objectives are set out in the SIDBI Charter. They are: Financing, Promotion, Development and co-ordination for orderly growth of industry in the small scale sector. The Charter has provided SIDBI considerable flexibility in adopting appropriate operational strategies to meet these objectives. The activities of SIDBI, as they have evolved over the period of time, now meet almost all the requirements of small scale industries which fall into a wide spectrum constituting modern and technologically superior units at one end and traditional units at the other.

Promotion and Development activities of SIDBI: In order to promote and develop the MSME sector, SIDBI adopts a 'Credit Plus' approach, under which, besides credit, SIDBI supports enterprise development, skill up-gradation, marketing support, cluster development, technology modernization, etc., These P&D support have benefitted more than 2.3 lakh persons in the MSME sector, created more than 1.5 lakh employment and helped in setting up more than 80,000 units, mostly rural enterprises.

Co-ordination and Understanding: As an apex institution, SIDBI makes use of the network of the banks and state level financial institutions, which have retail outlets. SIDBI supplements the efforts of existing institutions through its direct assistance schemes to reach financial assistance to the ultimate borrowers in the small scale sector. Refinancing, bills rediscounting, lines of credit and resource support mechanisms have evolved over the period of time to route SIDBI's assistance through the network of other retail institutions in the financial system. Improved levels of co-ordination for development of the small scale sector is also achieved through a system of dialogue and obtaining feedback from the representatives of institutions of

small scale industries who are on the SIDBI's National Advisory Committee and Regional Advisory Committees.

Activity: Write a note on basic objectives of the DIDBI

9.3 activities of SIDBI

INSTILLING INCLUSIVE AGENDA : Being the Principal Financial Institution for MSMEs, SIDBI has dedicated its resources to evolve a vibrant MSMEs eco system. SIDBI's initiatives have remained aligned to the national goals of poverty alleviation, employment generation, kindling entrepreneurship and fostering competitiveness in MSME sector. It has also been equipping MSMEs to align with global expectations and be responsive to the Millennium Development Goals.

SIDBI had nurtured institutions like Bandhan Bank for several years through loan, equity and capacity building support. The institution is one of the two institutions issued licence in 2014 by RBI for forming an universal bank. Thus, Bandhan is now transforming itself into an universal bank with rich domain knowledge to cater mainly to micro enterprises. 9 out of 10 SIDBI nurtured/supported MFIs/NBFCs have got license for small finance banks.

MISSING MIDDLE PROGRAMME : The segment which missed the credit link pertained to those micro finance beneficiaries in unorganised sector who were looking up the value chain and intended to convert into MEs but could not due to lack of credit history and formal channel not entertaining them. SIDBI has been spearheading Missing Middle programme aimed at infusing energy in this segment.

POOREST STATE INCLUSIVE GROWTH (PSIG) PROGRAMME : Supported by the UK Aid from the Department for International Development (DFID), since April 2012, SIDBI is implementing this six year programme aimed at expanding access to a range of financial services (savings, credit, micro insurance, micro pension etc.) for poor in the 4 low income States (Bihar,

Odisha, Madhya Pradesh and Uttar Pradesh). PSIG programme has provided loans of Rs.39.50 crore to 15 MFIs, which is also recycled by them. Out of loans to 50834 clients, outreach to 12708 clients belonging to SC/ST has been made. Quantum of loans to OBC/SC/ST/Minorities works out to Rs.27.96 crore.

PSIG States are amongst the lowest in terms of Gender Development Index (GDI) including economic marginalization, mobility restrictions due to cultural norms, poor health conditions, etc. PSIG focuses on women's empowerment through microfinance interventions including financial literacy programme and capacity building of women clients on social, gender and legal rights and entitlement. The project has undertaken 1st Pilot project on Financial Literacy (FL) & Women Empowerment (WE) in select 14 Districts Uttar Pradesh and Bihar. It adopts Training of Trainers (ToT) approach for creating a cadre of 90 community resource persons reaching out to 60,000 women clients of 7 MFIs. 2nd & 3rd Pilot project on Financial Literacy and Women empowerment is being undertaken in Madhya Pradesh (MP) and Odisha. The pilot aims to build a cadre of 42&70 community resource persons (Master Trainers) in the States of MP and Odisha respectively. In turn, target is to reach out to 80000 women clients of select partner MFIs in MP and Odisha. The projects are in inception and strategy development stage. PSIG is also working on addressing other women empowerment issues like legal rights through the Legal Rights Awareness Programme (LRAP) in Madhya Pradesh. The project implemented in slums of Bhopal was successful in raising awareness of 600 women clients of the partner MFI. Evaluation of pilot has also pointed towards change in perception and knowledge of women clients through the training.

SOFT INFRASTRUCTURE SUPPORT : Under its promotional and developmental support programmes, SIDBI has been supporting unemployed to be employable and those employed being gainfully employed. Several innovative initiatives have promoted rural enterprises, self employed ventures generating employment opportunities, especially targeting less privileged sections of the society like women, SC/ST, minorities and rural poor. EDPs supported by the Bank since inception for various target groups was 3097 benefiting about 77,000 participants.

SIDBI supports the holistic development of North Eastern region by sponsoring EDPs, cluster development programmes etc. SIDBI has been supporting MicroEnterprises Promotion Programme (MEPP) aimed at promoting viable micro enterprises in semiurban/rural India. Cumulatively 41,500 enterprises have been supported.

Under MSME Financing and Development project (MSMEFDP) with support of World Bank, DFID, KfW & Giz and under the guidance of DFS, MoF, GoI, SIDBI took illustrative steps to attend to both financial and non financial services. It not only ensured Credit Dispensation through credit facility but also supported Credit Supplementation (by building capacity on credit information and rating including green rating, risk sharing facility etc.) but also took concerted steps on Credit Enhancement (through capacity building of institutions, credit gap mapping of clusters, instituting downscaling pilot-how to do small loan profitably). It pioneered the 'Making Market Work for MSMEs' in India. SIDBI undertook this unique cluster development programme in 20 clusters which attended to cluster development from soft side. By fostering availability of sustainable Business Development Service (BDS) providers at local level, it endeavoured to complement the hard infrastructure (physical infrastructure) and found it a validated tool for enhanced growth of MSMEs. This internationally awarded approach introduced new models of BDS delivery by laying thrust on skill, finance, environment, quality & marketing. The project adopted innovative tools of Voucher, BDS clinic, BDS Bazaar, BDS on Wheel, BDS Consortium, MSME Mentor and so on. One of the targeted segments was women centric interventions. The project reached out to around >2200 women beneficiaries mainly in the areas of training & skill upgradation, technology improvement, fatigue reduction, market linkages, product development and so on. As per independent impact assessment studies, soft infrastructure support led to 13% increase in employment of MSMEs with 100% increase (6% to 14%) in the number of women employees in MSMEs in the intervention clusters within 3 years. This was better than the control group which did not reap advantages of such connect. Various initiatives not only improved the working conditions of women but induced them towards entrepreneurial aspirations.

9.4 SIDBI initiatives in the recent past :

SIDBI has taken illustrative steps under the guidance and direction of Government of India.

Some of the key initiatives include

Mission	MSME Alignment Initiatives
Digital India	Web based solutions connecting stakeholders and making MSMEs realize their aspirations
Funding the unfunded	<ul style="list-style-type: none"> • MUDRA for loans from Rs.50000 to Rs.10 lakh in collaboration with 154 partners • Intensifying Poorest State Inclusive Growth Programme for promoting social entrepreneurship • Serving the Missing Middle
Start-Up India	<ul style="list-style-type: none"> • India Aspiration Fund- Rs.2000 crore serving as fund of funds and commitment already reached to R1100 crore with potential to catalyse R10000 crore of risk capital mobilisation • Startup assistance scheme under direct dispensation to boost innovative and technology led enterprises • Supporting Incubation centres (IIT Kanpur and KIT Bhubaneswar) for incubating Ideas • Enabler for MSME for listing on SME exchange • SRIJAN- a TIFAC-SIDBI Technology Innovation programme fostering innovation
Make in India	<ul style="list-style-type: none"> • Make in India scheme for term loan and working capital requirements • SMILE scheme for both term loan and Risk Capital with GoI/RBI fund support
Clean India - Greening MSMEs	<ul style="list-style-type: none"> • Schemes for climate change/clean/green energy efficient MSMEs • 4 E scheme under World Bank GEF project • Zero Defect and Zero Effect solutions
Small Finance Banks	<ul style="list-style-type: none"> • Nine out of 10 of SIDBI nurtured/ supported MFIs and NBFCs have got Small Finance Bank licence. • SIDBI has taken lead to handhold their emergence and positioning of service model.
Skill India	<ul style="list-style-type: none"> • Renewed thrust on the thematic/targeted EDPs • Capacity building of Associations to upgrade the skill sets of their members/MSMEs/office bearers/potential workforce

Activity: Contact your local SIDBI office and collect information about its support to ‘Make in India Scheme’

Other initiatives of SIDBI: SIDBI is committed to align the institution to strengthen the entrepreneurial ecosystem. The key pillars of SIDBI financial and developmental support would include the following:

Attending to Base of the Pyramid : SIDBI thrust is on funding the unfunded, mainstreaming those excluded, skilling entrepreneurial India, enabling ease of access to credit and non credit services and helping the last mile connect.

Kindling Startups and Fostering Innovation : SIDBI has laid thrust for funding innovative businesses directly as well through other channel partners including its subsidiary SIDBI Venture Capital Ltd. This has ensured channelising (directly/ indirectly) Venture capital/quasi-equity assistance, mezzanine finance to MSMEs. SIDBI has also been acting as Fund of Funds to provide risk capital by way of Venture Capital / Seed financing through VC funds, banks, NBFCs, as also directly. SIDBI shall continue supporting innovative start-ups at both pre revenue and post revenue stage. SIDBI shall keep upgrading the Virtual Mentor - www.smallbin (a website for credible information to first generation and also for existing entrepreneurs) as per demands and aspirations of MSMEs. SIDBI remain committed to spread more Smile in the entire value chain.

Sustainable MSMEs : Under responsible financing agenda, SIDBI provides sustainable finance which lays thrust on fostering green, clean and energy efficient enterprises. SIDBI is dedicated to further this agenda by aligning it to SWACHH BHARAT ABHIYAAN' to ensure enterprises who would respect environment, social fabric, high governance levels, transparency in procurement and following ethical business practices. SIDBI shall continue thrust on Make in India scheme called SMILE where in both term loan and soft loan is being provided to enterprises in identified 25 sectors with a view to making them globally competitive.

Digital Enterprises : Over the years, SIDBI has been able to address several thematic initiatives including acquisition of state-of- art technologies. SIDBI is pioneer in several e-based solutions including Credit Rating and Appraisal Tool (for faster dispensation of credit to MSMEs) has reduced turn around time. SIDBI shall remain engaged with MSME eco system and enhance their capabilities in leveraging such opportunities. Trade Receivables Discounting System (TReDS) shall lay emphasis on solving the problem of delayed payments and also enabling price discovery.

Fostering Balanced Development: MSMEs thrive when hard (physical) infrastructure is supported by soft (access to business services ensuring handholding and mentoring) infrastructure. SIDBI has seen that the participative involvement of stakeholders such as industry associations, academic and research institutions, community organisations etc. is a must for replicability benefits. SIDBI will be furthering this agenda.

TURNING CHALLENGES INTO OPPORTUNITIES : SIDBI has always been working with the credit plus approach. Besides credit, SIDBI has been focusing on Credit Supplementation under various schemes viz. Micro Credit, Energy Efficiency, equity type products etc. SIDBI has taken lead in offering additionally, bridging the gaps, complementing institutions, developmental orientation, acting as enabler and fulcrum to address the concerns and expectations of MSMEs. Attending to problems and challenges of MSMEs so as to enable them to convert such problems and challenges into opportunities through our customized schemes, institutional solutions and collaborations with multilateral and bilateral institutions have been our value added offerings. SIDBI assisted enterprises have supplied consumables for landmark achievements of the country like Mangal Yaan.

VIBRANCY AT THE BOTTOM OF PYRAMID : Through a comprehensive range of financial and non-financial assistance, SIDBI has worked with and through a large number of Micro Finance Institutions (MFIs) who have been incubated, nurtured and strengthened to reach out to rural pockets. SIDBI is committed to attain the national goal of a broad-based equitable and inclusive growth by providing micro credit through MFIs for on-lending to the bottom-of-the pyramid segment of the society with special thrust on un-served and under-served regions of the country.

SIDBI, had initiated micro finance activities in the year 1994 with the objective of providing revolving fund assistance to select well-managed Non-Governmental Organisations (NGOs) for on-lending to the poor including ST/ST/OBCs/Minorities/Women for setting up micro enterprises. The cumulative assistance including loans, equity and quasi equity (but excluding assistance under India Microfinance Equity Fund) disbursed under SIDBI's micro finance initiatives upto March 31, 2015 aggregated Rs.9366 crore benefitting 3.32 crore persons, mostly women, with a majority of beneficiaries belonging to SC, ST, OBC and Minority community.

The longitudinal Impact Assessment Study commissioned by SIDBI for its Micro Finance programme observed that “among various social groups, clients belonging to backward classes have the highest share (45%) in the sample, followed by Scheduled Castes (26%) and Schedule Tribes (1.9%)”. Taking the above findings of the study as a basis, caste/category wise beneficiaries under SIDBI's microfinance programme is estimated for SC/ST and OBCs at 0.86 crore, 0.06 crore and 1.49 crore respectively.

GoI has committed support of Rs.150 crore under Portfolio Risk Fund (PRF) Scheme, which is being utilised by the Bank for meeting 7.5% of the term loan towards security cover (against the normal requirement of 10%) of the MFIs requirements under Micro Credit Scheme for providing loan assistance to MFIs in the underserved states and underserved pockets/ districts in other States (with emphasis on SC, ST, Minority, OBC and women). So far, surpassing the targets, over 77.11 lakh persons have been benefitted under PRF. With effect from FY2011, componentwise allocation has been earmarked for SC, ST, and NER clients. This has enabled credit flow of R2361.37 crore, benefitting about 10.47 lakh SC/ST beneficiaries.

Under GoI supported “India Microfinance Equity Fund” (IMEF) of Rs.300 crore, the primary emphasis has been on providing equity and quasi equity to smaller MFIs to help them maintain growth and achieve scale and efficiency in their operations. Under the Fund, an amount of Rs.162.25 crore has been committed to 56 MFIs as on March 31, 2015. It is expected that the Fund would benefit more than 1.4 million additional clients, mostly women and economically weaker sections, including SC/ST & OBCs.

GLANCE ON ACHIEVEMENTS : - While serving MSMEs for 25 years, SIDBI has channelised cumulative assistance of around Rs.3.90 lakh crore.

- SIDBI has reached out to over 346 lakh persons/enterprises through its direct offices (80 offices) as also leveraging network of banks/institutions (having more than 1.25 lakh branches)
- In micro finance we have extended loans, equity and quasiequity aggregating K9366 crore benefiting 332 lakh disadvantaged people, mostly women.
- SIDBI has deepened its outreach by nurturing and evolving more than 150 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.
- SIDBI has supported more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling. The performance linked support to EDPs on thematic and targeted support (to less privileged section such as women, minorities and SC /ST) have success rate of around 55% in setting up enterprises.
- SIDBI has been in profit and has been declaring dividend 25% since inception. - As on 31/03/2015, the bank's overall outstanding portfolio stands at R55343 crore with 99.22% standard assets.
- SIDBI has a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category.

Activity: Visit your nearest SIDBI office and collect information on its assistance under 'Start Up India programme'

9.4 Summary of the Lesson. :

Government of India set up SIDBI in 1990 as the principal financial institution for the promotion, financing and development of Micro, Small and Medium Enterprises sector and for the coordination of the functions of the institutions engaged in similar activities. SIDBI was primarily set up to provide financial assistance to small scale industries in India. It is one of the leading government bodies that provides various financial schemes across a range of industries and services. Some of the schemes are Direct Assistance Scheme, Indirect Assistance Scheme, Promotional and Development Activities, National Equity Fund Scheme, Technology Development and Modernization Fund Scheme, Single Window Scheme, Mahila Udyam Nidhi (MUN) Scheme and Equipment Finance Scheme. Several entrepreneurs have succeeded in their business with the support of SIDBI.

9.5 Self assessment Questions

Multiple Choice Questions with Answers

****1. SIDBI was established on April 2, 1990 under which legislative framework?***

- A) Companies Act, 1956
- B) Banking Regulation Act, 1949
- C) An Act of Indian Parliament specifically for SIDBI
- D) RBI Act, 1934

****Answer: C) An Act of Indian Parliament specifically for SIDBI****

****2. The MSME sector contributes approximately what percentage to India's manufacturing output?***

- A) 25%
- B) 35%
- C) 45%
- D) 55%

****Answer: C) 45% ****

****3. The Poorest State Inclusive Growth (PSIG) Programme is implemented by SIDBI in which four states?***

- A) Punjab, Haryana, Delhi, Rajasthan
- B) Bihar, Odisha, Madhya Pradesh, Uttar Pradesh

- C) Maharashtra, Gujarat, Karnataka, Tamil Nadu
- D) West Bengal, Assam, Jharkhand, Chhattisgarh

****Answer: B) Bihar, Odisha, Madhya Pradesh, Uttar Pradesh****

****4. Under SIDBI's micro finance initiatives, what percentage of beneficiaries belong to backward classes, Scheduled Castes, and Scheduled Tribes according to the Impact Assessment Study?*****

- A) Approximately 45% backward classes, 26% SC, 1.9% ST
- B) Approximately 30% backward classes, 20% SC, 10% ST
- C) Approximately 60% backward classes, 15% SC, 5% ST
- D) Approximately 25% backward classes, 25% SC, 25% ST

****Answer: A) Approximately 45% backward classes, 26% SC, 1.9% ST****

****5. The India Aspiration Fund established by SIDBI has potential to catalyze how much risk capital mobilization?*****

- A) Rs. 1,000 crore
- B) Rs. 5,000 crore
- C) Rs. 10,000 crore
- D) Rs. 20,000 crore

****Answer: C) Rs. 10,000 crore***

Short Answer Questions

1. What is SIDBI and what are its four basic objectives as set out in its Charter?
2. Explain the business domain of SIDBI and the significance of the MSME sector in the Indian economy.
3. What is the "Credit Plus" approach adopted by SIDBI? Provide examples of developmental activities under this approach.
4. Describe the Poorest State Inclusive Growth (PSIG) Programme and its impact on women's empowerment.
5. How has SIDBI aligned its initiatives with national missions such as Digital India, Start-Up India, and Make in India?

Case Study

From Small Shop to State-of-the-Art Manufacturing: The Inspiring Journey of United Engineering Works (UEW)

United Engineering Works (UEW) stands as a shining testament to how SIDBI's targeted support can transform a small enterprise into a modern manufacturing unit, creating sustainable livelihoods and economic value. The company was promoted by Mrs. Ambalal Kalidas Panchal, a first-generation women entrepreneur who, at the age of 71, continues to inspire generations of aspiring business owners. UEW's journey began in 1986 in a small shop, operating on a modest scale with limited resources and traditional manufacturing

methods. For over two decades, the company struggled to grow beyond its initial constraints, facing the classic challenges of small enterprises: limited access to formal credit, inability to adopt modern technology, and difficulty competing with larger, better-equipped manufacturers. The turning point came in December 2008 when UEW first approached SIDBI for financial assistance. SIDBI recognized the entrepreneurial potential and technical competence of the promoter but also identified the critical gaps—outdated machinery, lack of working capital for expansion, and absence of formal systems. Under SIDBI's technology upgradation program with CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) coverage, UEW received its first loan. This was not merely a financial transaction; it was the beginning of a transformative partnership. Over the years, UEW has taken four loans from SIDBI, with one already fully repaid, demonstrating impeccable repayment discipline and consistent business growth. What makes this journey remarkable is the exponential growth trajectory. From a single small shop, UEW expanded to operate multiple scattered units, each struggling with inefficiencies of fragmented operations. SIDBI's recent support enabled the company to consolidate its operations into a state-of-the-art manufacturing unit with modern infrastructure, streamlined processes, and enhanced production capacity. The numbers tell a compelling story. From a modest beginning with minimal turnover, UEW has crossed an annual turnover of Rs. 6 crore. More importantly, it has maintained consistent growth in both top line and bottom line, demonstrating sustainable business practices. The company now employs skilled workers from the local community, contributing to employment generation in the region. Mrs. Panchal, reflecting on her journey, states emphatically: "SIDBI has made it possible for me to realize my dreams. When I started in that small shop, people said a woman couldn't run a manufacturing business. Today, our unit competes with the best in the industry." Her words capture the essence of SIDBI's developmental role—not just providing credit, but enabling dreams, building confidence, and creating role models for future generations. UEW's transformation illustrates multiple dimensions of SIDBI's impact. First, it demonstrates the importance of patient capital—loans structured with understanding of business cycles rather than rigid repayment demands. Second, it highlights the value of technology upgradation support—enabling small units to adopt modern manufacturing methods and compete effectively. Third, it showcases the power of CGTMSE coverage—providing collateral-free credit to enterprises that lack traditional security. Fourth, it exemplifies SIDBI's commitment to women entrepreneurship—supporting first-generation women entrepreneurs who face additional barriers in accessing finance. UEW's story is not unique but represents one of the 13 success stories profiled by SIDBI, each demonstrating how targeted institutional support can transform small enterprises into significant contributors to economic growth. From CREMICA's journey from a small food business to a Rs. 561 crore conglomerate, to Wildcraft's growth from Rs. 4.81 crore to Rs. 106 crore with Sequoia Capital investment, these stories collectively illustrate SIDBI's catalytic role in India's entrepreneurial ecosystem.

Case Study Questions

1. Analyze the multiple dimensions of SIDBI's support to UEW beyond mere financial assistance. How did the combination of credit, technology upgradation support, and CGTMSE coverage contribute to the company's transformation?
2. What specific challenges did Mrs. Panchal face as a first-generation women entrepreneur, and how did SIDBI's programs address these challenges? What lessons can be drawn for supporting women entrepreneurship in India?

3. UEW's growth from a small shop to a state-of-the-art manufacturing unit took over three decades. How does this long-term perspective align with SIDBI's developmental objectives? What role does patient capital play in enabling sustainable enterprise growth?

9.6 Key Terms:

1. SIDBI (Small Industries Development Bank of India)**

The principal financial institution established on April 2, 1990 under an Act of Indian Parliament for the promotion, financing, and development of the Micro, Small and Medium Enterprise (MSME) sector. It serves as the apex institution for coordinating functions of other institutions engaged in similar activities.

2. MSME (Micro, Small and Medium Enterprises)

The business domain of SIDBI, contributing significantly to the national economy with a vast network of around 5.1 crore units, creating employment for about 11.7 crore people, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports in terms of value, and approximately 37% of GDP.

3. Credit Plus Approach

SIDBI's comprehensive development strategy under which, besides credit, it supports enterprise development, skill up-gradation, marketing support, cluster development, and technology modernization. This approach has benefitted more than 2.3 lakh persons, created more than 1.5 lakh employment, and helped set up more than 80,000 units, mostly rural enterprises.

4. PSIG (Poorest State Inclusive Growth) Programme

A six-year programme implemented by SIDBI since April 2012 with support from UK Aid/DFID, aimed at expanding access to financial services including savings, credit, micro insurance, and micro pension for the poor in four low-income states: Bihar, Odisha, Madhya Pradesh, and Uttar Pradesh.

5. MUDRA (Micro Units Development and Refinance Agency)

An initiative under SIDBI's "Funding the Unfunded" mission, providing loans from Rs. 50,000 to Rs. 10 lakh in collaboration with 154 partners. It represents SIDBI's commitment to serving the missing middle and intensifying inclusive growth programmes.

6. India Aspiration Fund

A Rs. 2,000 crore fund established by SIDBI serving as a fund of funds, with commitment already reaching Rs. 1,100 crore and potential to catalyze Rs. 10,000 crore of risk capital mobilization for start-ups and innovative enterprises.

7. TReDS (Trade Receivables Discounting System)

An e-based solution pioneered by SIDBI to address the problem of delayed payments to MSMEs and enable price discovery. It represents SIDBI's commitment to leveraging digital technologies for enhancing MSME capabilities and solving systemic challenges.

9.7 Further Readings / Reference books:

Five Printed/Published Textbooks

1. **SIDBI Official Website** (n.d.). **About SIDBI**. Available at: <https://www.sidbi.in/> (Comprehensive information about SIDBI's functions, schemes, and initiatives)
2. **Your Article Library** (n.d.). **Main Functions of Small Industries Development Bank of India (SIDBI)**. Available at: www.yourarticlelibrary.com/banking/main-functions-of-small-industries-development-bank-of-india-sidbi/40993
3. **Preserve Articles** (2010). **What are the objectives and functions of Small Industries Development Bank of India?** Available at: www.preservearticles.com/201012291886/objectives-functions-of-sidbi.html
4. **Wikipedia** (n.d.). **Small Industries Development Bank of India**. Available at: https://en.wikipedia.org/wiki/Small_Industries_Development_Bank_of_India
5. **Papertyari** (2015). **Objectives and functions of SIDBI in development of industry**. Available at: www.papertyari.com/general-awareness/banking/small-industries-development-bank-india-sidbi/

LESSON – 10

CENTRAL INSTITUTIONS - III : NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

Objective of the lesson :

- Understand the formation, mission, and vision of the National Small Industries Corporation (NSIC) as a premier Government of India Enterprise under the Ministry of Micro, Small and Medium Enterprises (MSME)
- Analyze the various marketing support schemes offered by NSIC including Government Stores Purchase Programme, Consortia and Tender Marketing Scheme, and MSME Global Mart B2B Web Portal
- Evaluate the finance support schemes of NSIC including Bank Credit Facilitation, Bill Discounting, Raw Material Assistance, and Performance and Credit Rating Scheme
- Examine the technology support services provided through NSIC's Technical Services Centres, Software Technology cum Business Parks, and Incubation programmes
- Understand the international cooperation and consultancy services offered by NSIC for promoting global business linkages and south-south cooperation

Structure of the Lesson :

10.0 National Small Industries Corporation (NSIC)

10.1 Mission and Vision of NSIC

10.2 Schemes of NSIC

10.2.1 Marketing support

10.2.2 Finance support

10.2.3 Technology Support

10.2.4 Other support services

10.3 Summary

10.4 Self assessment Questions

10.5 Key Terms

10.6 Further Readings / Reference books



Oprah Winfrey at Sunday's Golden Globes show won the Cecil B. DeMille award, the Hollywood Foreign Press Association's version of a lifetime achievement award. Midway through the broadcast, Winfrey got up on stage and gave a rousing speech that had the audience alternately tearing up and jumping to their feet.

Winfrey hosted the highest rated daytime talk show in history for 25 years. The self-made billionaire's career trajectory is truly iconic, but any entrepreneur looking to make an impact can draw from her example to be an effective leader.

Continuity : Winfrey understands that strong leaders do not succeed without the work of those who came before.

Compassion : Winfrey understands that success is nothing if you do not use your influence to make a difference.

Consistency: A strong leader knows that you can accomplish great things when you truly believe in what you are doing.

10.0 National Small Industries Corporation (NSIC)

NSIC was Set up with the objective to boost small scale industries in India, NSIC helps import machines on easy hire purchase terms; procure and distribute imported raw materials; export products from small scale industries, etc. They have also started a new scheme to help small businesses understand credit ratings and the importance of maintaining good financial track record. National Small Industries Corporation (NSIC), is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through countrywide network of offices and Technical Centres in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower.

10.1 Mission and Vision of National Small Industries Corporation (NSIC)

Mission : To enhance the Competitiveness of Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services.

Vision : To be premier organization fostering the promotion & growth of Micro, Small and Medium Enterprises in the country.

10.2 Schemes of NSIC:

NSIC facilitates Micro, Small and Medium Enterprises with a set of specially tailored scheme to enhance their competitiveness. NSIC provides integrated support services under Marketing, Finance , Technology and other Support service.

10.2.1 marketing support:

Marketing has been identified as one of the most important tool for business development. It is critical for the growth and survival of MSMEs in today's intensely competitive market. NSIC acts as a facilitator and has devised a number of schemes to support enterprises in their marketing efforts, both domestic and foreign markets. These schemes are briefly described as under :

- 1. GOVERNMENT STORES PURCHASE PROGRAMME :** The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56. NSIC registers Micro & small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases.

Benefits of Registration : The units registered under Single Point Registration Scheme of NSIC are eligible to get the following benefits under Public Procurement Policy for Micro & Small Enterprises (MSEs) Order 2012 as notified by the Government of India, Ministry of Micro Small & Medium Enterprises, New Delhi vide Gazette Notification dated 23.03.2012:

- Issue of the Tender Sets free of cost;
- Exemption from payment of Earnest Money Deposit (EMD),

- In tender participating MSEs quoting price within price band of L1+15 per cent shall also be allowed to supply a portion upto 20% of requirement by bringing down their price to L1 Price where L1 is non MSEs.
- Every Central Ministries/Departments/PSUs shall set an annual goal of minimum 20 per cent of the total annual purchases of the products or services produced or rendered by MSEs. Out of annual requirement of 20% procurement from MSEs, 4% is earmarked for units owned by Schedule Caste /Schedule Tribes (as per PPP Order dated 23.03.2012 overall procurement goal shall be mandatory w.e.f. 01/04/2015)
- In addition to the above, 358 items are also reserved for exclusive purchase from SSI Sector .

2. NSIC-CONSORTIA AND TENDER MARKETING SCHEME : Small Enterprises in their individual capacity face problems to procure & execute large orders, which deny them a level playing field vis-a'-vis large enterprises. Promotion of the products of Micro and Small Entrepreneurs is one of the major objective of the Corporation. In the present competitive scenario it is essential to facilitate Micro and Small Enterprises to market their goods / services individually or collectively through 'Consortium'. Accordingly, the scheme for promoting the products of the MSEs has been reviewed in 2011 & named as "Consortia and Tender Marketing Scheme".

NSIC forms consortia of Micro and Small units manufacturing the same product, thereby pooling in their capacity. NSIC applies the tenders on behalf of single MSE/Consortia of MSEs for securing orders for them. These orders are then distributed amongst MSEs in tune with their production capacity.

The special features of the scheme:-

- (i) The scheme will cover Micro & Small Enterprises registered with NSIC under its Single Point Registration Scheme (SPRS). It would also cover Micro & Small Enterprises who apply to get themselves registered with NSIC under the SPRS along with all required documents in terms of the scheme and their factory is inspected before filing of tender in terms of the Tender Marketing Scheme. The scheme shall not cover unit(s) engaging in 'trading activities' without value addition/packing/ branding.

- (ii) The scheme also covers the method of selection of the units for participation in the open tenders and single tenders on nomination basis.
- (iii) The scheme takes care of providing EMD and security deposit on back to back basis.
- (iv) The scheme inter alia includes the procedures for formation of Consortium, Capacity Building of MSEs by formation of consortia of the units manufacturing similar products, participation in tenders on behalf of units in a 'consortia' to secure orders in 'bulk' quantities, distribution of orders amongst units in a 'consortia' as per their capacities, facilitate the 'consortia' members in meeting their raw materials requirements & facilitating 'Credit' for the supplies made.
- (v) To accommodate provisions of this scheme, the legal document such as individual agreement by the units, agreement to be executed by the consortium, board resolution, power of attorney and other related document have been revised and simplified.
- (vi) For facilitating promotion and development of Micro & Small Enterprises, the Government of India, Ministry of MSME vide Gazette Notification No. S.O. 581(E) dated 23rd March, 2012 has circulated the Public Procurement Order 2012 for MSME. In the above Public Procurement Order, the Govt. of India has mentioned that that "Annual goal of procurement also include sub-contracts to Micro and Small Enterprises by large enterprises and consortia of Micro and Small Enterprises formed by National Small Industries Corporation".
- (vii) NSIC formed Consortia of Micro & Small Enterprises under its Consortia & Tender Marketing Scheme and is supplying the required stores / items and rendering the services as required by the Govt. Depts. / PSUs. NSIC offices continuously monitor the consortia and form new ones depending upon the requirements.

3. MSME Global Mart B2B Web Portal for MSMEs : With increase in competition and melting away of international boundaries, the demand for information is reaching new heights. NSIC, realizing the needs of MSMEs, is offering Infomediary Services which is a one-stop, one-window bouquet of aids that will provide information on

business & technology and also exhibit the core competence of Indian MSMEs. B2B Webportal is offering following benefits to the members of Infomediary Services.

- Interactive database of MSMEs
 - Self web development tool
 - National Tenders on email
 - Centralized mail system
 - Popular Products Section
 - Unlimited global Trade Leads
 - Trust Seal of NSIC
 - MSME Web Store
 - Multiple Language Support
 - Discussion Board
 - Call Centre Support & Live Chat
 - Other Value added Services
 - Payment Gateway for membership subscription
- 4. Marketing Intelligence :** Collect and disseminate both domestic as well as international marketing intelligence for the benefit of MSMEs. This cell, in addition to spreading awareness about various programmes / schemes for MSMEs, will specifically maintain database and disseminate information.
- 5. Exhibitions and Technology Fairs :** To showcase the competencies of Indian SSIs and to capture market opportunities, NSIC participates in select International and National Exhibitions and Trade Fairs every year. NSIC facilitates the participation of the small enterprises by providing concessions in rental etc. Participation in these events exposes SSI units to international practices and enhances their business prowess.
- 6. Buyer-Seller meets :** Bulk and departmental buyers such as the Railways, Defence, Communication departments and large companies are invited to participate in buyer-seller meets to enrich small enterprises knowledge regarding terms and conditions, quality standards, etc required by the buyer. These programmes are aimed at vendor development from MSMEs for the bulk manufacturers.

Activity: How NSIC is rendering market support services to small units

10.2.2 Finance support

1. Bank Credit Facilitation Scheme: To meet the credit requirements of MSME units NSIC has entered into a Memorandum of Understanding with various Nationalized and Private Sector Banks. Through syndication with these banks, NSIC facilitates MSME in accessing credit support (fund based or non-fund based limits) from the banks. NSIC assists MSMEs in completion of the documentation for submitting the proposals to the banks and also does the follow up with the banks. These handholding support are provided by NSIC without any cost to the MSMEs.

2. Bill Discounting Scheme : The Scheme covers purchase / discounting of bills arising out of genuine trade transactions i.e. purchase of supplies made by small scale units to reputed Public Limited Companies / State and Central Govt. Departments / Undertakings.

3. Credit Support : NSIC facilitates credit requirements of small enterprises in the following areas

3.1 Financing for procurement of Raw Material (Short term): NSIC's Raw Material Assistance Scheme aims at helping Small Enterprises by way of financing the purchase of Raw Material (both indigenous & imported). The salient features are

1. Financial Assistance for procurement of Raw Materials upto 90 days.
2. Bulk purchase of basic raw materials at competitive rates.
3. NSIC facilitates import of scarce raw materials.
4. NSIC takes care of all the procedures, documentation & issue of letter of credit in case of imports.

3.2 Financing for Marketing Activities (Short term) : NSIC facilitates financing for marketing activities such as Internal Marketing, Exports and Bill Discounting.

3.3 Finance through syndication with Banks : In order to ensure smooth credit flow to small enterprises, NSIC is entering into strategic alliances with commercial banks to facilitate long term / working capital financing of the small enterprises across the country. The

arrangement envisages forwarding of loan applications of the interested small enterprises by NSIC to the banks and sharing the processing fee.

3.4 Performance and Credit Rating Scheme for small industries : Need of a Performance and Credit Rating Mechanism for Micro and Small Enterprises) was highlighted in Union Budget'04-05. A scheme for Micro and Small Enterprises has been formulated in consultation with Indian Banks' Association (IBA) and Rating Agencies. NSIC has been appointed the nodal agency for implementation of this scheme through empanelled agencies.

Benefits of Performance and Credit Rating : An independent, trusted third party opinion on capabilities and credit-worthiness of Micro and Small Enterprises

- Availability of credit at attractive interest
- Recognition in global trade
- Prompt sanctions of Credit from Banks and Financial Institutions
- Subsidized rating fee structure for Micro and Small Enterprises
- Facilitate vendors/buyers in capability and capacity assessment of Micro and Small Enterprises
- Enable Micro and Small Enterprises to ascertain the strengths and weaknesses of their existing operations and take corrective measures.

Activity: What are the finance support schemes of NSIC for small business?

10.2.3 Technology Support

1. Technology Support : Technology is the key to enhancing a company's competitive advantage in today's dynamic information age. Small enterprises need to develop and implement a technology strategy in addition to financial, marketing and operational strategies and adopt the one that helps integrate their operations with their environment, customers and suppliers.

NSIC offers small enterprises the following support services through its Technical Services Centres.

1. Advise on application of new techniques
2. Material testing facilities through accredited laboratories
3. Product design including CAD
4. Common facility support in machining, EDM, CNC, etc.
5. Energy and environment services at selected centres
6. Classroom and practical training for skill upgradation

NSIC Technical Services Centres are located at the following places

Name of the Centre	Focus area
Chennai	Leather & Footware
Howrah	General Engineering
Hyderabad	Electronics & Computer Application
New Delhi	Machine Tools & related activities
Rajkot	Energy Audit & Energy Conservation activities
Rajpura (Pb)	Domestic Electrical Appliances
Aligarh (UP)	Lock Cluster & Die and Tool making

2. Software Technology Cum Business Parks : NSIC has established Software Technology cum Business Parks at New Delhi and Chennai for providing the space to small and medium enterprises in software development and to IT/ITES/MSME units not regd. with STPI or the units that are falling under the overall definition of MSME as per the guidelines of Ministry of Micro, Small and Medium Enterprises. Units other than MSME such as Banks/PSUs/Financial Institutions, corporate sector etc. would also be considered for allotment on a case-to-case on merit with the approval of Competent Authority. NSIC Software Technology cum Business Parks, New Delhi is located in a prime location at Okhla Industrial Area adjacent to NSIC Bhawan with a total built up area of approx.53000 sq.ft. This location is in the near vicinity to Nehru Place. (the commercial centre of computer industry). NSIC Software Technology cum Business Parks, Chennai is located in a prime location at Guindy Industrial Estate (Jawahar Lal Nehru Statue) with a total built area of 48,000 Sq. Ft. This location is in the near vicinity to domestic and international Airports.

3. Incubation of unemployed youth for setting up of New Micro & Small enterprises :

This programme facilitates setting up of new enterprises all over the country by creating self-employment opportunities for the unemployed persons. The objective of this scheme is to facilitate establishment of new small enterprises by way of providing integrated services in the areas of training for entrepreneurial skill development, selection of small projects, preparation of project profiles/reports, identification and sourcing of plant, machinery and equipments, facilitating sanction of credit facility and providing other support services in order to boost the development of small enterprises in manufacturing and services sectors.

4. Infomediary Services : Infomediary Services Information today is becoming almost as vital as the air we breathe. We need it every minute of our working lives. With increase in competition and melting away of international boundaries, the demand for information is reaching new heights. NSIC, realizing the needs of MSMEs, is offering Infomediary Services which is a one-stop, one-window bouquet of aids that will provide information on business, technology and finance, and also exhibit the core competence of Indian SMEs. The corporation is offering Infomediary Services through its MSME Global Mart www.msmemart.com; which is a Business to Business (B2B) compliant web portal. The services are available through Annual Membership.

10.2.4 Other support services

1. International Cooperation : NSIC facilitates sustainable international partnerships. The emphasis is on sustainable business relations rather than on one-way transactions. Since its inception, NSIC has contributed to strengthening enterprise-to-enterprise cooperation, south south cooperation and sharing best practices and experiences with other developing countries, especially those in the African, Asian and Pacific regions. The features of the scheme are:

- Exchange of Business / Technology missions with various countries.
- Facilitating Enterprise to Enterprise cooperation, JVs, Technology Transfer & other form of sustainable collaboration.
- Explore new markets & areas of cooperation:
- Identification of new export markets by participating in sector- specific exhibitions all over the world.
- Sharing of Indian experience with other developing countries

2. International Consultancy Services : For the last five decades, NSIC has acquired various skill sets in the development process of small enterprises. The inherent skills are

being networked to offer consultancy services for other developing countries. The areas of consultancy are as listed below:

1. Capacity Building
2. Policy & Institutional Framework
3. Entrepreneurship Development
4. Business Development Services

10.3 Summary of the Lesson:

National Small Industries Corporation (NSIC), is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME).

NSIC was Set up with the objective to boost small scale industries in India, NSIC helps import machines on easy hire purchase terms; procure and distribute imported raw materials; export products from small scale industries, etc. NSIC also started a new scheme to help small businesses understand credit ratings and the importance of maintaining good financial track record. NSIC facilitates Micro, Small and Medium Enterprises with a set of specially tailored schemes to enhance their competitiveness. NSIC provides integrated support services under Marketing, Finance, Technology and other Support service.

NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through countrywide network of offices and Technical Centres in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower.

10.4 Self assessment Questions

(Multiple Choice Questions with Answers)

1. NSIC was established in which year with the objective to boost small scale industries in India?

- A) 1947
- B) 1955

- C) 1965
- D) 1975

Answer: B) 1955

2. Under the Public Procurement Policy for MSEs, what percentage of total annual purchases is earmarked for procurement from MSEs?

- A) 10%
- B) 15%
- C) 20%
- D) 25%

Answer: C) 20%

3. Which of the following is NOT a benefit available to units registered under NSIC's Single Point Registration Scheme?

- A) Free tender sets
- B) Exemption from Earnest Money Deposit (EMD)
- C) Priority in government payments
- D) Exemption from income tax

Answer: D) Exemption from income tax

4. The Raw Material Assistance Scheme of NSIC provides financial assistance for procurement of raw materials for up to how many days?

- A) 30 days
- B) 60 days
- C) 90 days
- D) 120 days

Answer: C) 90 days

5. NSIC Technical Services Centres are located at which of the following places with their respective focus areas?

- A) Chennai - Leather & Footware
- B) Mumbai - Information Technology
- C) Kolkata - Machine Tools
- D) Bengaluru - Electronics

Answer: A) Chennai - Leather & Footware

Short Answer Questions

1. What is NSIC and what are its mission and vision?
2. Explain the benefits available to MSEs registered under NSIC's Single Point Registration Scheme (SPRS).
3. Describe the Consortia and Tender Marketing Scheme and its special features.
4. What are the various finance support schemes offered by NSIC?
5. Explain the technology support services provided through NSIC's Technical Services Centres.

Case Study

Oprah Winfrey's Leadership Lessons: Continuity, Compassion, and Consistency

While Oprah Winfrey is globally recognized as a media mogul and billionaire entrepreneur, her leadership journey offers profound lessons for small business owners and entrepreneurs

supported by institutions like NSIC. Winfrey hosted the highest-rated daytime talk show in history for 25 years, building a media empire that spans television production, publishing, and digital media. Her career trajectory from poverty to global influence provides three essential leadership principles that resonate with MSME entrepreneurs striving for success with institutional support.

Continuity: Building on the Work of Those Who Came Before

Winfrey's 2018 Golden Globes Cecil B. DeMille award acceptance speech powerfully illustrated her understanding that strong leaders do not succeed without the work of those who came before her. She spoke of the women—particularly Black women—whose courage and sacrifice paved the way for her own success, including Recy Taylor, whose story of injustice she had featured on her show decades earlier. For MSME entrepreneurs, this principle translates into understanding that their businesses are built on foundations laid by predecessors—whether family business legacies, industry pioneers, or institutional support systems like NSIC that have spent decades creating frameworks for small enterprise development. Entrepreneurs who acknowledge and build upon this continuity rather than starting from scratch every time are better positioned for sustainable growth. NSIC's role since 1955 in creating marketing, finance, and technology support systems represents precisely this kind of foundational work that current entrepreneurs can leverage rather than replicate.

Compassion: Using Influence to Make a Difference

Winfrey understands that success is meaningless if not used to make a positive difference. Her philanthropic work, educational initiatives, and consistent platforming of marginalized voices demonstrate that business success and social impact are not mutually exclusive but mutually reinforcing. For MSMEs, this principle manifests in creating products and services that genuinely solve customer problems, treating employees with dignity and respect, and contributing to community development. NSIC's emphasis on promoting enterprises in underserved regions, supporting women entrepreneurs, and facilitating international cooperation for technology transfer reflects this same compassionate approach to business development.

Consistency: True Belief in What You Are Doing

A strong leader knows that great accomplishments come from genuine belief in one's mission. Winfrey's consistent focus on authentic storytelling, personal growth, and empowerment across four decades demonstrates unwavering commitment to her core values. For entrepreneurs, consistency means maintaining quality standards, honoring commitments to customers and suppliers, and persisting through challenges without compromising core principles. NSIC's Performance and Credit Rating Scheme, which provides independent assessment of MSE capabilities, helps entrepreneurs build the kind of credibility that comes from consistent performance.

The Oprah Winfrey story, while operating at a vastly different scale than typical MSMEs, illustrates universal entrepreneurial principles. Just as Winfrey leveraged the institutional frameworks of television networks and media distribution systems, Indian MSMEs can leverage NSIC's institutional support for marketing, finance, and technology. Just as she maintained continuity with those who came before, small enterprises can build upon the entrepreneurial legacy and institutional infrastructure developed over decades. Just as she demonstrated compassion through her work, MSMEs can create genuine value for customers and communities. And just as she maintained consistency of purpose, small enterprises can

build credibility through reliable performance. These principles, combined with NSIC's comprehensive support systems, create the foundation for sustainable entrepreneurial success.

Case Study Questions

1. How do the leadership principles demonstrated by Oprah Winfrey—continuity, compassion, and consistency—apply to entrepreneurs running micro and small enterprises? Provide specific examples of how MSMEs can embody these principles in their daily operations.
2. NSIC provides various support schemes for marketing, finance, and technology. How can entrepreneurs leverage these institutional support systems while maintaining the leadership qualities discussed in the case study?

The case study suggests that acknowledging and building upon the work of predecessors is crucial for success. How does NSIC's four-decade history of supporting small enterprises represent a foundation that current entrepreneurs can build upon? What specific NSIC schemes demonstrate this continuity of support?

10.5 Key Terms: 1. NSIC (National Small Industries Corporation)

An ISO 9001-2008 certified Government of India Enterprise under the Ministry of Micro, Small and Medium Enterprises (MSME), established with the objective to promote, aid, and foster the growth of micro, small, and medium enterprises in the country through integrated support services encompassing marketing, finance, technology, and other services.

2. Single Point Registration Scheme (SPRS)

A scheme under which NSIC registers Micro and Small Enterprises (MSEs) for participation in Government Purchases. Registered units receive benefits including free tender sets, exemption from Earnest Money Deposit (EMD), and eligibility for price preference in government procurement.

3. Consortia and Tender Marketing Scheme

A scheme facilitating Micro and Small Enterprises to market their goods and services individually or collectively through consortia formation. NSIC forms consortia of units manufacturing similar products, applies for tenders on their behalf, and distributes orders amongst members according to their production capacity.

4. Raw Material Assistance Scheme

A short-term financing scheme helping Small Enterprises procure raw materials (both indigenous and imported) for up to 90 days. NSIC facilitates bulk purchase of basic raw materials at competitive rates and takes care of procedures, documentation, and letter of credit issuance for imports.

5. Performance and Credit Rating Scheme

A scheme formulated for Micro and Small Enterprises in consultation with Indian Banks' Association (IBA) and Rating Agencies, with NSIC as the nodal agency. It provides an independent, trusted third-party opinion on capabilities and credit-worthiness, enabling access to credit at attractive interest rates.

6. Infomediary Services

A one-stop, one-window bouquet of services offered through the MSME Global Mart B2B web portal (www.msmemart.com), providing information on business, technology, and finance, and exhibiting the core competence of Indian SMEs through interactive database, trade leads, and web development tools.

7. International Cooperation

NSIC's initiative to facilitate sustainable international partnerships through exchange of business and technology missions, enterprise-to-enterprise cooperation, joint ventures, technology transfer, and participation in sector-specific exhibitions worldwide, with special emphasis on south-south cooperation with African, Asian, and Pacific regions..

10.6 Further Readings / Reference books:

Printed/Published Textbooks

1. **Your Article Library** (n.d.). *NSIC: Functions and Support Provided by National Small Industries Corporation Ltd.* Available at: www.yourarticlelibrary.com/finance/nsic-functions-and-support-provided-by-national-small-industries-corporation-ltd/41012
2. **Preserve Articles** (2011). *What are the functions of National Small Industries Corporation Ltd.* Available at: www.preservearticles.com/201101203594/functions-of-national-small-industries-corporation-ltd.html
3. **Publish Your Articles** (n.d.). *What are the main functions of National Small Industries Corporation (NSIC)?* Available at: www.publishyourarticles.net/eng/articles2/what-are-the-main-functions-of-national-small-industries-corporation-nsic/2794/
4. **SlideShare** (2012). *National small industries corporation ltd. (nsic).* Available at: www.slideshare.net/ankushkumarrana/national-small-industries-corporation-ltd-nsic
5. **Wikipedia** (n.d.). *National Small Industries Corporation.* Available at: https://en.wikipedia.org/wiki/National_Small_Industries_Corporation

Lesson – 11

CENTRAL INSTITUTIONS - IV : KVIC & SIDO

**“It is my conviction that a day will come when all
will see that for India there is no way other
than village industries to develop ”**

Mahatma Gandhi.

