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JAGAT GURU NANAK DEV

PUNJAB STATE OPEN UNIVERSITY, PATIALA

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JAGAT GURU NANAK DEV
PUNJAB STATE OPEN UNIVERSITY
PATIALA

(Established by Act No.19 of 2019 of Legislature of the State of Punjab)

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COURSE II - MANAGEMENT OF MSME

Learning Objectives: The course aims to achieve following objectives-

1. The Course is designed to meet the needs of entrepreneurs in the MSME sector.
2. The course is helpful in acquiring knowledge to run their businesses professionally, and profitably.
3. The Course helps to develop, and understand the MSME management.
4. It also exposes the students to concepts and processes of entrepreneurship, starting an enterprise & its professional management.
5. It helps the students in knowing modern concepts, policies, Schemes and understanding of MSME sector management.

Course Content:

Unit-I: Introduction: Introduction for Small and Medium Entrepreneurship (SME): Concept and Definition, Role of Business in the modern Indian Economy SMEs in India, Employment and export opportunities in MSMEs.
Unit 2: Issues and challenges: Issues and challenges of MSMEs, MSME Registration Procedures, Steps involved in setting up MSMEs, Performance, Role & Importance of MSMEs in India
Unit-3. **Setting of SMEs'**: Identifying the Business opportunity, Business opportunities in various sectors, formalities for setting up an enterprise - Location of Enterprise – steps in setting up an enterprise – Environmental aspects in setting up, Incentives and subsidies, Rural entrepreneurship – Women entrepreneurship.

Unit – 4 Management of MSME: Management of Product Line; Communication with clients – Credit Monitoring System – Management of NPAs – Restructuring, Revival and Rehabilitation of MSME, Problems of entrepreneurs – sickness in SMI – Reasons and remedies — Evaluating entrepreneurial performance
Unit 5: POLICY INITIATIVES FOR MSMEs ASPIRE- A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship The MSME Development Act, 2006 The MSME Development Act (Amendment) Bill, 2015 E-Governance Initiatives/ Digital Initiatives
Unit –6: Institutions supporting MSME's:. Forms of Financial support, Long term and Short-term financial support, Sources of Financial support, Development Financial Institutions
Unit 7 Issues and challenges: Issues and challenges Central level institutions, State level institutions, other agencies, Commercial Bank -Appraisal of Bank for loans. Institutional aids for entrepreneurship development – Role of DST, SIDCO, NSIC, IRCI, NIDC, SIDBI, SISI, SIPCOT, Entrepreneurial guidance bureaus.

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UNIT 1- INTRODUCTION

STRUCTURE

1.0 OBJECTIVES

After completing this Students will be able to

- Define: Industries that are classified as MSME
- Understand: The structure of MSME in India
- Define: Role of MSME's in economic development
- Explain: Import and Export opportunities in MSME Sector

1.1 INTRODUCTION

MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India.

MSME stands for Micro, Small, and Medium Enterprises. In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006, the enterprises are classified into two divisions.

1. Manufacturing enterprises – engaged in the manufacturing or production of goods in any industry
2. Service enterprises – engaged in providing or rendering services

MSME (Micro, Small, and Medium Enterprise) term was introduced by the Government of India in agreement with the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSME is initiated and managed under the Ministry of MSME (MoMSME) are entities engaged in the production, manufacturing, processing, or preservation of goods and commodities.

MSME sector is considered the backbone of the Indian economy and contributes nearly accounts for 27% of the country's GDP. It primarily works for the development of people from backward and rural areas. As per the official data as of 31st April 2022, there are presently more than 6.33 crore MSMEs that employ approx. 11.10 people across the nation.

MSME stands for Micro, Small, and Medium Enterprises. In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006, the enterprises are classified into two divisions.

1. Manufacturing enterprises – engaged in the manufacturing or production of goods in any industry
2. Service enterprises – engaged in providing or rendering services

1.2 MSME – CONCEPT AND DEFINITION

New MSME Classification

The distinction between the manufacturing and services enterprises has been removed by making the investment amount and annual turnover similar for enterprises engaged in both sectors.

MSMEs Redefined

A proposal was made to redefine MSMEs by the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, to classify them as manufacturing or service-providing enterprises, based on their annual turnover.

Classification of enterprises into micro, small and medium enterprises (in Rs)

Kind of enterprise	**Act of 2006**		**Bill of 2018**
	Manufacturing	**Services**	**All enterprises**
	Investment towards plant & machinery	**Investment towards equipment**	**Annual Turnover**
Micro	25 lacs	10 lacs	5 Cr
Small	25 lacs to 5 Cr	10 lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

Factsheet of MSME Registration (2021-22)

Total MSME Registration – 9,11,5082		
Micro	**Small**	**Medium**
8,70,4675	**3,73,456**	**36,951**

Estimated numbers of MSMEs in India – 2021-2022

Activity Category/Sector	**Estimated Number of Enterprises (in lakh)**	**Share**
Manufacturing	196.65	31%

Trade	230.35	36%
Services	206.85	33%
All	**633.88**	**100%**

Benefits of the above-proposed reclassification

According to the proposed reclassification or the new classification, there would be no need for frequent inspections to check the investment in plant and machinery. Also, the operations of MSMEs would be transparent, non-discriminatory, and objective in nature.

MSME definition – why the change

As Finance Minister Nirmala Sitharaman made the announcement about the change, she also addressed the reasons behind it. She said the new definition will bring about many benefits that will aid MSMEs to grow in size.

This was made under Atma-nirbhar Bharat Abhiyaan Economic Package to assuage India's economic predicament amidst the pandemic.

Combined with all previous economic stimulus efforts, the total amount of the relief package comes to a whopping Rs. 20 lakh crore.

Highlights of new MSMEs

'Atma Nirbhar Bharat Abhiyan' or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs.

Following are a few highlighting features of new MSMEs –

A provision of Collateral Free Loans to MSMEs

An arrangement of loans to MSMEs worth of Rs. 3 lac crores

An offer for MSMEs to get a Moratorium period of 12 months

Consideration of Manufacturing and Service MSMEs as the same entities

MSM is a granted a repayment Tenure of 48 months

MSMEs are assured a 100% Credit Guarantee

Reclassification of MSMEs will benefit approximately 45 Lac units.

Features of MSMEs

Following are some of the essential elements of MSMEs –

MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.

MSMEs provide credit limit or funding support to banks.

They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.

They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole

MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.

They also offer modern testing facilities and quality certification services.

Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

1.3 ROLE OF BUSINESS IN THE MODERN INDIAN ECONOMY

The role of business is vital to our society and economy. Businesses don't just satisfy our needs and wants through the products they produce. But, they also create jobs and income in the economy. In addition, competition between them encourages innovation and efficiency, making goods and services cheaper and of higher quality.

Satisfying our needs and wants

Businesses sell goods and services to satisfy our needs and desires for profit. So, without them, we would have to produce everything ourselves, including our food and clothes.

Then, businesses also have to compete with each other. To keep the money flowing, they must deliver higher satisfaction than competitors do. Competition forces them to be more efficient and innovative, leading to lower prices and better quality.

Creating added value

Businesses create wealth in the economy by adding value to the inputs they use. It makes the output more valuable than the input used. Finally, added value makes their products more attractive, and customers will usually be willing to pay more.

Value creation or value addition can be done in several ways. For example, businesses transform inputs into more valuable forms, such as converting bauxite into aluminum slabs and processing them into car bodies.

Another example is offering convenience, such as saving customers time as fast food businesses offer. Quality also contributes to added value, such as embedding 4G technology in smartphones instead of 3G.

Creating jobs

Business creates jobs in the economy. Therefore, the more businesses there are, the more manpower is needed. Likewise, as their size grows, they also require more manpower.

When starting a business, employers hire workers to support operations. They work in several functional areas such as accounting and finance, human resources, marketing, and production.

Then, as businesses grow, employers also need more workers. The larger business size makes operations more complex and requires more staff to handle tasks and jobs.

Income creation

Entrepreneurs set up businesses for profit. If the business is successful, their income and wealth increase.

Likewise, by working, individuals earn income. The money they get they can use to fulfill their needs and wants.

Thus, growing business activity creates more income in the economy. More people work for income. Higher incomes drive more demand for goods and services.

Then, with high demand, entrepreneurs see more opportunities to grow their business and introduce new businesses.

Economic development

The business contributes to promoting economic development. In addition, business activity creates a ripple effect, encouraging other businesses to emerge, creating more income and jobs in a region.

Business growth in the region does not only contribute to job creation. But, it will also lead to improvements to infrastructure such as roads and railways in the region. In addition, health facilities, education, shopping centers, and other public and private services are also developing. Eventually, the economy in the region grew.

Living standard improvement

Business activities contribute to improving people’s living standards. It can go through several channels.

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First, from the goods and services produced by the business, we can fulfill our needs and wants. Second, from the jobs created, we get income. We can use the money to buy various goods and services to satisfy our needs and wants. We can also invest it to support future needs, for example, during retirement. Then, we can also use it to buy insurance to minimize the losses we may experience.

Third, competition leads to lower prices and higher quality goods and services. Businesses must outperform their competitors in satisfying their customers, forcing them to be more efficient and innovative. It ultimately makes our lives more comfortable and better because we can get lower prices and higher quality products.

For example, we can capture and photograph our best moments with mobile phones without buying a camera. In the past, we couldn’t do it. This is because manufacturers don’t embed high-resolution cameras into phones.

Community empowerment

Some business organizations seek to strike a balance between profit, social and environmental. They do not pursue maximum profit and wealth for the owner. But, they reinvest the profits for social and environmental causes.

For example, microfinance providers raise money through crowdfunding and lend it to small entrepreneurs on flexible terms and low-interest rates. It allows small businesses to thrive, creating more jobs and income for the neighborhood. Then, microfinance providers use the profits to expand the reach of their services to communities elsewhere.

In other cases, social enterprises empower a community by training people in entrepreneurial skills. They then help the community market the product and use the sales money to provide more training and build public facilities such as education and health.

1.4 CONTRIBUTION OF SMES TO INDIAN ECONOMY

SMEs in India Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas.

MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development.

MSMEs also contribute and play an essential role in the country’s development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.

With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

The below-mentioned data, represented in a tabular format, is by the Central Statistics Office (CSO) and Ministry of Statistics & Program Implementation.

Contribution of MSMEs in Country's Economy at Current Price

Year	MSME-Addition of Gross Value	Growth (%)	Total Addition of Gross Value	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	–	8106946	32.35	8736329	30
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Importance of MSMEs for the Indian Economy

Across the globe, MSMEs are accepted as a means of economic growth and for promoting equitable development. They are known to generate the highest rate of growth in the economy. MSMEs have driven India to new heights through requirements of low investment, flexible operations, and the capacity to develop appropriate native technology.

MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.

With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.

MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy

Contributing around 45% of overall Indian exports

MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.

MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.

MSMEs promote innovation by providing an opportunity to budding entrepreneurs to help them build creative products hey and thereby boost competition in business and fuel the growth.

The Indian MSME sector provides silent support to the national economy and acts as a defense against global economic shock and adversities. Hence, we can say that India is propelling towards a robust global economy through a silent revolution powered by MSMEs.

1.5 EMPLOYMENT OPPORTUNITIES WITH MSME

MSME sector has been a major contributor to the socio-economic development and employment generation of the country with around 30% share in India's GDP. As per Central Statistics Office, Ministry of Statistics & PI, the share of MSME in GDP at current prices (2011-12) for the year 2018-19 and 2019-20 were 30.5% and 30.0% respectively. Similarly, the shares in total manufacturing of the country during the year 2018-19 and 2019-20 were 36.9% and 36.9% respectively. Further, as per Directorate General of Commercial Intelligence and Statistics, the shares of exports of specified MSME related products to all India exports during 2019-20 and 2020-21 were 49.8% and 49.5% respectively.

Micro, small and medium enterprises (MSMEs) provide large employment opportunities at lower capital cost than large industries, but this sector is plagued by low levels of registration. As per the 73rd National Sample Survey (2015-16), India's MSME sector comprises 63 million units and has created 111 million jobs.

Enterprises with turnover not exceeding Rs 250 crore and having investment in plant and machinery not exceeding Rs 50 crore are eligible to register as MSMEs. Registering as an MSME entitles the establishment to receive benefits in the form of government subsidies, easy loan approvals, reduced electricity bills and access to MSME clusters for skill and technology development.

Current data indicate that although MSME registrations are at a meagre 8.3 million (13% of all MSMEs), these registered MSMEs create 46.6 million (42%) jobs. Top registrations are from personal and professional services (10%), textile and apparel manufacturers (9.4%), food and beverage manufacturers (7.9%), wholesale and retail traders (6.6%), hospitality services (6.4%) and other manufacturing enterprises (6.2%).

Recognising the ability of MSMEs to generate large-scale employment and contribute to the nation's GDP and exports, the government is encouraging more establishments to register as MSMEs. Recently, a further simplification in registrations was announced by introducing a new portal called Udyam Registration, which proposes automatic integration with income tax and GST databases.

A blend of investors and entrepreneurs

India offers one of the best ecosystems for Startups with a special ‘jugalbandi’ or blend between investors and entrepreneurs to get a balanced outcome and achieve a win-win solution for all. Dubai Expo has also offered tremendous response, where our Startups have got the opportunity to raise finances, sign MoUs and get angel investments. All these aspects are bound to help strengthen India’s strong bond of friendship with the UAE. Around 700 Startups showcased their innovations at Expo2020 Dubai. Goyal said that the role of the government is to provide a level playing field and the best business ecosystem to the Startups, which we are trying to give them to.

Setting Up of Agro based Industries in Rural Areas

Ministry of MSME, through Khadi and Village Industries Commission (KVIC), is implementing Prime Minister’s Employment Generation Programme (PMEGP) for generating employment in the country, including the rural areas, by setting up of micro-enterprises in the non-farm sector including Agro Based Food Processing Industries (ABFPI).

Self Employment Opportunities

Ministry of MSME, through Khadi and Village Industries Commission (KVIC), has also taken various new measures for the development of Khadi and Village Industries (KVI) and creation of more employment opportunities in the country. During the year 2020-21, more than 10,000 people were trained scheme-wise for the creation of employment/self-employment opportunities through various Departmental and Non-Departmental Training Centres of KVIC and Training programmes organized by the field offices of KVIC under various programmes.

COVID-19 epidemic has temporarily affected various sectors including Micro, Small and Medium Enterprises in the country including their employment. As MSMEs are present in both formal and informal sector, data regarding temporary or permanent loss of jobs in MSME sector are not maintained by the Government of India in Ministry of Micro, Small and Medium Enterprises (MSME).

The Ministry of Micro, Small and Medium Enterprises (MSMEs) implements various schemes to increase employment opportunities of MSME sector in the country. These includes Prime Minister Employment Generation Programme (PMEGP), Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE).

Government has taken a number of initiatives under Aatma Nirbhar Bharat Abhiyan to support the MSME Sector in the country especially in Covid-19 Pandemic. Some of them are:

Rs 20,000 crore Subordinate Debt for MSMEs.

Rs 3 lakh crores Collateral free Automatic Loans for business, including MSMEs (existing overall guarantee limit under ECGLS has been enhanced from Rs. 4.5 lakh crore to Rs. 5 lakh crore).

Rs. 50,000 crore equity infusion through MSME Fund of Funds.

New revised criteria for classification of MSMEs.

New Registration of MSMEs through ‘Udyam Registration’ for Ease of Doing Business.

No global tenders for procurement up to Rs. 200 crores, this will help MSME.

1.6 EXPORT OPPORTUNITIES WITH MSME

Trade, import and export for MSMEs: Of late, it is fashionable for small firms to eye global market opportunities. Despite the high failure rate of MSMEs in the foreign terrains, they still contribute approximately half of India’s export volume and value, and the growth potential is enormous. Apart from the product idea, success abroad requires knowledge, skills, and the right mindset.

A good starting point is knowledge of the political, economic, social, and technological environment, the demand-supply gap for the chosen product, and competition in the foreign market. Also crucial is the knowledge about market access, that is, trade barriers, bilateral trade agreements, export regulations, standards and procedures, shipping costs, and incoterms. An MSME exporter accepting and shipping an importer's order without a proper HS code can make the customs have difficulty classifying the shipment. They will face a commercial risk of delivery delay, demurrage, a higher duty, or a fine It risks the reputation of the exporter and the country.

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1.7 UNIT END QUESTIONS

A. Descriptive Questions

Long answer questions

1. Define the Term MSME.

2.Explain the role of MSME in Modern Indian Economy.

3.Write a note on Contribution of SMEs to Indian Economy.

4. What is a medium enterprise?

5.Write short note on SMEs in India.

Short answer questions

1. Explain the classification of industries into micro, small and medium enterprise.

2. Explain the features of MSME Sectors.

3. How MSME helps in generating employment opportunities?

4. Elaborate on the performance of MSME in India.

5. What are the export opportunities for MSME?

B. Multiple Choice Question

1. In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act ________, the enterprises are classified into two divisions.

    a) 2006

    b) 1991

    c) 2021

    d) 2000

2. A micro (service) enterprise, where the investment in plant and machinery or equipment does not exceed

    a) One Crore

    b) Ten Lakhs

    c) fifty Lakhs

    d) Two Crores

3. _____________has given the new definition of MSME

    a. Atma Nirbhar Bharat Abhiyan

    b. Union Ministry

    c. Finance Ministry of India

d. SIDBI

4. Businesses create __________ in the economy by adding value to the inputs they use.

a) Wealth

b) Services

c) Jobs

d) Income

5. In the Indian economy, access to finance has always been an issue for ________firms and businesses

a) Smaller

b) Larger

c) Financial

d) Technology

Answers

1-a, 2-b, 3-a, 4-a, 5-a

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UNIT 2 - ISSUES AND CHALLENGES

STRUCTURE

2.0 OBJECTIVES

- Define: Issues and Challenges of MSME
- Understand : Registration procedure for MSME in India
- Define : Steps involved in setting up MSME
- Explain: Performance of MSME Sector

2.1 INTRODUCTION

Micro-, small and medium-sized enterprises (commonly abbreviated to SMEs) are responsible for more than two thirds of all jobs worldwide. They also account for the majority of new job creation.

Small and medium-sized enterprises – or SMEs – typically have fewer than 250 employees. In many countries, more than 90% of all enterprises can be classed as SMEs, and a large share of those can be classed as micro firms, with fewer than ten employees.

Across all countries, SMEs do more than create employment: they are also engines of economic growth and social development. In most OECD countries, SMEs contribute more than 50% of GDP, and some global estimates put this figure as high as 70%. This contribution varies across sectors, and is particularly high in the service industry, where SMEs account for 60% or more of GDP in nearly all OECD countries.

SMEs are also more likely to hire from groups with lower chances of finding employment such as young people, older workers and less-skilled workers.

SMEs are crucial to the future of work, not just for employment creation and economic growth, but also to drive innovation and competition in markets. But large enterprises can invest more in training and equipment, pay higher wages and offer better working conditions, and so outmatch SMEs when it comes to productivity and quality of employment.

In developing countries, this productivity gap leads to low income generation, informality and poor growth performance. To close the gap, we must first understand the problems faced by SMEs, both from the perspective of employers and employees, and in context of broader challenges facing the world of work.

The future is small, the future is beautiful

Leaving SMEs behind is not an option. The 2030 Agenda for Sustainable Development certainly cannot be achieved without them. Given their global prevalence, and their huge importance to social, economic and environmental development, the future of work will be bleak if we do not support SMEs to unlock their full potential.

But once we start taking big steps to support small enterprises, the future looks bright and beautiful indeed.

2.2 ISSUES AND CHALLENGES OF MSMES

Below is a list of some of the major challenges faced by MSMEs that have a significant impact on their growth prospects:

1) Financial issues:

Due to a shortage of financing, MSMEs in India confront numerous difficulties. The majority of MSME owners are from rural, undereducated areas, and because they are uninformed of government advantages, they are oblivious of their unique financial privileges. They make poor financial judgements as a result of their negligence, which puts them in financial trouble.

Moreover, MSME businesses in India often have lower creditworthiness than their bigger competitors. Lenders are unable to assess or determine if MSMEs can repay their loans because they lack assets to use as security.

In the Indian economy, access to finance has always been an issue for smaller firms and businesses. This is a major hindrance for businesses as well as the MSME sector. However, the most disturbing fact about it is that only 16% of SMEs get access to timely finance, resulting in small and medium firms being forced to rely on their own resources. It is not just small firms that face this problem, but larger firms do as well because even those bigger players face significant difficulties in accessing cheaper credit from formal banks.

2) Regulatory issues:

Several regulatory issues have been identified over time, including problems like tax compliance and changes to labor laws which have ended up costing the MSME sector dearly. In an attempt to make this sector more competitive among others, certain labor reforms were attempted some years back. Still, they failed to make any dent in improving things for MSMEs despite making them more competitive than larger firms. As a result, it has become very difficult for MSMEs to comply with these regulations and register for tax compliance, which has resulted in many operating on low capital or even shutting shops.

3) Infrastructure:

In India, the infrastructure sector is extremely important because we are often referred to as the 'world's back-office because so many works in this sector are carried out overseas. Applications such as eCommerce and BPO have created more jobs in low-wage countries like India.

4) Low productivity:

MSMEs are not necessarily very productive, but they perform certain tasks that emit more value than they produce. Retailers sell consumer goods to end-users at relatively lower prices. In fact, MSMEs may be very productive only when it comes to being cost-efficient and are capable of creating high volume at very low costs. But given that their production is on a small scale with low margins, low productivity can put them at a disadvantage, especially when compared with larger firms.

5) Lack of innovation:

Indian MSMEs are not very innovative, and the majority of the products that they produce are based on outdated technologies. There is a severe lack of entrepreneurs in this sector, which has prevented it from adopting new technologies and tools which have brought about significant changes in other sectors like eCommerce and call centers, etc. As a result, MSMEs have had to struggle with outdated technology as well as low levels of productivity, especially when compared with larger firms.

6) Technical changes:

There has been no dearth of technical changes over time, and most industries have undergone some form of change in order to remain competitive. As a result, Indian MSMEs have had to deal with some very important changes which have affected their growth potential. At first, there was a change in the ownership right of land, which has made the sector more prone to mismanagement and, with it, a fall in productivity.

7) Competition:

Due to various factors, such as the rise of eCommerce and the advent of globalization, bigger firms have forced MSMEs out of their markets. However, this is not new because MSMEs were facing competition from year one, but they could fight it off successfully compared to professional firms. In fact, MSMEs continue to face competition in many areas, including agricultural machinery, garments, and tourism.

8) Skills:

When it comes to skills, Indian MSMEs are far behind their counterparts in other countries because they depend heavily on the help of informal workers, who are not paid well and lack the technical skills which can help enhance productivity. As a result, smaller firms are forced to take up jobs that require low levels of skill and expertise, which further affects their growth prospects in the long term.

9) Lack of professionalism:

A majority of Indian MSMEs lack professionalism despite being vital for larger industries' growth. As a result, they are highly prone to corruption and abuse of power, which has a huge impact on the productivity of their businesses.

10) Lack of standardized policies:

There are very few MSME policies in India. As a result, there is no consistency when it comes to MSME development as well as entrepreneurship promotion programs. However, positive progress has been made in Delhi over the years, but this needs to be done on a national level so that Indian firms can become more competitive across the world for global companies and investors.

What is the Overall Impact of Such Challenges Faced By The MSME Sector?

Due to the low productivity, corruption, and poor working conditions, MSMEs have been struggling to ensure growth. This has resulted in the sector having a very low level of profitability and growth, which is not acceptable for the overall economy. If a healthy MSME sector is present in India, it will create a significant number of jobs that will clearly benefit the country and its people.

11) Difficulties in Marketing and Management

Due to the dearth of managerial, marketing, and entrepreneurial skills, MSME expansion continues to face substantial obstacles. The appropriate marketing tactics are necessary for increasing sales and gaining new clients. MSMEs in India also struggle to identify target consumers and use efficient marketing techniques due to a lack of market research. As a result of their lack of professionalism and organised management, MSMEs are unable to compete.

Furthermore, the growth of this industry has been hampered by a lack of education, awareness of market trends, consumer preferences, and cutting-edge technology.

Conclusion:

MSMEs face a number of challenges, but the government is doing its best to ensure that the MSME sector remains competitive. The cost of funding is gradually decreasing, and both public and private sectors are working towards developing better products that can be competitive in terms of quality and price. Perhaps, if we get rid of corruption and focus more on quality, then MSMEs will be able to beat bigger firms.

2.3 MSME REGISTRATION PROCEDURES

An enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely: --

(i) A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;

(ii) A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and

(iii) A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Government has organised a full system of Facilitation for Registration Process

An enterprise for the purpose of this process will be known as Udyam and its Registration Process will be known as 'Udyam Registration'

A permanent registration number will be given after registration.

After completion of the process of registration, a certificate will be issued online.

This certificate will have a dynamic QR Code from which the web page on our Portal and details about the enterprise can be accessed.

There will be no need for renewal of Registration.

Our single window systems at Champions Control Rooms and at DICs will help you in the process.

Registration Process is totally free. No Costs or Fees are to be paid to anyone.

MSME Registration is free, paperless and based on self- declaration

MSME registration process is fully online, paperless and based on self-declaration.

No documents or proof are required to be uploaded for registering an MSME.

Only Adhaar Number will be enough for registration.

PAN & GST linked details on investment and turnover of enterprises will be taken automatically from Government data bases.

Our online system will be fully integrated with Income Tax and GSTIN systems.

Having PAN and GSTIN (As per applicablity of CGST Act 2017 and as notified by the ministry of MSME vide S.O. 1055(E) dated 05th March 2021) is required for Udyam Registration with effect from 01.04.2021.

Those who have EM-II or UAM registration or any other registration issued by any authority under the Ministry of MSME, will have to re-register themselves.

No enterprise shall file more than one Udyam Registration. However, any number of activities including manufacturing or service or both may be specified or added in one Registration.

Register a Micro, Small and Medium Enterprise

Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal, based on self-declaration with no requirement to upload documents, papers, certificates or proof.

On registration, an enterprise (referred to as "Udyam" in the Udyam Registration portal) will be assigned a permanent identity number to be known as "'Udyam Registration Number".

An e-certificate, namely, "Udyam Registration Certificate" shall be issued on completion of the registration process.

MORE ON REGISTRATION PROCESS

The form for registration shall be as provided in the Udyam Registration portal.

There will be no fee for filing Udyam Registration.

Aadhaar number shall be required for Udyam Registration.

The Aadhaar number shall be of the proprietor in the case of a proprietorship firm, of the managing partner in the case of a partnership firm and of a karta in the case of a Hindu Undivided Family (HUF).

In case of a Company or a Limited Liability Partnership or a Cooperative Society or a Society or a Trust, the organisation or its authorised signatory shall provide its GSTIN and PAN along with its Aadhaar number.

In case an enterprise is duly registered as an Udyam with PAN, any deficiency of information for previous years when it did not have PAN shall be filled up on self-declaration basis.

No enterprise shall file more than one Udyam Registration: Provided that any number of activities including manufacturing or service or both may be specified or added in one Udyam Registration.

Whoever intentionally misrepresents or attempts to suppress the self-declared facts and figures appearing in the Udyam Registration or updation process shall be liable to such penalty as specified under section 27 of the Act.

FOR EXISTING ENTERPRISES

All existing enterprises registered under EM–Part-II or UAM shall register again on the Udyam Registration portal on or after the 1st day of July, 2020.

All enterprises registered till 30th June, 2020, shall be reclassified in accordance with this notification.

The existing enterprises registered prior to 30th June,2020, shall continue to be valid only for a period up to the 31st day of December, 2021.

An enterprise registered with any other organisation under the Ministry of Micro, Small and Medium Enterprises shall register itself under Udyam Registration.

2.4 STEPS INVOLVED IN SETTING UP MSMES

Before discussing the MSME registration, let’s see what MSME is. “MSME” stands for Micro, Small, and Medium Enterprises. They are also known as SSI or small-scale industries. In a developing country like India, MSMEs act as an engine that helps in the growth of the economy and promotes development in the economy.

According to the survey, the MSME sector contributes to 45% of Total Industrial Employment. Also, it has 50% of Total Exports and 95% of all industrial units in the country. More than six thousand types of product manufacture in these industrial units. That’s why these industries are considered as the backbone of the Indian economy.

Definition According to the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

According to the MSMED Act 2006, the Micro, Small and Medium Enterprises is broadly divided into two Category:

Manufacturing Enterprises - This enterprise is explained in terms of investments in plant and machinery. The enterprises are engaged in manufacturing goods.

Service Enterprises - They are defined in terms of investment in equipment. Service enterprises deals in providing or offering services.

The classification is given below:

1. The Manufacturing Sector (In terms of investment in Plant and Machinery)

Micro Enterprises – Does not exceed twenty-five lakh rupees

Small Enterprises – More than twenty-five lakh rupees but does not exceed five crore rupees

Medium Enterprises – More than five crore rupees but does not exceed ten crore rupees

2. The Service Sector (In terms of Investment in equipment)

Micro Enterprises – Does not exceed 10 lakh rupees

Small Enterprises – More than ten lakh rupees but does not exceed two crore rupees

Medium Enterprises – More than two crore rupees but does not exceed five crore rupees

MSME Registration

The MSME Authority provides two types of certificates:-

1. A provisional MSME registration certificate is given to the companies which are valid for only five years.
2. Permanent Registration Certificate to that company. there is no time limit in the permanent registration certificate.

Let’s discuss some more about each of the certificates.

Provisional Small Scale Industry (SSI) Registration

To obtain MSME registration, first of all, you have to apply for a provisional SSI registration certificate. This certificate is for the pre-operation period i.e. when you have not started your operations but have a business plan. It also helps the MSME unit obtain term loans and working capital. It is valid for up to five years.

One can apply for it through online as well as offline with the necessary documents.

Important Documents:

- Three passport size photographs of proprietors or partners or directors.
- In case of a partnership, it requires the photocopy of the partnership deed. The partnership doesn't have to be registered under the Partnership Act.
- In the case of a private company, it requires a copy of the MOA and AOA along with the certificate of incorporation. Also, a copy of the resolution of the company authorizing one of the Directors of the company to sign the application form and also appear for the interview.
- Copy of NOC from the landlord with proof of legal possession (rent receipt), Proof of Ownership, Proof of legal possession (rent receipt), and the Power Load Authorized by the connection holder to the applicant.
- Consent obtained for the establishment of the unit from the Delhi Pollution Control Committee. It is important for provisional registration.
- Some of the documents may differ because each state has different requirements for documents. The above-given documents are minimum requirements which are to be submitted.

Start the Business

Now, the owner can start the production in the factory with the MSME certificate. After the commencement of production, they can apply for the permanent license.

Permanent SSI registration

When you start your business or production, you should apply for permanent SSI registration. This can also be done by applying online through the state website. For offline, you can apply through the Zonal office or District Office of the Department.

Requirements for applying Permanent Registration Certificate

- In case the unit is listed in Schedule-III of the Industrial Licensing Exemption Notification then the person can apply for a Permanent Registration Certificate without an industrial license. Other units must have an industrial license.
- However, the industrial unit should get approval from the pollution control board, the drug control board, etc.
- The industrial unit should not violate any locational restriction.
- The original value of plants including machinery should be within prescribed limits for which you are applying.
- The unit should not be a subsidiary, owned or controlled by another industrial undertaking.

Registration Process:

1. To do the registration under the MSME act, the owner has to fill a form. They can do it online as well as offline. The form is available on the website.
2. They can do individual registration if a person wants to do registration for more than one industry
3. Aadhar number, industry name, address, bank account details, and some common information are required for the registration of a permanent certificate.
4. In this, they can provide self-certified certificates for registration.
5. There are no registration fees is required for this process.
6. Once the detail-filled and upload you will get a registration number.

Benefits of MSME Registration:

- It has a benefit that bank loans become cheaper as the interest rate is very low i.e. around 1 to 1.5% which is much lower than interest on the regular loans.
- Under MSME, various tax rebates are offered to the owners.
- Credit for minimum alternate tax (MAT) is also allowed. It can be carried forward for up to 15 years instead of 10 years
- For MSME industries, many government tenders are especially open for them.
- They can get credit easily.

- Many rebates and concessions are available for them which reduces the cost of getting a patent or setting up of the industry once they are registered.
- Business registered under MSME is given a higher preference for government license and certification.
- There is a One Time Settlement Fee for non-paid amounts of MSME.

The main steps involved in setting up a Micro, Small & Medium Enterprise are as below:-

(A) PROJECT SELECTION:

It all begins with an Idea. The overriding reason for anyone to think of establishing a MSME unit can be summarised in one word - opportunity. An opportunity to provide a product or service, which can generate sufficient surplus. This is all the more true if one is a believer in the maxim, "Small is Beautiful".

However, ideas need to be filtered through a **multi-layer sieve.** This model is shown in the following flow:

- Does the idea fire up your motivation?
- Is it a viable business proposition in your area?
- Does it match the needs of your clientele?
- Check it out with basic market research
- Test it out at market place
- Consult with the experts
- Look out for competition in the field
- Is it a sunrise industry?
- Your business opportunity
- Project conceptualisation

Once the ideas are screened and a viable business opportunity emerges the project has to be conceptualised in all its dimensions. **The 4 Ps of Project Conception is:**

- PRODUCT (Shape, Size and Nature)

- PROCESS (Technology to produce the product)
- PLACE (Location of Plant)
- PARTNER (Technological of Financial Collaborator)

Making a Product Choice

In a project conceptualisation stage while making a product choice following factors are related to product need to be considered:

- Product Line - Depth, Width
- Packaging
- Branding
- Warranties
- After Sales Service

Some other factors that one should consider while finalising the product choice are:

- Ease of availability of raw-material
- Process Technology
- Accessibility to the market
- Incentive and support from Government

Market information is also important for product selection. Products, which are likely to have a number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

In case the entrepreneur is looking for a product, which has export potential, the following additional questions need to be asked:

- What should be the contents of export-product portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a specific country?

- Are any WTO conditionalities involved e.g. "child labour free", ISO 9000 certified, GMP followed etc.

The development of export-product portfolio can be done by considering 4 parameters viz.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

Analysis can be conducted using this four-dimensional model. The obvious choice is a product which scores a high rating on first two parameters and low rating on last two parameters.

EXIM (Export Import Bank of India) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters viz.

- Supply Capability In Product Group
- Domestic Environment
- Export Market Attractiveness

This analysis gives rise to product groups with high potential or low potential.

With regard to special packaging requirements one has to be careful about laws of the country one is exporting to. For instance, while exporting to Australia, wooden-packaging cannot be done.

Product adaptations for country's specific needs look into things like whether voltage supply is 220V or 110V for electric appliances and for automobiles whether left-hand drive or right-hand drive is appropriate.

It has now become important to understand the implications of the various agreements which form part of .

Once the product is finalised, choices of process technology emerge.

(B) TECHNOLOGY AND MACHINERY

Process Selection

- Choices of process technology emerge once the product is finalised. For some complex products, process know how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defense Research Labs and some of this technology can now be bought. Indigenously developed process know-how has intrinsic benefits such as appropriateness and relative inexpensiveness.
- While checking out on a process technology, the following things need to be considered with utmost care
- Whether process requires very high level of skilled workers or complex machines?
- Whether process requires large quantities of water and/or power?
- Whether any process or product patent needs to be honoured while utilising the selected process technology.
- Any special pollution or environmental regulations.
- Finally, the appropriateness to the Indian environment and conditions. Machinery and equipment
- One of the major deficiencies in the micro, small and medium enterprises scenario is the prevalence of outdated production and management methods hindering the efficient operation of micro, small and medium-scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of investible funds. The main objective of National micro, small and medium enterprises (NMSME) is to provide machinery and equipment to small industrial units offering them long repayment period with moderate rate of interest.

NSIC procedures for hire purchase of machinery

- The hire purchase application is to be made on the prescribed form
- The Director of Industries of the State under whose jurisdiction the applicant falls, forwards the application to the head office of the NSIC at Delhi with his recommendation and comments.

- All applications for indigenous or imported machines are considered by acceptance committees comprising of the representatives of the Chief Controller of Imports, Development Commissioner, micro, small and medium enterprises and other concerned departments.
- Decision of these committees is conveyed to the parties concerned with copies to the regional offices of the NSIC and the concerned Directorate of Industries.
- Once all these formalities are completed by the hirer, instructions are sent to the suppliers to dispatch the consignment (duly insured for transit risk) to the hirer and to send the R/R or C/R as the case may be, to the regional office
- The NSIC after ensuring that all dues have been paid by the hirer, releases the R/R or C/R to him for taking delivery of the machines.
- In case of imported machines, the procedure is slightly different in as much as the shipping documents are sent to the clearing agents for clearing the consignment from the Customs and dispatching it to the hirer.

Value of machines that can be supplied

Rs. 7.5 Lacs, F.O.R. or landed cost as the case may be.

Earnest Money

5% or 10% of the value of machinery depending on whether the equipment is imported or indigenous. In the case of furnaces and a few other items of equipment, the rate of earnest money is different. Interest 9 per cent per annum with a rebate of 2 per cent on prompt payment. This interest is calculated on the value of machines outstanding after deducting payment of earnest money.

Administrative Charge

2 per cent on the sales value of machines and its recovery by the NSIC is spread over the total installment period.

Period of Repayment

The value of the machines, after deducting the earnest money received, called the Balance Value, is payable alongwith interest and administrative charge in 7 years.

- The first installment is payable after one year and six months from the delivery of machines

- The second and subsequent installment are payable half-yearly thereafter.

Gestation Period

- In case of certain type of machines which become operative immediately on installation in the service sector industries and job order establishment, a gestation period of only 6 months shall be allowed both to the new and existing units.
- A rebate of 2% per annum is allowed on the interest rates, in case an installment is paid on or before the due date.
- In case the payment of installment is not made within one month of the specified due date, interest @ 2% per annum over and above the normal rate is charged on the defaulted amount from the date of default to the date of actual payment. Remission in interests is allowed in case one or more than one installment is paid in advance of the due date(s).

Now the Place and Right Partner has to be selected and Project Report has to be prepared.

(a) Arranging Finance

No MSME unit can take off without monetary support. This need for finance can be classified into following types:

- Long and medium term loans

- Short term or working capital requirements

- Risk Capital

- Seed Capital/Marginal Money

- Bridge loans

(D) UNIT DEVELOPMENT

After deciding the issues of product and process, the next important question is where to set the unit up?

For many tiny units and service-based units, the home is perhaps the best starting point

Setting up an establishment is much more than putting a signboard up and waiting for customers to walk in. It requires negotiating a favourable plot or shed purchase, organising for proper construction of building, design of interiors and finding good deals for equipment and machinery

Construction of Building

Once an industrial plot for the unit is secured, then the next job is that of finding a suitable architect. Design of factory building has to be in consonance with the type of industry and have an appropriate plant layout.

An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

Getting the Utility Connections

Among the utilities of prime importance are power and water. In many cases getting power connection causes delay in setting up of plant. Therefore it is imperative to commence work on these aspects with diligent follow up. Power connections are generally of either LT (Low Tension) or HT (High-tension) type. If connected load is upto 75 HP, LT connection is provided. For connected loads of 130 HP or higher only HT connection is provided.

A formal application needs to be made in a specified form to the state electricity board. . An electrical inspector is deputed for evaluation of application to factory site, after which the load is sanctioned. In areas of power shortage, it is advisable to augment the power supply with a captive generating set.

Getting 3M's Right

Men

Projections for manpower and staffing are made in the project report. However it is necessary to time the induction of manpower in a planned manner. The engineers and operatives must be available before the installation of the machinery

Machinery

Choosing and ordering of right machinery is also of paramount importance. In many cases technology or process provides us with specifications which is not provided, then an extensive techno-economic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur must also consult experts, dealers / suppliers as well as users, prior to making a selection of equipment and machinery. The advice of DIC, MSMEI and NSIC can also be sought.

Materials

Materials procurement and planning are critical to success, of a start-up with a MSME unit. Inventory management can lead to manageable cash flow situations; otherwise if too much is ordered too soon considerable amount of working capital gets locked up. On the other hand, non-availability may result in production hold-ups, and idle machine and manpower. For essential imported raw material whose lead-time is large proper planning is all the more essential

(E) FILING OF ENTREPRENEURS' MEMORANDUM & ADDRESSES OF DICS

Features of the Scheme

- The memorandum may be filed by all three categories of enterprises with the District Industries Centre in the jurisdiction of which the enterprise is (or, is proposed to be) located,
- The procedure for filing it has been outlined in Schedule. II of the Notification for the format of EM

Procedure for Filing Memoranda

Features of the present procedures are as follows:

- Form of the Entrepreneurs Memorandum can be downloaded from the Internet, the address of which can be obtained from Directorate dealing with Micro, Small & Medium Enterprises of the State Governments/ UTs. or the hard copies of the same can be obtained from the District Industries Centres. This form can also be downloaded from the SIDO website i.e. www.laghu-udyog.com or www.dcmsme.gov.in

- Any person who intends to establish a micro or small enterprise, at his discretion; or a medium enterprise engaged in providing or rendering of services may, at his discretion or a medium enterprise engaged in the manufacture or production of goods shall file the Memorandum of Micro, Small or as the case may be, of Medium Enterprise with District Industries Centre of its area.
- The District Industries Centre shall fill all the codes in the form of the Memorandum and issue an acknowledgement after allotting an EM number, date of issue and category of the unit within five days of the receipt of the form of Memorandum by post or same day, if the form of Memorandum is submitted in person as well as online.
- Before issuing the acknowledgement, the District Industries Centers shall make sure that the form is complete in all respect and particularly the form is signed and is accompanied with an undertaking, which is a part of the form of Entrepreneurs Memorandum.
- The District Industries Centre shall maintain record of all the Entrepreneurs Memorandum so filed in respect of micro and small enterprises and medium enterprises engaged in providing and rendering services. District Industries Centers shall forward a copy of the Entrepreneurs Memorandum so filed with EM number allotted to the Small Industries Service Institutes of their State/Jurisdiction.
- The District Industries Centre shall maintain record of all the Entrepreneurs Memorandum so filed in respect of medium enterprises engaged in production/manufacturing of products and forward one copy each of the Entrepreneurs Memorandum with EM number allotted to Small Industries Service Institutes of their State/Jurisdiction and to Joint Development Commissioner (MSME Pol.) in the Office of the Development Commissioner (Small Scale Industries).
- The form of Memorandum is in two parts. Any person who intends to establish a micro, small or medium enterprise engaged in providing or rendering of services may file or those who want to establish medium enterprise engaged in the production or manufacture of products shall file Part 1 of the Entrepreneurs Memorandum to District Industries Centre.
- Once the above enterprises start production or start providing or rendering services, they should file Part II of the Entrepreneurs Memorandum to District Industries

Centre In case of non-filing of Part II of the Entrepreneurs Memorandum within two years of the filing of Part I, the Memorandum (Part I) filed by the entrepreneur will become invalid.

- In case of change in the investment in plant and machinery or in equipment, the enterprises who have already filed Entrepreneurs Memorandum should inform the District Industries Centre of the same in writing within one month of the change in investment.
- In case of change of products and that of services or addition in products or services, the enterprises who have already filed Entrepreneurs Memorandum should inform the District Industries Centre of the same in writing within one month of the change.
- The District Industries Centre shall, in addition of keeping a record, in writing, shall also maintain records electronically on computer.

The following form basis of evaluation:

- The unit has obtained all necessary clearances whether statutory or administrative. e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- Unit does not violate any locational restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification

(F) APPROVALS

Approvals

Every SSI unit has to comply with various regulations in force. These include regulatory, taxation, environmental and certain product specific clearances. This section looks into the methodology of obtaining these approvals and clearances.

Exemption from Compulsory Licence

Licensing in the Industries sector is governed by the licensing exemption notification issued by Govt. of India in July 25 1991 under the Industries (Development and Regulation) Act, 1951. In SSI, there are virtually no licensing restrictions. . No industrial license is required except in case of 6 product groups included in compulsory licensing (these products groups mainly cover products that can only be made in large sector.). But if a small-scale unit employs less than 50/100 workers with/without power then it would not require a license from the Govt. of India even for the 6 product groups covered in licensing under Schedule II of the notification.

(G) CLEARANCES

An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

Product Specific Clearances

Environment & Pollution Related Clearances

Regulatory or Taxation Clearances

1. Registration under Sales Tax Act - Commercial Tax officer of area concerned

2. Registration under Central Excise Act - Collector of Central Excise or his nominee for area

3. Payment of Income Tax - ITO of the area concerned

4 Registration of Partnership deed - Inspector General of area concerned

5. Calibration of weights & measures - Weights and Measures Inspector of State

6. Power Connection - Designated Officer of State Electricity Board

7. Employee strength exceeding 10 with power connection or 20 without power - Chief Inspector of Factories

Environment & Pollution Related Clearances

The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors given below, in all other cases SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent:-

1.Fertilizer (Nitrogen/Phosphate)
2. Sugar
3. Cement

4. Fermentation & Distillery

5. Aluminium
6. Petrochemicals
7. Thermal Power
8. Oil refinery
9. Sulphuric Acid
10. Tanneries
11. Copper smelter
12. Zinc smelter
13. Iron & Steel
14. Pulp & Paper
15. Dye and Dye intermediates
16. Pesticides manufacturing and formulation
17. Basic Drugs and Pharmaceuticals

Product Specific Clearances

1. Establishing a Printing Press - District Magistrate
2. License for Cold Storage Construction - Designated Official in State
3. Pesticides - Central/State Agricultural Department - Ministry of Agriculture
4. Drugs and Pharmaceuticals - Drug license from State Drug Controller
5. Safety Matches/ Fireworks - License under Explosives Act from Directorate of Explosives, Nagpur
6. Household Electrical Appliances - License from Bureau of Indian Standards
7. Wood Working Industry within 8 km from forest - District Forest Officer
8. Milk Processing & Milk products manufacturing units - Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

(H) QUALITY CERTIFICATION

- Quality certification has become extremely important in competitive markets and especially in gaining foothold in exports. To avail the certification of ISO-9000, a unit has to undertake significant costs; the small scale industries have been found wanting mainly on account of resource crunch to implement quality systems to obtain this certification. However, as a paradigm shift, SSI must make 'Quality' a way of life.

- It has been decided to push the quality upgradation programme in the SSI Sector in a big way.
- A scheme has been launched to give financial incentive to those SSI units who acquire ISO-9000 certification, by reimbursing 75% of their costs of obtaining certification, subject to a maximum of Rs. 0.75 lacs per unit.
- In order to promote modernisation and technology upgradation in SSI, the units are assisted in improving the quality of their products.
- A new scheme has been launched to assist SSI units in obtaining ISO-9000 or an equivalent international quality standard. Subject to an upper ceiling of Rs. 075 lacs, each unit is given financial assistance equal to 75% of the costs incurred in acquiring the quality standard.
- The SSI units are also encouraged to participate in quality awareness and learning programmes organised specially for their benefit.

2.5 PERFORMANCE OF MSMES IN INDIA

SME sector of India is considered as the backbone of economy contributing to 45% of the industrial output, 40% of India’s exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. With approximately 30 million SMEs in India, 12 million people expected to join the workforce in next 3 years and the sector growing at a rate of 8% per year, Government of India is taking different measures so as to increase their competitiveness in the international market.

There are several factors that have contributed towards the growth of Indian SMEs. Few of these include; funding of SMEs by local and foreign investors, the new technology that is used in the market is assisting SMEs add considerable value to their business, various trade directories and trade portals help facilitate trade between buyer and supplier and thus reducing the barrier to trade

With this huge potential, backed up by strong government support; Indian SMEs continue to post their growth stories. Despite of this strong growth, there is huge potential amongst Indian SMEs that still remains untapped. Once this untapped potential becomes the source for growth of these units, there would be no stopping to India posting a GDP higher than that of US and China and becoming the world's economic powerhouse.

2.6 ROLE AND IMPORTANCE OF MSMES IN INDIA

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India.

In India too, MSMEs play an essential role in the overall development of the economy. In recent years,

the MSME sector has consistently registered higher growth rate compared with the growth rate of overall industrial sector. With its nimbleness and dynamism, the sector has shown worthy innovativeness and adaptability to survive the recent economic downturn and recession. The Micro, Small and Medium Enterprises (MSMEs) are playing a crucial role in the economic and social development of the country, often acting as a nursery of entrepreneurship. This sector also plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit.

Since independence, MSME sector has played a pivotal role in nation's economic development.

Besides helps in discouraging monopolistic practices of production and marketing, these industries dynamically contribute to the growth of national economy along with opportunity creation for accumulation of foreign exchange reserves. In India, this sector is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. These industries not only plays a crucial role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialisation of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country.

2.7. UNIT END QUESTIONS

A. Descriptive Questions

Long answer questions

1. What are the issues and challenges faced by MSME?

2.Describe the MSME registration procedure.

3. Elaborate the steps involved in setting up MSMEs.

4. Do MSME lack Marketing and Management skills and what are the ways to upgrade these skills?

5.Write short note on Financial challenges before MSME

Short answer questions

1. Write a note on technical and innovation issues faced by MSME sector.

2. Write a brief note on Udyam registration.

3. What are the benefits of MSME registration?

4. Highlight the role of 3Ms (men, money, material) in small scale industry

5. Write a brief note on performance of MSMEs in India

B. Multiple Choice Question

1. Furthermore, MSME firms in India are typically less ___________than their larger counterparts.

a) creditworthy

b) educated

c) skilled

d) trained

2. Boosting sales and acquiring new customers requires the right ______strategies.

a) management

b) marketing

c) technical

d) decisional

3. Government created registration process for MSME's is known as ________.

a) Udyam Registration

b) Union registration

c) Small scale registration

d) MSME registration

4. SME sector of India is considered as the backbone of economy contributing to _____ of the industrial output

a) 90%

b) 50%

c) 45%

d) 40%

5. In the Indian economy, access to finance has always been an issue for ________firms and businesses.

a) smaller

b) larger

c) Financial

d) tecnology

Answers

1-a, 2-b, 3-a, 4-c, 5-a

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UNIT 3 - SETTING OF SMES

STRUCTURE

3.0 OBJECTIVES

After completing this Students will be able to

- Define: Business opportunities for starting MSME
- Understand: Environment aspects in setting up enterprise
- Define: Rural Entrepreneurship
- Explain: Women Entrepreneurship in India

3.1 INTRODUCTION

Though small in SMEs play an important role in the economy. They outnumber large firms considerably, employ vast numbers of people and are generally entrepreneurial in nature, helping to shape innovation.

Small and mid-size enterprises can exist in almost any industry, but it is more likely they reside within industries requiring fewer employees and requiring smaller upfront capital investments. Common types of SMEs include legal firms, dentist offices, restaurants, or bars.

SMEs are segregated from large, multi-national companies because they fundamentally operate differently. Large, complex firms may require advanced ERP systems, interconnectivity across offices around the world, or must deeper organizational charges. SMEs, on the other hand, may be more with limits to its upside potential but also with more simple operations.

3.2 IDENTIFYING THE BUSINESS OPPORTUNITY

A business idea is a motivation for forming a company when broken down. Everything about the organization is driven by it, from the products and services given to the marketing of these things. This idea doesn't have to be original, but it should be able to capture a portion of the target demographic. To put it another way, it must provide something unique compared to other businesses in the market; otherwise.

1. Increasing the Flow of Income

Depending on the immediate need for the product or service in issue, a successful company idea can generate a consistent stream of money. By identifying the items and services involved, creating a profile of the target consumers, and generating a profile, scope, and objective for the idea, the company's idea must be well-developed. To put it another way, the concept needs to be written down as a business plan. A well-written business plan explains who the target audiences are, what goods and services are available, and how the concept will produce revenue.

2. Establishing a Network

Finding collaborators and competitors is an important part of developing and working on a company idea. To verify that your business idea is distinct from similar ideas, services, and goods already on the market, competitors must be investigated. Find colleagues who are willing to put money into your success. Media contacts, associations, and industrial organizations that are relevant to your business idea are among the collaborators. Joining these organizations and networks gives you access to a network of people who can provide you with advice and mentoring.

Top 10 profitable business ideas for MSME in 2022Team MSMExJune 13, 2022Top 10 Profitable Business

MSME is being implemented in the best possible way in countries all over the world. This article is for you if you've been looking for the top MSME business ideas in 2022.

Importance of Profitable Ideas for your Business

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these organizations and networks gives you access to a network of people who can provide you with advice and mentoring.

3. Taking over the Market

You have 100% market share if you get your idea to market first. But just because you're first doesn't guarantee you'll immediately rule the market. Offering high-quality products or services and excellent customer service will help you maintain your market share. Plan to move quickly to promote your plan to however many individuals as could be allowed while you are the only one offering it.

4. Brand Building and Expansion

Another benefit of having a profitable business idea is the ability to turn a single concept into a profitable brand. For instance, a business concept could be to sell sugar-free protein bars to clientele with diabetes. Although the concept is suitable for diabetic people, it can be developed to generate additional goods that complement the health brand. Lactose-free and sugar-free protein smoothies, sugar-free snack bars, and sugar-free chocolates might all be added to the mix.

Top 10 Profitable Business Ideas

Do you wish to open your own company? Begin right now. Do not become perplexed about which business or industry sector should be chosen. Every business has advantages and disadvantages; the question is which business concepts are the most profitable. It all comes down to which industry you have the most enthusiasm for. Your skillset is also crucial in reaching the goal. You should be confident in your ability to put your skills to work and tackle the challenges ahead. Let's also go through some micro, small, and medium company ideas that you can choose from based on your skillset.

1. Online Business

Small business concepts have the potential to grow into large corporations over time, and the Internet and related technologies can certainly assist. It has been proved that small businesses with an online presence perform better than those that do not. Surprisingly, this new business concept focuses on providing a variety of internet services to small and medium-sized organizations. This is why social media specialists, digital marketers, SEO experts, and website developers are in such great demand these days. Smartphones, computers, and a high-speed internet connection are all that is required for such businesses.

2. Jute Bags

Jute materials are durable, appealing, dependable, light, and inexpensive. Sewing and slashing these is a breeze. Aside from that, there are numerous sewing and slashing equipment accessible. Jute backpacks have a lot of export potential. Cotton strings and Jute fiber cloth are required as raw ingredients for making Jute bags. These can also be found readily. These can be shipped after being kept or stored in cartons.

3. Food Catering

A good meal is appreciated by all. Catering services are always in high demand. The cuisine is served at all types of events, including birthday parties, weddings, and anniversaries, and caterers are in high demand to ensure that the food is tasty. A kitchen and a few people to cook, serve, distribute, and manage logistics are all that are required for a food catering service. Have you ever fantasized about owning a restaurant empire? You can begin with a food catering business because it is a low-cost, high-profit venture.

4. Pet Care Services

A pet care service is an excellent place to start if you’re looking for low-cost company ideas. Pet owners take extra precautions to ensure that their pets are properly cared for and treated while they are away. As a result, people seek out professionals who can look after their pets while they travel. As a result, providing pet care services could be a viable source of revenue. It doesn’t get any better for a pet lover than starting a pet care service. The initial cost is extremely low, making it simple to get started and operate.

5. Bakery

Because of the joy they provide to festivities, bakery products are in high demand nowadays. From pastries and cookies to cakes and other bakery products, you may start your own bakery business with a small cost and create significant money. The bakery offers enormous room for expansion and growth. A home-grown bakery has a golden potential to be an instant smash these days, as the market leans towards first-hand bakery products at accessible costs.

6. Online Tutoring

Zoom, Google Meet, and other technologies have enabled students to study from anywhere. As a result, you can work as an instructor from the comfort of your own home. If you have a strong understanding of your teaching subject, online tuitions are a terrific place to be right now.

7. Event Planning

If you want to work for yourself, event organizing is a terrific small company idea. You'll need good communication skills and a solid network of contacts to get started. Baby showers, engagements, and weddings can all be part of your event planning business. With the rise of social media and the desire to share our lives online, everyone wants to post memorable moments and photos. This is your opportunity. If live events aren't your thing, you may start a digital event organizing business. You plan, arrange, and report on digital events for various businesses in this line of work. These occasions are probably going to be online webinars or online culminations, and you can enhance your hourly rate with sponsorships.

8. Candle Making

Because decorative and scented candles have recently been in high demand, getting a head start can be a great idea. Candles are lit for a variety of purposes, including religious and aesthetic considerations. There is no standard size for candles, as they come in many sizes, styles, and colors. Most of these candles may be made on a shoestring budget. You may start a candle-making business from home for a modest cost. Due to little capital investment, high-profit margins, and enormous candle sales, the candle industry has a promising future. These small businesses also have a large export market.

9. Virtual Assistant

Being self-employed isn't always as straightforward as we would think. The flexibility of a self-employed lifestyle can soon become a curse as well as a benefit, with no bosses to report to and no one telling us where to be or when! If you have good organizing abilities, you may hire yourself out as a virtual assistant to aid these poor self-employed people. As a virtual assistant, you'll handle everything from diary management to trip reservations to email management and more. But you'll do it in the privacy of your own house. You could also assist with other activities such as graphic design or bookkeeping if you have additional abilities.

10. Translation

Set up a small business providing translation services if you can speak at least two languages (fluently). This company concept might include everything from translating written or spoken items to assisting with video subtitles, facilitating communication between people from different nations, etc. Regardless of whether you just have a couple of extra hours out of each day, translation work can be a lucrative business that requires little more than your linguistic talents.

There are numerous MSME company ideas available, as the government now supports these enterprises. As a result, the popularity and practice of MSME firms are boosted by the low risk and high reward. All of the above-listed micro, small, and medium company ideas are easy to start and require minimal capital and equipment. You can also choose from a variety of options based on your interests and abilities.

3.3 BUSINESS OPPORTUNITIES IN VARIOUS SECTORS

There has been an impressive growth in people starting SME businesses in India. There are various reasons for this uprising. The major reasons are highlighted in the following points:

Since the new economic policy in 1991, the perception of starting a business has changed. Earlier, there were many barriers like tariffs, quotas, and many such challenges which restricted people from taking up an SME business. With initiatives like 'Make In India', the government has proved that there is decent ease of doing business in the country.

The Indian economy as a whole has prospered at an exponential rate. Due to this ever-rising economic growth, many small and medium businesses have attracted foreign investors. This foreign investment has given many startups a much-need financial boost.

Furthermore, these businesses have a tremendous future scope due to numerous schemes by the government aimed at helping SME startups. Apart from financial assistance, the government has also helped these businesses by providing market opportunities, loans facilities, etc.

People should also start their business in India at this time due to the idle skilled workforce available in the market. There are many unemployed people who have excellent skills but are not utilized. Therefore, businesses can tap this opportunity for better growth.

The government reforms the existing SME laws to favor various enterprises or industries every year. With the help of favorable government laws, it becomes easier to start a business in the country.

Lastly, technology has played a remarkable role in bringing unrealistic aims and business together. Today, companies can learn new things and gain a competitive edge using sophisticated technological features.

How to Start an SME Business in India? Complete Guide of Launching SME Business Team MSME x April 10, 2022

How to Start SME Business in India

- India is known to be one of the most crucial corporate hubs globally. There are numerous billionaires of India who have represented the country at the international level. But, there lies an unnoticed strong grassroots level responsible for such rich business importance.
- Apart from the big companies and large businesses, there are lakhs of small and medium enterprises in India, giving excellent returns to the Indian GDP. The growth in the SME industry has been tremendous over the past two decades.
- However, there are many people who look to start an SME business in India without any prior knowledge of the industry and various sectors. A person should have adequate information about the pros and cons of launching an SME business in India.
- There has been an impressive growth in people starting SME businesses in India. There are various reasons for this uprising. The major reasons are highlighted in the following points:
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Most Beneficial Sectors for Starting an SME Business in India

There are various sectors a person can start their SME business. The following sectors have less risk associated with it and turn out to be more profitable.

- Agriculture: India is the epitome of agricultural excellence. Most of the Indian economic growth is constituted by the agricultural sector. The forestry and agriculture sector in India stands at $276.37 billion as of 2020.
- Automobile industry: The automobile industry is growing tremendously with the rise in population. In India, the automobile sector can be one of the safest sectors to start a small or micro business.
- Auto components: With an expected value of $200 billion by 2026, auto components are easily sellable items. It has created employment opportunities for more than 5 million people. Therefore, it is one of the best options to set up a business in India.
- Aviation industry: It is unknown to many people that the Indian aviation market is growing rapidly, with current market passenger traffic growth of 11%. Apart from this, around 3.6 MMT of total freight traffic exists in the country. These facts point out the progress and future scope of the aviation market, which is currently the world’s third-largest aviation market.

- Chemicals: India is one of the leading exporters of chemicals. There are tonnes of chemicals being shipped from various ports from India to different locations. It is a significant contributor to the global chemical industry, with around 3% contribution.
- Biotechnology: The country has witnessed an incredible growth rate in biotechnology, with 7x growth in the last decade. India is also home to nine biotechnology parks. According to research studies, the country is the third-largest biotech hub in the Asian region.
- Capital goods market: When a person comes to India, they would never forget the giants in the capital goods industry like Jindal Steels, Apar industries, etc. It provides direct employment to around 5 million people. The country is also excellent in exporting machinery, with an estimated value of $9.97 billion in machinery exports.

Apart from these sectors, other notable and considered industries to start a small or micro business are:

- Leather
- Information Technology and BPM
- Healthcare
- Food processing
- Defense manufacturing
- Electronic systems
- Fisheries
- Medical devices
- Pharmaceuticals

3.4 FORMALITIES FOR SETTING UP AN ENTERPRISE

There are no separate statutes, rules and procedures for incorporating or forming MSME companies. The companies formed or incorporated under the Companies Act or other relevant Acts are eligible for registration as MSME companies, subject to certain threshold criteria as depicted above.

The registration of an MSME meeting any of the above criteria can be done through an online portal. Besides, more information on the various schemes like credit and loan schemes, subsidy schemes, etc available for MSMEs in India, can be availed here, which is the official website of the Ministry of Micro, Small and Medium Enterprises. The MSME registration process is entirely free of cost.

An Aadhaar card is mandatory for initiating the MSME registration process, along with the registered phone number.

The other documents which are required for MSME registration:

- Rent agreement or ownership documents of the premises
- For rented premises, NOC from the owner, rent receipts, utility bills etc
- For self-owned premises, documents such as lease deed, property tax receipt
- Cancelled cheque of the company
- PAN Card of the company
- Company registration documents
- Partnership deed (if exists)
- Memorandum of Association (MoA)
- Articles of Association (AoA)
- Copy of the Licenses and Bills of Machinery Purchased

This Guide from the MSME Ministry provides excellent information and guidelines regarding all the legal necessities and documents required for MSME registration.

To facilitate the enterprises to benefit from the various schemes, the Office of Development Commissioner (MSME) has launched a web-based application module, namely, MyMSME. This can also be accessed through a mobile app. Entrepreneurs can apply as well as track their applications on their mobiles.

Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength (CHAMPIONS) portal is a technology system for making the smaller units big by helping and hand-holding them. The portal not only helps MSMEs in the present situation but also guides them to grab new business opportunities in their growth trajectory.

3.5 BENEFITS OF REGISTERING AS MSME

Many benefits are made available by the government to the companies registered as MSME. Some of the most important and relevant benefits and schemes are discussed in the rest of this article:

1. Collateral-free bank loans under Credit Guarantee Scheme

The Government of India has facilitated the availability of collateral-free credit to all MSMEs. This initiative guarantees funds to micro and small sector enterprises without collateral. A trust named The Credit Guarantee Trust Fund Scheme was introduced by the Government of India, SIDBI (Small Industries Development Bank of India) and the Ministry of MSMEs to make the Credit Guarantee Scheme for old and new MSMEs to avail loans. The trust guarantees credit to MSMEs in place of collateral.

2. Subsidy on patent registration

MSMEs registered with the MSME ministry can avail a 50 percent subsidy on their patent registration fees. This encourages small businesses and firms to keep innovating and working on new projects and technologies, and registering patents. MSMEs and startups need to register their innovations under the Patent Act.

3. Overdraft Interest Rate Rebate

Enterprises registered as MSMEs can avail a benefit of 1 percent on the overdraft in this scheme that differs from bank to bank. This helps small businesses secure loans at lower cost and enhance their profitability

4. Protection against delayed payments

MSMEs face the risk of delayed payments from their customers which, in turn, disturbs their entire business. Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 contains provisions to deal with cases of delayed payment to micro and small enterprises. As per the provisions of the Act, the buyer is liable to pay compound interest with monthly rests to the MSME supplier on the amount at three times the bank rate notified by Reserve Bank in case they do not make payment to the supplier for the supplies of goods or services within 45 days of the day of acceptance of the goods/service or the deemed day of acceptance.

State governments are to establish Micro and Small Enterprise Facilitation Council (MSEFC) for settlement of disputes on getting references/filing on delayed payments. Every reference made to MSEFC shall be decided within ninety days from the date of making such a reference as per provisions laid in the Act.

However, there is a pitfall in this excellent rule implemented for the benefit of MSMEs in their cash flow management. The author has first-hand knowledge that many non-MSME companies hesitate to buy goods and services from MSME registered companies for the fear of enforcing the above provisions in case they delay payments.

5. Rebate on electricity bills

Another benefit the MSMEs are entitled to are concessions on their electric bill. This enables businesses to boost production and take in more orders without worrying about expenditure on costs like electricity and maintenance. They can avail of the concession by providing an application to the department of electricity along with the certificate of registration.

6. ISO certification charges reimbursement

Any registered micro, small and medium enterprise can claim reimbursement of the expenses that were made to obtain an ISO certification. This motivates entrepreneurs to get their respective businesses ISO certified which helps them to do business abroad in terms of high-quality exports.

7. Public Procurement Policy - SAMBANDH

The Ministry of MSME came with the Public Procurement Policy for Micro and Small Enterprises (MSE) with an order in 2012, later amended in 2018, which has mandated that every central ministry/department / Public Sector Units (PSU) shall set an annual goal for procurement from the MSME sector of minimum 25 percent of the total annual purchases from the products or services produced or rendered by MSEs.

A sub-target of 4 percent out of 25 percent target of annual procurement earmarked for procurement from MSEs owned by SC/ST entrepreneurs.

Special provision for micro and small enterprises owned by women. Out of the 25 percent, 3 percent shall be earmarked for procurement from MSEs owned by women.

Tender sets free of cost and exemption from payment of earnest money (EMD) to registered MSEs.

MSEs quoting price within price band L-1 + 15 percent, when L1 is from someone other than MSE, shall be allowed to supply at least 25 percent of the tendered value at L-1 subject to lowering of price by MSEs to L-1.

The implementation of Public Procurement from MSMEs is monitored through the MSME SAMBATH portal.

8. Government e-Marketplace (GeM)

GeM is a one-stop portal to facilitate online procurement of common use goods and services required by various government departments/organisations/PSUs. GeM aims to enhance transparency, efficiency, and speed in public procurement.

It provides the tools of e-bidding, reverse e-auction, and demand aggregation to facilitate the government users to achieve the best value for their money. The purchases through GeM by government users have been authorised and made mandatory by the Ministry of Finance.

9. Receivables e-Discounting System (TReDS)

Trade Receivables Discounting System (TReDS) is an electronic platform for facilitating the financing / discounting of trade receivables of MSMEs through multiple financiers. These receivables can be due from corporates and other buyers, including government departments and PSUs. It is also a cheaper alternative to banks and factoring companies.

This process involves three stakeholders; the corporate buyer, the SME supplier, and the investor/financier. The open system ensures transparency to all stakeholders and is entirely automated. It is an RBI regulated trading platform meant to buy and sell receivables on a bidding model under the payments and settlement system

3.6 LOCATION OF ENTERPRISE

Deciding where to locate a business can be a defining factor in its success – but getting the geography right has its challenges, too, and invariably involves offsetting the benefits against the disadvantages of any chosen location.

SMEs located in rural areas often struggle to recruit and retain top talent, but are able to forge strong bonds with their employees, resulting in lower turnover and absentee rates.

Access to customers can also be tricky for businesses based in more remote locations, but for firms like Red Hot Penny, a digital marketing agency based in Wokingham, Berkshire, the pay-off is lower costs, improved talent acquisition and tapping into new client bases.

Ian Hardman, head of business development for commercial banking at Clydesdale & Yorkshire Bank, says it comes down to the classic line: “Location, location, location. It is everything. Even if you’re an internet-based business, having the right location can significantly impact the future success of your operation.

“Obviously the cost of the location is important to consider because ‘cash is king’, particularly for start-up businesses without significant cash reserves.

“However, despite how attractive the price of a particular location might be, if your employees or customers can’t get there easily – or if the infrastructure can’t support your business operations as planned – it could actually end up costing you more.”

For some companies, location is inextricably linked to branding, which can create additional challenges.

For some SMEs, working in a particular community can mean more than easy profits, and Vaughan agrees. She says: “Working within a local rural community, we provide much-needed jobs and in return we receive employee loyalty and absolute dedication. Our staff turnover is minimal and all our key workers are British.”

In some industries, being seen in the city centre is de rigueur for up-and-coming brands, even for digital firms whose location actually means little to their customers.

How to Choose a Business Location

Choosing a business location is not something that can be done on a whim—it's a crucial step in starting a business. First things first, the business location you choose will depend on the type of business you operate. Business parks, shopping malls, strip malls, professional buildings, and others are all designed to meet the specific needs of various businesses. If you’re expanding from online-only to online and brick-and-mortar, for example, your needs will be much different than if you’re an accountant looking to grow your firm and bring in new clients.

A business location strategy takes planning and research and a willingness to thoroughly vet all of your options. With these helpful tips, you can identify the best place to locate your expanding business.

1. Decide on a business location type

Here are five common types of business locations, but more creative options, like co-working spaces, are popping up all the time. Be on alert for these and other location types that would meet your specific needs.

- Home-based business - If you work from home but need more space, you might consider moving to a new home or adding on to your existing home to create the office space you need.
- Retail business - Don't limit yourself to downtown storefronts and strip malls. You can also find retail space in airports, free-standing buildings, and special event kiosks.
- Mobile business - It used to be that the only businesses that moved around were circuses and festival vendors. But today with mobile card readers, your restaurant can add a roaming food truck location and your used book store can open a new pop-up shop near the beach.
- Commercial business space - Commercial business spaces offer flexibility for even more growth down the road, but are typically best for businesses that don't rely on heavy consumer traffic.
- Industrial site - If you operate a manufacturing or distribution business, you'll have special needs and will likely have limited choices when it comes to opening a new location. Industrial sites are needed for companies that require large amounts of warehousing space, for companies that need access to major transportation routes, or for companies that may produce pollutants as part of the manufacturing process.

In almost every case, where you can locate your business will be dictated by local zoning ordinances in your community. Don't sign on the dotted line until you're sure it's legal for you to operate your business in your desired location.

2. Make sure the business location is within your budget

Of course, one of your major priorities will be finding a location that fits within your company's budget. However, that's not all you need to examine when it comes to money. There often other location-specific costs to consider beyond the purchase price or monthly rent. Almost every location has different hidden costs that you need to account for: taxes, renovations, utility upgrades, minimum wage requirements, and economic incentives. Even mobile businesses need to consider the cost of permits and vehicle licensing when choosing a new business location.

Considering all the above will help you make a well-educated choice for your next business location. Before committing to anything, be sure to speak with other business owners in the area to make sure they're happy with the location. Although you can never predict if a new location will be successful, you can do as much research as possible beforehand to ensure it is the best available fit for your growing business.

3. Consider your brand

Keep your brand in mind when developing your business location strategy and looking at options. For instance, you probably wouldn't want to plant your new office supply location right in the middle of a high-end, boutique shopping district. Likewise, an upscale restaurant might not fare so well in the middle of a college town or rural area, where customers are used to spending less money on cuisine.

4. Think about vendors and suppliers

You'll need to secure a location that makes it easy for you to connect with your vendors and suppliers; otherwise, you might experience significant delays or run into frequent issues with inventory levels. When considering your options, ask yourself which location site makes it easier and cheaper for you to get the raw goods you need to operate.