Objective of the lesson :

- Understand the formation, objectives, and major functions of the Khadi and Village Industries Commission (KVIC) as a statutory body established for promoting rural industrialization
- Analyze the various village industries under KVIC's purview categorized into seven heads including mineral-based, agro-based, polymer-based, forest-based, and rural engineering industries
- Examine the Prime Minister's Employment Generation Programme (PMEGP) implemented by KVIC as a flagship scheme for generating self-employment opportunities
- Evaluate the role of the Small Industries Development Organisation (SIDO) as the national SME Development Agency providing comprehensive support services
- Understand the various schemes offered by KVIC and SIDO including Rural Industry Service Centre (RISC), Credit Guarantee Trust Fund (CGTMSE), and Interest Subsidy Eligibility Certificate (ISEC)

Structure of the Lesson : -

11.I The Khadi and Village Industries Commission (KVIC)

11.I.1 Village Industries under KVIC's purview

11.I.2 Programme for Promotion of Village Industries(VI) Cluster- Rural Industry Service Centre (RISC) for Khadi and V.I. Activity

11.I.3 Prime Minister's Employment Generation Programme (PMEGP)

11.I.4 Performance and Credit Rating Scheme

11.I.5 Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)

11.I.6 Interest Subsidy Eligibility Certificate (ISEC)

11.I.7 Development of Khadi, Village and Coir Industries

11.II Small Industries Development Organisation (SIDO)

11.II.1 SIDO Schemes for Promotion of SSIs

11.III Summary

11.IV Self assessment Questions

11.V Key Terms

11.VI Further Readings / Reference books

4 Success Stories of Rural Employment Generation Programme of KVIC**1. Smt. Bharati Gaiid**

First it was her husband Shri Bharat Bhutan who used to mould beautiful statues and decorative articles from Plaster of Paris (PoP) at his residence on a small scale. As his professional skills didn't bring in enough, his wife Bharati joined him in the entrepreneurship. Her aptitude for some creative activity seemed to be the only input in the beginning.

When Shri H.P. Joshi, Supervisor, KVIC, Ambala on a fine morning happened to see those statues lined up for drying outside their house, he asked the couple to submit a suitable project for sanction under REGP. Overwhelmed by the never expected motivation, that too from someone quite stranger to the couple, Smt. Bharati arranged for a piece of land in the Village Jandli near Ambala. Punjab National Bank was a next step, which gladly considered the project and sanctioned Rs.6.87 lakhs. Smt. Bharati arranged Rs.36,000/- from her own savings. Bharti Arts and Crafts is a sign board now that makes the passers-by to peep into the shop and eye those nicely moulded and painted statues. Some even bow before them with great respect as if they are true Gods!

Smt. Bharati is quite proud of her success. She says "I hardly expected that our creativity so easily would be an economically viable activity and settle us with enough to feed the family; these dumb statues have brought smiles on the faces of the 11 others and their families. Our Bhakti to our creative work has paid us much more than we ever imagined". It's just the truth. The Bhakti Arts & Crafts supplies statues all over India. Its books show a record of demands for statues worth Rs. 8.00 lakhs accomplished and those at the receiving end are proud to own those beautiful Shilpas. Those dumb statues have now a job to do. They are campaigning for the REGP programme under KVIC that taught them to speak! Shri Shiv Khera says 'Success comes not to those who do different things; but to those who do things differently'.

2. Smt.Vandana (W/o. Shri Vinit Agrawal) - Ideal for Rural Industrialisation

Mrs.Vandana Agrawal right from her childhood was having urge either to join in Government sector or to start own business. But as she was from middle class society, after graduation, she got married to one C.A. After a few years of her marriage when she became little free from her responsibilities, she expressed her wish to start some work. Her husband supported her idea and as he was C.A. he was aware of the Rural Employment Generation Programme of KVIC and suggested her to start Steel Furniture manufacturing unit. She got the loan within a short time.

She started manufacturing work but for marketing she had to compete with Delhi products. As she was local, she was able to develop confidence among the people and the quality of her products was good. This has benefited her a lot and she could overcome the marketing problem. As business started expanding her husband and elder son also started helping her. This enterprise has improved her socio-economic status. At present 30 employees are working with her. She became free of her all worries.

According to her, Rural Employment Generation Programme of KVIC is a very good means for rural industrialization. She desires that all the ladies of Chhattisgarh area should come out of all traditions and should become self sufficient.

3. Shri L. Ngamboi - Tribal Girls in Front of CPU

In the hilly and tribal inhibited areas in Churachandpur town which is a district place as well, one comes across a small Offset Printing Press owned and operated by Shri L. Ngamboi who himself belongs to a scheduled tribe. His M/s. Marantha Offset-cum-Stationery Shop became a reality when he was conferred with a loan of Rs. 9.81 lakhs by Punjab National Bank under REGP. He set for meeting orders for the printed material and stationery from nearby offices and institutions.

With a turn over of Rs.3.00 lakhs in the first year, Shri Ngamboi's unit has now become a talk-of-the-hill-town. His firm now is a supplier of documents, books of accounts, note and exercise books, letter heads, VCs, etc. to the educational institutions. The unit is now a breadwinner for ten including Shri Ngamboi and his wife .He has two girls trained in DTP on his pay roll. The success of the Press lies in the fact that it has cleared the loans drawn from the bank under the scheme. The owner says, "I've paved way for younger generation to get self employed". He must be having those two girls in front of the Computer trying their fingers on the keyboard on his mind in the backward and tribal hilly area in the North-Eastern corner.

4. Shri Kamlesh Trivedi

Shri Kamlesh Trivedi has attended training on Non-Edible Oils Soap from Gujarat Rajya Khadi & V.I.Board. He was enquiring from many quarters as to how to start his own business and at the advice of his well known friend, he reached office of the Gujarat Rajya Khadi & V.I.Board. To get more details he reached S.O. of the Commission and met Shri Savarkar who gave him full details of the scheme. Not only this his project was sponsored to SBI, Athav Branch who has accorded him Bank Finance under Gramodyog Rojgar Yojana. He had to struggle initially for marketing his product but now he is easily marketing his Krishi Soap for which he profoundly thanks KVIC and the Bank. He has employed 6 persons in his project.

11.I The Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body established by an act of Parliament in April 1957. It took over the work of former All India Khadi and Village Industries board.

OBJECTIVES : The broad objectives of KVIC are :

- The social objective of providing employment.
- The economic objective of producing saleable articles.
- The wider objective of creating self-reliance amongst the poor and building up

of a strong rural community spirit.

Functions : Some of the major functions of KVIC are :

- The KVIC is charged with the planning, promotion, organisation and implementation of programs for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

Its functions also comprise building up of a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods and provisions of facilities for marketing of KVI products apart from organisation of training of artisans engaged in these industries and encouragement of co-operative efforts amongst them. To promote the sale and marketing of khadi and/or products of village industries or handicrafts, the KVIC may forge linkages with established marketing agencies wherever feasible and necessary.

The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques and equipment employed in the Khadi and Village Industries sector and providing facilities for the study of the problems relating to it, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and arranging for dissemination of salient results obtained from such research.

- Further, the KVIC is entrusted with the task of providing financial assistance to institutions and individuals for development and operation of Khadi and village industries and guiding them through supply of designs, prototypes and other technical information.

In implementing KVI activities, the KVIC may take such steps as to ensure genuineness of the products and to set standards of quality and ensure that the products of Khadi and village industries do conform to the standards.

The KVIC may also undertake directly or through other agencies studies concerning the problems of Khadi and/or village industries besides research or establishing pilot projects for the development of Khadi and village industries. The KVIC is authorized to establish and maintain separate organisations for the purpose of carrying out any or all of the above matters besides carrying out any other matters incidental to its activities.

VILLAGE INDUSTRIES : Any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed [one lakh rupees] or such other sum as may, by notification in the Official Gazette, be specified from time to time by the Central Government Provided that any industry specified in the Schedule and located in an area other than a rural area and recognised as a village industry at any time before the commencement of the Khadi and Village Industries Commission (Amendment) Act, 1987 shall, notwithstanding anything contained in the sub-clause, continue to be a village industry under this Act

11.1.1 VILLAGE INDUSTRIES under KVIC's purview

The KVIC has broadly re-grouped various village Industries under seven heads for the purpose of implementation of its programmes. The list of industries is as under:

1. **Mineral Based Industry :** Pottery , Lime
2. **Agro Based & Food Processing Industry (ABFPI) :** Pulses & Cereals Processing Industry, Gur & Khandsari Industry : 3. Palmgur Industry 4. Fruit & Vegetable Processing Industry; 5. Village Oil Industry.

3. **Polymer & Chemical Based Industry (PCBI)** : Leather Industry; Non Edible Oils & Soap Industry; Cottage Match Industry; Plastic Industry.
4. **Forest Based Industry (FBI)** : Medicinal Plants Industry; Bee Keeping Industry; Minor Forest Based Industries;
5. **Hand Made Paper & Fibre Industry (HMPFI)** : Hand Made Paper Industry, Fibre Industry
6. **Rural Engineering & Bio Technology Industry (REBTI)** : Bio-technology; Carpentry & Blacksmithy; Electronics
7. **SEP/Service Industry:** Village Industries Co-ordination

The Khadi & V. I. Commission is working since last 50 years and providing Technical and Financial support to the rural artisans and generated the employment's to the unemployed youths presently.

11.I.2 PROGRAMME FOR PROMOTION OF V.I. CLUSTER - RURAL INDUSTRY SERVICE CENTRE (RISC) FOR KHADI AND V.I. ACTIVITY:

Title of the Programme : Programme for promotion of Village Industries (V.I) Cluster-Rural Industry Service Centre (RISC) for Khadi and V.I. activity.

Objectives of the Programme : 1. Provide backward forward linkages to Khadi & V.I. activities in a cluster. 2. To provide services like raw material support, skill up-gradation, training, Quality Control, Testing facilities, marketing promotion, design & product development in order to strengthen the rural clusters.

Implementing Agency : 1. KVIC and State KVIBs. 2. National level / State level Khadi and V.I. Federations 3. Khadi and V.I. Institutions affiliated to KVIC and KVIBs. 4. NGO who have already worked in implementation of programme relating to development of rural artisans in activities excluding the negative list of KVIC with financial assistance at least for

3 projects from any Ministry of State / Central Government, CAPART, NABARD and UN agencies.

Rural Industry Service Centre (RISC): “Rural Industry Service Centre (RISC) is the Common Facility Unit which aims to provide infrastructural support and necessary services to the local units to upgrade their production capacity, skill upgradation and market promotion.”

One of the following services must be covered by the Rural Industry Service Centre (RISC): (a) Provide testing facilities by establishing laboratory to ensure quality of the products. (b) Provide improved machinery/equipment to be utilised as common utility facilities by the nearby unites /artisans to enhance production capacity or value addition of the product (c)Provide attractive and appropriate packaging facilities and machineries to the local unties / artisans for better marketing of their products.

In addition of the above facilities RISC can also cater to following services:

- i. Provide training facilities to upgrade artisan’s skill in order to increase their earnings.
- ii. Provide new design or new product, diversified product in consultation with experts /agencies for a value addition of rural manufacturing units.
- iii. Provide raw material support which mainly depend on seasonal procurement.
- iv. Prepare product catalogue.

Types of Khadi & Village Industries to be covered under Rural Industry Service Centre

(RISC) :

- Khadi & Poly Vastra post weaving value addition facilities.
- Herbal products: Cosmetics and Medicines.
- Edible Oil,
- Detergents & Soaps.
- Honey
- Hand Made Paper
- Food processing
- Bio-Fertilizer / Bio-Pesticides / Bio Manure
- Potteries
- Leather

- Woodwork
- All other V.I. except those which are in the negative list.

Financial Pattern		NE States	Other areas
a)	KVIC's Share	90%	75%
b)	Own Contribution or Loan from Bank/Financial Institutions	10%	25%

In case of North Eastern States 90% of project cost will be provided by KVIC upto a project cost of Rs.5.00 lakhs.

OPERATIONALISATION AND PROGRAMME IMPLEMENTATION : For the purpose of establishing Rural Industry Service Centre (RISC), it may be ensured that the number of artisans / Village Industries units shall not be less than 25 individual artisans or 5 REGP units / VI Institutions / Societies for projects upto Rs.5.00 lakhs. The implementing agency / Organisation should have its own land where the Rural Industry Service Centre (RISC) will be established. The period of setting of project should not be more than 6 months. After submission of the proposal by the implementing agency to set up Rural Industry Service Centre (RISC), State / Regional Director shall conduct technical feasibility and place the proposal with his recommendations before State Level Committee. Technical feasibility may done either by DIC or by State Office or State Board. The funds shall be released based on the progress of work report received periodically from State / Regional Director and based on activities of the project and also within a specific time frame for timely completion of the project. The State / Regional Director of the concerned state where the project is located shall ensure monitoring and evaluation and timely completion of project. After obtaining approval by the State Level Committee for setting up of project State/Regional Director will intimate to concerned Industry Programme Directors at Central Office of the Commission

11.I.3 Prime Minister's Employment Generation Programme (PMEGP)

The scheme is implemented by Khadi and Village Industries Commission (KVIC) as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the scheme is routed by

KVIC through the identified banks for eventual distribution to the beneficiaries/entrepreneurs into their bank accounts. The maximum cost of the project/unit admissible in manufacturing sector is Rs.25 lakhs and in business/service sector is Rs.10 lakhs. Any individual above 18 years of age can apply. The beneficiary must have passed at least VIII standard for projects costing above Rs.10 lakh in the manufacturing sector, and above Rs.5 lakh in the business/service sector. Only new projects are considered for sanction under PMEGP. SHGs (including those belonging to BPL, provided that they have not availed benefits under any other scheme), Institutions registered under Societies Registration Act, 1860; Production Co-operative Societies, and Charitable Trusts are also eligible. Existing units (under PMRY, REGP or any other scheme of Government of India or State Government) and units that have already availed Government subsidy under any other scheme of Government of India or State Government are not eligible. The State/Divisional Directors of KVIC in consultation with KVIB and Director of Industries of the respective states (for DICs) will give advertisements locally through print & electronic media inviting applications along with project proposals from prospective beneficiaries desirous of establishing the enterprise/starting of service units under PMEGP.

KVIC having track record of providing employment to about 47 lakhs Rural populace are determined and want to reach every household in rural area and provide additional employment of 37 lakhs persons by the end of 2011-12 through PMEGP, the new scheme of employment generation launched on 15th August,2008 to ensure inclusive society identifying the potential entrepreneurs, preparing project profiles and ensuring hassle free loans by Banks. KVIC is transforming the rural scenario in many ways.

Activity : Log on to www.kvic.org.in and write a brief note on one of the model projects that suits to your interest.

11.I.4 Performance and Credit Rating Scheme

This scheme seeks to establish independent, trusted third party opinion on capabilities and credit-worthiness of MSEs, and makes credit available at attractive interest rates. It endeavours to enable MSMEs recognition in global trade, ensure prompt sanctions of credit from banks and financial institutions, subsidized rating fee structure for MSEs, facilitate vendors/buyers in capability and capacity assessment of MSEs, enable the MSEs to ascertain the strengths and weaknesses of their existing operations and take corrective measures. The scheme is a combination of credit and performance factors including operations, finance, business and management risk, allowing uniform rating scale for all empanelled rating agencies. MSEs have the liberty to choose from the empanelled rating agencies. The fee structure is turn-over based. Partial re-imburement of rating fee may be obtained through National Small Industries Corporation (NSIC). Any Micro or Small enterprise wishing to apply for rating will have to fill up the prescribed application form and submit the same to the nearest branch of NSIC.

11.I.5 Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)

Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement Credit Guarantee Fund Scheme for Micro and Small Enterprises. The corpus of CGTMSE is being contributed by GoI and SIDBI. Nature of assistance include Collateral free loans up to a limit of Rs.50 lakh - for individual MSEs. Both existing and new enterprises are eligible under the scheme. Candidates meeting the eligibility criteria may approach banks/financial institutions, which are eligible under the scheme, or scheduled commercial banks and select Regional Rural Banks.

11.I.6 Interest Subsidy Eligibility Certificate (ISEC)

The Interest Subsidy Eligibility Certificate (ISEC) Scheme is an important mechanism of funding khadi programme undertaken by khadi institutions. It was introduced to mobilize funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources. Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital, is made available as per the requirement of the institutions. The difference between the actual lending rate and 4% is paid by the Central Government through KVIC to the lending banks. The Khadi institutions, having valid Khadi certificate and sanctioned khadi programme. The Institutions registered with the KVIC/State Khadi and Village Industries Boards (KVIBs) can avail of financing under the ISEC Scheme, the Scheme supports only the khadi and the polyvastra sector. The Khadi institutions will apply to the financing bank for working capital alongwith the ISEC certificate issued by KVIC. Based on the working capital sanctioned, financing bank will raise the reimbursement claim to the nodal branch for the differential interest rate over and above 4%.

11.I.7 Development of Khadi, Village and Coir Industries

1. Science and Technology Scheme : The Scheme envisages extension of the outcomes of research at the laboratory level for application at the field level and extension of testing and service facility. The Research and Development activities of the Board are carried out through the twin research institutes: the Central Coir Research Institute, Kalavoor and Central Institute of Coir Technology, Bangalore. Nature of assistance includes Technology Transfer, Incubation, Testing and Service Facilities. The research outcomes are beneficial to the coir industry and trade in India and abroad. Traders/ Manufactures/ Entrepreneurs/Coir Workers can approach Research Centre in order to avail of assistance in Technology Transfer, Incubation, Testing and Service Facilities.

2. Market Promotion & Development Scheme (MPDA) : The Market Promotion and Development Assistance Scheme (MPDA) has been launched as a unified scheme by merging different schemes implemented by the Khadi sector including publicity, marketing, market promotion and marketing development assistance. Further, grant/subsidy will also be available for construction of Khadi plazas. The overall objective of the scheme is to ensure increased earnings for artisans.

The Khadi institutions, having valid Khadi certificate and categorised as A+,A,B and C only are eligible to avail MMDA grant from KVIC. The total amount of MMDA on production will be claimed by the producing Institution from the KVIC and will be distributed amongst the stakeholders viz., spinners and weavers, producing Institutions and selling Institutions in the ratio 40%, 20% and 40% respectively. Producing Institutions shall submit quarterly claim of MMDA based on the actual production achieved during the preceding quarter of the financial year. The difference, if any, would be adjusted in the last quarter of the financial year on the basis of accounts audited by a Chartered Accountant. The MMDA, preferably, shall be reimbursed electronically by the State/Divisional office of the KVIC on a quarterly basis.

3. Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

The main objectives of the scheme are to :

- To organize the traditional industries and artisans into clusters in order to make them, competitive and provide support for their long term sustainability;
- To provide sustained employment for traditional industry artisans and rural entrepreneurs;
- To enhance marketability of products of such clusters by providing support for new products, design intervention and improved packaging and also the improvement of marketing Infrastructure;
- To equip traditional artisans of the associated clusters with the improved skills and capabilities through training and exposure visits;
- To make provision for common facilities and improved tools and equipments for artisans;
- To strengthen the cluster governance systems with the active participation of the stakeholders, so that they are able to gauge the emerging challenges and opportunities and respond to them in a coherent manner;

- To build up innovative and traditional skills, improved technologies, advanced processes, market intelligence and new models of public-private partnerships, so as to gradually replicate similar models of cluster- based regenerated traditional industries.

The project outlay for various clusters is as follows: Heritage cluster (1000-2500 artisans) amounting Rs. 8 cr; Major cluster (500-1000 artisans) amounting Rs. 3 cr; and Mini cluster (Up to 500 artisans) amounting Rs. 1.5 cr. For North Eastern Regions/Jammu & Kashmir and Hill States, there will be 50% reduction in the number of artisans per cluster.

Non-Government Organizations (NGOs), Institutions of the Central and State Governments and, Semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), and similar agencies, with suitable expertise to undertake cluster development, can apply for the scheme. The above eligible agency/organization has to submit the proposal to the State Office, KVIC and the proposed is to be scrutinized at State Level and Zonal Level before being submitted onwards to the Scheme Steering Committee for approval.

4. Coir Udyami Yojana (CUY)

This is a credit-linked subsidy scheme for setting up of coir units with project cost up to Rs.10 lakh plus one cycle of working capital, which shall not exceed 25% of the project cost. Working capital will not be considered for the purpose of subsidy. Maximum admissible cost of the project is Rs.10 lakhs plus working capital, which shall not exceed 25% of the project cost. Beneficiary's contribution shall be 5% of the project cost. Bank credit Rate is fixed at 55%. Rate of Subsidy is fixed at 40% of the project cost.

Individuals, Companies, Self Help Groups, Non Governmental Organizations, Institutions registered under Societies Registration Act 1860, Production Co-operative Societies, Joint Liability Groups and Charitable Trusts are eligible to apply for the scheme. The applications can be collected from Coir Board Offices, District Industries Centres, Coir Project Offices, Panchayati Raj Institutions and the Nodal Agencies approved by the Board for this purpose and shall be submitted directly to the Coir Board Field Offices or through the DICs.

5. Coir Vikas Yojana (CVY)

The interventions under the CVY Scheme envisage a wide range of activities like skill development of artisans, mahila coir yojana, supporting the setting up of production infrastructure, promoting the domestic as well as export market, providing of trade and industry related functional support services, and welfare of coir workers.

5.1. Skill Upgradation & Mahila Coir Yojana (MCY)

Skill Up-gradation & Mahila Coir Yojana (MCY) is one of the key schemes under the Scheme Coir Vikas Yojana. Earlier it was known as Coir Plan (General) Scheme whose objectives were to provide development of domestic and export markets, skill development and training, empowerment of women, employment/entrepreneurship creation and development, enhanced raw material utilization, trade related services and welfare activities for the coir workers amongst others. The Mahila Coir Yojana (MCY), in particular, aims at women empowerment through the provision of spinning equipment at subsidized rates, after providing appropriate skill development training.

The stipend per trainee for the skill development programmes will be limited to Rs.1000/- per month and, in the case of training programmes of less than one month duration, the stipend will be disbursed on prorata basis. The honorarium for the trainer will be limited to Rs.6,000/- per month. An amount of Rs.400/- per head per month will be provided as financial assistance to the training sponsoring agency to meet the operational cost of the training for raw material, power charges and other incidentals. Under MCY, the Coir Board provides 75% cost of motorised Ratt/motorised traditional Ratt as one time subsidy, subject to a ceiling of Rs.7,500 in the case of motorised Ratt and Rs.3,200 for motorised traditional and Electronic Ratt. Rural women artisans in regions producing coir fibre are eligible to apply under the scheme. Selection of trainees for in-house training at NCT&DC will be made by inviting applications through advertisements in print and electronic media and through recommendation from the authorities of the coir producing States. The Officer in charge of the Regional Extension Centre will handle selection of trainees for training programmes conducted at the Regional Extension Centres. Trade Associations, Unit Owners, NGOs, Co-operatives and Industries Department will sponsor such candidates and recommend them for training.

5.2. Development of Production Infrastructure (DPI)

Coir Board is implementing the plan 'Development of Production Infrastructure' with the objective of providing modern infrastructure facilities to coir production units that should result in improvement of productivity and quality, and also in creation of employment opportunities, especially for women in the rural areas. It also aims at the establishment of new "State of the Art" Coir Processing Units, spread of the industry to potential areas, enhanced utilization of available raw materials, attracting new generation entrepreneurs to the industry, modernisation of existing units, production of high value customer oriented products, making the Coir Industry competitive, adoption of eco friendly production techniques and achieving the target of a pollution free coir industry with technological advancements.

Under the DPI scheme, the Coir Board financial assistance is available for setting up of coir units with a project cost up to Rs.10 lakhs in the country. Successful applications will be eligible for subsidy @ 25% of the project cost, subject to a maximum of Rs.6 lakhs, for setting up of De-fibering Unit, Rs.4 lakh for Automatic Spinning Unit and Rs.5 lakh for others, including Coir Pith Unit. For a Composite or a Multiple Unit, the maximum monetary ceiling of assistance would be Rs.9 lakhs. For calculation of subsidy amount, the cost of building will be restricted to a maximum of Rs.8 lakh for De- fibering and coir pith units, and Rs.6 lakhs for others including Automatic Spinning Unit.

All new coir processing units registered with Coir Board under Coir Industry (Registration) Rules, 2008, and registered with the DIC of the respective region of the entire coir sector of the country with project cost exceeding Rs.10 lakhs each or more than the ceiling fixed in Coir UdyamiYojana Scheme, are eligible for assistance under the scheme. The unit shall submit the application, in the prescribed format for grant of financial assistance for new units under the scheme, within 6 months from the date of commencement of production of the unit. The date of commencement of production should be supported by a certificate issued by the General Manager/DIC of the respective area.

5.3. Domestic Market Promotion Scheme

Domestic Market Promotion is one of the major functions envisaged under the Coir Industry Act 1953. The Board implements various measures under the scheme in order to popularize coir and coir products and expand domestic markets. The activities undertaken by

the Board for the purpose include (i). Establishment and Maintenance of Showrooms & Sales Depots and (ii). Participation in Domestic Exhibitions.

The Scheme proposes to provide financial assistance to the Apex Co-operative Societies, Central Co-operative Societies, Primary Co-operative Societies, Public Sector Enterprises in the coir industry and the Showroom and Sales Depots of the Coir Board. The MDA is granted at the rate of 10% of their average annual sales turnover of coir products, including coir yarn and rubberized coir goods, during the preceding three financial years. This Assistance will be shared on 1:1 basis between the Central Government and the concerned State/Union Territory Government. The disbursement of Central share of MDA will be subject to the budgetary outlay available with the Coir Board under the relevant schemes. Apex societies, Central Co-operative Societies, Primary Cooperatives, Public Sector Enterprises, Showrooms & Sales Depots of the Board are eligible to apply under this scheme. The MDA application form can be obtained from the Coir Board HO and it also can be downloaded from the website of coir board.

5.4. Export Market Promotion

Coir Board is implementing the Central Sector Scheme of Export Market Promotion with a view to improve the export performance of Indian Coir Sector through various export market promotion activities such as sponsoring delegations; participation in seminars and conferences; organising participation in international fairs; undertaking generic publicity abroad; extending financial assistance to Micro, Small and Medium Enterprises and Exporters; presenting Coir Industry Awards on an annual basis to recognize the outstanding performance in the areas of export; domestic trade; R&D and functioning of units and societies.

Nature of assistance includes 1. Delegation, Consultancy & Information Sourcing 2. Participation in seminars and conferences 3. Participation in international fairs/buyer-seller meets 4. Publicity abroad 5. External Market Development Assistance 6. Coir Industry Awards. Manufacturers, Entrepreneurs and Exporters of Coir are eligible to apply under this scheme. The application forms can be had either from the Coir Board HO or it can be downloaded from the website <http://coirboard.gov.in/>

5.5. Trade and Industry Related Functional Support Services (TIRFSS)

Collection of statistical data pertaining to various aspects like production, productivity, labour infrastructure, raw material, marketing and other parameters is mandatory for providing feedback to the trade and Industry. It is also necessary for formulating appropriate policy for the overall organized and systematic development of the Coir Board. One of the objectives is introduction of e-governance system in order to assess the schemes and services of the Coir Board by the public easily and to ensure transparency in all its activities. The scheme also envisages HRD programs for Coir workers to help them upgrade their knowledge in all spheres.

The Scheme provides accessible export data such as name of exporting countries and quantum of export from each country. Survey & Study reports of various sectors are available for the Coir Industry. HRD Program can be utilised by coir workers for the betterment of their knowledge in tune with modern technology. Coir workers and new entrepreneurs can avail of HRD program organized under the scheme. The Entrepreneurs/Coir Workers can approach Regional Offices of the Board in order to participate in the HRD programs organized from time to time in different regions.

11.II SMALL INDUSTRY DEVELOPMENT ORGANISATION (SIDO)

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. Central Small Industry Organisation (CSIO) is the heart of all agencies dealing with the development of small industry — renamed as Small Industries Development Organisation (SIDO). The office of the Development Commissioner, SSIs is also known as the Small Industries Development Organisation (SIDO). A senior official of the Government of India, who is designated as the Development Commissioner for Small Scale Industries (DCSSI), heads SIDO. He is also the ex-officio Additional Secretary in the Ministry of Small Scale Industries; that is, he is second in command in the bureaucratic hierarchy of the Ministry. Set up in 1954, SIDO provides services to small industry throughout the country by implementing a broad program of activities and services including the following:

- Entrepreneurship Development
- Tool Room Services

- Testing Centres
- Extension Services
- R&D Services
- Consultancy Services
- Policy Development

The strength of SIDO lies in its countrywide spread of almost 100 offices/service centres, which employ over 2500 staff, mostly technical. SIDO partners and networks with other national providers of support and financial services to SMEs such as the Small Industries Development Bank of India (SIDBI), the National Small Industries Corporation (NSIC), the Bureau of Indian Standards (BIS), the Reserve Bank of India (RBI) (India's Central Bank) and relevant agencies of the Governments of the 28 States of the country. The Government of India essentially funds SIDO but, of late, some its activities (such as Tool Rooms, Testing Centres and Consultancy Services) are becoming increasingly self-sustaining.

It has 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centres.

Various Services provided by SIDO to the SMEs:-

- facilities for testing, toolmenting, training for entrepreneurship development
- preparation of project and product profiles
- technical and managerial consultancy
- assistance for exports
- pollution and energy audits

SIDO also provides economic information services and advises Government in policy formulation for the promotion and development of SSIs. The field offices also work as effective links between the Central and the State Governments.

It is a policy-making, co-ordinating and monitoring agency for the development of SSI entrepreneurs. It is the nodal agency that advises the Ministry of Industry and other Ministries in formulating policies and programmes for the development of SSIs. It also oversees the 'package of services' rendered by the SISIs at field level and provides comprehensive range of consultancy services and technical, managerial and marketing assistance to SSI units. The MO provides common facilities, technology support services, marketing assistance and entrepreneurial development support through its network of 30

Small Industries Service Institutes (SISIs), 28 Branch SISIs, 4 Regional Testing Centres (RTCs), 7 Field Regional Testing Centres (RTCs), 2 Small Entrepreneur Promotion and Training Institutes (SEPTIs) and 1 Hand Tool Design Development and Training Centre. The SIDO also has a network of Tool Rooms and Process-cum Product Development Centres (PPDCs) to provide technology and training support. SIDO performs functions such as, conducting training courses through SISIs and Extension Centres; organising EDPs and motivational campaigns for rural artisans, educated unemployed, women entrepreneurs and physically handicapped persons; securing reservations of certain products for SSIs; assisting and encouraging entrepreneurs to set up industrial units in rural areas and estimating the requirements of raw materials of SSIs. All SSIs except those falling within the specialised boards and agencies like KVIC, Coir Boards and Central Silk Board fall under the purview of the SIDO.

11.II.1 SIDO SCHEMES AND MEASURES FOR PROMOTION OF SSIs :

SIDO offers various schemes and measures for the development and promotion of SSIs in the country: The Advertising and Publications Division of SIDO disseminates information about Government policies and programmes; incentives and facilities and institutional support services available to the SSI. *Laghu Udyog Samachar*, a quarterly journal in 69 English and Hindi and Information and Facilitation Counter (IFC) in the office of the DC (SSI) are disseminating updated information for the benefit of the prospective and existing entrepreneurs. It provides speedy and easy access to information to the public on the services and activities of SIDO and related institutions in the area of SSI promotion and development. Small Enterprise Information and Resource Centre Network (SENET) was launched in April 1997 to facilitate networking among the information seekers, concerning SSI, including Central/State Governments, Government agencies engaged directly or indirectly in the promotion and development of the SSI, National and State level industry associations and NGOs. SIDO maintains libraries at its headquarters and in all its field offices. These libraries make available technical information required for the development of the SSI.

SIDO conducts Intellectual Property Rights (IPR) Awareness Programmes, which help in preventing competitors from copying or closely imitating a company's products or services, in creating a corporate identity through a trademark and branding strategy and in increasing the market value of the company. During 2004-05, six of such programmes have been conducted.⁷ A Biotechnology cell has been set up for the development and promotion

of biotechnology in the SSI sector. During 2004-05, two one-day sensitisation programmes on biotechnology were conducted. A three-day advanced training programmes on biotechnology for a group of 30 officers from the SISIs was held in January, 2005.⁸ Four Regional Testing Centres at New Delhi, Mumbai, Chennai and Kolkata provide testing facilities to SSI units for raw materials, semi-finished products and finished products manufactured by them. In order to provide testing facilities in the areas of industry clusters, the Government of India has set up Field Testing Stations at Jaipur, Bhopal, Kolhapur, Hyderabad, Pondichery, Chenganacherry and Bangalore.

WTO cell was set up in the SIDO headquarters in 1999 to co-ordinate the latest developments with regard to World Trade Organisation. The objective of this cell is to disseminate information to SSI associations and other stakeholders on various aspects of WTO agreements and their likely implications for the SSI, assisting policy formulation for SSIs in conformity with the provisions of WTO agreements and organising workshops/seminars for the SSI to create awareness.

11.III Summary:

The Khadi and Village Industries Commission (KVIC) was established in April 1957. Its main objectives are: providing employment, producing saleable articles and creating self-reliance amongst the poor and building up of a strong rural community spirit. Some of the major functions of KVIC are : planning, promotion, organisation and implementation of programs for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development; building up of a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods and provisions of facilities for marketing of KVI products apart from organisation of training of artisans engaged in these industries and encouragement of co-operative efforts amongst them; promoting the sale and marketing of khadi and/or products of village industries or handicrafts.

The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques and equipment employed in the Khadi and

Village Industries sector and providing facilities for the study of the problems relating to it, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and arranging for dissemination of salient results obtained from such research.

Further, the KVIC is entrusted with the task of providing financial assistance to institutions and individuals for development and operation of Khadi and village industries and guiding them through supply of designs, prototypes and other technical information.

In implementing KVI activities, the KVIC may take such steps as to ensure genuineness of the products and to set standards of quality and ensure that the products of Khadi and village industries do conform to the standards.

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. SIDO provides services to small industry throughout the country by implementing a broad program of activities and services including the following: Entrepreneurship Development; Tool Room Services ; Testing Centres; Extension Services; R&D Services; Consultancy Services and Policy Development.

Various Services provided by SIDO to the SMEs: facilities for testing, toolmenting, training for entrepreneurship development; preparation of project and product profiles; technical and managerial consultancy; assistance for exports; pollution and energy audits. SIDO also provides economic information services and advises Government in policy formulation for the promotion and development of SSIs. The field offices also work as effective links between the Central and the State Governments.

11.IV Self Assessment Questions :

Multiple Choice Questions with Answers

****1. KVIC was established in April 1957 under which legislative framework?***

- A) Companies Act, 1956
- B) An Act of Parliament
- C) Reserve Bank of India Act
- D) Cooperative Societies Act

****Answer: B) An Act of Parliament****

****2. What is the maximum cost of project admissible under PMEGP in the manufacturing sector?***

- A) Rs. 10 lakhs
- B) Rs. 15 lakhs
- C) Rs. 20 lakhs
- D) Rs. 25 lakhs

****Answer: D) Rs. 25 lakhs****

****3. Under the CGTMSE scheme, collateral-free loans are available up to what limit for individual MSEs?***

- A) Rs. 25 lakhs
- B) Rs. 50 lakhs
- C) Rs. 75 lakhs
- D) Rs. 100 lakhs

****Answer: B) Rs. 50 lakhs****

****4. The ISEC scheme provides credit at what concessional rate of interest per annum for working capital to khadi institutions?***

- A) 2%
- B) 4%
- C) 6%
- D) 8%

****Answer: B) 4%****

****5. SIDO was established in which year as the national SME Development Agency of India?***

- A) 1947
- B) 1950
- C) 1954
- D) 1960

****Answer: C) 1954****

Short Answer Questions

1. What are the broad objectives and major functions of KVIC?
2. Explain the seven categories of village industries under KVIC's purview.
3. What is PMEGP and what are its eligibility criteria?
4. Describe the role and functions of SIDO as the national SME Development Agency.

5. What is the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and how does it benefit MSEs?

Case Study

From Creative Passion to Economic Viability: The Inspiring Story of Smt. Bharati Gaind

Smt. Bharati Gaind's journey from a homemaker to a successful entrepreneur exemplifies the transformative power of KVIC's Rural Employment Generation Programme (REGP) and its role in empowering ordinary individuals with creative potential. Her story begins with her husband, Shri Bharat Bhutan, who used to mould beautiful statues and decorative articles from Plaster of Paris (PoP) at their residence on a small scale. Despite his artistic skill and creative talent, the couple struggled financially as the income from this cottage activity was insufficient to support their family. Bharati, recognizing both the creative potential and the economic challenge, joined her husband in the entrepreneurship. However, they lacked the resources to scale up, formalize their business, or reach wider markets. The turning point came unexpectedly when Shri H.P. Joshi, a Supervisor from KVIC, Ambala, happened to pass by their house one fine morning. He noticed the beautifully crafted statues lined up for drying outside their home and immediately recognized the commercial potential. What followed exemplifies KVIC's grassroots approach to entrepreneurship development. Instead of merely providing information, Shri Joshi proactively approached the couple and asked them to submit a suitable project for sanction under REGP. This external motivation, coming from a complete stranger, overwhelmed the couple and gave them the confidence to formalize their creative passion into a registered business. Smt. Bharati, despite having no prior business experience, took the initiative. She arranged for a piece of land in Village Jandli near Ambala, demonstrating her commitment to the project. The next step was approaching Punjab National Bank, which, after reviewing the project supported by KVIC's endorsement, gladly sanctioned a loan of Rs. 6.87 lakhs. Smt. Bharati contributed Rs. 36,000 from her own savings, showing personal financial commitment. Thus was born "Bharti Arts and Crafts." Today, the signboard at their shop makes passers-by pause and admire the beautifully moulded and painted statues. Some customers even bow before them with great respect, as if they are true Gods—a testament to the artistic quality and spiritual appeal of their creations. The business has grown far beyond local sales. Bharti Arts and Crafts now supplies statues all over India, with order books showing accomplished sales worth Rs. 8 lakhs. But perhaps the most significant impact is on employment generation—the venture now provides livelihoods for 11 other persons and their families, creating a ripple effect of economic empowerment in the community. Reflecting on her journey, Smt. Bharati says with pride: "I hardly expected that our creativity so easily would be an economically viable activity and settle us with enough to feed the family; these dumb statues have brought smiles on the faces of the 11 others and their families. Our Bhakti to our creative work has paid us much more than we ever imagined." Her words capture the essence of KVIC's mission—transforming creative passion into economic viability, generating employment, and building self-reliance among rural artisans. The statues that once stood silently outside their home now have a job to do—they campaign for the KVIC programme that taught them to speak. As Shri Shiv Khera famously said, "Success comes not to those who do different things; but to those who do things differently." Smt. Bharati did things differently by combining artistic tradition with institutional support, demonstrating that with the right encouragement and financing, even the most humble creative pursuit can become a sustainable enterprise.

Case Study Questions

1. Analyze the multiple ways in which KVIC's intervention transformed Smt. Bharati Gaiind's creative passion into a sustainable enterprise. What specific forms of support did KVIC provide beyond financial assistance?
2. The case study highlights the importance of proactive institutional outreach. How did Shri H.P. Joshi's initiative in approaching the couple demonstrate KVIC's grassroots approach to entrepreneurship development?
3. What broader lessons about rural entrepreneurship and institutional support can be derived from Smt. Bharati's journey? How can such success stories be replicated at scale across different regions and craft traditions?

11.V key wards

****1. KVIC (Khadi and Village Industries Commission)****

A statutory body established by an Act of Parliament in April 1957, taking over the work of the former All India Khadi and Village Industries Board. Its broad objectives include providing employment, producing saleable articles, and creating self-reliance amongst the poor while building a strong rural community spirit.

****2. PMEGP (Prime Minister's Employment Generation Programme)****

A flagship scheme implemented by KVIC as the nodal agency at the national level, providing financial assistance for setting up new micro-enterprises in manufacturing and service sectors. The maximum project cost admissible is Rs. 25 lakhs for manufacturing and Rs. 10 lakhs for service sector.

****3. RISC (Rural Industry Service Centre)****

A Common Facility Unit established under KVIC's cluster development programme aimed at providing infrastructural support and necessary services to local units for upgrading production capacity, skill upgradation, and market promotion. It provides testing facilities, common machinery, and packaging support to rural artisans.

****4. CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)****

A trust established by the Ministry of MSME, Government of India, and SIDBI to implement the Credit Guarantee Fund Scheme, providing collateral-free loans up to Rs. 50 lakhs for individual MSEs, with both existing and new enterprises eligible under the scheme.

****5. SIDO (Small Industries Development Organisation)****

The national SME Development Agency of India and a major constituent of the Ministry of Small Scale Industries, established in 1954. It serves as a policy-making, coordinating, and monitoring agency providing services including entrepreneurship development, tool room services, testing centres, extension services, R&D, and consultancy.

****6. SFURTI (Scheme of Fund for Regeneration of Traditional Industries)****

A revamped scheme aimed at organizing traditional industries and artisans into clusters to make them competitive and provide support for long-term sustainability. It provides sustained

employment, enhances marketability of products, and strengthens cluster governance systems.

****7. ISEC (Interest Subsidy Eligibility Certificate)****

An important mechanism for funding khadi programmes, introduced to mobilize funds from banking institutions by filling the gap between actual fund requirements and availability of funds from budgetary sources. Under this scheme, credit at a concessional rate of 4% per annum for working capital is made available to khadi institutions.

11.VI References / further reading

Five Printed/Published Textbooks

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LESSON 12**CENTRAL LEVEL INSTITUTIONS
SUPPORTING SMALL BUSINESS-V: Others**

Objectives of the Lesson :

After studying this lesson you should be ready to know about the objectives, functions and Schemes of support to SSI units by Institutions like:

- Understand the role and functions of the Industrial Development Bank of India (IDBI) as an apex institution coordinating and supplementing the operations of financial institutions providing long-term finance to industry
- Analyze the establishment and economic contribution of the Industrial Finance Corporation of India (IFCI) as the first Development Financial Institution in the country
- Examine the advisory role of the Small Scale Industries Board (SSIB) as the apex body advising the government on all issues pertaining to the small scale sector
- Evaluate the deposit insurance and credit guarantee functions of DICGC in protecting depositors' interests and ensuring financial system stability
- Understand the export-import financing role of EXIM Bank and the industrial rehabilitation functions of IRBI, along with the training and consultancy services of NISIET and IIE

Structure of the Lesson :

12.1 IDBI

12.2 IFSCI,

12.3 SSIB,

12.4 DICGC,

12.5 EXIM Bank,

12.6 Industrial Reconstruction Bank of India (IRBI)

12.7 NISIET,

12.8 IIE

12.9 Summary

12.10 Self assessment Questions

12.11 Key Terms

12.12 Further Readings / Reference books

Future of Start Ups In India



By 2020, India will be home to 10,500 start-ups, and will emerge as the third largest base for start-ups in the country behind the US and the UK. About 80% of India's start-ups are in Bengaluru, Delhi, Mumbai, Hyderabad, Chennai and Pune. Delhi, Bengaluru and Mumbai get 93% of such investments, according to a Nasscom-Zinnov report.

Nasscom believes that “the start-up landscape in the country is becoming the epitome of innovation, with companies bringing out solutions that are aimed at solving locally relevant issues.”

Going forward, entrepreneurship is going to be crucial for India's economic development as it aspires to become a future world leader. Start-ups alone will employ 210,000 people in the country. In order to become an economic superpower, the country can no longer afford to ignore the Tier-II, Tier-III and rural areas.

Today, more than ever, semi-urban and rural development is linked very closely to entrepreneurship. While the government has launched campaigns such as Smart City, Startup India and Standup India, it is essential that such campaigns stretch their wings to Tier-II and Tier-III cities. Lack of awareness and acceptability, dearth of talented professionals, lack of internet bandwidth and insufficient power supply plague Tier-II and Tier-III cities.

Here are the top three reasons why it is critical for Startup India to focus more on Bharat:

Direct impact on Tier II, Tier III Cities: Amrita Therapeutics, Wittyfeed, InfoSoft Global etc. are great examples of start-ups based out of Tier-II and Tier-III cities and which have come up with world-class products and services that people need, while also providing employment opportunities. In addition to being drivers of local growth and job creation, start-ups play an increasingly important role in addressing urgent development challenges particularly related to sustainability and service delivery.

When the startups grew, the cities that housed them also grew. Take, for example, the rise of Jaipur in the start-up industry. Initially, there was no ecosystem and the city was happy to just piggy-back its IIT-alumni. Today, there are so many mentoring and funding institutions for entrepreneurs like TiE, Jaipur Angels, RAIN and Startup Oasis.

Democratization of Entrepreneurship: It is time that people in rural areas are encouraged to pursue entrepreneurship as it would help them build sustainable

livelihoods. If the idea is good and the product is of global quality, then it does not matter where the location is.

This will be crucial to develop a vibrant economy as it will help distribute and sustain growth across the country from Madurai to Mohali, from Jaipur to Bhubaneswar. There are about 500 new start-ups in Rajasthan. Odisha and Kerala are giving a big boost to entrepreneurship in their respective states by opening start-up villages. The growth, of course, is not at the level of what is seen in Tier-I cities as there is a very nascent level of mentoring and support for new ventures in smaller cities.

Lower Cost of Operating a Business: The investors' reluctance to travel to smaller towns and limited clientele base, not so matured markets are issues that plague investments in Tier-II, Tier-III cities. However, since the cost of living is low, it will also bring down the overall cost of the business. The rate of attrition is also comparatively lower, ensuring an assured talent base.

According to the latest report released by Cushman & Wakefield (C&W), Ahmedabad, Bhubaneswar, Chandigarh, Coimbatore, Jaipur, Kochi, Indore, Nagpur, Vadodara and Vishakhapatnam were identified as the next most promising business destinations offering a long-term investment potential. The volume of investment by various companies in these 10 cities has increased by over seven times in the past two years.

It is the right time for startups and entrepreneurs to make the best use of these endeavours and strive to find the right solutions to pertinent problems with the right technology and make India great again.

12.1 Industrial Development Bank of India (IDBI)

Prior to the setting up of the IDBI, a fairly wide network of Financial Institutions (FIs) have emerged in India as a result of deliberate and purposive efforts made by Government and RBI after independence. Though these institutions have served with a degree of success to meet the growing requirements of the expanding industrial sector, but they didn't adequately meet the requirements of long term finance and of rendering promotional services to the industry. Statutory obligations and the traditions of these financial institutions were serious constraints in this regard. Moreover, their overlapping services created confusion in the minds of borrowers and there was no effective mechanism to co-ordinate and integrate the functioning of the diverse institutions in the field. Thus, there was the need for "a co-ordinating machinery which could establish working relationship with other financial institutions and build up a pattern of inter-institutional cooperation that can facilitate the evaluation of a rational and cohesive structure of financial institutions, adapted to the changing needs of emerging industrial structure with its growing complexity of inter-relationship. Further, a central development institution was essential to provide dynamic

leadership in the task of promoting a widely diffused and diversified yet viable process of industrialization". It was against this background that IDBI was established in July 1964.

It is functioning as an apex institution co-ordinating and supplementing the operations of Financial Institutions providing long term finance to industry and as an agency for giving direct finance assistance to fill in the gaps. IDBI was established as a wholly owned subsidiary of RBI, but it was delinked from Reserve Bank Act 1976. IDBI is empowered to undertake considerably broader range of functions as compared with other financial institutions. IDBI Act permit full operational flexibility and freedom to meet any problem related to industrial development in general and industrial finance in particular. This covers all kinds of industrial organisations, both in the public and private sector and there is no upper or lower limit with regard to the amount of assistance or the size of project which it can finance. There is no restrictive provision in the IDBI act regarding the nature and type of security to be obtained.

Functions of IDBI : The main functions of IDBI, as its name suggests, is to finance industrial enterprises such as manufacturing, mining, processing, shipping and other transport industries and hotel industry. Broadly, the functions of IDBI can be classified into the following categories: a) Co-ordinating function b) Financing function c) Promotional function

a) Co-ordinating Function : According to George Terry "Co-ordination deals with the task of binding efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing, actuating and controlling". Co-ordination is like a thread in a garland and therefore, its presence is felt in all the activities and functions management" Co-ordination is the effort to ensure a smooth interplay of the functions and forces of all the different institutions doing the same work so that its purpose will be realized with a minimum of friction and a maximum of collaborative effectiveness. "It makes diverse elements and sub systems of organizations to work harmoniously towards the realization of common objectives". "Co-ordination is the process whereby an Apex institution develops an orderly pattern & group effort among his subordinates and secures unity of action in the pursuit of common purpose".

Co-ordination is a conscious and rational process of pulling together the different parts of an organization and unifying them into a team to achieve predetermined goals in an effective manner. According to Henry Fayol – "To co-ordinate is to harmonise all the

activities of different concerns so as to facilitate the working and success. In a well co-ordinated team, each institution works in harmony with others and is fully informed of its role in the organization. The working schedules of various institutions are constantly tuned to circumstances.” The IDBI co-ordinates the functions and operations of all the financial institutions, including the IFCI, the ICICI, the LIC, GIC and the UTI into as single integrated financial structure so that each may contribute to the total effect – the growth of the economy. To serve as the apex institution for term finance for industry, to co-ordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions. The IDBI is vested with the responsibility of co-ordinating the working institutions engaged in financing, promoting or developing industries. It has evolved an appropriate machinery for this purpose. The appraisal and supervision of projects assisted on a consortium basis one co-ordinated to avoid duplication work and delay

b) Financing Function : The main function of IDBI, as its name suggests, is to finance industrial enterprise such as manufacturing, mining, processing, shipping and other transport industries and hotel industry. As an industrial financier, the IDBI would assist all the deserving projects (regardless of their size), which experience enormous problems in assembling funds from normal channels. Its endeavour in this regard is to ensure that no worthwhile project, however, small, is allowed to languish for want of, or insufficiency of, institutional support. The bank can assist a project, directly and indirectly.