5**. Find a safe location**

Operating a business where you feel safe and protected should not be underestimated. And besides your own safety and the safety of your employees, also consider your business's safety as well. This is especially important for businesses with inventory that may be at a higher risk for burglary and theft or if you'll frequently be running your business alone at night.

6. Go where there is demand

Ideally, you want to secure a business location that's not saturated by your competition. Look for areas where your product or service is in high demand or where your competition is fairly low. If at all possible, you'll want to expand to a location where the other businesses on the block are complementary, to ensure your business fits into the local market.

7. Think about recruiting efforts

If you'll be hiring employees and managers for your business, you'll want to make sure you open in an area where there's good access to public transportation or where potential employees will be attracted. Finding high-quality employees is crucial to your business success, so plan your location around where employees want to work.

8. Look for sites with parking options

No matter how attractive your business is, sufficient parking should be a key consideration. Does your business location have a convenient parking lot, or will your customers need to pay for parking—and will they be willing to? If paid parking is your only option, you'll also want to consider if your business will offer validation. And don't forget about your employees here—they'll also need somewhere to park.

The bottom line

There are several business location factors to consider, from pricing and availability to parking and market appeal. Choosing the best location for your business is crucial to your overall success, so it's important to do the necessary research before committing to a location. Be sure to think about your location not only as a business owner, but also from the point of view of an employee and potential customer. A well-informed business location strategy will ensure you find the best place to set up shop and open your doors for business.

3.7 STEPS IN SETTING UP AN ENTERPRISE

1. Decision to be an Entrepreneur

The overriding reason for anyone to think of establishing a SSI unit can be summarised in one word - opportunity. An opportunity to be your own boss, to provide a product or service, to implement your ideas, which can generate sufficient surplus, is reason to think of starting up a SSI unit.

Starting a small business takes a lot of courage. To be successful - to stay in business - you need a combination of hard work, skill and perseverance.

2. Choosing your form of Business Organisation

Many first time entrepreneurs do not have a clear perspective of the issues, legal or otherwise, involved in choosing one or the other form of a business. This often results in avoidable mistakes, which later cost time and money to rectify. The options of the form of business with their pros and cons have been explained below. In India setting up a private limited company was the most popular choice among our sample of entrepreneurs.

Franchising is also emerging as a major business format. An extensive overview of its features is provided since it is believed that it will grow the same way in India as it has abroad

3. Making a Product Choice

Make a careful analysis of the product or service you are choosing, sometimes in short run, there is a shortage of a particular commodity in the market, you may even come to know you will get almost two weeks in advance to supply fresh stock. Does that mean you can jump into that business. First thing in such a condition is to analyse the situation. Keep in mind that shortages may occur due to a number of reasons and a good entrepreneur always examine the pros and cons before setting up a business. It may tempt you to think that perhaps you have found a good businesses idea. But do not be easily influenced by these temporary shortages. Carefully analyse the future demand-supply position of the product, say for the next 3 to 5 years. Only when you are certain that the shortage will remain there for considerable period of time and you would be able to generate enough profits in the very first or second year of operation and that you can produce quality item within an acceptable pricing, then only you should venture into such a business.

4. Location of Industry

After deciding the issues of product, the next important question is, where to set up the unit ? For many tiny units and service-based units, the home is perhaps the best starting point. But not all type of SSI can be set up in home either due to size or due to nature of the industry. Then the entrepreneurs may like to locate their business in industrial estates, areas, parks, complexes developed by concerned state government organisation or private bodies or in a privately leased land subject to approvals by various state and municipal bodies.

State level Government agencies like DSIDC, HPSIDC, GIDC, TIDCO, UPSIDC assist entrepreneurs in identifying suitable locations/sites for the project, besides helping in the process of getting all the necessary clearances for the project.

5. Preparation of Business Plan

A Business Plan is an document where you plan your Business to have an organized and effective response to a situation which may arise in future. Business plan is not just for a start up company but also for those, which are growing. It can be used it to establish realistic goals or targets to achieve and to determine the current position.

Start a business plan with describing your business and product or services. Tell about the market you are targeting and the stage of development your company.

6. Sourcing Process, Raw Materials, Machineries and Equipments

Choices of process technology emerge once the product is finalised. For some complex products, process know-how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defence Research Labs and some of these technologies can now be bought. There are some intermediaries like APCTT, TBSE, which can help you to locate the relevant technologies. Besides there are some In-house R & D centres of companies, which develop technologies and sell them to interested parties. Indigenously developed process know-how has intrinsic benefits such as appropriateness, relative inexpensiveness and possibility to work with technology developer.

7. Infrastructure - Land & Building, Water and Power Supply

Once an industrial plot for the unit is secured, then the next job is that of finding a suitable architect to design the outlay of area and factory. Design of factory building has to be in consonance with the type of industry. Have an appropriate plant layout. If you are setting business in home, plan the area, which is to be used as your production centre or office judiciously. You may like to take help of a professional to ensure that the area is utilised optimally.

An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

8. Legal Aspects

Few simple steps to take care of legal aspects of setting business are to Register your unit with relevant organisation, check out the labour laws that would be applicable to you, pay your commercial taxes and taking care of environmental aspects. Each of these aspects is discussed in details.

9. Finance and Working Capital to Start Business

To start and set up their business all SSI units need monetary support. Before seeking fund estimate the cost including that of working capital required for a minimum of 6-8 months and always keep a provision for buffer. you can take help of an CA or concerned officials in Entrepreneurship Development Institutes to work out the total financial cost of your project. Decide the form in which you are going to raise the capital i.e. should it be equity finance, debt finance, loans or a combination of these.

10. Human Resource

Human Resource is an important element to be kept in consideration while setting up an business. Though, projections for manpower and staffing are made in the project report, however it is necessary to time the induction of manpower in a planned manner. For example: The engineers and operatives must be available before the installation of the machinery. While planning for manpower following points should be kept in consideration.

11. Production

Today's competitive market, it is difficult to maintain stable relationships with suppliers, customers, brokers, distributors, and even your own company personnel. Competitors are stealing your best customers. To maintain the edge entrepreneurs need to synchronies their production process, capacity, and delivery schedule.

Plan out your work area keeping in mind the requirement of your business. More often than not the area available to small businesses is limited and within that area all the work needs to be carried out, right from storing the raw materials to the final product. The space for each of these should be clearly chalked out.

12. Pricing

In India, price is often affected by excise duty, sales tax and local taxes like octroi, thereby making it difficult to maintain a uniform price throughout the country. You may opt for any of the following policies or modify and combine them depending upon your objective or you can have your own pricing policy.

13. Marketing

Marketing is an important tool to be used while setting up your business. Study, but don't necessarily copy your competitor's moves. Visit their businesses, watch their ads, figure out their strategies, and keep your eyes open. You may not be able to keep up with your competitor's strategy move by move. You should, however, be ready and able to blunt or block the impact of their moves through effective marketing. Then, later, you can make your own offensive move at your own pace.

14. Feedback and Reporting

Have a suitable feedback mechanism in place to learn from experiences, to gain an insight into what is happening in your business, if you don't have one develop a suitable mechanism, which suits your necessities. Think of your experiences, when you wanted to know from others how you were performing your jobs or chores or tried to find out how you performed in your a particular assignment.

3.8 ENVIRONMENTAL ASPECTS IN SETTING UP

An organisation's activities, products and services that interact with the environment are referred to as "aspects", which may have a negative or positive impact on the environment. Typically, aspects might include emissions to air, discharges to water and waste arisings, which in turn may generate environmental and health impacts such as global warming, water pollution or contaminated land.

All activities generate impacts. Some, such as those of an office-based service, may have relatively minor environmental impacts, such as less waste materials and lower energy consumption linked to air pollution. Whereas some heavy industrial aspects such as processes that cause emissions to air and discharges to water may have significant environmental impacts.

Managing environmental aspects and impacts is arguably the most important component of an environment management system. This topic explains how to identify environmental aspects and related impacts and provides useful methods for determining relative significance in terms of risks to the environment. It also explains how to compile a register of significant aspects and impacts.

How Environmental Factors affect the business

Environmental factors can be explained as identifiable elements within the cultural, economic, demographic, physical, technological or political environment which impacts the growth, operations and survival of an organization. Environmental factors can be both internal as well external for the business. External factors can include economic and technological factors whereas; internal factors may include value system, objectives or internal relationships of a business.

Every business, whether large or small, is affected not only from internal organizational factors but, from several external factors. Company have no control on external environment. Developing marketing strategies should include considering environmental factors so an accurate picture of the market trends and environment can be presented and to understand as to where the company is standing. Ignoring environmental aspects is similar to walking on a path where there are unsuccessful marketing and lost revenues which can ultimately impact the health of the business brand.

Examples of Environmental Factors Affecting Business

- Environmental Policies. Environmental policies are considered the major external factor that can impact the strategy of a business. Environmental policy is the commitment of a business to the regulations, laws as well as other policy mechanisms that are concerned with environmental issues. Environmental policy impacts businesses because the law implies organizations to change their operational procedures and equipment so as to meet those standards which can cost businesses some good amount of money.
- Climate Change. Climate change became an insidious threat to businesses as its pace can be recognized only when it is taken into consideration on the basis of decade-after-decade. Increasing issue of global warming and adverse weather conditions in the recent few years, it is difficult for companies and organizations to operate equally in every type of weather condition. Businesses that are directly dependent upon adequate water supply e.g., field sports or agriculture will be affected adversely if climatic changes resulted in reduced rainfalls. Even consumers are becoming aware and keen about this factor and are prone towards those brands which are saving the environment or supporting this cause.
- Green Agenda. Business-related activities impact the environment; however, the environment also has an effect on businesses and the market environment. Now enterprises have realized that in order to achieve business goals, there is a need to draft environmental-friendly policies. Green agenda is a plan where enterprises manage their operations in such a way so that there is minimal negative impact on the local or global environment.

- In order to be environmentally responsible, corporations need to devise plans and procedures in their operations and activities which is beneficial not only company but, for the overall environment as well.
- Pollution. Pollution can also have an impact over business strategies. Pollution may cause some major environmental events which can result in the disruption of supply chains or an increase in the cost of raw material. Organizations need to monitor such events and develop contingency plans so as to deal with them.
- Availability of natural resources. Amongst external environment factors, this factor refers to the physical environment of a business. Natural resources are very important for most businesses and many corporations have natural resources as their major raw material. Lack of natural resources can hinder an organization's producing ability and hence its output.
- Recycling. Recycling is another aspect of a greener environment. The cost of dumping waste in landfills is increasing and is resulting in not only shortage of wastages but, it also provides harm to the environment. Recycled materials not only results in making the production process cost-effective but, it also helps the business to save some money and helping the environment.
- Waste Disposal. Although, there has been a positive trend towards recycling of waste materials, still there is several businesses which dump wastage in landfills. This not only increases their cost of dumping waste but, is also harmful to the environment in which the business operates. Businesses, in order to meet their bottom line, should first look at producing less waste and use fewer resources which will reduce their production cost along with making the corporation sustainable.

Common Social Factors

Social environmental factors in business include societal movements, changes in public values and attitudes people in the marketplace have toward working for your business. If you operate a small casual dining restaurant, you must recognize societal trends toward healthy lifestyles and food consumption habits.

Doing so allows you either to promote alternative values to fit your current offering or to adjust your operation to compensate for the trend. Maintaining a positive public image improves your ability to attract local workers as well. With consumer's increasing desire to patronize companies that promote a "green" business model and demonstrate diversity, consider adding these practices to your business.

Different Political Factors

For a small company, political factors relate to your interaction with local governments and agencies. In general, you want to have a good working relationship with the mayor and city council members in a city or town in which you operate.

This increases your ability to influence laws and codes that affect your business. Access to local funding and tax subsidies is a political issue as well.

At the national level, new legislation can impact your business. For example, the recent pandemic saw different stimulus programs for small businesses as the Trump administration transitioned to the Biden era.

Legalities to Watch

The legal environment is similar to the political landscape in the way it affects your business. Changes in laws or city ordinances may affect your business directly. If your target market is teens, for instance, a new curfew that requires people under 18 to be home by 11 p.m. may affect your hours of operation. New health and safety regulations affect restaurants and food vendors.

Watch Economic Conditions

How will an increase in the minimum wage affect your business? A strong labor market can also increase wages and competition for workers heats up. When the economy tanks, your product might become more in demand if you're a bargain brand, or your sales might drop if you're a discretionary purpose. A strong housing market is good for carpenters, dry wallers, painters, roofers and other contractors. These trades people struggle when the housing market sees a significant downturn due to a variety of environmental forces in business.

3.9 INCENTIVES AND SUBSIDIES

To make India self-reliant, the development of the MSME (micro, small and medium enterprises) sector—which forms the backbone of the Indian economy, contributing 30 percent to the country’s GDP—is crucial.

Amid the COVID-19 outbreak, when MSMEs were on the verge of financial ruin, Finance Minister Nirmala Sitharaman announced a slew of initiatives in May 2020 under the Rs 20 lakh crore Aatmanirbhar Bharat stimulus package. Three policies that stood out were the Rs 3 lakh crore collateral-free loan scheme, the Rs 20,000 crore subordinate debt for MSMEs, and the Rs 50,000 crore equity infusion through the Funds of Funds (FoF).

MSMEs need handholding through government schemes and initiatives to stay relevant and competitive in the ever-evolving market. The government has recently added some more schemes and measures for MSMEs which SMBStory has detailed below.

Tool rooms and technical institutions

Tool room and technical institutions are focused on the integrated development of the relevant industries that work with MSMEs.

While tool rooms allow for the design and manufacturing of sophisticated small- and medium-sized tools, technical institutes provide technical services such as the design of tools, moulds, etc, materials testing, quality control, as well as technical consultancy related to the manufacture or application of tools.

A total of 18 MSME tool rooms and technical institutions established across India including Aurangabad, Ahmedabad, Bhubaneshwar, Guwahati, Hyderabad, Indore, Jamshedpur, Kolkata, Jalandhar and Ludhiana, serve in relevant sectors such as general engineering, foundry and forging, electronics, fragrance, glass, sports goods, footwear etc. The tool rooms have also developed special training programmes to meet international requirements.

Benefit:

- Improve access to tooling facilities for enhancement of MSMEs' efficiency and providing industry-ready manpower by conducting training programmes.
- Process and product development in relevant sectors.
- Consultancy and job work in relevant sectors.

Eligibility criteria:

- Industrial units focused on the MSME sector.
- The training programme can be taken by school dropouts as well as MTech graduates.

MSME Champions scheme

by merging all six components of the erstwhile Technology Upgradation Scheme (TUS) for a period of five years ie 2021-22 to 2025-26. The scheme is yet to be launched and the government said it will give a holistic approach to unify, synergise and converge various schemes and interventions.

The end objective is to pick up clusters and enterprises, modernise their processes, reduce wastages, sharpen business competitiveness, and facilitate their national and global reach and excellence. There are three components under the new MSME Champions scheme:

1. MSME-Sustainable (ZED):

MSME Sustainable (ZED) Certification is an extensive drive to create awareness among MSMEs about Zero Defect Zero Effect (ZED) practices, and motivate and incentivise them for ZED certification. Through the journey of ZED Certification, MSMEs can reduce wastages substantially, increase productivity, enhance environmental consciousness, save energy, optimally use natural resources, expand their markets, etc

Key benefits:

- Cost of Certification

Certification Level 1: Bronze: Rs 10,000

Certification Level 2: Silver: Rs 40,000

Certification Level 3: Gold: Rs 90,000

Subsidy on the cost of ZED certification:

Joining reward of Rs 10,000 (Bronze will become free if availed)

80, 60, 50 percent for micro, small and medium enterprises, respectively

- Additional subsidy:

10 percent for women/SC/ST owned MSMEs or MSMEs in northeast India/Himalayas/left-wing extremism affected areas/osland territories/aspirational districts.

5 percent for MSMEs that are also a part of the SFURTI or micro and small enterprises Cluster Development Programme (MSE-CDP).

Financial assistance in testing/quality/product certification:

Up to 75 percent of the total cost of testing/certification, with the maximum ceiling of subsidy being Rs 50,000.

- Handholding support :

Up to Rs 2 lakh for consultancy for all ZED-certified MSMEs.

Support in technology upgradation for zero-effect solutions:

Up to Rs 3 lakh for all ZED-certified MSMEs.

MSME KAWACH (Knowledge Acquisition through WASH for an Accelerated COVID-19 Handling) certification: After taking ZED Pledge, MSMEs can avail support for their preparedness to mitigate COVID-19 risks after obtaining certification based on WASH standard.

Graded incentives: MSMEs can avail graded incentives as prescribed for the three ZED certification levels. Wherever possible, the incentives provided by states will be linked through API integration with the ZED portal to ensure interoperability.

- Eligibility criteria:

All MSMEs registered with the UDYAM registration portal (of the Ministry of MSME) will be eligible to participate in MSME Sustainable (ZED) Certification and avail related benefits/incentives.

2. MSME-Competitive (Lean):

MSME Competitive (LEAN) scheme [MCLS] aims to enhance the competitiveness of MSME sectors through the implementation of lean tools and techniques.

Key benefits:

Cost of implementation: Basic: free; Intermediate: Rs 1,20,000; Advance: Rs 2,40,000

Financial Assistance to a group of MSME Units for adoption of Lean tools/techniques.

Subsidy on cost of Implementation: 90% of Total Cost of Implementation

Eligibility criteria:

All MSMEs registered with the UDYAM registration portal will be eligible.

3. MSME-Innovative (Incubation, IPR and Design):

MSME Innovative Champions combines innovation in incubation and design intervention, as well as protecting IPR, through a single-mode approach to create awareness among MSMEs about India's innovation and motivate them to become MSME Champions.

Key benefits:

Incubation

Financial Assistance to Host Institute (HI) for developing and nurturing the ideas - shall be provided up to a maximum of Rs 15 lakh per idea.

Financial assistance for plant and machinery to HI up to Rs 1 crore

Design

For the design projects approved for any MSME, 75 percent (micro) and 60 percent (small and medium) of the total project cost will be contributed by GoI up to a maximum of Rs 40 lakh, and the remaining project cost will be borne by MSMEs and deposited to the Implementing Agency (IA).

IPR

A grant of up to Rs 1 crore would be provided to an IPFC in milestone-based (three or more) instalments.

Reimbursement for registration of patent, trademark, geographical indications (GI), design.

Eligibility Criteria:

Incubation: MSMEs, individuals, students who want to develop their innovative ideas can apply through registered HIs.

Design: The beneficiary unit(s) must typically be a registered micro, small or medium enterprise as per the definition in MSMED Act and should have a valid UAM or Udyam registration.

IPR: For manufacturing MSMEs with UAM/UDYAM registration

Digital MSME

The 'Digital MSME' scheme for the promotion of Information and Communication Technology (ICT) in the MSME sector is designed to cater to the diverse digital needs of the sector and to make the maximum number of MSMEs digitally empowered.

Under this scheme, a large number of MSMEs are expected to be benefited in terms of standardisation of their business processes, improvement in delivery time, reduction in inventory carrying cost, improvement in productivity and quality of production, controlling cost and time, improved customer satisfaction etc.

Key benefits:

Empower and enable MSMEs to harness IT as a medium of communication to revamp access to the markets to update their managerial and technical knowledge through online content– both static and dynamic.

To give them software interventions, evolving their internal efficiencies by way of intense ICT intake and automating procedures for cost reduction, imparting digital literacy and capacity enhancement for information access, processing, collaboration, and dissemination.

To offer to the MSMEs a safe and sound bouquet of customised digital solutions that have been designed keeping in mind the diverse requirements of the ecosystem, saving them from the travails of indiscreet and indiscriminate adoption of technology.

Eligibility criteria:

All MSMEs registered with the UDYAM registration portal (of the MoMSME) will be eligible to participate in the scheme.

Credit Guarantee Scheme for Subordinate Debt (CGSSD)

Under the CGSSD scheme, subordinate debt is aimed at sustaining and reviving the MSMEs—which have either become NPA or are on the brink of becoming NPA. Promoter(s) may infuse this amount in MSME units as equity and thereby, enhancing liquidity and maintaining debt-equity ratio. In a situation where an outright loan is difficult, sub-debt with a guarantee will provide the requisite financing to the MSME units.

Key benefit:

Promoter(s) of the MSMEs are given credit equal to 15 percent of their stake (equity plus debt) or Rs 75 lakh, whichever is lower.

Eligibility criteria:

This scheme seeks to extend support to the promoter(s) of the operational MSMEs which are stressed and have become NPA as of April 30, 2020.

Self Reliant India (SRI) Fund

Through the scheme, the MSME ministry aims to ensure the availability of growth capital to the MSMEs through equity/quasi-equity/equity-like structured instruments.

This scheme is yet to be launched and is aimed at encouraging MSMEs in moving towards listing on the stock exchanges, and growing beyond the MSME bracket. The AIF will be anchored by NSIC Venture Capital Fund Limited (NVCFL), a wholly-owned subsidiary of The National Small Industries Corporation (NSIC), a Mini-Ratna corporation.

Key benefit:

Disbursement to MSMEs across the country.

Micro, small, and medium enterprises (MSMEs) are the growth drivers of the Indian economy. To sustain their growth, the Government of India provides several subsidies and schemes to them. These help SMEs overcome liquidity bottlenecks, conduct smooth operations and be competitive.

<u>Check-out 10 government schemes for small businesses on offer.</u>

1. Credit Guarantee Fund Scheme for micro and small enterprises

The government introduced this scheme to provide collateral-free credit to micro and small enterprises operating in the country. To implement the policy, the Ministry of Micro, Small and Medium Enterprises, Government of India (GoI), and Small Industries Development Bank of India (SIDBI) established a trust by the name of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

Under the scheme, fund and non-fund-based credit facilities up to Rs. 200 lakh are covered for eligible borrowers. The guarantee cover under the scheme is up to the extent of 50%, 75%, 80%, and 85% of the sanctioned credit amount.

2. Pradhan Mantri Mudra Yojana (PMMY)

This is a business loan type offered to MSMEs by the Government of India. PMMY disburses the following three types of loans:

Shishu loans up to Rs. 50,000

Kishore loans above Rs. 50,000 but up to Rs. 5 lakh

Tarun loans above Rs. 5 lakh but up to Rs. 10 lakh

The business loan offer for MSMEs via PMMY doesn't need any collateral, and one can avail this loan for business growth from financial institutions enrolled and eligible to disburse it. One can also file an online application to procure this loan.

3. Subsidy Offered Through National Small Industries Corporation (NSIC)

An ISO-certified Government of India enterprise, NSIC facilitates the growth of MSMEs by providing services in the field of finance, technology, and marketing. It has initiated two schemes to foster the growth of MSMEs. Read more about these schemes, below:

Credit Support Scheme: Under this scheme, financial aid is provided to MSMEs to obtain raw materials.

Marketing Support Scheme: This scheme supports consortia and tender marketing activities of MSMEs.

4. Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS)

SMEs can remain competitive, only by upgrading their technology and machinery periodically. However, this upgrade can be quite capital intensive. This is where the CLCSS scheme is helpful in providing SMEs with the required funds

The scheme provides an upfront capital subsidy of 15%, limited to a maximum of Rs. 15 lakh to MSMEs to modernise their plants and machinery. Sole proprietorship, partnership firms, cooperative, private, and public limited companies are eligible to benefit from this scheme of the Government of India.

5. Stand-up India Scheme

This is one of the most popular government schemes for small businesses. It aims to finance SC/ST and women entrepreneurs. Its objective is to facilitate loans ranging between Rs. 10 lakh to Rs. 1 crore to at least one borrower (SC or ST or woman) for setting up a greenfield project. The project may be in the manufacturing, trading, or agriculture-allied sector. And, in the case of a non-individual enterprise, an SC/ST or woman entrepreneur must hold at least 51% of the shares.

Also Read: 5 Useful MSME business loan tips for young entrepreneurs

6. Lean Manufacturing Competitiveness For MSMEs

The objective of this scheme is to enhance the competitiveness of MSMEs by implementing various lean manufacturing techniques. Under this scheme, MSMEs are assisted in bringing down their manufacturing costs via improved processes, better utilising their existing capacities, and scientific inventory management.

The government provides financial support up to a maximum of 80% for consultation fees for mini clusters where awareness programs are conducted. MSMEs need to bear the remaining 20% of the costs.

7. Government Subsidy for Small Business for Cold Chain

This scheme aims to provide cold chain and preservation infrastructure for enterprises involved in horticulture, organic produce, poultry, meat, and dairy products.

Covering pre-cooling facilities at production sites, mobile cooling units, and reefer vans, among others, cooperative societies, NGOs, self-help groups, etc., are eligible to receive grants under this scheme and set up cold chain and preservation infrastructure.

8. Integrated Development for Leather Sector Scheme

This scheme provides grants to the segments in the leather industry for modernising and technology upgradation. It provides assistance up to 30% for the cost of plant and machinery to SSI units and 20% to non-SSI units.

Existing units in the leather footwear and accessories industries are eligible to receive aid under this scheme that the Ministry of Commerce and Industry offers via Council for Leather Exports.

9. Technology and Quality Upgradation Support (TEQUP) Scheme

This scheme aims to create awareness among MSMEs in the country to use energy-efficient technologies to cut down production costs so that they remain competitive.

For organizing awareness programs, the Government of India provides financial support up to 75% of the actual expenditure, subject to a ceiling of Rs. 75,000 per program. For implementing energy-efficient technologies in their operations, MSMEs receive financial assistance up to 25% of the project cost. The maximum amount of assistance that MSMEs can procure under this scheme is Rs. 10 lakh.

10. Integrated Processing Development Scheme (IPDS)

The scheme was launched to address the problems faced by the textile processing industry. Often enterprises in this domain face challenges such as the non-availability of water and environmental pollution. IPDS aims to facilitate the usage of eco-friendly technology in textile processing along with creation of new processing parks.

While the Central Government shares 50% of the cost, the state government, beneficiary, and financial institution share 25%, 15%, and 10% of the cost respectively.

MSMEs can know the documents required for business loan and other types of assistance on the official portal of these schemes and apply for the same.

3.10 RURAL ENTREPRENEURSHIP

Rural entrepreneurship is a term that relates to the establishment of new business units and industries in rural areas. It involves carrying out entrepreneurship activities in the rural economy which results in the overall development of the nation. Rural entrepreneurship has its root lying in non-urban areas and has a lot of potential for undertaking numerous endeavors in business, industry, agriculture, etc. Generally, industries and business enterprises in rural areas are involved in agriculture and its allied activities. These activities support the livelihood of the majority of the population living in rural areas.

Rural entrepreneurship helps countries in achieving the equitable advancement and development of all areas. It serves as a key tool for overcoming all gaps in between urban and non-urban areas whether in terms of infrastructure, job opportunities, health, education etc. The similar growth and development opportunities are provided to the people of village as one available to peoples of cities.

Definition: Rural entrepreneurship refers to the development of a new enterprise which pioneers new products and services, creates a new market for its offerings or uses advanced technology, in the rural area.In simple terms, the entrepreneurship which springs up in non-urban areas is termed as rural entrepreneurship. This leads to the establishment of industrial units in rural areas.

Need for Rural Entrepreneurship

High potential of creating employment- Rural entrepreneurship brings in large number of employment opportunities for people living in rural areas. Industries in rural parts are mostly labor-intensive where many people are engaged in distinct activities both directly and indirectly. Rise in unemployment is one of the basic and most highlighted problem of every nation in today’s era. Rural entrepreneurship can be very effective in tackling this problem in positive way by bringing in more job opportunities for people.

Brings down income disparity- Rural industries possess a high potential of generating large amount of income for rural population. When people living in non-urban areas get equal opportunity for earning income as similar to one living in urban areas, the disparities in income earned gets reduced. Establishment of new business setup and industries result in giving better job opportunities with adequate salaries and wages.

Proper utilization of resources- The rural entrepreneurship helps in effective utilization of resources available in remote areas. The resources are present in sufficient quantity among rural areas which may remain lie idle if rural entrepreneurship does not exist. When industries will run via rural entrepreneurship programme, then the use of all these resources will enhance productivity thereby favoring nation in some way. In addition to this, labor available in villages also get some work in these types of entrepreneurships.

Reduce migration of villagers- Migration of people from rural areas to urban areas is one of the critical issues being faced by every nation in today’s time. People migrate to cities in search of job opportunities, better life and various other infrastructural facilities which are missing in rural areas. Rural urbanization works on removing this gap in terms of development among urban and non-urban areas. It helps in creating similar growth and development opportunities for peoples of villages as are available in urban areas. When people have access to job opportunities in their native areas, they would like to remain at their home instead of migrating to some other places.

Earns foreign exchange- Rural market serve as an important source of earning foreign revenue for nation. The products which are manufactured in rural areas are in high demand and exported to several countries all over the world. These products comprise of handicrafts, artifact, handlooms and various other agricultural products. All transactions are settled in international currencies which leads to increase the foreign currency reserve of country.

Enhance traditional culture- Rural entrepreneurship not only protects but also promote the art, creativity and culture of particular region on wider scale. It is seen that people from rural areas have great talent in terms of culture and tradition. Also, all sort of historic artistic activities were originated from rural areas only. Rural entrepreneurship paves the way for promotion of these activities, thereby enabling villagers to create wonderful handicraft items and earn their bread and butter via selling them.

Foster economic development- The economic development of remote areas across the nation is increased to great extent by rural entrepreneurship. It focuses on achieving equitable growth and development in both urban and rural areas. More capital is brought into the rural market by establishing new ventures and industries. All this also results in eliminating the differentiation among areas as slums, town, cities etc.

Need for Rural Entrepreneurship

- The reasons for the rural entrepreneurship are discussed as under:need-for-entrepreneurship
- As the rural industries are labour-intensive, they tend to have a high possibility of generating employment, which acts as a corrective measure to a number of problems causing due to unemployment stemming in the rural areas.
- Rural industries have a comparatively high potential of generating income, which reduces the disparities amidst income earned by people living in urban and rural areas.
- Rural entrepreneurship stimulates the dissemination of economic activities in the village areas, which ultimately results in balanced regional development.
- It does not just protect but also promotes the art, culture and creativity, i.e. the varied heritage of that particular region.
- When industries are set up in rural areas, it advances economic development which reduces migration of the villagers to urban areas.
- Curtails unequal growth in the urban areas, decreases the development of slums, environment pollution etc.
- When industries which are environment friendly are established in rural areas, it results in development without causing harm to nature and biodiversity.

Problems of Rural Entrepreneurship

As we know that the development of entrepreneurship in rural areas is not as easy as in urban areas. As there are a number of problems which needs to be catered. Some of them are listed as under:

- Paucity of Funds
- Lack of technical know-how

- Lack of training and development
- Non-availability of skilled labours
- Risk Element
- Legal Formalities
- Lack of technical knowledge
- Lack of Quality Control
- Lack of communication and market insights
- Lack of storage and transportation facilities
- Old and obsolete technology, machinery and equipment
- Lack of promotional strategy
- Lack of infrastructural facilities
- Poor quality standards

Lack of funds- Absence of adequate amount of funds is one of the major issues faced by rural entrepreneurs. Finance is termed as backbone of every business and no business can perform if there is no availability of funds. Entrepreneurs in rural areas face great hardships in securing external funds due to the absence of credit in market as well as tangible security.

Poor infrastructure facilities- Entrepreneurs in rural areas suffered a lot due to the poor infrastructure facilities. They are unable to attain better growth rate in absence of basic infrastructure such as transport, communication and power supply which all are very bad when compared with cities facilities. All these are much needed things in order to run a business in smoothly manner.

Competition- Rural entrepreneurs faces a tough competition in market from large scale organizations and urban enterprises. They lack in terms of products quality, effective branding and proper standardization. All these factors make rural entrepreneurs inefficient in competing with these large-scale organizations.

Unavailability of skilled labor- Absence of skilled labor in remote areas is another critical issue faced by rural entrepreneurs. It is difficult to find skilled personnel in non-urban areas as most of them are willing to work in urban areas where they get high salaries and access to better amenities.

Poor quality of products- Rural entrepreneurs lack in better standard tool and equipments for regulating the product quality. This results in production of inferior quality of products. Customers are more quality sensitive in today's era and may boycott the brand which is not focusing on quality control.

Exploitation by middlemen- Rural entrepreneurs largely get exploited by middlemen. In order to perform the marketing of products, rural entrepreneurs are heavily dependent upon middlemen who charges a huge profit. Absence of storage facilities and adequate transport services are another marketing issues faced in remote areas.

Legal formalities- A rural entrepreneur need to fulfill several legal formalities prior to establishing a business unit. These formalities include attaining a business license, pollution certificate and various other forms of clearance. The entrepreneur may find difficulty in completely all these tasks due to the low-level of education.

Besides the above challenges, one major problem encountered at the time of entrepreneurship development in rural areas is the lack of knowledge and awareness in people with regard to the significance of developing industries in the rural areas. Moreover, the rural population does not show much interest in choosing entrepreneur, as their career.

The rural population generally go for employment due to a fixed and regular income, limited working hours, no investment and less degree of responsibility. This is due to the status given to the salaried people by society than to the self-employed ones.

In addition to this, rural people also do not have much knowledge and awareness about the entrepreneurial opportunities which is open to them. And they are also not aware of the support organizations, government schemes and programmes and all the necessary information which is needed for its commencement.

Development of Rural Entrepreneurship

Setting up an industry in rural areas so as to develop entrepreneurship is not an easy task. Indeed it encompasses a series of activities. There are certain measures recommended for the development of entrepreneurship in the rural areas, which are discussed as under:

Rural Entrepreneurship

Definition: Rural entrepreneurship refers to the development of a new enterprise which pioneers new products and services, creates a new market for its offerings or uses advanced technology, in the rural area.

In simple terms, the entrepreneurship which springs up in non-urban areas is termed as rural entrepreneurship. This leads to the establishment of industrial units in rural areas.

Need for Rural Entrepreneurship

The reasons for the rural entrepreneurship are discussed as under:need-for-entrepreneurship

- As the rural industries are labour-intensive, they tend to have a high possibility of generating employment, which acts as a corrective measure to a number of problems causing due to unemployment stemming in the rural areas.
- Rural industries have a comparatively high potential of generating income, which reduces the disparities amidst income earned by people living in urban and rural areas.
- Rural entrepreneurship stimulates the dissemination of economic activities in the village areas, which ultimately results in balanced regional development.
- It does not just protect but also promotes the art, culture and creativity, i.e. the varied heritage of that particular region.
- When industries are set up in rural areas, it advances economic development which reduces migration of the villagers to urban areas.
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Availability of Raw Material: For the establishment of any industry, the availability of adequate raw material is a must. Nevertheless, the non-availability of raw materials along with their expensiveness has weakened the growth of such industries. Over the years, it has been observed that rural industries that have a heavy raw material base produced in the rural areas itself, often sustain in the long run. Hence the rural entrepreneurs should be ensured of the proper supply of raw material.

Creation of Finance cells: To start and operate an industry smoothly and uninterruptedly in rural areas, finance acts as a fuel. Availability of funds at the time of need, at a reasonable rate of interest, is the major requirement, which must be fulfilled. For this purpose banks and financial institutions can be opened, which can remove the hindrances caused due to the lack of finance.

Production cum Marketing centres: Production cum marketing centres need to be established with state-of-the-art technology and advanced infrastructural facilities in the areas where the rate of production and growth is high. It encourages export business as well as bring together the buyers and sellers, and eliminates intermediaries.

Development of Entrepreneurial Attitude: If the entrepreneurs lack aptitude and competency, it will make the industrial unit sick. So, the entrepreneurial attitude and competencies need to be developed among the would-be entrepreneurs by way of training programmes such as EDP – Entrepreneurship Development Programme.

Entrepreneurial Education: To impart entrepreneurial skills, attitude and acumen in the youth, entrepreneurial education should be given in schools, colleges and universities. This will shape and direct the young minds to work or make their career in that field.

Awareness: Basically, non-availability of the facilities is not a big problem, rather the big problem is the non-awareness of the facilities available for the development of rural entrepreneurship. So, the steps must be taken to make the people aware of the facilities and support provided to the entrepreneurs, to assist them in establishing the industries in rural areas.

Institutional Training: Facilities should be made to provide institutional training to direct the entrepreneurs in the products and trades so that the resources of the region can be utilized in the best possible manner.

Of the above-given measures, setting up of marketing cooperatives is an effective way which will provide complete assistance, guidance, direction and encouragement to the rural entrepreneurs for establishing the business. These will help the rural entrepreneurs to get the desired inputs at a reasonable price, as well as they can sell their output at competitive prices.

Types of Rural Entrepreneurship:

Agro-Based Enterprises: As the name suggests, these enterprises indulge in the direct selling or processing of agriculture products, for example, sugar, dairy products, fruit juice, spices, oils from oilseeds, jaggery etc.

Forest-Based Industries: Industries dealing in the supply of wood or wood products, coir industry, beedi industry, honey making, bamboo products, etc. are covered under the forest-based industry.

Mineral Based Industries: Cement industry, stone crushing, wall coating powders, etc. are included in the mineral-based industry.

Textile Industry: Industry in which weaving, spinning, tie and dye, colouring and bleaching of textile are carried out is covered under this category.

Handicrafts: Craft or artistic items made of wood, bamboo, glass, jute, soil, etc. are called as handicrafts. Moreover, traditional decorative items, toys, antiques etc. are also covered here.

Engineering Services: It may include tools and equipment used in agriculture such as tractors, pumps, pipes and fittings, repairs, etc.

The Bottom Line

Rural entrepreneurs act as an important figure in the economic growth of the country, as they can help a country from developing to a developed one. This will ensure employment to the rural population which will not only remove poverty on a large scale and increase their standard of living but also decrease the migration of poor people in search of jobs to the urban areas. This will help in balanced economic development and remove income disparity.

3.11 WOMEN ENTREPRENEURSHIP

Women entrepreneurs may be defined as a woman or a group of women who initiate, organise and run a business concern.

Schumpeter – "Women entrepreneurs are those women who innovate, initiate or adopt a business activity".

Government of India – "A woman entrepreneur is defined as an enterprise owned and controlled by a woman having a minimum financial interest of 51 percent of the capital and giving at least 51 percent of the employment generated in the enterprise to women."

Frederick Harbison – "Any women or group of women which innovates, initiates or adopts an economic activity may be called women entrepreneurship".

In short, women entrepreneurs are those women who think of a business enterprise, initiate it, organise and combine factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running it.

According to Government of India, "A Woman enterprise is the one owned and controlled by a woman having minimum financial interest of 51% of the capital and giving at least minimum 51% of generated employment to women".

According to J. Schumpeter, "Women who innovate, initiate or adopt business actively are called women entrepreneurs."

World over 1/3rd of the entrepreneurial ventures are run by woman entrepreneurs. Due to economic progress, better access to education, urbanization, spread of liberal and democratic culture and recognition by society, there has been a spurt in woman entrepreneurship in India. Special incentives and drives have been created in India to bolster the growth of women entrepreneurs. Schemes like Startup India and Standup also make special case to promote entrepreneurial drive among women.

Gradually but steadily, world over, women entrepreneurs have emerged as successful entrepreneurs while earning many accolades for themselves. For e.g. Oprah Winfrey, an American entrepreneur, television host and media executive received the Presidential Medal of Freedom in 2013 for her outstanding work in the field of entertainment and social impact.

Women Entrepreneurship – Common Features

Some common features of women entrepreneurs found in India are listed below:

1. Most women with small income are likely to become entrepreneurs

2. Women with small facilities are likely to become entrepreneurs

3. A majority of women entrepreneurs are married. With the support of their husband they accepted entrepreneurship.

4. Most spinsters face difficulties in obtaining financial support to start their enterprises.

5. A large number of women with little or no education and training enter into the business field.

6. Many women become entrepreneurs out of economic necessity.

7. Women's sincerity and hard work is the cause for sustainability and growth.

8. Women entrepreneurs are security oriented rather than growth oriented

9. Most women prefer stabilization of income and minimization of risk

10. Business enterprises of women lack working capital, this causes low profit margin

Why women become entrepreneurs?

1. To become economically independent

2. To establish their own enterprise

3. To establish their identity in the society

4. To achieve Excellency in their endeavour

5. To build confidence to themselves

6. To develop risk assuming ability

7. To claim equal status in the societ

8. To secure greater freedom and mobility

Women Entrepreneurship – Need and Factors

In modern days, particularly in India, there is a great need for women entrepreneurs. Several factors are responsible for compelling the women members of the family to set up their own ventures.

These factors suggesting their need can be broadly classified into two groups:

I) Motivational factors or needs and

II) Facilitating factors or needs.

Factor # (I) Motivational Needs:

The following are the motivational needs for which modern women are motivated to become entrepreneurs:

1) Economic Necessity:

In business, the entry of women is relatively a new phenomenon. Because of the break-up of the joint family system and the need for additional income for maintaining the living standards in the face of inflation or rising prices, women have started entering the most competitive world of business. Thus, because of the economic necessity, women have begun entering business field for earning some income and increasing their family income in modern days of inflation.

2) Desire for High Achievement:

Another motive force compelling women to enter business world is their strong desire for high achievement in their life. In modern days, though women are educated, they are not able to find jobs in the market place or they may not be able to go out of their homes for working somewhere else because of family problems.

Therefore, a woman is tempted strongly by a desire to achieve something high and valuable and prove herself as an asset and not a liability to the family. This is the strongest motivating force for a woman to become an entrepreneurs.

3) Independence:

Another strong motive force compelling a woman to become an entrepreneur is to lead an independent life with self-confidence and self-respect. The ownership and control of a successful business provides a woman entrepreneur a prestigious status, personal reputation and a sense of independence in the society.

4) Government Encouragement:

The Government and non-government bodies have started giving increasing attention and encouragement to women's economic conditions through self- employment and business ventures.

They have formulated various policies and programmes and introduced various incentive schemes to promote women entrepreneurs in the country. Such encouragement and incentive schemes have induced women to undertake business mentors.

5) Education:

Women have been taking up various kinds of technical, vocational, industrial, commercial and specialised education so as to qualify themselves to be self-employed in some kind of trade, occupation, vocation or business. Facilities are also being provided to women in areas where they can grow and blossom as persons in their own right. Women have proved in modern days that they are no less than men in efficiency, hard work or intelligence or even they can surpass men in several fields

6) Model Role:

Women, like men, are also desirous of contributing their might to the economic development of their country. Similarly, our women in India would like to play a key role model. They have already entered other fields like politics, education, social field, administration, etc. Now they have started entering the business field where they can also show their importance as in other fields

7) Family Occupation:

Family occupation is an important factor motivating a woman member to participate in the family business, along with her husband and other members of the family. There is a great need for women to undertake economic activity or business of the family and support their families in family occupation or family business so as to reduce the expenses of the family business and increase its income.

8) Employment Generation:

Another influencing factor that motivates women to become entrepreneurs is the creation of employment opportunities. Women entrepreneurs generally take up labour intensive small scale and village industries or handicrafts and they have high potential in employment generation. Therefore, they serve as a solution to the widespread problem of women unemployment to some extent.

9) Self Identity and Social Status:

Women desire to enjoy some social status and recognition in the society. Women entering business can achieve such a position of self-identity and recognition of social status because they come in contact with high level officers, ministers, authorities, and others holding high positions.

10) Growing Awareness:

With the spread of education and the growing awareness among women, the women entrepreneurs have been increasing, not only in the kitchen extension activities i.e. the 3 Ps viz. pickles, powder (masala) and papad or the traditional cottage industries, such as toy-making, basket-making etc. as they require less technical know-how, but they are entering also into engineering, electronics and many other industries which require high level technical skill. Thus, women entrepreneurs are found in such technical industries as T.V. capacitor, electronic ancillaries, and small foundries.

Thus, in modern days, women do not want to stay within the four walls of a house but they want to become, like their male, counterparts, achievement-oriented, career-minded and economically independent so that they would be able to provide costly high level medical and technical education to their children and, lead a high standard of living in their life

Factor # (II) Facilitating Needs:

Facilitating needs are the needs for providing various facilities for the successful working of the women enterprises.

These are given below:

1) Adequate Financial Facilities:

Finance is the life-blood of any business, whether it is run by men entrepreneurs or women entrepreneurs. The Government has set up industrial estates for women. It should therefore provide the required financial facilities to the women entrepreneurs so as to motivate them to start their business or industry in such estates.

Several financial schemes like Mahila Udyam Nidhi, Marketing Development Fund etc., have been set up only for women entrepreneurs. In addition, banks and development finance institutions also provide financial assistance to women entrepreneurs. Women will be tempted to start their own business ventures when such facilities are easily available to them.

2) Innovative Thinking:

Innovative thinking in women motivate them to become entrepreneurs. Women who have entrepreneurial talent and who have innovative thinking are naturally induced to take up small business or industry to convert their innovating and talent into a position of entrepreneurship instead of employment.

3) Support and Cooperation of the Family:

Another important factor that induces women to take up entrepreneurship is the full co-operation and encouragement of the family members, particularly, husband, father-in-law and mother-in-law, grown-up sons and daughters and other members, if any. In a modern educated family, women members generally enjoy more liberty and economic freedom. So naturally, they will be anxious to have their own source of income from their business.

4) Availability of Experienced and Skilled Women:

Women entrepreneurs would be able to provide experienced and skilled people to family occupations. Therefore, women will be motivated to become entrepreneurs.

5) Development Programmes:

The Central and State Governments have started several development and training programmes particularly for women so as to enable them to become entrepreneurs. Such training and development programmes provide all types of facilities to women to start their business independently.

Women Entrepreneurship – Areas

Women entrepreneur in earlier years after independence were confined to entrepreneurship in traditional areas like food, fruits, vegetables, pickles, papads, tailoring, hosiery etc. However, often, Women entrepreneurs have branched out to several new areas like engineering, beauty parlours, jewellery, handicraft, electrical, electronics, chemical and other manufacturing. This shows that entrepreneurial base of women expanded from traditional 3Ps – pickle, powder and papad to modem 3ES – Engineering, Electrical and Electronics.

There are vast numbers of industries under small business sector where women are playing a major role.

Such industries can be listed as under:

1. Agriculture and Allied industries – such as sericulture, horticulture, dairying and animal husbandry etc.

2. Home based industries-such as handicrafts, Agarbati, Candle making, bidi industry, hosiery, and textile, doll making, jewellery pottery, designing etc.

3. Outside home industries – such as electrical and electronics, food processing etc.

Apart from the above, most Indian Women have performed well in both organized and unorganized sector. For example, Kiran Mazumdar shaw, Shahnaz Hussain, Ekta Kapoor, Kathi Ben who started their enterprises in small scale and achieved wonders and created history.

Women Entrepreneurship – Factors Influencing Woman to become an Entrepreneur

There are different factors influencing woman to become an entrepreneur. Such factors can be divided into two – (1) the push and (2) the pull factors. The push factor is allied with negative environment and the pull factor is attributed to the push factor may result from low income, low job satisfaction or lack of job opportunities and strict working hours.

The pull factor, however, may result from the need of fulfilling the desire to help others and self-accomplishment. Dhaliwal (1998) found the push factor to be evident in the developing countries. Empirical evidence on the push and pull factors revealed that women entrepreneurs in the developed countries were influenced by the need for achievement, while women entrepreneurs in the developing countries were influenced by a combination of push and pull factors.

Women are influenced by socio-cultural complexities to become an entrepreneur in developing countries. Because of such complexities in the factors influencing women entrepreneurship development in developing countries, many international organizations adopted strategies to overcome such complexities.

A study conducted by International Labour Organization (ILO) (2006) has found four personal and four external factors that influence women entrepreneurs' success.

Personal factors comprise – (1) motivation and commitment; (2) abilities and skills; (3) ideas and markets; and (4) resources.

While external factors consist of – (1) business development organizations; (2) broader enabling environment; (3) economic/market environment; and (4) socio-cultural context.

The business development organizations factor considers the roles of government, NGOs, private sector, membership organizations and donors.

The broader enabling environment factor mulls over regulations, policies, institutions and processes.

The economic/market environment factor ponders opportunities and threats (e.g., inflation, interest rates, economic trends etc.).

The socio-cultural context factor considers attitudes, aspirations, confidence etc.

Ulrich (2006) has examined five factors and found that all of them influence youth entrepreneurship development. The five factors include – (1) entrepreneurship education and training, (2) socio-cultural, legitimacy and acceptance, (3) access to finance, (4) business assistance and support and (5) administrative and regulatory framework.

Women Entrepreneurship – Functions

As an entrepreneur, a woman entrepreneur is required to perform all the functions involved in establishing an enterprise. These functions include idea generation and screening, determination of objectives, project preparation, product analysis, determination of forms of business organisation, completion of promotional formalities, raising of funds, procuring men, machine and materials and operation of business.

1. Exploration of the prospects of starting a new business enterprise.

2. Undertaking of risks and handling of economic uncertainties involved in business.

3. Introduction of innovations or imitation of innovations.

4. Co-ordination, administration and control.

5. Supervision and leadership.

It is important to note that different scholars have defined different sets of functions of entrepreneurs, whether male or female entrepreneurs.

However, all these functions can be classified broadly into three categories viz.:

a) Risk-bearing

b) Organisation and

c) Innovation

Women Entrepreneurship – Top 9 Qualities

Women entrepreneurs establish their businesses while exhibiting array of qualities.

Following is an indicative list of some of the qualities of women entrepreneurs:

1. Accept challenges

2. Ambitious

3. Hard working

4. Patience

5. Motivator

6. Adventurous

7. Conscious

8. Educated

9. Intelligent

Women Entrepreneurship – Role and Importance

In this dynamic world, women entrepreneurs are a significant part of the global expedition for sustained economic development and social progress. Due to the growing industrialization, urbanization, social legislation and along with the spread of higher education and awareness, the emergence of Women owned businesses are highly increasing in the economies of almost all countries.

In former days, for Women there were 3 Ks- Kitchen, Kids, Knitting, then came 3 Ps- Powder, Pap pad, Pickles and now at present there are 4 Es- Electricity, Electronics, Energy, Engineering. Indian women had undergone a long way and are becoming increasingly visible and successful in all spheres and have shifted from kitchen to higher level of professional activities.

Women entrepreneurs are fast becoming a force to reckon with in the business world and are not only involved in business for survival but to satisfy their inner urge of creativity and to prove their capabilities. Educated Women is contributing to a great extent to the social transformation and in the future, will be seen that more women venturing into areas traditionally dominated by men.

Today's women are taking more and more professional and technical degrees to cope up with market need and are flourishing as de signers, interior decorators, exporters, publishers, garment manufacturers and still exploring new avenues of economic participation. It is perhaps for these reasons that Government Bodies, NGO's, Social Scientists, Researchers and

International Agencies have started showing interest in the issues related to entrepreneurship among women in India.

1. Women entrepreneurs;

2. Explore the prospects of starting a new enterprise;

3. Undertake risks, introduction of new innovations;

4. Coordinate administration & control of business;

5. Providing effective leadership in all aspects of business; and

6. Have proved their footage in the male dominated business arena. Concept of “Women” as an entrepreneur in India.

Entrepreneurship has gained currency across the sphere and female- entrepreneurship has become an important module. India is one of the fastest emerging economies and the importance of entrepreneurship is realized across the gamut.

Women Entrepreneurship – Reasons for Starting an Enterprise in India

“When woman moves forward, the family moves, the village moves and the nation moves.” is rightly said by Pandit Jawahar Lal Nehru. Employment gives status and economic independence to women leading to an empowered woman.

Women set up an enterprise due to economic and non-economic reasons as well.

Various reasons can be due to:

1. Motivational factors, and
2. Facilitating factors.

1. Motivational Factors:

i. Economic necessity
ii. Independence
iii. Self-actualisation
iv. Govt. Policies and Programmes
v. Education and qualification
vi. Role model to others
vii. Employment generation

viii. Self-Identity and social status

ix. Success stories of friends & relatives

x. Family Occupation

2. Facilitating Factors:

i. Adequate Financial Facilities

ii. Self-satisfaction

iii. Innovative thinking

iv. Network of contacts

v. Co-operation of family

vi. Experienced and skilled people at work

vii. Support of family members

i. Economic Necessity:

More than 50 percent of Indians live below poverty line who can barely fulfil their basic needs. The starting up of an entrepreneurial venture, may it be tiny unit or cottage industry or handicraft, can provide a solution and pull them out of poverty. Women constitute almost of 50% of Indian population and her economic necessity acts as a pushing factor to launch an enterprise.

Economic necessity is always the first priority for an individual to satisfy her lower level needs. It is out of this need that women gets motivated to launch her enterprise followed by fulfilment of other needs like safety and security need, social need and a sense of independence.

ii. Independence:

Indian family and social conditioning reduces the confidence, independence and mobility of women. Our society denies independence to women all along. Promoting entrepreneurship will not only give them economic independence but the desired freedom to make their own decisions. If women want the society to reverse its traditional attitudes, it is only through their economic independence that they can achieve that status.

iii. Self-Actualisation:

Self-actualisation implies desire for expressing and proving oneself. These are the strong motivating forces for a woman entrepreneur. The establishing and successful operating of an enterprise provides her opportunities for self-expression, achievement and growth.

Maslow's theory of motivation is based on the principles of deficiency and profession. Principle of deficiency states that it is deprived need that motivates behaviour and satisfied needs don't motivate behaviour. Once the deprived need is satisfied, higher needs get activated.

Thus, a woman does make efforts to fulfil her self-actualisation only after her basic need of economic necessity, safety, and security, social need etc. have been satisfied. Fulfilment of needs is an endless process and woman keeps moving forward. Every unfulfilled need becomes her motivating force to achieve success in her venture. There are millions of women world over who started their venture out of one or the other need and never looked back

iv. Government Policies and Programmes:

In order to facilitate and motivate the growth of entrepreneurship, the central and state governments have created an elaborate institutional framework in the country.

There are several schemes launched by the govt. to motivate women entrepreneurs and changed to role of women from a housewife to a businessmen women. For example – SBI Store Shakti Package, IDBI Mahila Udyans Scheme, SIDBI's assistance for Women Entrepreneur, Bank of India's Priyadarshine Yojana, Prime Minister Rojgar Yojana (PMRY), Self-Employment Programme for Urban Poor (SEPUP), Swarnajayanti Gram Swarojgar Yojana (SGSY), Integrated Rural Development Programme (IRDP).

Micro-Finance through Rashtriya Mahila Kosh (RMK) are some of the schemes launched for the development of women entrepreneurs.

v. Education and Qualification:

A gradual change in the society's outlook has been taking place over last couple of decades and education of girls is favoured by the parents, society and the government as well. Right to Education Bill is a step towards this. Once a women acquires qualification, see becomes aware of her rights and wants to be treated at par with men. Though our society is still a male-dominated society nevertheless a qualified women wants to develop her personality by stepping out of four walls and doing an entrepreneurial work.

vi. Role Model to Others:

A strong desire to become role model to others motivate women to do something extraordinary which is better possible only if she is an employer and not an employee. For instance Vandana Luthura (VLCC), Shahnaz Hussain (Beauty Clinic), Neena Malhotra, (Exports), Sminu Jindal (Steel Sector), Michelle Salins (Interior designer), Kala Nehete (spa specialist) Sunanda Pushkar (Business Women), Neety Singh (Jewellery designer), to name a few.

Education motivates women to get out of their homes and run global corporation. Dispali Sikand says, “I have always chosen a tough parts, with no benchmarks to quote myself with.”

vii. Employment Generation:

An enterprising women is internally motivated not only be self-employed and also gives job opportunities to others depending on her business scale. For instance, Dipali Sikand started her enterprise in 1998 with just 60 employees and initial investment of Rs.5,000. Till March 2009, the number of employees increased to 900 and revenues generating during FY 2008-09 were whooping Rs.45 crore.

Women, which constitute nearly 49% of the country’s total population can effectively and actively activate their latent human potentials through entrepreneurship. This initiative will lead to creation of self-employment and wage employment avenues for large number of people. Women can engage themselves in small and tiny sector industries, both in manufacturing and service sectors and play a significant role in generation of employment.

viii. Self-Identity and Social Status:

Every human being desires to gain reputation, respect, status and appreciation. He / She wants to create her own an identity in the society. Self-esteem, self-confidence, self-respect, competence, independence and achievement are vital elements which influence the human behaviour in many aspects.

The inner urge to fulfil needs is the fundamental factor in motivating the women entrepreneurs to be entrepreneurial. Setting up an enterprise is a road to fulfil such needs. For instance, Sminu Jindal used to dream about her entrepreneurial venture when she was just 7 year old.

ix. Success Stories of Relatives and Friends:

It is commonly seen that success stories of relatives and friends, peer pressure, competitive spirit etc., push the prospective entrepreneur from within to adopt entrepreneurial path. Such motivations prevail not only in the manufacturing sector but service sector as well. Reality shows on televisions media coverage, glamour world and many other service sectors have developed tremendously fast because of demonstration effect.

x. Family Occupation:

“An American might think in terms of saving for their retirement; but an Asian will think of saving for their family, for multiple generations in future.” Women who grow up with the family business have entrepreneurial spirit in their blood and skin. For instance, Kishore Biyani’s daughter Ashni Biyani has joined the future group board as director of Future Ideas.

She says, I joined Future Groups with the vision to create. I wanted to sense the entrepreneur in me. More than designing, it was the entrepreneur bud in me that was working harder. That is what I was itching to do. Ashni Biyani’s family was little taken aback except her father when she decided to come to the forefront. But she feels that there is hardly any generation gap between her and elders of the family.

Women Entrepreneurship – Various Schemes Introduced by Government for Empowerment of Women

Once the government on its part realized the need for empowerment of women, it started coming out with a number of schemes, to provide for greater access to capital, so that they could start-up units. Some institutions like National Alliance of Young Entrepreneurs (NAYE) assess women in starting-up, identifying good investment opportunities and raising capital more easily. Commercial banks also have women entrepreneur sections, where financial assistance is provided.

In fact, schemes under the IDBI bank called ‘Mahila Udhyam Nidhi’ and ‘Mahila Vikas Nidhi’ help women entrepreneurs with equity assistance. Established in the early 1990s, ‘Ashriya Mahila Kosh’ trains and provides orientation programmes for women. With their help, women have been able to triple their income.

The Norwegian Agency for International Development was established in 1983 to help educated men and women to start-up businesses in electronics, computers, manufacturing, printing, readymade garments, etc. Arvind, a scheme started by the National Bank for Agricultural and Rural Development (NABARD) provides loans to women to participate in agriculture. The Development of Women and Children in Rural Areas (DWCRA) was launched in 1980s by the rural development to support women’s income generation activities. They provided economic assistance to develop skills and meet their liabilities.

The government of Tamil Nadu established the Tamil Nadu Co-operation for Development of Women Limited for the development and empowerment of women. It is a nodal agency for implementing various projects. A number of organizations today have started playing critical roles in empowering women and developing women entrepreneurs.

This includes FICCI’s Ladies Organization (FLO’s), NAYE, etc. There are also organizations such as Association of Women Entrepreneurs of Karnataka (AWEK), Women Association of Maharashtra (WEMA), Self- employed Women’s Institution (SEWA), Ahmedabad, etc. The Indian Council of Women Entrepreneurs (ICWE) is also trying to promote entrepreneurship among women.

SEWA has its own bank which provides loans to women (like vegetable vendors, flower vendors, etc.) from rural areas. Tamil Nadu and Andhra Pradesh governments have promoted industrial estates especially among women entrepreneurs. In fact, the Association of Lady Entrepreneurs in Andhra Pradesh (ALEAP) is an organization that promotes entrepreneurship in both rural and urban areas. On the outskirts of Chennai, a biotechnology park was set up to promote women entrepreneurs in the Siruseri area along the IT highway.

Women Entrepreneurship – Development Schemes: TREAD, MSE – CDP, Credit Guarantee Fund Scheme for Micro and Small Enterprises and a Few Others

According to the Third All India Census of Small Scale Industries conducted in 2001-02 and subsequent estimates made, only 10.11% of the Micro and Small Enterprises in India are owned by women while 9.46% of the MSE enterprises are managed by women. Currently (2006-07) their estimated number is 12.99 lakh women managed enterprise and 12.15 lakh women managed enterprise.

In order to encourage more and more women enterprises in the MSE sector, several schemes have been formulated by this Ministry and some more are in the process of being finalized, targeted only at the development of women enterprises in India

1. Trade Related Entrepreneurship Assistance and Development Scheme for Women (TREAD):

With a view to encourage women in setting up their own ventures, government implements a Scheme, namely, Trade Related Entrepreneurship Assistance and Development (TREAD) during the 11th Plan. The scheme envisages economic empowerment of women through the development of their entrepreneurial skills in non-farm activities.

There are three major components of the scheme:

(i) Gol grant upto 30% of the total project cost to the Non-Government Organisations (NGOs) for promoting entrepreneurship among women. The remaining 70% of the project cost is financed by the lending agency as loan for undertaking activities as envisaged in the project.

(ii) Gol grant upto Rs.1 lakh per programme to training institutions/NGOs for imparting training to the women entrepreneurs, subject to these institutions/NGOs bring their share to the extent of minimum 25% of GOI grant and 10% in case of NER.

(iii) Need-based Gol grants upto Rs.5 lakh to National Entrepreneurship Development Institutions and any other institutions of repute for undertaking field surveys research studies, evaluation studies, designing of training modules etc.

Field Institutes of SIDO conduct need based programmes for existing and prospective entrepreneurs. During 2006-07 (up to December, 2006), 10050 women participated in various training programmes like Entrepreneurship Development Programme (EDP), Management Development Programme (MDP), Skill Development Programme (SDP) and Industrial Motivational Campaign (IMC).

Autonomous Bodies under this Ministry also conduct various short-term/long-term training programmes in footwear technology, tool and dye making and other allied industries. These institutes provided training to 20280 women.

Women Empowered under Integrated Infrastructural Development Scheme:

Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP), an NGO comprising women members only, has successfully completed the implementation of an IID project at village Gajularamaram, Distt. Rangareddy, A. P. In this, 75 units have been established and employment generated by these units is 1500 women. Out of the total project cost of Rs.347 lakh, Govt. of India provided grant to the tune of Rs.1.39 lakh.

Another IID project at Vijyawada, Distt. Krishna, A. P. is being implemented by ALEAP. The total project cost is Rs.370 lakh and Government of India grant of Rs.91.38 lakh has been released for this project. 10 units have been established in this Centre so far and 100 women have been benefited from this project upto the end of December, 2006.

Operationalisation of the Scheme:

The scheme envisages that Women Associations/NGOs/SHGs should prepare composite bankable proposals for a group of women entrepreneurs, and submit to the office of the DC (MSME) for forwarding to the Banks for their appraisal. Bank examines the proposal and issues approval. 30% of the loan amount is sanctioned as grant and made available to the bank by office of DC (MSME) for further disbursement to NGOs.

Another IID project at Vinjyawada, Distt. Krishna, A. P. is being implemented by ALEAP. The total project cost is Rs.370 lakh and Government to India grant of Rs.91.38 lakh has been released for this project. 10 units have been established in this Centre so far and 100 women have been benefited from this project upto the end of December, 2006.

2. Micro & Small Enterprises Cluster Development Programme (MSE- CDP):

i. Existing Clusters:

A cluster is defined as a group of enterprises, ideally having 100 members, producing same/similar products/services. While 100 members could be the minimum per cluster, depending on the density of population and other factors, even 200-300 could be a good target group for undertaking Diagnostic Study and the subsequent Soft Interventions in a cluster.

However, in difficult and backward regions the target numbers could come down to 50 or less but it should not be too small as a lot of Government expenditure is made per cluster. 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., and the delivery, assimilation and diffusion of the identified technology from its producers to the recipient user/cluster of small enterprises.

ii. Creation of Physical Infrastructure:

This Ministry implemented the IID Scheme to provide developed sites with infrastructural facilities like power distribution network, water, telecommunications, drainage and pollution control facilities, roads, exhibition/display centres, raw materials, storage and marketing outlets, common service facilities and technological back-up services, etc. This scheme has been subsumed in the MSME Cluster Development Programme. All the features of IID Scheme have been retained.

To create physical infrastructure exclusively for women enterprises central grant of 40% of the project cost subject to a maximum of Rs.2 crore is available. The Ministry of MSME is making efforts to enhance the quantum of grant to 80% in a project of Rs.10 crore.

Operationalisation of the Scheme:

(i) A Cluster Development Executive (CDE) is required for executing and monitoring all soft interventions in a cluster. Normally, a CDE can be a DIC Officer/MSME-DI officer/retired expert or even hired person from Non-Government Sector.

(ii) The hard interventions in a cluster and creation of physical infrastructure require setting up a user’s body/special purpose vehicle which could be society/trust/company to be formed by the cluster beneficiaries.

3. Credit Guarantee Fund Scheme for Micro and Small Enterprises:

The Scheme was launched in August 2000 to ensure better flow of credit to micro and small enterprises by minimizing the risk perception of financial institutions and banks in lending without collateral security. Under the scheme, guarantee cover is provided to collateral free credit facility extended by member lending institutions (MLIs) to the new as well as existing micro and small enterprises on loans up to Rs.50 lakh. The guarantee cover available is up to 75% of the loans extended.

The extent of guarantee cover is 80% for – (i) micro enterprises for loans up to Rs.5 lakh; (ii) MSEs operated and/or owned by women; and (iii) all loans in the North-East Region. The lending institutions availing guarantee from the Trust have to pay one time guarantee fee of 1.5% and service charges of 0.75% per annum of the credit facility sanctioned. For loans up to Rs.5 lakh, the onetime guarantee fee is 1% and service charges are 0.5% per annum of the credit facility sanctioned.

4. Support for Entrepreneurial and Managerial Development:

MSME-DIs regularly organize a number of Entrepreneurship Skill Development Programme (ESDPs)/Entrepreneurship Development Programme (EDPs)/Management Development Programmes (MDPs) to train the potential entrepreneurs in improving their techno/managerial knowledge and skill with a view to facilitating them to start MSEs in various fields.

Many of the programmes are tailor made for the target group for SC, ST, OBC, Women, Minorities and other weaker sections and exclusively for women also.

These programmes are also called “Out-reach Programmes” as they are conducted in rural/less developed areas.

22.5% of total target of ESDPs/EDPs are conducted exclusively for SC, ST, Women and Physically Challenged persons with a stipend of Rs.500/- per month per candidate under the Promotional Packages for MSEs. No fees is charged from SC/ST, women and Physically Handicapped.

No fee is charged from SC and ST and 50% fee from Women and PH candidates who attend the ESDP/EDP/MDP courses conducted for general candidates.

5. 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 and register in DI/DIC in their efforts at tapping and developing overseas markets, to increase participation of representatives of small/micro manufacturing enterprises under MSME 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 (2007-2012).

With a view to encourage women entrepreneurs to participate in the International Exhibitions under MDA scheme it has been decided to:

(i) Provide rent free space (6/9 Sq. Mts.) in the exhibitions.

(ii) Reimburse 100% economy class air fare for one representative.

The overall ceiling shall however be Rs.1.25 lack.

Considering the contribution of women entrepreneurs in building the start-up ecosystem, the Indian government is enabling them with various schemes and incentives.

In the 2015 Female Entrepreneurship Index reported by The Global Entrepreneurship and Development Institute (GEDI), India ranks poorly in terms of the women entrepreneurship ecosystem and women entrepre-neurship aspirations. The report ranks India very poorly in terms of avail-ability of external financing for women entrepreneurs, especially women's access to bank account for business purposes and women's access to bank loans. Boosting women entrepreneurship is a key mandate in the 2015 National Policy for Skill Development and Entrepreneurship and there are already various schemes for providing bank loan for women Entrepreneurs available with the Banks.

Women Entrepreneurship – Benefits

Women getting into areas like entrepreneurship and business governance have positive influence on the society. While wealth creation is an aspect common and shared amongst men, women have proven that they can also create and distribute wealth in society and provide employment like any other entrepreneur.

Women entrepreneurs must participate in events, conferences, workshops and seminars and actively involve themselves with educational initiatives, to create the image change. Once a change in the image is achieved in the society, it becomes easy for women to have a greater influence on the younger generation.

Women entrepreneurship can be a great tool to bring about social reforms. In fact, issues like female infanticide, dowry and disparity based on gender etc., can be curtailed if women start respecting their positions, holding on to their positions and become independent in business and economics. The very fact that women can be a positive contributor to a family income can change the image of women in rural parts of India.

This can result in lot of rural families beginning to send their girl children to study further. This can also impact the way the next generation grows up. Being the central piece in a family, aspects like culture and family values are better promoted by women in society, at both personal and professional planes.

With the shift from industrial age to information age, it becomes all the more important to see how women rights and respect are embraced today in the industry. With technology invading most of the industries, the trend definitely seems positive and encouraging for more women to participate and take part in entrepreneurial activities. Though the overall trend is interesting, it is also important for both men and women to consider practising the same seriously.

Women Entrepreneurship – Problems (With Solutions)

The following are the important problems faced by women entrepreneurs:

1. Financial Constraints:

Finance is the life blood of every business. Both long term and short term funds are required for business. For obtaining loans and advances from financial institutions, they have to provide collateral securities. But, usually women do not have property in their names and this hinders them from obtaining external sources of funds.

The banks also consider women as less credit worthy and discourage women borrowers on the belief that they can at any time leave their business and become housewives again. Under these circumstances, women entrepreneurs are bound to rely on their savings and loans from friends and relatives. The quantity of such funds are often negligible leading to the failure of women enterprises.

2. Over Dependence on Intermediaries:

Women entrepreneurs have to depend largely on intermediaries for the distribution of their products. These intermediaries take a major portion of their profits. It may be possible for the women entrepreneurs to eliminate the middlemen, but it requires additional investment of capital and a lot of travel. Women entrepreneurs find it difficult to capture market and popularise their products.

3. Stiff Competition:

Women entrepreneurs have to face stiff competition for the products from the organised industries and male entrepreneurs. They do not have organisational set up to spend a lot of money for canvassing and advertisement. The society has a feeling that the products manufactured by women are inferior in quality on account of the fact that they are manufactured by women themselves. These factors will lead to the liquidation of women enterprises.

4. Scarcity of Raw Materials:

Scarcity of raw materials is yet another important problem faced by the women entrepreneurs. The price of raw materials is very high and women entrepreneurs usually get the raw materials at minimum discount. The failure of many women co-operatives engaged in basket making in 1971 is an example of how the scarcity of raw materials affects entrepreneurship.

5. High Cost of Production:

Another problem faced by women entrepreneurs is the high cost of production. The government grants and subsidies help them tide over this difficulty, but these grants and subsidies are available only at the initial stages of its setting up. For expansion and diversification activities these assistances will be negligible.

6. Limited Mobility:

Unlike men, women mobility in India is highly limited due to various reasons. Physically they are not fit enough to travel a lot. A woman running an enterprise independently and alone is often looked upon with suspicion. The humiliating attitude of officials towards women compels them to give up the idea of starting an enterprise.

7. Family Ties:

The family responsibilities also hinder the development of women entrepreneurship. In India, it is mainly a woman's duty to look after the children and other members of the family. Man plays a secondary role in these matters. In the case of married women, they have to make a fine balance between their business and family.

Their success greatly depends on the support given by the family. Occupational backgrounds of families and educational level of husbands have a direct bearing on the development of women entrepreneurship.

8. Lack of Education:

In India around 60% of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to lack of education, women are ignorant of business technology and market. It also reduces the achievement motivation among women. Thus, lack of education creates problems for women in the setting up and running of business enterprises.

9. Social Attitudes:

This is one of the most important stumbling block in the path of women entrepreneurship. The constitution provides equality for both men and women, but there is widespread discrimination against women. In a male dominated society, women are not treated as equals to men. Women have the potential but they lack adequate training.

There is a common belief that skill imparted to a girl is lost when she gets married. Therefore, girls continue to be helpers in agriculture and handicrafts and the rigid social attitudes prevent them from becoming successful and independent entrepreneurs.