Financial assistance sanctioned by IDBI consists of broadly two groups: i) Direct Assistance ii) Indirect Assistance i) Direct Assistance /Finance Direct financial assistance to industrial projects are given by IDBI in similar ways in which other financial institutions normally provide. It grants direct assistance by way of project loans, under writing of and direct subscription to industrial securities, soft loans, technical refunds loans and equipment finance loans. It subscribes to purchase and underwrites the issue of stocks, shares and bonds of debentures. The loans and advances which IDBI makes to any industrial concern may be converted into equity stocks and shares at a later date by IDBI. The bank is also empowered to guarantee loans raised by industrial concerns in the open market from scheduled banks, the state co-operative banks, IFCI and other ‘notified financial institutions. IDBI can also accept, discount or rediscount bonafide commercial bills or promising notes of industrial concern. In direct lending the bank resembles IFCI and ICICI. However, it has greater freedom of operation and can endeavour to secure collaboration of other institutions in the

fields of technical scrutiny and financial partnership. IDBI also grants export finance in the form of direct loans and guarantee to exporters in participation with banks refinancing of medium term export credit granted by banks and overseas buyer's credit. Direct assistance is usually granted for the acquisition of fixed assets for new units as well as for expansion, modernization or renovation of existing units. It is usually provided to large scale and medium sized projects which have not been able to obtain their full requirements from other term financing institutions. Since the IDBI has been created to supplement and not to supplant other activities of other financial institutions, it normally prefers not to assist projects whose needs can be met by other institutions. ii) Indirect Assistance /Finance The Industrial Development Bank of India (IDBI) can assist industrial concerns in an indirect manner also, i.e. through other institutions.

IDBI assistance to other institution also includes its rediscounting scheme. Firstly, it can refinance term loans to industrial concerns, repayable within 3 to 25 years given by the IFCI, the state Financial Corporations and other Financial Institutions. Secondly, it can refinance term loans repayable between 3 and 10 years given by scheduled banks or state co-operative banks. Thirdly, it can refinance export credit given by the Scheduled banks and State co-operative banks. Thus, IDBI finances those banks and financial institutions which are lending to industrial concerns. Finally, IDBI has subscribed to the stocks, shares, bonds and debentures of I.F.C.I., the State Financial Corporations and other "notified" financial institutions so as to increase their financial resources and enable them to provide larger assistance to industry.

Composition of Assistance : Financial assistance sanctioned by IDBI consists of broadly two groups: i) Direct Assistance, and ii) Indirect Assistance

i) Direct Assistance : IDBI, approach with regard to direct financial assistance has been governed by its apex character, its vantage position for assisting the financing of industry in participation with other financial institutions and the special responsibility vested in it to fill the gaps in the industrial structure and to develop certain vital and strategic sectors of the economy. As the lender of the last resort, it endeavours not only to fill in the gaps that remain after taking into account the assistance provided by other financial institutions, but also takes lead in the appraisal of the project and in arranging for the necessary quantum of financial assistance. IDBI's direct assistance to industry is extended mainly under its project finance scheme in the form of loans, underwriting of and direct

subscription to shares and debentures and guarantees and to a Limited extend under the Technical Development Fund Scheme. Assistance under the Textile Modernisation Fund, Venture Capital Fund, Technology Upgradation and Equipment Finance for Energy Conservation Schemes also included under the project finance scheme.

Direct assistance sanctioned by IDBI to industrial concerns consists of four different forms as follows : a) Grant term loans and advances b) Underwriting and Direct Subscription c) Guarantees, and d) Technical Development Fund. a) Grant Term Loans and Advances IDBI generally provides loans to industrial concerns directly for periods ranging between ten to twelve years inclusive of grace period of 2-3 years. Loans constitutes the single most important component of IDBI's direct assistance. b) Underwriting and Direct Subscription IDBI also finances industrial concerns through underwriting and direct subscription to shares and debentures issued by them, but their magnitude has been limited. IDBI like other financial institutions such as IFCI, SFS, etc. acts primarily as a term lending agency and its underwriting and investment activity is at a miserably low level. Despite this, IDBI has emerged as the most important development bank in the sphere of underwriting in India next only to ICICI. A notable feature is that its underwriting operations are reflecting the accent on 'promotional' aspects as a major share of its underwriting operations pertains to issues of risk capital. Equally important is the fact that the issues of capital by new companies occupy a permanent place in IDBI's underwriting operations. c) Guarantees Guarantee the differed payments due from industrial concerns to third parties and the loans raised by them in the pan market or from financial institutions.

Apart from loans and underwriting, IDBI also grants direct assistance to industries in the form of guarantees for loans and deferred payments. In fact, IDBI seems to have discontinued the practice of extending guarantees facility to industrial concerns since 1974-75. d) Technical Development Fund IDBI providing working capital to projects assisted by the Bank. Since 1976, IDBI also provided direct assistance to industrial enterprises under the technical Development Assistance Scheme. The Government of India in March 1976 created a special fund called Technical Development Fund, in order to promote fuller utilization of capacity, technical upgradation and export development. Technical Development Fund provides foreign exchange for imports of small value balancing equipment, technical know-how, foreign consultancy services and drawings and designs. Over the years, IDBI is taking an increasing interest in the Technical Development Assistance Scheme. This is a healthy development.

ii) Indirect Assistance : IDBI provides a significant part of its total assistance to industrial concerns indirectly through other financial institutions like SFCs, SIDCs, Commercial banks and cooperative banks, etc. There has been continuous increase in the amount of indirect assistance sanctioned by IDBI, but the rate of increase of assistance has varied from year to year. It is clear that in consonance with its evolving role as apex development bank, IDBI has been adapting its operational policies as a natural concomitant of which more emphasis has progressively come to be placed on indirect assistance for financing of industrial enterprises.

IDBI extends its indirect assistance basically through four important way. They are :
a) Refinancing of Industrial Loans b) Rediscounting Assistance c) Subscription of Shares and Bonds of Financial Institutions. d) Seed Capital Assistance. Since 1976-77, IDBI is providing indirect assistance in a limited amount through its Seed Capital Assistance Scheme also. a) Refinance of Industrial Loans A major proportion of IDBI's indirect assistance to industrial sector is provided by way of refinance of industrial loans, its refinance facility is available to IFCI, SFCs, commercial banks, cooperative banks and SIDCs, SIICs. Regional Rural Banks are also eligible to avail of refinance assistance from, IDBI. The loans to be refinanced must have a maturity of 3 to 25 years in case of IFCI and SFCs and 3 to 10 years in the case of commercial and cooperative banks. Generally IDBI provides 80 percent of the loans given by financial institutions, but in case of small enterprises and units located in backward areas it can be upto 100 percent of the loans given by financial institutions. Refinance assistance has been single most important form of indirect assistance of IDBI.

A notable feature of IDBI's refinance assistance is that about two-third of its total refinance assistance has gone to the small scale sector. IDBI is providing assistance to small sector indirectly through SFCs, SIDCs/ SIICs, commercial banks, cooperative banks and regional rural banks which are the major beneficiaries of refinance assistance of IDBI. Institution-wise refinance assistance has undergone significant changes over the years. Though SFCs continue to get the largest share in the total refinance assistance of IDBI, but their relative share has declined significantly. b) Rediscounting Assistance/ Bills Finance There are two schemes viz. Bills Rediscounting Scheme and Direct Discounting of Bills Scheme through which IDBI grants bills finances to industrial concerns. Bills Rediscounting Scheme was introduced in April 1965 to help the use of indigenous machinery. Under the scheme, IDBI rediscounts bills of exchange/ promissory notes covering instalments payment basis. Originally scheme was applicable to only six industries, namely, cotton, jute, silk,

cement, sugar and paper machinery. But, over the years, scheme has been considerably expanded in scope and now it covers all machinery manufacturing industries in India. Since 1968 it has been extended to cover purchase – users in the public sector such as State Electricity Boards, State Road Transport Corporations and Government companies.

Direct Discounting of Bills Scheme has been introduced by IDBI in June 1988. Under the scheme, IDBI directly discounts bills promissory notes to machinery manufacturers who have been in production for a minimum period of five years with a good track record. Scheme has initially been extended on a selective basis. Under the Bills Rediscounting Scheme, there has been sharp increase in the absolute amount sanctioned by IDBI. Other industries assisted under the scheme were food manufacturing, jute, chemicals transport equipment, paper, etc., but their share is very low. IDBI's bills rediscounting assistance is mainly concentrated to four industries viz. electricity generation, textiles, road transport and machinery. This is not a healthy trend and assistance should be spread to other industries too. c) Subscription to Shares and Bonds of Financial Institutions.

As a purveyor of supplementary resources, IDBI has provided financial assistance to other financial institutions through subscription to their share capital and bond issues. Financial institutions to which such assistance has been extended are IFCI, ICICI, IRBI, UTI, SFCs, SIDCs and NSIC, etc. Despite increase in the absolute amount of IDBI's resources support to other financial institutions, its relative importance has declined over the years. This should not be surprising as these subscriptions are intended only to strengthen the financial position of financial institutions so that their lending capacity is increased. 81 d) Seed Capital Assistance Since 1976, IDBI has introduced Seed Capital Assistance Schemes. The objective of these schemes is to help such entrepreneurs who have technically feasible and economically viable projects and possess the enterprise but lack adequate financial resources to put in the promoter's contribution. Thus, Seed Capital Assistance Scheme is intended to make-up or supplement promoter's contribution. IDBI should reverse this trend and take active part to help the new entrepreneurs to set-up new projects and accelerate the pace of industrial development in the country.

Special Assistance : The industrial Development Bank of India Act, 1964, has provided for creation of a special fund known as the Development Assistance Fund. This fund is used to assist those industrial areas which are not able to secure finances in the normal course because of low rate of return.

Foreign Currency Requirements : IDBI raises foreign funds from international money markets and international funding organizations and makes them available to Indian industrial units. It is interesting to note that unlike the other existing statutory financial corporations, IDBI has no restrictions imposed regarding the nature and type of security which it should accept. IDBI provides direct loans to industrial concerns, refinance of industrial loans and export credits, rediscounting of bills, underwriting of and direct subscription of shares and debentures of industrial units and direct loans for exports. Till 2000-01, IDBI became the most important institution assisting industrial units.

Assistance to Backward Areas : With a view to promote industrial development in backward areas, IDBI announced in July 1969 a scheme for assistance to small and medium projects in such areas on softer terms, such as concessional rates of interest, longer grace and repayment periods. IDBI adopted several measures to encourage flow of institutional finance to the small scale sector. The scheme was revised and liberalized later. Under the liberalized scheme, IDBI in participation with IFCI and ICICI gave concessional rupee assistance up to Rs. 2 crores and underwriting assistance up to Rs. 1 crore. The IDBI's concessional assistance and refinance of loans for backward areas increased steadily in terms of number of applications and amounts sanctioned and utilized. Refinance facilities by IDBI. IDBI took over the Refinance Corporation of India in November 1964 and was providing refinance facilities to industrial units through member banks. As an apex institution, the IDBI assists State Financial Corporations, the IFCI, Leasing Companies and others working in the field of industrial finance by subscribing to their shares and bonds. IDBI also participates in loans and guarantees to supplement the refinance operations as a measure of risk sharing with other institutions.

Assistance to Small Scale Sector : IDBI extends assistance to small scale industries and small road transport operators indirectly through State Level Institutions and commercial Banks by way of refinance of industrial loans. IDBI introduced a scheme to cover promissory notes arising out of sales of new trucks and jeeps to road transport operators in the private sector. The IDBI's assistance to small scale industries and small road transport operators was picking up very fast. IDBI launched the National Equity Fund Scheme in 1988 for providing support, in the nature of equity to tiny and small scale industrial units engaged in manufacturing cost not exceeding Rs. 5 lakhs. The scheme was administered by IDBI through nationalized banks. IDBI introduced the single window scheme for grant of term loans and working capital assistance to new tiny and small scale 84 units. Finally,

IDBI set up a Voluntary Executive Corps Cell (VECC) to utilize the services of experience professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

The Government of India set up the Small Industries Development Bank of India (SIDBI) under SIDBI Act, 1989 as a wholly-owned subsidiary of IDBI. SIDBI started functioning from April 1990 and has taken over the responsibility of administering small industries Fund and National Equity Fund which were formerly administered by IDBI. SIDBI has become the principal financial institution for promotion, financing and development of small scale industries.

Balanced Regional Development : Since 1970 IDBI had initiated certain promotional and developmental activities to meet the twin objectives of balanced regional development and accelerated industrial growth. In co-operation with other term-lending institutions. IDBI had completed industrial potential surveys in all States and Union Territories.

Soft Loan Scheme : IDBI introduced in 1976 the soft loan scheme to provide financial assistance to productive units in selected industries, viz., cement, cotton textiles, jute, sugar and certain engineering industries on concessional terms to enable them to overcome the backlog in modernization, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production. The scheme was administered by IDBI with financial participation by IFCI and ICICI. The basic criterion for assistance under the scheme was the weakness of the units on account of obsolescence of machinery. The rate of interest was 7.5 percent and the period of loan was 15 years. The pace of disbursement was very slow as the soft loan scheme was not attractive to the private sector units because of the convertibility clause. In January 1984, the soft loan scheme was modified – now called Soft Loan Scheme for Modernisation so as to cover deserving units in all industries. Under the modified scheme, assistance is available to production units for financing modernization primarily aimed at upgradation of process, technology and product, export orientation, import substitution, energy saving, prevention of pollution, recycling of wastes and by-product etc. Other changes and relaxations were also made to make the scheme attractive and popular.

IDBI permitted by SEBI to carry out merchant banking activities which cover professional advice and services to industry for raising capital from the market, acquisition of assets on lease, mergers/ take-over of existing units etc. The Merchant Banking Division of

IDBI, in the first 2 years of its existence had lead-managed 118 issues and had helped to mobilize Rs. 12,340 crores from the market.

c). Promotional Function : Promotional function under this category includes such activities as marketing and investment research and surveys as well as technological studies. It can also provide technical and administrative assistance to any industrial concern for promotion management or expansion. IDBI also plans, promotes and develops industries to fill gaps in the industrial structure of the country. During the many years of its operations, IDBI evolved number of innovative scheme of assistance and under look various promotional activities to meet the growing needs of the industrial sector. Since 1970, IDBI has taken several measures to step up pace of industrialization in the relatively backward regions of the country. The IDBI is authorized to perform promotional activities with a view to bringing about a viable industrial development especially in the less developed areas. These promotional activities are oriented towards meeting the dual objectives of balanced regional development and acceleration in industrial growth. The activities directed towards the first objective include the identification and follow-up of projects located in backward areas. These directed towards fulfilling the second objective include efforts at building up an appropriate framework for industrial development.

In fulfilment of its developmental role, IDBI continues to perform a wide range of promotional activities relating to developmental programmes for new entrepreneurs, consultancy services for small and medium enterprises and programme designed for accredited voluntary agencies for economic upliftment of the under privileged. This includes entrepreneurship development, self employment and wage employment in industrial sector for weaker sections of the society through voluntary agencies. Support to science and Technology Entrepreneurs' Parks, Energy Conservation and Common Quality Testing Centres for small industries.

IDBI has contributed to the creation and widening of the entrepreneurial base and building up the requisite infrastructure to support this process through a range of activities. In particular, it has set up, in participation with other financial institutions, a network of institutes like Entrepreneurship Development Institute of India (EDII) at Ahmedabad, which also acts as the principal agency to co ordinate the activities of various agencies in this field, and Institutes of Entrepreneurship Development (IED) with the objectives to foster the spread of Entrepreneurship development, initiating surveys and studies to identify industrial

potential etc. Thus we see that IDBI has been doing its best since 1964 for the promotion and development of industries in the country. It has been the most important financial institution meeting the different needs of industries through its operations since inception. The above and many other schemes of assistance of IDBI are designed to promote industrial development in the country. IDBI also plays an important role in under taking export guarantees which constitute a major support for achieving contracts abroad. The focus of IDBI's promotional thrust during these years has been to strengthen the existing institutional network, including the inter-institutional co-ordination, and to evolve appropriate strategy for the development of industries in backward areas.

RTGS solution from IDBI Bank Ltd. : When time is of the essence, IDBI Bank Ltd. launches its latest offering, Real Time Gross Settlement (RTGS) payment, a solution for faster and most efficient settlement of esteemed customers. This payment mechanism will enable funds to be received recipient intraday rather than the net settlement system exchanges that occur and coined the banking hours.

The RTGS product would enable beneficiary the following:

- a. Speed – Guaranteed & Fast settlement of transactions.
- b. High Liquidity – Lowering interest cost.
- c. Better Funds Management – Ensures optimum planning and utilization of funds.
- d. Hassel free HV settlement – Elimination of collections through physical HV clearing.
- e. Reduces Paper work and improve efficiency.
- f. Reduces operational risk & systematic risk. IDBI Bank Ltd. offers the beneficiary the following RTGS product solution competitive terms. Products
- g. Single Transaction/ Regular Transaction
- h. Bulk Payment Product Transaction Initiation By Customer For Outward Payouts
- i. The customer fills in the RTGS Application form in duplicate giving the particular Beneficiary and authorizes the Remitting branch of IDBI Bank to remit a specified amount the beneficiary by raising a debit to the customer's (remitter's) account.
- j. After verification, IDBI Bank will debit the customer account.
- k. If all the details of beneficiary are correct, the transaction will successfully procure the funds which will be transferred to the beneficiary's bank branch.

- l. Each message thus set will have a Unique Transaction Reference Number which will be given to customer and can be used as a reference for future enquiry. Inward Receipts by IDBI Bank through RTGS on behalf of (Company Name)
- m. Inward Payment messages once received at IDBI Bank's PI, will be credited to the account after matching the account name and account number.

12.2 : INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

At the time of independence in 1947, India's capital market was relatively under-developed. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent and commercial banks were not equipped to provide long-term industrial finance in any significant manner.

It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in the country to cater to the long-term finance needs of the industrial sector. The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

Liberalization - conversion into company in 1993

By the early 1990s, it was recognized that there was need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this objective that the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was also changed to "IFCI Limited" with effect from October 1999.

Indian Economy and IFCI: Since its inception on 1st July 1948 as a Public Financial Institution, IFCI has made a significant contribution to the modernization of Indian industry, export promotion, import substitution, pollution control, energy conservation and generation through commercially viable and market-friendly initiatives. Some sectors that have directly benefited from IFCI include:

- Agro-based industry (textiles, paper, sugar)
- Service industry (hotels, hospitals)

- Basic industry (iron & steel, fertilizers, basic chemicals, cement)
- Capital & intermediate goods industry (electronics, synthetic fibres, synthetic plastics, miscellaneous chemicals) and Infrastructure (power generation, telecom services)

IFCI's Economic Contribution

1. IFCI has played a key role in the development of cooperatives in the sugar and textile sectors, besides acting as a nodal agency in both sectors. 371 cooperative societies in these sectors have been assisted by IFCI.
2. IFCI has promoted Technical Consultancy Organizations (TCOs), primarily in less developed states to provide necessary services to the promoters of small and medium-sized industries in collaboration with other banks and institutions.
3. IFCI has also provided assistance to self-employed youth and women entrepreneurs under its Benevolent Reserve Fund (BRF) and the Interest Differential Fund (IDF).
4. IFCI has founded and developed prominent institutions like:
 - Management Development Institute (MDI) for management training and development
 - ICRA for credit assessment rating
 - Tourism Finance Corporation of India (TFCI) for promotion of the hotel and tourism industry
 - Institute of Leadership Development (ILD) for rehabilitation and training of displaced and retrenched labor force
 - Rashtriya Gramin Vikas Nidhi (RGVN) for promoting, supporting and developing voluntary agencies engaged in uplifting rural and urban poor in east and northeast India.
5. IFCI, along with other institutions, has also promoted:
 - Stock Holding Corporation of India Ltd. (SHCIL)
 - Discount and Finance House of India Ltd. (DFHI)
 - National Stock Exchange (NSE)
 - OTCEI
 - Securities Trading Corporation of India (STCI)
 - LIC Housing Finance Ltd.

- GIC Housing Finance Ltd.
 - Biotech Consortium India Ltd. (BCIL)
6. IFCI has also set up Chairs in reputed educational/management institutions and universities.
 7. A major contribution of IFCI has been in the early assistance provided by it to some of today's leading Indian entrepreneurs who may not have been able to start their enterprises or expand without the initial support from IFCI.

The Government of India converted its OCDs worth Rs. 923 crores into equity in December 2012 and further acquired preference shares of Rs. 60 crores from PSU Banks in April 2015. IFCI has become a Government of India Undertaking with effect from 7th April 2015.

The Govt. of India has placed a Venture Capital Fund of Rs. 200 crore for Scheduled Castes (SC) with IFCI with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance. IFCI has also committed a contribution of Rs.50 crore as lead investor and Sponsor of the Fund. IFCI Venture Capital Funds Ltd., a subsidiary of IFCI Ltd., is the Investment Manager of the Fund. The Fund has been operationalized during FY 2014-15 and IVCF is continuously making efforts for meeting the stated objective of the scheme.

Further, Government of India has recently designated IFCI as a nodal agency for “Scheme of Credit Enhancement Guarantee for Scheduled Caste (SC) Entrepreneurs” in March, 2015 with an objective to encourage entrepreneurship in lower strata of the societies. Under the Scheme IFCI would provide guarantee to banks against loans to young and start-up entrepreneurs belonging to scheduled castes.

Financial Products: IFCI offers a wide range of products to the target customer segments to satisfy their specific financial needs. The product mix offering varies from one business/industry segment to another. IFCI customizes the product-mix to maximize customer satisfaction. Its domain knowledge and innovativeness make the product-mix a key differentiator for building, enduring and sustaining relationship with the borrowers.

Debt Segment: IFCI structures its Debt products based on the specific requirements of the corporate. Some of our products are :

- Short-term Loans for different short term requirements including pre-operative project expenses, meeting temporary cash flow mismatch, general corporate purposes, requirement of holding/ investment companies of good corporate for their investment requirements including subscription to right issue, purchase of warrants etc., funding working capital gap pending sanction by banks, refinancing high cost debt, meeting cost overrun in projects etc.
- Medium Term Loans for Project Finance for new industrial/ infrastructure projects, business expansion, technology up-gradation, modernization projects, R&D expenditure, general corporate requirements, supplementing long term working capital requirements, acquisition financing, securitization of debt, structured products, etc.
- Long Term Loans (more than 8 years) in Infrastructure Projects/ new Manufacturing Industries. IFCI shall also provide term loans in other sectors on selective basis based on strong ratings for Long Term facilities to reputed corporates. IFCI also provide Project Loans to meet the fund requirements of Greenfield projects, expansions/ modernization projects etc. across all industry.
- IFCI has also introduced products like Loans against future Lease Rentals, Loan against shares for top rated corporates etc.

Equity Segment:

- Investment in IPO, Right issue, Qualified Institutional Placement (QIP), Warrants etc as well as in the secondary markets for listed companies.
- Strategic investment in unlisted companies.
- Trading in the secondary market including equity derivatives.

The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, underwriting / direct subscriptions to shares / debentures and guarantees and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies. It also provides merchant banking with its Head Office in Delhi and a bureau in Bombay. In recent years, the IFCI has started new promotional schemes, such as interest subsidy scheme for women entrepreneurs consultancy fee subsidy schemes for providing marketing assistance to SSIs, encouraging the modernisation of tiny, small-scale

ancillary units and control of pollution in the small and medium-scale industries IFCI has shown growing concern in the development of backward districts.

12.3 SMALL SCALE INDUSTRIES BOARD (SSIB)

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advise to the Government on all issues pertaining to the small scale sector. The Board is reconstituted every two years and is headed by the Minister In charge of Small Scale Industries in the Government of India. The Board comprises among others State Industry Ministers, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field. The Additional Secretary and Development Commissioner(SSI) is the Member Secretary of the Board. The Board is serviced by the Board and Policy Division in the office of the DC(SSI).

The range of development work in the small scale sector involves several Departments / Ministries and several agencies of Central / State Governments. Though a non statutory body, the SSI Board provides an effective platform for informed debate and facilitates coordination and inter - institutional linkages .

12.4 Deposit Insurance and Credit Guarantee Corporation (DICGC)

Deposit insurance contributes to the stability of the financial system and protects depositors' interests. In India, DICGC – a wholly owned subsidiary of the Reserve Bank – provides insurance cover to deposits in all commercial banks including LABs, payment banks, small finance banks, RRBs and cooperative banks.

With the present limit of `0.1 million, the number of fully protected accounts (1,737 million) as on March 31, 2017 constituted 92.1 per cent of the total number of accounts (1,885 million) as against the international benchmark of 80 per cent. In terms of amount, the total insured deposits at `30.5 trillion at end-March 2017 constituted 29.5 per cent of the assessable deposits at `103.5 trillion as compared with the international benchmark of 20-30 per cent.

The Corporation builds its Deposit Insurance Fund (DIF) through transfer of surplus, that is, excess of income (mainly comprising premia received from the insured banks, coupon income from investments and cash recovery out of assets of failed banks) over expenditure (payment of depositors' claims and related expenses) net of taxes. DIF stood at ₹701.5 billion as on March 31, 2017, yielding a higher reserve ratio (DIF to insured deposits) of 2.3 per cent vis-à-vis 2.1 per cent at end-March 2016. During 2016-17, the corporation sanctioned total claims of ₹0.6 billion as against ₹0.5 billion during the preceding year.

The Corporation has improved the quality of information disseminated through its website by updating FAQs and guidelines for liquidators. It has also published a primer on deposit insurances and placed on the website. With a view to accelerating the resolution of outstanding issues, DICGC held several meetings with liquidators and also requested chief secretaries of states to expedite the appointment of liquidators. The Corporation will continue to focus on adherence to core principles on effective deposit insurance systems in 2017-18.

The Financial Resolution and Deposit Insurance Bill, 2017, which was introduced in the Lok Sabha on August 10, 2017, prescribes setting up of a Resolution Corporation (RC) to ensure observance of the Financial Stability Board's Key Attributes on resolution of financial firms by addressing the gaps in the current resolution mechanism in India in terms of legal framework, resolution tools, liquidation, coverage of entities, cross-border cooperation and the oversight framework. The proposed RC will subsume DICGC which at present performs the 'pay box' function, that is, reimbursement of insured amounts to the depositors of failed banks. DICGC also participates in merger schemes approved by the Reserve Bank involving payment to the depositors of transferee bank. RC is being established for protection of consumers of specified service providers and of public funds for ensuring stability and resilience of the financial system.

12.5 The Export-Import Bank of India

The Export-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 to promote India's foreign trade. It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

The important functions of the EXIM Bank are as follows:

1. Financing of export and import of goods and services both of India and of outside India.

2. Providing finance for joint ventures in foreign countries.
3. Undertaking merchant banking functions of companies engaged in foreign trade.
4. Providing technical and administrative assistance to the parties engaged in export and import business.
5. Offering buyers' credit and lines of credit to the foreign governments and banks.
6. Providing advance information and business advisory services to Indian exports in respect of multilaterally funded projects overseas.

During the year 1994-95, the EXIM Bank introduced the 'Clusters of Excellence' programme for up-gradation of quality standards and obtaining ISO 9000 certification in various parts of the country.

The Bank also entered into framework cooperation agreement with European Bank for Reconstruction and Development (EBRD) for acquiring advance information on EBRD funded projects in order to enter into co-financing proposals with EBRD in Eastern Europe and CIS.

With a view to promote exports, EXIM Bank has introduced the following three schemes:

1. Production Equipment Finance Programme
2. Export Marketing Finance
3. Export Vendor Development Finance

Over the period, expansion /diversification programme has claimed the maximum share (54.3%) of EXIM Bank's sanctions, followed by new projects, (33.2%) and modernisation /acquisition of equipment (12.5%).

12.6 Industrial Reconstruction Bank of India (IRBI)

Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 with a share capital of Rs. 10 crores to provide financial assistance as well as to revive and revitalise sick industrial units in public/private sectors. In March 1985, it was converted into a statutory corporation called the Industrial Reconstruction Bank of India (IRBI), with an authorised capital of Rs. 200 crores and a paid-up capital of Rs. 50 crores.

The following functions were laid down for the IRBI:

- i. To provide financial assistance to sick industrial units.
- ii. To provide managerial and technical assistance to sick industrial units,
- iii. To secure the assistance of other financial institutions and government agencies for the revival and revitalisation of sick industrial units,
- iv. To provide merchant banking services for amalgamation, merger, reconstruction, etc.,
- v. To provide consultancy services to the banks in the matter of sick units, and
- vi. To undertake leasing business.

IRBI functions as the principal credit and reconstruction agency for industrial revival and co-ordinate the activities of other institutions engaged in the revival of industries and also to assist and promote industrial development and rehabilitation of industrial concerns.

The IRBI is empowered to take over the management of assisted sick industrial units, lease them out or sell them as running concerns or to prepare schemes for reconstruction-by scaling down the liabilities with the approval of the Government of India.

Activities of IRBI: IRBI provides term loans and working capital finance to medium, large, sick, small and tiny sector units. It also provides ancillary services, such as consultancy, preparation of schemes of amalgamation, merger, sale, reconstruction, equipment leasing, merchant banking etc. IRBI has full power to take any step to remove industrial sickness.

12.7 National Institute for Small Industries Extension Training NISIET:

The NISIET, since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and

modernization of the SME sector. An autonomous arm of the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI), the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

It was in 1984 that the UNIDO had recognised SIET as an institute of meritorious performance under its Centres of Excellence Scheme to extend aid. Subsequently, it was also accorded national status and SIET Institute became NISIET in the same year.

For the past Four decades NISIET has been engaged in conducting national and international programmes covering the Asian, Afro-Asian regions and Pacific rim countries. India being a forerunner to almost all developing countries, its capacity development programmes are of great relevance to organisations in other countries, leading to a greater flow of technology, investment, know-how and trade among developing countries and a stronger SME sector globally.

NISIET is totally market-driven, and is quick to update its product mix, approach, methodology and systems to adapt them to other countries' requirements. Its endeavour is to concentrate on ongoing programmes, while orienting the system towards serving the government and private sector more effectively.

NISIET introduced several innovative national and international programmes while updating the time-tested and well-received ones, to prove conclusively that it can respond to the changing environment. These programmes have been designed keeping in mind the requirements of individuals, industries, promotional agencies and other institutions – both government and private – and the far-reaching impact of internationalisation on business.

NISIET has developed many software programmes such as Policy Research for SMEs Database sponsored by UNESCO, International Participants Database with respect to country profiles, Stress Kit, Civil Servants Help Mate, Mailing List Database, Library Management System, Hospitality Management System, Concurrent Evaluation Of Chief Minister's Empowerment of Youth programmes, Youth Association Information System, Coaches Performance, Current Information Services, etc.

The institute functions through the six activities of training, consultancy, research, education, information and extension services. NISIET is also running many programmes in IT related areas, offering consultancy services to public and private sector undertakings.

NISIET has been playing a pivotal role in putting the small scale industry on the growth trajectory. NISIET's interventions have benefited not only the Indian SME sector but also the developing world in promoting self-employment and enterprise development in their countries.

NISIET has had many turning points in the forty years of its existence: in fact, the first entrepreneurship model was developed at NISIET through Prof. McClelland's famous Kakinada Experiment. It is the first Indian organisation to organise entrepreneurship related training for participants from abroad, and was recognised as a Centre of Excellence in 1984.

NISIET's recent milestones include a customised programme on UNESCO chair on SME Policy (1997), Enterprise Development and Government Effectiveness (EDGE) for the Sri Lankan diplomats (1998), path-breaker training programme on Industrial Policy Options (1999) and, more recently, a programme in collaboration with AIIS, Chennai to facilitate the visit of a group of American students led by 5 professors from Vassar College, USA (2000).

The Institute is highly reputed for its customised programmes with diverse focus. NISIET has a sophisticated Business Information Bureau (BIB) at its Small Enterprise National Documentation Centre, which takes care of the changing information needs of MSMEs. In tune with the sweeping winds of IT, the institute has become IT - driven in all its functions and has devised a number of customised IT and other interventions for a wide variety of clientele. The Institute has already made a debut in formal academics through long-term educational programmes.

NISIET produces a spectrum of publications. The quarterly periodical SEDME Journal is a well sought after research journal and a forum for studies and exchange of ideas on SMEs. The management of the Institute rests with the Governing Council appointed by the Government of India.

Keeping pace with the emerging trends the Institute is now offering state of the art information services to the MSME sector. In the new millennium, the Institute is constantly NISIET will facilitate TECHNOLOGY TRANSFER between potential partners, by identifying technologies, products and services through conduct of Due Diligence, Appraisals and Evaluations.

12.8. Indian Institute of Entrepreneurship

Indian Institute of Entrepreneurship (IIE) is an autonomous organization under the Ministry of Skill Development & Entrepreneurship. The main aim of the Institute is to provide **training, research and consultancy** activities in Small and Micro Enterprises (SME), with special focus on entrepreneurship development.

The Indian Institute of Entrepreneurship (IIE) registered under the Societies Registration Act, 1860 was established in the year 1993 in Guwahati by the erstwhile Ministry of Industry (now the Ministry of Micro, Small and Medium Enterprises), Government of India. The Institute began operating from April 1994 with the North East Council (NEC), Governments of Assam, Arunachal Pradesh and Nagaland and SIDBI as its other stakeholders. IIE has been transferred to the Ministry of Skill Development & Entrepreneurship on 22nd May'2015. The headquarter of IIE is at Guwahati.

OBJECTIVES

1. To promote and develop entrepreneurship.
2. To conduct research and provide consultancy for entrepreneurship development.
3. To coordinate and collaborate with other organizations in undertaking training, research and other activities to increase outreach of the institute.
4. To provide consultancy and monitoring service to MSMEs/ potential entrepreneurs and enhancing employability of participants.
5. To promote greater use of information technology in the activities/ functions of the IIE.
6. To comply with statutory responsibility.

FUNCTIONS

1. Designing and organising training activities for different target group and undertaking research in the relevant to entrepreneurship.
2. Improving the efficiency, effectiveness and delivery of the change agents and development practitioners i.e. trainers, support organizations engaged in enterprise building. etc.
3. Provide consultancy service to the prospective and existing entrepreneurs.
4. Increasing the outreach of activities of the institute through collaborative activities and increasing their effectiveness through use of different tools of information technology.

The major activities of the Institute, inter alia, include: The policy, direction and guidance to the Institute is provided by its Governing Council whose Chairman is the Minister of MSME. The Executive Committee consisting of Secretary (Micro, Small & Medium Enterprises) as its Chairman and Director General of the Institute as its Member-Secretary, executes the policies and decisions of the Governing Council through its whole-time Director General.

Training:

- Assessing training needs as well as gaps therein and accordingly facilitating organizing of training programmes, orienting and motivating youth towards entrepreneurship.
- Evolving, designing and helping the use of various media for promoting the culture of entrepreneurship among different strata of society in the country.
- Playing a supportive and catalytic role by helping organizations which are directly or indirectly engaged in developing and promoting entrepreneurship and self employment in the Country.

Consultancy:

- Offering consultancy services in the area of entrepreneurship especially for MSMEs. Offering advice and consultancy to other Institutions engaged in entrepreneurial training either in the Government or in the Private Sector.
- Conceptualizing, designing and standardizing course curriculum for entrepreneurship and skill development programmes.
- Playing a supportive and catalytic role by helping organizations which are directly or indirectly engaged in developing and promoting entrepreneurship and self employment in the Country.

Research & Development:

- Promoting research and development activities in the area of entrepreneurship, particularly in MSME sector. Undertaking documentation and disseminating information related to entrepreneurship/ enterprise development;
- Preparing and publishing literature and information material related to entrepreneurship/enterprise development/ MSMEs;

- Providing a forum for interaction and exchange of views/experiences for different groups mainly through seminars, workshops, conferences etc;
- Studying problems and conducting research/ review studies etc. for generating knowledge, accelerating the process of entrepreneurship development culminating in establishment of new economic ventures; The Institute's training activities are focused on areas of stimulation, support and sustenance of entrepreneurship development. The programmes initiated/sponsored by NIESBUD are constantly evaluated and revised to enable it to adapt to the changing needs of entrepreneurship and small business development. The Institute is engaged in creating an environment conducive to the development of entrepreneurship and in creating a favorable attitude amongst the general public in support of those who opt for an entrepreneurial career by removing the prevalent myth and misconceptions that entrepreneurs are born. *Other activities of the Institute : The announcement of various employment generation schemes by the Government, aimed at creating employment opportunities for the unemployed youth, both in rural as well as urban areas, has thrown up new challenges for the Institute to demonstrate its crucial role in propagating self-employment by bringing out Model Syllabi, Manuals for Beneficiaries and Instructors, preparation of innovative training aids materials, organizing Training of Trainers etc. to achieve the challenging goals. Keeping in tune with the changing times and in consonance with the Government's policy, the Institute through concerted efforts has been able to achieve and sustain financial self-sufficiency through organizing various programmes; enhancing the conduct of market driven fee-based training activities; increasing sales of training materials and reducing relative administrative*The Institute has provision of faculty who are quite senior and experienced professionals with specialization in areas such as *Entrepreneurial Competency & Motivation; Project Identification & Formulation; Finance and Credit; Small Enterprise Management; Women Entrepreneurship; Intellectual Property Rights; Marketing Management & Entrepreneurial Education, E-Learning Modules, Networking of Developmental Stakeholders on a web platform i.e. www.virtualcluster.in extending post-training support by way of handholding and incubation for setting up enterprises and also match making between employers and jobseekers by developing www.niesbudnaukri.com, a job portal for skilled persons.*

The Institute is operating from an integrated Campus in Sector-62, NOIDA, NCR of Delhi. It is about 20 km away from the city centre of Delhi. It is established in an area of 10,000 sq. meters with about 40,000 sq. feet of built up area. It has 8 class rooms, 1 auditorium, and 1 conference hall, besides library. There is also a hostel consisting of 32 rooms, and other facilities.

Th. NIESBUD has provided training to 10,94,529 persons as of March 31, 2017 through 41,483 different training programmes since inception. This includes 4,080 international participants hailing from more than 141 countries throughout the globe.

12.9 Summary

IDBI : IDBI was established in July 1964. It is functioning as an apex institution co-ordinating and supplementing the operations of Financial Institutions providing long term finance to industry and as an agency for giving direct finance assistance to fill in the gaps.. IDBI is empowered to undertake considerably broader range of functions as compared with other financial institutions. IDBI Act permit full operational flexibility and freedom to meet any problem related to industrial development in general and industrial finance in particular. This covers all kinds of industrial organisations, both in the public and private sector and there is no upper or lower limit with regard to the amount of assistance or the size of project which it can finance. There is no restrictive provision in the IDBI act regarding the nature and type of security to be obtained.

IDBI extends assistance to small scale industries and small road transport operators indirectly through State Level Institutions and commercial Banks by way of refinance of industrial loans. IDBI introduced a scheme to cover promissory notes arising out of sales of new trucks and jeeps to road transport operators in the private sector. The IDBI's assistance to small scale industries and small road transport operators was picking up very fast. IDBI launched the National Equity Fund Scheme in 1988 for providing support, in the nature of equity to tiny and small scale industrial units engaged in manufacturing cost not exceeding Rs. 5 lakhs. The scheme was administered by IDBI through nationalized banks. IDBI introduced the single window scheme for grant of term loans and working capital assistance to new tiny and small scale 84 units. IDBI set up a Voluntary Executive Corps Cell (VECC) to utilize the services of experience professionals for counselling small units, tiny and cottage units and for providing consultancy support in specific areas.

IFCI : Since its inception on 1st July 1948 as a Public Financial Institution, IFCI has made a significant contribution to the modernization of Indian industry, export promotion, import substitution, pollution control, energy conservation and generation through commercially viable and market-friendly initiatives. Some sectors that have directly benefited from IFCI include: Agro-based industry (textiles, paper, sugar); Service industry (hotels, hospitals); Basic industry (iron & steel, fertilizers, basic chemicals, cement); Capital & intermediate goods industry (electronics, synthetic fibres, synthetic plastics, miscellaneous chemicals) and Infrastructure (power generation, telecom services)

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advise to the Government on all issues pertaining to the small scale sector. The range of development work in the small scale sector involves several Departments / Ministries and several agencies of Central / State Governments. Though a non statutory body, the SSI Board provides an effective platform for informed debate and facilitates coordination and inter - institutional linkages .

DICGC : Deposit insurance contributes to the stability of the financial system and protects depositors' interests. In India, DICGC provides insurance cover to deposits in all commercial banks including LABs, payment banks, small finance banks, RRBs and cooperative banks.

The Export-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 to promote India's foreign trade. It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

The important functions of the EXIM Bank are as follows: 1. Financing of export and import of goods and services both of India and of outside India. 2. Providing finance for joint ventures in foreign countries. 3. Undertaking merchant banking functions of companies engaged in foreign trade. 4. Providing technical and administrative assistance to the parties engaged in export and import business. 5. Offering buyers' credit and lines of credit to the foreign governments and banks. 6. Providing advance information and business advisory services to Indian exports in respect of multilaterally funded projects overseas.

Industrial Reconstruction Bank of India (IRBI),: Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 to provide financial assistance as well as to revive and revitalise sick industrial units in public/private sectors. In March 1985, it was converted into a statutory corporation called the Industrial Reconstruction Bank of India (IRBI) to discharge

the following functions: i. To provide financial assistance to sick industrial units. ii. To provide managerial and technical assistance to sick industrial units, iii. To secure the assistance of other financial institutions and government agencies for the revival and revitalisation of sick industrial units, iv. To provide merchant banking services for amalgamation, merger, reconstruction, etc., v. To provide consultancy services to the banks in the matter of sick units, and vi. To undertake leasing business.

IRBI also functions as the principal credit and reconstruction agency for industrial revival and co-ordinate the activities of other institutions engaged in the revival of industries and also to assist and promote industrial development and rehabilitation of industrial concerns. The IRBI is empowered to take over the management of assisted sick industrial units, lease them out or sell them as running concerns or to prepare schemes for reconstruction-by scaling down the liabilities with the approval of the Government of India.

The NISIET, is a premier institution for the promotion, development and modernization of the SME sector. Its operations ranging from training, consultancy, research and education, to extension and information services.

For the past Four decades NISIET has been engaged in conducting national and international programmes covering the Asian, Afro-Asian regions and Pacific rim countries. India being a forerunner to almost all developing countries, its capacity development programmes are of great relevance to organisations in other countries, leading to a greater flow of technology, investment, know-how and trade among developing countries and a stronger SME sector globally.

Indian Institute of Entrepreneurship (IIE) is an autonomous organization under the Ministry of Skill Development & Entrepreneurship. The main aim of the Institute is to provide **training, research and consultancy** activities in Small and Micro Enterprises (SME), with special focus on entrepreneurship development.

12.10 Self assessment Questions

Multiple Choice Questions with Answers

1. IDBI was established in July 1964 as:

- A) A commercial bank
- B) A wholly owned subsidiary of RBI (later delinked in 1976)
- C) A private sector bank
- D) A cooperative bank

Answer: B) A wholly owned subsidiary of RBI (later delinked in 1976)

2. IFCI was established on July 1, 1948 as:**

- A) India's largest commercial bank
- B) The first Development Financial Institution in the country
- C) A subsidiary of the World Bank
- D) An export promotion council

****Answer: B) The first Development Financial Institution in the country****

****3. DICGC provides insurance cover to deposits in all commercial banks up to what present limit?*****

- A) ₹50,000
- B) ₹0.1 million (₹1,00,000)
- C) ₹0.5 million (₹5,00,000)
- D) ₹1 million (₹10,00,000)

****Answer: B) ₹0.1 million (₹1,00,000)****

****4. EXIM Bank was established on January 1, 1982 primarily to:****

- A) Provide housing loans
- B) Provide financial assistance to exporters and importers for promoting India's foreign trade
- C) Regulate the stock market
- D) Provide agricultural credit

****Answer: B) Provide financial assistance to exporters and importers for promoting India's foreign trade****

****5. NISIET was recognized by UNIDO as a Centre of Excellence in which year?*****

- A) 1960
- B) 1970
- C) 1984
- D) 1990

****Answer: C) 1984****

Short Answer Questions

1. What are the three broad categories of functions performed by IDBI? Briefly explain each.
2. Describe the economic contribution of IFCI to Indian industry since its establishment.
3. What is the role of DICGC in the Indian financial system and what benefits does it provide to depositors?
4. Explain the major functions of EXIM Bank in promoting India's foreign trade.
5. What are the objectives and major activities of the Indian Institute of Entrepreneurship (IIE)?

Case Study

From Sick Unit to Viable Enterprise: The Rehabilitation Role of Financial Institutions

The industrial sickness phenomenon has plagued India's manufacturing sector for decades, with thousands of units becoming non-viable due to various factors including technological obsolescence, managerial deficiencies, financial mismanagement, and market changes. The story of a medium-sized engineering unit in West Bengal illustrates the critical role played by multiple financial institutions—IDBI, IFCI, IRBI, and others—in diagnosing industrial sickness and implementing successful rehabilitation strategies.

The Rise and Fall: "Bengal Engineering Works" (name changed) was established in 1975 as a partnership firm manufacturing industrial pumps and valves. By the mid-1980s, it had grown into a reputable supplier to state electricity boards, chemical plants, and municipal corporations, employing over 300 workers and achieving an annual turnover of Rs. 5 crores. However, the liberalization of the Indian economy in 1991 brought unprecedented challenges. The company faced intense competition from cheaper imports, newer technologies from multinational corporations, and changing customer preferences. By 1995, the company had accumulated losses of Rs. 2.5 crores, defaulted on loans from commercial banks, and was declared "sick" under the Sick Industrial Companies Act.

Diagnosis and Intervention: The matter was referred to the Board for Industrial and Financial Reconstruction (BIFR), which appointed IRBI (now IFCI) as the operating agency to prepare a rehabilitation scheme. The diagnostic study revealed multiple interconnected problems: outdated machinery leading to poor quality and high rejection rates, excessive workforce without corresponding productivity, weak marketing network, and heavy interest burden on past loans. The company's liabilities exceeded its assets, and it had negative net worth—a classic case of industrial sickness requiring comprehensive rehabilitation rather than mere financial restructuring.

The Rehabilitation Package: A consortium of financial institutions led by IRBI and including IDBI, IFCI, and commercial banks formulated a comprehensive rehabilitation package with multiple components. First, **financial restructuring** involved conversion of a portion of outstanding loans into equity, reducing the interest burden, and providing fresh working capital at concessional rates. Second, **technological upgradation** was supported through IDBI's Soft Loan Scheme for Modernisation, enabling the company to replace obsolete machinery and adopt computer-aided design and manufacturing technologies. Third, **managerial strengthening** was facilitated through IFCI's consultancy services, which helped recruit professional managers and implement modern management information systems. Fourth, **marketing support** was provided through EXIM Bank's export marketing finance scheme, enabling the company to explore overseas markets and reduce dependence on domestic public sector buyers. Fifth, **workforce rationalization** was achieved through a voluntary retirement scheme funded partly by the rehabilitation package, while simultaneously investing in skill development training through programs supported by NISIET.

The Turnaround: The rehabilitation process took nearly five years, requiring patience, coordination, and commitment from all stakeholders. By 2002, the company had achieved operational breakeven. By 2005, it had cleared all accumulated losses and began paying dividends. The company not only survived but thrived, diversifying into high-value products for the oil and gas sector, achieving an annual turnover of Rs. 25 crores by 2010, and

expanding employment to over 500 workers. The success story became a case study in IRBI's training programs for bankers and entrepreneurs.

****Lessons Learned:**** The Bengal Engineering Works case illustrates several critical lessons about institutional support for industrial rehabilitation. First, industrial sickness requires holistic treatment addressing financial, technical, managerial, and marketing dimensions simultaneously—no single intervention suffices. Second, coordination among multiple institutions with different mandates and expertise is essential for comprehensive rehabilitation. Third, patient capital and realistic timelines are necessary—turnaround rarely happens overnight. Fourth, preserving productive assets and employment while restructuring is both socially desirable and economically viable. Fifth, successful rehabilitation creates demonstration effects, encouraging other sick units to come forward for treatment rather than resorting to asset stripping or closure.

The case also demonstrates the evolution of India's institutional framework for industrial rehabilitation. From IRCI's establishment in 1971 through IRBI's conversion in 1985 to the current framework where IFCI continues to play a nodal role for sick unit rehabilitation, the institutional infrastructure has continuously adapted to changing challenges. Today, with new challenges from technological disruption and global competition, the lessons from successful rehabilitation cases remain relevant for entrepreneurs, bankers, and policymakers alike.

Case Study Questions

1. Identify the multiple causes of industrial sickness in Bengal Engineering Works. How did each contributing factor interact with others to create the crisis?
2. Analyze the role of different financial institutions (IDBI, IFCI, IRBI, EXIM Bank, NISMET) in the rehabilitation package. What specific contribution did each institution make, and why was coordination among them essential?
 1. 3. What broader lessons about industrial rehabilitation can be derived from this case? How can these lessons be applied to address contemporary challenges of industrial sickness in the MSME sector?