10. Male Dominated Society:

Male chauvinism is still the order of the day in India. The constitution of India speaks of equality between sexes. But, in practice women are treated as ‘abalas’. Women suffer from male reservations about their roles, abilities and capacities. In short, women are not treated as equal to men. This is the main barrier to women’s entry into business.

11. Low Need for Achievement:

The pre-requisites for success in entrepreneurship are the need for achievement, independence and autonomy. But in India the common Indian woman is happy to bask in the glory of their parents, husband, children etc. They have preconceived notions about their role in life. This inhibits them from achievements and independence.

In addition to the above difficulties, lack of infrastructural facilities, shortage of power, difficulty in obtaining licenses from various control boards and a number of other socio-economic problems stand as hurdles to the women entrepreneurs.

Solutions to the Problems of Women Entrepreneurs:

From the above discussion, it is clear that women entrepreneurs have to face a number of problems.

In order to overcome these difficulties, the following remedial measures can be adopted:

1. Separate Finance Divisions:

Separate finance divisions can be opened by various financial institutions and banks for providing easy and ready finance to the women entrepreneurs. Through these divisions they can provide finance at concessional rates to women entrepreneurs. In order to avoid the humiliating attitude of the offices, these divisions may be under the control and management of women officers.

2. Supply of Raw Materials:

Women entrepreneurs must be given priority over other entrepreneurs in the supply of controlled and scarce raw materials. If possible, the government of local authorities must give tax exemptions to the supply of raw materials to the women entrepreneurs. The Government must make adequate steps to supply the raw materials at the minimum price.

3. Co-Operative Women’s Marketing Societies:

Marketing of products is one of the major problems faced by women entrepreneurs. In order to overcome this difficulty, they can start co-operative societies. These societies can collect the products manufactured by the women entrepreneurs and sell them at competitive prices by eliminating middle men. A chain of societies can be started all over the state/country for wider distribution of products.

4. Education and Social Change:

It is necessary to make people aware of entrepreneurship development, various products, their marketing facilities, competition etc. The negative attitude of the society towards women should be changed.

5. Training:

The modern concept of entrepreneurship is that 'entrepreneurs are not born but made.' By giving proper training we can develop the inborn talents of an individual and make him an entrepreneur. For this, the governmental agencies and financial institutions can set up separate divisions for giving training to women entrepreneurs. The training scheme of the syllabus should be so designed that women can take full advantage of the training facilities.

6. Family Background:

There should be a sound family background for the development of women entrepreneurs. Elders, particularly mothers, should be aware of the potential of girls and their role in the society. Parents in the initial stage, and husbands in the later stage should support women for doing the entrepreneurial activities successfully.

7. Support from the Society:

Necessary steps should be taken to make the society aware of the role of women in its economic and social development. There must be a change in the negative attitude of the society towards women entrepreneurs. The society shall provide encouraging support to women who take up entrepreneurial activities.

8. Support from the Government:

Both Central and State Governments should give priority to women entrepreneurs for starting new ventures. The governments must give infrastructural facilities, raw materials, tax exemptions and concessions to them. The government can also give special grants and subsidies to the women entrepreneurs.

Women have to play a vital role in the economic development. They have the potential and will to establish and manage business enterprises. For this, they need encouragement and support from the members of their family, the government and the society at large.

3.12 UNIT END QUESTIONS

A. Descriptive Questions

Long answer questions:

1. What are the factors to be considered for choosing a perfect location of business?
2. What role does environmental factors play in successful running of business?
3. Explain the MSME Champion Scheme and its components.
4. List down the Top 10 government schemes for small businesses.
5. Explain the need and types of rural entrepreneurship.

Short answer questions

1. Role of Location in a business enterprise.
2. What is meant by internal and external environment of business?
3. What do you understand by social environment and how does it affect the business?
4. Explain the Digital MSME Scheme.
5. What are the various economic and non economic reasons for women to become and entrepreneur?

B. Multiple Choice Question

1. ____________are responsible for more than two thirds of all jobs worldwide.

a) SMEs

b) Large scale industries

c) MNCs

d) TNCs

2. ___________may be defined as a woman or a group of women who initiate, organise and run a business concern.

a) Women entrepreneurs

b) Entrepreneurs

c) Intrapreneurs

3. World over 1/3rd of the entrepreneurial ventures are run by ___________

a) Women entrepreneurs

b) Entrepreneurs

c) Intrapreneurs

d) Leaders

4. Rural entrepreneurship is a term that relates to the establishment of new business units and industries in __________

a) cities

b) rural areas

c) industrial areas

d) economic zones

5. According to the MSMED Act 2006, the Micro, Small and Medium Enterprises is broadly divided into ______________ and ___________-

a) General and Specific

b) traditional and Modern

c) Manufacturing and Service

d) Technical and non-technical

Answers

1-a, 2-a, 3-a, 4-b, 5-c

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UNIT 4 - MANAGEMENT OF MSME

STRUCTURE

4.0 OBJECTIVES

After completing this Students will be able to

- Define: Credit Monitoring System
- Understand: Management of Product Line
- Define: Problems of entrepreneurs
- Explain: Revival and Rehabilitation of MSME

4.1 INTRODUCTION

Management of New and Small Enterprises essentially deals with the Micro, Small and Medium Enterprises Sector. The Micro, Small and Medium Enterprises (MSME) sector has emerged as the most vital and dynamic sector of the Indian economy and has been accepted as the engine of economic growth for promoting economic development. The sector has immense employment potential at low capital cost. In India, the Micro, Small and Medium Enterprises, play a pivotal role in the industrialization of the country. In this Course Small Scale Enterprise /Small Scale Industries (SSE/SSI) have been interchangeably referred as Micro, Small and Medium Enterprises (MSME). Management of MSME has been one of the most popular subjects that have instilled the interest of students, bureaucrats, MSME entrepreneurs and NonGovernment Organization. Government initiatives has further provided impetus to MSME by setting up of Micro Units Development Refinance Agency (MUDRA) Bank to help the bottom of the pyramid entrepreneurs i.e. owners of micro enterprises who find it difficult to access the formal credit system. The setting up of a new Department followed by a new Ministry of Skill Development and Entrepreneurship aims to achieve the vision of ‘Skilled India’. Here the government aims to provide vocational skills to employed as well as unemployed youths for existing jobs and for jobs to be created in future. With the introduction of “Made in India” initiative the MSMEs will play an important role in India’s manufacturing and exports. This will transform India into global manufacturing hub and turn Indian companies as global companies.

Micro, Small and Medium Enterprises have many characteristics which make them privotal in accelerating economic growth. Some of them are as follows:

• Their flexibility makes them best suited to environment which is constantly changing. They adapt quickly to various factors, that play a large part in everyday life.

• These enterprises use new materials, new methods of production, new markets, new sources of material and even new forms of organizations, continuously innovating in character.

• Since they are fairly labour-intensive, MSME’s provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.

• Decentralization and dispersal of industries allows for a balanced growth of the economy as a whole. MSME's use indigenous raw material and promote intermediate and capital goods. So they contribute to faster economic growth in a transitional economy.

• Finally, because they are mostly set up by individuals they provide an outlet for expression of the entrepreneurial spirit.

The major benefits of MSME's are as follows:

1) Utilisation of locally available human and material resources and expertise/experience.

2) Creating jobs at relatively low capital cost.

3) Diversifying the industrial structure.

4) Preventing the creation of monopolies.

5) Ensuring more equitable income distribution.

6) Attracting and utilising indigenous entrepreneurship, nowadays especially encouraging women entrepreneurs.

7) Developing a pool of skilled, semi-skilled, workers as a basis for future industrial expansion.

8) Improving forward and backward linkages, contracting regional imbalances.

9) Optimum opportunities for adapting appropriate technological and managerial approaches.

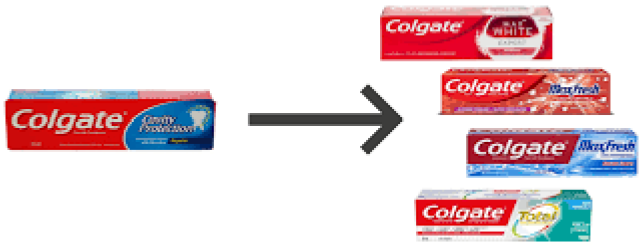
10) Export oriented units tend towards a favourable balance of trade

4.2 MANAGING PRODUCT LINE

Product Line:

A product line is a group of related products all marketed under a single brand name that is sold by the same company. Companies sell multiple product lines under their various brand names, seeking to distinguish them from each other for better usability for consumers.

Companies often expand their offerings by adding to existing product lines because consumers are more likely to purchase products from brands with which they are already familiar. A company's blend of product lines is known as its product mix or product portfolio.



The product line management job is to oversee products. More importantly, it’s to find, expand, and exploit product opportunities. And it’s to do this in a manner that increases gains and rewards to the company. The job emphasizes both near-term and long-term Profit and Loss responsibility for a product line.

Product Line Management Title

The Product Line Management job evolved over the last few decades. Yet, many managers with whole product line responsibilities still carry the Product Manager title (that’s “product” in the singular sense.) This single-product nomenclature is an artifact of history, not a description of the job.

But it’s common to find companies that embrace the older single-product mindset and at the same time expect managers to oversee multiple products. These companies give managers responsibility for several products but not the authority to make product line moves and pivots. As a result, these product managers will stress creating, developing, and managing one product at a time, often without a coherent product line strategy. Or, they make up a strategy as they go along.

Single Versus Multi-Product Thinking

A significant disconnect between single-product and multiple product line management happens when a company’s leadership has yet to embrace a systems approach to product lines. And as a result, the company’s processes, methods, and tools can work against the systems approach needed to carry out good product line management. Setting up a product line management job without a supporting organization is fraught with conflict.

Product Line Systems View

Product line managers must have a systems view of their line. Their job is to orchestrate opportunities across the full set of products. And the job is to improve the line's cash flow, increase total customer satisfaction, and beat the competition.

4.3 COMMUNICATION WITH CLIENTS

Communication is the tool with which we trade, a must-have skill that goes way beyond learning how to express yourself and behave. We are looking at effective communication with clients. This is a journey, not a destination.

Every client is unique, and therefore any professional involved in communication with clients needs to master and remaster this skill. Not only managers but marketers, technical teams, freelancers, help centers, remote workers, etc all need to be able to communicate effectively to capture clients, ensure smooth running and progress and produce the results that will turn your business into a success.

Fortunately, there are 10 rules which are the pillars of effective communication with clients. These 10 rules will help you improve the quality of your communication skills and as a result, help your business grow. Read on and let us communicate these golden rules to you.

1. Respond quickly. Respond always.

First impressions matter. Often even before your client even read your response.

What do we mean? The fact is how quickly you respond makes an enormous psychological difference to the client's impression of you. If you take too long to reply to a query or a communication, your client may think that you are too busy to take on a project, let alone give them special attention. In addition, clients often send multiple inquiries to different agencies before making a decision. Every minute you delay in replying, give your competitors the chance to get their foot in the door first.

Once you've got the job, prompt responses to communications are still important. Even if you are busy, a reply no matter how brief puts the client's mind at rest. You haven't disappeared, you're still working and you are busy but not too busy for them. A quick reply confirming that you've received their message and you will get back to them as soon as possible, is enough to oil the wheels of communication and keep the client happy. Never let them feel like they're being ignored, every client matters.

The mantra is one good project will lead to more projects and every happy client will generate more happy clients.

2. Let the client speak.

Let the client speak, and more importantly, you should listen. Within the initial inquiry or even constant communication, the likelihood is that the client has given you information. However, this information is often not the full story, it's an introduction, a sounding out. The last thing you need is to be taking wild shots in the dark as to what is required or to be sending out quotes based on partial information.

Learn to be an active listener, listen first, and talk later – even if you think you know what the client needs. On a practical level, the more information you gather about the client's project beforehand, the less the risks for mistakes and changes later. On a professional level, the client feels you are partnering them and not pushing them.

3. Ask questions. Don't assume.

Assume makes an Ass out U and me. Assumption sets you up for failure. It has been known (more often than not, actually) that a client can't fully explain themselves or their exact requirements and needs. You deliver what you think they want, and suddenly there's a problem, hours and hours of work along the wrong path, wasted time, wasted potential, waste.

To avoid situations like this: Ask Questions.

The right questions to ask are specific for every business and even every agency. The answers to these questions should clear up the project's concept and put you and your client on the same page. Not only have you now got clear insights into the full project expectations but you've created a relationship where you've taken an interest, and hopefully shown care, consideration, and demonstrated professional knowledge. Questions are more than just the need for answers, they reinforce a budding business relationship.

And if in doubt, ask more questions. Communicate as often as you need, keep this flowing, it shows how much getting it right matters to you.

4. Be empathetic but know your principles.

Empathy is good, very good. You are a human being, not a machine, you care. By putting yourself into your client's shoes, you get a better perspective and can take your business relationship to a whole new level.

However, this works both ways. You have values and practices that should be respected. Let the client know you understand their concerns but can't agree on something that would contradict your company's values and practices. Clients will often try to push for as much as they can get from you, you may have a certain capacity to be pushed, but too far is far enough. Stand your ground, if a client won't accept it then long-term it's not probably a good thing.

Your reputation and principle are the foundations of a strong, solid business model. The best clients respect that. A human approach with mutual respect is the winning combination for effective communication with clients.

5. Educate the client.

You are an expert, a professional and you know your stuff. The client, on the other hand, doesn't always have this knowledge or they wouldn't be coming to you in the first place. They may think they know, and it's a role they often like to play, but deep down they really want what is best.

Your job is to understand what the client needs and to deliver a solution. You may need to educate the client, but remember the best teachers take the student on a journey. Don't patronize, don't lecture, don't force – lead the client along the most suitable path.

Prepare to answer their questions by putting your reasoning in simple words, so you can clear up their doubts. Of course, it's extremely important to inform them about the extent of your capabilities and give them time to make an informed decision. Remember to talk directly and be as clear as possible.

6. Talk in a language that the client understands.

It's easy to get carried away with the jargon obsessed world of your office and peers. But you are not talking in the bar after work, you are wooing a client, you are looking to form long-term mutually beneficial sustainable business relationships. Control and temper your technical vocabulary, they know you are an expert, that's why they came to you.

The first thing to avoid is acronyms, use full terms wherever possible. Address the client in a way that is easy-to-understand. The balance is to inform and not to patronize, to communicate but not confuse, to clarify and not confound. Repeat, rephrase, take the time to explain and listen to follow up questions, offer further advice, send extra information, send explanatory links, show examples – find the common communicative ground.

7. Structure your sentences right.

Good grammar, language structure, and tone demonstrate professionalism, high-quality customer service, attention to detail, and care for correctness. Check everything, use proofreading tools, and spell checkers, take your time.

Also, look at the psychology of writing. People prefer positive sentence structures rather than negative ones. Positive sentences focus on what you can do instead of what you cannot, and this makes a good impression. Limit the usage of the word "you" which often can be misinterpreted as accusing. Use "we" to convey that you are a part of the client's team, and "I" in cases of mistakes or misunderstandings between you two.

Now is probably a good time to remind you to structure your confirmation questions positively and not negatively. Negatively structured questions cause confusion. E.g. "Don't you like this design?" might be followed by an answer "Yes." which will leave you wondering what the client confirms exactly. Do they like the design or not?

Think of the most appropriate style for greetings, emails, chats, etc. Traditional formal rules of business correspondence are not always the way of online communication but it's better to be slightly more formal than try to conquer the lower, friendly, chatty ground. Try to reflect the tone of the client, they should make the first move.

Bear in mind cultural differences, if you are writing or communicating with foreign clients take some time to research what is and isn't appropriate in their country. Air on the side of caution in order not to offend.

8. Double-check everything.

When working on a client's project, it's crucial that you rely on facts and not assume what the client meant when saying this and that. If you are uncertain even about the tiniest feature, it's better to check in with your client than doing it all over again later.

Double-check emails, yes will tools available but also a fresh pair of eyes. Often you can reread but actually you are imagining the words you think you have written rather than the words on the page.

Double-check price quotes, it's especially easy to miss off zeros and you don't want a nasty shock when it comes to payment time.

9. Depict your thoughts with visuals.

For clarity, visuals are essential. A picture does indeed paint a thousand words. Use Screenshots, sketches, previews, mockups, illustrations… when it comes to effective communication with clients, the more the better. No words can describe what you mean more effectively than a visual representation, especially if your client's native language is different than yours. Importantly, using visuals saves valuable time, conveys your ideas better, and makes the client part of the process. Clients love to know what you are doing and where you are at, visual updates give them this sense of feeling and partnership.

10. Don't make false promises.

It's so tempting to promise the earth, especially when you really want to clinch the deal. Trust is the biggest word in business, and broken promises lead to broken relationships. Be positive by all means, push yourself forward and be brave but if you can't deliver what you claim it will all end in tears. Better to underpromise and overdeliver than the other way round.

Of course, there will always be times when certain issues lead to unmet deadlines, timeframe extensions, unexpected scenarios happen – if you've built trust up in the bank during your business relationship, these things can be controlled and smoothed over. The secret here is prompt, direct, and honest communication of potential problems as early as possible. Don't try to blame others, admit your mistakes, be open and honest, and work out a plan for putting things right.

Successful solutions to problems actually result in stronger relationships than no problems at all. It's not about having an issue, it's all about how you solve that issue.

4.4 RESTRUCTURING

Restructuring is an action taken by a company to significantly modify the financial and operational aspects of the company, usually when the business is facing financial pressures. Restructuring is a type of corporate action taken that involves significantly modifying the debt, operations, or structure of a company as a way of limiting financial harm and improving the business.

When a company is having difficulties with making the payments on its debt, it will often consolidate and adjust the terms of the debt in a debt restructuring, creating a way to pay off bondholders. A company can also restructure its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets.

Restructuring Process

When a company restructures internally, the operations, processes, departments, or ownership may change, enabling the business to become more integrated and profitable. Financial and legal advisors are often hired for negotiating restructuring plans. Parts of the company may be sold to investors, and a new chief executive officer (CEO) may be hired to help implement the changes.

The results may include alterations in procedures, computer systems, networks, locations, and legal issues. Because positions may overlap, jobs may be eliminated, and employees laid off.

Restructuring can be a tumultuous, painful process as the internal and external structure of a company is adjusted and jobs are cut. But once it is completed, restructuring should result in smoother, more economically sound business operations.

After employees adjust to the new environment, the company can be in a better position for achieving its goals through greater efficiency in production; however, not all corporate restructurings end well. Sometimes, a company may need to admit defeat and begin selling or liquidating assets to pay off its creditors before permanently closing.

Special Considerations

Restructuring costs can add up quickly for things such as reducing or eliminating product or service lines, canceling contracts, eliminating divisions, writing off assets, closing facilities, and relocating employees.

Entering a new market, adding products or services, training new employees, and buying property result in extra costs as well. New characteristics and amounts of debt often result, whether a business expands or contracts its operations.

A business can restructure in many different ways. The different types of restructuring include legal restructuring, turnaround restructuring, cost restructuring, divestment, spin-off, repositioning restructuring, and mergers and acquisitions.

The Ministry of Corporate Affairs has formulated the framework for Revival and Rehabilitation of Sick Companies under the Companies Act. This framework intends to timely detect the sickness and take appropriate measures for revival of sick companies.

4.5 REVIVAL AND REHABILITATION OF SMES

The Ministry of Corporate Affairs has formulated the framework for Revival and Rehabilitation of Sick Companies under the Companies Act. This framework intends to timely detect the sickness and take appropriate measures for revival of sick companies.

Objectives

The objectives of the Revival and Rehabilitation of Sick Companies are listed below:

To enable sick companies to seek relief and concession to revive over difficult financial times.

To assess the economic viability of sick companies and rehabilitate them.

Determination of Sickness of Company

The company is assessed to be sick on demand by the creditors of a company representing 50% of the amount of debt under the following circumstances:

Any company has failed to pay the debt within 30 days from the issuance of notice by the creditors.

Any company has failed to secure the debt received from the creditors.

Overview of the Process

Once the company is determined to be a sick company, the application can be filed by the creditors to the tribunal in the prescribed format. The tribunal would make decisions within 60 days from the date of submission of application.

Once the tribunal is satisfied on that a company has turned a sick company, and it is in the state to repay its debts, within a specified time, then the order from the tribunal to the company is made to repay its debts.

Application for Revival and Rehabilitation

Any companies determined as the sick company can make an application in the prescribed format to the tribunal in order to take necessary steps to be taken for its revival and rehabilitation and the application has to be accompanied by the following documents:

Audited financial statements of the sick company relating to the immediately preceding financial year.

The draft of the scheme for revival and rehabilitation of the company in the prescribed format.

The above-mentioned documents and particulars have to be duly authenticated in such manner, along with such fees as prescribed.

Note: The application has to made to the tribunal within 60 days from the date of identification of the company as a sick company by the tribunal under the Companies Act, 2013.

Appointment of Interim Administrator

Upon submission of application, the tribunal would fix a date of hearing and appoint an interim administrator who should appoint a meeting with creditors of the company within 45 days and prepare a draft of the scheme for revival and present it before the tribunal within sixty days from the meeting.

In case of no draft, the scheme is provided, then the tribunal would assist the interim administrator in taking over the management of the business. The full assistance in coordinating the interim administrator would be provided by the Director or Management of the company.

Committee of Creditors

The interim administrator will appoint a committee of creditors such number of creditors would not exceed seven, and these members should be present in all the meetings, and the interim administrator would direct all the directors, promoters, key managerial personnel of the company to attend the meeting and furnish the information whichever is required and necessary.

Order of Tribunal

If the tribunal has approved the report passed by the interim administrator stating that it is not likely to revive and rehabilitate the sick company, then the tribunal would take the following steps:

In case of the revival and rehabilitation of the sick company is not possible, the tribunal would order that the proceedings for the winding up of the company to initiate.

In case of revival and rehabilitation of the sick company is possible, the tribunal would appoint a company administrator for the company to prepare a scheme for revival and rehabilitation of a company by adopting certain measures.

Scheme of Revival and Rehabilitation

A revival and rehabilitation of sick industries scheme will be prepared by the company administrator which includes measures like proper management of the sick company, financial reconstruction of the sick company, lease or sale of a part of any assets, amalgamation of the sick company with another company or another company with the sick company, takeover of the sick company by solvent company, rationalization of managerial personnel.

Sanction of the Scheme

The scheme prepared by the management of the company should be placed before the creditors of the sick company in a meeting for their approval within the period of 60 days. If the scheme is approved by the secured creditors and then it would be examined by the tribunal and copy of the scheme draft with modifications made by the tribunal would be forwarded to the sick company for the suggestion. Then the tribunal would pass the order within 60 days sanctioning the scheme on receipt of the scheme.

Winding up of a Company

If the revival and rehabilitation scheme is not sanctioned by the secured creditors and the administrator has to present the report within 15 days stating the same, and the tribunal would order for the winding up of the company.

Rehabilitation and Insolvency Fund

A fund which is known as the Rehabilitation and Insolvency Fund will be allocated for the purposes of revival, rehabilitation, and liquidation of the sick companies.

Penalty

In case of providing a false statement or violating any order made the tribunal or the appellate tribunal would be punishable with imprisonment for a term of seven-year or more along with a fine of Rs.1 lakh.

4.6 PROBLEMS FACED BY ENTREPRENEUR

Entrepreneurs face many challenges in today's ultra-competitive business world. Fortunately, entrepreneurs also have more resources than ever before to tackle those problems.

The following 10 challenges are faced by many entrepreneurs today. Perhaps you've run up against some of them already. Read on to learn why each challenge exists, and to get solutions and workarounds so you can operate your business efficiently and successfully.

1. Cash Flow Management

Cash flow is essential to small business survival, yet many entrepreneurs struggle to pay the bills (let alone themselves) while they're waiting for checks to arrive. Part of the problem stems from delayed invoicing, which is common in the entrepreneurial world. You perform a job, send an invoice, then get paid (hopefully) 30 days later. In the meantime, you have to pay everything from your employees or contractors to your mortgage to your grocery bill. Waiting to get paid can make it difficult to get by — and when a customer doesn't pay, you can risk everything.

The solution: Budget and plan

Proper budgeting and planning are critical to maintaining cash flow, but even these won't always save you from stressing over bills. One way to improve cash flow is to require a down payment for your products and services.

Your down payment should cover all expenses associated with a given project or sale as well as some profit for you.

By requiring a down payment, you can at least rest assured you won't be left paying others' bills; by padding the down payment with some profit, you can pay your own.

Another strategy for improving cash flow is to require faster invoice payments.

Invoice clients within 15 days, which is half the typical invoice period. This means if a customer is late with a payment, you have two weeks to address it and get paid before the next month's bills are due.

In addition, more and more companies are requiring immediate payment upon project completion — and in our digital age when customers can pay invoices right from their mobile phones, it's not a stretch to request immediate payment.

You can also address cash flow management from the other side of the equation by asking your own vendors to invoice you at 45, 60 or even 90 days to allow ample time for your payments to arrive and checks to clear. If you can establish a good relationship with vendors and are a good customer, they may be willing to work with you once you explain your strategy.

And if you're looking for an easier way to pay bills and save money, consider sending checks via email.

2. Hiring Employees

Do you know who dreads job interviews the most? It's not prospective candidates — it's entrepreneurs. The hiring process can take several days of your time: reviewing resumes, sitting through interviews, sifting through unqualified candidates. Then, you only hope you can offer an attractive package to get the best people on board and retain them.

The solution: Be exclusive

Far too many help wanted ads are incredibly vague in terms of what qualifications candidates must have, what the job duties are, what days and hours will be worked, and what wages and benefits will be paid. You can save yourself a ton of time by pre-qualifying candidates through exclusive help wanted ads that are ultra-specific in what it takes to be hired at your firm, as well as what the day-to-day work entails. Approach your employee hunt the same way you would approach a customer-centric marketing campaign: through excellent targeting.

Once you have a pool of prospects, arrange for a "walking interview" in which you take candidates on a tour of their working environments.

Ask questions relevant to the job and to candidates' experiences, expectations, dedication, and long-term goals.

Don’t act like an overlord determining which minion gets to live another day; rather, behave as though you’re seeking a partner to help you operate and grow your business.

Take the time to seek real references: not the neighbor lady your candidates grew up with, but people who can honestly attest to their work ethic and potential. Once you’ve picked a candidate and before you’ve made a job offer, ask them specifically what it will take to keep them employed with you for the long haul.

Tell them to be honest with their expectations.

Provided they do a good job for you, you’ll know what kind of rewards they’re seeking, and you can make adjustments accordingly: Do they want more vacation? The opportunity for advancement? More pay? Freedom from micromanagement?

This isn’t to say you have to bend backward for your employees; however, it stands to reason that if you make expectations clear for both parties you can lay the foundation for a long-term, mutually-rewarding client-boss relationship.

3. Time Management

Time management might be the biggest problem faced by entrepreneurs, who wear many (and sometimes all) hats. If you only had more time, you could accomplish so much more!

The solution: Make time

Like money, time doesn’t grow on trees, so you have to be smart about how you spend it. Here are some tips:

Create goal lists: You should have a list of lifetime goals, broken down into annual goals, broken down into monthly goals, then broken down into weekly goals. Your weekly goals, then will be broken down into specific tasks by day. In this manner, what is on your task list in any given day is all you need to do to stay on track with your lifetime goals.

If any tasks do not mesh with your goals, eliminate them.

If any tasks do not absolutely have to be completed by you, delegate them.

Consistently ask yourself: “Is what I’m doing right now the absolute best use of my time?”

4. Delegating Tasks

You know you need to delegate or outsource tasks, but it seems every time you do, something gets messed up, and you have to redo it anyway.

The solution: Get reliable help and be clear with your requests

Find good employees (see above) and good outsourced contract help, for a start. You might have to pay a little more for it, but the savings in time (and the resulting earning potential) more than make up for it.

Next, be specific as to what you want to be done. It will take a little more time at first, but write down detailed steps listing exactly what you want your help to do. Don't make assumptions, and don't assume your help will be able to think for themselves right off the bat. So, don't say, "List stats in a spreadsheet," when it's more effective to instruct them to "Alphabetically list XYZ in the first spreadsheet column, then list statistic A in the next column," and so on. It might seem like overkill, but take the time to be specific once, and your help will get it right every time thereafter.

5. Choosing What to Sell

You know you could make a mint if you just knew what products and services to sell. You're just unsure how to pick a niche.

The solution: Conduct research

Admit that you're weak in identifying prosperous niches, and delegate the task to someone who is strong in this area.

You don't have to hire a huge, expensive marketing firm; rather, recruit a freelance researcher who has experience in whatever type of field you're considering entering (retail e-commerce, service industry, publishing, etc.). Have them conduct market research and create a report with suggested niches, backed by potential profit margins and a complete SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

This isn't to say you should have someone else decide for you; however, if you're not good at identifying niches, it makes sense to receive suggestions from someone who is. You can then analyze the suggestions for yourself to determine if you agree. Taking this step now can save you a lot of time, money and hassles later — not to mention your entire business and livelihood.

6. Marketing Strategy

You don't know the best way to market your products and services: print, online, mobile, advertising, etc. You want to maximize your return on investment with efficient, targeted marketing that gets results.

The solution: Find marketing expertise

Again, if you’re not adept at creating marketing plans and placing ads, it’s a good idea to outsource your marketing strategy to someone who is. At this point, all you need is a core marketing plan: Who is your audience, and what marketing activities will you undertake to motivate purchases? Give your planner a budget and tell them to craft a plan that efficiently uses that budget to produce profits.

This is not the time for experimentation. You can do that later, after you’ve established a baseline that works.

7. Raising Capital

You want to start or grow your business, but you have little capital to do it with.

The solution: Start small

There are many ways to earn funding, from traditional bank loans to Kickstarter campaigns and self-fueled growth models.

Instead of trying to launch a multimillion-dollar corporation overnight, focus on your initial core customers.

Continually work to find new customers, of course, but consistently strive to be remarkable to those customers you already serve. Word-of-mouth will spread, and more customers will come looking for you.

As they do, develop systems and business processes that allow you to delegate tasks without sacrificing quality. Your business will grow slowly and steadily, and you’ll be able to solve problems while they’re small.

Think about where you want to be five years from now. Can you get there without help, even if you have to delay growth a bit while you’re doing it? If you do feel you need funding, however, be sure to consult an attorney to make sure you’re not giving up too much of your business to get it.

8. Strapped Budget

Even though cash flow is fine, it seems you never have enough in your budget to market your company to its full potential.

The solution: Prioritize for efficiency

Nearly every entrepreneur struggles with their budget at one point or another. The key is to prioritize your marketing efforts with efficiency in mind — spend your money where it works — and reserve the rest for operating expenses and experimenting with other marketing methods.

Keep a close eye on your money, too: There may be areas you can skim to free up more funds. Unless an expense is absolutely critical to your business and/or represents an investment with an expected return, cut it. In fact, do this exercise: See how lean you can run your business.

You don’t have to actually do it, but cut everything you can and see if you still feel you can run your business (save for what you have to delegate and market with).

Somewhere in between your leanest figure and your current budget is a sweet spot that will allow you to be just as effective and leave funds leftover to fuel growth.

9. Business Growth

You’ve come to the point at which you can’t take on any more work in your current structure.

The solution: Reconsider your processes and roles

Create new processes that focus on task delegation. Many entrepreneurs, used to wearing all the hats, find themselves in this position once they’ve achieved a modicum of success. Because you’re doing everything, your growth halts to a stop when it hits a self-imposed ceiling. The only way to break through is to delegate tasks to others to take yourself out of the production end, and segue into management and, finally, pure ownership.

10. Self Doubt

An entrepreneur’s life is not enviable, at least in the beginning. It’s extremely easy to get discouraged when something goes wrong or when you’re not growing as fast as you’d like. Self-doubt creeps in, and you may feel like giving up.

The solution: A good support system and focusing on tasks

Being able to overcome self-doubt is a necessary trait for entrepreneurs. Having a good support system will help: family and friends who know your goals and support your plight, as well as an advisory board of other entrepreneurs who can objectively opine as to the direction of your business.

One of the best ways to deal with self-doubt is to work on your goals and tasks lists. When you're down and lack motivation, look at your lists and know that the tasks you do today are contributing to your lifetime goals. By doing them, you're one step closer, and you can rest assured that you are, indeed, on the path to business success.

Entrepreneurs face many challenges, and volumes have been written about how to overcome them. Perseverance and intelligence are your allies; use them to your advantage to keep working toward your goals. Understand that you're not the first to struggle. Because of that, there are many resources available to help you get through your darkest days as an entrepreneur, so you can reap the immeasurable rewards that come with building your own successful business.

4.7 SICKNESS IN SMES

Sickness in man is gradual process and does not develop suddenly. Similar is the case with industrial units. Therefore, in common parlance, a sick industry is one which is not healthy and a healthy unit is one which earns a reasonable return on capital employed and builds up reserves after providing reasonable depreciation. A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.

The Sick Industrial Companies Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

Definition

The Reserve Bank of India has defined a sick unit as one "which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1: 1 and there is worsening trend in debt-equity ratio."

The State Bank of India has defined a sick unit as one "which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds."

Sickness, in industry therefore, indicates more or less a perfect positive correlation with profitability, liquidity and solvency. The reasons of industrial sickness can be either internal or external.

Process of Sickness:

Sickness is an organic process in the life of industrial units , and so the phenomenon of sickness does not develop in a single day . The event of sickness may have origin followed by several stages that is healthy stage to sickness stages.

Problems of sickness are omnipresent but the dimensions differ. The approach in developed economies is to restore a unit to normalcy by way of restructuring methods within a short span of time or else close it down once for all. Such methods may not be suitable to our country on account of prevalent wide spread unemployment scenario. The Economic Survey (1989-90) mentioned about the prevalent of sickness in the country. The survey mentioned ‘growing incidence of sickness has been one of the persisting problems faced by the industrial sector of the country. Apart from that, sizeable funds of banks and financial institutions are blocked up, which impair the banks profitability and their ability to recycle fund for productive areas. This has also affects the healthy growth of the industrial economy. There are various criteria adopted by different authorities for identifying a sick small-scale industry.

Industrial sickness is considered a normal phenomenon in the process of industrial development, if it is isolated and sporadic. But in India, the scale and spread of industrial sickness is such that it has become a serious problem in the economy. It is blocking not only huge scare resources but also affecting a large section of population, therefore, creating social besides economic repercussions. Serious efforts are required so that it remains at reasonable level, if it all incidence is high, sickness be identified at incipient stage and sincere efforts be made by financial institutions in the process of revival and rehabilitation, and unviable units be settled quickly so to spare resources for better alternative uses. Like other economic problems, industrial sickness in Indian economy needs treatment based on sound diagnosis that takes all the relevant parameters and interests into account.

TABLE – 1 Overall Industrial Sickness During 1991-2001

Year	Number of Sick/Weak Units		
	Both SSI and Non-SSI	SSI	Non-SSI
1991	223809	221472	2337
1992	247924	245575	2349
1993	240700	238176	2524
1994	258952	256452	2500
1995	271206	268815	2391
1996	264750	262376	2374
1997	237400	235032	2368
1998	224012	221536	2476
1999	309013	306221	2792
2000	307399	304235	3164
2001	252947	249630	3317
Total 1991 to 2001	2838112	2809520	28592
Average Annual Growth Rate during 1991-2001(%)	2.15	2.14	3.72

From the above table it could be seen that during 1991-2001, more than 28 lakh units were reported in the portfolio of scheduled commercial banks to be the sick/weak units having grown at an annual average rate of 2.2 per cent. Wherein about 99 per cent units were found to be SSI units with 2.1 per cent growth rate and about one percent was a non-SSI unit with 3.7 per cent growth during the same period. As per the details given by the Reserve Bank of India the total Sick Units has decreased to '167980 units in 2003 from 177336 units from 2002. The potentially viable and viable units under nursing were 3626 and 993, amount outstanding were 624.71 Crores and Rs.382.32 Crores during the year 2003'(rbi.org.in).

4.8 REASONS AND REMEDIES

Small Scale Industries (SSIs) play vital role in the economic development of a country. Some SSIs turn out to be sick due to various reasons. Some of the major causes for sickness in small scale industries are dealt in brief.