12.11 Key Terms

****1. IDBI (Industrial Development Bank of India)****

Established in July 1964 as an apex institution coordinating and supplementing the operations of financial institutions providing long-term finance to industry. It functions as a development bank with three broad categories of functions: coordinating, financing, and promotional, with no upper or lower limit on assistance amount or project size.

****2. IFCI (Industrial Finance Corporation of India)****

The first Development Financial Institution established on July 1, 1948, to cater to the long-term finance needs of the industrial sector. It has made significant contributions to the modernization of Indian industry, export promotion, import substitution, pollution control, and energy conservation through commercially viable initiatives.

****3. DICGC (Deposit Insurance and Credit Guarantee Corporation)****

A wholly owned subsidiary of the Reserve Bank of India that provides insurance cover to deposits in all commercial banks including LABs, payment banks, small finance banks, RRBs, and cooperative banks. With a present limit of ₹0.1 million, it protects the interests of depositors and contributes to financial system stability.

****4. EXIM Bank (Export-Import Bank of India)****

Established on January 1, 1982, to provide financial assistance to exporters and importers for promoting India's foreign trade. It provides financing for export and import of goods and services, finance for joint ventures in foreign countries, merchant banking functions, and buyers' credit to foreign governments and banks.

****5. IRBI (Industrial Reconstruction Bank of India)****

Originally established as Industrial Reconstruction Corporation of India (IRCI) in 1971 and converted into a statutory corporation called IRBI in March 1985, it provides financial, managerial, and technical assistance to revive and revitalize sick industrial units in public and private sectors.

****6. NISIET (National Institute for Small Industries Extension Training)****

Established in 1960 as the premier institution for the promotion, development, and modernization of the SME sector, recognized by UNIDO in 1984 as a Centre of Excellence. It operates through six activities: training, consultancy, research, education, information, and extension services.

****7. IIE (Indian Institute of Entrepreneurship)****

An autonomous organization established in 1993 in Guwahati under the Ministry of Skill Development & Entrepreneurship, providing training, research, and consultancy activities in Small and Micro Enterprises with special focus on entrepreneurship development, particularly in the North Eastern region.

12.11 Further Readings / Reference books

Five Printed/Published Textbooks

1. ****IDBI Bank Official Website**** (n.d.). ***MSME Banking***. Available at: <https://www.idbi.com/msme-banking.asp>
2. ****Your Article Library**** (n.d.). ***Main Functions of Small Industries Development Bank of India (SIDBI)***. Available at: www.yourarticlelibrary.com/banking/main-functions-of-small-industries-development-bank-of-india-sidbi/40993
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4. ****DCMSME**** (n.d.). ***Small Scale Industries Board India***. Available at: <http://dcmsme.gov.in/archive/sidoboard.htm>
5. ****Banknet India**** (n.d.). ***Small and Medium Enterprises, SMEs, SSI***. Available at: www.banknetindia.com/banking/ssi1.htm

Lesson 13: STATE LEVEL INSTITUTIONS SUPPORTING SMALL BUSINESS

After going through this lesson, you should be able to understand the role of various State level Financial Institutions in supporting SSI units, such as :

- Understand the role and functions of State Financial Corporations (SFCs) established under the SFCs Act 1951 for providing medium and long-term credit to small and medium industries
- Examine the various State Financial Corporations operating across different states with special focus on Andhra Pradesh State Financial Corporation (APSFC)
- Analyze the objectives, functions, and schemes of Small Industries Development Corporations (SIDCO) at the state level
- Evaluate the role of State Directorates of Industries and District Industries Centers (DICs) as grassroots-level support institutions
- Understand the detailed procedures, requirements, and guidelines for obtaining financial assistance from APSFC including documentation, security, and disbursement processes

Structure of the Lesson :

- 13.1 State Financial Corporations
 - 13.1.1 Functions of State Financial Corporations
 - 13.1.2 State Financial Corporations in the Country
 - 13.1.3 A.P. State Financial Corporation
- 13.2 Small Industries Development Corporation (SIDCO)
- 13.3 Small Industries development Organisation (SIDO)
- 13.4 State Directorates of Industries
- 13.5 District Industries Centers (DICs)
- 13.6 Summary
- 13.7 Self assessment Questions
- 13.8 Key Terms
- 13.9 Further Readings / Reference books

10 Start ups with \$ one Billion valuation

In the start up world, cracking a \$1 billion valuation is the most coveted status of success. Due to the rarity of this event, such companies have been dubbed “unicorns” and receive the highest level of admiration among their peers. These are the 10 companies which reached unicorn status faster than any others.

1. WB21

Time to Unicorn: 2.08 years

Latest Valuation: \$2.2 billion

Total funding to date: \$23.73 million

Business activities: WB21 is a digital banking platform that launched just about one year ago. Over that span, WB21 saw crazy growth, reaching over 1 million users in September.

2. DidiChuxing

Time to Unicorn: 2.43 years

Latest Valuation: \$35 billion

Total funding to date: \$7.44 billion

Business activities: Didi is the “Uber of China” and recently partnered with Uber when the ride-hailing startup decided to withdraw from its costly battle with Didi over the Asian market.

3. Twitter

Time to Unicorn: 2.32 years

Latest Valuation: \$13.34 billion

Total funding to date: Public

Business activities: As one of the top 10 largest websites and social networks in the world, Twitter has suffered a decrease in traction, valuation, and usership in recent years. Jack Dorsey, the founder and CEO, was brought back into the company to try to solve these

problems.

4. Yello Mobile

Time to Unicorn: 2.28 years

Latest Valuation: \$4 billion

Total funding to date: \$202 million

Business activities: This conglomeration of over 70 startups which has raised \$100 million from Formation 8, aims to acquire small startups in order to grow in market size.

5. Pinterest

Time to Unicorn: 2.46 years

Latest Valuation: \$11 billion

Total funding to date: \$1.3 billion

Business activities: Pinterest is the niche social media site with over 50 million active users in the United States alone. The network allows users to “pin” pictures and is predominantly used for fashion, design, travel pictures, and recipes.

6. Calient Technologies

Time to Unicorn: 2.02 years

Latest Valuation: \$247 million

Total funding to date: \$428 million

Business activities: Calient produces hardware for data centers. They saw exponential

growth in the late 1990's reaching unicorn status, but in the following decade lost about 75% of their valuation.

7. Xiaomi

Time to Unicorn: 1.71 years

Latest Valuation: \$45 billion

Total funding to date: \$1.4 billion

Business activities: Xiaomi is a Chinese consumer technology company producing a majority of the Chinese smartphone market. They are sometimes referred to as the Apple of China due to the mass appeal and sleek design.

8. Akami Technologies

Time to Unicorn: 1.58 years

Latest Valuation: \$11.28 billion

Total funding to date: Public

Business activities: Akami Technologies went public in 1999 and reportedly manages 30% of internet connections, which equates to around 2 trillion daily connections.

9. Groupon

Time to Unicorn: 1.46 years

Latest Valuation: \$2.19 billion

Total funding to date: Public

Business activities: Groupon is a social platform for ecommerce, touting over 45 million active users and reported revenue over \$3 billion annually.

10. Slack

Time to Unicorn: 1.25 years

Latest Valuation: \$3.8 billion

Total funding to date: \$540 million

Business activities: Slack is a B2B communication platform. The software allows companies to divide group messages into pertinent clusters and includes features to keep organizations talking effectively.

The Micro, Small & Medium Enterprises (MSMEs) sector is one of the fastest growing industrial sectors in the world economy; the Indian scenario is no different. The contribution of MSMEs to our national economy in terms of creating a vibrant manufacturing sector, winning the global market through increased exports, employment generation etc., is quite significant. Since finance is the major requirement and also a constraint for SSI units, financing of the MSMEs sector has become the utmost priority of the government since independence. A multi-level institutional structure exists for financing of small enterprises and non-farm enterprises in India. Credit to small enterprises comes under priority sector lending programme of banks.

13.1 State Financial Corporations in India

In order to provide medium and long-term credit to industrial units, Industrial financial Corporation of India (IFCI) was set up under the Industrial Finance Corporation Act 1948. The objective was mainly to provide the credit to those undertakings, which fall outside the normal banking activity. The state governments also expressed their desire to set up similar corporations in the state to supplement the activities of the IFCI. Main intention of state governments that time was to provide financial assistance to small and medium scale

industries within the state but outside the activities of the IFCI. To implement the views expressed by the State Governments, the State Financial Corporation Bill was introduced in Parliament in the year 1951.

The establishment of State Financial Corporations was, one of the steps taken, at the official level to promote the growth of small and medium-scale industries. The State Financial Corporation Act passed in 1951 and empowered each state and union territory to establish State Financial Corporation for the purpose of meeting the long-term financial requirements of small and medium industries by providing credit to them. It provides loan to sole trading concern, partnership firm, private limited companies and public limited companies. At present, there are 19 State Financial Corporations in India. Out of these 17 were set up under the State Financial Corporations Act (SFCs) 1951. The Tamil Nadu Industrial Investment Corporation Ltd. established in 1949 under the Companies Act as Madras Industrial Investment Corporation, also functioning as SFC. Apart from the above SFCs, State Industrial Development Corporations (SIDCs) also act as SFCs for providing assistance to MSMEs in some states and union territories. The following states and union territories have SIDCs viz. Andaman & Nicobar, Arunachal Pradesh, Daman & Diu and Dadra & Nagar Haveli, Goa, Manipur, Meghalaya, Mizoram, Nagaland, Tripura., Pondichery, and Sikkim.

The State Financial Corporations Act, 1951 : The main features of the Act are as follows:—

1. It provides that the State Government may, by notification in the Official Gazette, establish a Financial Corporation for the State.
2. The share capital shall be fixed by the State Government but shall not exceed Rs. 2 crores. The issue of the shares to the public will be limited to 25 per cent, of the share capital and the rest will be held by the State Government, the Reserve Bank, Scheduled Banks, Insurance Companies, Investment Trusts, Co-operative Banks and other Financial Institutions.

3. Shares of the Corporation will be guaranteed by the State Government as to the repayment of principal and the payment of a minimum dividend to be prescribed in consultation with the Central Government.
4. The Corporation will be authorised to issue bonds and debentures for amounts which together with the contingent liabilities of the Corporation shall not exceed five-times the amount of the paid-up share capital and the reserve fund of the Corporation. These bonds and debentures will be guaranteed as to the payment of the principal and the payment of interest at such rate as may be fixed by the State Government.
5. The Corporation may accept deposits from the public repayable after not less than five years, subject to the maximum not exceeding the paid-up capital.
6. The Corporation will be managed by a Board consisting of a majority of Directors nominated by the State Government, the Reserve Bank and the Industrial Finance Corporation of India.
7. The Corporation will be authorised to make long-term loans to industrial concerns and to guarantee loans raised by industrial concerns which are repayable within a period of not exceeding 25 years. The Corporation will be further authorised to underwrite the issue of stocks, shares, bonds or debentures by industrial concerns, subject to the provision that the Corporation will be required to dispose of any shares, etc., acquired by it in fulfilment of its underwriting liability within a period of 7 years.
8. Until a reserve fund is created equal to the paid-up share capital of the Corporation and until the State Government has been repaid all amounts paid by them, if any, in fulfilment of the guarantee liability, the rate of dividend shall not exceed the rate guaranteed by the State Government. Under no circumstances shall the dividend exceed 5 per cent, per annum and surplus profits will be re-payable to the State Government.

9. The Corporation will have special privileges in the matter of enforcement of its claims against borrowers.

13.1.1 Functions of SFCs

1. The SFCs grant loans mainly for acquisition of fixed assets like land, building, plant and machinery.
2. The SFCs provide financial assistance to industrial units whose paid-up capital and reserves do not exceed Rs. 3 crore (or such higher limit up to Rs. 30 crore as may be specified by the central government).
3. The SFCs underwrite new stocks, shares, debentures etc., of industrial concerns.
4. The SFCs provide guarantee loans raised in the capital market by scheduled banks, industrial concerns, and state co-operative banks to be repayable within 20 years.

13.1.2 SFCs in the Country : At present there are 19 state finance corporations (out of which 17 SFCs were established under SFC Act 1951) in the country. These are ;

1. Andhra Pradesh State Financial Corporation (APSFC) : Andhra Pradesh State Financial Corporation (APSFC) is a term lending Institution established in 1956 for promoting small and medium scale industries in Andhra Pradesh under the provisions of the 'State Financial Corporation' Act, 1951. The corporation has many entrepreneur - friendly schemes to provide term loans, working capital term loans, special and seed capital assistance to suit the needs of various categories of entrepreneurs. The Corporation has 45 years of expertise in industrial financing engaged in the business of financing tiny, small and medium scale sector units and thriving for balanced regional development of the state.

2. Arunachal Pradesh Industrial Development and Financial Corporation (APIDFC) :

Arunachal Pradesh Industrial Development and Financial Corporation (APIDFC) was incorporated in the year 1978 as company under Companies Act, 1956 for promotion of industries in Arunachal Pradesh. It is performing the twin role of State Industrial Development Corporation and State Financial Corporation.

3. Assam Financial Corporation (AFC) : Assam Financial Corporation (AFC) was established under the Central Act, viz., The State Financial Corporations Act, 1951, with the basic objective of promoting and developing small scale and medium scale industries in the State with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the States. The corporation is owned by the Assam state government jointly with IDBI and is functioning under the administrative control of the state government. The Chairman and Managing Directors of AFC are senior IAS officers appointed by the state government in consultation with IDBI. The Board of Directors of AFC are highly professional in character and consist of senior executives of the state government, a representative each from RBI, IDBI and SIDBI, besides other interests like Co-operatives, Life Insurance, entrepreneurs are also represented on the Board. AFC employs highly professional and technical personnel to carry on the business operations such as M.B.As., C.As., engineers, marketing experts, etc.

4. Bihar State Financial Corporation (BSFC) : Bihar State Financial Corporation (BSFC) is the main state level institution providing term lending facilities to industrial entrepreneurs. Banks have also shown increasing interest in term lending to industrial units. BSFC will be restructured and strengthened to meet the growing financial and mercantile needs of entrepreneurs. Although the Government has nominated representatives of Associations of industrial enterprises and Chambers of Commerce in the Board of this Institution a need has been felt to further strengthen the Board with induction of greater number of competent professionals and representative of Chambers and Industries with proven track record. Specific criteria will be laid down for choosing professionals. Representatives of Financial Institutions will also be inducted in the Board of BSFC. BSFC will also provide services such as financial leasing, loan syndication, consultancy, Merchant Banking, entrepreneurial skill development and support for technology upgradation to the

industries in the State. The corporation would also be encouraged to establish a Venture Capital Fund for the entrepreneurs in the state.

5. Delhi Financial Corporation (DFC) : The Delhi Financial Corporation has been rendering yeoman service to small scale entrepreneurs in Delhi and Chandigarh. It has made finance available to existing and prospective entrepreneurs at very reasonable terms. The corporation has devised suitable schemes for catering the needs of different categories of entrepreneurs.

6. The Economic Development Corporation (EDC) of Goa : The Economic Development Corporation (EDC) of Goa, established in 1975 has been the State Financial Institution. It has been incorporated as an SIDC and a limited company. However, it has also been accorded twin status of SFC by IDBI/SIDBI. **Area of Operation** - The Corporation has been extending financial assistance mainly for the development of industries and service sector in the State of Goa and Union Territory of Daman & Diu, Dadra and Nagar Haveli. The Corporation now intends to widen up its area of operations in the surrounding areas of Goa as well as Mumbai.

7. Gujarat State Financial Corporation (GSFC) : Gujarat State Financial Corporation (GSFC) incorporated under the State Financial Corporations Act of 1951, is a trend setter and path breaker in the field of industrial finance. It plays a major role in the development and industrialization of Gujarat by extending credit assistance to suit individual requirements. Gujarat State Financial Corporation established with main object for development activities to contribute to social upliftment, regional dispersal of industrial activities and to adding to Gross Stock Domestic Products. Also for promoting economic growth, balanced regional development and widening of entrepreneurial base by financing small enterprises. GSFC a premier, regional development bank set up by Government of Gujarat, to provide finance to new industrial units, for acquisition of Fixed Assets, Expansion, Modernization, Diversification, Renovation etc. The Industrial concern must set up in the state of Gujarat and the Union Territories of Diu, Dadra and Nagar Haveli.

8. Haryana Financial Corporation (HFC) : It has been set up under an Act of Parliament known as State Financial Corporation's Act. 1951 and the working is governed by this Act.

The Head Office of the Corporation is at Chandigarh and branch offices at each district headquarter of Haryana. HFC meets the credit needs of small/medium scale industrial units by advancing term loans & working Capital. The loans are advanced primarily for acquiring fixed assets such as land, building, plant & machinery, raw material etc.

9. Himachal Pradesh Financial Corporation (HPFC) : Himachal Pradesh Financial Corporation (HPFC) was established in the State under the Central Act, viz. The State Financial Corporations Act, 1951, with the basic objective of promoting and developing small scale and medium scale industries in the State with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the State. The Corporation is owned by the State Government jointly with IDBI and is functioning under the administrative control of the State Government.

10. Corporation (J&KSFC) : The Jammu & Kashmir State Financial Corporation (J&KSFC) was established to act as a Regional Development Bank with the aim of boosting economic development in the State for providing financial assistance in the shape of loans to prospective entrepreneurs for development of Industries. It was incorporated under The SFCs Act 1951 on 2nd December 1959 as a Development Bank for promotion of Small Scale Industries, hotels, houseboats and transport sector in Jammu & Kashmir.

11. Karnataka State Financial Corporation (KSFC) : The focus of Karnataka State Financial Corporation (KSFC) has always been on the small scale sector, artisans, tiny units and disadvantaged groups. KSFC has been the main term lending institution in most of the districts for first generation entrepreneurs.

12. Kerala Financial Corporation (KFC): Kerala Financial Corporation (KFC) was established in the State under the Central Act, viz.. The State Financial Corporations Act, 1951, with the basic objective of promoting and developing small scale and medium scale industries in the state with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the State. The Corporation is owned by the State Government jointly with IDBI and is functioning under the administrative control of the State Government.

13. Madhya Pradesh Financial Corporation (MPFC) : Madhya Pradesh Financial Corporation (MPFC) is the premier institution of the State engaged in providing financial assistance and related services to small to medium sized industries. Also, it is registered as Category-I Merchant Banker with Securities Exchange Board of India and setup a separate Merchant Banking Division in the name of MPFC Capital Markets.

14. Maharashtra State Financial Corporation (MSFC) : The Maharashtra State Financial Corporation (MSFC) has been set up under the 'State Financial Corporations Act, 1951. The Corporation operates in State of Maharashtra from 1962 and in State of Goa and Union Territory of Daman & Diu since 1964.

15. Orissa State Financial Corporation (OSFC): The Orissa State Financial Corporation (OSFC) is the primary state level financing institution incorporated in the year 1956 under the State Financial Corporations Act, 1951. The Corporation extends term loan for acquiring fixed assets like land, building, plant and machinery, equipment and margin money for working capital for setting up of industries. OSFC also provides working capital assistance under Single Window Scheme. Priority is given to small and tiny sector industrial units in backward areas.

16. Punjab Financial Corporation (PFC) : The Punjab Financial Corporation (PFC) has been established under the State Financial Corporation Act, 1951, for providing medium and long term loans to small and medium scale industrial undertakings in the State of Punjab. It generally grants term loans for creation/ acquisition of fixed assets like land, building, plant & machinery, provides guarantee against deferred payments for the purchase of capital goods and offers underwriting facility on issue of stocks and shares to companies. The Corporation also provides financial assistance for setting up of hotels, nursing homes/small hospitals, development of industrial estates and purchase of transport vehicles, etc.

17. Rajasthan Financial Corporation (RFC) : Since its very inception, the Rajasthan Financial Corporation (RFC) has been striving incessantly towards its goal- that of extending

a helping hand to a varied entrepreneurial section of society for their financial requirements. A goal, ultimately aimed at spurring the process of industrialization of its parent State. For the fulfillment its prime objective, it operates various loan schemes for tiny, small and medium scale industries, many of them tailor-made for specific entrepreneurial classes.

18. Uttar Pradesh Financial Corporation (UPFC) : Uttar Pradesh Financial Corporation (UPFC) was established in 1954 under the State Financial Corporation Act, 1951 with its Head Office at Kanpur. The UPFC took a humble step for the industrial development of the State of Uttar Pradesh by providing term loan assistance to small and medium scale units. Several units nurtured by UPFC have now become large enterprises.

19. West Bengal Financial Corporation (WBFC) : West Bengal Financial Corporation (WBFC) was established under the State Financial Corporation Act, 1951. The WBFC provides loans, assistance and term finance to small and medium scale industries. Technical guidance is given to entrepreneurs for project formulation and organisation, restructuring etc. WBFC has formed Entrepreneurs Assistance Cell which holds regular meetings with commercial banks, WBSEB, WBSIC, SISI, WEBCON etc. to render services to the units seeking working capital assistance. The Cell also renders other services like arranging for various inputs like power, industrial sheds, working capital finance etc.

13.1.3 A.P. State Financial Corporation

Andhra Pradesh State Financial Corporation [APSFC] is a term lending Institution established in 1956 for promoting small and medium scale industries in Andhra Pradesh under the provisions of the Sate Financial Corporations Act, 1951. The corporation came into existence on 1-11-1956 by merger of Andhra State Financial Corporation and Hyderabad State Financial Corporation. The corporation has launched many entrepreneur-friendly schemes to provide term loans, working capital term loans, special and seed capital assistance to suit the needs of various categories of entrepreneurs. The Corporation has completed six decades of dedicated service in industrial financing of tiny, small and medium scale sector units and contributing to the balanced regional development of the state.

Objectives of APSFC :

- To industrialise the State through balanced regional development and dispersal of industries
- To support promotion and development of tiny, small and medium scale industries and service sector units by extending need based credit to them.
- Nurtures entrepreneurship and encourages first generation entrepreneurs
- To act as a catalyst for generation of employment

Functions & Duties of APSFC : The APSFC, subject to the provisions of SFCs Act, will carry on and transact any of the following kinds of business viz.,

- a) Guaranteeing, on such terms and conditions as may be agreed upon – (i) Loans raised by industrial concerns which are repayable within a period not exceeding twenty years, and are floated in the public market; (ii) loans raised by industrial concerns from scheduled banks or State co-operative banks or other financial institutions;
- b) guaranteeing, on such terms and conditions as may be agreed upon, deferred payments due from any industrial concern in connection with its purchase of capital goods within India;
- c) underwriting of the issue of stock, shares, bonds or debentures by industrial concerns;
- d) transferring for consideration any instruments relating to loans and advances granted by its to industrial concerns;
- e) acting as agent of the Central Government or the State Government or the Development Bank or the Small Industries Bank or the IFCI Limited formed and registered under the Companies Act, 1956, or any other financial institution notified in this behalf by the Central Government in respect of any matter connected with, or arising out of, the grant of loans or advances any matter connected with, or arising out of, the grant of loans or advances to an industrial concern, or subscription to debentures of an industrial concern or relating to the business of the Development Bank, Small Industries bank, IFCI Limited or financial institution;
- f) subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern or any other concern;
- g) retaining as part of its assets any stock, shares, bonds or debentures which it may acquire by subscription or in fulfillment of its underwriting liabilities and disposing of the stock, shares, bonds or debentures so acquired;

- h) granting loans or advances to, or subscribing to debentures of, an industrial concern, repayable within a period not exceeding twenty years from the date on which they are granted or subscribed to, as the case may be:
- i) accepting or discounting promissory notes and bills of exchange made, drawn, accepted or endorsed by industrial concerns or by any person selling capital goods manufactured by one industrial concern to another industrial concern;
- j) undertaking research and surveys for evaluating or dealing with marketing or investments or undertaking and carrying on techno-economic studies or other activities in connection with the development of any industry;
- k) providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
- l) planning and assisting in the promotion and development of industries.
- m) providing consultancy and merchant banking services.
- n) acting as trustee for the holders of debentures or other securities.
- o) leasing, sub-leasing or giving on hire purchase of industrial plant, equipment, machinery or any other asset.
- p) factoring
- q) providing export related credit and services
- r) undertaking money market relative activities;
- s) setting up of mutual funds and undertaking assets management activity;
- t) promoting, forming or conducting or assisting in the promotion, formation, or conduct of companies, subsidiaries, societies, trusts or such other associations of persons as it may deem fit;
- u) opening or confirming or endorsing letters of credit and negotiating or collecting bills and other documents drawn there under;
- v) doing such other business as the Small Industries Bank may authorize, and or generally the doing of such acts and things as may be incidental to or consequential upon, the exercise of its powers or the discharge of its duties under this Act.

The Financial Corporation is entitled to receive, in consideration of any of the services mentioned above, such commission, brokerage, interest, remuneration or fees as may be agreed up on.

Products & Services offered by APSFC :

Products (Fund Based Activities) : Andhra Pradesh State Financial Corporation (APSFC) extends financial assistance for setting up industrial units in Small & Medium Scale, Service enterprises in the state of Andhra Pradesh. The Corporation extends finance basically through two products the Term Loans and the Working Capital Term Loans.

Term Loan : The Corporation extends financial assistance up to Rs 500 lakhs per project normally for acquiring fixed assets viz., Land, Building and machinery through Term Loan. In extremely deserving cases the Corporation extends financial assistance up to Rs2000 lakhs . The loan period normally ranges from 5 to 8 years.

Medium Term Loan: The Corporation extends financial assistance for existing units with good working results. The loan period is upto 6 years. The Corporation in consortium with Leading Commercial Banks, with which it is having a MOU, extends higher working capital loans to deserving units.

Services (Non Fund Based Activities)**Marketing of Insurance Products (Life & Non Life)**

- i. Life Insurance Products in Collaboration with Life Insurance Corporation of India
- ii. General Insurance Products in Collaboration with United India Insurance Company Ltd.
- iii. Cumulative Deposits with a minimum deposit of Rs.20,000/- Interest is paid on maturity
- iv. Non-Cumulative Deposits with a minimum deposit of Rs.40,000/- Interest is paid Quarterly

1. Counseling MBA Students in preparation of Project Reports :

Counseling services are provided to the students of MBA by helping them in choosing the topics, arranging awareness programme on report writing skills, allotment of resource person for each group of 5 students etc. Large number of students are immensely satisfied with these service. An amount of Rs.3,000/- will be charged towards fee for each student.

2. Valuation of Assets

The Corporation, leveraging its rich experience, will also provide property valuation service at an affordable fee. Being in the business of financing, APSFC knows the value of assets of all kinds much better than many. We can take up valuation of both tangible and intangible assets to reflect their true and fair value.

3. Internal Audit Services

APSFC is offering internal audit service to industries and service sector enterprises at an affordable fee. The Corporation, with its pool of highly experienced professionals, is eminently qualified to take up independent, objective and systematic internal audit of small, medium or large enterprises in all sectors.

4. Interaction Scheme for Professional Colleges / Institutions

Industry-Academia Interaction is a desirable goal. It is a wonderful partnership with an invaluable purpose. This also helps in enhancing employability while improving perspectives and horizons of the participants. APSFC is eminently suited to play this role. APSFC has been imparting training to practicing managers besides providing guidance and mentoring support to existing and potential entrepreneurs.

To achieve this mission

- APSFC provide entrepreneurship educational training and ongoing support to educators.
- APSFC partner with universities, schools and community-based organizations.
- APSFC offer EDP support to the youth and prospective entrepreneurs.
- APSFC help to bridge the gaps in existing curricula.

Training : Training is an article of faith at APSFC. The ISO Manual of the Corporation has adequate emphasis on training as a proactive and continuous activity. Besides training our own staff, we are conducting SIDBI sponsored training programmes for the benefit of officers of other SFC's in the country. APSFC also conduct specially designed training programmes for managers of SME sector, Finance professionals and entrepreneurs.

Thrust Areas for availing loan through APSFC

- a) Food processing and Agro based Industries
- b) Information Technology / IT related activities / Services
- c) Bio-Technology oriented projects

- d) Agro based Industries
- e) Drugs, Pharmaceuticals
- f) Automobile Components
- g) Infrastructure Development Projects
- h) Hospitals, Nursing Homes, Assistance to Practising Doctors
- i) Service Oriented Activities
- j) Export Oriented Activities
- k) Tourism Related Activities
- l) Apparels / Textile Industries
- m) Super Bazaars

Loan availing procedure through APSFC

Andhra Pradesh State Financial Corporation is the Premier Term Lending Institution in the State which provides adequate and timely financial assistance to its customers and ultimately contributing for the industrial promotion in the State. In addition to the customer satisfaction, the prime object of the Corporation, it is also the endeavor of the Corporation to give quick service to the entrepreneurs.

The Corporation sanctions loans on the security of primary as well as collateral security. After receipt of the sanction letter, the entrepreneur has to complete the legal formalities securing the loan sanctioned as stipulated in the Sanction letter. After completion of legal formalities, funds will be released as per eligibility. Procurement of papers pertaining to the properties being offered by the borrowers in favour of the Corporation will take considerable time.

Requirements and Guidelines for the sanction and disbursement of loans:

The following type of Institutions can avail financing from SFC: (1) Sole Proprietary Concern, (2) Partnership Firm, (3) Private Limited/Limited Companies, (4) Societies.

1. In case of Sole Proprietary Concern

- Bio-data of the proprietor by way of copies of PAN Card/ Passport/ Voters identity card/ Bio-data with photo and signature attestation by Gazetted Officer/Bank Manager.

2. In case of Partnership Firm –

- a. Copy of Partnership Deed;
- b. Copy of Firm Registration Certificate;
- c. Extract of Form-A from Registrar of Firms (for old firms and in case of additional loans) regarding existing partners as on date;
- d. Bio-data of partners by way of copies of PAN card/passport/voters identity card/bio data with pass port photograph and signature duly attested by Bank Manager/Gazetted Officer;

3. In case of Companies

- a. Memorandum & Articles of Association.
- b. Bio-data of Promoter Directors affixing colour photo and duly attested by Bank Manager/Gazetted Officer/Copies of PAN Card/Copies of Passport./voters identity card.
- c. Resolution of Board of Directors of the company authorising two directors to raise loans from APSFC and sign necessary loan security documents and affix common seal thereof.
- d. Copy of certificate of incorporation if it is a Private Limited Co.
- e. Copy of Certificate of Incorporation and Commencement of Business in the case of Limited companies.
- f. Copy of General Body Resolution u/s.293 (i) (d) of Companies Act in case of Limited Companies, permitting the company to borrow in excess of paid-up capital and free reserves and Resolution u/s.293 (1) (a) of Companies Act for mortgaging the fixed assets of the company in favour of the Corporation.
- g. Consent letters from the Directors about furnishing of their personal guarantee with copies of property documents.
- h. Search Report from CA/Extract of register of charge from ROC in case of existing companies and companies seeking additional loans.

4. In case of Societies

- a) Registration Certificate of the Co-operative Society.
- b) Bye-laws of the Society, duly certified to be true and upto date.
- c) List showing the names and addresses of the members of the Governing body/Executive Committee of the Co-operative society along with Biodatas by way of copies of PAN Card/ Passport/ Voters Identity Card/ Biodata with Photograph, duly attested by any Bank Manager/Gazetted Officer.
- d) Certified copy of the resolution of the co-operative society that it is authorized to raise loan on the mortgage of the properties in favour of the Corporation as per the Bye-laws of the Society, duly authenticated by the signature of the Chairman of the meeting in which, the resolution was passed.
- e) Certified copy of the resolution authorizing the Governing body / Executive Committee to raise loan from the Corporation and to execute the necessary loan security documents to the Corporation for completion of legal formalities.
- f) Necessary permission from the Registrar of the Co-operative Societies for raising the loan from the Corporation.

B. Primary Security:

The primary security can be either leasehold interest or freehold interest . If the unit is going to be started in a leasehold premises, it is called leasehold and if the unit is going to be started in own premises, it is called freehold.

In case unit is coming up in a leasehold premises, the Corporation will insist for equitable mortgage of leasehold interest. If there is no loan on civil works, the lease period shall be repayment period plus two years. If loan is provided on the civil works then lease shall be for a period of 30 years. Please note that lease for any period is compulsorily registerable affixing required stamp duty. Then the documents that are required are as under:

- a. Registered Lease Deed in the standard format given by APSFC for the period prescribed in the sanction letter i.e. loan period plus two years if no loan is provided on civil works and if loan is sanctioned on civil works, 30 years lease deed is required.

- b. Copy of lessor title deed in proof of ownership and in the absence of title deed, revenue records or ownership certificate issued by local Government or property tax receipts.

Requirements for creation of equitable mortgage in case of freehold interest in land and buildings:

If vacant land is acquired and buildings are to be constructed:

- a. Original Regd. title deed in the name of the Proprietor/ Firm / Company along with certified copy having clear approach road.
- b. Pattadar Pass Book/title deed issued by MRO/RDO in the name of the proprietor/firm/company/society.
- c. Original/Copies of link documents (Vendor's title deed) pertaining to the property under the scheme along with copies of Pass Book and Title Deed reflecting the sale entry. If pass book and title deeds are not issued, a certificate from MRO to that effect is required.
- d. Extracts of revenue records i.e. Khasra Pahani for 1954-55 along with Pahanies in Telangana Area and 10 (1) along with Adangals in Andhra Area for the last 13 years.
- e. No PT Certificate in case of Telangana Area.
- f. E.C for 13 years (or) from the date of document if title deed is of beyond 13 years to the date of deposit disclosing all transactions.
- g. ULC permission u/s.26/exemption under ULC Act as the case may be in case the land is within urban agglomeration.
- h. Permission from Urban Development Authority/ Building Plans if the site is within the Master Plan of Urban Development Authority.
- i. Affidavit by promoters to the effect that there are no court cases pending against the property under the scheme.

If the unit is coming up in APIIC land:

- a. Original Regd. Sale Deed.
- b. Original Regd. Sale Agreement.

- c. Possession handing over letter and Allotment letter.
- d. No dues Certificate and NOC to mortgage the lands allotted with the Corporation.

C. COLLATERAL SECURITY:

Generally, the Corporation insists for Collateral Security and the percentage of Collateral Security is dependent upon the location and the nature of industry and the nature of loan. Also the Corporation insists for preferably urban immovable property towards Collateral Security and preferably belonging to the borrowers. The Collateral Security can be either in the form of vacant land, house, apartment, fixed deposits, Bank Guarantee.

If it is vacant land:

- a. Original Regd. title deed in the name of the surety along with certified copies.
- b. Original link documents (Vendor's title deed).
- c. Extracts of revenue records i.e. Khasra Pahani for the year 1954-55 along with Pahanies in Telangana Area and 10 (1) along with Adangals in Andhra Area for the last 13 years.
- d. No PT Certificate in case of Telangana Area.
- e. E.C for 13 years from the date of document and in case title deed is beyond 13 years from the date of document to the date of deposit disclosing all transactions.
- f. ULC permission u/s.26/exemption under ULC Act as the case may be in case the land is within urban agglomeration.
- g. Copy of the Approved Layout/Sketch drawn by Mandal Surveyor demarcating the site/plot with Sy.No and boundaries and a land mark for identification.

If it is house:

- a) Original Regd.Conveyance Deed along with certified copy.
- b) All the relevant Link Documents.
- c) EC for 13 years (or) from the date of document in case title deed is beyond 13 years to the date of deposit disclosing all transactions.
- d) Tax Demand & Receipt/Ownership Certificate/ Extract of property tax demand register for the last 13 years.

e) Approved building plans from Competent Authority.

If it is an Apartment:

- a. Original Registered Sale deed in the name of the surety.
- b. Copy of the development agreement and link documents.
- c. Copy of the approved building plan.
- d. Encumbrance Certificate for the last 13 years.
- e. It shall be established that the original title deeds of the project are not mortgaged to bank or any financial institution availing project finance, by way of declaration from Builder/Landlord.
- f. Mutation in favour of the surety.
- g. Tax Demand and Receipt / Ownership certificate/ EPPDR.

If it is FDR:

- a) The beneficiary/payee of fixed deposit should give a consent letter for pledging the fixed deposit with the Corporation as Collateral Security in consideration of sanction of loan to the unit to which the security is being offered.
- b) The beneficiary/payee of the fixed deposit should also assign the proceeds of fixed deposit in favour of the Corporation by a proper endorsement by the concerned bank.
- c) A discharge voucher from the beneficiary/payee of fixed deposit duly affixing necessary revenue stamp (without mentioning the date) on the backside of the FDR.
- d) A letter addressed to bank by the beneficiary/payee authorising banker to pay the proceeds to the APSFC as and when the fixed deposit is presented by the APSFC.

If it is Bank Guarantee:

The collateral security can be offered by the borrower by way of Bank guarantee also in such a case the following documents shall be submitted:

1. Bank guarantee executed by the concerned Bank on required stamp paper by the authorized signatories of the Bank affixing their rubber stamp containing the serial number of the signatory as per the Bank rules.
2. A confirmation copy shall be forwarded by the Bank Manager to the Corporation in a sealed cover by post.

3. A letter from the Bank that they will pay the amount in case the Bank guarantee is invoked in time.
4. If the amount guaranteed is Rs.1.00 lakh and above, the Guarantee Agreement shall be signed by 2 Authorised Officers of the Bank.

D. GENERAL GUIDELIENS:

- a) If the borrower is proposing to purchase the property standing in the name of minor, permission from the Court shall be obtained.
- b) For purchase of land, which is an Inam land, occupancy certificate/Form-B patta from competent authority shall be obtained.
- c) Assigned lands should not be purchased without prior written permission of RDO.
- d) For purchase of joint family property, the borrower should ensure that all the co-parceners of the vendor family join in the execution of the sale deed.
- e) For purchase of lands covered under Master Plan of the respective Urban Development Authority, the borrower shall ensure that the proposed land is falling within the Industrial Zone.
- f) If the borrowers are seeking loans on land & buildings, the borrower shall purchase the lands in the name of proprietor/firm/company/ society as the case may be.
- g) Generally, the Corporation will not accept third party collateral security.

The following are the loan security documents to be executed by the borrowers in favour of the Corporation and the required documents for a particular loan are to be taken from amongst the documents mentioned below:

1. Deed of Hypothecation
2. Memorandum of Deposit of Title Deeds
3. Guarantee Agreement
4. Loan Agreement
5. Promissory Note
6. Assignment of Development Rights

The applicable documents from out of the above shall be executed by the borrowers in favour of the Corporation.

The borrower shall pay the necessary stamp duty that is to be payable and applicable in the State of Andhra Pradesh on the security documents.

The above list is not exhaustive and after scrutiny of the documents that are submitted, if some more documents are required for establishing a valid marketable title for the properties being offered as security for the loan sanctioned by the Corporation, the entrepreneurs have to submit the same. For any clarifications, you may contact the Legal Officer in the Branch or Legal Department in the Head Office.

Sanction

- Brief project report
- Copy of SSI registration certificate
- Bio-data of proprietor / partners / directors with 2 passport size colour photographs as per Proforma along with copies of certificates regarding academic qualifications, experience etc.
- Solvency declaration of proprietor / partners / directors as per proforma (on rs.20 non-judicial stamp paper)
- Copy of partnership deed & firm registration in respect of firms/memorandum and articles of association & certificate of incorporation in respect of companies.
- Copy of land sale deed/ sale agreement / allotment letter of APIIC Ltd.
- Building plans (approved plans in respect of hotels/nursing homes/commercial & residential complexes proposals)
- Civil estimates
- Letter from the Lessor expressing willingness to let out the building and execution of regd. Lease agreement for 7 years in the unit is proposed in leasehold buildings with rough plan.
- Quotations for machinery and equipment from standard suppliers along with comparative quotations.
- Copy of Panchayat / municipal approval.
- Copy of power feasibility letter from A.P.Transco.
- Copies of collateral security property documents.

- Working results (audited balance sheets and profit & loss accounts) for the last 3 years in respect of existing units and the provisional for the current year with all schedules.
- Working results (audited balance sheets and profit & loss accounts) for the last 3 years of associated concerns of promoters.
- Particulars of available assets (land, buildings, machinery) in respect of existing unit.
- Other details such as raw material & market tie-ups, technology tie-up with background of technical consultant etc.
- Other details such as raw materials and sales invoices, list of major customers, particulars of orders on hand etc.
- Service charge @ 0.5% of loan applied + 12.36% service tax on the service charges at the time of filing the application.
- Upfront fee @ 0.5% of the loan sanctioned + 12.36% service tax on upfront fee at the time of first disbursement.

Guidelines for Disbursement of Loan

Before disbursement of loan, the loanee is required to :

- Obtain legal formalities completion(LFC) certificate by completing hypothecation of title both in respect of primary and collateral security from legal section.
- Comply with the various terms & conditions and specific stipulations of sanction and to raise the required capital / long terms loans and create fixed assets to the extent stipulated for Initial capital.

The Corporation generally reimburses the amount incurred on creation of fixed assets i.e. land, building & machinery

1. Release against building is made in stages depending upon the progress of building as per approved scheme.
2. For release against plant & machinery the loanee is required to submit original invoices, payment receipts, bank statement confirming realisation of cheques, performance guarantee
3. Alternatively, direct payment can be released by the Corporation to the machinery supplier on the basis of proforma invoice if the supplier is registered with the

Corporation or is a standard supplier after the entrepreneur has deposited the required margin money with the supplier/Corporation and produces confirmatory letter that the machinery is ready for delivery.

4. If the supplier is not registered with the corporation or is not a standard / reputed supplier commitment letter will be issued to the supplier and on delivery of the machinery payment will be made to the supplier. If the supplier so opts he can negotiate the documents through any commercial bank and get the payment released by dispatching the machinery through a reputed transport agency.
5. The Corporation issues letter of commitment in favour of the bankers of the borrowers in cases where L.C. is to be opened by the commercial banks. On presentation of certified set of documents, the Corporation releases the permissible amount to the bank for discharge of documents after fulfilling the terms and conditions stipulated in the commitment letter issued by the Corporation.
6. Release up to 50% against material bills in case of self – fabricated machinery is made. After completion of erection the balance eligible amount will be released retaining 10%/15% of eligible amount for satisfactory performance.

Limits of Financial Assistance

Constitution	Max. Limit per project
Proprietary & Partnership Joint Hindu families	Rs.800 Lakhs
Limited companies Co-operative societies	Rs.2000 Lakhs

Activity: Contact your local APSFC office and Collect information on the schemes of Assistance to Entrepreneurs to develop their business.

13.2 SMALL INDUSTRIES DEVELOPMENT CORPORATION (SIDCO)

Need for Small Industries Development Corporation (SIDCO) :

In many state governments, a separate corporation has been set up which is known as Small Industries Development Corporation (SIDCO) for the promotion of small scale industries. They undertake all kinds of activities for the promotion of small scale industries. Right from the stage of installation, to the stage of commencing production, these Corporations help small scale industries (SSI) in many ways and also provide infrastructure facilities to small scale industries. SIDCO has been responsible in spreading the industrial activity throughout in several states. Due to the assistance provided by SIDCO, many backward areas in most of the states have been developed.

Objectives of SIDCO

The following are the **main objectives of SIDCO**

1. The main objective of SIDCO is to stimulate the growth of industries in the small scale sector
2. To provide infrastructure facilities like roads, drainage, electricity, water supply, etc is one of the primary objective of SIDCO.
3. To Promote industrial estates which will provide industrial sheds of different sizes with all basic infrastructure facilities.

4. To Provide technical assistance through training facilities to the entrepreneurs.
5. To Promote skilled labor through the setting up of industrial training institutes.

Functions of SIDCO

1. SIDCO supplies scarce raw materials:

Some of the scarce raw materials are procured by the corporation either from the domestic market or from abroad and are provided to the needy small scale industries. For this purpose, SIDCO has a number of raw material depots and these depots are procuring various scarce raw materials, as per the requirements of small scale industries in the state.

2. SIDCO provides marketing assistance:

In order to provide an efficient marketing support to small scale industries, the corporation has taken up various schemes. In fact, the corporation participates in the tenders floated by the state government departments and also with the DGS & D (Director General of Supplies and Disposal). SIDCO makes advance payments for obtaining orders and distribute them among the various small scale units. SIDCO also arranges for buyer — seller meets frequently.

3. SIDCO assists in Bills discounting:

When small scale units supply goods to government departments, there is a delay in receiving payments. In such a situation, the bills drawn on government departments will be discounted by SIDCO and upto 80% of the bill value is given to the supplier. This helps the SSI units in solving their working capital crisis.

4. SIDCO provides Export marketing assistance:

To promote export marketing among the small scale industries, SIDCO has developed websites because of which it is able to display the products of the small scale industries in foreign markets and obtain export orders. Once an export order is obtained, the Common export manager of SIDCO will make arrangements for extending various services for export of the product. SIDCO also helps in the small scale units taking part in the international trade fair at New Delhi, Pragati Maidan so that the products of small scale industries of Tamilnadu are displayed.

and other agencies which are involved in the promotion and development of small scale units. It provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to SSI units. It has a network of 28 Small Industries Service Institutes, 30 branch SISIs, 37 Extension Centres, four Regional Testing Centres, one Product and Process Development Centre, three Footwear Training Centres and five Production Centres and ten Field Testing Centres.

Functions

The main functions of the SIDO are coordination, industrial development and industrial extension service. Some important functions are:

- (1) To assess the requirements of indigenous and imported raw materials and components for the small scale sector and to arrange their supplies;
- (2) To collect data on consumer items which are imported, and encourage the setting up of new units by giving them coordinated assistance;
- (3) To prepare model schemes, project reports and other technical literature for prospective entrepreneurs;
- (4) To secure reservations of certain products for the SSIs.
- (5) To provide consultancy and training services and marketing assistance to improve the competitive strength of small scale units.
- (6) To evolve a national policy for the development of SSIs and coordinate the policies and programmes of various State Governments SIDO is now Known as Micro, Small and Medium Enterprises Development Organisation.

13.4 DIRECTORATES OF INDUSTRIES OF THE STATE GOVERNMENTS

The small-scale Industries is a State subject and. therefore, the development and implementation of the schemes of assistance to SSIs is the primary responsibility of the State Government. Directorates of Industries in each State do the work relating to the development of industries in general and small scale industries in particular. Each directorate is staffed with administration and technical officers at State headquarters and by a District Industries Officer with supporting staff in each district. The State Directorates run various training schemes, production schemes and common facilities schemes. They also provide facilities of developed industrial land and factory sheds in industrial estates, allocate quotas of scarce raw

persons. The four metropolitan cities Mumbai, Chennai, Delhi and Kolkata have been kept outside the preview of DICs.

Functions of DICs:

The DICs are funded by the State concerned and the Centre jointly. The Government has provided substantial assistance to the DICs which can be spent by DICs on construction of an office building, expenditure on furniture, fixtures, equipment, vehicles and other recurring expenses.

With this basis facility, DICs in the district level undertakes various promotional measures with a view to bring all out development of SSI in the district. It starts from exploration of potential entrepreneurs to marketing the products produced by the SSIs.

The DICs provide and arrange a package of assistance and facilities for credit guidance, raw materials, training, marketing etc. including the necessary help to unemployed educated young entrepreneurs in general.

Thus it may be said that DIC extends promotional, technical, physical, financial, marketing and all other type of services, required for growth and development of SSI. The important functions of DIC are discussed as follow:

1. Identification of entrepreneurs:

DICs develop new entrepreneurs by conducting entrepreneurial motivation programmes throughout the district particularly under SEEUY scheme. DICs also take association of SIS's and TCOs for conducting EDPs.

2. Provisional registration:

Entrepreneurs can get provisional registration with DICs which enable them to take all necessary steps to bring the unit into existence.

The entrepreneur can get assistance from term lending institutions only after getting provisional registration. The provisional registration is awarded for two years initially and can be renewed every year but only for two times.

3. Permanent registration:

When the entrepreneur completes all formalities required to commence the production like selection of site, power connection, installing machinery etc he can apply to DIC for permanent registration.

It is only after getting the permanent registration that the entrepreneur can apply for supply of raw materials on concessional rates. Permanent registration is essential to avail all types of benefits extended by the government from time to time.**4. Purchases of fixed assets:**

The DICs recommend loan applications of the prospective entrepreneur to various concerned financial and developmental institutions e.g. NSIC, SISI etc. for the purchase of fixed assets. It also recommend to the commercial banks for meeting the working capital requirement of SSI to run day to day operations.

5. Clearances from various departments:

DIC takes the initiative to get clearances from various departments which is essential to start a unit. It even takes follow up measures to get speedy power connection.

6. Assistance to Village Artisans and Handicrafts:

In spite of inherent talent and ability village artisans are not better up because they lack financial strength to strive in the competitive market. DIC in support with different lead banks and nationalized banks extends financial support to those artisans.

7. Incentives and subsidies:

DIC helps SSI units and rural artisans to subsidies granted by government under various schemes. This boost up the moral as well as the financial capacity of the units to take further developmental activities.

The different types of subsidies are power subsidy, interest subsidy for engineers and subsidy under IRDP etc. from various institutions.

8. Interest free sales tax loan:

SIDCO provides interest free sales tax loan up to a maximum limit of 8% of the total fixed assets for SSI units set up in rural areas. But the sanction order for the same is to be issued by DIC.

The DIC recommends the case of SSI units to National Small Industries Corporation Limited for registration for Government purchase programme.