Internal Causes of industrial Sickness

External Causes of industrial Sickness

Internal Causes of industrial sickness

Lack of Finance :This problems are generally faced by small units. Often the financially base of the small unit is very week .They generally borrow from their own known sources or banks, rather than approaching market .Generally, they are unable to meet their debt obligation in time and these debts accumulate. Bank normally do not help at this stage when symptoms being to show the problem and sickness become chronic.

Management Problem :Another reason for the industrial sickness is ineffective or bad corporate management which includes:

- Improper corporate planning
- Poor Inventory Management
- Lack of Integrity in top Management
- Lack of coordination and control
- Poor implementation of Projects etc.

Improper Choice of Technology: Small enterprises cannot afford to take technical guidance from expert in choosing proper machinery. An improper choice of technology, unsuitable product mix and single product technology contribute to industrial sickness.

Mismanagement : Industrial sickness could be because of mismanagement in various functional areas like finance, production, Marketing and personnel resulting from wrong management decision.

Incompetent Entrepreneurs :Lack of knowledge about market, customers, costing, marketing ,accounts, finance etc. could also leads to industrial sickness.

Bad Production Policy :Another important reason for sickness could be wrong production policies like:

- Wrong selection of product location
- Defective selection of Plant & Machinery
- Bad maintenance of Plant & Machinery
- Overestimation of demand

- Lack of quality control

- Lack of standard Research & Development and so on.

Increase in cost due to delay in implementation of project : Major project have to be implemented in time .Time is money .Any delay causes problem of lost business. it will be reason for loss. Especially the project of big size have to be planned properly. The supply of money and the schedules of the payment are to be carefully done.

External Causes of industrial Sickness

Recession in the Market: Industrial sickness is also caused because of increase in recession in local and global market. Recession leads to downturn of economy ,lending to major loss and closure for various industrial units.

Decline in Market Demand for the product: A product may reach a stage of decline. This happen when new and better products invade the market and made the old product redundant.

Excessive competition in the market: Excessive competition in the market will justify the survival of only the fittest firm. The high cost unit over time will become weak and fall sick.

Marketing Constraints: Another external reason for industrial sickness is marketing Constraint .The sickness can arrive due to:

- Changes in global marketing scenario

- Changes in Technology

- Changes in consumer behavior

- Changes in customer tastes, preference and demand

Government Policy: Frequent changes in government policies(in respect industrial licensing, taxation, Power tariff, imports, exports, duties etc.) may also leads to industrial sickness.

Shortage of Power Supply: Without pawer supply and fuel the company cannot run the manufacturing activates. Loss of production due to the unavailability of the power supply is becoming reason for companies to go in loss.

Delay in getting any financial assistance: The organization runs on the basis of money available when required . Financial institutions have back for this purpose. The delay of raw material, non-availability of good manpower, etc. cannot be improve without the availability of finance

Remedies

The strength of the industrial sector, by and large, determines the soundness of the economy.A developing economy like India cannot afford the growing sickness in industries as it results in a colossal wastage of physical, financial and human resources. In the presence of the resource crunch, the industrial sickness becomes all the more an alarming problem. Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.

Industrial Sickness – Symptoms of Sickness

The persistence of many signals for a long period of time is termed as symptoms of sickness, the various symptoms ultimately reflect on the plant performance (capacity utilization, financial capital ratio, share market value practices in the diverse areas of finance, production, marketing and labour relation in the industry).

Some of the important symptoms are:

1. Deteriorating financial ratio
2. Delay in the audit of annual account
3. Persisting shortage of cash flow
4. Continuous tumble in the price of the shares
5. Delay in the payment of statutory dues
6. Widespread use of creative accounting
7. Frequent request for loans
8. Morale degration of the employees
9. Desperation amongst the top and middle managerial level.

However, the financial ratios, in each case cannot be considered as true symptoms of industrial sickness.

(1) Equitable Allocation of Raw Materials, Imported Components and Equipment:

The small scale industrial units should be given adequate degree of priority in the allocation pattern of essential, but scarce, raw materials, imported components and equipment.

(2) Improvement in the Methods and Techniques of Production:

The small scale industrial units should be encouraged to replace their outmoded equipment with that incorporating an up-to-date technology, and facilities and incentives should be provided wherever required.

Up-dating the methods and techniques of production of quality goods conforming to standards. The role of the Government in this respect is quite significant. Standardisation of certain products should be ensured, the quality of products should be guaranteed, and malpractices like adulteration, misrepresentation, etc., need to be curbed drastically.

(3) Provision of Adequate Finance:

Promoter's own capital in the small-scale industrial units is generally small and generation of internal resources small and slow. They depend, therefore, on the external sources of finance in a substantial measure.

This factor requires, therefore, a system of integrated credit whereby the long-term as well as short-term finance is made available in an adequate measure and at a rate of interest which these undertakings can bear.

(4) Marketing Assistance:

Marketing of their products at remunerative prices is the major problem of small-scale industrial units. There is, therefore, a clear case for government intervention with a view to reducing the disadvantages arising out of market imperfections. Market research, intelligence and information systems should be strengthened and the results made available to those units.

(5) Industrial Education and Training:

With full advantages of changing technique of production, dispensation of technical knowledge, both to the small-scale entrepreneurs as well as their workers, should form an essential element of the overall strategy. Provision of adequate facilities for industrial education and training, therefore cannot be over-emphasised.

(6) Demarcation of Spheres of Large-Scale and Small-Scale Industrial Units:

Once the role of small-scale industries in the national economy is recognised, it becomes imperative that a secured berth is provided to it. In this connection the guiding principle should be to clearly demarcate, as possible, the spheres of production for these units. It may be pointed out that all the measures suggested above should be viewed as a package and applied simultaneously.

4.9 EVALUATING ENTREPRENEURIAL PERFORMANCE

As an entrepreneur, it is important to see what works at your business and what doesn't. Business is unpredictable, and about the only thing that you can count on is that everything continuously changes. You need to constantly measure your business performance so you know what's successful and what isn't. So, how do you measure small business success?

Measuring Business Performance

Take it from me, you want to have a plan when it comes to measuring business success. Here are just a few methods of measuring business performance at your company:

1. Look At Your Business's Financial Statements

When you think about measuring the success of your small business, you need to see how much money it's generating. Obviously, money is important when you run a business. Without it, your business is done. With it, you can grow your business and continue pursuing your entrepreneurial dream. How much money is going in and out of your business?

The three main financial statements you can use at your small business are the income statement, balance sheet, and cash flow statement.

The income statement measures the profitability of your business during a certain time period by showing your business's profits and losses. The balance sheet shows your business's financial health, measuring how much you owe and own. And, the cash flow statement shows how liquid cash is at your business.

Measuring business performance means checking out the money flow of your business. If you want to see how profitable your business is, check out the financial statements.

2. Check Customer Satisfaction

One important measurement of small business success is customer satisfaction. If your customers aren't satisfied after buying from your business, they probably won't do it again.

How do you measure customer satisfaction? There are a few different ways, including through surveys, reviews, or even asking, "Did you find everything you were looking for?"

At Patriot, we pride ourselves on excellent customer satisfaction. We are all about reviews and making sure that our customers are happy with the software we provide. When we receive reviews, we post them on our company website. That way, others know what real people have to say about our products.

Customers help us improve our products. My customers know what they need, and I learn how to satisfy their needs by listening to them. Many of the features we add to our software are because of customer requests.

3. Average How Many New Customers You Get

Knowing how many new customers you get is a great way to measure your business's success and predict growth. If your business is stagnant with the same 25 customers, you might need to kick up your marketing strategy.

See if the people buying from your business are existing customers. Develop a client list with email addresses to track customers. That way, you can easily count the number of new customers per month or year.

Average how many customers you get from each new business action, like adding products or upping your marketing efforts. By averaging your new customers every so often, you can measure how successful your business is at drawing in new people.

4. Conduct Performance Reviews

Let's not forget about your employees. Employees are essential — without them, you would have a hard time running and growing your business. One way to measure business success is through conducting performance reviews to see how your employees are doing.

I try to conduct performance reviews twice a year. They let me see how happy my employees are at their jobs, as well as how effectively they complete tasks. Performance reviews help employees see what they need to improve and gives me further insight into their workload.

For example, you might have an employee who has extra time on their hands. Through the performance review, you find out that the employee is unhappy because they want more responsibilities. You can then delegate more tasks to that employee to make them happier and increase workplace productivity without increasing the number of workers on payroll.

5. Stay Current On The Market

Sometimes, you need to know how the market is doing in order to measure the success of your own business. If you and your competitors aren’t doing well, it might be because there is a lull in the market.

Don’t be down if your business’s profitability decreases. It might be a result of the national market and out of your control. Decreased profitability could be a good time to introduce new products if demand for your current product or service is put on hold.

6. Assess Your Own Expectations

How do you feel about the success of your business? According to one study, 55% of small business owners are satisfied with being a small business owner.

You might not think about it, but assessing your own happiness is important when measuring your business success.

When I measure my business’s success, I try to consider my perception. How do I feel the business is doing? I know the numbers are good, but are they where I want them to be? Make sure you’re happy with your progress to encourage all-around success.

4.10 CREDIT MONITORING SYSTEM

A Credit Monitoring System simply keeps a watch on the credit reports that include each activity that can affect the credit score of an entity. To know more about its relevance, read this article.

Credit monitoring system in India is an innovative dimension that most of the financial institutions have started to explore, which is going to be a game changer in the field of finance for every entity that is related to the financial sector, whether its financial institutions or the consumers. With the incorporation of this tool, the functioning can be simplified and attention can be implied on the analysis part.

What is a Credit Monitoring System?

For any lending activity Credit Monitoring is an essential part to complete the process. It's a huge responsibility of the banks, i.e. to keep a check and maintain quality of the assets and must ensure the recovery of the interest or any dues within time. However, all these activities are performed with precautions especially during assessment and sanction of a loan.

Hence, due to so many activities involved, banks need to follow a sound system for effective credit monitoring, as it helps the bank to find out to understand the borrower’s account from different perspectives.

Features:

- Assures all-round asset quality management
- Proactive timely notifications to enable Early Warning Signal
- Detailed visual representation of collected data with interactive Dashboard
- How does the Credit Monitoring system work?
- The authentic credit monitoring system helps in improving the following factors:
- Guards against identity theft.
- Tracks a consumer’s credit report and credit scores.
- Analyses fake filing Social Security or Medicare claims.
- Monitors changes in borrower behavior to notify consumers about potential fraud.
- If an individual's personal information is compromised and used without their knowledge, their ability to access credit could be destroyed.

Therefore, the best credit monitoring services in India notify the consumers about the changes regarding their credit activity. For example, if a new account opens or in case of a big purchase like a car, the leading credit monitoring services offer detailed tracking of credit scores to help consumers in keeping their credit quality updated. Hence, a good credit score is maintained and better things can be planned. Also, with the help of monitoring, any issue can be repaired that includes major credit-based activities, such as applying for an automobile loan or a mortgage.

Benefits of Credit Monitoring software

- A well-structured Credit Monitoring software that is equipped to offer complete automated solutions that enables monitoring of borrower accounts, predictions of asset quality deterioration if any with the help of the following functions:
- Monitor borrower accounts and foresee the asset quality
- Supports in taking preventive and corrective measures for further activities
- Enables efficient use of funds and reduces possible loss of loan

- Enhances returns on loan

Conclusion:

From the above points, the significance of Credit monitoring services is evident and what are the areas these services offer support to the customer. Apart from that the futuristic approach and time-saving factors make this monitoring tool even more relevant for the financial industry. As per the industry leaders and experts, credit monitoring software can prove to be an effective tool in enhancing the overall working pattern and functioning of the financial professionals.

4.11 MANAGEMENT OF NPAS

Meaning of Non-Performing Assets (NPA)

Non-Performing Assets or NPA are like a cancer worm that has been destroying the banking system of India slowly and steadily. NPA are bad loans with banks or other financial institutions whose interests and or principal amounts are overdue for a long time. This time is usually 90 days or more. Like any other business, banks also must run on profits, but NPA eats into that margin for banks.

Types of NPA

Substandard NPA: Those NPA that have remained overdue for a period of less than or equal to12 months.

Doubtful NPA: Those NPA that have remained in the substandard category for a period of equal to or less than 12 months.

Loss Assets: This occurs when the NPA has been recognized as a loss by the bank, or the internal or external auditor or on Reserve Bank of India (RBI) inspection but the loan has not been forgiven completely.

Provisioning Norms

These are rules set by the RBI for all banks to set aside a certain amount for their bad assets or NPA. They vary according to the category of the NPA as follows:

10 percent of allowances for the total unpaid amount without making any budget for securities or other government guarantee cover.

The NPA under substandard category would have another 10 per cent cover making it a total of 20 per cent on the outstanding amount.

The provisional requirement for unsecured or doubtful NPA is 100 percent.

Factors contributing to NPAs

Banks' lending to persons/corporations etc. who are not creditworthy and taking high risks.

Banks are not diminishing their losses by understanding their bank's sufficiency on capital and loan loss reserves at a given time;

Promoter of Companies redirecting their funds elsewhere;

Banks trying to fund non-viable projects;

In the initial part of the 1990s, Public Sector Banks started experiencing acute capital shortage and losses. The targets set for their operation did not project the utmost need for these corporate goals;

The banks had very little autonomy to price their products; offer products to preferred sectors or spend money for their own profits. For example, Banks were forced to lend to priority sector namely agriculture due to political pressure;

Deficient means to collect and distribute credit information amongst commercial banks; and

Efficient recovery from evasive and overdue borrowers was impeded due to weaknesses in the existing process of debt recovery, ineffective legal provisions on and bankruptcy and problems in foreclosure the execution of court orders.

Impact of NPAs on Operations

It reduces the bank's profits.

It has an effect on the bank's capital adequacy.

The Banks thus become averse to giving loans and take zero percent risk. Thus fresh credit is not created.

The Banks start concentrating on credit risk management instead of making the bank more profitable.

Funds cost more due to NPA.

Preventive Measures

Taking a person/corporation’s Credit Information Bureau (India) Limited (CIBIL) score into consideration before lending.

Compromise or use various settlement schemes.

Use alternative dispute resolution mechanisms for faster settlement of dues such as use Lok Adalats and Debt Recovery Tribunals.

Actively circulate information of defaulters.

Take strict action against large NPAs.

Use Asset Reconstruction Company.

Legal Reforms such as implementation of the Insolvency and Bankruptcy Code have already taken place.

Corporate Debt Restructuring (CDR).

Propose guidelines on wilful defaults/diversion of funds.

Special Mention Accounts – Additional Precaution at the Operating Level.

Latest Measures by RBI

The main proposals are:

Lenders’ Committee with strict timelines for a resolution plan must be formed early.

Lenders must be given incentives to agree to collectively and quickly plan– if a resolution plan is already under way, then there must be better regulatory treatment; if no agreement can be reached, then accelerated provisioning must be done.

Improvement in current restructuring process: large value restructurings must be independently evaluated mandatorily, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors.

Future borrowing for non-cooperative borrowers with lenders must be made more expensive in resolution.

Asset sales must be given more liberal regulatory treatment.

If loss is fully disclosed, lenders must be allowed to spread their losses on sale for over two years.

It will not be construed as restructuring if takeout financing/refinancing is made possible over a longer period.

If specialized entities are acquiring 'stressed companies', leveraged buyouts must be allowed.

Steps must be taken to facilitate better functioning of Asset Reconstruction Companies.

Sector-specific Companies/Private equity firms must be helped to play an active role in the stressed assets market.

Formation of Joint Lenders' Forum: If an account is reported to Central Repository of Information on Large Credits (CRILC) as SMA-2, all lenders should form a lenders' committee to be called Joint Lenders' Forum (JLF) under a convener and frame a joint Corrective Action Plan (CAP) for early resolution of the stress in the account. This would also include: Rectification; Restructuring; Recovery of the asset.

4.12 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1.Explain the characteristics and benefits of MSME

2. Explain the concept of Product line with the help of an example

3. As an entrepreneur how would you communicate with your clients to retain them with your business

4. What is meant by Restructuring of an enterprise

5. Explain the Revival and Rehabilitation of Small Scale industries

Short Answer Questions

1. Explain the concept of sickness in small scale industries

2. Explain reasons for sickness in small scale industries

3. Explain the remedies of sickness in small scale industries

4. What are the various measures for evaluationg entrepreneurial performance

5. List down the problems faces by an entrepreneur

B. Multiple Choice Question

1 A ___________is a group of related products all marketed under a single brand name that is sold by the same company

a) Product Line

b) Product management

c) Product Classification

d) Product Mix

2. ____________ is the tool with which we trade, a must-have skill that goes way beyond learning how to express yourself and behave.

a) Entrepreneurship

b) Communication

c) Leadership

d) Negotiation

3.The Reserve Bank of India has defined a sick unit as one “which has incurred a cash loss for _________ and is likely to continue incurring losses for the current year as well as in the following year

a) Two years

b) Three years

c) Four years

d) One year

4. ___________ are bad loans with banks or other financial institutions whose interests and or principal amounts are overdue for a long time.

a) Loans

b) NPS

c) NPA

d) Bad Debts

5. Lack of funds is one of the reasons for ___

a) industrial sickness

b) industrial growth

c) Competition

d) Conflicts

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Answers

1-a, 2-b, 3-d, 4-c, 5-a

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UNIT 5 - POLICY INITIATIVES FOR MSMES

STRUCTURE

5.0 OBJECTIVES

After completing this Students will be able to

- Define : – Policy initiatives for MSMEs development
- Understand : Importance of MSMEs in balanced growth
- Define : Implementing the various initiatives
- Explain: Success of the policy initiatives of MSMEs

5.1 INTRODUCTION

Under the Chairmanship of Hon'ble Prime Minister Shri Narendra Modi, the Ministry of Micro, Small and Medium Enterprises (MSME) implements various programmes/ MSME schemes for the development and promotion of MSMEs across the country.Moreover, the Government of India has been really proactive to ensure that all the benefit of these MSME schemes reaches to the MSMEs in time.

To provide immediate relief to the MSME sector, various announcements (in addition to the various MSME schemes) have been made under the Atmanirbahar Bharat Package. The most important ones also included:

INR 3 lakh crore collateral-free automatic loans for MSMEs to buy raw material, meet operational liabilities and restart businesses

Revision of MSME definition to extend maximum benefits to the sector

Disallowing global tenders in procurements upto INR 200 cr to create attractive opportunities for domestic players

Clearing of MSME dues by the Government and Public Sector Units (PSUs) within 45 days.

The Government of India simplified the process of registration of MSMEs by replacing the Udyog Aadhaar Memorandum (UAM) with Udyam Registration (UR) on 1st July 2020. UR is free of cost, transparent, online, hassle free and is based on self-declaration. It does not require any documents and has an automatic integration with ITR and GSTIN. During the second wave of Covid -19 pandemic MSMEs continued to register on UR Portal.

MSMEs can avail the benefits of schemes such as Prime Minister's Employment Generation Programme (PMEGP)/Rural Employment Generation Programme (REGP)/Micro Units Development & Refinance Agency (MUDRA) and the announcements made to provide relief to MSMEs from the problems faced due to COVID-19 pandemic. The number of Projects and Employment generation under PMEGP during 2020-21 in July, 2021 are 91,054 and 7,28,432, respectively.

The Ministry of Micro, Small and Medium Enterprises (MSME) does not set-up any MSME in any state including Karnataka, Maharashtra and Tamil Nadu. The MSME sector consists of private players and the investments in this sector are made by the entrepreneurs themselves. Promotion and development of enterprises is a State subject. However, the Central Government supplements the efforts of the State/UT Governments through various schemes, programmes and policy initiatives for promotion, development and enhancing the competitiveness of MSMEs in the country.

A number of schemes are being implemented by Ministry of MSME for MSMEs, including Prime Minister's Employment Generation Programme (PMEGP), Credit Linked Capital Subsidy for Technology Upgradation Scheme (CLCS-TUS), Schemes for Khadi & Village Industries and Coir, International Cooperation Scheme, Procurement and Marketing Support Scheme, Scheme for Credit Guarantee Fund for Micro and Small Enterprises, National SC/ST Hub etc. Benefits under these schemes are available to all eligible MSMEs, including those belonging to SC and ST communities. The Public Procurement Policy for Micro and Small Enterprises Order 2012 mandates 4% procurement from SC/ST owned MSEs and 3% from women owned MSEs.

The 'Make in India' initiative and the 'Atmanirbhar Bharat Abhiyaan' (Self Reliant India Campaign) have played a key role in promoting business and local manufacturing in the country, giving special thrust to Micro, Small and Medium Enterprises (MSMEs), also referred to as the backbone of Indian economy.

The central government has also taken immediate response measures in the form of the Atmanirbhar Bharat Package to ensure continuity of businesses during the COVID-19 pandemic.

Along with these measures, the main governing body for MSMEs in the country, i.e., the Ministry of Micro, Small and Medium Enterprises (M/o MSMEs) also has numerous schemes in place to support the budding manufacturing units across the country.

MSME Schemes Launched by the Government

Udyog Aadhaar Memorandum

Aadhaar card is a 12 digit number given to all individuals by the government. In this, the Aadhaar card is a mandatory requirement. The benefit of registering in this scheme is the ease in availing credit, loans, and subsidies from the government. Registration can be done both ways in the online mode or the offline mode.

Zero Defect Zero Effect

In this model, goods that are manufactured for export have to adhere to a certain standard so that they are not rejected or sent back to India. To achieve this the government has launched this scheme. In this, if the goods are exported these are eligible for some rebates and concessions.

Quality Management Standards & Quality Technology Tools

Registering in this scheme will help the micro, small and medium enterprises to understand and implement the quality standards that are required to be maintained along with the new technology. In this scheme, activities are conducted to sensitize the businesses about the new technology available through various seminars, campaigns, activities etc.

Grievance Monitoring System

Registering under this scheme is beneficial in terms of getting the complaints of the business owners addressed. In this, the business owners can check the status of their complaints, open them if they are not satisfied with the outcome.

Incubation

This scheme helps innovators with the implementation of their new design, ideas or products. Under this from 75% to 80% of the project cost can be financed by the government. This scheme promotes new ideas, designs, products etc.

Credit Linked Capital Subsidy Scheme

Under this scheme, new technology is provided to the business owners to replace their old and obsolete technology. The capital subsidy is given to the business to upgrade and have better means to do their business. These small, micro and medium enterprises can directly approach the banks for these subsidies.

Women Entrepreneurship

This scheme is especially started for women who want to start their own business. The government provides capital, counselling, training and delivery techniques to these women so that they manage their business and expand it.

The government has launched a number of more schemes and support system for these enterprises, to know more about the MSME schemes the following link of the government can be checked.

The **government has undertaken numerous measures** to obtain a solution to the problems faced by Micro, Small and Medium enterprises (MSME) and permit them to play an efficient and capable role in the country’s economy. These measures may be generally classified as the following:

Protection Measures: These include measures that are designed to protect small scale industries from the competition of existing large firms.

Promotional Measures: These include measures which have been undertaken for the promotion of the growth related to the small scale sector in the country such as programs, guidelines, procurement of goods and services and government grants.

Institutional Measures: These are inclusive of measures which have been undertaken by the government by setting up of several institutions or related agencies for the provision of liberal and multifaceted assistance to the small scale industry sector.

The article studies major initiatives taken by the government to develop the Micro, Small and Medium Enterprises (MSME) sector, Credit Guarantee Scheme (CGTMSE Scheme) and development of Micro, Small and Medium Enterprises, list of items and development of MSME framework of institutional support services and incentives for small scale sector, promotional measures by State Government for the development of MSME sector and suggestions for the development of MSMEs.

CGTMSE Scheme

In order to make the Credit Guarantee Scheme more beneficial the following modifications have been made namely:

Increasing for optimal reasons eligible loan limit from the amount of Rs. 25 lakh to Rs. 50 lakh.

Raising the extent of guarantee cover from 75 % to 80 % for the following categories:

Micro enterprises for loans up to the limit of Rs. 5 lakh

Medium and Small Scale Enterprises that are operated or owned by women

All loans availed in the North Eastern Region of India

Reduction of the one-time guarantee fee from 1.5 % to 0.75 % for all loans availed in the North-Eastern Region of India.

List of Items and development of Micro, Small and Medium Enterprises

The deletion by a phased process of products from the items list that is reserved for manufacture by MSME is followed on a continued basis. One hundred and twenty five items that were removed from the reserved category on March 13, 2007 contributing to the reduction of the number of items reserved for exclusive manufacture in micro as well as small enterprise sector to one hundred and fourteen. Furthermore, seventy nine items were removed from the reserved category on February 5, 2008, fourteen items in the month of October 2008 that was followed by a revision in the month of July 2010.

Institutional Support Services

The small scale industry sector creates almost 40% of the gross industrial value added output and 45% of the total exports from India with reference to direct as well as indirect exports. The sector is the second largest employer of manpower after the agricultural sector. The development of Small Scale Sector has hence been assigned a significant role in India's national plans.

For the purpose of protecting, supporting and promoting small enterprises and also to aid them to become self-supporting, numerous protective as well as promotional measures have been undertaken by the Government.

While the majority of the institutional support services and a few incentives are provided by the Central Government, others are instituted by the state governments in various degrees to encourage investments and support small industries in varying degrees to attract investments and support small industries with an intention to improve industrial production and to create employment opportunities in the respective States.

Promotional Measures by State Government

The various promotional measures undertaken by State Government for the development of micro, small and medium scale industry sector include:

Industrial extension services

Institutional support with reference to credit facilities

Providing developed sites for the construction of sheds

Providing training facilities

Supply of machinery on the basis of hire-purchase terms

Enabling Assistance for domestic marketing and exports

Offering special incentives for creating enterprises in backward areas and so on

Offering technical consultancy and financial assistance for the purpose of technological enhancement

Development of MSMEs

Arrangements may be ensured by the government to enable the supply of trained and professional managers related to the small scale sector.

It would be essential to consider policy initiatives to incentivize MSMEs in achieving economies of scale by the process of expanding production.

To smooth the progress of the MSME sector to acquire resources, it is essential that a separate trading exchange be created exclusively for the MSME sector.

Providing special incentives to channelize larger flow of venture capital and private equity funds related to the small scale sector.

There is a vital need to create measures to manage the problem of loss of fiscal benefits in the case of the micro and small scale units that evolve into larger units and so on.

5.2 ASPIRE- A SCHEME FOR PROMOTION OF INNOVATION, RURAL INDUSTRY & ENTREPRENEURSHIP

A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE) is an initiative of Government of India and promoted by the Ministry of Micro, Small and Medium Enterprises (MSME). It was launched to set up incubation centres and network of technology centres for enhancing entrepreneurship across India. It seeks to promote start-ups for innovation in the agro-industry.

In India, the majority of the population is dependent on the agriculture industry even to this day. The Government introduced many schemes with innovative initiatives, yet poverty and unemployment problems prevail across the country. To curb this, the Government launched this scheme to generate employment and set up enterprises in the agriculture industry.

ASPIRE was launched in 2015 to provide knowledge to the entrepreneurs for starting up their businesses and becoming job providers. It was introduced to create new jobs and promote start-up enterprises for innovation in rural areas and traditional agro-industries.

ASPIRE aims to impart the necessary skill set required for setting up a business enterprise and assist during their critical period to ensure self-sustainability. This scheme also facilitates the available market linkages to the entrepreneurs.

It was launched keeping in mind the ‘Make in India’ call, which identifies and creates a favourable ecosystem for encouraging start-ups and driving the manufacturing units and sustained employment opportunities

5.2.1 Objectives of ASPIRE Scheme

The objectives of ASPIRE are:

Creation of new jobs and reducing unemployment

Grassroots economic development at the district level

Promoting entrepreneurship culture in India

Facilitating innovative business solutions for meeting the social needs of the people

Promoting innovation for further strengthening the competitiveness in the MSME sector

Spawn new jobs and curb and reduce unemployment and poverty.

Promote entrepreneurship. There should be enough job providers in India for all the job seekers.

For unattended and neglected social needs, facilitate innovative business ideas.

Training to the youth of skill development for entrepreneurship to set up their own businesses.

Promote a much needed economic development at the district level as well.

One of the most important objectives of the ASPIRE scheme is to add value to the agricultural produce by automating agricultural activities.

The monetary aid provided by the government under ASPIRE Yojana can be utilized for plants and machinery items.

Recycling of agricultural harvest waste, both pre and post harvest.

Networking of business resources and credit facilitation is also one of the main objectives of ASPIRE Yojana.

Provide practical experience of business to the budding entrepreneurs.

5.2.2 Scope of ASPIRE

The assistance provided under this scheme is used for the following purposes:

Automation of agricultural practices and related activities.

Addition of value for agriculture and forest produce.

Recycling of agricultural pre/post-harvest wastages, animal husbandry, off-farm but linked to farm activities, etc.

Business models for value addition and aggregation relevant for rural areas, for social impact and the generation of local employment in rural areas.

5.2.3 Eligibility for ASPIRE Scheme

The following are eligible for obtaining the benefits under ASPIRE-

Any entrepreneur who intends to set up start-ups.

Any technical/university/research institutes including those in the field of rural and agro-based industry.

All MSMEs with Entrepreneurs Memorandum Registration.

Any institute/agency under the Government of India or any State Government in the field of technology, business management, rural development and entrepreneur development or any body corporate under Public-Private Partnership (PPP) mode can set up Livelihood Business Incubation (LBI).

Any existing incubation centres operating under different Ministries and Departments of Government of India and institutions which include National/Regional level institutions of Government of India or any State Government for setting up centres dedicated to incubation and enterprise creation in the area of agro-based industries.

Any new incubation centres to be set up by eligible private institutions including industry associations along with academic institutions, universities, government entities, R&D laboratories and technology parks.

The application for this scheme is to be submitted to the Aspire Scheme Steering Committee of the Ministry of MSME. Scheme Steering Committee is responsible for coordination, overall policy and management support.

5.2.4 Components of ASPIRE Scheme

The components of this scheme are-

Livelihood Business Incubation (LBI)

The main objective of Livelihood Business Incubation is setting up business incubators to incubate, provide skill development training to youth, impart entrepreneurship and facilitate funding for empowering the entrepreneurs to set up their business enterprises. The main focus of these incubators is creating jobs at the local level and reducing unemployment. These incubators create a favourable ecosystem for the development of entrepreneurship in the country. The LBI's create enterprises on a large scale by taking up those commercial activities which are already established.

Technology Business Incubation (TBI)

Technology Business Incubators are an effective economic development tool. TBI promotes the growth of an enterprise through the application of technology, innovation and supporting economic development strategies for small business development. They also encourage growth in local economies and provide mechanisms for technology transfer.

The TBI's mainly focus on those technologies that require support for commercialisation and future proliferation. The programmes under TBI include support and setting up incubation centres, incubation of ideas, creation of business enterprises out of innovative ideas and accelerator programmes for incubators.

Start-up Promotion through Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) enables ideas/innovations that have creativity and scalability to come ahead and convert these into commercially viable enterprises within a specified period with specific outcomes through innovative means of finance. The innovative means of finance of SIDBI include equity, quasi-equity, venture capital fund, angel fund, challenge fund, impact fund, etc. A fund of funds is also created under SIDBI for achieving the purpose of converting ideas/innovations into commercially viable enterprises.

This component targets knowledge initiatives which require support and nurture to succeed in the development of technology. It also targets the business enterprises in the areas of innovation, accelerator support in Agro-based Industry vertices, entrepreneurship and forward-backwards linkage with multiple value chains of manufacturing and service delivery.

5.2.5 Nature of Assistance under ASPIRE

The nature of assistance provided under ASPIRE are-

For the LBI which is to be set up by – National Small Industries Corporation (NSIC) or – Coir Board or – Khadi and Village Industries Commission (KVIC) or – Any other institution or agency of the Government of India/ State Government on its own or by any agency

A one time grant of 100% of the cost of Plant and Machinery other than infrastructure and land or an amount of up to Rs.100 lakh, whichever is less is provided.

For setting up of incubation centres under PPP mode with – National Small Industries Corporation (NSIC) or – Coir Board or – Khadi and Village Industries Commission (KVIC) or – Any other institution or agency of the Government of India/ State Government on its own or by any agency

A one time grant of 50% of the cost of Plant and Machinery other than infrastructure and land or an amount of up to Rs.50 lakh, whichever is less is provided.

For supporting existing incubation centres under TBI by various Ministries or Departments or Government funded institutions such as – Department of Science & Technology – Department of Biotechnology – The International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) – The Indian Council of Agricultural Research (ICAR)

A one time grant of 50% of Plant and Machinery other than infrastructure and land or an amount of up to Rs.30 lakh, whichever is less is provided to set up centres dedicated to enterprise creation and incubation in the area of Agro-based Industry.

For setting up of new incubation centres under TBI by eligible agencies dedicated to enterprise creation and incubation in the area of Agro-based Industry, a one time grant of 50% of Plant and Machinery other than infrastructure and land or an amount of up to Rs.100 lakh, whichever is less is provided.

5.2.6 Funding Pattern Of ASPIRE

The budget of 2014-2015 allocated a corpus of Rs.200 crore to ASPIRE. The budget of 2019 proposed to set up 80 LBI and 20 TBI in 2019-20 under this scheme. The allocation of the corpus of this scheme are as follows-

Sl.No	Items	Amount

1	Creation, maintenance and updation of the database of the Technology Centres network	Rs.2 crore
2	Capacity Building, including Engagement of Consultants, Surveys, Awards, Exposure Visits, Studies, Monitoring and Evaluation, etc.	Rs.17.75 crore
3	Fund for setting up of Incubation Centres by NSIC, Coir Board, KVIC or any other institution or agency of the Government of India/State Government	Rs.62.50 crore
4	Fund for setting up of Technology Incubation Centres (TBI)	Rs.61.50 crore
5	Administrative cost @ 10% of the item mentioned in the 3rd row of this table above	Rs.6.25 crore
6	Fund of Funds for Start-ups to be managed by SIDBI	Rs.60 crore

5.3 THE MSME DEVELOPMENT ACT, 2006

This is an act for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto.

A) Entrepreneur's Memorandum for setting up Micro, Small and Medium Enterprises

Enterprises file EM (Part – I) at the proposed stage and EM (Part – II) after commencement of production with the General Manager, District Industries Centre.

As per section 8(1) of the Act, filing of Entrepreneur's Memorandum by a micro or smallenterprise (both manufacturing & service sector) or a medium enterprise engaged in providing orrendering services is optional. However, a medium enterprise engaged in manufacture orproduction of goods pertaining to any industry specified in the First Schedule to the IDR Act, 1951 is required to file the memorandum with the General Manager, District Industries Centre.

B) Procedure for filing of Entrepreneur's Memorandum (EM)

C) Classification of enterprises

An enterprise, 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, (IDR

Act, 1951) is said to be :

(a) a micro enterprise, where the investment in Plant and Machinery does not exceed Rs.25 lakhs;

(b) a small enterprise, where the investment in Plant and Machinery is more than Rs.25 lakhs but does not exceed Rs.5 crore;

(c) a medium enterprise, where investment in Plant and Machinery is more than Rs.5 crore but does not exceed Rs.10 crores.

An enterprise, engaged in providing or rendering of services is said to be :

(a) a micro enterprise, where the investment in equipment does not exceed Rs.10 lakhs;

(b) a small enterprise, where the investment in equipment is more than Rs.10 lakhs but does not exceed Rs.2 crore;

(c) a medium enterprise, where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

D) Payment to Micro and Small Enterprises.

The buyer shall make payment to the seller or supplier for any goods or any services on or before the date of agreed upon between him and the supplier in writing or where there is no agreement in this behalf, before the appointed day, the period of limitation for payment is no case shall exceed 45 days from the day of acceptance.

Highlights of the ACT

1.Important clauses in MSMED Act.?

Sec. 15 talks about Liability of the buyer to make payment to Micro and Small Enterprise for goods

supplied or services rendered by them to buyer. As per this section payment has to be made within such

period as agreed between buyer and seller which should not exceed 45 days in any case. Again as per Sec. 16 if a buyer fails to make payment as per Sec. 15 he is liable to pay interest which will be computed at monthly rate and compounded int. at the rates which will be three times of bank rate notified by RBI. Further as per Sec. 23, interest paid or payable as per Sec. 16 will be disallowed as deduction while

computing income under Income Tax Act, 1961. Sec. 23 is an overriding section.

2. How is the investment in Plant and machinery? Are there any exclusions in computing

the investment in Plant & machinery?

The investment in Plant and Machinery should be the original value irrespective of whether the

Plant and Machinery are new or second hand. In respect of imported machinery, the following is

to be included in calculating the value:

a. import duty (excluding miscellaneous expenses such as transportation from the port to

the site of the factory, demurrage paid at the port);

b. shipping charges;

c. customs clearance charges and

d. sales tax or value added tax.

The following are excluded while calculating the investment in Plant and Machinery:

(i) equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the

cost of consumable stores;

(ii) installation expenditure for Plant and Machinery;

(iii) research and development equipment and pollution control equipment;

(iv) power generation set and extra transformer installed by the enterprise as per the regulations of the State Electricity Board;

(v) bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation.

(vi) Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the Plant and Machinery or for safety measures.

(vii) gas producer plants;

(viii) transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise.

(ix) charges paid for technical know-how for erection of Plant and Machinery.

(x) such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process, and

(xi) fire fighting equipment.

3. What is the advantage / benefit of filing / registering a micro or small enterprise with the state government?

Apart from getting other benefits, if a micro or small enterprise files a memorandum with District Industries Centre (DIC), then it it is protected by this Act as to timely payment in respect

of supply of goods or rendering of services to any buyer.

As per this Act, if the buyer has purchased goods or availed services from a micro or small enterprise, which has filed a memorandum with the authority, then the buyer shall make payment on or before the date agreed upon between him and the supplier in writing. The Act further stipulates that if the period between the buyer and supplier is agreed in writing, such period shall not exceed 45 days from the day of delivery of goods or rendering of services.

4. If the buyer fails to pay the amount to the supplier, what is buyer’s liability?

If the buyer fails to make payment of the amount to the supplier as required under section 15, then the buyer is liable to pay compound interest with monthly rests on the amount at three times of the bank rate notified by the RBI

5. What is the recourse to the supplier if buyer does not pay interest?

A reference may be made to the Micro and Small Enterprises Facilitation Council. The Council shall first try for conciliation. If conciliation is not successful then the Council shall either itself take up the dispute for arbitration or refer it to any institution or centre providing alternate dispute resolution services for such arbitration and the provisions of the Arbitration and Conciliation Act, 1996 shall apply.

If any part y does not accept the decree or award of the Council or of the arbitrator, no court shall entertain the application, unless 75% of the amount in terms of decree or award is deposited by the appellant.

6. Who is a buyer?

'Buyer' means whoever buys any goods or receives any services from a supplier.

7. Who is a supplier?

Sub-section (n) of section 2 of the Act, defines a supplier. As per the definition, a supplier means a

micro or small enterprise, which has filed a memorandum with the District Industries Centre.

Further, "supplier" also includes:

(i) the National Small Industries Corporation Ltd.;

(ii) a company under the Small Industries Development Corporation of a state or a Union

territory.

(iii) any company, co-operative society, society, trust or body, engaged in selling goods

produced by micro or small enterprises and rendering services which are provided by

such enterprises.

8. Are any disclosures required to be made in the audited financial statements, of the

“buyer”?

As per section 22 of the MSMED ACT, 2006, a buyer in its audited annual statements is required to furnish the following additional information :

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 along with the amount of the

payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Act.

(d) The amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) The amount of further interest due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23.

9. Are there any fines / penalties if any of the provisions contained in sub-section (1) of section 8 or sub-section (2) of section 26 or section 22 are not complied with?

Section 27, of the MSMED Act, 2006 deals with fines/ penalties:

Where a person intentionally contravenes or attempts to contravene or abets the contravention of

Sr. No.	**MSME**	**Start-up**
1.	Defined under the MSMED Act	Defined by DPIIT

2.	Investment limits and turnover limits should both be satisfied to be regarded as MSMEs.	Only turnover limit of Rs. One hundred crores are applicable with no investment limits in the definition of start-up.
3.	The turnover limit for MSME recognition is in terms of net turnover, i.e., less export turnover.	The turnover limit for DPIIT purposes is gross turnover without reducing exports.
4.	MSME status will exist as long as investment and turnover limits are not exceeded.	Start-up status will last till turnover exceeds Rs. 100 crores or ten years from the date of incorporation completed, whichever is earlier.
5.	The turnover limit for MSME Status is the net turnover of Rs. 250 crores	The turnover limit for Start-up Status is the gross turnover of Rs. 100 crores
6.	The investment ceiling for MSME status is Rs. 50 crores. If that is exceeded, the enterprise ceases to be MSME.	No investment ceilings to be regarded as a start-up
7.	Enterprise can enjoy MSME status for any time after its incorporation so long as its investment in plant and machinery or equipment does not exceed Rs.50 crores and turnover does not exceed Rs.250 crores.	Start-up status is only for ten years from the date of incorporation.

8.	To be recognized as MSME, the enterprise must file Udyam Registration	To be recognized as a start-up, the enterprise must file an application for DPIIT Recognition
9.	If the investment limit of Fifty crores is not exceeded, and the turnover limit of One hundred crores is not exceeded, but ten years have elapsed since incorporation; then, the enterprise will be MSME but not a start-up.	If the investment limit of Fifty crores is exceeded, but the turnover limit of Rs. One hundred crores are not exceeded, and ten years have not elapsed from the date of incorporation; the enterprise will not be regarded as MSME but will be considered a start-up.
10.	MSME enterprise can have any legal form of organization	Only partnership firms, LLPs, and private limited companies will be eligible for start-up status.
11.	An organization can follow any business model to qualify as MSME.	To qualify as a start-up, the business model must work towards innovation, development, or improvement of products or services. The business model must be scalable with a high potential for employment or wealth creation.

12.	An organization will be an MSME, even if it is formed by splitting up or reconstructing a business already in existence.	An entity will not qualify as a start-up if it is formed by splitting up or reconstructing an existing business.
13.	MSME private limited companies which do not qualify as start-ups are liable to angel tax on shares issued at a premium if the issue price is higher than Fair Market Value.	Start-up private limited companies are exempted from angel tax if investments made or to be made by all investors including family and friends do not exceed Rs. 25 crores.
14.	No tax holiday will be available for an MSME unless it qualifies as a start-up and is a private company/LLP, which satisfies conditions of section 80-IAC.	Tax holiday under section 80-IAC of the Income-tax Act is available for a start-up which is an LLP or a private limited company.
15.	No tax exemption to capital gains from sale of residential property of promoter if the same is invested into a private limited company which is an MSME but does not qualify as a start-up.	Tax exemption under section 54GB1 to capital gains from sale of residential property of promoter if the same is invested into a private limited company which is a start-up.
16.	Benefits under the MSMED Act are available to MSMEs. However, benefits under Startup India Scheme	Benefits under the MSME Act are not available to start-ups unless they qualify

	will not be available unless the firm satisfies the definition of 'start-up' and gets DPIIT recognition.	as MSMEs by satisfying the definition's investment limits and filing Udyam Registration.

the following:

a. where a person fails, to file memorandum, as required under sub-section (1) of section 8 of the MSMED Act, 2006.

b. fails to furnish such information as called by an officer appointed under section 26(1) of the

MSMED Act, 2006.

In case of first conviction, the fine may extend up to Rs.1,000 and in case of second and subsequent conviction, fine shall not be less than Rs.1,000 and can extend up to Rs.10,000.

c.where a buyer contravenes the provisions of section 22 of the Act, 2006 i.e. fails to furnish additional information in his annual statement of accounts, sub section(2) of section 27 states that the fine shall not be less than Rs.10,000/-

5.4 THE LEGAL DIFFERENCE BETWEEN AN MSME AND A START-UP

Only partnership firms, LLPs, and Companies can have the statuses of "MSME" under MSMED Act and start-up under the latest DPIIT. They will be regarded as MSMEs provided they satisfy the investment limits in the definitions of MSME under the MSMED Act. The MSMED Act defines MSME. Start-up is determined by the DPIIT's Start-up Notification No. dated 19.02.2019. The distinction between MSME and start-up is summed up as under:

Sr. No.	MSME	Start-up
1.	Defined under the MSMED Act	Defined by DPIIT
2.	Investment limits and turnover limits should both be satisfied to be regarded as MSMEs.	Only turnover limit of Rs. One hundred crores are applicable with no investment limits in the definition of start-up.
3.	The turnover limit for MSME recognition is in terms of net turnover, i.e., less export turnover.	The turnover limit for DPIIT purposes is gross turnover without reducing exports.
4.	MSME status will exist as long as investment and turnover limits are not exceeded.	Start-up status will last till turnover exceeds Rs. 100 crores or ten years from the date of incorporation completed, whichever is earlier.
5.	The turnover limit for MSME Status is the net turnover of Rs. 250 crores	The turnover limit for Start-up Status is the gross turnover of Rs. 100 crores
6.	The investment ceiling for MSME status is Rs. 50 crores. If that is exceeded, the enterprise ceases to be MSME.	No investment ceilings to be regarded as a start-up
7.	Enterprise can enjoy MSME status for any time after its incorporation so long as its investment in plant and machinery or equipment does	Start-up status is only for ten years from the date of incorporation.

	not exceed Rs.50 crores and turnover does not exceed Rs.250 crores.	
8.	To be recognized as MSME, the enterprise must file Udyam Registration	To be recognized as a start-up, the enterprise must file an application for DPIIT Recognition
9.	If the investment limit of Fifty crores is not exceeded, and the turnover limit of One hundred crores is not exceeded, but ten years have elapsed since incorporation; then, the enterprise will be MSME but not a start-up.	If the investment limit of Fifty crores is exceeded, but the turnover limit of Rs. One hundred crores are not exceeded, and ten years have not elapsed from the date of incorporation; the enterprise will not be regarded as MSME but will be considered a start-up.
10.	MSME enterprise can have any legal form of organization	Only partnership firms, LLPs, and private limited companies will be eligible for start-up status.
11.	An organization can follow any business model to qualify as MSME.	To qualify as a start-up, the business model must work towards innovation, development, or improvement of products or services. The business model must be scalable with a high potential for employment or wealth creation.
12.	An organization will be an MSME, even if it is formed by splitting up or reconstructing a business already in existence.	An entity will not qualify as a start-up if it is formed by splitting up or reconstructing an existing business.

13.	MSME private limited companies which do not qualify as start-ups are liable to angel tax on shares issued at a premium if the issue price is higher than Fair Market Value.	Start-up private limited companies are exempted from angel tax if investments made or to be made by all investors including family and friends do not exceed Rs. 25 crores.
14.	No tax holiday will be available for an MSME unless it qualifies as a start-up and is a private company/LLP, which satisfies conditions of section 80-IAC.	Tax holiday under section 80-IAC of the Income-tax Act is available for a start-up which is an LLP or a private limited company.
15.	No tax exemption to capital gains from sale of residential property of promoter if the same is invested into a private limited company which is an MSME but does not qualify as a start-up.	Tax exemption under section 54GB1 to capital gains from sale of residential property of promoter if the same is invested into a private limited company which is a start-up.
16.	Benefits under the MSMED Act are available to MSMEs. However, benefits under Startup India Scheme will not be available unless the firm satisfies the definition of ‘start-up’ and gets DPIIT recognition.	Benefits under the MSME Act are not available to start-ups unless they qualify as MSMEs by satisfying the definition’s investment limits and filing Udyam Registration.

5.5 THE MSME DEVELOPMENT ACT (AMENDMENT) BILL, 2015

The Ministry of Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015 are to (i) enhance the existing limit for investment in plant and machinery considering changes in price index and cost of inputs consistent with the emerging role of the MSMEs in various Global Value Chains, (ii) include medium enterprises apart from small enterprises in section 7(9) to enable the aforesaid category of enterprises to avail the benefits and become competitive, and (iii) empower the Central Government to revise the existing limit for investment, by notification, considering the inflation and dynamic market situation.

As per Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015, the investment limit prescribed for Micro, Small and Medium Enterprises (MSMEs) in the country, is proposed as under:

Manufacturing enterprises:

(i) Micro enterprise: Investment in plant and machinery does not exceed fifty lakh rupees

(ii) Small enterprise: Investment in plant and machinery is more than fifty lakh rupees but does not exceed ten crore rupees.

(iii) Medium enterprise: Investment in plant and machinery is more than ten crore rupees but does not exceed thirty crore rupees.

Service enterprises:

(i) Micro enterprise: Investment in equipments does not exceed twenty lakh rupees.

(ii) Small enterprise: Investment in equipments is more than twenty lakh rupees but does not exceed five crore rupees.

(iii) Medium enterprise: Investment in equipments is more than five crore rupees but does not exceed fifteen crore rupees

As provided under Section 7(9) of the MSMED Act, 2006, the Government, while classifying any class or classes of enterprises under sub-section 7(1) of this Act, may adopt any criteria e.g. investment, employment or turnover of the enterprises and include in such classification the micro or tiny enterprises or the village enterprises, as part of small enterprises.

5.6 E-GOVERNANCE INITIATIVES

Electronic governance or e-governance is adopted by countries across the world. In a fast-growing and demanding economy like India, e-governance has become essential. The rapid growth of digitalisation has led to many governments across the globe to introduce and incorporate technology into governmental processes. Electronic governance or e-governance can be defined as the usage of Information and Communication Technology (ICT) by the government to provide and facilitate government services, exchange of information, communication transactions and integration of various standalone systems and services.

In other words, it is the use of technology to perform government activities and achieve the objectives of governance. Through e-governance, government services are made available to citizens and businesses in a convenient, efficient and transparent manner. Examples of e-governance include Digital India initiative, National Portal of India, Prime Minister of India portal, Aadhaar, filing and payment of taxes online, digital land management systems, Common Entrance Test etc.

Types of interactions in e-Governance

e-Governance can take place in four major types of interactions, apart from the processes and interactions in the back-office, within the government framework:

Government to Government (G2G)

Information is exchanged within the government i.e., either, between the central government, state government and local governments or between different branches of the same government.

Government to Citizen (G2C)

The citizens have a platform through which they can interact with the government and get access to the variety of public services offered by the Government.

Government to Businesses (G2B)

The businesses are able to interact with the government seamlessly with respect to the services of the government offered to businesses

Government to Employees (G2E)

The interaction between the government and its employees occurs in an efficient and speedy manner.

Objectives of e-Governance

The objectives of e-governance can be listed down as given below:

To support and simplify governance for government, citizens, and businesses.

To make government administration more transparent and accountable while addressing the society's needs and expectations through efficient public services and effective interaction between the people, businesses, and government.

To reduce corruption in the government.

To ensure speedy administration of services and information.

To reduce difficulties for business, provide immediate information and enable digital communication by e-business.

While e-governance provides the advantages of convenience, efficiency and transparency, **it also has problems associated with it**. They are as follows:

Lack of computer literacy: India is still a developing country and a vast majority of the citizens lack computer literacy which hinders the effectiveness of e-governance.

Lack of accessibility to the internet or even computers in some parts of the country is a disadvantage to e-governance.

e-Governance results in a loss of human interaction. As the system becomes more mechanised, lesser interaction takes place among people.

It gives rise to the risk of personal data theft and leakage.

e-Governance leads to a lax administration. The service provider can easily provide excuses for not providing the service on technical grounds such as "server is down" or "internet is not working", etc.

e-Governance in the Indian context

e-Governance in India is a recently developed concept. The launch of National Satellite-Based Computer Network (NICENET) in 1987 and subsequent launch of the District Information System of the National Informatics Centre (DISNIC) programme to computerise all district offices in the country for which free hardware and software was offered to the State Governments provided the requisite impetus for e-governance.

e-Governance thereafter developed with the growth of technology. Today, there are a large number of e-Governance initiatives, both at the Union and State levels. In 2006, the National e-Governance Plan (NeGP) was formulated by the Department of Electronics and Information Technology and Department of Administrative Reforms and Public Grievances that aims at making all government services accessible to the common man, ensure efficiency, transparency and reliability of such services at affordable costs to realise the basic needs of the common man.

The NeGP has enabled many e-governance initiatives like:

Digital India was launched in 2015 to empower the country digitally. Its main components are:

Developing a secure and stable digital infrastructure

Delivering government services digitally

Achieving universal digital literacy

Aadhaar is a unique identification number issued by UIDAI that serves as proof of identity and address on the basis of biometric data. It is being used to provide many benefits to the members of the society. One can e-sign documents using Aadhar.

myGov.in is a national citizen engagement platform where people can share ideas and be involved with matters of policy and governance.

UMANG is a Unified Mobile Application which provides access to central and state government services including Aadhar, Digital Locker, PAN, Employee Provident Fund services, etc.

Digital Locker helps citizens digitally store important documents like mark sheets, PAN, Aadhar, and degree certificates. This reduces the need for physical documents and facilitates easy sharing of documents.

PayGov facilitates online payments to all public and private banks.

Mobile Seva aims at providing government services through mobile phones and tablets. The m-App store has over 200 live applications which can be used to access various government services.

Computerisation of Land Records ensures that landowners get digital and updated copies of documents relating to their property.

In addition to the above, State level e-governance initiatives include:

E-Seva (Andhra Pradesh) facilitates payment of utility bills, issuance of certificates, licenses and permits.

Khajane Project (Karnataka) digitalized the treasury system of the state.

FRIENDS (Kerala) is a single-window facility to pay taxes and other financial dues to the State government.

Lokvani Project (Uttar Pradesh) is a single-window solution relating to the handling of grievances, land record maintenance and providing a mixture of essential services.

e-Governance Portal of India

The Indian e-governance portal is https://nceg.gov.in. On this portal, one can get comprehensive information regarding the National Conference on e-Governance and reports on earlier conferences.

Additionally, the portal provides links to the following important pages:

Digital India

National Portal of India: It is developed to provide access to information and services being provided by the government

PM India Website: provides information relating to the Prime Minister’s Office.

United Nations e-governance website

5.7 DIGITAL INITIATIVES

1. INTRODUCTION

Over the last few decades, ICT has taken on a significant support role for business activities. In most cases, it has become a key enabler for competitiveness, better quality of service, lower processing costs or even better support for MIS. In some cases making the right choices and investing in the right digital technologies is the key to their successful uses.

2. SCHEME OBJECTIVES AND OUTCOME:

2.1 The previous Digital MSME scheme had provision to provide subsidy to MSEs for using Cloud Based software. In order to make maximum number of MSMEs digitally empowered, the present version of the scheme has been conceived keeping in mind the diverse digital needs of the sector.

The main objective of scheme is to make MSMEs digitally empowered and motivate them to adopt ICT tools and applications in their production & business processes with a view to improve their competitiveness in national and international market. The likely outcomes of the scheme will be:

i. Empower & enable MSMEs to harness IT as a medium of communication to revamp access to the markets to update their managerial and technical knowledge though online content– both static and dynamic.

ii. Evolving internal efficiencies by way of intense ICT intake and automating procedure for cost reduction and capacity enhancement for information access, processing, collaboration and dissemination.

2.2 Under this scheme, large number of MSMEs are expected to be benefited in terms of standardization of their business processes, improvement in delivery time, reduction in inventory carrying cost, improvement in productivity and quality of production, controlling cost & time, improved customer satisfaction etc.

3.0 COMPONENTS OF THE SCHEME:

The following activities are proposed to be undertaken under the scheme:

3.1 Awareness Programme and Work Shop:

The objective of Awareness programmes is to create awareness amongst Implementing agencies and MSMEs about the benefits of implementing ICT in their enterprises, details of the scheme, explain about how to avail the benefits of scheme, procedural methodology for participating in the scheme. The ICT needs of MSME will also be assessed during the programme and accordingly MSMEs will be advised in selecting suitable services. Awareness programmes and Workshops will be organized by NMIU/IA with the involvement of various stakeholders. Workshops will be funded @ Rs. 5 lakhs per day and awareness programme shall be funded @ Rs.0.70 lakh / programme. Place and venue may be decided by NMIU/IA.

3.2 Development of e-Platform

a. India Enterprise Portal shall be developed for provision of various services to the MSMEs. The portal will display the details and list of Service Providers along with their services, charges, comparative cost of similar applications, features/ specifications, service levels etc. Portal should also have provision for Emarketing related activities, Knowledge based artificial intelligence back end system, provision to accommodate necessary futuristic developments as per need. Maintenance and related aspects shall be taken care by NMIU.

b. Specifications including all technical parameters will be determined by NMIU as per need of MSMEs and other stake holders. NMIU may assess specific needs of user sectors and may involve expert agencies etc. for that.

3.3 Development of software /Apps for MSMEs

Initially, software/apps. in following four verticals may be made available to MSMEs :

a. Enterprise Resource Planning (ERP) including Human Resource Management, Finance & Accounting Management, Supply Chain Management, Inventory Management, Customer Relationship Management etc.

b. Accounting

c. Manufacturing Design – Sector specific as per need.

d. Regulatory Compliances including GST etc.

More software/applications may be added need based as and when required.

3.4 Digital Literacy and e-marketing

E-literacy mission is to be run in order to make MSMEs digitally empowered. Various activities as deemed fit to meet the purpose may be undertaken by NMIU/IA with the involvement of expert agencies in relevant areas. Extensive awareness campaigns may be organized for MSMEs as well as for schools etc. to sensitize the participants to adopt digital mode of operation for various activities of their business processes. MSMEs and students fraternity may be provided training modules in different areas. Enterprise Development Centers (EDCs) shall be involved for running the e-literacy mission. E-marketing activities as deemed fit may be undertaken through the India Enterprise portal.

3.5 Training to MSME officials, MSMEs, Professionals etc

Relevant Training (Domestic and International) programmes may be

organised for the officials of O/o DC(MSME) , its field offices, NMIU/IA and

MSMEs. MSMEs have to bear 25 % of total cost involved. Training programmes

and Participants will be finalized by the O/o DC(MSME).

3.6 Digital Empowerment through Enterprise Development Centre (EDC)

O/o DC(MSME) is in process to set up EDCs across the country. These EDCs may be involved to undertake various activities related to Digital literacy/ emarketing etc. EDCs may act as nodal points for information dissemination and creating awareness amongst MSMEs and students fraternity etc. For the above purpose, One time grant of upto Rs. 1 Lakhs per EDC may be given for IT related equipments/infrastructure and technical support.

3.7 Assistance for IT infrastructure to various Implementing Agencies (IA)

upto Rs.10 lakhs per IA

3.8 Futuristic developments

In the fast changing digital world, any activity which is deemed necessary and important for digital empowerment of the MSMEs may be undertaken with the approval of O/o DC(MSME).

3.9 Publicity, Branding and Mobilization:

The following activities/tasks will be under taken through NMIU/IAs :

a. Regular media campaign through electronic, print media and radio

b. Documentary/short films on benefits of adopting ICT technology for MSME sector etc.

c. Preparation and printing of book of knowledge on ICT/ Cloud computing having relevance to MSME sector, study material on cloud computing and success stories of MSME sector implemented ICT etc. would be covered.

3.10 Impact Assessment and Survey including Data Analytics

Any survey regarding need assessment, Impact of activities and other related activities may be undertaken by NMIU/IAs as deemed fit with the approval of O/o DC(MSME) involving expert agencies.

3.11 Miscellaneous Expenses

Expenses towards Project related travel etc. Admin expenses, printing of guidelines, purchase of office automation equipment including Desktops/Laptops/Printers/Scanners and all other related items, hiring of manpower/experts/consultants etc., contingencies, assistance to field offices of O/o DCMSME for their role in implementing the scheme etc.

4. IMPLEMENTATION OF THE SCHEME

4.1 The scheme is proposed to be implemented up to financial year 2019-20.

4.2 A National Monitoring and Implementation Unit (NMIU) shall be setup in the O/o DC(MSME) to take care of facilitation, implementation and monitoring of the scheme involving Implementing Agencies(IAs) in accordance with established procedure. The scheme will be implemented by actively involving State Govts.

4.3 A Project Monitoring and Advisory Committee (PMAC) set up in the O/o DC,MSME will look after the planning, screening / identification of interventions / projects and such other functions as may be necessary to ensure effective implementation of the scheme. All proposals under the scheme will be received by IAs and submitted to PMAC through NMIU

4.4 PMAC will have overall responsibility for policy formulation for scheme implementation and monitoring agency. It will be empowered to take all key decisions related to the scheme and also approve minor modifications for operational expediency. PMAC will hold its meeting as and when required.

4.5 Eligibility Criteria: All MSMEs registered under MSME Act 2006 as amended from

time to time and also MSMEs which are included as per executive orders issued by Office of DC (MSME) consistent with MSME Act from time to time.

5.8 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. How ASPIRE as a scheme is helpful in bringing innovation and development of MSME sector?

2. Explain the MSME Development Act 2006

3. Distinguish between MSME and start up

4. Explain the E- Governance intiatives in India for MSME Sector

5. Explain the Digital intiatives in India for MSME Sector

Short Answer Questions

1. Elaborate the objectives of ASPIRE scheme

2. What are the components of Digital initiative Scheme

3.Explain the funding pattern of ASPIRE

4. Explain Types of interactions in e-Governance

5. Explain the e-Governance in the Indian context

B. Multiple Choice Question

1. The ________ initiative and the 'Atmanirbhar Bharat Abhiyaan' (Self Reliant India Campaign) have played a key role in promoting business and local manufacturing in the country, giving special thrust to Micro, Small and Medium Enterprises (MSMEs),

a) Make in India

b) Sell in India

c) Market in India

d) Profit in India

2. The objective of Digital Initiatives Awareness programmes is to create awareness amongst Implementing agencies and MSMEs about the benefits of implementing _____ in their enterprises

a) CRM

b) Security Services

c) Information and Communication Technology

d) SCM

3. __________ promotes the growth of an enterprise through the application of technology, innovation and supporting economic development strategies for small business development

a) Livelihood Business Incubation (LBI)
b) Technology Business Incubation (TBI)
c) SIDBI
d) SSI

4. The main objective of __________ is setting up business incubators to incubate, provide skill development training to youth, impart entrepreneurship and facilitate funding for empowering the entrepreneurs to set up their business enterprises.

a) Livelihood Business Incubation (LBI)
b) Technology Business Incubation (TBI)
c) SIDBI
d) SSI

5. E-literacy mission is to be run in order to make MSMEs ________empowered.

a) Digitally
b) Financially
c) Spiritually
d) Emotionally

Answers

1-a, 2-c, 3-b, 4-a, 5-a

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UNIT 6 - INSTITUTIONS SUPPORTING MSME'S

STRUCTURE

6.0 OBJECTIVES

After completing this Students will be able to

- Define : – Financial Support provided to MSMEs

Understand : Long term and short term sources of finance

- Define : Sources of Financial support
- Explain: The role of development financial institutions

6.1 INTRODUCTION

Micro, small and medium enterprises (MSMEs) contribute immensely to Indias economic growth and development. As per the latest estimates by the ministry of MSMEs there are 26 million units in this sector, they generate 59 million jobs, contribute 40% to manufacturing output and 45% to the total exports; 95% of all the enterprises are MSMEs.

However, the sector needs to address many issues to be competitive in the global market. Strengthening the sector to meet global competition would mean empowering the entire spectrum of MSMEs, including those in the informal sector, and not just export-oriented ones. What is needed is a critical institutional mechanism that provides support, mentoring, information & market intelligence, networking & training opportunities, and a technology dissemination system with a countrywide network that reaches out to all enterprises. The new mechanism has to enable and facilitate MSMEs garner social and cultural capital, as that too would be success determinants for enterprises in the days ahead.

MSMEs have no option but to be more techno-savvy and information & communication technology (ICT) adoptersby an estimate only 55% of urban enterprises and 45% rural enterprises have adopted any kind of ICT tools. They must also attempt to adopt the best corporate practices and learn from corporates and MSMEs in other countries. For instance, in the multicultural global market, Indian MSME work sites can become more multicultural and diversity friendly, by creating more space for employees from all communities, both national and foreign. Standard accounting principles have to be followed; now only 28% MSMEs practice this.

In many parts of the world there are institutional arrangements to reach out to MSMEs in addressing such challenges. In the US, there are close to 1,000 Small Business Development Centers (SBDCs) that provide support, especially information. Israel and Canada too have such institutional arrangement in place.

India, too, needs to create an institutional mechanism to provide such services to MSMEs in a highly decentralised manner. To effectively reach out to MSMEs in all the regions, states, districts and villages, a network of such institutions could be set up in each of the community development blocks (CDBs), around 6,000 of them in India. Such institutions may be called as MSME Resource Centres (MSMERC)

MSMERCs can address the issue of information lacuna, enable technology transfer create awareness and provide training & networking and product exposition facilities, facilitate ICT adoption, and work for the smooth flow of institutional finance to MSMEs. In the urban centers as well, depending on the need, such centres can be opened.

When it comes to technology transfer, MSMEs and informal enterprises need valuable inputs from these centres. Often what is needed is a sensible application of available technologies. For instance, vegetable vendors and enterprises that deal with perishable food products, if provided with finance to acquire battery-run refrigerated carts/deep freezers, would bring down post-harvest losses of farm products, estimated at Rs1 trillion annually. Further, MSMERCs can facilitate transition of informal sector enterprises to formal enterprises and then to micro and small firms.

Building youth-owned enterprises is critical to innovation. Young entrepreneurs can grasp global market dynamics relatively better and create competitive, efficient and innovative enterprises. Here comes the role of building strong foundation in human resource development. For it is from this source that innovators & entrepreneurs emerge. Youth who come out from the academic world need to be empowered to become self-employed, start new ventures and commercialise their knowledge. It is critical to direct them to the world of MSMEs to build an innovative, creative and competitive MSME sector. The youth living in the information economy need an institutional support system similar to that of business incubators.

A decentralised network of business incubators in each CDBs need to be funded and developed by the government to exist alongside MSMERCs. Such business incubators should provide mentors, finance & technology-related support, assistance in setting up and registering a firm, preparing a business & marketing plan as well as networking and marketing support. They could also offer some basic training in business management, accounts and marketing, as also impart skill development training programmes.

Enterprises in the developed countries have already started recognising the virtue of building multicultural work sites. Customer base of MSMEs is very much multicultural in the global market. Studies have indicated that multicultural work sites stimulate innovation & creativity and exponentially increase marketing opportunities. Indian MSMEs should also make their work sites more diverse and multicultural.

Up to one lakh crore rupees is being spent for rural development in India annually. Earmarking 8% of that would be sufficient to create MSMERCs and Business Incubators in each CDBs.

6.2 FORMS OF FINANCIAL SUPPORT

In India, there are approximately 6.3 crore MSMEs which involve in national and international trades, contributing about 29% towards GDP. MSMEs contribute to the economic and social growth of the nation and are a great way to decrease unemployment issues and promote local products. Our government understands the difficulties that every micro, small and medium business owners face in various stages of their business development process and the importance of MSMEs for the development of the country.

Hence has structured various schemes to provide maximum support for each and every budding entrepreneur and MSMEs in every possible way to ease out every phase of their business.

1. Prime Minister Employment Generation Programme and Other Credit Support Schemes

With the education rate increasing year by year, unemployment problems are also soaring high. This scheme is structured with the motto of eradicating the unemployment issue and motivating emerging new businesses by providing necessary financial support.

Prime Minister Employment Generation Programme (PMEGP):

Implemented by Khadi and Village Industries Commission (KVIC) at the national level and through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks at the state level, the motto of this scheme is to make every eligible thriving entrepreneur get a subsidy in their bank account for developing a new business. Under this scheme, any new project in the manufacturing sector worth up to ₹ 25 lakhs and a new business/service sector worth up to ₹ 10 lakhs gets covered.

Eligibility	*Age above 18 *A maximum cost of the project should not be more than ₹ 25 lakhs for manufacturing projects and up to ₹ 10 lakhs for the business/service sector. *For projects with an estimate of Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business/service sector, the beneficiary should have at least VIII standard pass. *Only new projects are eligible *Self Help Groups, Institutions registered under Societies Registration Act (1860), Production Co-operative Societies, and Charitable Trusts are also eligible apart from Individuals.
Application Process	*The State/Divisional Directors of KVIC give advertisements via local media, radio and prints to invite applications.

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE):

A promising scheme for micro and small enterprises, this CGTSME scheme provides credit-guaranteed funds to eligible beneficiaries from a Trust that is jointly established by the Ministry of MSME and Small Industries Development Bank of India (SIDBI).

Eligibility	*Both new and existing enterprises are eligible *Only Individual Micro and Small Enterprises are eligible
Application Process	You can visit banks and financial institutions which are eligible to provide loan under this scheme

Interest Subsidy Eligibility Certificate (ISEC):

To promote Khadi and Village Industry products, the government has shaped this effective scheme. With this scheme, any registered institution of KVIC or KVIB can avail loan from banks at a 4% p.a interest rate to develop their business. The lending bank gets the 4% interest from the beneficiary and the remaining part of the interest is remitted by the Central Government through KVIC**.**

Eligibility	Any registered institution of KVIC or KVIB can avail the loan.
Application Process	You can apply in any recognized bank/financing institutions along with the ISEC certificate issued by KVIC.

2. Development of Khadi, Village and Coir Industries

To make way for the rural crafts and products to lend their part in the economic development of the nation and to uplift the rural population, several schemes have been introduced by the Ministry of MSME.

Market Promotion & Development Scheme (MPDA):

Like any other business, Khadi and village crafts need some marketing strategy to reach potential customers. With the motive of promoting Khadi crafts and increasing the income of artisans, this MPDA scheme is developed.

Eligibility	*Institution should have valid Khadi certificate *The institution should be categorised as A+,A,B and C
Application Process	The production Institution can claim the total amount from the KVIC and should be distributed to the stakeholders.

Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

With the motto to regenerate traditional industries, emphasize traditional skills, and ensure long-term sustainable income for rural artisans, the Ministry of MSME has designed this scheme. Under this scheme, artisans will be clustered and importance is given to enhancing product development, productivity, competitiveness, product intervention, and even packaging and marketing. Local artisans and entrepreneurs are provided with sufficient training and improved tools to face the upcoming challenges to optimize their income.

Depending on the number of artisans, the clusters are classified as

Heritage cluster which includes 1000-2500 artisans

Major cluster which includes 500-1000 artisans

Mini cluster which includes up to 500 artisans

Based on its functionality, this Scheme can be classified as "soft interventions‟, "hard interventions" and "thematic interventions‟.

Soft interventions include awareness training and marketing strategies like providing general awareness, counselling, skill development, organizing exposure visits, market promotion campaigns, product development, training programs, etc.

Hard Interventions include physical structures like the creation of facilities for multiple products, packaging, common facility centres (CFCs), Raw material banks (RMBs), developing infrastructure like training centers and warehouses, etc.

Thematic interventions emphasize both domestic and international markets and implement new strategies for brand building, media marketing, and e-Commerce.

Eligibility	Any 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 that are expertise in cluster development are eligible for this scheme.
Application Process	You can submit the proposal to the State Office, KVIC. The proposal will be verified at State Level and Zonal Level before being submitted to the Scheme Steering Committee for approval.

Coir Vikas Yojana (CVY):

Coir industry is yet another rural business that profits around 7lakhs artisans by providing them employment and livelihood. In our country, coir and coir-related products are exported to 110 countries. Though benefiting towards the development of the country by making a huge profit in export, the coir industry needs attention and support for its survival and improvement. Hence several schemes are devised as action plans.

Coir Industry Technology Upgradation Scheme (CITUS)

A replacement of the "Development of Production Infrastructure" of Coir Vikas Yojana, CITUS provides financial support for entrepreneurs for procurement of machinery in establishing new plants or for upgrading/modernizing existing plants.

Eligibility	*Any coir production/processing unit that is newly established *Any coir production/processing unit registered with Coir Board under Coir Industry (Registration) Rules, 2008 and having Udyog Aadhar can apply for modernization/upgrading.
Application Process	You can submit the application online with all relevant documents prescribed.