9. Assistance of import and export:

Government is providing various types of incentives for import and export of specific goods and services. These benefits can avail by any importer or exporter provided the same is routed through the concerned DIC.

Export and import license is also issued to the importer or exporter only on the basis of recommendation of DIC.

10. Fairs and exhibitions:

The DICs inspires and facilities the SSI units to participate in various fairs and exhibitions which are organized by the Government of India and other organizations to give publicity to industrial products.

DICs provide free space to SSIs for the display of their products and attitudes financial assistance for the purpose.

11. Training programmes:

DIC organizes training programs to rural entrepreneurs and also assists other institutions or organization imparting training to train the small entrepreneurs.

12. Self-employment for unemployed educated youth:

The DICs have launched a scheme to assist the educated unemployed youth by providing them facilities for self employment. The youth should be in the age group of 18 to 35 years with minimum qualification of Metric or Middle with I.T.I. in engineering or Technical Trade. Technocrats and women are given preference.

Activity: visit your local DIC office and Collect information on the schemes of Assistance to Entrepreneurs to start their own business.

13.6 Summary

MSME sector is contributing quite significantly to the national economy. However, finance is the major requirement and also a constraint for these units. Keeping this in view, a number of institutions for the support of MSME units are created at the state level such as SFCs, SIDCO, SIDO, DIs, and DICs.

The State Financial Corporation Act, passed in 1951, empowered each state and union territory to establish State Financial Corporation for the purpose of meeting the long-term financial requirements of small and medium industries by providing credit to them. It provides loan to sole trading concern, partnership firm, private limited companies and public limited companies. At present, there are 19 State Financial Corporations in India.

Functions of SFCs: (1) The SFCs grant loans mainly for acquisition of fixed assets like land, building, plant and machinery.(2) The SFCs provide financial assistance to industrial units whose paid-up capital and reserves do not exceed Rs. 3 crore (or such higher limit up to Rs. 30 crore as may be specified by the central government). (3) The SFCs underwrite new stocks, shares, debentures etc., of industrial concerns. (4) The SFCs provide guarantee loans raised in the capital market by scheduled banks, industrial concerns, and state co-operative banks to be repayable within 20 years.

Andhra Pradesh State Financial Corporation (APSFC) : Andhra Pradesh State Financial Corporation (APSFC) is a term lending Institution established in 1956 for promoting small and medium scale industries in Andhra Pradesh under the provisions of the Sate Financial Corporation' Act, 1951. The corporation has many entrepreneur - friendly schemes to

provide term loans, working capital term loans, special and seed capital assistance to suit the needs of various categories of entrepreneurs. The Corporation has 45 years of expertise in industrial financing engaged in the business of financing tiny, small and medium scale sector units and thriving for balanced regional development of the state.

SIDCO : In many state governments, a separate corporation has been set up which is known as Small Industries Development Corporation(SIDCO) for the promotion of small scale industries. They undertake all kinds of activities for the promotion of small scale industries. Right from the stage of installation, to the stage of commencing production, these Corporations help small scale industries (SSI) in many ways and also provide infrastructure facilities to small scale industries. SIDCO has been responsible in spreading the industrial activity throughout in several states. Due to the assistance provided by SIDCO, many backward areas in most of the states have been developed.

Directorates of Industries: The development and implementation of the schemes of assistance to SSIs is the primary responsibility of the State Government, since the small-scale Industries is a State subject. Directorates of Industries in each State do the work relating to the development of industries in general and small scale industries in particular. Each directorate is staffed with administration and technical officers at State headquarters and by a District Industries Officer with supporting staff in each district. The State Directorates run various training schemes, production schemes and common facilities schemes. They also provide facilities of developed industrial land and factory sheds in industrial estates, allocate quotas of scarce raw materials, certify import requirements and organise industrial cooperatives. Their functions are varied and have grown with the development and diversification of the small scale sector.

District Industries Centers (DICs) have emerged since 1978 as the model agency for development of small and village industries. they provide all the support services needed for development of SSI in the country. The DICs were established with a view to provide integrated administrative framework at the district level with professionally qualified personnel in technology, marketing, credit, economic investigation, raw materials, so that DICs would be the 'single window' raw materials, through which all type of assistance would be channeled to the small-scale sector. They are virtually acting as per the plans and programmes of both central as well as state government for the implementation of various

promotional measures from grass root level to develop SSI in the country. The entrepreneurs can get assistance from DIC for setting up and running an industry.

13.7 Self assessment Questions ;

Multiple Choice Questions with Answers

****1. The State Financial Corporations Act was passed in which year, empowering states to establish SFCs?***

- A) 1947
- B) 1951
- C) 1956
- D) 1960

****Answer: B) 1951****

****2. Andhra Pradesh State Financial Corporation (APSFC) was established in which year?***

- A) 1947
- B) 1951
- C) 1956
- D) 1960

****Answer: C) 1956****

****3. Under APSFC's Term Loan scheme, financial assistance is extended up to what amount per project normally for acquiring fixed assets?***

- A) Rs. 100 lakhs
- B) Rs. 250 lakhs
- C) Rs. 500 lakhs
- D) Rs. 1000 lakhs

****Answer: C) Rs. 500 lakhs****

****4. DICs were established in 1978 primarily to serve as:***

- A) Regional headquarters for commercial banks
- B) 'Single window' for all types of assistance to the small-scale sector at district level
- C) Training centres for entrepreneurs
- D) Export promotion councils

****Answer: B) 'Single window' for all types of assistance to the small-scale sector at district level****

****5. Under APSFC's loan procedure, for leasehold premises where loan is provided on civil works, the lease deed must be for a period of:***

- A) 10 years
- B) 20 years
- C) 30 years
- D) 50 years

****Answer: C) 30 years****

Short Answer Questions

1. What are State Financial Corporations and what are their main functions?
2. Explain the objectives and functions of APSFC.
3. What is the role of SIDCO in promoting small scale industries at the state level?
4. Describe the functions of District Industries Centres (DICs).
5. What are the requirements and guidelines for availing financial assistance from APSFC?

Case Study

The Barber Who Owns a Rolls Royce: Ramesh Babu's Journey from Humble Beginnings to Luxury Car Entrepreneurship

Ramesh Babu's story is one of the most inspiring entrepreneurial journeys from Karnataka, demonstrating how state-level institutions like KSFC (Karnataka State Financial Corporation) and DICs can transform ordinary individuals into successful business owners. His journey from a barber to a millionaire who owns a fleet of luxury cars including a Rolls Royce exemplifies the power of entrepreneurship combined with institutional support.

****Humble Beginnings:**** Ramesh Babu started his career as a barber, working long hours in a small salon to make ends meet. Despite his modest profession, he harbored dreams of doing something bigger. He observed that transportation was a growing need in Bangalore, with the city expanding rapidly and public transport struggling to keep pace. In 1994, with his meager savings, he took his first entrepreneurial step—he bought a Maruti van and started a small car rental business. It was a modest beginning, operating with just one vehicle, but it marked the start of an extraordinary journey.

****Initial Struggles and Perseverance:**** For the first decade, progress was slow but steady. By 2004, Ramesh had built a fledgling car rental business with seven regular cars. The competition at this level was intense, with countless small operators offering similar services. Everyone had small cars, and the market was crowded with players offering identical services at comparable prices. Ramesh realized that to break out of this competitive trap, he needed to do something different—something that no one else was doing.

****The Pivotal Decision:**** The breakthrough idea came when he contemplated entering the luxury car rental segment. In 2004, when he decided to buy his first luxury car worth Rs. 40 lakhs, everyone around him thought he was making a big mistake. Forty lakhs in 2004 was an enormous sum, especially for someone from his background. The risk was substantial—if the venture failed, he would be burdened with crippling debt for years. Ramesh was extremely apprehensive but felt he had to take the chance. He told himself he would sell the car if worse came to worst. Fortunately for him, the risk paid off remarkably. No other car rental service in Bangalore had luxury cars of this stature. Some competitors had purchased second-hand models, but the conditions of those cars were far from pristine. Ramesh became the first person in Bangalore to invest in a brand new luxury car, and it did very well.

****Role of Institutional Support:**** As his business grew, Ramesh Babu benefited from the support of state-level institutions. KSFC (Karnataka State Financial Corporation) provided term loans for fleet expansion, recognizing the viability of his business model and his impeccable repayment track record. The local DIC helped with business registration, understanding of government schemes, and connections to other support systems. The Single Window Scheme facilitated access to both term loans and working capital from a single source, simplifying his financing arrangements.

****Exponential Growth:**** From that first luxury car in 2004, Ramesh's business grew exponentially. By 2014, he had a fleet of 200 cars, including 75 luxury vehicles—a range of Mercedes, BMWs, Audis, five and ten-seater luxury vans, and his ultimate pride, a Rolls Royce. His clientele included corporate executives, celebrities, diplomats, and discerning travelers who appreciated the quality and reliability of his service. The company, which started with a single van, now employs dozens of drivers, mechanics, and support staff, creating substantial employment in the community.

****Business Philosophy and Success Factors:**** Reflecting on his success, Ramesh emphasizes several principles. First, ****differentiation****—he succeeded not by competing in the crowded mass market but by identifying and dominating an underserved luxury niche. Second, ****quality focus****—his insistence on maintaining pristine vehicles and professional service created a reputation for reliability that commanded premium rates. Third, ****calculated risk-taking****—the decision to invest Rs. 40 lakhs in a luxury car was risky but based on careful market observation, not gambling. Fourth, ****relationship building****—he cultivated long-term relationships with corporate clients who became repeat customers. Fifth, ****continuous reinvestment****—profits were consistently reinvested in fleet expansion rather than personal consumption.

****Inspiration and Legacy:**** Ramesh Babu's story has inspired countless aspiring entrepreneurs across Karnataka and beyond. His journey from barber to Rolls Royce owner demonstrates that entrepreneurship is not about one's starting point but about vision, perseverance, and the courage to take calculated risks. It also highlights the importance of state-level institutions in providing the financial support that enables such transformations. Today, Ramesh is often invited to speak at entrepreneurship development programmes organized by KSFC and DICs, where he shares his experiences and encourages others to pursue their entrepreneurial dreams regardless of their background.

Case Study Questions

1. Analyze the pivotal decision Ramesh Babu made in 2004 to invest in a luxury car. What factors contributed to this calculated risk, and how did it transform his business trajectory?
2. How did state-level institutions like KSFC and DICs support Ramesh Babu's entrepreneurial journey? What specific forms of assistance did they provide?
3. What broader lessons about entrepreneurship, risk-taking, and niche market identification can be derived from Ramesh Babu's journey? How can aspiring entrepreneurs apply these principles in their own ventures?

13.8 Key Terms

****1. State Financial Corporations (SFCs)****

Financial institutions established under the State Financial Corporations Act, 1951, to meet the long-term financial requirements of small and medium industries by providing credit to sole trading concerns, partnership firms, private limited companies, and public limited companies. There are currently 19 SFCs in India.

****2. APSFC (Andhra Pradesh State Financial Corporation)****

A term lending institution established in 1956 under the SFCs Act, 1951, for promoting small and medium scale industries in Andhra Pradesh. It provides entrepreneur-friendly schemes including term loans, working capital term loans, special and seed capital assistance, and has completed six decades of dedicated service in industrial financing.

****3. Collateral Security****

Additional security, preferably urban immovable property belonging to borrowers, insisted by financial institutions like APSFC to secure loans. The percentage of collateral security required depends on the location, nature of industry, and nature of loan. It can be in the form of vacant land, house, apartment, fixed deposits, or bank guarantee.

****4. SIDCO (Small Industries Development Corporation)****

State-level corporations established for the promotion of small scale industries, providing infrastructure facilities, scarce raw materials, marketing assistance, bill discounting, export marketing support, and skill development centres. They are responsible for spreading industrial activity throughout states and developing backward areas.

****5. DIC (District Industries Centre)****

A model agency established since 1978 for the development of small and village industries at the district level, providing integrated administrative framework with professionally qualified personnel in technology, marketing, credit, economic investigation, and raw materials. DICs serve as 'single window' for all types of assistance to the small-scale sector.

****6. Primary Security****

The primary security for loans can be either leasehold interest or freehold interest in land and buildings. For leasehold premises, the Corporation requires equitable mortgage of leasehold interest with lease period of repayment period plus two years if no loan on civil works, or 30 years if loan is sanctioned on civil works.

****7. Term Loan****

Financial assistance provided by APSFC up to Rs. 500 lakhs per project normally for acquiring fixed assets including land, building, and machinery. In extremely deserving cases, assistance up to Rs. 2000 lakhs is provided. The loan period normally ranges from 5 to 8 years.

13.9 Further Readings / Reference books :

Five Printed/Published Textbooks

1. **APSFC Official Website** (n.d.). Available at: www.apsfc.com/ (Comprehensive information about APSFC schemes, procedures, and guidelines)
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LESSON 14

GOVERNMENT POLICY FOR MICRO, SMALL AND MEDIUM ENTERPRISES

Objectives of the Lesson:

After studying this lesson you should be able to know about:

- Understand the role of the Ministry of Micro, Small and Medium Enterprises (MSME) in promoting women entrepreneurship through various schemes and programmes
- Analyze the Stand Up India Scheme designed to facilitate bank loans to women, SC, and ST entrepreneurs for setting up greenfield enterprises
- Examine the Mudra Yojana Scheme for Women providing collateral-free loans under Shishu, Kishor, and Tarun categories
- Evaluate the Support to Training and Employment Programme for Women (STEP) administered by the Ministry of Women & Child Development
- Understand the NABARD Self Help Group (SHG)-Bank Linkage Programme as the world's largest microfinance initiative
- Analyze various bank-specific schemes for women entrepreneurs including Annapurna Scheme, Stree Shakti Package, Bharatiya Mahila Bank Business Loan, and others
- Examine the role of Women Entrepreneur Associations in supporting and promoting women entrepreneurship in India

Structure of the lesson:

14.1. Government Policy support for MSME in various Industrial Policy resolutions

1. Industrial Policy Resolution (IPR) 1948,
2. Industrial Policy Resolution (IPR) 1956,
3. Industrial Policy Resolution (IPR) 1977,
4. Industrial Policy Resolution (IPR) 1980 and
5. Industrial Policy Resolution (IPR) 1990.

14.2 Prime Minister Employment Generation Programme and Other Credit Support Schemes

Micro Units Development and Refinance Agency Ltd. [MUDRA]

14.3 Development of Khadi, Village and Coir Industries

14.4 Technology Up-gradation and Quality Certification

1. Financial Support to MSMEs in ZED Certification Scheme

2. A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)
3. National Manufacturing Competitiveness Programme (NMCP)
 - 3.1 Credit Linked Capital Subsidy for Technology Upgradation
 - 3.2 ISO 9000/ISO 14001 Certification Reimbursement
 - 3.3. Marketing Support/Assistance to MSMEs (Bar Code)
 - 3.4 Lean Manufacturing Competitiveness for MSMEs
 - 3.5 Design Clinic for Design Expertise to MSMEs
 - 3.6 Technology and Quality Upgradation Support to MSMEs
 - 3.7 Entrepreneurial and Managerial Development of SMEs through Incubators
 - 3.8 Enabling Manufacturing Sector to be Competitive through QMS&QTT
 - 3.9 Building Awareness on Intellectual Property Rights (IPR)

14.5 Marketing Promotion Schemes

1. International Cooperation
2. Marketing Assistance Scheme
3. Marketing Assistance & Technology Upgradation (MATU)
4. MSME Market Development Assistance (MDA)

14.6 Entrepreneurship and Skill Development Programme

1. Assistance to Training Institutions

14.7 Infrastructure Development Programme

1. Micro & Small Enterprises Cluster Development Program (MSE – CDP)

14.8 Summary:

14.9 Key Terms

14.10 Self Assessment Questions:

14.11 References:

Six inspirational stories of entrepreneurs who made it big

The rags-to-riches stories of many entrepreneurs across India will serve as an inspiration for those hoping to make it big in the start-up world. ET profiles six success stories of people who made it big from the scratch.

1. Shashank Paranjape's Rs 1,500 crore Paranjape Schemes



Shashank Paranjape's Paranjape Chemicals started operations with nine people on board. However, six months into the business his luck ran out and he was duped by his friend.

In 1987, Paranjape came to know of someone who owned a vacant plot in Pune measuring 10,000 sq ft. He expressed his wish to construct a multi-storey building and the person readily agreed. Paranjape paid him Rs 1 lakh and got into an agreement to give him two flats on completion of the project. Paranjape the new company Paranjape Schemes (Construction).

Paranjape's approach was simple. He would reinvest every bit of the profit back into the business to expand operations. Last financial year his company registered a turnover of Rs 1,500 crore and made Rs 225 crore in net profit (2013-14). This year he has a target of Rs 2,000 crore.

2. Dinesh Agarwal's IndiaMart

Seed Capital: Rs 40,000



After acquiring a B.Tech degree in computer science from the Harcourt Butler Technological Institute, Kanpur, Dinesh Agarwal took up a job as systems analyst at HCL Technologies.

Finally, he settled on building a platform for businesses to display products via dedicated Web pages. He named the venture, IndiaMart InterMesh. The idea was to help the small and medium enterprises in the country market their products and services. Convincing customers to first buy computers, which, in turn, would help in the promotion of their business was quite a task.

As business started growing, he had to deal with several issues and the most irksome among these was looking for bigger office space. In 2007, he invested Rs 7 crore to purchase a two acre plot in Noida and build a new office. He has around 1 crore products and almost 15 lakh

suppliers. In 2013-14, the company generated a turnover of around Rs 200 crore.

3. Nitin Shah's Rs 1000 crore fire protection company



Seed Capital: Rs 500

Nitin Shah did not have even Rs 20 to start out with. He took a loan of Rs 500 from some of his friends and started working at a friend's auto garage. This was in January 1984. By then I had completed a diploma in mechanical engineering.

While working with my father, he built useful contacts. One of them was a senior advisor to the Department of Atomic Energy. He told Shah about a maintenance contract for fire extinguishers at the department. The contract required repair and maintenance of firefighting cylinders.

Within 6-7 months, he had saved enough to buy a 1,200 sq. ft space at Ghatkopar for around Rs 20 lakh. The company was named Nitin Fire Protection Industry. Based on work for the DEA, he got a maintenance contract for ONGC in 1986.

On June 5, 2007 he went public to fund expansion plans. The size of initial public offering (IPO) was Rs 65 crore. Shah's company is now the world's only company to offer all types of fire protection products including inert gases, chemical gases and water. He is aiming to be a \$1-billion firm in the next five years.

4. Dheeraj Gupta's vada pav chain Jumbo King



Seed Capital: Rs 2 lakh

After Dheeraj Gupta completed his MBA in hotel management in 1998, he decided to start his own venture. The idea was to establish a sweets manufacturing and distribution business. Within two years, he lost around Rs 50 lakh.

What caught his attention, in particular, was how successful food chains such as McDonalds, Dominos and Subway primarily focused on one product — burger, pizza, sandwiches — and, yet, had a huge customer base.

Vada pav is a spicy Maharashtrian snack. He found that there were hundreds of vendors selling the snack on the city streets. The market was huge but unorganised. he decided to get into the vada pav snacks business.

Gupta somehow managed to raise around Rs 2 lakh to start the business. He leased space for an outlet just outside Malad railway station. The idea was to outsource the manufacturing of the patties to a vendor for a small fee. We would fry them in the store and concentrate on sales. Last year, Jumbo King crossed a turnover of Rs 25 crore and Gupta is hopeful of revenues of Rs 45 crore in 2014-15.

5. Ajjay Agarwal's Maxx Mobile



When Agarwal was 15 years old, he dropped out of school to join his father's electronic trading business in Mumbai. He launched his own company in January 2002.

Agarwal began with a seed capital of Rs 10 lakh, which came from his savings. The first step was to have his proprietorship firm registered in the name of Max Mobiles and Phone Accessories; it was only in 2004 that he set up Maxx Mobile as a company. Initially, he would stamp my brand name on imported mobile phone batteries and sell them to dealers in Mumbai.

At the beginning of 2004, he figured that he should set up his own manufacturing unit for mobile phone batteries. The next obvious move was to expand the operations.

The next crucial year was 2008, when he started importing mobile phones and selling them under the brand name Maxx Mobile. In 2009, he signed on M S Dhoni as the brand ambassador and the advertising campaign during the T20 World Cup helped get eyeballs. Next on the cards is the manufacturing of Android mobile phones. In the meantime, he is looking forward to a turnover of Rs 1,500 crore by end-2017.

6. Pardeep Jain's Karbonn



Seed Capital: Rs 5 lakh

In the mid-1990s, mobile phones were just beginning to make a foray in the country, so Pardeep Jain decided to make the most of it.

In April 1996, he opened a small showroom at Kailash Colony and started dealing in mobile phones from top companies, such as Nokia and Samsung. Two years later, he went into an expansion mode by opting for national distributorship. By 2005, he had a team of 150 spread across the country and became the India distributors for players like HTC, LG and Motorola.

Having a huge dealer network in place, he was able to keep track of the market pulse and this is how he realised that the time was ripe to introduce his own brand. He joined hands with Bangalore-based United Telecoms Limited (UTL) to launch his own brand of cell phones, Karbonn.

These handsets are manufactured in Shanghai, Taiwan and Korea, though the product designing and testing is conducted in India.

Introduction:

The Ministry of Small Scale Industries and Agro and Rural Industries (SSI&ARI) was created in October 1999. In September 2001, the ministry was split into the Ministry of Small

Scale Industries (SSI) and the Ministry of Agro and Rural Industries (ARI). The Ministry of Small Scale Industries merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small and Medium Enterprises in 2007. The Ministry of Micro, Small and Medium Enterprises (MSME), aims primarily to assist the States/Union Territories in their efforts to promote growth and development of MSMEs. The main focus of the schemes/ programmes undertaken by the organisations of the Ministry is thus to provide/facilitate provision of a wide range of services and facilities required for accelerating the growth of MSMEs. The schemes/programmes generally focus on capacity building in State/ Regions; nevertheless, there are a few schemes/programmes, which are individual beneficiary oriented.

Definition of Micro, Small & Medium Enterprises as per MSMED Act 2006: It is important to understand the classification and to avail the benefits accordingly, as some of the sectors are specifically reserved for Small and Medium-sized Enterprises (SMEs) and there are also priority sector lending from Banks which helps some of the sector specific SMEs to avail loans relatively easily and at lower interest rates. Under the Micro, Small and Medium Enterprises Development Act, 2006, the meaning of the terms Micro, Small and Medium enterprise is understood with respect to the investment made in the plant and machinery/equipment.

As per the Act, the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1. **Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

Micro Enterprise: with an investment in Plant and Equipment Up to Rs 25 lakhs;

Small Enterprise: More than 25 lakhs and up to Five Crore investment in Plant and equipment;

Medium Enterprises: More than Five Crores and upto 10 crores investment in plant and equipment.

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

Micro Enterprise: with an investment in Equipment Up to Rs 10 lakhs;

Small Enterprise: More than Rs. 10 lakhs and up to Rs. Two crores investment in equipment;

Medium Enterprises: More than Two Crores and upto 5 crores investment in equipment.

. The investment limit for each enterprise is as follows:

	Investment Limit (in INR)	
	Plant and Machinery (if manufacturing or producing goods)	Equipment (if providing or rendering services)
Micro Enterprise	Not more than 25,00,000 (Rupees Twenty Five Lakhs only).	Not more than 10,00,000 (Rupees Ten Lakhs only).
Small Enterprise	Between 25,00,000 (Rupees Twenty-Five Lakhs only) to 5,00,00,000 (Rupees Five Crores only).	Between 10, 00, 000 (Rupees Ten Lakhs only) and 2,00,00,000 (Rupees Two Crores only).
Medium Enterprise	Between 5,00,00,000 (Rupees Five Crores only) to 10,00,00,000 (Rupees Ten Crores only).	Between 2,00,00,000 (Rupees Two Crores only) and Rs. 5,00, 00,000 (Rupees Five Crores only).

In case of the manufacturing enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries, vide its notification No. S.O. 1722(E) dated October 5, 2006.

Benefits available to micro, small or medium enterprise : The major benefit for MSMEs is the reservation policy, which reserves certain items, for exclusive manufacture by these enterprises, thus, protecting their interests, as well as providing impetus to the society by generating employment opportunities.

1. The Government has put in place policies and has reserved three hundred fifty (350) items for purchase from MSMEs, under the Government Stores Purchase Programme.
2. To encourage the small-scale units, the SEZs are required to allocate 10 per cent space for the small-scale units.
3. Under the MSMED Act, protections are offered in relation to timely payment for goods and services by buyers to MSMEs.
4. Furthermore, the Government has been encouraging and supporting the sector through policies for preferential access to credit, preferential purchase policy, etc.
5. It has been offering packages of schemes and incentives through its specialized institutions in the form of assistance in obtaining finance; help in marketing; technical guidance; training and technology upgradation, etc.
6. Further, an enterprise, whose post-issue face value does not exceed INR 25,00,00,000 (Rupees Twenty Five Crores only), is entitled to certain exemptions from the eligibility requirements under the ICDR Regulation.

Procedure to be followed for classification as a Micro, Small or Medium Enterprise :

For the purposes of registration, the two part Entrepreneurs Memorandum has to be submitted to the concerned District Industries Centre. Filing of an Entrepreneurs Memorandum is optional for a micro or small enterprise, or a medium enterprise engaged in providing services. However, a medium enterprise engaged in the manufacture or production of goods has to mandatorily file Part I of the Entrepreneurs Memorandum. There is no processing fee for processing the memorandum. Thereafter, on the commencement of production/activity, Part II of the Entrepreneurs Memorandum has to be filled up and submitted to the District Industries Centre. However, it must be filed within two (2) years of the filing of Part I.

Implication of exceeding the limits prescribed for classification as a micro, small or medium enterprises: If a Micro or a small Enterprise crosses the permissible investment limits, they would have to re-file part II of the Entrepreneurs Memorandum. If the investment

limit in a Medium enterprise exceeds the permissible limit, it will become liable for de-registration and would not be eligible for preferred treatment reserved for the MSMEs.

Sectors specifically reserved for these enterprises: The list of items exclusively reserved for production by MSEs is limited to twenty (20) items. Some examples of reserved items are pickles and chutneys, bread, mustard oil, ground nut oil, exercise books and registers, wooden furniture and fixtures, candles, laundry soap, safety matches, fireworks, agarbattis, glass bangles, steel almirahs and stainless steel and aluminum utensils. Though reserved exclusively for MSMEs, these items can also be manufactured by Large/Medium units provided they undertake to export a minimum of 50 per cent of the new or additional annual production of the MSE reserved items within a maximum period of three years from the date of commencement of commercial production of such reserved items.

priority sector with respect to lending: MSE sector now has greater access to credit as a result of its classification as a priority lending sector. The banks are required to compulsorily ensure that specified percentage (currently 40 per cent and 32 per cent of adjusted net bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher, for domestic commercial banks and foreign banks, respectively) of their overall lending is made to priority sectors as classified by Government, thus ensuring credit to these sectors. The priority sectors include agriculture, small enterprises, retail trade, etc. While for domestic commercial bank, advances to small enterprises sector is reckoned for its overall priority sector target, for foreign banks, such lending would be counted towards 10 per cent of adjusted net bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher, irrespective of whether the finance is for export or domestic activities. Out of the total advances to small enterprise sector, 60 per cent is reserved for micro enterprises and the balance 40 per cent for the small enterprises. Out of this 60 per cent quota,

1. 40 per cent of the total advances to MSE sector is reserved for micro (manufacturing) enterprises having investment in plant and machinery up to INR 5,00,000 (Rupees Five Lakhs only) and micro (service) enterprises having investment in equipment up to INR 2,00,000 (Rupees Two Lakhs only); and
2. 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above INR 5,00,000 (Rupees Five Lakhs only) and up to INR 25,00,000 (Rupees Twenty Five Lakhs only), and micro

(service) enterprises with investment in equipment above INR 2, 00,000 (Rupees Two Lakhs only) and up to INR 10, 00,000 (Rupees Ten Lakhs only).

Lending to medium enterprises is not considered to be a priority sector lending. Micro and small enterprises are also entitled to collateral free loan up to INR 10, 00,000 (Rupees Ten Lakhs only), which may go up to INR 25, 00,000 (Rupees Twenty Five Lakhs only), with the approval of the appropriate authority.

Activity: Identify the difference among Micro, Small and Medium enterprises and list out the benefits available to them.

14.1. Government Policy support for MSME in various Industrial Policy resolutions:

The Small Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. The primary objective of the Small Scale Industrial Policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially de-licensed. Further efforts were made to deregulate and de-bureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small and village enterprises.

Since Independence, India has launched various Industrial Policies and a brief review of India's Industrial Policies for the development and promotion of small-scale enterprises in the country are presented below:

1. Industrial Policy Resolution (IPR) 1948:

The IPR, 1948 for the first time, accepted the importance of small-scale industries in the overall industrial development of the country. It was well realized that small-scale industries are particularly suited for the utilization of local resources and for creation of employment opportunities.

However, they have to face acute problems of raw materials, capital, skilled labour, marketing, etc. since a long period of time. Therefore, emphasis was laid in the IPR, 1948 that these problems of small-scale enterprises should be solved by the Central Government with the cooperation of the State Governments. In nutshell, the main thrust of IPR 1948, as far as small-scale enterprises were concerned, was 'protection.'

2. Industrial Policy Resolution (IPR) 1956:

The main contribution of the IPR 1948 was that it set in the nature and pattern of industrial development in the country. The post-IPR 1948 period was marked by significant developments taken place in the country. For example, planning has proceeded on an organised manner and the First Five Year Plan 1951-56 had been completed. Industries (Development and Regulation) Act, 1951 was also introduced to regulate and control industries in the country.

The parliament had also accepted 'the socialist pattern of society' as the basic aim of social and economic policy during this period. It was this background that the declaration of a new industrial policy resolution seemed essential. This came in the form of IPR 1956.

The IPR 1956 provided that along with continuing policy support to the small sector, it also aimed at to ensure that decentralised sector acquires sufficient vitality to self-supporting and its development is integrated with that of large-scale industry in the country. To mention, some 128 items were reserved for exclusive production in the small-scale sector.

Besides, the Small-Scale Industries Board (SSIB) constituted a working group in 1959 to examine and formulate a development plan for small-scale industries during the, Third Five

Year Plan, 1961-66. In the Third Five Year Plan period, specific developmental projects like 'Rural Industries Projects' and 'Industrial Estates Projects' were started to strengthen the small-scale sector in the country. Thus, to the earlier emphasis of 'protection' was added 'development.' The IPR 1956 for small-scale industries aimed at "Protection plus Development." In a way, the IPR 1956 initiated the modern SSI in India.

3. Industrial Policy Resolution (IPR) 1977:

During the two decades after the IPR 1956, the economy witnessed lopsided industrial development skewed in favour of large and medium sector, on the one hand, and increase in unemployment, on the other. This situation led to a renewed emphasis on industrial policy. This gave emergence to IPR 1977.

The Policy Statement categorically mentioned: "The emphasis on industrial policy so far has been mainly on large industries, neglecting cottage industries completely, relegating small industries to a minor role. The main thrust of the new industrial policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced."

The IPR 1977 accordingly classified small sector into three broad categories:

1. Cottage and Household Industries which provide self-employment on a large scale.
2. Tiny sector incorporating investment in industrial units in plant and machinery up to Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 Census.
3. Small-scale industries comprising of industrial units with an investment of upto Rs. 10 lakhs and in case of ancillary units with an investment up to Rs. 15 lakhs.

The measures suggested for the promotion of small-scale and cottage industries included:

- (i) Reservation of 504 items for exclusive production in small-scale sector.
- (ii) Proposal to set up in each district an agency called 'District Industry Centre' (DIC) to serve as a focal point of development for small-scale and cottage industries. The scheme of DIC was introduced in May 1978. The main objective of setting up DICs was to promote under a single roof all the services and support required by small and village entrepreneurs.

What follows from above is that to the earlier thrust of protection (IPR 1948) and development (IPR 1956), the IPR 1977 added 'promotion'. As per this resolution, the small sector was, thus, to be 'protected, developed, and promoted.'

4. Industrial Policy Resolution (IPR) 1980:

The Government of India adopted a new Industrial Policy Resolution (IPR) on July 23, 1980. The main objective of IPR 1980 was defined as facilitating an increase in industrial production through optimum utilization of installed capacity and expansion of industries.

As to the small sector, the resolution envisaged:

(i) Increase in investment ceilings from Rs. 1 lakh to Rs. 2 lakhs in case of tiny units, from Rs. 10 lakhs to Rs. 20 lakhs in case of small-scale units and from Rs. 15 lakhs to Rs. 25 lakhs in case of ancillaries.

(ii) Introduction of the concept of nucleus plants to replace the earlier scheme of the District Industry Centres in each industrially backward district to promote the maximum small-scale industries there.

(iii) Promotion of village and rural industries to generate economic viability in the villages well compatible with the environment.

Thus, the IPR 1980 reimphasised the spirit of the IPR 1956. The small-scale sector still remained the best sector for generating wage and self-employment based opportunities in the country.

5. Industrial Policy Resolution (IPR) 1990:

The IPR 1990 was announced during June 1990. As to the small-scale sector, the resolution continued to give increasing importance to small-scale enterprises to serve the objective of employment generation.

The important elements included in the resolution to boost the development of small-scale sector were as follows:

(i) The investment ceiling in plant and machinery for small-scale industries (fixed in 1985) was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs.

(ii) Investment ceiling for tiny units had been increased from Rs. 2 lakhs to Rs. 5 lakhs provided the unit is located in an area having a population of 50,000 as per 1981 Census.

(iii) As many as 836 items were reserved for exclusive manufacture in small- scale sector.

(iv) A new scheme of Central Investment Subsidy exclusively for small-scale sector in rural and backward areas capable of generating more employment at lower cost of capital had been mooted and implemented.

(iv) With a view, to improve the competitiveness of the products manufactured in the small-scale sector; programmes of technology up gradation will be implemented under the umbrella of an apex Technology Development Centre in Small Industries Development Organisation (SIDO).

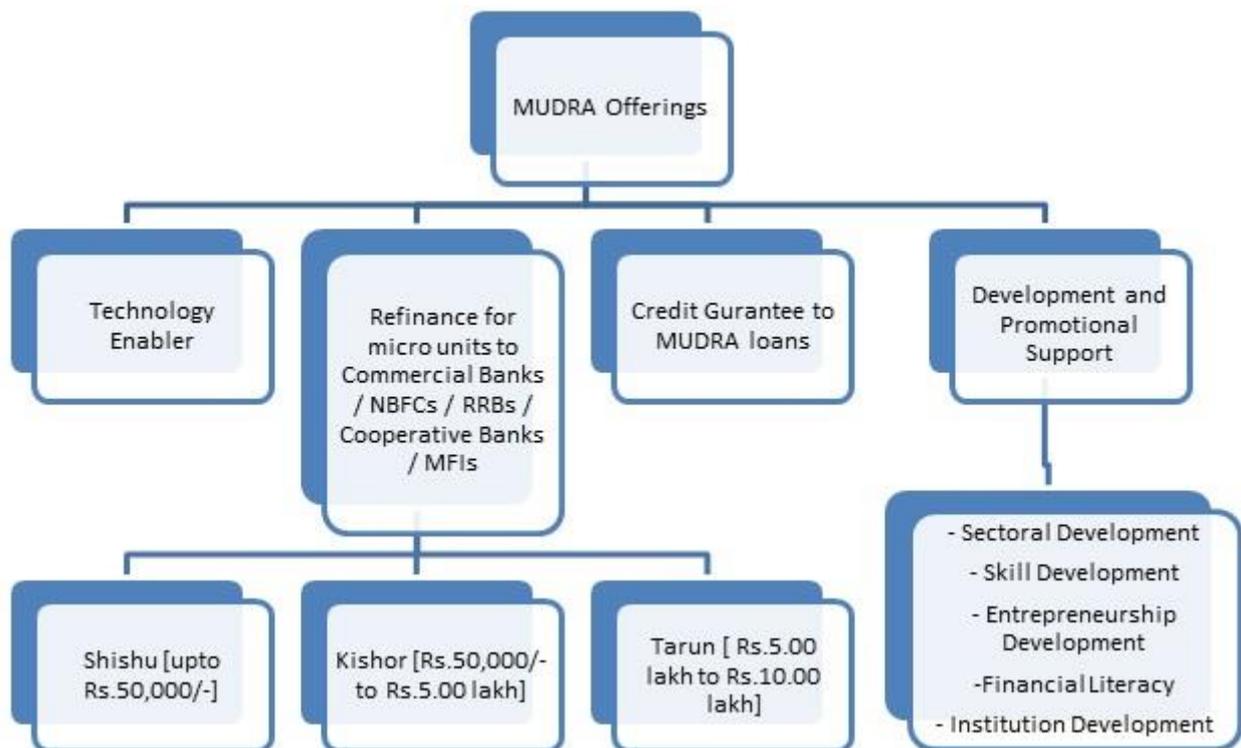
(v) To ensure both adequate and timely flow of credit facilities for the small- scale industries, a new apex bank known as ‘Small Industries Development Bank of India (SIDBI)’ was established in 1990.

(vi) Greater emphasis on training of women and youth under Entrepreneurship Development Programme (EDP) and to establish a special cell in SIDO for this purpose.

(vii) Implementation of delicensing of all new units with investment of Rs. 25 crores in fixed assets in non-backward areas and Rs. 75 crores in centrally notified backward areas. Similarly, delicensing shall be implemented in the case of 100% Export Oriented Units (EOU) set up in Export Processing Zones (EPZ) up to an investment ceiling of Rs. 75 lakhs.

Activity: Briefly mention the provisions of latest IPR for supporting Micro, Small and Medium enterprises.

14.2.1 Micro Units Development and Refinance Agency Ltd. [MUDRA]: Micro Units Development and Refinance Agency Ltd. [MUDRA] is an NBFC supporting development of micro enterprise sector in the country. MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh. MUDRA provides refinance to micro business under the Scheme of Pradhan Mantri MUDRA Yojana. The other products are for development support to the sector. The bouquet of offerings of MUDRA is depicted below. The offerings are being targeted across the spectrum of beneficiary segments.



MUDRA Offerings:

Pradhan Mantri MUDRA Yojana:

Under the aegis of Pradhan Mantri Mudra Yojana (PMMY), MUDRA has created products / schemes. The interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to :

- **Shishu** : covering loans upto 50,000/-
- **Kishor** : covering loans above 50,000/- and upto 5 lakh

- **Tarun** : covering loans above 5 lakh and upto 10 lakh

It would be ensured that more focus is given to Shishu Category Units and then Kishor and Tarun Categories. Within the framework and overall objective of development and growth of micro enterprises sector under Shishu, Kishor and Tarun, the products being offered by MUDRA are so designed, to meet requirements of different sectors / business activities as well as business / entrepreneur segments.

The funding support from MUDRA are of four types :

- Micro Credit Scheme (MCS) for loans upto 1 lakh finance through MFIs.
- Refinance Scheme for Commercial Banks / Regional Rural Banks (RRBs) / Scheduled Co-operative Banks
- Women Enterprise programme
- Securitization of loan portfolio

Micro Credit Scheme:

Micro Credit Scheme is offered mainly through Micro Finance Institutions (MFIs), which deliver the credit upto Rs.1 lakh, for various micro enterprise activities. Although, the mode of delivery may be through groups like SHGs/JLGs, the loans are given to the individuals for specific income generating micro enterprise activity. The MFIs for availing financial support need to enroll with MUDRA by complying to some of the requirements as notified by MUDRA, from time to time.

Refinance Scheme for banks:

Different banks like Commercial Banks, Regional Rural Banks and Scheduled Cooperative Banks are eligible to avail of refinance support from MUDRA for financing micro enterprise activities. The refinance is available for term loan and working capital loans, upto an amount of 10 lakh per unit. The eligible banks, who have enrolled with MUDRA by complying to the requirements as notified, can avail of refinance from MUDRA for the loan issued under Shishu, Kishor and Tarun categories.

Women Enterprise Programme:

In order to encourage women entrepreneurs the financing banks / MFIs may consider extending additional facilities, including interest reduction on their loan. At present, MUDRA

extends a reduction of 25bps in its interest rates to MFIs / NBFCs, who are providing loans to women entrepreneurs.

Securitization of Loan Portfolio:

MUDRA also supports Banks / NBFCs / MFIs for raising funds for financing micro enterprises by participating in securitization of their loan assets against micro enterprise portfolio, by providing second loss default guarantee, for credit enhancement and also participating in investment of Pass Through Certificate (PTCs) either as Senior or Junior investor.

Purposes of MUDRA Loan

Mudra loan is extended for a variety of purposes which provide income generation and employment creation. The loans are extended mainly for :

1. (i) Business loan for Vendors, Traders, Shopkeepers and other Service Sector activities.
2. (ii) Working capital loan through MUDRA Cards.
3. (iii) Equipment Finance for Micro Units.
4. (iv) Transport Vehicle loans.

Following is an illustrative list of the activities that can be covered under MUDRA loans:

1. **Transport Vehicle** : Purchase of transport vehicles for goods and personal transport such as auto rickshaw, small goods transport vehicle, 3 wheelers, e-rickshaw, passenger cars, taxis, etc.
2. **Community, Social& Personal Service Activities:** Saloons, beauty parlours, gymnasium, boutiques, tailoring shops, dry cleaning, cycle and motorcycle repair shop, DTP and Photocopying Facilities, Medicine Shops, Courier Agents, etc.
3. **Food Products Sector:** Activities such as papad making, achar making, jam / jelly making, agricultural produce preservation at rural level, sweet shops, small service food stalls and day to day catering / canteen services, cold chain vehicles, cold storages, ice making units, ice cream making units, biscuit, bread and bun making, etc.
4. **Textile Products sector:** Handloom, powerloom, khadi activity, chikan work, zari and zardozi work, traditional embroidery and hand work, traditional dyeing and printing, apparel design, knitting, cotton ginning, computerized embroidery, stitching

and other textile non garment products such as bags, vehicle accessories, furnishing accessories, etc.

5. **Business Loans for Traders and Shopkeepers:** Financial support for on lending to individuals for running their shops / trading & business activities / service enterprises and non-farm income generating activities with beneficiary loan size of upto 10 lakh per enterprise / borrower.
6. **Equipment Finance Scheme for Micro Units :** Setting up micro enterprises by purchasing necessary machinery / equipments with per beneficiary loan size of upto 10 lakh.
7. **Activities Allied to Agriculture:** 'Activities allied to agriculture', e.g. pisciculture, bee keeping, poultry, livestock, rearing, grading, sorting, aggregation agro industries, diary, fishery, agriclincs and agribusiness centres, food & agro-processing, etc.(excluding crop loans, land improvement such as canal, irrigation and wells) and services supporting these, which promote livelihood or are income generating shall be eligible for coverage under PMMY in 2016-17.
8. **MUDRA Card:** MUDRA Card is an innovative product which provides working capital facility as a cash credit arrangement. MUDRA Card is a debit card issued against the MUDRA loan account, for working capital portion of the loan. The borrower can make use of MUDRA Card in multiple withdrawal and credit, so as to manage the working capital limit in a most efficient manner and keep the interest burden minimum. MUDRA Card will also help in digitalization of MUDRA transactions and creating credit history for the borrower. National Payment Corporation of India (NPCI) has given RuPay branding to MUDRA Card and also separate BIN / IIN for the same, by which credit history can be tracked. MUDRA Card can be operated across the country for withdrawal of cash from any ATM / micro ATM and also make payment through any 'Point of Sale' machines. The design of the MUDRA card as approved by DFS, GoI and NPCI is given below. Banks can customize the same by incorporating their logo and name.
9. **Portfolio Credit Guarantee:** Traditional financing in Indian context adopts an Asset Based lending approach with emphasis on collaterals. Micro units, most of the times, are unable to provide the comfort of collaterals. Hence MUDRA loans i.e. loans upto Rs.10 lakh, have been made collateral free, as per the RBI norms in this regard. To mitigate the issue of collaterals, MUDRA is offering a Credit Guarantee Product. MUDRA Credit Guarantee is extended by creation of a Fund called "Credit

Guarantee Fund for Micro Units” [CGFMU] and the scheme has been notified by GoI vide its notification dated April 18, 2016. Accordingly, all eligible micro loans sanctioned since April 08, 2015 is covered under the Scheme. The Scheme is being managed by National Credit Guarantee Trustee Company Ltd. [NCGTC], an agency promoted by the GOI. Further, given the context of the industry /segment, since the individual loan sizes would expectedly be small and number of loans will be large, Mudra Credit Guarantee scheme provide a Portfolio Guarantee. Under this, Credit Guarantee or Risk Sharing is provided for a portfolio of homogenous loans instead of a Scheme for individual loan - by - loan guarantee. This is expected to create administrative efficiencies and increase receptiveness for the Credit Guarantee product. The Guarantee product is one of the key interventions proposed with the objective of bringing down the cost of funds for the end beneficiary to improve its creditworthiness.

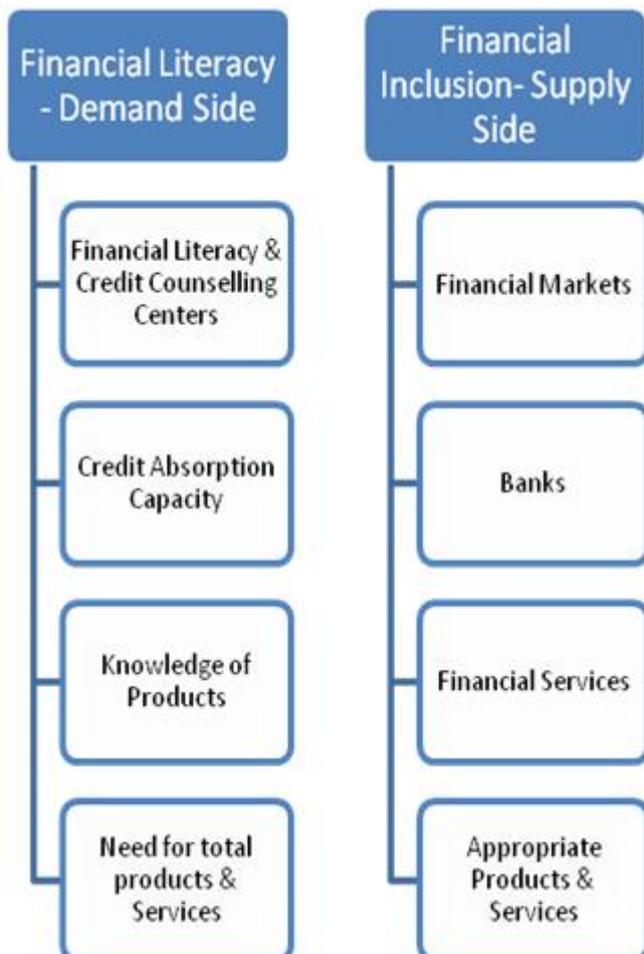
10. **Creation of Resources for Credit Enhancement / Guarantee facility:** The corpus proposed for the Credit Guarantee Scheme would be regularly augmented with a charge on the outstanding loans under refinance. The same would be utilized for providing first loss guarantee / credit enhancement for securitized portfolio loans. ·
Credit enhancement : Facilities offered to cover probable losses from a pool of securitized assets in the form of credit risk cover through a letter of credit, guarantee or other assurance from the originator / co-originator or a third party to enhance investment grade in any securitization process. First loss facility is the first level of credit enhancement offered as part of the process in bringing the securities to investment grade. Second loss facility provides the second / subsequent tier of protection against potential losses.
11. **Development and Promotional Support:** Besides the credit constraints, the NCSBs face many non-credit challenges, like,

- Skill Development Gaps
- Knowledge Gaps
- Information Asymmetry
- Financial / Business Literacy
- Lack of growth orientation

To address these constraints, MUDRA will adopt a credit- plus approach and offer Developmental and Support services to the target audience. It will act as a market maker and build –up an ecosystem with capacities to deliver value in an efficient and sustainable manner.

Imparting Financial / Business Literacy: Financial / business literacy or financial education can broadly be defined as 'providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices.'

Financial Inclusion and Financial / business Literacy are twin pillars. While Financial Inclusion acts from supply side providing the financial market / services that people demand, Financial Literacy stimulates the demand side – making people aware of what they can demand. Supporting the financial literacy drive will contribute substantially from the demand side to the national agenda of financial inclusion.



Imparting Financial / Business Literacy :

This apart, the micro enterprise segment also needs business literacy which will help them in acquiring knowledge on running / managing business, keeping accounts, working out ratios, etc.

Promotion and Support of Grass Root Institutions: One of the major focus areas will be to formalize and institutionalize the last mile financiers / grass root institutions so that a new category of financial institutions viz. Small Business Finance Companies can be created and ecosystem developed for their growth. Rural innovations at micro enterprise / unit level would also be one of the key areas for intervention and support. Support to Micro units by way of the facility of incubators would be taken up. This would ensure that at the most grass root levels in the country, there is climate for promotion of innovation as well as incubation of ideas from educated rural youths which would germinate in viable micro enterprises.

Creation of frame work for “ Small Business Finance Entities: An enabling framework for support to "Small Business Finance Entities" would be created leading to formalization of the economy which is presently included in the informal sector.

Synergies with “Make in India” Campaign : Government of India has initiated several steps for encouraging enterprise creation in our country. The major one is “Make in India” movement. Make in India is a major national programme designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure. This coupled with Start-up India and Stand-up India campaign, has created a conducive environment of enterprise creation in different scales. MUDRA, being an initiative for promoting micro enterprises, fits well with Make in India initiative for supporting these micro enterprises.

Synergies with National Rural Livelihoods Mission / National Urban Livelihood Mission : The National Rural Livelihoods Mission [NRLM] is set up "To reduce poverty by enabling the poor households to access gainful self-employment and skilled wage employment opportunities, resulting in appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots institutions of the poor." To achieve the above, **NRLM Mission** inter alia follows a demand driven strategy for continuous capacity building, imparting requisite skills and creating linkages with livelihood opportunities for the poor, including those emerging in the organized sector.

Similarly, the **Deendayal Antodaya Yojana [DAY] National Urban Livelihood Mission** is another programme which is aimed at reducing Urban poverty through creation of micro enterprises, individually and group mode.

MUDRA, being an initiative for promoting micro enterprises, would make all efforts to draw synergies between NRLM, NULM and MUDRA interventions for supporting micro enterprises and creating sustainable livelihood opportunities for the poor.

Synergies with National Skill Development Corporation : NSDC is already engaged in the process of skill development at a National scale. Synergizing with NSDC will help MUDRA in augmenting the skill sets of the sectoral players.

Working with Credit Bureaus : With the growth of responsible lending practices, Credit Bureaus (CB) have gained increasing level of acceptability in the micro finance sector. The CB culture will help in creating credit history over a period of time which will facilitate faster credit dispensation as the system evolves.

Working with Rating Agencies : Accreditation / rating of MFI entities is one of the roles earmarked for MUDRA. Further, a segment of financial intermediaries for the non corporate small business sector is envisaged to emerge in the financing architecture. MUDRA would work in coordination with Rating Agencies so that appropriate rating framework (s) which take into account sector specific features are devised for various sector participants. In the longer run, availability of rating for sector participants would facilitate formalization and further flow of capital to the sector.

The MUDRA Pricing : Access to finance is critical and equally critical is the cost of finance to the NCSB/ultimate beneficiary. The funds mobilized by micro units from the informal sources are at a high cost. There is scope for cost rationalization. However, the rationalization is intricately linked with the cost of funds for the last mile MFIs.

GOI while announcing the formation of MUDRA also announced a refinance corpus for MUDRA at 20000 crores, to be allocated by RBI from the Priority Sector lending shortfall. Accordingly, RBI has provided the allocation which helps in bringing down the cost of lending at the ultimate borrower level as MUDRA refinance will reduce the average borrowing cost of the lending institutions

The NBFC-MFIs are presently regulated by Reserve Bank of India and RBI has already prescribed detailed guidelines for margin cap in respect of MFIs. The margin cap has been pegged at 10% for MFIs having loan portfolio of more than 100 crore and 12% for smaller MFIs having loan portfolio of less than 100 crore or 2.75 times the average base rate of five major commercial banks, whichever is less. In the backdrop of these guidelines and the fact that MFI sector has been constantly trying to reduce its costs, MUDRA would also help MFIs

reduce their cost to bring down the overall cost to the end beneficiaries. Further, at the time of appraisal, MUDRA would be studying / assessing individual MFIs on this as well as other related parameters and suitably price its assistance based on such assessment.

In the case of Banks, RBI has also put a cap on the interest rate at Base rate/ MCLR for lending micro units by Commercial Banks by availing of MUDRA refinance. Similarly, the RRBs and Cooperatives have been given a interest cap of 3.50% over and above MUDRA refinance rate, while lending to MUDRA loan by availing of MUDRA refinance.

In case of NBFCs, RBI has also stipulated a interest cap of 6% over and above MUDRA refinance while their lending to MUDRA segment.

All these are expected to have a positive impact on the pricing of MUDRA loans in the country whereby the Micro enterprises will be able to avail of credit at a affordable interest rate. But, first and foremost objective is to ensure accessibility of credit.

Activity: Carefully study the MUDRA Scheme and write how it will help you.

14.3 Schemes for the Development of Khadi, Village and Coir Industries

1. Science and Technology Scheme
2. Market Promotion & Development Scheme (MPDA)
3. Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
4. Coir Udyami Yojana (CUY)
5. Coir Vikas Yojana (CVY)
 - 5.1 Skill Upgradation & Mahila Coir Yojana (MCY)
 - 5.2 Development of Production Infrastructure (DPI)
 - 5.3 Domestic Market Promotion Scheme
 - 5.4 Export Market Promotion
 - 5.5 Trade and Industry Related Functional Support Services (TIRFSS)

Refer to Lesson 11 for details of the above schemes.

14.4 Technology Upgradation and Quality Certification

1. Financial Support to MSMEs in ZED Certification Scheme

The objectives of the scheme include inculcating Zero Defect & Zero Effect practices in manufacturing processes, ensure continuous improvement and supporting the Make in India initiative. The ZED Certification scheme is an extensive drive to create proper awareness in MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED and support them. After ZED assessment, MSMEs can reduce wastages substantially, increase productivity, expand their market as IOPs, become vendors to CPSUs, have more IPRs, develop new products and processes etc.

The scheme envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification so as to

- Develop an Ecosystem for Zero Defect Manufacturing in MSMEs.
- Promote adaptation of Quality tools/systems and Energy Efficient manufacturing.
- Enable MSMEs for manufacturing of quality products.
- Encourage MSMEs to constantly upgrade their quality standards in products and processes.
- Drive manufacturing with adoption of Zero Defect production processes and without impacting the environment.
- Support 'Make in India' campaign.
- Develop professionals in the area of ZED manufacturing and certification.

Nature of assistance includes assessment & rating/re-rating/gapanalysis/handholding. The subsidy provided by the Government of India for Micro, Small & Medium Enterprises will be 80%, 60% and 50% respectively. There shall be an additional subsidy of 5% for MSMEs owned SC/ST/women and MSMEs located in NER and J&K.

2. A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)

The main objectives of the scheme are to (i) Create new jobs and reduce unemployment (ii) Promote entrepreneurship culture in India (iii) Boost Grassroots economic development at district level (iv) Facilitate innovative business solution for un-met social needs, and (v) Promote innovation to further strengthen the competitiveness of the MSME sector.

Nature of assistance includes NSIC/KVIC or Coir Board or any GoI or State Government agency to set up 80 Livelihood Business Incubators for the period 2014 to 2016. The objectives are: Promotion of Innovation, Entrepreneurship and Agro-Industry organisation of the M/o MSME, and one-time grant of 100% of cost of Plant & Machinery other than the land and infrastructure, or an amount up to Rs 100 lakhs, whichever is less is to be provided. In case of incubation centres to be set up under PPP mode with NSIC, KVIC or

Coir Board or any other Institution/agency of GoI/State Government, one- time grant of 50% of cost of Plant & Machinery, other than the land and infrastructure, or Rs 50.00 lakhs, whichever is less is to be provided.

The Scheme aims to implement the Incubation and Commercialisation of Business Ideas Programme through technical / research institutes, including those in the field of agro based industry. These would be designated as Knowledge Partners and would incubate new/existing technologies for their commercialisation. The scheme also provides funds for the incubator/incubation and creates necessary synergy between this scheme and the Livelihood Business Incubators/Technology Business Incubators and Incubation schemes of MSME / NSIC / KVIC / Coir Board / Other Ministries/Departments as well as Private incubators. Application can be sent to Aspire Scheme Steering Committee of the Ministry of MSME. The Scheme Steering Committee will be responsible for overall policy, coordination and management support. The Council will be chaired by Secretary, Ministry of MSME.

3. National Manufacturing Competitiveness Programme (NMCP):

The following schemes are aiming at improving the competitiveness of the manufacturing units:

3.1. Credit Linked Capital Subsidy for Technology Upgradation (CLCSS)

CLCSS provides 15% subsidy for additional investment up to Rupees one cr for technology upgradation by MSEs. Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the- art technology. Units looking to replace existing equipment/technology with the same equipment/technology will not qualify for subsidy under this scheme. Similarly, units upgrading with used machinery would not be eligible under this scheme.

The scheme aims at facilitating technology upgradation by providing 15% up front capital subsidy to MSEs, including tiny, khadi, village and coir industrial units, on institutional finance availed by them for induction of well established and improved technologies in specified sub-sectors/products approved under the scheme. Any MSE unit is eligible to apply under the scheme. MSME units meeting the eligibility criteria may approach 12 nodal banks / agencies. These are SIDBI, NABARD, SBI, BoB, PNB, BOI, SBBJ, TIIC, Andhra Bank, Corporation Bank, Canara Bank and Indian Bank.

3.2. ISO 9000/ISO 14001 Certification Reimbursement

In order to enhance the competitive strength of SMEs, the scheme provides incentives to those SMEs/ancillary undertakings that have acquired ISO 9000/ISO 14001/HACCP certification. The scheme is enlarged so as to include reimbursement of expenses in the acquisition of ISO 14001 certification. The scheme envisages reimbursement of charges

incurred for acquisition of ISO-9000/ISO-14001/HACCP certification to the extent of 75% of expenditure, subject to a maximum of Rs.75,000 in each case. The scheme is applicable to MSEs/ancillary/SSSB units that have already acquired ISO-9000/ISO-14001/ HACCP certification.

3.3. Marketing Support/Assistance to MSMEs (Bar Code)

Under this scheme the Ministry conducts seminars and reimburses registration fees for bar coding in order to encourage MSEs to use bar-codes. Nature of assistance include reimbursement of registration fee (one time and recurring for 3 years) for bar coding. Financial assistance for reimbursement of 75% of one-time registration fee (Under MSE-MDA) and 75% of annual recurring fee for first three years (Under NMCP) paid by MSEs to GS1 India for the use of bar coding. The scheme applies only to MSEs with and registration with GS1 India for use of barcode.

3.4. Lean Manufacturing Competitiveness for MSMEs

The objective of the scheme is to enhance the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques. Financial assistance is provided for implementation of lean manufacturing techniques, primarily the cost of lean manufacturing consultant (80% by GoI and 20% by beneficiaries).

Lean manufacturing consultants (LMCs) will raise bills for services provided to Special Purpose Vehicle (SPV). SPV will, in turn, pay the first installment of 20% to the LMC and will obtain reimbursement from the National Monitoring and Implementing Unit (NMIU). Thereafter, Ministry of MSME will transfer funds to the NMIU. SPV payments to LMC will be on a milestone basis in 5 tranches, each of 20% of the amount fixed.

The scheme is open to all manufacturing MSEs. The units are required to form MC, ideally of 10 units each with a minimum 6, by signing among themselves a Memorandum of Understanding an MoU to participate in the scheme. A group of SMEs can apply for the scheme. Either a recognised SPV can apply on its own, or a mini cluster can be formed by a group of 10 or more such units. The SPV can apply to the National Monitoring and Implementing Unit (National Productivity Council for the Scheme) in the given format.

3.5. Design Clinic for Design Expertise to MSMEs

The scheme is for increasing competitiveness of MSMEs through adoption of design and its learning. Nature of assistance includes funding support of (1) Rs.60,000 per seminar and 75% subject to a maximum of Rs.3.75 lakhs per workshop, (2) To facilitate MSMEs to develop new Design strategies and or design related products and services through project interventions and consultancy.

Expert agencies (Industry Associations, Technical Institutions or other appropriate bodies), for conducting seminars and workshops, MSMEs or groups of MSMEs, Academic

Institutes/ design companies/ design consultants, etc., applying as co-applicants along with a designated MSME are eligible to apply. Expert agencies can directly apply to design clinic centres expressing intent to conduct workshops and seminars. MSMEs can apply alone or along with a design company or a design consultant/academic institute for design projects by submission of a proposal to the Design Clinic Centre or through the internet by making an online application. Applicants can apply online at <http://www.designclinicsmsme.org/or> download the form from <http://www.dcmsme.gov.in/schemes>.

3.6. Technology and Quality Upgradation Support to MSMEs

The scheme advocates the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanism. Nature of assistance includes capacity building of MSME clusters for energy efficiency/clean development and related technologies. Expert organisations like PCRA, BEE, TERI, IITs, NITs, etc., State Govt. agencies like MITCON, GEDA, etc. Cluster/industry based associations of MSMEs, NGOs and Technical Institutions are eligible to apply.

3.7. Entrepreneurial and Managerial Development of SMEs through Incubators

The objective of the scheme is to provide early stage funding to nurture innovative business ideas (new indigenous technology, processes, products, procedures, etc.) that could be commercialised in a year. The scheme provides financial assistance for setting up business incubators. Nature of assistance includes funding support for setting up of 'Business Incubators (BI)': The cost may vary from Rs 4 to 8 lakh for each incubatee/idea, subject to overall ceiling of Rs 62.5 lakh for each BI.

Any individual or MSME with innovative ideas ready for commercialisation can apply to the host institution (e.g., IITs, NITs, technical colleges, research institutes, etc.) in order to obtain fund support. Any technical institution (as given in the EoI) that wants to become a host institution can apply to the office of the Development Commissioner-MSME or their nearest MSME-DI for funding support. Application can be made by the technical institution desirous of becoming the host institution, once a Request for Proposal (RFP)/ Expression of Interest (EoI) is released. Any individual or MSME can apply directly to their nearest host institution.

3.8. Enabling Manufacturing Sector to be Competitive through QMS&QTT

The scheme endeavours to sensitize and encourage MSEs to understand and adopt latest Quality Management Standards (QMS) and Quality Technology Tools (QTT). Nature of assistance includes funding support for introduction of appropriate course modules in technical institutions through expert organisations. Funding support up to Rs 79,000/- per

programme for conducting QMS/QTT awareness campaign for MSEs through expert organisations. Funding support up to Rs 2.5 lakh per unit for implementation of QMS and QTT in selected MSMEs through expert organisations

Expert organisations like Quality Council of India (QCI), National Recruitment Board for Personnel and Training, Consultancy Development Corporation, National Productivity Council, Standardisation, Testing & Quality Certification (STQC, a Society under the Ministry of IT), IIQM (Indian Institute of Quality Management), Industry Associations that have taken active interest in QMS/QTT, Technical Institutions, Engineering Colleges, Tool Rooms and similar bodies and MSEs can apply for assistance under this scheme. MSEs or clusters may contact Office of the DC- MSME. The DC office will finalise the MSME clusters for conducting the Awareness Programme on Quality Management Standards and Quality Technology Tools (QMS/QTT).

3.9. Building Awareness on Intellectual Property Rights (IPR)

The purpose of the scheme is to enhance awareness among the MSMEs about Intellectual Property Rights, to take measures for protecting their ideas and business strategies. Effective utilisation of IPR tools by MSMEs would also assist them in technology upgradation and enhancement of their competitiveness. Nature of assistance includes conducting awareness/sensitization programmes on IPR (Applicants in this case are MSME organisations and expert agencies) GoI assistance of Rs 1 lakh per awareness programme; conducting pilot studies for selected clusters/groups of industries (Applicants in this case are MSME organisations, competent agencies and expert agencies); GoI assistance of Rs 2.5 lakh per pilot study; Funding support for conducting interactive seminars / workshops (Applicants in this case are MSME organisations and expert agencies); Funding support for conducting specialised training on IPR (Applicants – Expert agencies); Funding support in the form of Grant on Patent/GI Registration (Applicants in this case are MSME units and MSME organisations); Funding support for setting up IP Facilitation. Registered MSME units, association, consultancy firms, expert agencies etc. are eligible to apply under this scheme.

Activity: list out the Schemes for improving the manufacturing competitiveness of MSME units.

14.5 Marketing Promotion Schemes :

In spite of the vast domestic market, marketing remains a problem area for small enterprises. Mass consumption labour intensive products are predominantly being marketed by the organised sector. The small scale sector will be enabled to have a significant share of such markets. In addition to the existing support mechanism, market promotion would be undertaken through cooperative/public sector institutions, other specialised/professional marketing agencies and consortia approach, backed up by such incentives, as considered necessary.

National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and MSMEDCs would be established.

Government recognises the need to widen and deepen complementarity in production programmes of large/medium and small industrial sectors. Parts, components, sub-assemblies, etc. required by large public/private sector undertakings would be encouraged for production in a techno-economically viable manner through small scale ancillary units. Industry associations would be encouraged to establish sub-contracting exchanges, in addition to strengthening the existing ones under the SIDO. Emphasis would also be laid on promotion of a viable and competitive 'component' market.

Though the Small Scale Sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognised as the nodal agency to support the small scale industries in export promotion. An Export Development Centre would be set up in SIDO to serve the small scale industries through its network of field offices to further augment export activities of this sector.

Some of the Schemes for marketing promotion are given below :

1. International Cooperation (IC) : The scheme covers the following activities:

- a. Deputation of MSME business delegations to other countries to explore new areas of technology fusion / upgradation; facilitation of joint ventures; improvement of markets for MSMEs products and promote foreign collaborations amongst others.
- b. Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries as well as in international trade meets in India.
- c. To hold and promote international conferences and seminars on topics and themes of interest to MSMEs.

IC scheme provides financial assistance for airfare and space rent in exhibitions for entrepreneurs for going in a delegation abroad. Industry Associations can file applications industry associations with the Ministry of MSME giving details of the delegation, visit, organisation and other details.

2. Marketing Assistance Scheme :

The marketing assistance scheme provides assistance for the following activities:

- a) Organisation of exhibitions abroad and participation in international exhibitions/ trade fairs
- b) Co-sponsoring of exhibitions organised by other organisations/industry associations/agencies;
- c) Organising buyer-seller meets, intensive campaigns and marketing promotion activities.

Nature of assistance includes financial assistance of up to 95% of the air-fare and space rent is made available to entrepreneurs on the basis of size and type of the enterprise; Financial assistance for co-sponsoring an event would be limited to 40% of the net expenditure, subject to a maximum amount of Rs 5 lakh. MSMEs, Industry Associations and other organisations related to MSME sector are eligible to apply. Applications/proposals seeking assistance under the scheme should be submitted to the Branch Manager of the nearest office of the National Small Industries Corporation, with full details and justification in support of the application.

3. Marketing Assistance & Technology Upgradation (MATU)

The scheme assists in providing marketing platform to manufacturing MSMEs through participation in state/district level exhibitions/trade fairs organized by State/District Authorities/Associations. Nature of assistance includes funding for participation of MSMEs in state/district level exhibitions/trade fairs with a funding support maximum Rs 30,000/- per exhibition/ fairs; funding support (in the form of reimbursement) to MSMEs for adopting corporate governance practices maximum Rs 45,000/- per MSME unit; funding support (in the form of reimbursement) to MSMEs for acquiring ISO18000/22000/27000 Certification maximum of Rs 1.00 lakh in each case. All MSMEs are eligible to apply under this scheme.

significantly expand the Entrepreneurship Development Programmes (EDP). Industry Associations would also be encouraged to participate in this venture effectively.

EDP would be built into the curricula of vocational and other degree level courses.

Women entrepreneurs will receive support through special training programme.

1. Assistance to Training Institutions (ATI) Scheme:

The assistance is provided to National level training institutions operating under the Ministry of MSME, namely, NIMSME, KVIC, Coir Board, Tool Rooms, NSIC & MGIRI in the form of capital grant for the purpose of creation and strengthening of infrastructure and support for entrepreneurship development and skill development training programmes. Assistance is also provided to those State level EDIs that enter into partnership with NIMSME for capacity development for undertaking studies & research on MSME issues. The scheme also provides research grant upto Rs 15.00 lakh on MSME issues. MSME chair are also sanctioned in premier National academic institutions.

Revenue grant is provided to institutions on annual basis for the MSME chair. State level EDIs that enter into partnership with NIMSME are provided total grant upto Rs 2.5 cr. Select State level EDIs that enter into partnership with NIMSME and national level premier academic institutions are eligible to apply for the MSME chair.

14.7 Infrastructure Development Programme:

The Ministry of MSME has adopted cluster development approach for enhancing productivity and competitiveness as well as capacity building of MSEs and introduced Micro & Small Enterprises Cluster Development (MSE-CDP) scheme:

Micro & Small Enterprises Cluster Development (MSE-CDP)

The scheme provides financial assistance to special purpose vehicles companies set up by cluster units for common facility center, infrastructures, skill training, quality upgradation etc.

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GoI) has adopted the Cluster Development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same / similar products / services. The essential characteristics of enterprises in a cluster are (a) Similarity or complementarity in the methods of production, quality control and testing, energy consumption, pollution control, etc (b) Similar level of technology and marketing strategies /

practices (c) Similar channels for communication among the members of the cluster (d) Common challenges and opportunities.

Objectives of the Scheme

- i. To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital, etc.
- ii. To build capacity of MSEs for common supportive action through formation of self help groups, consortia, upgradation of associations, etc.
- iii. To create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of MSEs, including setting up of Flatted Factory Complexes.
- iv. To set up common facility centres (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc.)

Components:

(i) Setting up of CFCs: Creation of tangible “assets” as Common Facility Centers (CFCs) like Common Production/Processing Centre (for balancing/correcting/improving production line that cannot be undertaken by individual units), Design Centres, Testing Facilities, Training Centre, R&D Centres, Effluent Treatment Plant, Marketing Display/Selling Centre, Common Logistics Centre, Common Raw Material Bank/Sales Depot, etc. The Government of India grant will be restricted to 70% of the cost of project of maximum Rs 15.00 crore. GoI grant will be 90% for CFCs in NE & Hill States, Clusters with more than 50% (a) micro/village (b) women owned (c) SC/ST units.

(ii) Infrastructure Development: Consist of projects for infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials storage and marketing outlets, common service facilities and technological backup services for MSEs in the new/ existing industrial estates/areas. The GoI grant will be restricted to 60% of the cost of project of Rs 10.00 crore. GoI grant will be 80% for projects in NE & Hill States, industrial areas/ estates with more than 50% (a) micro (b) women owned (c) SC/ST units.

Physical & Financial Achievement & Status of Projects :

Year	Achievements			
	Financial (Rs crore)		Physical (in Nos.)	
	BE / RE	Exp	CFCs	ID Projects
2014-15	93.00 / 84.60	63.18	5	9
2015-16	100 / 102.95	81.14	-	4

2016-17	135 / 123	121.69	5	5
2017-18 (Upto Sep -2017)	184/	124.30	8	10

State-wise Status of Projects approved under MSE-CDP:

S. No	STATE/UT	`Common Facility Centres (CFCs)			`Infrastructure Development (ID) Projects			Grand Total (CFC+ID)
		App-rove d CFC s	On- goin g	Com- plete d	App- roved ID Centre s	On- goin g	Com- plete d	
1	Andhra Pradesh	2	1	1	5	1	4	7
2	Arunachal Pradesh	0	0	0	1	1	0	1
3	Assam	1	0	1	15	2	13	16
4	Bihar	1	0	1	0	0	0	1
5	Chattisgarh	0	0	0	5	1	4	5
6	Goa	1	0	1	0	0	0	1
7	Gujarat	2	1	1	2		2	4
8	Haryana	7	7	0	28	4	24	35
9	Himachal Pradesh	0	0	0	1	0	1	1
10	Jammu & Kashmir	1	0	1	6	2	4	7
11	Jharkhand	0	0	0	0	0	0	0
12	Karnataka	10	7	3	5	1	4	15
13	Kerala	13	4	9	10	2	8	23
14	Madhya Pradesh	0	0	0	15	3	12	15
15	Maharashtra	16	7	9	5	0	5	21
16	Manipur	0	0	0	6	3	3	6
17	Meghalaya	0	0	0	0	0	0	0
18	Mizoram	0	0	0	2	0	2	2
19	Nagaland	0	0	0	1	0	1	1
20	Odisha	4	3	1	3	0	3	7
21	Punjab	1	1	0	2	0	2	3
22	Rajasthan	1	1	0	15	2	13	16
23	Sikkim	0	0	0	0	0	0	0
24	Tamilnadu	30	16	14	32	3	29	62
25	Telangana	0	0	0	3	3	0	3
26	Tripura	0	0	0	4	3	1	4
27	Uttar Pradesh	7	5	2	11	3	8	18
28	Uttarkhand	0	0	0	3	0	3	3

29	West Bengal	11	9	2	5	1	4	16
30	A&N Islands	0	0	0	0	0	0	0
31	Chandigarh	0	0	0	0	0	0	0
32	Dadra and Nagar Haveli	0	0	0	0	0	0	0
33	Daman and Diu	0	0	0	0	0	0	0
34	Delhi	0	0	0	0	0	0	0
35	Lakshadweep	0	0	0	0	0	0	0
36	Puducherry	0	0	0	0	0	0	0
	Total	108	62	46	185	35	150	293

There are several special schemes offered by various Central and State level agencies, Commercial banks and also Associations of women entrepreneurs for the promotion of women entrepreneurs in India and a detailed presentation is given in Chapter 15.

Summary:

The Small Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. The primary objective of the Small Scale Industrial Policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially de-licensed, deregulated and de-bureaucratized, with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small and village enterprises. Since Independence, India has launched various Industrial Policies for the development and promotion of small-scale enterprises in the country.

FINANCIAL SUPPORT MEASURES : Efforts would be made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector. To provide access to the capital market and to encourage modernisation and technological upgradation, it has been decided to allow equity participation by other industrial undertakings in the MSME, not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancillarisation & sub-contracting, leading to expansion of employment opportunities.

For solving the problem of delayed payments to small industries, 'factoring' services through Small Industries Development Bank of India (SIDBI) was set up.

Prime Minister's Employment Generation Programme (PMEGP): The maximum cost of the project/unit admissible in manufacturing sector is Rs.25 lakhs and in business/service sector is Rs.10 lakhs. The scheme is implemented by Khadi and Village Industries Commission (KVIC) as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks.

Performance and Credit Rating Scheme : This scheme seeks to establish independent, trusted third party opinion on capabilities and credit-worthiness of MSEs, and makes credit available at attractive interest rates.

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE) : Ministry of Micro, Small and Medium Enterprises, Government of India and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement Credit Guarantee Fund Scheme for Micro and Small Enterprises.

Interest Subsidy Eligibility Certificate (ISEC) Scheme: The Interest Subsidy Eligibility Certificate (ISEC) Scheme is an important mechanism of funding khadi programme undertaken by khadi institutions. It was introduced to mobilize funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources. Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital, is made available as per the requirement of the institutions.

MUDRA is an NBFC supporting development of micro enterprise sector in the country. MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh. MUDRA provides refinance to micro business under the Scheme of Pradhan Mantri MUDRA Yojana. The other products are for development support to the sector.

Science and Technology Scheme for Coir industry : The Scheme envisages extension of the outcomes of research at the laboratory level for application at the field level and extension of testing and service facility. Nature of assistance includes Technology Transfer, Incubation, Testing and Service Facilities. The research outcomes are beneficial to the coir industry and trade in India and abroad.

The Market Promotion and Development Assistance Scheme (MPDA) : This Scheme has been launched as a unified scheme by merging different schemes implemented by the Khadi sector including publicity, marketing, market promotion and marketing development assistance. Further, grant/subsidy will also be available for construction of Khadi plazas. The overall objective of the scheme is to ensure increased earnings for artisans.

Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI): Non-Government Organizations (NGOs), Institutions of the Central and State Governments and, Semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), and similar agencies, with suitable expertise to undertake cluster development, can apply for the scheme.

Coir Udyami Yojana (CUY): This is a credit-linked subsidy scheme for setting up of coir units with project cost up to Rs.10 lakh plus one cycle of working capital, which shall not exceed 25% of the project cost. Individuals, Companies, Self Help Groups, Non Governmental Organizations, Institutions registered under Societies Registration Act 1860, Production Co-operative Societies, Joint Liability Groups and Charitable Trusts are eligible to apply for the scheme.

Coir VikasYojana (CVY): The interventions under the CVY Scheme envisage a wide range of activities like skill development of artisans, Mahila Coir Yojana, supporting the setting up of production infrastructure, promoting the domestic as well as export market, providing trade and industry related functional support services, and welfare of coir workers.

Financial Support to MSMEs in ZED Certification Scheme : The objectives of the scheme include inculcating Zero Defect & Zero Effect practices in manufacturing processes, ensure continuous improvement and supporting the Make in India initiative. The ZED Certification scheme is an extensive drive to create proper awareness in MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED and support them. After ZED assessment, MSMEs can reduce wastages substantially, increase productivity, expand their market as IOPs, become vendors to CPSUs, have more IPRs, develop new products and processes etc.

A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE) : The main objectives of the scheme are to (i) Create new jobs and reduce unemployment (ii) Promote entrepreneurship culture in India (iii) Boost Grassroots economic development at district level (iv) Facilitate innovative business solution for un-met social needs, and (v) Promote innovation to further strengthen the competitiveness of the MSME sector.

National Manufacturing Competitiveness Programme (NMCP): Under this Programme, various schemes like CLCSS; Reimbursement of ISO certifications; Bar Coded for marketing support; LMC for MSME; Design clinic for MSME; Technology and quality up gradation support to MSME; Incubators for entrepreneurial and managerial development; QMS and QTT ; Building awareness on IPRs. are aiming at improving the competitiveness of the manufacturing units:

Marketing Promotion Schemes: Mass consumption labour intensive products are predominantly being marketed by the organised sector. The small scale sector will be enabled to have a significant share of such markets. In addition to the existing support mechanism, market promotion would be undertaken through cooperative/public sector institutions, other specialised/professional marketing agencies. National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and MSMEDCs would be established.

Some of the Schemes for marketing promotion are :

1. International Cooperation (IC) ;
2. Marketing Assistance Scheme ;
3. Marketing Assistance & Technology Upgradation (MATU);
4. MSME Market Development Assistance (MDA).

Entrepreneurship and skill Development Programme: Government will continue to support first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programmes (EDP). Industry Associations would also be encouraged to participate in this venture effectively. Women entrepreneurs will receive support through special training programme.

Assistance to Training Institutions (ATI) Scheme: The assistance is provided to National level training institutions operating under the Ministry of MSME, namely, NIMSME, KVIC, Coir Board, Tool Rooms, NSIC & MGIRI in the form of capital grant for the purpose of creation and strengthening of infrastructure and support for entrepreneurship development and skill development training programmes. Assistance is also provided to those State level EDIs that enter into partnership with NIMSME for capacity development for undertaking studies & research on MSME issues. The scheme also provides research grant upto Rs 15.00 lakh on MSME issues. MSME chair are also sanctioned in premier National academic institutions.

Infrastructure Development Programme: The Ministry of MSME has adopted cluster development approach for enhancing productivity and competitiveness as well as capacity building of MSEs and introduced Micro & Small Enterprises Cluster Development (MSE-CDP) scheme.

14.9 Key Terms

1. Stand Up India Scheme

A government scheme based on recognition of challenges faced by SC, ST, and women entrepreneurs in setting up enterprises. It facilitates bank loans between Rs. 10 lakh and Rs. 1 crore to at least one SC or ST borrower and at least one woman borrower per bank branch for setting up greenfield enterprises in manufacturing, services, or trading sectors.

2. Mudra Yojana for Women

A government scheme for individual women or groups of women wanting to start small enterprises like beauty parlors, tailoring units, tuition centres, etc. The loan requires no collateral security and is available under three categories: Shishu (up to Rs. 50,000), Kishor (Rs. 50,000 to Rs. 5 lakh), and Tarun (up to Rs. 10 lakh).

3. STEP (Support to Training and Employment Programme for Women)

A Central Sector Scheme administered by the Ministry of Women & Child Development since 1986-87, aiming to provide skills that give employability to women and enable them to

become self-employed/entrepreneurs. The scheme benefits women aged 16 years and above across the country.

****4. SHG-Bank Linkage Programme (SHG-BLP)****

A microfinance programme launched by NABARD in 1992, now the largest in the world, linking self-help groups (85.4% women groups) with formal banking institutions. As of March 2017, 85.77 lakh SHGs covering more than a hundred million rural households were linked under this programme.

****5. Mahila Coir Yojana****

The first women-oriented self-employment scheme implemented by the Coir Board since 1994 for empowerment of women artisans in the coir sector. It provides 75% subsidy on motorised ratts (up to Rs. 7,500) and motorised traditional ratts (up to Rs. 2,925) after providing necessary skill training.

****6. CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)****

A scheme providing collateral-free credit facility up to Rs. 25 lakh per borrowing unit. In the case of women enterprises, the guarantee cover is up to 80% of the credit subject to maximum guarantee limit of Rs. 20 lakh, making it easier for women entrepreneurs to access finance without traditional security.

****7. MSE-CDP (Micro & Small Enterprises Cluster Development Programme)****

A cluster development programme providing assistance for capacity building, common facilities, and marketing. For women's enterprise clusters, assistance up to 90% is available for soft interventions and for setting up Common Facility Centres, promoting collective action among women entrepreneurs.

14.10 Self Assessment Questions

Multiple Choice Questions with Answers

****1. Under the Stand Up India Scheme, bank loans between what range are facilitated for women, SC, and ST entrepreneurs?***

- A) Rs. 1 lakh to Rs. 5 lakh
- B) Rs. 5 lakh to Rs. 50 lakh
- C) Rs. 10 lakh to Rs. 1 crore
- D) Rs. 1 crore to Rs. 5 crore

****Answer: C) Rs. 10 lakh to Rs. 1 crore****

****2. Under Mudra Yojana for Women, the 'Kishor' category covers loans in what range?***

- A) Up to Rs. 50,000
- B) Rs. 50,000 to Rs. 5 lakh
- C) Rs. 5 lakh to Rs. 10 lakh
- D) Rs. 10 lakh to Rs. 20 lakh

****Answer: B) Rs. 50,000 to Rs. 5 lakh****

****3. The STEP Scheme (Support to Training and Employment Programme for Women) is administered by which ministry?***

- A) Ministry of MSME
- B) Ministry of Women & Child Development
- C) Ministry of Skill Development & Entrepreneurship
- D) Ministry of Finance

****Answer: B) Ministry of Women & Child Development****

****4. As of March 2017, the SHG-Bank Linkage Programme had linked how many Self Help Groups covering rural households?***

- A) 25.77 lakh SHGs
- B) 55.77 lakh SHGs
- C) 85.77 lakh SHGs
- D) 105.77 lakh SHGs

****Answer: C) 85.77 lakh SHGs****

5. Under the Mahila Coir Yojana, what percentage subsidy is provided on motorised ratts subject to a ceiling of Rs. 7,500?

- A) 50%
- B) 60%
- C) 75%
- D) 90%

****Answer: C) 75%***

Short Answer Questions

1. What is the Stand Up India Scheme and what are its key features for women entrepreneurs?
2. Explain the three categories of loans under Mudra Yojana for Women.
3. What is the STEP Scheme and what are its objectives?
4. Describe the SHG-Bank Linkage Programme and its significance for women's empowerment.
5. What is the Mahila Coir Yojana and how does it benefit women artisans?

Case Study

Kiran Mazumdar Shaw: From Garage Startup to Biocon's Global Leadership

Kiran Mazumdar Shaw's journey from starting Biocon in a garage to building it into India's largest biopharmaceutical company exemplifies the transformative power of women entrepreneurship when supported by vision, perseverance, and enabling institutional frameworks. Her story is not just about business success but about breaking gender barriers,

pioneering an industry, and creating a legacy that inspires millions of women entrepreneurs across India.

****The Genesis:**** Born in Bangalore in 1953, Kiran Mazumdar completed her Bachelors in Zoology from Mount Carmel College and pursued her postgraduate studies in Malting and Brewing from Ballarat College, Melbourne. When she returned to India in the 1970s, she faced a harsh reality—as a woman, she could not find employment as a brewer, the profession she had trained for. The brewing industry was male-dominated, and companies were unwilling to hire a woman master brewer. This discrimination, rather than discouraging her, became the catalyst for her entrepreneurial journey.

****The Garage Startup:**** In 1978, with a seed capital of just Rs. 10,000, Kiran started Biocon in a rented garage in Bangalore. The initial operations were modest—producing enzymes for the food processing industry. The challenges were overwhelming. As a young woman entrepreneur in the 1970s, she faced skepticism from bankers who refused to lend money, from potential employees who doubted her vision, and from industry peers who questioned her capabilities. She has often recounted how bankers asked her to bring her father along to discuss loan applications, unable to comprehend that a woman could be a serious entrepreneur. Undeterred, she persevered, funding the business through whatever means she could and slowly building credibility through technical excellence and unwavering commitment.

****Institutional Support and Growth:**** As Biocon grew, it benefited from various institutional support mechanisms. The company qualified as a Small Scale Industry, enabling access to priority sector lending from banks under MSME policies. As export orientation became central to Biocon's strategy, EXIM Bank provided crucial financing and advisory support for international expansion. The company's research and development efforts were supported by technology upgradation schemes under the National Manufacturing Competitiveness Programme. When Biocon decided to go public, SEBI's guidelines for women entrepreneurs and corporate governance norms created a favorable environment for the IPO.

****Breaking New Ground:**** Kiran's vision extended beyond enzymes into biopharmaceuticals, particularly insulin and oncology drugs. In 2004, she took Biocon public, creating significant wealth for investors and establishing herself as one of India's most successful entrepreneurs. Under her leadership, Biocon has evolved into a leading player in biomedicine research, with a focus on diabetes and oncology. The company has developed affordable biologics that have made life-saving drugs accessible to millions of patients not just in India but across developing countries. Her research-driven approach has resulted in numerous patents and global partnerships with major pharmaceutical companies.

****Recognition and Influence:**** Kiran's contributions have been recognized with numerous awards, including the Padma Shri (1989) and Padma Bhushan (2005) by the Government of India. She has served on the boards of prestigious institutions including the Indian School of Business and IIT, Hyderabad, influencing policy and mentoring the next generation of entrepreneurs. In 2019, she was awarded the Othmer Gold Medal for outstanding contributions to science and technology. Beyond business, she has been a vocal advocate for women's empowerment, healthcare access, and science education.

****Supporting Women Entrepreneurship:**** Throughout her journey, Kiran has actively supported women entrepreneurship. Biocon's workforce includes a significant proportion of women scientists and researchers. She has mentored numerous women entrepreneurs and advocated for policies supporting women-led enterprises. Her foundation supports healthcare and education initiatives, particularly focusing on women and children. She has consistently spoken about the need for institutional support systems that address the unique challenges faced by women entrepreneurs—access to capital, mentorship networks, and family-friendly work policies.

****Legacy and Inspiration:**** Kiran Mazumdar Shaw's journey from a garage startup to building a global biopharmaceutical company valued at over \$10 billion demonstrates that women entrepreneurs can excel in even the most technology-intensive, capital-intensive industries. Her story challenges stereotypes about women's roles in business and science, proving that with vision, perseverance, and the right support systems, women can lead from the front. She remains an active chairperson, guiding Biocon's strategy while continuing to advocate for entrepreneurship, innovation, and women's empowerment.

Case Study Questions

1. Analyze the challenges Kiran Mazumdar Shaw faced as a woman entrepreneur in the 1970s. How did she overcome these challenges, and what role did institutional support play in her journey?
2. How did various government policies and institutional mechanisms (MSME support, EXIM Bank, technology upgradation schemes) contribute to Biocon's growth trajectory from a small enzyme producer to a global biopharmaceutical leader?
3. What lessons can aspiring women entrepreneurs derive from Kiran Mazumdar Shaw's journey? How can contemporary institutional support systems be strengthened to address the unique challenges women entrepreneurs face today?

14.11 Reference:

Five Printed/Published Textbooks

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4. ****SIDBI smallB**** (n.d.). *Women Entrepreneurship*. Available at: <https://smallb.sidbi.in/fund-your-business/additional-benefits-msmes/women-entrepreneurship>
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LESSON- 15

POLICY SUPPORT FOR WOMEN ENTREPRENEURS

Objectives of the Lesson :

After going through this Lesson you should be able to understand:

1. The role of Ministry of Micro, Small and Medium Enterprises (MSME) for the promotion of women entrepreneurship;
2. Training programmes available for the promotion of Women Entrepreneurs
3. Features of Stand-up India Scheme for women entrepreneurs to facilitate bank loans;
4. Mudra Yojana Scheme for Women launched by government of India;
5. Ministry of Women and Child Welfare, Government of India, scheme of “Support to Training and Employment Programme for Women (STEP)” ;
6. Self Help Group (SHG)-Bank Linkage Programme of NABARD for supporting Women entrepreneurs;
7. TREAD (Discontinued)
8. Mahila Coir Yojana – the first women oriented self employment scheme;
9. Micro & Small Enterprises Cluster Development Programme (MSE-CDP)
10. Credit Guarantee Fund Scheme
11. Support for Entrepreneurial and Managerial Development
12. Exhibitions for women under promotional package for Micro & Small Enterprises approved by CCEA under marketing support
13. SIDBI Marketing Fund for Women
14. Schemes of various Banks for promoting women entrepreneurs in India;
15. Contribution of various Women Entrepreneur Associations

Structure of the Lesson

15.1 Introduction

15.2 Role of the Ministry of Micro, Small and Medium Enterprises (MSME)

15.3 Training of Women Entrepreneurs

15.4 Stand Up India Scheme

15.5 Mudra Yojana Scheme for Women

15.6 Support to Training and Employment Programme for Women (STEP)

15.7 NABARD Self Help Groups (SHGs)-Bank Linkage Programme

15.8 Trade Related Entrepreneurship Assistance and Development (TREAD)

15.9 Mahila Coir Yojana

15.10 Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

15.11 Credit Guarantee Fund Scheme

15.12 Support for Entrepreneurial and Managerial Development

15.13 Exhibitions for women under promotional package for Micro & Small Enterprises approved by CCEA under marketing support

15.14 SIDBI Marketing Fund for Women (MFW)

15.15 Schemes of various Banks for promoting women entrepreneurs in India;

1. Annapurna Scheme
2. Stree Shakti Package for Women Entrepreneurs
3. Bharatiya Mahila Bank Business Loan
4. Dena Shakti Scheme
5. Udyogini Scheme
6. Cent Kalyani Scheme
7. Mahila Udyam Nidhi Scheme
8. Orient Mahila Vikas Yojana Scheme

15.16 Women Entrepreneur Associations

1. Federation of Indian Women Entrepreneurs (FIWE)
2. Consortium of Women Entrepreneurs of India
3. Association of Lady Entrepreneurs of Andhra Pradesh
4. Association of Women Entrepreneurs of Karnataka (AWAKE)
5. Self-Employed Women's Association (SEWA)
6. Women Entrepreneurs Promotion Association (WEPA)
7. The Marketing Organisation of Women Enterprises (MOOWES)
8. Mahakaushal Association of Woman Entrepreneurs (MAWE)
9. SAARC Chamber Women Entrepreneurship Council
10. Women Entrepreneurs Association of Tamil Nadu (WEAT)
11. TiE Stree Shakti (TSS)
12. Women Empowerment Corporation (WEC)

15.17 Summary

15.18 Self Assessment

15.19 Key Terms

15.20 Further Readings / Reference books



1. **Kiran Mazumdar Shaw :** Born in Bangalore, she did her Bachelors in Zoology from Mount Carmel and PG from Ballarat College, Melbourne in Malting and Brewing. **She is the Chairman and Managing Director (CMD) of Biocon Limited.** Under her leadership, the company has evolved as a leading player in biomedicine research with a focus on diabetes and oncology. She is also a member of the board of governors of the prestigious Indian School of Business and IIT, Hyderabad. She was awarded Padma Shri (1989) and Padma Bhushan (2005) by the Indian government.

2. **Shahnaz Husain :**She is known as the “Queen of Herbal Beauty Care”. She was married off at the age of 16. But her interest in beauty and cosmetic made her discover **Shahnaz Herbals Inc.** The company is best known for its herbal cosmetics particularly skin care products ‘without animal testing’. The company has over 400 Franchise clinics across the world covering 138 countries. She has been bestowed with the ‘Padma Shri’ award by the Government of India in 2006 and ‘World’s Greatest Woman Entrepreneur’ award by 1996 Success Magazine.

3. Ravina Raj Kohli



She was the Head of Content and Communication at **Sony Entertainment Television** and the **CEO** at the Kerry Packer owned **Channel 9** on the Doordarshan platform. Later, she worked with **Star news** as the CEO. She has a Diploma from the London School of Journalism and Bachelor’s Degree in Psychology, Economics and Literature from Bangalore University. Her company **JobCorp Company Pvt. Ltd.** works toward empowerment of women. Her name has featured among the top 20 female professionals in India. She is also Indian television’s first woman CEO.

4. Rashmi Sinha



Born in Lucknow, India Rashmi owns a PhD in neuropsychology from the Brown University. Prior to that, she completed her B.A. and M.A. from Allahabad University. In 2006, she co-founded **SlideShare** along with her husband, a site to share presentations online. The site received tremendous response and was **acquired by LinkedIn for \$100 million in 2012.** She was ranked No.8 in the Fortune’s Most Powerful Women Entrepreneurs list and named one of the World’s Top 10 Women Influencers in Web 2.0 by Fast Company.

5. Shradha Sharma



Aspiring Women Entrepreneurs really look up to her. Shradha is the Founder and **Chief Editor of YourStory**, a website dedicated to entrepreneurs and startups. She hails from Patna and holds degrees from St. Stephens College, Delhi and MICA, Ahmedabad. She has also worked with Times of India and CNBC TV18. She was selected among the 500 LinkedIn influencers across the world and awarded with the L'Oreal Paris Femina Award for Online Influence in 2015.

6. Sabina Chopra



It would be incorrect if we don't include Sabina Chopra in our successful Indian women entrepreneurs list. She is the **co-founder of Yatra.com**, an online travel website. She holds a Bachelor's of Art degree from Delhi University and landed her first job with a Japan Airlines. Later, she headed India's operation of eBookers, Europe's leading online travel company. In 2010, she was felicitated with the Women Leaders of India. Under her guidance, the company has enhanced its customer base and earned recognition.

7. Swati Bhargava



She is the **CEO and Co-founder of CashKaro**, an Indian cashback site. She graduated from London School of Economic (LSE) with an Honours in Mathematics and Economic. She later bagged a summer internship at Goldman Sachs in London and worked there for four years. She started Pouring Pounds, a cashback business in UK with her husband. They raised double funds and started a similar activity in India in the name of CashKaro.

8. Suchi Mukherjee



She is the **founder of Limeroad**, a portal for women to share and shop lifestyle products. She holds a Bachelor's of Art specializing in Economics & Maths from the University of Cambridge and a Master's Degree in Finance & Economics from the London School of Economics. She first worked at Lehman Brothers Inc for 5 years. She then worked with some of the prestigious companies such as Virgin Media, eBay, Skype and Gumtree. She is transforming the fashion industry on the digital platform of India.

9. Radhika Ghai Aggarwal



She is the **Co-founder and CMO of ShopClues**, a marketplace that connects buyers and sellers online. She has studied MBA from Washington University in St.Louis and a post graduate degree in Advertising and Public Relations. Prior to that, she worked with Nordstrom, Seattle and Goldman Sachs, USA. She has a remarkable 14 years marketing experience and has been one of the driving forces behind ShopClues success.

10. Sakshi Tulsian



She is the **Co-founder of Posist**, a cloud based restaurant management platform which access information for table orders, deliveries, expenses and recipes etc. She completed her graduation from Bharati Vidyapeeth College of Engineering, New Delhi. She earlier worked as a software developer at Sapient for around two years, project manager at TechnoApex Software Pvt. Ltd. and business head at WebSanchar Solutions.

15.1 Introduction

Women constitute almost 50% of Indian Population and as such, women empowerment becomes a must at the peripheral level and at the core, it becomes an imperative for economic and social progress for societal values of equity and equality. Women Entrepreneurship plays a prime role in industrial development. Women Entrepreneurs can be seen everywhere in the startup-up ecosystem of India. It is estimated that women entrepreneurs comprise about 10 per cent of the total entrepreneurs in India. Women too are seen leaving their high-profile jobs as well as some stepping out of the four walls of their homes and joining the pool of Entrepreneurship in India. The major factor to jumpstart the entrepreneurial journey is capital and various banks offer specialized loans for women entrepreneurs that have slightly different and more flexible set of terms and conditions pertaining to collateral security, interest rates, etc.

The Micro, Small & Medium Enterprises Development Organisation (MSME-DO), the various State Small Industries Development Corporations (SSIDCs), the nationalised banks and even NGOs are conducting various programmes including Entrepreneurship Development Programmes (EDPs). To cater to the needs of potential women entrepreneurs, who may not have adequate educational background and skills, MSME-DO has introduced process/product oriented EDPs in areas like TV repairing, printed circuit boards, leather goods, screen printing etc. A special prize to "Outstanding Women Entrepreneur" of the year is being given to recognise achievements made by and to provide incentives to women entrepreneurs. The Office of DC (MSME) has also opened a Women Cell to provide coordination and assistance to women entrepreneurs facing specific problems.

The Small Industries Development Bank of India (SIDBI) has been implementing two special schemes for women namely Mahila Udyam Nidhi which is an exclusive scheme for providing equity to women entrepreneurs and the Mahila Vikas Nidhi which offers developmental assistance for pursuit of income generating activities to women. The SIDBI has also taken initiative to set up an informal channel for credit needs on soft terms giving special emphasis to women. Over and above this, SIDBI also provides training for credit utilisation as also credit delivery skills for the executives of voluntary organisations working for women. Grant for setting up a production unit is also available under Socio-Economic Programme of Central Social Welfare Board.

In addition to the special schemes for women entrepreneurs, various government schemes for MSMEs also provide certain special incentives and concessions for women entrepreneurs. Further, various banks and institutions extend their financial support in the form of incentives, loans, and schemes etc. to aspiring women entrepreneurs.

Some of agencies assisting women entrepreneur in India are presented below.

15.2 Role of the Ministry of Micro, Small and Medium Enterprises (MSME)

The role of the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India is primarily to assist the States/Union Territories in their efforts to promote growth and development of MSMEs. The main focus of the schemes/ programmes undertaken by the organisations of the Ministry is thus to provide/facilitate provision of a wide range of services and facilities required for accelerating the growth of MSMEs. The schemes/programmes generally focus on capacity building in State/ Regions; nevertheless, there are a few schemes/programmes, which are individual beneficiary oriented. While, there are no specific reservations for women, in the latter, there are some concessions/incentives available under these programmes for the benefit of women entrepreneurs.

In respect of entrepreneurship / skill development training programmes, under the National Awards for Entrepreneurial Development (Quality Products) and Trade Related Entrepreneurship Assistance & Development (TREAD) Programme for Women, the necessary guidelines have been issued and specific reservation provided for women. Similarly, under two employment generation programmes being implemented by the Ministry, namely, Rural Employment Generation Programme (REGP) and Prime Minister's Rozgar Yojana (PMRY), some concessions have been provided for women beneficiaries. Besides, the Coir Board is implementing the Mahila Coir Yojana which is a women oriented self-employment programme.

15.3 Training of Women Entrepreneurs

The industrial policies of the Government announced from time to time, have laid considerable emphasis on promotion of women entrepreneurship, particularly among first generation women entrepreneurs, through various training and support services. Special attention is being given by organising exclusive Entrepreneurship Development Programmes (EDPs) for women.

The Field Institutes of MSME-DO conduct need based entrepreneurship / skill development programmes for existing and prospective entrepreneurs. The autonomous bodies under MSME-DO also conduct various short-term/long-term training programmes in footwear technology, tool and dye-making and other allied industries. No fee is being charged from women participants. Besides, MSME-DIs/Br. DIs are also giving stipend @ Rs.500/- per month to the participants belonging to disadvantaged groups including women. In addition to programmes / schemes of MSME-DO, NSIC, KVIC and Coir Board, relating to conduct of EDPs & SDPs for benefit of potential women entrepreneurs, three national level entrepreneurship development institutes set up by the Ministry, particularly, Indian Institute of Entrepreneurship (IIE), Guwahati, are also undertaking training programmes for skills and entrepreneurship development for women.

15.4 Stand Up India Scheme

The Stand Up India scheme is based on recognition of the challenges faced by SC, ST and women entrepreneurs in setting up enterprises, obtaining loans and other support needed from time to time for succeeding in business. The objective of the Stand Up India scheme is to facilitate bank loans between Rs.10 lakh and Rs.1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur. The scheme endeavours to create an eco system which facilitates and continues to provide a supportive environment for doing business. The scheme, which covers all branches of Scheduled Commercial Banks, will be accessed in three potential ways: (1) Directly at the branch or (2) Through Stand Up India portal (www.standupmitra.in) or(3) Through the Lead District Manager (LDM).

The portal will be the crucial interface layer for parameters/metrics of the borrower (obtained through a set of about 8-10 questions listed below) and will provide information and feedback to such borrowers. A potential borrower will have the option of registering on the portal right away or simply visiting it and registering later. This portal may be accessed at home, at Common Service Centres (CSCs), through a bank branch (through the nodal officer for MUDRA at the branch) or through the LDM. In branches where internet access is restricted, the branch will guide the potential borrower to an internet access point.

The approach of the Stand Up India portal, for handholding is based on obtaining answers to a set of relevant questions at the initial stage. These would typically be:

1. Location of the borrower
2. Category – SC/ ST/ Woman
3. Nature of business planned
4. Availability of place to operate the business.
5. Assistance needed for preparing a project plan
6. Requirement of skills/training (technical and financial).
7. Details of present bank account.
8. Amount of own investment into the project
9. Whether help is needed to raise margin money
10. Any previous experience in business

Based on the response, the portal provides relevant feedback and helps categorise the visitor to the portal as a Ready Borrower or a Trainee Borrower.

Ready Borrower : In case the borrower requires no handholding support, then registration on the portal as a Ready Borrower starts the process of application for the loan at the selected bank. At this stage an application number will be generated and information about the

borrower shared with the bank concerned, the LDM (posted in each district) and the relevant linked office of NABARD/ SIDBI. The offices of SIDBI and NABARD shall be designated Stand Up Connect Centres (SUCC). The loan application will now be generated and tracked through the portal.

Trainee Borrower : In cases where the borrower indicates a need for hand holding, then registration as a Trainee Borrower on the portal will link the borrower to the LDM of the concerned district and the relevant office of SIDBI/ NABARD. This process which would be electronic, could be done at the borrower's home by himself/ herself or at a CSC or through a bank branch by the officer dealing with MUDRA.

Stand Up India Connect Centres : SIDBI (80 offices) and NABARD (419 offices) as Stand Up India Connect Centres will then arrange for support for such trainee borrowers as requested in any of the following ways:

1. For financial training – at the Financial Literacy Centres (FLCs)
2. For skilling – at skilling centres (Vocational Training Centres - VTPs/Other Centres - OCs)
3. For EDPs – at MSME DIs/ District Industries Centres (DICs)/ Rural Self Employment Training Institutes (RSETIs)
4. For work shed – DICs
5. For margin money – offices related to margin money support schemes e.g. State SC Finance Corporation, Women Development Corporation, State Khadi & Village Industries Board (KVIB), MSME-DIs etc.
6. For mentoring support from established entrepreneurs – DICCI, Women Entrepreneur Associations, Trade bodies. Credible, well established NGOs can also be used for extending hand holding support.
7. For utility connections – Offices of utility providers
8. For DPRs – Project profiles available with SIDBI/ NABARD/ DICs

At any time, even after the loan has been sanctioned, any borrower may access the services of the Stand Up Connect Centres.

The LDM will monitor the process and work with local offices of SIDBI and NABARD for problem solving and easing bottlenecks. Based on the progress being achieved in each case and prima facie viability, the LDM will sensitise the concerned bank branch on potential cases likely to come up. Once this is done, SIDBI/ NABARD will meet concerned bank officials for further follow up. These organisations will also work with other organisations who are stakeholders such as the Dalit Indian Chambers of Commerce and Industry (DICCI), Women Entrepreneur Associations etc.

Once hand holding requirements are adequately met to the satisfaction of the LDM and the trainee borrower, then a loan application will be generated through the portal.

Stand Up India Portal (www.standupmitra.in) : The Stand Up India Portal is interactive. It hosts information about various entities providing hand holding support to the borrower. This includes:

- Training : Technical or/ and Financial
- DPR preparation
- Margin money support
- Shed / workplace identification
- Raw material sourcing
- Bill discounting
- E-com registration
- Registration for taxation

The Portal is designed to obtain application forms, gather and provide information, enable registration, provides links for handholding, assists in tracking and monitoring. As more facilities become available it shall be further refined into an end to end solution. The Stand Up India scheme endeavours to create an eco system to make borrowers ready. This system is now meant for supporting Stand Up Borrowers but will be extended in due course to other schemes.

Nature of Loan : The loan shall be a Composite Loan i.e. to meet requirements of assets such as plant and machinery and working capital. It is expected to cover 75 % of project cost and the rate of interest would be lowest applicable rate of the bank for that category (rating) not to exceed (base rate (MCLR) + 3%+ tenor premium). It shall be repayable in up to 7 years with a moratorium of up to 18 months. A Rupay card will be issued to enable operation of the working capital component. (The stipulation of the loan being expected to cover 75% of the project cost would not apply if the borrowers contribution along with convergence support from any other scheme exceeds 25% of the project cost)

Credit Guarantee/ Collateral : The Stand Up India Scheme provides for collateral free loans to the applicants. The scheme known as Credit Guarantee Scheme Stand Up India (CGSSI) has since been notified and shall be channelised through National Credit Guarantee Trustee Company (NCGTC).

Margin Money : The Scheme envisages 25% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution. To illustrate, if a State scheme supports a borrower with 20% of the project cost as subsidy, then the borrower will be required to contribute at least 10% of the project cost. Any subsidy received by a unit which was not foreseen during loan appraisal will be credited to the loan account. In cases where a subsidy was included during appraisal but received after commissioning, the same may be released to the borrower to repay any loan taken for

arranging margin money. A list of Central / State wise subsidy/incentive schemes will be provided on the Portal. New schemes will be added as they become available.

District Level Consultative Committee : The District Level Consultative Committee (DLCC) under the Collector with the LDM as Convener shall periodically review cases of both types of borrowers, meeting at least once each quarter. SIDBI and NABARD officers will join the review meetings.

Assistance after Loan Disbursement : Events will be organised at District level, as frequently as necessary and at least once in each quarter, involving stakeholders to share best practices, review, problem solving and guide potential entrepreneurs. These events will also provide means for facilitating registration for bill discounting services, e-market places, taxation etc. NABARD will organise these events with the support of SIDBI.

Grievance Redressal: Provision has been made in the portal for redressal of grievances of the borrower. The portal provides contact details of the officers/agencies in each bank designated to attend to grievances. A system for online submission of complaints and their subsequent tracking through the portal shall be developed. Feedback on disposal of the complaint is to be made available to the customer by the bank concerned.

Banks may determine requirements such as stock statements, insurance of assets created & reasonable processing fees.

Stand Up Connect Centres (SIDBI/ NABARD)

SIDBI		NABARD	
1.	To operate and maintain the Stand Up India web portal	1.	Training of Trainers, LDMs, Bank officers for Stand Up India
2.	Arrange for hand holding support for Trainee Borrowers	2.	Arrange for hand holding support for trainee borrowers
3.	Liaise with banks for follow up in potential cases through LDM/SLBC	3.	Liaise with banks for follow up in potential cases through the LDM
4.	Coordinate with LDM for easing bottlenecks	4.	Coordinate with LDM for easing bottlenecks
5.	Assist the SLBC and DLCC in reviews and monitoring	5.	Assist the SLBC and DLCC in reviews and monitoring
6.	Participate in Stand Up events organised by NABARD.	6.	Organise events, as frequently as necessary and at least once in each quarter, for experience sharing etc. amongst stakeholders.

1. LDMs

1. Monitor progress of cases
2. Serve as contact point for SIDBI/NABARD for easing bottlenecks.

3. Sensitise bankers on potential borrowers.
4. Follow up with concerned regional/zonal office of the respective bank to ensure timely processing/ sanction of loans as per time frame specified in Code of Bank's Commitment to Micro and Small Enterprises.
5. Ensure that borrower's requirement of handholding support is satisfied to the extent possible.
6. Convene DLCC meetings in the specified periodicity.
7. Participate in quarterly events with stakeholders organised by NABARD.

2. DLCC

1. DLCC under the Collector to review progress periodically
2. Grievance redressal at district level
3. Assist in resolving issues, if any, relating to public utility services and work space for potential borrowers

4. Bank Branches

1. Help potential borrowers in accessing the portal
2. Process loan applications received online or in person
3. Process loans within the timeframe as stipulated in Code of Bank's Commitment to SME borrower (Application for loan upto Rs.5 lakh within 2 weeks, between Rs.5 – 25 lakh in 3 weeks, above Rs.25 lakh in 6 weeks, from the date of receipt of application provided the application is complete in all respects and is accompanied by documents required)
4. In case of rejection, reason to be made known to borrower as stipulated in the Code of Bank's Commitment to Customers.
5. Grievance redressal at the bank level should be done in 15 days at the bank level as per Code of Bank's Commitment to Customers.
6. Banks to put in place an internal mechanism for monitoring of scheme performance.

5. Borrowers

1. Access the portal or visit a bank branch and answer a short set of questions
2. If categorised as a Trainee Borrower, then go through the sequence of handholding support, as applicable
3. Arrange/provide requisite documentation as required by the bank branch
4. Attend quarterly events on experience sharing, best practices, problem solving etc.
5. Set up and run the unit with due diligence.
6. Make repayments in due time.

15.5 Mudra Yojana Scheme for Women

This scheme has been launched by the Govt. of India for individual women wanting to start small new enterprises and businesses like beauty parlors, tailoring units, tuition

centres, etc. as well as a group of women wanting to start a venture together. The loan doesn't require any collateral security and can be availed as per 3 schemes –

- i. Shishu – loan amount is limited to Rs.50,000 and can be availed by those businesses that are in their initial stages.
- ii. Kishor – loan amount ranges between Rs.50,000 and Rs.5 lakhs and can be availed by those who have a well-established enterprise.
- iii. Tarun – loan amount is Rs.10 lakhs and can be availed by those businesses that are well established but require further funds for the purpose of expansion

If the loan is granted, a Mudra card will be given to you which functions the same way as a credit card however the funds available are limited to 10% of the loan amount granted.

15.6 Support to Training and Employment Programme for Women (STEP)

The Ministry of Women & Child Development, Government of India has been administering 'Support to Training and Employment Programme for Women (STEP) Scheme' since 1986-87 as a 'Central Sector Scheme'. The STEP Scheme aims to provide skills that give employability to women and to provide competencies and skill that enable women to become self-employed/entrepreneurs. The Scheme is intended to benefit women who are in the age group of 16 years and above across the country. The grant under the Scheme is given to an institution/ organisation including NGOs directly and not the States/ UTs. The assistance under STEP Scheme will be available in any sector for imparting skills related to employability and entrepreneurship.

Objectives of the STEP Scheme : The scheme has two fold objectives, viz. ,

- a. To provide skills that give employability to women.
- b. To provide competencies and skills that enable women to become self-employed/entrepreneurs.

Target Groups Of STEP : The scheme is intended to benefit women who are in the age group of 16 years and above.

Eligible Organizations/ Project Implementing Agencies (PIAs) : Grants-in-aid under the STEP programme may be given to an institution having a distinct legal entity as under:

- i. Institutions or organizations set up as Autonomous Organization under a specific statute or as a Society registered under the Societies Registration Act, 1860 or Indian Trusts Act, 1882 (Not for profit) or other statutes.

ii. Voluntary Organizations or Non-Government Organizations registered under the Societies Registration Act, Indian Trust Act carrying out activities which promote the objectives of the STEP programme, with adequate financial and other resources, credibility and experience of the type of activities to be undertaken.

iii. Co-operative Societies

Trades Covered Under STEP : (i) Assistance under the STEP Scheme will be available in any sector for imparting skills related to employability and entrepreneurship as identified by the Ministry of Skill Development & Entrepreneurship (MSDE) including but not limited to the following :

- a. Agriculture
- b. Horticulture
- c. Food Processing
- d. Handlooms
- e. Traditional crafts like Embroidery, Zari etc
- f. Handicrafts
- g. Gems & Jewellery
- h. Travel & Tourism,
- i. Hospitality

ii. Soft skills (which would include computer literacy, language and workplace inter-personal skills relevant for the sector/trade) would be an integral part of the skills training process and must be suitably integrated into the course modules.

iii. All Skill Development courses offered under the scheme framework must conform to the National Skill Qualification Framework (NSQF)

15.7 NABARD Self Help Groups (SHGs)-Bank Linkage Programme

Self Help Groups (SHGs) are novel and innovative organizational setup in India for the women upliftment and welfare. All women in India are given chance to join any one of SHGs for training and development, so as to be prospective entrepreneur and skilled worker. The SHGs are promoted by the Government since majority of women in India may not be resourceful enough to become entrepreneurs.

What is a Self Help Group? : A self help group is defined as a "self governed, peer controlled information group of people with similar socio-economic background and having a desire to collectively perform common purpose". Self help groups are formed voluntarily by the rural and urban poor to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic upliftment of their families and community. Self help groups have been able to mobilize small savings either on weekly or monthly basis from persons who were not expected to have any savings. They have

been able to effectively recycle the resources generated among the members for meeting the productive and emergent credit needs of members of the group.

SHG-Bank Linkage Programme : Today, the SHG - Bank Linkage Programme (SHG - BLP) is the largest microfinance programme in the world because of its sheer size and population it touches. What is equally remarkable is that it is also the most widely participated developmental programme in the country and perhaps in the world for the large number of channel partners, their grass root workers, Govt agencies and banking outlets involved.

The extent of participation can be gauged by the fact that at present more than 100 Scheduled Banks, 349 DCCBs, 27 State Rural Livelihood Missions and over 5000 NGOs are engaged in promoting Self Help Groups. The programme owes this level of involvement to its ability to mobilise masses of rural people, impress upon the Government machinery and draw developmental agencies of all hues and continue to draw upon the synergies with aplomb even today.

Till the 1990's large section of the rural population was unbanked and austere overlooked by the mainstream banking institutions. Most of them had to take recourse to informal sources for credit because as compared to formal sources, the informal sources have highly flexible terms and it is easy to obtain loans for consumption needs and also for marriage and other purposes. With least documentation and accessibility as well as availability at any time, the village money lenders are the last resort to many ruralites whose needs are emergent and they don't hesitate to agree to pay exorbitant interest rates during the hour of crisis without realising the deleterious consequences that will follow at a later date like coercive recovery and taking over of the productive assets thereby throwing them into abyss of poverty. Despite the relentless efforts of Government of India and RBI in creating and supporting enabling environment for increasing the outreach of formal financial services to cover the marginalised population, informal sector continued to rule the roost till quite some time. The major cause was the information asymmetry that plagued the formal banking system vis-à-vis the village money lender. What was needed was to break the monopoly of door-step availability of credit by the informal sources at the time of crisis. That's where the Self Help Group concept scored. It combined the flexibility and availability of informal sources with the transparency of institutional credit.

After extensive trial and research the pilot programme was launched Twenty Five years ago in 1992 by the NABARD. The Self Help Group - Bank Linkage Programme (SHG-BLP) was an innovation harnessing the synergy of flexibility of informal system with the strength and affordability of formal system. Three radical innovations were introduced through the RBI/NABARD guidelines on SHG-BLP: Acceptance of informal groups as clients of banks – both deposit and credit linkage Introduction of collateral free lending, and Permission to lend to group without specification of purpose/ activity/project This savings led and door step credit delivery mechanism based on social collateral started making immediate inroads backed by an enabling policy environment and support from some national level

institutions and multilateral agencies. NABARD's experiment in SHG-BLP established the credibility of groups as a bankable proposition and rural people capable of financial discipline. It created a new set of clientele with untapped appetite leading to several NGOs acting as financial intermediaries for on-lending to groups buoyed by the success of SHG-BLP. A new breed of micro lenders was born, the Micro Finance Institutions.

Progress of SHG - Bank Linkage Programme : SHG - Bank Linkage Programme has traversed twenty-five years of unabated journey towards empowering the rural poor, in general and rural women in particular. Taking a big leap from a pilot in 1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households. There was a net addition of 6.73 lakh savings linked SHGs during 2016-17, a major portion (70.4%) from priority States indicating the urge for connecting the poor households in less developed States with the development process through SHG-BLP. Coordinated efforts by NABARD and NRLM to enhance the coverage of eligible SHGs under NRLM fold has resulted in a net addition of nearly 2.9 lakh SHGs under its fold during the year. The domain of SHGs consists of 85.4% women groups and is the mainstay programme for empowerment of the poor rural women in the country.

SHG - Bank Linkage Programme is a strong intervention in economic enablement and financial inclusion for the bottom of the pyramid. A proven platform initially conceived for increasing the outreach of banking services among the poor has since graduated to a programme for promotion of livelihoods and poverty alleviation. All the major parameters viz. the number of SHGs with savings bank accounts, amount of credit disbursed during the year, the bank loans outstanding as well as the quantum of savings outstanding had shown positive growth during the past three years.

15.8 Trade Related Entrepreneurship Assistance and Development (TREAD)

Government of India launched a scheme entitled "Trade Related Entrepreneurship Assistance and Development" (TREAD) for the benefit of women during the 9th plan period. The scheme envisages economic empowerment of women through trade related training, information and counseling extension activities related to trades, products, services etc. The TREAD programme was discontinued w.e.f.,27-7-2017.

15.9 Mahila Coir Yojana

With more than 80% workforce engaged in coir industry being women, the industry is a women oriented traditional industry. It is rural based and the workers engaged in the industry are mostly below the poverty level. Spinning sector is one of the vulnerable sectors of the industry employing predominantly women who derive their primary income from

spinning coir yarn. The traditional method of spinning using ratt involves drudgery, strain and low returns because of low productivity. Mahila Coir Yojana is the first women oriented self employment scheme being implemented by the Coir Board for the empowerment of women artisans in the coir sector. The scheme facilitates proliferation of the industry into new regions where raw material potential exists. The scheme was first introduced in 1994 during the IXth Five Year Plan. It is well accepted not only in traditional coir producing States but elsewhere even. The scheme has been in operation during the Xth Five Year Plan also. For the successful implementation of the scheme and to encourage more women artisans to coir spinning activity, Coir Board under its training programme provides training to women artisans in spinning on motorised/ motorised traditional ratts. The scheme envisages providing motorised ratts/ motorised traditional ratts to women artisans at 75% subsidised rate after providing them the necessary skill in its operation through field level training.

Coir Board provides 75% cost of the motorised/ motorised traditional ratts as one time subsidy subject to a ceiling of Rs.7,500/- in the case of motorised ratt and Rs.2,925/- for motorised traditional ratts. During Xth plan period, 31,270 numbers of motorised ratts/ motorised traditional ratts have been distributed by expending a total amount of Rs.9.52 crores towards Board's subsidy in the States of Kerala, Tamil Nadu, Andhra Pradesh, Orissa, Karnataka, Jharkhand, West Bengal and Goa. The working and living conditions of the beneficiaries have improved to a marked extent as a result of the implementation of the programme. This scheme could be successfully implemented in all coir producing States like Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, Orissa, Pondicherry, West Bengal and Lakshadweep. During the training programme, which is normally of two months duration, a monthly stipend of Rs.500/- is provided to the women artisans. In the case of traditional areas where workers are already in spinning sector, a tailor made programme of short duration is on implementation. The training is imparted through the National Coir Training and Design Centre and the Field Training Units established by the Regional Offices in various coir producing States. In most cases, training in spinning coir yarn is organised with the active involvement of the concerned State Govts. through their sponsored field training units with the active co-operation of NGOs, SHGs, Cooperatives and other Voluntary Organisations.

15.10 Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

A cluster is defined as a group of enterprises, normally 20 or more producing same/similar products/services. The Cluster Development Programme (CDP) being implemented envisages diagnostic study of identified clusters of traditional skill-based MSEs to identify appropriate technologies and their providers and to facilitate adoption of available technology meeting the specific needs of the end users. The Cluster Development aims at enhanced competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation etc. The scheme provides assistance for capacity building, common facilities, marketing etc. the delivery, assimilation and

diffusion of the identified technology from its producers to the recipient user/cluster of small enterprises.

Type of interventions

1 Soft Interventions – capacity building activities in the cluster where no fixed assets is acquired or formed. Soft interventions, inter alia, include

- 7) Diagnostic study
- 8) Forming association-Trust building & Developing Identity
- 8) Capacity building,
- 9) Organising workshops, seminars,
- 10) Training & Exposure visits,
- 11) Market development,
- 12) Launch of Website,
- 13) Common procurement,
- 14) Common/complementary sales and branding;

In the past depending upon the type of cluster, assistance available for soft interventions has varied in the range of Rs.25 – 35 lakh per cluster. Currently we have an internal ceiling of Rs.10 lakh for soft intervention under this Scheme, which we are trying to bring upwards. Clusters of women's enterprises are entitled up to 90% assistance for soft interventions.

2 Hard Interventions

These are tangible “assets” like

Setting up of Common Facility Centre (CFCs),
Mini Tool Rooms,
Design Centres,
Testing Facilities,
Training Centre,
R&D Centres,
Common Raw Material Bank/Sales depot, etc.

There can be other tangible assets that could be set up by the women's Clusters, as long as they are put to common use. For hard interventions, it is necessary to form a Special Purpose Vehicle (SPV) which could be a registered society, or a cooperative society, or company, or a trust or any other legal entity — in which at least 20 to 30 members of the Cluster contribute and participate. Other Cluster members who do not join this SPV could also sign up as Users.

The Common Facility Centre that is set up by the SPV as a hard intervention is entitled to the highest level of assistance from the MSME Ministry i.e. upto 90% of the Project Cost. This covers the cost of machinery, plant, equipment, laboratory and other tangible assets. The balance 10% of the project cost would have to be contributed by the SPV

or by the State government or the Local government. But land and building are not covered under this “Project Cost” and will have to be provided by the SPVs of the Women’s Enterprises Clusters or by the State government or by some other agency.

Infrastructure Assistance : Infrastructure assistance includes the construction of basic amenities like power, approach roads, drainage, water supply and storage and the like. MSME Ministry’s assistance for this component is presently limited to 40% of the total cost — though we are trying to increase this level. Only one element of Infrastructure Assistance i.e. Display or Exhibition Centres (which could consist of show-rooms with attached stores) are entitled to a higher level of assistance in so far as Women’s Clusters are concerned, i.e. 90%. This Display/Exhibition Centre could be built by the Women’s Clusters, SPV within the Cluster, or near the Cluster or even in adjoining Markets of Towns — as long as they exhibit and market the products manufactured by the Women’s Clusters.

15.11 Credit Guarantee Fund Scheme

The Government introduced the Credit Guarantee Fund Scheme for Small Industries in May, 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 25 lakh without collateral/ third party guarantees. The Scheme is being operated by the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up jointly by the Government of India and SIDBI. The Scheme provides for collateral free credit facility (term loan and / or working capital) extended by eligible lending institutions to new and existing SSI units/ Small Scale Service and Business (industry related) Enterprises (SSSBs) including Information Technology and Software Industry up to Rs. 25 lakh per borrowing unit. In the case of women enterprises, the guarantee cover is up to 80% of the credit subject to maximum guarantee limit of Rs. 20 lakh. The member lending institutions (MLI) availing of guarantee from the Trust have to pay a one-time guarantee fee of 1.5% of the credit facility (comprising term loan and / or working capital) sanctioned by the lending institution to the borrower and annual service fee of 0.75% per annum on the amount of credit facility extended by the MLI, which is covered under the scheme. The entrepreneurs whose bank finance is approved by the lending bank may ask the bank to obtain guarantee from the Credit Guarantee Trust Fund. This facility is available online to the lending banks and clearance from the Trust is conveyed in a day or two.

15.12 Support for Entrepreneurial and Managerial Development

MSMEDIs regularly conduct EDPs/MDPs for existing and prospective entrepreneurs and charge fee for such courses. To encourage more entrepreneurs from among the SC/ST, women and physically challenged groups, it is proposed that such beneficiaries will not be charged any fees but, instead paid a stipend of Rs.500/- per capita per month. 50,000 entrepreneurs will be trained in IT, Fashion Technology, Catering, Agro & Food Processing, Pharmaceutical, biotechnology etc. through specialized courses run by MSME DIs. 20% of courses conducted by these Institutions shall be exclusively for women.

15.13 Exhibitions for women under promotional package for Micro & Small Enterprises approved by CCEA under marketing support

DC (MSME) has formulated a scheme for women entrepreneurs to encourage Small & Micro manufacturing units owned by women in their efforts at tapping and developing overseas markets, to increase participation of representatives of small/micro manufacturing enterprises under SIDO stall at International Trade Fairs/Exhibitions, to enhance export from such units. Under this scheme participation of women entrepreneurs in 25 international exhibitions is envisaged during the 11th Plan.

15.14 SIDBI Marketing Fund for Women (MFW)

1 Objective : The assistance under the Fund is available to women entrepreneurs and organisations involved in marketing of products manufactured by women entrepreneurs to increase their reach, both in domestic and international markets

2 Eligible Borrowers:

- i. SSI units managed by women entrepreneurs.
- ii. Marketing related service providers Organisations / units in the corporate / co-operative / NGO sectors which are providing support services like internet, trade related information, advertising, marketing research, warehousing, common testing centres, etc. to enterprises owned and managed by women.

Marketing related service providers Organisations / units in the corporate / co-operative / NGO sectors which are providing support services like internet, trade related information, advertising, marketing research, warehousing, common testing centres, etc. to enterprises owned and managed by women.

3 Consortia

Organisations / Associations / Women Groups / Marketing Consortia that have an exclusive marketing mandate and have, as their vendor base, a wide range of small and tiny units owned and managed by women entrepreneurs. While the terms and conditions for sanction of assistance would be flexible, they would essentially depend upon the soundness of the management, track record of performance and viability of future operations.

4 Development Assistance

Besides providing financial assistance as mentioned above, SIDBI could also consider, on a selective basis, developmental assistance by way of soft loans/grants for organising group activities and programmes such as trade fairs, exhibitions, buyer-seller meets, seminars, workshops, training programmes, etc. to promote marketing of products manufactured by women entrepreneurs.

15.15 Schemes of various Banks

1. Annapurna Scheme:

This scheme is offered by the State Bank of Mysore for those women entrepreneurs who are setting up food catering industry in order to sell packed meals, snacks, etc. The amount granted as a loan under this scheme can be used to fulfill the working capital needs of the business like buying utensils and other kitchen tools and equipment. Under this loan, a guarantor is required along with the assets of the business being pledged as collateral security. Further, the maximum amount of money that is granted is Rs.50,000 which has to re-paid in monthly installments for 36 months, however, after the loan is sanctioned, the lender doesn't have to pay the EMI for the first month. The interest rate is determined depending upon the market rate.

2 Stree Shakti Package for Women Entrepreneurs

This scheme is offered by most of the SBI branches to women who have 50% share in the ownership of a firm or business and have taken part in the state agencies run Entrepreneurship Development Programmes (EDP). The scheme also offers a discounted rate of interest by 0.50% in case the amount of loan is more than Rs.2 lakhs.

3 Bharatiya Mahila Bank Business Loan

This loan is a support system for budding women entrepreneurs looking to start new ventures in the fields of the retail sector, loan against property, MICRO loans, and SME loans. The maximum loan amount under this loan goes up to Rs.20 crores in case of manufacturing industries and also a concession is available to the extent of 0.25% on the interest rate and interest rates usually range from 10.15% and higher. Additionally, under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), there is no requirement of collateral security for a loan of up to Rs.1 crore.

4 Dena Shakti Scheme

This scheme is provided by Dena bank to those women entrepreneurs in the fields of agriculture, manufacturing, micro-credit, retail stores, or small enterprises; who are in need of financial assistance. The interest rate is also decreased by 0.25% along with the maximum loan amount being Rs.20 lakhs for retail trade; education and housing whereas Rs.50,000 under the microcredit.

5 Udyogini Scheme

This scheme is offered by Punjab and Sind Bank so as to provide women entrepreneurs involved in Agriculture, retail and small business enterprises to get loans for

business at flexible terms and concessional interest rates. The maximum amount of loan under this scheme for women between the age bracket of 18-45 years is Rs.1 lakhs but your family income is also taken into consideration and is set at Rs.45,000 per annum for SC/ST women.

6. Cent Kalyani Scheme

This scheme is offered by the Central Bank of India with the aim of supporting women in starting a new venture or expanding or modifying an existing enterprise. This loan can be availed by women who are involved in village and cottage industries, micro, small and medium enterprises, self-employed women, agriculture and allied activities, retail trade, and government-sponsored programs. This scheme requires no collateral security or guarantor and charges no processing fees. And the maximum amount that can be granted under the scheme is Rs. 100 lakhs.

7 Mahila Udyam Nidhi Scheme

This scheme is launched by Punjab National Bank and aims at supporting the women entrepreneurs involved in the small scale industries by granting them soft loans that can be repaid over a period of 10 years. Under this scheme there are different plans for beauty parlors, day care centres, purchase of auto rickshaws, two-wheelers, cars, etc. the maximum amount granted under this scheme is ₹10 lakhs and the interest depends upon the market rates.

8 Orient Mahila Vikas Yojana Scheme

This scheme is provided by Oriental Bank of Commerce to those women who hold a 51% share capital individually or jointly in a proprietary concern. No collateral security is required for loans of Rs.10 lakhs up to Rs.25 lakhs in case of small-scale industries and the period of repayment is 7 years. A concession on the interest rate of up to 2% is given.

Activity: Explain the Role of Banks in assisting women entrepreneurs in India.

15.16 Women Entrepreneur Associations

The efforts of government and its different agencies are supplemented by NGOs and associations that are playing an equally important role in facilitating women empowerment.

The following women associations are actively supporting women entrepreneurship in India.

1. Federation of Indian Women Entrepreneurs (FIWE)
2. Consortium of Women Entrepreneurs of India (CWEI)
3. Association of Lady Entrepreneurs of Andhra Pradesh
4. Association of Women Entrepreneurs of Karnataka (AWAKE)
5. Self-Employed Women's Association (SEWA)
6. Women Entrepreneurs Promotion Association (WEPA)
7. The Marketing Organisation of Women Enterprises (MOOWES)
8. Mahakaushal Association of Woman Entrepreneurs (MAWE)
9. SAARC Chamber Women Entrepreneurship Council
10. Women Entrepreneurs Association of Tamil Nadu (WEAT)
11. TiE Stree Shakti (TSS)
12. Women Empowerment Corporation (WEC)

Activity : Briefly mention the type of assistance Rendered by various Women Entrepreneur Associations , for promoting women entrepreneurship in India.

15.17 Summary

Women Entrepreneurship plays a pivotal role in industrial development of any country. Women Entrepreneurs can be seen everywhere in the startup-up ecosystem of India. It is estimated that women entrepreneurs comprise about 10 per cent of the total entrepreneurs in India. The major factor to jumpstart the entrepreneurial journey is capital and various banks offer specialized loans for women entrepreneurs .

The Micro, Small & Medium Enterprises Development Organisation (MSME-DO), the various State Small Industries Development Corporations (SSIDCs), the nationalised

banks and even NGOs are conducting various programmes including Entrepreneurship Development Programmes (EDPs).

The Stand Up India scheme is based on recognition of the challenges faced by SC, ST and women entrepreneurs in setting up enterprises, obtaining loans and other support needed from time to time for succeeding in business. The objective of the Stand Up India scheme is to facilitate bank loans between Rs.10 lakh and Rs.1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise.

Mudra Yojana scheme for women has been launched by the Govt. of India for individual women wanting to start small new enterprises and businesses like beauty parlors, tailoring units, tuition centres, etc. as well as a group of women wanting to start a venture together. The loan doesn't require any collateral security.

The Ministry of Women & Child Development, Government of India has been administering '**Support to Training and Employment Programme for Women (STEP) Scheme**' since 1986-87 as a 'Central Sector Scheme'. The STEP Scheme aims to provide skills that give employability to women and to provide competencies and skill that enable women to become self-employed/entrepreneurs. The Scheme is intended to benefit women who are in the age group of 16 years and above across the country. The grant under the Scheme is given to an institution/ organisation including NGOs directly and not the States/ UTs. The assistance under STEP Scheme will be available in any sector for imparting skills related to employability and entrepreneurship.

SHG - Bank Linkage Programme has traversed twenty-five years of unabated journey towards empowering the rural poor, in general and rural women in particular. Taking a big leap from a pilot in 1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households.

Mahila Coir Yojana is the first women oriented self employment scheme being implemented by the Coir Board for the empowerment of women artisans in the coir sector. The scheme facilitates proliferation of the industry into new regions where raw material potential exists.

MSE-CDP Programme: The Cluster Development Programme (CDP) being implemented envisages diagnostic study of identified clusters of traditional skill-based MSEs to identify appropriate technologies and their providers and to facilitate adoption of available technology meeting the specific needs of the end users. The Cluster Development aims at enhanced

competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation etc. The scheme provides assistance for capacity building, common facilities, marketing etc. the delivery, assimilation and diffusion of the identified technology from its producers to the recipient user/cluster of small enterprises.

The Government introduced the **Credit Guarantee Fund Scheme for Small Industries** in May, 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 25 lakh without collateral/ third party guarantees. The Scheme is being operated by the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up jointly by the Government of India and SIDBI. The Scheme provides for collateral free credit facility (term loan and / or working capital) extended by eligible lending institutions to new and existing SSI units/ Small Scale Service and Business (industry related) Enterprises (SSSBs) including Information Technology and Software Industry up to Rs. 25 lakh per borrowing unit. In the case of women enterprises, the guarantee cover is up to 80% of the credit subject to maximum guarantee limit of Rs. 20 lakh.

MSMEDIs: regularly conduct EDPs/MDPs for existing and prospective entrepreneurs and charge fee for such courses. To encourage more entrepreneurs from among the SC/ST, women and physically challenged groups, it is proposed that such beneficiaries will not be charged any fees but, instead paid a stipend of Rs.500/- per capita per month.

DC (MSME) has formulated a scheme for women entrepreneurs to encourage Small & Micro manufacturing units owned by women in their efforts at tapping and developing overseas markets, to increase participation of representatives of small/micro manufacturing enterprises under SIDO stall at **International Trade Fairs/Exhibitions**, to enhance export from such units.

SIDBI Marketing Fund for Women: The assistance under the Fund is available to women entrepreneurs and organisations involved in marketing of products manufactured by women entrepreneurs to increase their reach, both in domestic and international markets.

In addition to above various banks and associations of women entrepreneurs have also been supporting by offering several schemes for the promotion of women entrepreneurship in India.

15.18 Self Assessment

Short Questions:

1. Start up India Scheme for Women entrepreneurs
2. Training programmes for Women Entrepreneurs
3. SIDBI's support to women entrepreneurs
4. MUDRA Yojana Scheme for women
5. STEP programme for women entrepreneurs
6. Mahila Coir Yojana for women
7. SWALAMBAN
8. Rashtriya Mahila Kosh
9. Swashakti project
10. SAWP
11. WEDS
12. WCP
13. TDUPW scheme
14. Cluster Development programme

Essay questions:

1. What are the special schemes framed by government of India and various institutions to support women entrepreneurs in India.
2. List out the schemes of assistance provided by various banks for women entrepreneurs in India.
3. Explain how women entrepreneurs can benefit from STEP program
4. Explain the details of training programs available for women entrepreneurs
5. List out the schemes supporting women entrepreneurs for marketing their products.
6. What are loan schemes in India for women to start their business units.
7. List out various Government schemes that can help women entrepreneurs to grow their business operations.
8. What are the [Steps Taken By Government to Develop Women Entrepreneurs in India](#)

15.19 Key Terms

Mahila Udyam Nidhi; Mahila Vikas Nidhi; Stand Up India; Mudra Yojana ; STEP; SHG-Bank Linkage Programme; Mahila Coir Yojana; Swalamban; Annapurna Scheme; Stree Shakti Package of SBI;

15.20 Further Readings / Reference books

1. (www.standupmitra.in)

2. **Nine [Schemes For Women Entrepreneurs In India - News18.com](#)**

www.news18.com/.../work-and-career-9-schemes-for-women-entrepreneurs-in-india-... Sep 19, 2017 - Annapurna Scheme. Stree Shakti Package For Women Entrepreneurs. Bharatiya Mahila Bank Business Loan. Dena Shakti Scheme. Udyogini Scheme. Cent Kalyani Scheme. Mahila Udyam Nidhi Scheme. Mudra Yojana Scheme For Women.

3. **[Here're 9 Schemes For Women Entrepreneurs In India](#)**

<https://www.indianweb2.com/2017/09/.../herere-9-schemes-women-entrepreneurs-ind...> Sep 23, 2017 - In order to provide women stepping into the entrepreneurial world a helping hand when it comes to capital, there are various schemes and loans programmes exclusively structured for businesswomen. Here's a list of 9 schemes meant for women entrepreneurs in India: 1) Stree Shakti Package: The Stree ...

4. **[Women Entrepreneurship | smallB](#)**

<https://smallb.sidbi.in/%20/fund-your-business%20/.../women-entrepreneurship>

Small Industries Development Bank of India (SIDBI) has also been implementing special schemes for women entrepreneurs. ... Self employment loan programmes; Educational loan schemes; Single women benefit schemes; Job oriented training programmes; Marketing support for women entrepreneurs; Autorickshaw ...

5. **[Top 6 Women Entrepreneur Loan Schemes In India - Muvs](#)**

muvs.in/women-entrepreneur-loan-schemes-india/

Govt. policies and loan schemes for female entrepreneurs. A list of women entrepreneur loanschemes in India for financial assistance and women empowerment. ... flexibly and collaborate seamlessly. In India, there are certain women entrepreneur loan schemes that are designed to support only female entrepreneurs.

6. **[8 Startup India Schemes That Benefit Women- SheThePeople TV](#)**

www.shethepeople.tv/news/8-startup-india-schemes-that-benefit-women/

Jan 6, 2017 - Here are eight schemes of Startup India that could be really useful to women. School Programmes. Often, right from the onset young girls are told that a career in science and technology is a man's domain. Atal Innovation Mission. Funding Support. Tax Exemptions. Startup Fests. Self-Certification. Legal Support.

7. **[Government schemes that can help women entrepreneurs grow their ...](#)**

<https://www.tomorrowmakers.com > Articles > Women> Nov 2, 2017 - And as a way of encouraging such businesses, the Indian Government offers a financial boost specifically

designed for **women entrepreneurs**. Here are ... This **scheme** aims at providing financial **support** to **women entrepreneurs** who want to open a day-care centre, beauty salon or a similar small venture.

8. **[Step Taken By Government to Develop Women Entrepreneurs in India](http://www.publishyourarticles.net/eng/articles2/...women-entrepreneurs-in-india/2735/)**

www.publishyourarticles.net/eng/articles2/...women-entrepreneurs-in-india/2735/

Therefore, a congenial environment is needed to be created to enable women to participate actively in the entrepreneurial activities. There is a need of Government, non-Government, promotional and regulatory agencies to come forward and play the **supportive** role in promoting the **women entrepreneur in India**.

9. **[What are loan schemes in India for women to start their business ...](https://www.quora.com/What-are-loan-schemes-in-India-for-women-to-start-their-business...)**

[https://www.quora.com/What-are-loan-schemes-in-India-for-women-to-start-their-bus...](https://www.quora.com/What-are-loan-schemes-in-India-for-women-to-start-their-business...) This bank **supports** and encourages **women entrepreneurs** to start their new ventures. This bank offers loans for the retail sector, loan against property, MICRO loans, and SME loans. 4. Dena ShaktiScheme. This **scheme** offered by Dena Bank and aims at providing financial assistance to **women entrepreneurs**. Women ...

10. **[\[PDF\]policy framework supporting women entrepreneurs in india](http://shodhganga.inflibnet.ac.in/bitstream/10603/62233/7/chapter%204.pdf)**

shodhganga.inflibnet.ac.in/bitstream/10603/62233/7/chapter%204.pdf

This chapter represents the policy framework for the women **entrepreneurs in India** including government policy on women, promotion of entrepreneurship by women, and the assistance to rural women, **schemes** for women empowerment, institutional **support** to **women entrepreneurs** and the like. **Indian Economic Planning ...**

LESSON 16:

TAX AND NON TAX BENEFITS AND LEGAL FRAMEWORK FOR SMALL BUSINESS

Objective of the lesson:

After studying this lesson, you should be ready to:

- Understand the various tax benefits available to MSME units under the Income Tax Act, 1961 including tax holiday, depreciation allowances, and rehabilitation allowance
- Analyze the deductions available for expenditure on scientific research and amortization of preliminary expenses
- Examine the special tax deductions for small scale units established in backward areas and rural areas
- Evaluate the tax exemptions and benefits available for startups under the 'StartUp India' initiative including 100% tax exemption for first three years and abolition of angel investment tax
- Understand the GST advantages for startups and small businesses including simplified registration and integration of multiple taxes
- Identify the legal requirements for business enterprises under various Acts including Factories Act, Employees Provident Fund Act, Employees' State Insurance Act, and food processing specific legislations

Structure of the Lesson:

16.1 Tax Holiday

16.2 Depreciation

16.3 Rehabilitation Allowance

16.4 Expenditure on Scientific Research

16.5 Amortization of Certain Preliminary Expenses

16.6 Deduction of 20% to Small Scale unit established in backward areas

16.7 Deduction of 20% to Small Scale unit established in rural areas

16.8 Expenditure on Acquisition of Patents and Copyrights:

16.9 Profits from Business of Publication of Books:

16.10 other Deductions under Income Tax Act.

16.11 Tax exemption and benefits for budding entrepreneurs for Startups

16.12 Presumptive taxation scheme

16.13 GST Advantages for Startups and Small Businesses

16.14 Legal requirements for Business enterprises under various Acts

16.15 : Summary

16.16 Self assessment Questions

16.17 Key Terms

16.18 Further Readings / Reference books

These success stories of entrepreneurs are bound to inspire you

Being an entrepreneur is no easy task- in fact it is the most difficult and the most fulfilling job in the world. Granted, you make millions once your startup takes off and we mostly seem to focus on that, but what we forget to acknowledge is the years of hard work and perseverance that went behind making that success story. And, we present to you two most inspiring success stories of entrepreneurs that's bound to leave you inspired.



1. **Jack Ma:** Jack Ma, who founded Alibaba and is its Executive Chairman was rejected from as many as 30 jobs, including a job at KFC before he became the richest man in China. His e-commerce company, Alibaba attracts 100 million shoppers a day and his real time net-worth is a whopping \$21.9 billion. But, being the richest person in China didn't come easy to Ma. He went through a lot of rejection before seeing all the unprecedented success.

For starters, Ma revealed in a recent interview that he failed a college entrance exam three times. Unfortunately, it didn't just end there. Ma faced more obstacles when he founded Alibaba in 1998. The brand didn't turn profitable for the first three years, and Ma had to get creative.

One of the company's main challenges was that it had no way to do payments and no banks would work with him. This is when he decided to start his own payment program called Alipay. The program transfers payments of different currencies between international buyers and sellers.

"So many people I talked to at that time about Alipay, they said, 'this is the stupidest idea you've ever had,'" he said. "I didn't care if it was stupid as long as people could use it."

Today, 800 million people use Alipay.



Kevin Systrom: Instagram's CEO Kevin Systrom will go down history as one of the greatest Silicon Valley success stories of this generation. Systrom who was responsible for introducing the photo-sharing app to the world had in fact no formal engineering training. While working in the marketing department at Nextstop, which Facebook acquired in 2010, he would spend his evenings learning to program. According to Systrom, small projects included combining elements of Foursquare with Mafia Wars.

India's corporate tax rate, at 34.6% with cess and surcharge, is steep compared with the global average. India would need to speed up direct tax reforms to attract investors. Most countries have chipped away at corporate tax rates to woo investments and the new US administration has vowed to cut corporate tax rate to 15%.

Union Budget 2017 announced Concessions to small scale units. It proposed to reduce the income-tax rate for micro, small and medium enterprises to 25% from 30% previously. It also allowed credit for minimum alternate tax (MAT) to be carried forward for up to 15 years instead of 10 years. With the reduced rate for the MSME sector, 96% of India's companies will benefit from lower taxation. "25% rate for 96% of the companies in the country.. Loss carryover of 15 years under MAT is a welcome measure. The CII's suggestion to lower the tax rate to a flat 18% without exemptions would have put all businesses on the same level. "The reduction in the tax rate of MSMES provides them a level playing field with foreign companies," said Kaushik Mukerjee, a partner at PwC.

Activity: List out the benefits offered to MSME Units in the recent budget

Some of the tax benefits available to Small-Scale Industries in India are as follows:

16.1 Tax Holiday:

Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale 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 of this tax exemption facility:

1. The unit should not have been formed by the splitting or reconstruction of an existing unit.

2. The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 worker without power.

16.2 Depreciation:

Under Sec.32 of the Income Tax Act, 1961, a small scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed for depreciation on plant and machinery on the diminishing balance method. In case of an asset acquired before the accounting period, depreciation 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 also available. A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

1. The assets must be owned by the assessee.
2. The assets must actually be used for the purpose of the assessee's business or profession.
3. It should be used during the relevant previous year
4. Depreciations allowance or deduction is allowed on tangible as well as intangible assets. Tangible assets are building, machinery, plant or furniture. Intangible assets acquired after March 31, 1998 such as know –how, patents, copyrights, trade marks, licenses, franchises or any other business or commercial rights of similar nature.

20% Additional Depreciation [Section 32 (1) (iia)]: in the case of any new machinery or plant which has been acquired and installed after 31-3-2005 by an assessee engaged in the business of manufacture or production of any article or power a further some equal to 20% of the actual cost of the machinery or plant shall be allowed as deduction.

35% additional Depreciation in Andhra Pradesh, Bihar, Telangana and West Bengal: if new plant and machinery is acquire for setting of enterprise during April 1,2015, to March 31, 2020, in a notified area in these states 35% additional depreciation is allowed.

16.3 Rehabilitation Allowance:

A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of the following reasons:

1. Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;
2. Riot or civil disturbance;
3. Accidental fire or explosion; and
4. Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for business purposes within three years of unit's re-establishment, reconstruction, or revival .The rehabilitation allowance is allowed to the

unit equivalent of 60 per cent of the amount of the deduction allowable to the unit. This deduction is not allowed with effect from assessment year 1985-86.

16.3 Investment Allowance:

The investment allowance under Section 32 A of the Income Tax Act, 1961 is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

Although the investment allowance has been made available for the articles or things except certain items of low priority, yet as per the Eleventh 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 are 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.

16.4 Expenditure on Scientific Research:

Under Section 35 of the Income Tax Act, 1961, the following deductions in respect of expenditure on scientific research are allowed:

1. Any revenue expenditure incurred on scientific research related to the business of the assessee in the previous year.
2. Any sum paid to a scientific research association or a university, college, institution or to a public company which has its object, the undertaking of a 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 provision 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.

16.5 Amortization of Certain Preliminary Expenses:

The Indian companies and resident persons, under Section 35D of the Income Tax Act 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit.

The examples of preliminary expenses are:

- a. Expenses incurred in connection with the preparation of a feasibility report necessary for their business;
- b. Engineering expenses related to the business; and
- c. Legal charges, if any, for drafting agreements.

The writing off of the preliminary expenses is allowed against subject to a maximum of ten annual installments beginning with the previous year in which the new unit commences its

production or expansion of an existing unit is completed. The aggregate amount of expenditure allowed be deducted is limited to 2.5 per cent of the total cost of the project.

16.6 Deduction of 20% to Small Scale unit established in backward areas

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish industries in these backward areas. The newly established small-scale industries in these areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income.

This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. However, if a small-scale industry has already been established in a non-backward area and later shifted to backward area, the unit will be allowed this deduction on the profits earned from the undertaking after shifting in the backward area for a period of 10 years. A small-scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

A small-scale unit established in a backward area, under Section 80-HH, is allowed a deduction of 20 per cent on its profits and gains provided the unit satisfies the following conditions:

- a. The unit began its production after 31st December 1970 in any backward area of the country;
- b. It is a newly established unit in a backward area. It is neither split nor reconstituted out of a business already in existence in any backward area;
- c. It has not been formed by the transfer to a new business plant or machinery which was previously used for any purpose in any backward area; and
- d. It employs 10 or more workers in a manufacturing process with power or 20 or more workers without power.

16.7 Deduction of 20% to Small Scale unit established in rural areas

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas.

The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30th September 1977. For this purpose, the expression rural area means any area as defined under the Explanation to Section 35 CC (I) of the Income Tax Act, 1961. However, this tax deduction benefit is not allowed to the small-scale units engaged in mining activity.

The small-scale industry can avail of this tax deduction only after fulfilling the following conditions:

1. The small-scale unit is not formed by splitting or reconstruction of a business already in existence.
2. 'It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.
3. The accounts of the unit are audited by a chartered accountant.
4. It employs 10 or more workers in manufacturing process carried on without the aid of power.
5. The unit does not claim a simultaneous deduction under Section 80-HH of the Income Tax Act, 1961.

16.8 Expenditure on Acquisition of Patents and Copyrights:

Under Section 35-A of the Income Tax Act, 1961, any expenditure of capital nature incurred in acquiring a patent and copyright by a small-scale industry is deductible from its income. But the expenditure should be incurred after 28th February 1966. The expenditure can be deducted in 14 equal installments beginning with the previous year in which the expenditure was incurred in acquiring patents and copyrights for the unit.

16.9 Profits from Business of Publication of Books:

Under Section 80-1A of the Income Tax Act, 1961 which has replaced Section 80-1 w.e.f. the assessment year 1991-92, 20% of the profits earned by a small-scale industry from the business of publication of books is deductible from its gross total income. The deduction benefit is available for total period of five years beginning with the assessment year 1992-93.

16.10 other Deductions under Income Tax Act.

In addition, deductions are also available in respect of:

1. Royalties from any company in India (Under Section 80 M)
2. Royalties from any certain foreign companies (Under Section 800)
3. Inter-corporate Dividends (Under Section 80 M)
4. Income of Co-operative Societies (Under Section SOP)
5. Carry forward and set -off business losses (Under Section 72)

16.11 Tax exemption and benefits for budding entrepreneurs for Startups

The taxation policies of the government for startups underwent a drastic change with the Union Budget of 2016-17. These changes, made under the 'StartUp India' Policy, are touted to result in a large number of concessions and exemptions.

Here's a look at the highlights of the startup tax in India. startup lawyers help the entrepreneurs to figure out the best way to make full use of the policy changes.

1. 100% Tax Exemption for First Three Years: "It is proposed to provide a deduction of 100% of the profits and gains derived by an eligible startup from a business involving innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property," said Finance Minister Arun Jaitley while announcing the Union Budget 2016-17 in Parliament.

In order to give budding entrepreneurial ventures a much-needed boost, the government has decided to do away with taxing them for the first three years of their operation. It was declared in the Budget Session of the Parliament that startups will not incur any taxes on profits incurred in their first three years except MAT. MAT stands for 'Minimum Alternate Tax' and is calculated on 'book profit'.

2. Abolition of 'Angel Investment Tax': As a form of further relief, the government has also done away with the 'Angel Investment Tax,' introduced in 2012.

Under this, angel investors, i.e., family and friends and domestic funds not registered as VC funds, which one raises from venture capital firms set up for the very purpose of backing such ventures, will not be taxed on these investments. They have the liberty to issue shares to investors at rates higher than fair value without any taxation hassles. This was brought into being by amending Section 56(2)(vii)(b) of the Income-Tax Act.

However, there are some restrictive terms here. Only startups which fulfill the conditions specified by the Department of Industrial Policy and Promotion (DIPP) are eligible for this startup tax exemption. In order to avail this concession, a startup will have to attain a certificate stating its eligibility from the 'inter-ministerial board of certification.'

3. Setting up of a 'Fund of Funds' for Startups: In order to help startups in their initial stage by providing them with the necessary financial boost, the government has decided to set up a fund with an initial corpus of Rs. 2,500 crore and a total corpus of Rs. 10,000 crore over a four year period.

The fund will come under 'Fund of Funds (FoF)' which won't invest directly in startups but will be directed through SEBI registered venture funds, as the action plan suggests.

A board of professionals from diverse areas will be set up to manage this fund. Life Insurance Corporation of India will be an investor in this fund which will support a whole range of sectors like manufacturing, agriculture, health, etc.

4. Exemptions in Capital Gains Tax: The government has also recently made provisions for an exemption of 20% capital gains tax. Capital gains tax is the tax charged on profits from sale of capital assets, such as stocks, bonds, etc. This was a long-pending demand and is deemed to prove highly lucrative for startups as before, overseas venture capital investors were forced to route their investment through Mauritius.

Before this provision, most investments in Indian startups were routed through Mauritius as capital gains tax on investment from there was waived following provisions in the Double Tax Avoidance Treaty.

5. Other Tax Adjustments and Fund Allocations to Boost Startups: Some other important adjustments and allocations made in this area to boost startups are as follows:

- Setting up of provisions to support entrepreneurs belonging to Scheduled Caste and Scheduled Tribes.
- Allocation of Rs. 500 crore for SC/ST and women entrepreneurs under Startup India.
- Lowering long-term capital gains for unlisted firms from three to two years.
- Amendment in the Motor Vehicles Act to enable entrepreneurship in the road transport sector.
- Raising of the eligibility for the presumptive tax scheme for small businesses. This is done by allowing businesses with a turnover of up to Rs. 2 crore from the earlier Rs. 1 crore to enjoy coverage under it.
- Provision for 'Employee Provident Fund' for the first three years. This is thought to save 12 % of the costs for the startups and provide security benefits for the employees.
- Providing relief to entrepreneurs living in rented houses away from their native places, because of the effect of the area on the success of startups, by raising the 80GG deduction from Rs. 24,000 to Rs. 60,000.

These policies under the "Startup India" scheme of the government as proposed in the Union Budget 2016-2017 seem to be made with the purpose of providing impetus to all budding ventures. It is also a subsidiary of the 'Make In India' scheme as it aims to create more jobs within the country so that the youth doesn't have to look to other countries for employment.

This startup tax policy and other provisions are sure to go a long way in providing new startups the boost they need.

Activity: What are the tax and other benefits offered to StartUp Units.

16.12 Presumptive taxation scheme :

Presumptive taxation scheme under section 44AD of the Income Tax Act is available for small and medium enterprises i.e non corporate businesses with turnover or gross receipts not

exceeding one crore rupees. At present about 33 lakh small business people avail of this benefit, which frees them from the burden of maintaining detailed books of account and getting audit done. It is proposed to increase the turnover limit under this scheme to Rupees two crores which will bring big relief to a large number of assesses in the MSME category.

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16.13 GST Advantages for Startups and Small Businesses

The Goods and Services Tax (GST) – GST Bill was passed in Lok Sabha on 6th May, 2016. The concept of GST in India has been mooted and evolved for over a decade now. Some of the major advantages of GST implementation in India for startups and small businesses are presented below :

GST Overview: GST or Goods and Services Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. Therefore, it is the end consumer who bears this tax as the last person/entity in the supply chain. The introduction of GST in India is expected to result in major simplification of indirect tax structure at both Centre and State levels – replacing the multiple layers of complex taxation currently existing in India.

GST will Improve Ease of Starting a Business in India: While starting a new business in India, businesses currently have to get VAT registration from the State's Sales Tax department. Since, each State has different procedures and fees for VAT registration, it is hard for businesses operating in multiple States to obtain and maintain compliance with VAT regulations.

With the implementation of GST in India, the procedure for GST registration would be centralized and standardized similar to service tax registration. Under GST regime, business would no longer have to obtain multiple VAT registration – as a single GST registration would be applicable across India. The procedure for obtaining GST registration would also be standardized, thereby improving the ease of starting a new business in India.

Integration of Multiple Taxes in GST: Currently goods and products are taxed under the VAT regime implemented by State Government and services are taxed under the service tax regimen implemented by the Central Government. As VAT is implemented by State Governments, each of the State has different VAT rates, VAT regulations and VAT procedures – leading to complications. Further, in addition to VAT and Service Tax, there are various other tax regulations that businesses must comply with like Central Sales Tax (CST), Additional Customs Duty, Purchase Tax, Luxury Tax, etc.,

Under GST regime, many of the taxes would be subsumed and made into one tax. The following taxes are subsumed under GST:

Central Taxes subsumed under GST

- Central Excise Duty (including additional excise duties)
- Service tax
- Additional customs duty (CVD)
- Special Additional Duty of Customs (SAD)
- Central surcharges and cesses

State Government Taxes subsumed under GST

- Value Added Tax
- Central Sales Tax
- Octroi and Entry Tax
- Purchase Tax
- Luxury Tax
- Taxes on lottery, betting & gambling
- State cesses and surcharges
- Entertainment tax

GST Exemption for Startups and Small Businesses: Earlier, VAT registration and VAT payment is mandatory once a business crosses an annual turnover of Rs.5 lakhs in some States and Rs.10 lakhs in a few other States. The multiple VAT legislation enacted by each State creates confusion and complexities. With the introduction of GST, businesses with a turnover of less than Rs.10 lakhs per annum would not have to register for GST nor collect GST. Further, businesses with an annual sales turnover of Rs.10 lakhs to Rs.50 lakhs may have to pay GST only at a lower rate. Therefore, with the introduction of GST, thousands of startups and small businesses currently having an annual sales turnover of Rs.5 lakh – Rs.10 lakh would be out of the tax net providing relief to them from collection and filing of GST returns.

GST will Improve Ease of Doing Business in India: Earlier, businesses like restaurants or computer sales and service – which sell goods and provide services as a package have to comply with both VAT and Service Tax regulations. This creates complexity for the business and they have to calculate taxes for the transaction based on different rates for different items. With the introduction of GST, the distinction between Goods and Services will be gone – thereby making compliance easier. Further, invoicing will be easier for businesses as only one rate would be adopted.

Activity: What are the advantages of GST for Startups and Small Business units?

16.14 Legal requirements for Business Enterprises under various Acts

All industrial activities are governed by certain legal provisions that come in to force from time to time. A few of them are given here with brief explanation for your understanding. These could be divided into 'general' and 'Food Processing Industry specific'.

GENERAL LEGALITIES

Factories Act, 1948 : This is applicable to enterprises where the number of employees is:

- Ten or more and where power is used; or
- Twenty or more and power is not used

The enterprises covered under the Act are required to keep certain records:

- Muster Roll
- Workers Register
- Overtime Register
- Advance Register
- Register for Fine
- Register for Deductions
- Register of Wages
- Register of Accidents and Dangerous Occurrences
- Bond Inspection Book
- Register of Cleaning and White Washing
- Record of Examination of Parts of Machinery

There is another Act known as Shops and Establishment Act which is applicable to shops and business undertakings employing 5 or more persons.

Employees Provident Fund & Miscellaneous Provisions Act, 1952 : The Act applies to every factory or establishment employing 20 or more employees. It, however, exempts a factory or establishment for an initial period of 3 years from commencement of business if the number of employees is more than 50 and for an initial period of 5 years if the number of employees is less than 50.

Contribution : The minimum contribution payable by the employer is 12% of the basic salary and Dearness Allowance. The employee also makes an equal contribution. The Act, however, does not specify a maximum contribution.

Employees' State Insurance Act : It provides benefits to employees in case of sickness, maternity and employment injury and for certain other matters in relation thereto. The Act also provides for payment of contributions by employers and employees at the rates specified in the First Schedule of the Act. The existing rates of employee's contribution vary according to wages and the employer's contribution is exactly double the employee's contribution. It shall apply to factories employing 20 or more people.

Payment of Wages Act, 1936 : This Act is applicable to factories and establishments, which come under The Factories Act. The act is restricted in its application to the class of workers whose wages range upto to Rs. 1,600/- per month.

Minimum Wages Act, 1948 : The employer has to pay minimum wages to employees in certain scheduled industries. At present the minimum wages act is applicable in 44 scheduled industries.

The Indian Partnership Act, 1932 : The Indian Partnership Act, which was amended in 1932, provides for rules relating to foundation of a legal partnership. It states the rights and duties of the partners among themselves and outside, and lays down rules regarding the dissolution of partnership.

The Income Tax Act, 1961 : The Act governs the levy of income tax in India. It defines various terms and expressions and states the liability of a person to pay income tax. The rates and pattern of taxation, however, are changed from time to time.

The Pollution Control Act : The State Air and Water Pollution Control Board is the body responsible for implementing this Act. The act is applicable to all kinds of industry.

FOOD PROCESSING SPECIFIC LEGALITIES : In addition to the general legal requirements, there are a few legal requirements that are specific to Food Processing Industries. A food processing enterprise has to comply with several compulsory legal requirements. Implementation of these norms with regard to Small and Medium enterprises is relatively stringent while cottage and household level units sometimes tend to compromise on such stipulations. These laws include:

a. Prevention of Food Adulteration Act (1954): This is the basic statute to protect consumers against supply of adulterated food. 'The Central Committee for Food Standards' under the Directorate General of Health Services, Ministry of Health and Family Welfare, has specified the Standards.

b. Milk and Milk Products Order (MMPO): This order regulates milk and production of milk products in the country. The order requires no permission for units handling less than 10,000 liters of liquid milk per day or milk solids upto 500 tpa.

c. Fruit Products Order (1955): This order that regulates manufacture and distribution of all fruit and vegetable products, sweetened aerated waters, vinegar, and synthetic syrups. The license is issued by Regional Director of MoFPI located at Mumbai, Delhi, Kolkatta, Chennai and Guwahati, based on the satisfaction of the concerned officer with regard to quality of production, sanitation and hygiene, machinery and equipment, and work area standards.

d. Standard of Weights and Measures (Packaged Commodities) Rules, 1977: These rules lay down certain obligations for all commodities in packed form with respect to their quality declaration. The Directorate of Weights and Measures under the Ministry of Food and Civil Supplies enforces these rules.

e. Export (Quality Control and Inspection) Act, 1963: The Export Inspection Council is

responsible for operation of this Act under which many exportable commodities have been notified for compulsory pre-shipment inspection unless specifically requested by the importer not to do so.

f. Voluntary Standards: They are regulated by organizations involved with voluntary standardization and certificates systems concerning quality parameters in food. They are the Bureau of Indian Standards (BIS) and Directorate of Marketing and Inspection (DMI). The food processing industries sector as a whole involves other legislations.

g. Oils, Deoiled Meal and Edible Flour Control Order 1967 and Vegetables Products Control Order, 1976: These orders control the production and distribution of solvent extracted oils, deoiled meals, edible oil seed flours, and hydrogenated vegetable oils (vanaspati).

h. Meat Food Products Control Order, 1973: This order regulates manufacture, quality, and sale of all meat products and is operated by the Directorate of Marketing and Inspection.

16.15 Summary :

India's corporate tax rate, at 34.6% with cess and surcharge, is steep compared with the global average. India would need to speed up direct tax reforms to attract investors. Most countries have chipped away at corporate tax rates to woo investments and the new US administration has vowed to cut corporate tax rate to 15%.

Union Budget 2017 announced Concessions to small scale units. It proposed to reduce the income-tax rate for micro, small and medium enterprises to 25% from 30% previously. It also allowed credit for minimum alternate tax (MAT) to be carried forward for up to 15 years instead of 10 years. With the reduced rate for the MSME sector, 96% of India's companies will benefit from lower taxation. "25% rate for 96% of the companies in the country. Loss carryover of 15 years under MAT is a welcome measure. The CII's suggestion to lower the tax rate to a flat 18% without exemptions would have put all businesses on the same level. The reduction in the tax rate of MSMEs provides them a level playing field with foreign companies.

MSME units can avail the following Tax benefits under Income Tax Act 1961; Tax Holiday; Depreciation allowance; Rehabilitation Allowance; Expenditure on Scientific Research; Amortization of Certain Preliminary Expenses; benefits for setting up of Small Scale units in backward areas and rural areas; expenditure on acquisition of patents and copyrights; Profits from Business of publication of books. Benefits are also available for budding entrepreneurs for start ups. Exemptions are available under GST for Star ups and small businesses.

16.16 Self assessment Questions

Multiple Choice Questions with Answers

****1. Under Section 80J of the Income Tax Act 1961, tax holiday is allowed for a period of:****

- A) Three years from commencement of production
- B) Five years from commencement of production
- C) Seven years from commencement of production
- D) Ten years from commencement of production

****Answer: B) Five years from commencement of production****

****2. What is the rate of additional depreciation allowed for new machinery or plant acquired and installed after 31-3-2005 under Section 32(1)(iia)?****

- A) 10%
- B) 15%
- C) 20%
- D) 25%

****Answer: C) 20%****

****3. Under the presumptive taxation scheme (Section 44AD), businesses with turnover up to what limit are exempt from maintaining detailed books of account?****

- A) Rs. 50 lakhs
- B) Rs. 1 crore
- C) Rs. 2 crores
- D) Rs. 5 crores

****Answer: C) Rs. 2 crores****

****4. Under the StartUp India initiative, startups are entitled to what percentage tax exemption on profits for the first three years?****

- A) 50%
- B) 75%
- C) 90%
- D) 100%

****Answer: D) 100%****

****5. The Factories Act, 1948 is applicable to enterprises where the number of employees is:****

- A) Five or more with power
- B) Ten or more with power, or twenty or more without power
- C) Twenty or more with power
- D) Fifty or more regardless of power use

****Answer: B) Ten or more with power, or twenty or more without power****

Short Answer Questions

1. What is a tax holiday under the Income Tax Act and what conditions must a small-scale industry satisfy to avail this benefit?
2. Explain the various depreciation allowances available to small-scale industries under Section 32 of the Income Tax Act.
3. What deductions are available to small-scale units established in backward areas under Section 80-HH?
4. What are the key tax exemptions and benefits available to startups under the StartUp India initiative?
5. Explain the major GST advantages for startups and small businesses.

Case Study

Jack Ma's Journey: From 30 Job Rejections to Building Alibaba

Jack Ma's extraordinary journey from being rejected from 30 jobs, including a position at KFC, to becoming the richest man in China and building Alibaba into a global e-commerce giant offers profound lessons for entrepreneurs about perseverance, vision, and the importance of understanding tax and legal frameworks in building sustainable businesses.

****The Early Struggles:**** Jack Ma's early life was marked by repeated failures and rejections. He failed his college entrance exam three times before finally being admitted to a teachers' college. After graduation, he applied for 30 different jobs and was rejected by all of them. When KFC opened in his hometown, 24 people applied for jobs; 23 were accepted, and Jack Ma was the only one rejected. He was also rejected by Harvard University ten times. These experiences would have crushed most people's spirits, but Jack Ma viewed them differently—each rejection taught him resilience and the importance of finding his own path.

****The Idea and Its Genesis:**** In 1995, Jack Ma visited the United States for the first time and was introduced to the internet. He searched for "beer" and was surprised to find no results about Chinese beer. This simple observation sparked an idea: the internet could connect Chinese businesses with the world. At that time, China had virtually no internet presence, and the concept of e-commerce was entirely foreign. Despite his complete lack of technical knowledge—he had never typed on a computer keyboard—Jack Ma recognized the transformative potential of the internet for small and medium enterprises.

****Building Alibaba:**** In 1999, Jack Ma gathered 17 friends in his small apartment in Hangzhou and convinced them to invest their life savings in a new venture called Alibaba. The initial capital was just \$60,000. The vision was to create an online platform that would help small Chinese manufacturers connect with international buyers. The timing was fortuitous—China was about to join the World Trade Organization, and the demand for Chinese products globally was about to explode. However, the challenges were immense. The company did not turn profitable for the first three years, and Jack Ma had to get creative to keep the venture alive.

****Navigating Legal and Tax Challenges:**** One of Alibaba's most significant challenges was the lack of a payment system. Chinese consumers were wary of transacting online, and no banks would work with the fledgling company. Traditional payment systems were designed

for brick-and-mortar businesses and could not accommodate the needs of an e-commerce platform. This is where Jack Ma's understanding of legal and regulatory frameworks became crucial. Instead of accepting this as an insurmountable obstacle, he decided to create his own payment program called Alipay. When he discussed this idea, many people told him it was "the stupidest idea you've ever had." But Jack Ma persisted, understanding that the legal and tax implications could be navigated with proper structuring. Alipay transferred payments of different currencies between international buyers and sellers, creating a trusted intermediary that solved the trust deficit. Today, 800 million people use Alipay, and it has become one of the world's largest payment platforms.

****Understanding Tax Benefits and Legal Structures:**** As Alibaba grew, Jack Ma and his team navigated complex international tax and legal frameworks. They structured the company's operations to take advantage of various tax benefits while maintaining compliance with evolving regulations. When Alibaba went public on the New York Stock Exchange in 2014, raising \$25 billion in the largest IPO in history, the company's legal and tax structuring was exemplary, demonstrating how sophisticated understanding of tax and legal frameworks is essential for global business success.

****The Alibaba Ecosystem:**** Today, Alibaba is much more than an e-commerce platform. It encompasses cloud computing (Alibaba Cloud), digital media and entertainment, logistics (Cainiao Network), and financial services (Ant Group). Each of these businesses required deep understanding of sector-specific regulations, tax incentives, and legal frameworks. For example, Ant Group's micro-lending business for small businesses required navigating financial sector regulations while leveraging technology to serve previously unbanked segments—precisely the kind of challenge that inspired Jack Ma's entrepreneurial journey.

****Lessons for Entrepreneurs:**** Jack Ma's journey offers multiple lessons for entrepreneurs. First, ****perseverance through rejection****—failure is not final; it is education. Second, ****identifying genuine problems****—Alibaba solved the real problem of connecting small Chinese manufacturers with global buyers. Third, ****creative problem-solving within legal frameworks****—Alipay was created because existing payment systems did not work, but it was structured to comply with evolving regulations. Fourth, ****understanding tax and legal structures****—global success requires sophisticated navigation of multiple jurisdictions' tax and legal systems. Fifth, ****staying true to the mission****—Alibaba's mission has always been "to make it easy to do business anywhere," guiding all strategic decisions.

Jack Ma's net worth today exceeds \$21 billion, and he has become a global icon of entrepreneurship. But he remains humble about his journey, often saying: "Today is cruel. Tomorrow is crueler. And the day after tomorrow is beautiful." For entrepreneurs, his message is clear: survive today, prepare for tomorrow, and you might just reach the beautiful day after tomorrow.

Case Study Questions

1. How did Jack Ma's early failures and rejections shape his entrepreneurial mindset? What lessons can aspiring entrepreneurs derive from his perseverance?
2. Analyze the legal and tax challenges Alibaba faced in creating Alipay. How did Jack Ma's understanding of regulatory frameworks enable him to overcome these challenges?

3. What broader lessons about entrepreneurship, innovation, and navigating legal frameworks can be derived from Jack Ma's journey? How can small business owners apply these principles in their own ventures?

16.17 Key Terms

****1. Tax Holiday****

Under Section 80J of the Income Tax Act 1961, new industrial undertakings including small-scale industries are exempted from payment of income-tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption is allowed for a period of five years from the commencement of production, subject to conditions regarding formation and employment of workers.

****2. Depreciation Allowance****

Under Section 32 of the Income Tax Act, small scale industries are entitled to deduction on depreciation on block of assets at prescribed rates. Additional depreciation of 20% is allowed for new machinery or plant acquired and installed after 31-3-2005, and 35% additional depreciation is allowed in notified areas of Andhra Pradesh, Bihar, Telangana, and West Bengal for enterprises set up between April 1, 2015, and March 31, 2020.

****3. Investment Allowance****

Under Section 32A of the Income Tax Act, investment allowance at the rate of 25% of the cost of acquisition of new plant or machinery installed is allowed. Small-scale industries have a special advantage in claiming this deduction compared to other industries, provided the machinery or plant is put to use either in the year of installation or in the immediate following year.

****4. Presumptive Taxation Scheme****

Under Section 44AD of the Income Tax Act, this scheme is available for small and medium non-corporate businesses with turnover or gross receipts up to Rs. 2 crores. It frees small business people from the burden of maintaining detailed books of account and getting audit done, with about 33 lakh small business people availing this benefit.

****5. GST (Goods and Services Tax)****

A value-added tax levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. The end consumer bears this tax as the last person/entity in the supply chain. GST has subsumed multiple central and state taxes including Central Excise Duty, Service Tax, VAT, Central Sales Tax, Octroi, and Entertainment Tax.

****6. Angel Investment Tax****

A tax introduced in 2012 on angel investors (family, friends, and domestic funds not registered as VC funds) which was abolished under the StartUp India initiative. Investors now have the liberty to issue shares to investors at rates higher than fair value without any taxation hassles, through amendment of Section 56(2)(vii)(b) of the Income-Tax Act.

****7. Factories Act, 1948****

A legislation applicable to enterprises where the number of employees is ten or more and where power is used, or twenty or more and power is not used. The Act requires maintenance of various records including Muster Roll, Workers Register, Overtime Register, Register of Wages, Register of Accidents, and Record of Examination of Parts of Machinery.

16.18 Further Readings / Reference books

1. Five Printed/Published Textbooks

1. ****Income Tax Act, 1961**** (Original source for all tax provisions discussed)
2. ****Singhania, Vinod K. & Singhania, Monica**** (Latest Edition). **Student's Guide to Income Tax**. Taxmann Publications, New Delhi.
3. ****Ministry of Finance, Government of India**** (Annual). **Union Budget Documents**. Available at: www.indiabudget.gov.in
4. ****Central Board of Indirect Taxes and Customs**** (n.d.). **GST Overview and Benefits**. Available at: www.cbic.gov.in
5. ****Ministry of Law and Justice**** (n.d.). **Factories Act, 1948; Employees' Provident Fund Act, 1952; Employees' State Insurance Act, 1948**. Available at: www.indiacode.nic.in.

Lesson 17

MACROECONOMIC ENVIRONMENT AFFECTING BUSINESS

Objectives of the Lesson

After studying this lesson, students will be able to:

- Understand the concept and scope of the macroeconomic environment and its influence on business decisions, corporate performance, and investment climate
- Analyze the structure of the Indian economy as a mixed economy and its sectoral composition across agriculture, industry, and services
- Examine the key economic policies of India including agricultural policy, industrial policy, monetary policy, fiscal policy, and trade policy
- Evaluate the objectives, instruments, and business implications of monetary policy managed by the Reserve Bank of India
- Understand the components of fiscal policy and their impact on business profitability, investment, and economic growth
- Analyze the evolution and current framework of India's trade and EXIM policy and its effects on export competitiveness and global integration
- Identify emerging trends affecting the business environment including digital economy, green growth, geopolitical shifts, and demographic dividend

Structure of the Lesson

1. Introduction
2. Structure of the Indian Economy
3. Key Economic Policies of India
4. Agricultural Policy
5. Industrial Policy
6. Monetary Policy
7. Fiscal Policy
8. Trade and EXIM Policy
9. Interaction Among Policies and Business Cycle
10. Emerging Trends Affecting Business Environment
11. Conclusion

1. Introduction: Understanding the Macro-Economic Environment

The **macro-economic environment** comprises the broad set of economic factors that influence business decisions, corporate performance, and investment climate at the national

and global levels. These include the **structure of the economy, policy framework, monetary and fiscal stance, trade policies, price stability, and overall economic growth trends.**

For business enterprises—especially in a large, mixed economy like India—the macroeconomic setting determines:

- **Demand and purchasing power** (through income and consumption levels)
- **Input costs** (through interest rates, taxation, inflation, and exchange rates)
- **Market access** (through trade policy, tariffs, and industrial strategy)
- **Investment opportunities** (through public investment and private participation policies)

Hence, understanding the **macro-economic environment** is indispensable for business strategy, forecasting, and risk management.

2. Structure of the Indian Economy

The Indian economy is a **mixed economy**, combining features of both capitalism and socialism. The government plays an active role in social welfare, regulation, and development, while private enterprise is encouraged as a driver of innovation and growth.

2.1 Sectoral Composition

Sector	Share in GDP (2024–25 est.)	Employment Share	Key Characteristics
Agriculture & Allied	~16%	~43%	Dominant in rural livelihood, highly dependent on monsoon; focus on productivity and diversification.
Industry (Manufacturing, Mining, Construction, Utilities)	~30%	~25%	Key for employment, import substitution, and exports.

Sector	Share in		Key Characteristics
	GDP (2024–25 est.)	Employment Share	
Services	~54%	~32%	IT, trade, finance, communication, tourism, health, education drive GDP growth.

India has gradually transformed from an **agriculture-dominated economy** to a **service-led growth model**, with manufacturing and industry as the intermediate link.

3. Key Economic Policies of India

India's macroeconomic policies are classified broadly as:

1. **Agricultural Policy**
2. **Industrial Policy**
3. **Monetary Policy**
4. **Fiscal Policy**
5. **Trade and EXIM Policy**

Each of these domains influences the business environment by affecting the cost, risk, and return of business operations.

4. Agricultural Policy

4.1 Objectives

Agricultural policy aims to ensure:

- Food security and price stability
- Higher productivity and modernization
- Sustainable use of natural resources
- Better income and welfare for farmers

- Integration with global agricultural markets

4.2 Evolution of Agricultural Policy in India

Phase	Period	Major Features
I. Green Revolution	1960s– 1970s	High-Yield Variety (HYV) seeds, irrigation expansion, fertilizer use; focus on foodgrain self-sufficiency.
II. Technology Mission Era	1980s– 1990s	Introduction of Technology Missions on oilseeds, pulses, dairy, horticulture.
III. WTO & Liberalization Period	1991– 2010	Removal of quantitative restrictions, agricultural export policy, contract farming experiments.
IV. Post-2015 Reforms	2015 onwards	Doubling farmers' income, PM-Kisan, eNAM, crop insurance, Agri-infrastructure Fund.

4.3 Key Government Programmes (as of 2025)

- **PM Kisan Samman Nidhi (PM-KISAN):** Direct income support of ₹6,000 per year to small and marginal farmers.
- **PM Fasal Bima Yojana (PMFBY):** Crop insurance against yield and weather risks.
- **Soil Health Card Scheme:** Promotes scientific fertilizer use.
- **e-NAM (National Agriculture Market):** Online trading platform linking APMCs across India.
- **Agriculture Infrastructure Fund (AIF):** Financing storage, logistics, and value chains.
- **National Mission on Natural Farming (2023):** Emphasis on sustainable and organic farming.

4.4 Policy Issues and Challenges

- Low productivity and fragmented land holdings.
- Climate vulnerability and irrigation dependency.

- Post-harvest losses and inadequate cold-chain infrastructure.
- Price volatility and weak market linkages.

4.5 Implications for Business

Agricultural policies influence:

- **Agri-input industries** (fertilizer, seeds, farm equipment).
- **Food processing & FMCG** through raw material supply.
- **Agri-tech startups** via digitalization and farm-data applications.

5. Industrial Policy

5.1 Objectives

- Promote industrial growth and employment.
- Ensure balanced regional development.
- Encourage private participation and FDI.
- Enhance competitiveness, innovation, and sustainability.

5.2 Evolution of Industrial Policy

Year	Key Policy	Major Features
1948	First Industrial Policy	Mixed economy model established; strategic sectors reserved for the state.
1956	Industrial Policy Resolution	Public sector expansion, socialistic pattern of society.
1977	Focus on Small-Scale Industries (SSI)	Protection and promotion of small-scale sector.
1980	Liberalization phase begins	Relaxation of MRTP Act; technological modernization.
1991	New Industrial Policy	Deregulation, delicensing, FDI liberalization,

Year	Key Policy	Major Features
		disinvestment, and market orientation.
2014– Present	Make in India & PLI Schemes	Promote domestic manufacturing, digital India, startup ecosystem, and self-reliance (Atmanirbhar Bharat).

5.3 Key Current Industrial Promotion Initiatives (2020–2025)

1. **Make in India 2.0:** Focus on 27 priority sectors, attracting FDI and technology transfer.
2. **Production-Linked Incentive (PLI) Scheme:** Financial incentives for incremental production in electronics, pharmaceuticals, textiles, EVs, solar modules, etc.
3. **Startup India & Stand Up India:** Ecosystem for innovation and entrepreneurship.
4. **National Logistics Policy (2022):** Streamlining supply chains and logistics infrastructure.
5. **PM Gati Shakti:** Integrated infrastructure master plan to reduce logistics costs.
6. **Industrial Corridors (DMIC, AMTZ, etc.):** Regional manufacturing hubs and special economic zones.

5.4 Industrial Policy & Business Environment

Industrial policy determines:

- Availability and cost of raw materials.
- Incentives for investment and expansion.
- Labor regulation and compliance cost.
- Access to technology and R&D support.

6. Monetary Policy

6.1 Role and Objectives

Monetary policy, managed by the **Reserve Bank of India (RBI)**, aims to maintain **price stability, financial stability, and adequate credit flow** to productive sectors.

Key Objectives:

1. Contain inflation within the target band (4% \pm 2%).
2. Ensure liquidity for growth.
3. Manage interest rates and exchange rate volatility.

6.2 Instruments of Monetary Policy

Type	Tools	Description
Quantitative	CRR, SLR, Repo Rate, Reverse Repo, Bank Rate	Affect overall money supply and liquidity.
Qualitative	Moral Suasion, Margin Requirements, Selective Credit Control	Target specific sectors.
Market-based	Open Market Operations (OMO), Long-Term Repo Operations (LTRO), Standing Deposit Facility (SDF)	Influence market interest rates and yields.

6.3 Monetary Policy Framework (2025)

- **Monetary Policy Committee (MPC):** 6-member committee sets repo rate bi-monthly.
- **Inflation Targeting Framework:** Adopted in 2016 under RBI Act amendment.
- **Digital Payment Ecosystem:** RBI initiatives for UPI, CBDC, payment banks enhance monetary transmission.

6.4 Current Stance (2024–25)

- Repo Rate: ~6.50% (as per 2025 data).
- CPI inflation: within target (approx. 4.8%).
- Liquidity: calibrated tightening to control inflation while supporting growth.

6.5 Impact on Business

- **Interest Rate Sensitivity:** Affects borrowing cost, investment decisions, consumer credit demand.
- **Exchange Rate Management:** Influences export competitiveness and import costs.
- **Inflation Management:** Determines price stability, purchasing power, and raw material costs.

7. Fiscal Policy

7.1 Definition and Objectives

Fiscal policy is the government's strategy regarding **taxation, public expenditure, and borrowing**, primarily aimed at:

- Accelerating growth and employment.
- Ensuring equitable income distribution.
- Maintaining fiscal discipline.

7.2 Key Components

Component	Instruments	Example
Revenue Policy	Direct & indirect taxes	Corporate tax, GST, customs duties
Expenditure Policy	Public investment, subsidies, social welfare	PM Awas Yojana, health, infrastructure
Deficit Management	Fiscal deficit targets, borrowing	FRBM Act framework
Public Debt Management	Domestic and external borrowings	Managed via RBI and Ministry of Finance

7.3 Fiscal Indicators (2024–25)

- **Fiscal Deficit:** ~5.8% of GDP.
- **Tax-to-GDP Ratio:** ~11.5%.
- **Capital Expenditure Growth:** >30% YoY increase to support infrastructure.

7.4 Fiscal Reforms and Initiatives

1. **Goods and Services Tax (GST):** Simplified indirect taxation structure.
2. **Disinvestment and Privatization:** Monetization of government assets.
3. **Digital Public Finance Management:** e-Tax filing, faceless assessment, GSTN.
4. **Infrastructure Push:** National Infrastructure Pipeline (NIP) with ₹111 lakh crore investment plan.

7.5 Business Implications

- Tax policy affects corporate profitability and pricing.
- Public capital expenditure boosts demand in core sectors (cement, steel, logistics).
- Subsidy reforms impact agriculture, fertilizers, and petroleum industries.
- Fiscal deficit influences interest rates and inflation expectations.

8. Trade and EXIM Policy

8.1 Objectives

- Enhance export competitiveness.
- Reduce trade deficit.
- Promote self-reliance and integration into global value chains.
- Encourage services and high-technology exports.

8.2 Evolution of India's Trade Policy

Period	Focus	Key Developments
1947–1990	Import substitution	Quantitative restrictions, high tariffs, licensing.
1991–2010	Export promotion	Trade liberalization, WTO membership (1995).
2015–	Merchandise & Services export	Foreign Trade Policy (FTP 2015–20).

Period	Focus	Key Developments
2020	diversification	
2023– Present	Digital trade facilitation	New FTP 2023 focuses on process simplification and sectoral export hubs.

8.3 Current Foreign Trade Policy (FTP 2023–28)

Salient Features:

- Paperless, online system for export-import approvals.
- Towns of Export Excellence (TEE) expansion.
- Merchanting trade permitted to integrate with global chains.
- E-commerce export promotion (simplified norms for small exporters).
- Focus on **Sunrise sectors** — electronics, green hydrogen, pharma, and services.

8.4 Export Promotion Measures

- **Export Promotion Councils (EPCs)** for sectoral promotion.
- **Remission of Duties and Taxes on Exported Products (RoDTEP).**
- **Districts as Export Hubs (DEH)** initiative.
- **SEZ & EOUs (Special Economic Zones and Export Oriented Units).**
- **ECGC & EXIM Bank** – risk insurance and export financing.

8.5 Business Impact

Trade and EXIM policies determine:

- Market access and competitiveness for exporters.
- Import duties affecting input costs for manufacturers.
- Foreign exchange management influencing pricing and margins.
- FDI inflows and outward investment opportunities.

9. Interaction Among Policies and Business Cycle

All macroeconomic policies interact dynamically:

- **Monetary tightening** may slow demand but control inflation.
- **Fiscal expansion** stimulates growth but may increase inflation or crowd out private investment.
- **Trade openness** increases competitiveness but may expose domestic industry to global shocks.
- **Agricultural and industrial policies** influence supply-side conditions that determine inflation and employment.

10. Emerging Trends Affecting the Business Environment (2025 and beyond)

1. **Digital Economy & Fintech:** Driving new business models and expanding financial inclusion.
2. **Green Growth Mission:** Decarbonization, renewable energy investments, and carbon credits influencing industrial strategy.
3. **Global Geopolitical Shifts:** Supply chain diversification and ‘China+1’ strategy benefitting India.
4. **Demographic Dividend:** Skill development and youth employment policies critical.
5. **AI and Automation:** Influencing productivity, labor markets, and regulatory frameworks.

Conclusion

The **macroeconomic environment** forms the foundation for all business decisions. In India’s evolving economy—driven by structural reforms, digitization, and global integration—understanding policy dynamics in agriculture, industry, monetary, fiscal, and trade domains is essential. Businesses that align with these macroeconomic signals are better equipped to anticipate risks, exploit opportunities, and achieve sustainable growth.

The macroeconomic environment constitutes the broad framework that shapes business operations and strategic choices. India's economy, characterized by mixed economic features, integrates public and private initiatives for growth. Key policies — agricultural, industrial, monetary, fiscal, and trade — collectively influence production, consumption, and investment decisions. Agricultural policy ensures food security and rural welfare; industrial policy promotes manufacturing and innovation; monetary and fiscal policies regulate money supply, inflation, and expenditure; and trade policy integrates India into global markets. Emerging trends such as digital transformation, green economy initiatives, and geopolitical realignments further redefine the business landscape. A thorough understanding of these macroeconomic dynamics enables businesses to anticipate challenges, adapt strategies, and capitalize on opportunities for sustainable growth.

Key Words

****1. Macroeconomic Environment****

The broad set of economic factors that influence business decisions, corporate performance, and investment climate at the national and global levels. It includes the structure of the economy, policy framework, monetary and fiscal stance, trade policies, price stability, and overall economic growth trends that determine demand, input costs, market access, and investment opportunities.

****2. Mixed Economy****

An economic system combining features of both capitalism and socialism, where the government plays an active role in social welfare, regulation, and development, while private enterprise is encouraged as a driver of innovation and growth. India follows this model with both public and private sectors coexisting.

****3. Monetary Policy****

The policy managed by the Reserve Bank of India (RBI) aimed at maintaining price stability, financial stability, and adequate credit flow to productive sectors. Key instruments include repo rate, reverse repo rate, CRR, SLR, and open market operations, with the Monetary Policy Committee (MPC) setting the repo rate bi-monthly under the inflation targeting framework adopted in 2016.

****4. Fiscal Policy****

The government's strategy regarding taxation, public expenditure, and borrowing, aimed at accelerating growth and employment, ensuring equitable income distribution, and maintaining fiscal discipline. It comprises revenue policy (direct and indirect taxes), expenditure policy (public investment, subsidies, social welfare), deficit management, and public debt management.

****5. Inflation Targeting Framework****

A monetary policy framework adopted in 2016 under the RBI Act amendment, where the RBI aims to contain inflation within a target band of $4\% \pm 2\%$. The Monetary Policy Committee (MPC) of six members sets the repo rate bi-monthly to achieve this objective while supporting growth.

****6. Goods and Services Tax (GST)****

A major fiscal reform that simplified the indirect taxation structure by subsuming multiple central and state taxes including Central Excise Duty, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax, and Entertainment Tax into a single tax, creating a unified national market.

****7. Foreign Trade Policy (FTP)****

- The government's framework for enhancing export competitiveness, reducing trade deficit, promoting self-reliance, and integrating India into global value chains. The current FTP 2023-28 focuses on paperless online systems, Towns of Export Excellence, merchanting trade, e-commerce export promotion, and sunrise sectors including electronics, green hydrogen, pharma, and services.

Self-Assessment Questions

A. Short Answer Questions

Multiple Choice Questions with Answers

****1. As per the lesson, the sectoral composition of Indian economy (2024-25 est.) shows services contributing approximately what percentage to GDP?***

- A) 30%
- B) 42%
- C) 54%
- D) 65%

****Answer: C) 54%***

****2. The Monetary Policy Committee (MPC) of RBI sets the repo rate bi-monthly under which framework adopted in 2016?***

- A) Fiscal Responsibility Framework
- B) Inflation Targeting Framework
- C) Growth Acceleration Framework
- D) Exchange Rate Management Framework

****Answer: B) Inflation Targeting Framework***

****3. Which of the following is NOT an instrument of monetary policy?***

- A) Repo Rate
- B) Cash Reserve Ratio (CRR)
- C) Fiscal Deficit
- D) Open Market Operations

****Answer: C) Fiscal Deficit****

****4. The current Foreign Trade Policy (FTP) 2023-28 focuses on all of the following EXCEPT:****

- A) Paperless online systems for export-import approvals
- B) Increased import tariffs on all goods
- C) Towns of Export Excellence (TEE) expansion
- D) E-commerce export promotion

****Answer: B) Increased import tariffs on all goods****

****5. Which of the following taxes is NOT subsumed under GST?***

- A) Central Excise Duty
- B) Service Tax
- C) Corporate Income Tax
- D) Value Added Tax (VAT)

****Answer: C) Corporate Income Tax****

Short Answer Questions

1. What is meant by the macroeconomic environment and why is it important for business decision-making?
2. Explain the sectoral composition of the Indian economy and how it has transformed over time.
3. What are the key objectives and instruments of monetary policy in India?
4. What is fiscal policy and what are its main components?
5. Describe the salient features of the current Foreign Trade Policy (FTP 2023-28).

Case Study

The 1991 Economic Crisis and India's Transformation: A Macroeconomic Turning Point

The year 1991 stands as a watershed moment in India's economic history, when a severe macroeconomic crisis forced fundamental reforms that transformed the business environment and set the stage for three decades of accelerated growth. Understanding this crisis and the policy response offers profound insights into how macroeconomic factors shape business opportunities and challenges.

****The Crisis Unfolds:**** By mid-1991, India faced an unprecedented economic crisis. Foreign exchange reserves had dwindled to just about \$1 billion, barely enough to finance two weeks of imports. The country was on the brink of defaulting on its international payment obligations. Inflation was soaring above 10%, fiscal deficit had ballooned to 8.4% of GDP, and the current account deficit was unsustainable. Credit rating agencies downgraded India, and international banks stopped rolling over short-term loans. Non-resident Indians were withdrawing deposits, further depleting reserves. The crisis was the culmination of

decades of inward-looking, protectionist policies characterized by industrial licensing, import restrictions, high tariffs, and a large public sector.

Macroeconomic Factors Behind the Crisis: Several interconnected macroeconomic factors contributed to the crisis. **Fiscal profligacy** had led to persistently high fiscal deficits, with government borrowing crowding out private investment. **Monetary expansion** to finance deficits fueled inflation, eroding competitiveness. **Overvalued exchange rate** made exports uncompetitive while making imports artificially cheap, worsening the trade deficit. **Restrictive trade policies** with average tariffs exceeding 80% insulated domestic industry but also made it inefficient and uncompetitive. **Industrial licensing** (the infamous "License Raj") stifled entrepreneurship and created a high-cost, low-quality industrial structure. The Gulf War of 1990-91, which caused oil prices to spike and remittances from Indian workers in the Gulf to fall, was the final trigger that exposed these underlying vulnerabilities.

The Policy Response: The new government led by Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh responded with a comprehensive reform program that fundamentally altered India's macroeconomic policy framework. On the **fiscal front**, they initiated expenditure reduction measures and began the process of fiscal consolidation. On the **monetary front**, the exchange rate was devalued by about 20% to restore competitiveness, and interest rates were adjusted to attract foreign capital. On the **industrial policy front**, industrial licensing was abolished for all but a few industries, the MRTP Act was relaxed, and the private sector was allowed into areas previously reserved for the public sector. On the **trade policy front**, quantitative restrictions on imports were dismantled, tariffs were reduced dramatically, and the rupee was made convertible on current account. On the **financial sector front**, banking sector reforms were initiated, and capital markets were opened to foreign institutional investors.

Business Implications and Transformation: The macroeconomic reforms transformed the business environment in fundamental ways. **Competition intensified** as import restrictions were removed, forcing Indian companies to improve quality and reduce costs. **Access to capital expanded** as financial sector reforms deepened markets and foreign investment flowed in. **Technology upgradation accelerated** as companies could now import modern machinery and enter into technology collaborations. **Entrepreneurship flourished** as licensing requirements disappeared, enabling new ventures across sectors. **Consumer choice exploded** as imports and new domestic products flooded the market. Companies that adapted to the new environment—like Infosys, Wipro, Reliance, and Tata Motors—thrived and became global players. Those that failed to adapt, relying on protected markets and outdated technology, declined or disappeared.

Long-term Impact: The 1991 reforms set India on a higher growth trajectory. GDP growth accelerated from the "Hindu rate of growth" of about 3.5% to over 6% in the 1990s and 7-8% in the 2000s. Foreign exchange reserves increased from \$1 billion to over \$600 billion today. Exports grew manifold, and India became integrated into global value chains. Poverty declined significantly, and a large middle class emerged. The reforms also established a new macroeconomic policy framework—fiscal discipline, monetary policy focused on price stability, market-determined exchange rates, and open trade—that continues to guide policy today.

****Lessons for Business:**** The 1991 crisis and reform period offers enduring lessons for business. First, ****macroeconomic stability is essential****—fiscal profligacy and monetary expansion create vulnerabilities that eventually harm all businesses. Second, ****adaptability is crucial****—companies that anticipate and adapt to policy changes thrive; those that resist change decline. Third, ****global integration creates opportunities****—openness to trade and investment, while creating competition, also provides access to markets, technology, and capital. Fourth, ****policy understanding matters****—businesses that understand macroeconomic policy directions can position themselves to benefit from reforms. Fifth, ****crises can be opportunities****—for entrepreneurs with vision and adaptability, periods of dramatic change create the greatest opportunities.

The 1991 experience demonstrates that the macroeconomic environment is not merely a background condition but a fundamental shaper of business opportunities and constraints. Understanding macroeconomic policies—fiscal, monetary, trade, industrial—is essential for business strategy, risk management, and long-term success.

Case Study Questions

1. Analyze the multiple macroeconomic factors that contributed to India's 1991 crisis. How did fiscal, monetary, trade, and industrial policies interact to create vulnerability?
2. Evaluate the comprehensive reform response across fiscal, monetary, industrial, trade, and financial sector policies. How did these coordinated reforms transform the business environment?
 1. 3. What lessons can contemporary business leaders derive from the 1991 experience about the importance of understanding macroeconomic policy and preparing for policy shifts?

Prescribed Books / References

Five Printed/Published Textbooks

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6. ****Government of India**** (Annual). **Economic Survey of India**. Ministry of Finance.
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