Export Market Promotion (EMP):

Apart from marketing the coir products locally, exporting those local-made products to various countries is sure to reap the artisans with higher profits. Understanding this, the Coir Board is implementing various export market promotion activities such as funding for publicity, participating in seminars, conferences and international fairs and presenting awards in the export sector as a token of recognition.

Eligibility	Any manufacturer, entrepreneur or exporter in the Coir industry is eligible under this scheme
Application Process	You can get the application forms from the Coir Board HO or can download from the website http://coirboard.gov.in/ to apply for this scheme

Domestic Market Promotion (DMP):

This scheme is a milestone of the Coir Board in popularizing coir products within the country to help workmen and entrepreneurs in the coir industry. As part of this scheme, high-end showrooms are established, maintained and renovated. To showcase the products to the local customers, various fairs and exhibitions are conducted, exclusively for coir products, and are publicized by newspapers, television, radio and other media. Apart from that, the board takes steps in improving the quality of the products by fixing quality standards and regularizing inspection and certification processes.

Eligibility	Apex Co-operative Societies, Central Co-op. Societies, Primary Co-operative Societies, Public Sector Enterprises, franchisees appointed by Coir Board in the coir industry and the Showroom and Sales Depots / Hindustan Coir of the Coir Board are eligible for this scheme.
Application Process	You can get the application forms from the Coir Board HO or can download from the website http://coirboard.gov.in/ to apply for this scheme

Trade and Industry Related Functional Support Services (TIRFSS):

Statistics is the backbone for the good planning of any business. As part of improving the coir industry, a reliable IT-related management information system is built for collecting and processing data related to production, productivity, labor infrastructure, raw material, marketing, etc. In the coir industry and to provide feedback for futuristic planning.

Eligibility	All Board's officials, stakeholders, manufacturers, workers and major market players in the coir industry can avail this benefit.
Application Process	You can approach the Head Office and Regional Offices of the Board to avail the service.

Technology Upgradation and Quality Certification:

Quality and continuous improvement have a major impact on the development of any business/industry. While there should be a proper channel for quality certification to ensure reliable outcomes each time and every time, up-gradation in terms of technology, marketing and resources make the industry bloom to its highest potential. Hence, certain schemes are established to pave the right path in technology and upgradation.

Financial Support to MSMEs in ZED Certification Scheme:

"Make in India" is a great revolution that supports the local artisans and makes us feel proud to be Indians. While artisans are provided with the necessary funds and support to establish new MSMEs and continue traditional businesses under various MSME schemes, it is also necessary to ensure the quality of their outcomes.

Aiming toward flawless products is the Zero Defect & Zero Effect (ZED) manufacturing system which targets in reducing waste thereby increasing productivity and income. By providing Financial Support to MSMEs in ZED Certification Scheme, every MSME will work towards complying with quality standards, adopt new quality tools & systems and frequently upgrade their quality standards.

Eligibility	Any manufacturing MSME having Udyog Aadhar Memorandum is eligible.

Application Process	*It is really simple to register on the online portal of ZED (www.zed.org.in) http://assessment.zed.org.in/Assessment/Assessment_BeforeLogin.aspx, using the valid (Indian) mobile number and email address. *The Online self-assessment on the ZED parameters will be followed by Desktop Assessment. If selected then site assessment will be done. **Note that the rated MSMEs can avail the service of an authorized ZED consultant for gap-analysis and handholding.

6.3 LONG TERM AND SHORT-TERM FINANCIAL SUPPORT

Financing is a very important part of every business. Firms often need financing to pay for their assets, equipment, and other important items. Financing can be either long-term or short-term. As is obvious, long-term financing is more expensive as compared to short-term financing.

There are different vehicles through which long-term and short-term financing is made available. This chapter deals with the major vehicles of both types of financing.

The common sources of financing are capital that is generated by the firm itself and sometimes, it is capital from external funders, which is usually obtained after issuance of new debt and equity.

A firm's management is responsible for matching the long-term or short-term financing mix. This mix is applicable to the assets that are to be financed as closely as possible, regarding timing and cash flows.

A company, especially one at a growing stage, requires funds. It could be to get help with hiring activities, to buy inventory, to rent out an office in a prime location, the reasons can be endless. However, unlike the reasons to seek funding, the ways to get finances are not so extensive in nature. For a business not going for the typical investor funding route, they only have two options to choose from to meet their unplanned and planned expenses – short-term and long-term financing.

Short Term Financing

Short term business funding can be defined as any finance model that is paid off over a very short repayment time. On a more specific level, it is usually a financing option that a business has to pay off in 12-18 months of time.

Short term funding for business comes with some specific characteristics like quick funding, easy qualification process, lower cost of capital, etc.

Short term financing is business financing that one can obtain generally for a term of one year or less. The term is usually six to twenty four months. Sometimes ones business may require a short term financing to use as working capital. A working capital is the business money that one may need for the day-to-day operations of the business. There may be a need to pay suppliers, buy some equipment or just to pay the utilities. The cash flow is not always sufficient at the time one needs it most so one may have to seek funding from another source. There are several options are available for you to gain access to the working capital.

Lines-of-Credit

A line-of-credit acts as a cushion for the cash flow and also a hedge against the unexpected expenses. Lines-of-credit may be developed in several ways. One may pre-qualify for a credit limit with their bank or other funding source. The advantage of this is that one will have an immediate access to a capital when needed and only pay interest on the amount of money that one may use. For example, if one has a credit line of $50,000 and you use only $15,000, you will only be paying an interest on the $15,000 balance. Once the balance is repaid, the full $50,000 credit line available to you again.

A business credit card from any of the major card companies is another way to get a line-of-credit. One can use a credit card to purchase inventory, raw materials or supplies. One must use a credit card for their business as cautiously as one would use a personal card. You don’t want to be burden your business with an unnecessary credit card debt, especially when one is trying to build cash flow.

Short Term Financing Overdraft Protection

One can acquire an overdraft protection for their business account in the same way as their personal account. If your cash flow slip and your become overextended, then the overdraft protection kicks in and save you from the embarrassment of not being able to meet your responsibilities. The protection of your reliability with your bank and the suppliers is worth the minimal cost for an overdraft protection on your account.

One can seek a short-term loan for a specific amount from their funding source. For example, if your business is a seasonal one, you may take out a loan at a time when your cash flow is strong. Then use this short term financing for operations during the slower months. The objective always should be to pay off a short-term loan as soon as possible.

Trade Credit

The Trade credit is credit given by your suppliers. The suppliers may not be willing to extend you a credit if you are a new business or do not have a good credit rating. One may have to pay with credit cards for their first few orders until the creditability with the supplier is established. A supplier usually extends credit with an offer of a 2% discount if one pays the invoice within 10 days. The net payment is usually due in 30 days from the date of purchase. This payment arrangement is normally referred to as "net 30" by the company's Account Receivables Department.

One may receive the discount of 2% if you pay early. You may be required to pay a penalty if the payment is done after the 30-day period has elapsed. The late payment penalty will be significantly higher than the 2% discount.

Here are some of the popular types of short-term funding that are available to a small business:

1. Bootstrapping

Bootstrapping is a quite a witty word for a smart financial concept. The term comes from the popular phrase "pulling oneself up by one's bootstraps." A person is said to be bootstrapping when he/she attempts to build a company from his /her personal finances or from the operating revenues of the new company. More than 80% of new start-ups receive their funding from the founder's personal finances. It could be from a savings account, a zero interest credit cards, or leveraging some personal assets like selling a house or car and cashing in on a 401(k). This way your business is your own—you do not have to answer investors.

What are the benefits and the drawbacks of bootstrapping?

The business owners who use bootstrap funding do not have to worry about diluting ownership between investors. They do not need to issue equity, and they are able to focus debt on personal sources. The drawbacks are that the unnecessary financial risk is entirely on the entrepreneur and bootstrapping might not provide adequate investment for the company to become successful at a reasonable rate.

2. Family and friends

One can always depend on their family and friends. With a good business plan in hand, sell your ideas to the people closest to you, explain your ideas and how they'll stand to benefit by backing your business.

What are the benefits and drawbacks of this method?

Be frank and honest about the risks and put all the rules behind the investment in writing. Whether you're taking a loan, an investment, or even a gift, always remember that each of these comes with strings attached. In case of loans and investments, one will have to pay the money back: and remember you cannot file bankruptcy if the business fails.

3. Equipment Financing

Equipment financing is an asset-based loan. An asset is a thing that your business owns—it could be a vehicle, a piece of equipment or machinery, or a selection of inventory.

While traditional debt-based small business financing uses ones borrowing and business history—like their credit score, bank statements, and the tax returns—to regulate what you qualify for (and at what rates, and on what term), the asset-based loans rely on the value of the asset, which acts as a collateral.

In other words, the asset-based lenders care more about how much that new piece of equipment costs rather than about your credit score. A lender may be more willing to lend to you if have a collateral to back against your loan because—in a scenario where you can't pay back your loan—the lender may simply seize the collateral and liquidate the assets to recover their losses.

What can one expect with Equipment Financing?

One can potentially finance up to 100% of the cost of a piece of equipment and have monthly payments with 8% to 30% interest. Moreover, the equipment financing will last for the expected lifetime of that tool or the machinery, so you will not need to pay for longer than you will get use out of that new equipment.

And after the loan payment ends, one can own that equipment outright—as opposed to leasing it, which is another option to consider. Equipment financing is a great option if one can't afford the price tag of a piece of equipment upfront, but are confident that the revenue one will get from the use of the equipment outweighs those interest payments.

4. Invoice Financing

This is another type of asset-based small business financing, invoice financing uses ones outstanding invoices as a collateral (as opposed to a piece of equipment, like with equipment financing).

How can Invoice Financing fix cash flow issues?

It solves a common business problem: you are waiting on a customer to pay you dues, but their delays mean a risky cash flow gap and the potential missed payments at your end.

By paying a fee to one's lender, one can get most of that cash right away for those outstanding invoices, basically trading in some of the money one has earned for capital now instead of later.

There are a few different variations of the invoice financing, but in most cases one will receive around 85% of the cash for those invoices that one wants to finance upfront—then you will receive the remaining 15%, minus fees, when your customer pays.

Sometimes a lender may give you 100% of that invoice and a weekly repayment schedule, or other times your lender may "buy" the invoices from you—this means they'll chase down your customers for payment, so that the late payments won't affect your business.

5. Angel Investors

An angel investor is an individual who happens to have the time, money, and the inclination to invest in a small business and entrepreneurial start-ups by themselves.

What are the advantages or disadvantages of an angel investor?

An angel investor may offer you a lot of money before your business starts making any at all, but always remember, equity also means sharing your decision-making power.

Unlike financing a small business with a debt, equity involves a long-term partnerships. If an investor's vision for the business is fundamentally different from yours—or if you disagree on something basic—then that small business financing may not be worth the cost. With equity, you receive experience, time, expertise, resources, energy, connections and attention.

6. Venture Capital

A venture capital firm is an all-inclusive company dedicated to exchanging capital for equity in new ideas and growing businesses.

How does venture capital work?

Venture capital is a competitive form of small business financing. You generally decide on how much money you are looking for and how much equity you are willing to part with, and then shop around.

Venture capital is normally circulated in “rounds,” with the companies and firms matching up for more money in return for more equity. Start-ups move from their seed round through their Series A, B, and C rounds, then maturing as a business until they’re ready to IPO (or offer stocks to the general public).

Who is eligible for venture capital funding?

Most small businesses do not qualify as targets for venture capital business financing: These firms generally aim for the technology-centric “disruptors” with a much higher funding needs and a faster-moving business plans, like the traditional start-ups one might be familiar with.

But it’s an advisable option to investigate if an equity-based business financing is what you are thinking about.

Merchant cash advance: Merchant cash advances are a lump sum amount which is repaid directly through the debit and credit card sales. The financing company here takes a part of the sales and the fees, usually on a daily basis. In this financing model, it can range from 4 months to 18 months.

Short-term loans: These are very similar to your typical loan system. You get a lump sum capital which you have to repay in installment form in a fixed time period. In this case, the time period ranges from 3 months to 18 months.

Business line of credit: It works very similar to credit cards. When you qualify for the business line of credit, you get access to credit from which you can pull out the working capital. And just like credit cards, you will have to pay back the money you have spent plus the interest.

Invoice financing: The business funding model provides you an advance for the outstanding invoice payments which your business is waiting for the customers to pay. Since the outstanding invoices act as a collateral, you are able to secure an advance affordably at a fees of 3+1% paid weekly.

What are the benefits of short term business funding?

Quick working capital

Easy to qualify for

Low cost of capital

What are the disadvantages of short term financing?

More expensive in the repayment period

Shorter payment duration

More frequent payments

When should you get short term business funding?

As you must have gathered till now, there is a wide range of benefits that come attached with short-term financing models. But what cannot be ignored is the fact that it can be expensive and pressure-giving for startups. There are several instances where getting short-term funds makes sense, such as –

When there's a sudden interruption in the cash flow – If your business faces some seasonal slowdowns or short-term cash flow issues, you can opt for the model.

Short term opportunity – If your business finds a lucrative opportunity but needs funds to make it happen quickly, you should go with the option.

In cases of emergency – If your business comes across some emergency fund requirement, like for example towards fleet repairs or building issues, short-term models can be a savior for you.

Long term funding for business

Long term business funding can be defined as any finance model that is paid off over a good enough repayment time. On a more specific level, it is usually a financing option where the business has to pay off the amount in more than five years time.

Usually, because there is a higher amount of risks involved with long-term funding, lenders tend to ask for greater substantial assets and a higher cash flow before giving money to the businesses.

MSME Loan Scheme by Banks

Banks and other lending institutions offer term loans and working capital loans to MSMEs. The working capital loans are offered to MSMEs by banks to fulfil their daily cash requirements. The term loans are offered to MSMEs for capital expansion, capital expenditure or buying fixed assets.

Apart from term loans and working capital loans, the banks or financial institutions have different loan schemes which they offer to MSMEs. The MSME loan schemes offered by different banks or financial institutions have different terms and conditions applicable.

Each loan scheme offered by the banks/financial institutions has different interest rates. The interest rates are based on various factors such as desired loan amount, repayment tenure, nature and tenure of business, creditworthiness and repayment capability.

Many MSME loans are offered without collateral by banks. Some of the banks which offer different loans schemes are State Bank of India, HDFC Bank, ICICI Bank, Axis Bank etc. NBFCs, Small Finance Banks (SFBs), Regional Rural Banks (RRBs) and Micro Finance Institutions are some of the financial institutions that offer loans to MSMEs.

MSME Business Loan for Startups in 59 Minutes

The Government of India recently announced to offer MSME Business Loan for Startups in 59 Minutes. A new web portal was launched to provide loans to MSMEs in 59 Minutes. The processing of the loans for MSMEs on this online portal is fully automated. This portal will process the loans within one hour. After the loan is approved through this portal, the loan is disbursed to the applicant of the loan in the next seven or eight working days.

This scheme aims at automation and digitisation of various processes of business loans offered, which includes the term loans, working capital loans and mudra loans.

Eligibility – Any existing business or MSMEs which wants to apply for a business loan (term loan/ working capital loan) in-principle approval is eligible. The business should be IT compliant and must have a six months Bank Statement Facility.

Both GST registered as well as not-registered businesses are eligible. If any business not registered with GST or has not filed ITR or does not have a bank statement applies for mudra loan, then the business can provide the related details by self-declaring the same.

The income or revenue, repayment capacity, existing credit facility and any other factors as set by lenders determine the eligibility criteria of the borrowers. The portal is integrated with CGTMSE to check eligibility of borrowers.

Nature of Assistance -The business loan in-principle approvals are provided from Rs.1 lakh to Rs.5 crores. The loans are provided with or without collateral. The rate of interest starts from 8.5% onwards. The mudra loan in-principle approvals are provided from Rs.10,000 to Rs.10 lakh.

SIDBI Make In India Loan For Enterprises (SMILE)

The SIDBI Make In India Loan For Enterprises (SMILE) is intended to take forward the Government of India's 'Make in India' campaign and help MSMEs take part in this campaign. This scheme provides a soft loan in the nature of quasi-equity. It also provides term loans on relatively soft terms to MSMEs to meet the required debt-equity ratio for their establishment. It also provides loans to the existing MSMEs to pursue opportunities for their growth.

Eligibility – New enterprises in the manufacturing and the services sector is covered under this scheme. The existing enterprises undertaking expansion for taking advantage of the new emerging opportunities are eligible under this scheme. This scheme will also cover the existing enterprises undertaking expansion for undertaking modernisation, technology upgradation or other projects for growing their business. Under this scheme, the emphasis is given to financing smaller enterprises within MSME.

Nature of Assistance – The minimum loan size is Rs.10 lakh for equipment and finance. The minimum loan size for others is Rs.25 lakh. The repayment period is up to 10 years, including moratorium of up to 36 months.

Pradhan Mantri Mudra Yojana (PMMY)

The Hon'ble Prime Minister launched the Pradhan Mantri Mudra Yojana (PMMY) scheme on 8th April 2015. This scheme provides loans up to 10 lakh to non-corporate and non-farm small or micro-enterprises. These loans are classified as MUDRA (Micro Units Development and Refinance Agency Limited) loans under PMMY.

MUDRA is a non-banking financial company (NBFC) which supports the development of MSMEs. MUDRA provides support by refinancing to banks, microfinance institutions (MFIs) and NBFC for lending loans to micro units having a loan requirement of up to 10 lakhs. Under this scheme, the loans are provided by Commercial Banks, Small Finance Banks, MFIs and NBFCs. The borrowers can approach any of these lending institutions or apply for loans online through the UdyamiMitra portal.

Under the scheme of PMMY, there are three different schemes namely 'Shishu', 'Kishore' and 'Tarun' which signify the stage of development or growth and the funding need of the beneficiary micro-units or entrepreneurs and it also provides a reference point for the next phase of graduation or growth.

Nature of Assistance – 'Shishu' offers loans up to Rs.50,000. 'Kishor' provides loans above Rs.50,000 up to Rs.5 lakhs. 'Tarun' provides loans above Rs.5 lakhs up to Rs. 10 lakhs to micro-units.

Prime Minister's Employment Generation Programme (PMEGP)

The Prime Minister's Employment Generation Programme (PMEGP) is a merger of two schemes of Prime Minister's Rojgar Yojna (PMRY) and Rural Employment Generation Programme (REGP). This scheme focuses on generating self-employment opportunities to the unemployed youth and traditional artisans through micro-enterprise establishments in the non-farm sector. It is executed by the Khadi and Village Industries Commission (KVIC) which functions as the nodal agency for this scheme at the national level.

At the state level, this scheme is implemented through the State KVIC Directorates, District Industries Centres (DICs), State Khadi and Village Industries Boards (KVIBs), and banks. Under this scheme, the KVIC routes government subsidy through designated banks for eventual disbursal to the entrepreneurs or beneficiaries directly into their bank accounts.

Eligibility – Any individual/s who is/are above 18 years of age is/are eligible. The individual/s should be at least VIII standard pass for the projects, in the manufacturing sector which cost above Rs.10 lakh and in the business or service sector which cost above Rs. 5 lakh.

Under this scheme, only the new projects are considered for sanction. Self Help Groups, Institutions registered under Societies Registration Act, 1860, Production-based Co-operative Societies, and Charitable Trusts are also eligible.

Any unit/s existing under PMRY, REGP or any other scheme of Government of India or State Government are not eligible. Even the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are not eligible.

Nature of Assistance – The maximum cost of the project or unit admissible in the manufacturing sector is Rs.25 lakhs and in the business or service sector is Rs.10 lakhs for assistance under this scheme.

The beneficiary's rate of the subsidiary for the general category is 15% in urban areas and 25% in rural areas. The beneficiary's rate of the subsidiary for the special category is 25% in urban areas and 35% in rural areas.

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT MSE)

Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) together established the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). CGTMSE is established in order to implement a credit guarantee scheme for MSMEs.

The Government of India and SIDBI contribute to the corpus of this scheme. The whole idea behind this trust is providing financial assistance to the small and medium industries without any third-party guarantee or collateral. The guarantee coverage under this scheme ranges from 85% for Micro Enterprise (up to Rs 5 lakh), 75% for others and 50% for retail activity.

Eligibility – Both existing and new enterprises are eligible under the scheme. The candidates meeting the eligibility criteria may approach banks or financial institutions and select Regional Rural Banks which are eligible for getting assistance under this scheme.

Nature of Assistance – The guarantee cover available under the scheme is to the extent of 50%/75%/ 80% or 85% of the sanctioned amount of the credit facility. For micro-enterprises up to 5 lakhs, the extent of guarantee cover is 85%.The extent of guarantee cover is 50% of the sanctioned amount of the credit facility for credit from 10 lakhs to 100 lakhs per MSME borrower for retail trade activity.

In case of default, the trust settles the claim up to 75% of the amount in default of the credit facility, which is extended by the lending institution for credit facilities up to 200 lakh.

Credit Linked Capital Subsidy Scheme (CLCSS)

The Credit Linked Capital Subsidy Scheme (CLCSS) renders a subsidy for technology upgradation to the MSMEs. This scheme provides 15% subsidy for additional investment up to Rs.1 crore for technology upgradation by MSMEs. Technology upgradation means induction of state-of-the-art or near state-of-the-art technology.

The candidates meeting the eligibility criteria may approach 12 nodal banks or agencies to avail the subsidy under this scheme. These 12 nodal banks or agencies are SIDBI, NABARD, SBI, BoB, PNB, BOI, SBBJ, TIIC, Andhra Bank, Corporation Bank, Canara Bank and Indian Bank.

Eligibility – Any MSME unit is eligible under this scheme. But the units replacing existing equipment or technology with the same equipment or technology will not qualify for a subsidy under this scheme. Similarly, the units upgrading with used machinery would not be eligible under this scheme.

Nature of Assistance – This scheme aims at facilitating technology upgradation by providing 15% upfront capital subsidy to MSMEs on institutional finance availed by them. This subsidy is provided to MSMEs for induction of well established and improved technologies in specified sub-sectors or products approved under the scheme.

This scheme provides an upfront subsidy of 15% on institutional credit up to Rs.1 crore (i.e. a subsidy cap of Rs.15 lakh) for identified sectors/subsectors/ technologies.

Equity Infusion for MSMEs through Fund of Funds

MSMEs face a severe shortage of equity. Venture Capital (VC) or Private Equity (PE) firms offer early-stage funding, but very few of them provide growth-stage funding. To encourage MSMEs to grow and get listed on stock exchanges, the Fund of Funds provides equity funding for MSMEs who have growth potential and viability.

This scheme will be able to intermediate different types of funds into underserved MSMEs and address the growing needs of viable and high growth MSMEs with the intervention of the government.

Eligibility – All MSMEs are eligible. MSMEs can apply through Investor Funds onboarded and registered with the proposed Fund of Funds.

Nature of Assistance – The Government of India will support VC or PE firms in investing in commercially viable MSMEs for meeting their growth requirements. The proposed fund of funds will encourage private sector investments in the MSME with leverage of Rs.50,000 crore.

Credit Guarantee Scheme for Subordinate Debt (CGSSD)

Credit Guarantee Scheme for Subordinate Debt (CGSSD) seeks to extend support to the promoters of the operational MSMEs which are stressed and have become NPA as on 30th April 2020. The promoters, in turn, will infuse this amount in the MSME unit as equity and thereby increase the liquidity and maintain the debt-equity ratio.

Subordinate debt will be of considerable help to sustain and revive the MSMEs which have become NPA or are on the brink to become NPA. The promoters of the MSMEs will be given credit equal to 15% of their stake (equity plus debt) or Rs.75 lakh whichever is lower.

Eligibility – The operational MSMEs which are NPA or are stressed will be eligible. The promoters of MSME who meet the eligibility criteria can apply for this scheme. They can approach scheduled commercial banks to avail benefit under the scheme.

Nature of Assistance – The scheme provides 90% guarantee for the sub-debt, and the remaining 10% will be from the concerned promoters. The maximum tenure for repayment is ten years. There is a moratorium of 7 years on payment of the principal.

6.4 SOURCES OF FINANCE

1. Crowdfunding

In this internet age, crowdfunding is a great way to get a number of individuals interested in your idea, product or service and raise money from them.

Originally, crowdfunding was used by nonprofits to gather donations, very similar to ‘chanda’ collected in India during festivals. Today, online crowdfunding platforms generate financial backing for a variety of startups and projects.

There are multiple types of crowdfunding that MSMEs can use:

Equity-based crowdfunding is when the investor gets a small percentage of share of the business in exchange of the investment pumped in.

Reward-based crowdfunding involves individuals investing small amounts of money in exchange for a reward such as free service or a prototype product.

Debt-based crowdfunding is when investors put in money with the understanding that it will be repaid with interest.

2. Angel investors

Angel investing is best suited for startups and young businesses that have a great idea or product, but need a launch pad. Angel investors are also popularly known as seed investors or informal investors.

There are thousands of such investors in India, mostly affluent businessmen or corporate leaders. They usually invest in niche areas. In addition to the moolah, it is critical to find an investor that has experience and interest in your specific industry. Not only will their mentorship be valuable, their huge network will also prove to be a bonus to help expand your business.The best way to meet angel investors is at networking events and pitch sessions.

3. Venture capitalists

Venture Capitalists (VCs) come in at a later stage of business growth. They provide capital to firms exhibiting high growth potential in exchange of stake in the company.

To get a VC interested in your business is not an easy task. You will need to have:

A strong and sustainable business model,

Proven sales records

Loyal customers

They also look for a strong management team before they invest.

Ensure you partner with a VC who understands your business and is aligned with your growth, as you will be giving them a say in your business. While for most businesses, getting VC funding is the ultimate goal, the focus should be on partnering with the right VC firm.

4. P2P lending

The new-age lending model called Peer-to-Peer platforms (P2P) allows retail investors to lend money to peers or small businesses via a fintech company’s digital platform.

Applicants are vetted by the fintech company or intermediary based on complex algorithms that assess the credit-worthiness of the proposed borrowers over various risk factors.

Based on the risk profile, interest obligation on P2P loans can start as low as 12% up to as much as 35%. The cost to the borrower is directly proportionate to the risk involved for the lender.

An investor has the option of fulfilling partial or complete requirements of a business. Most fintech companies allow only a partial investment in a single requisition, with multiple investors contributing small amounts to a single business.

P2P loans are a good option for stop-gap and working capital requirements with speedy approvals and disbursals.

5.Government schemes

The Indian Government is betting big on the entrepreneurial spirit of India and doing its bit to promote and support MSMEs. You could avail from various methods of financing such as:

The Credit Guarantee Scheme provides small businesses and first-generation entrepreneurs with collateral-free credit.

Stand Up India aims to empower women and citizens from socially deprived classes to set up greenfield enterprises with loans.

Sole proprietors, small industries and artisans can avail of loans under the Pradhan Mantri MUDRA Yojana.

6. Commercial Bank Loans and Overdrafts:

One of the main sources of long-term financing comes in the form of loans from banks. In the case of bank loans, the loan tenure is specified by the financial institution along with the rate of interest, timing, and the repayment amounts. Some collateral is kept as an exchange for the provided loan. For the funding of fixed assets, loans serve as one of the most significant long-term sources of working capital.

6.5 DEVELOPMENT FINANCIAL INSTITUTIONS

The Development Finance Institution (DFI) are organizations which are either owned by the government or by charitable institutions to finance infrastructure projects that are of national importance but may or may not meet commercial return standards.

The budget 2021 has signaled that the Centre Government is banking on long-term infrastructure creation to lift India's economic growth rate sustainably. In this pursuit, the government has proposed to go back to the Development Finance Institution (DFI) idea.

Further, DFI makes sense as the Centre government envisages mobilizing nearly ₹100 lakh crore for the ambitious National Infrastructure Pipeline. The idea of DFI looks good in the context of the looming NPA crisis of Banks.

However, many economists have pointed out that India should keep the failed experiment with DFI, such as ICICI and IDBI, which leads to the conversion into universal banks.

DFI & Background

Development financial institutions provide long-term credit for capital-intensive investments spread over a long period and low yielding rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems.

Development banks are different from commercial banks, which mobilize short- to medium-term deposits and lend for similar maturities to avoid a maturity mismatch (a potential cause for a bank's liquidity and solvency).

In India, the first DFI was operationalized in 1948 with the setting up of the Industrial Finance Corporation (IFCI).

Subsequently, India's Industrial Credit and Investment Corporation (ICICI) was set up with the World Bank's backing in 1955.

The Industrial Development Bank of India (IDBI) came into existence in 1964 to promote long-term financing for infrastructure projects and industry.

However, during the 1970-80s, DFI got discredited for mounting non-performing assets, allegedly caused by politically motivated lending and inadequate professionalism in assessing investment projects for economic, technical, and financial viability.

Due to these factors, Narsimhan Committee (1991) recommended disbanding of the DFI, and the existing DFI were converted into commercial banks.

History of DFIs in India

India had set up extremely successful DFIs such as Industrial Finance Corporation of India (IFCI) in 1948, Industrial Development Bank of India (IDBI) in 1964 and Industrial Credit and Investment Corporation of India (ICICI) in 1955. IFCI and IDBI were fully-owned

Government of India (GoI) enterprises. The objective in setting up the institutions were to provide medium- and long-term project finance to Indian industries. Till about the mid-1990s, the DFIs were very effective in channelising such finance for industrialisation of the country.

India had subsequently set up specialised DFIs to pursue medium-/long-term sector-specific credit flow, in contrast to the sector agnostic lending which the aforesaid DFIs engaged in. This includes attempts made twice in the past, to set up a specialised DFI for infrastructure project financing. While, the first three DFIs had an extremely successful role with widespread reach and positive effect on industrial growth, the specialised DFIs in most cases remained small and had limited impact. Ironically, in later years, the said three DFIs faced difficulty in surviving in its original genre and revamped themselves into commercial banks. The specialised DFIs in most cases continue, albeit with limited impact. The DFIs set up exclusively for financing infrastructure projects have, however, not had the desired impact.

Financing activities

The DFIs extended term loan for setting up new units as also for expansion, modernisation, and rehabilitation of existing units. There were no sectoral restrictions (except for the small negative list). The DFIs could extend assistance to any industry, resulting in a well-diversified (less risky) asset portfolio. Tenor of the assistance was usually up to 10 years, with an initial moratorium of up to two years. Mortgage charge over fixed assets of the assisted company, was provided as loan security. Defaults were insignificant and the security package was found acceptable, without it being examined on the bedrock of enforcement efficacy.

Resources

The DFIs were funded by patient equity capital and preferential market access for raising medium-/long-term resources. Preferential access was in the form of channelising multilateral funding lines, fund flow from National Industrial Credit-Long-term Operations (NIC (LTO)) of Reserve Bank of India (RBI), issuance of Statutory Liquidity Ratio (SLR) and tax-saving bonds, and suitable enablers to attract funds available through capital gains and investment allowance reserves. There were other special provisions made in the Income Tax Act, which enabled access to medium-/long-term funds, which supplemented the other fund-raising avenues. DFIs were also permitted to intermediate external commercial borrowings (ECB) market for on-lending.

Market exclusivity

It was a plain vanilla arrangement, wherein DFIs borrowed medium-/long-term funds at fixed (specified) interest rate, in the bank/bond market, and on-lent for medium/long-term funding. In the absence of refinancing and/or down-selling market, the DFIs held their loan assets till maturity. The maturity profile of the asset and liability book approximated closely. The credit authorisation scheme (CAS) restricted commercial banks in going for large ticket long-term lending. Access to ECB by corporates were not permitted. The capital market was narrow and shallow with fewer participants. The activity in the debt market was almost nil. Insurance companies and fund houses were either non-existent or were yet to warm to the idea of low-cost refinancing of the outstanding loans from DFIs to completed (mostly well-performing) projects. It was a period of bliss, in which the DFIs extended medium-/long-term loans to greenfield and/or brownfield projects, with a good interest spread, and held it long till maturity.

Transition

Progressive decline of DFIs started from mid 1990s—post the liberalisation era. Transition to a banking company happened around the turn of the century. With liberalisation, the DFIs lost their exclusive status and were unable to adapt and reinvent themselves in the new economic environment. Preferential access to funds was withdrawn in phases. The Credit Authorisation Scheme (CAS) was suitably relaxed to permit banks to extend large ticket long-term loans at significantly lower interest rates. The ECB market was opened up for direct access by corporates. With lower cost of funds, banks aggressively refinanced outstanding Development Finance Institution (DFI) loans, leading to asset-liability mismatch in the DFI books. Insurance companies, with their low fund cost, were also aggressive in the refinancing market, for corporate loan. With occurrence of loan defaults, DFIs realised that mortgage security was not robust and also difficult to enforce, vis-à-vis security by way of receivables/cash flow, as available to banks.

Need for DFI

NPA Crisis: The surge in NPAs in the banking sector, and the need to augment financing of infrastructure for kick-starting the growth cycle have led to a renewed policy attention on setting up DFIs.

The gap between banks' assets and liabilities, already increased by bad debts will become unsustainable in infrastructure investment, given the long funding periods of such projects.

Economic Crisis Triggered By Covid-19 Pandemic: Alexander Gerschenkron, a Ukrainian economic historian, famously theorized that the greater the backwardness of a country, the greater the role of the state in economic development, particularly in providing long-term finance to catch up with the advanced economies in the shortest possible time.

The Covid-19 pandemic has exacerbated inequality, the poverty gap, unemployment, and the economy’s slowing down.

Thus, infrastructure building through DFIs can help in quick economic recovery.

Achieving the Target of $5 Trillion Economy: The government has envisaged attaining the target of becoming a USD 5 trillion economy by 2025.

However, this goal will depend on world-class infrastructure across the country.

NITI Aayog has estimated that US$4.5 trillion will be needed by 2030 to fund infrastructure. DFI is a step in the right direction towards this goal.

International Examples: DFIs in China, Brazil, and Singapore has been successful in both domestic and international markets.

Categories of DFIs:

1- National Development Banks such as IDBI, SIDBI, ICICI, IFCI, IRBI, and IDFC.

2- Sector-specific financial institutions such as TFCI, EXIM Bank, NABARD, HDFC, and NHB.

3- Investment Institutions such as LIC, GIC and UTI.

4- State-level institutions such as State Finance Corporations and SIDCs.

Types of Finances:

1- Medium (1-5 years)

2- Long term (>5 years)

The need for DFIs in India:

India needs DFIs for the below-mentioned reasons:

1- To boost economic growth.

2- To improve long term finances.

3- To provide credit enhancement for infrastructure and housing projects.

4- Debt flows towards infrastructure projects would be improved.

Role of DFIs:

The role of the Development Finance Institution (DFI) is to take cognizance of the gaps in institutions and markets in the country's financial sector and to act as a gap filler.

DFIs have evolved in India in three below-mentioned phases:

1- The first phase began with Indian Independence to the year 1964.

2- The second phase began from 1964 to the mid-1990s.

3- In the third phase after 1993-94, the prominence of development banking declined, as liberalization resulted in the exit of some firms from development banking and in a waning in the resources mobilised by other firms.

Classification of DFIs:

1- Sector Specific Financial Institutions: They focus on particular sectors to provide finance for the project. For example, NHB, EXIM Bank and so forth.

2- Investment Institutions: They focus on facilitating business operations such as capital expenditure financing and equity offerings. For example, GIC, UTI and more.

List of important Development Finance Institutions (DFIs)

1- IFCI: Industrial Finance Corporation of India was established in 1948. It is India's first Development Finance Institution.

2- ICICI: Industrial Credit and Investment Corporation of India Limited was established in the year 1955 by an initiative of the World Bank and was the first DFI in the private sector. ICICI Limited established its subsidiary company ICICI Bank Limited in 1944 and in 2002, ICICI Limited was merged into ICICI Bank Limited, making it the first universal bank of India.

3- IDBI: Industrial Development Bank of India was set up in 1964 under RBI and was granted autonomy in 1976. The bank is responsible for ensuring adequate flow of credit to various sectors and was converted into a universal bank in 2003.

4- IRCI: Industrial Reconstruction Corporation of India was set up in 1971 to revive weak units and provide financial & technical assistance.

5- SIDBI: Small Industries Development Bank of India was established in 1989 as a subsidiary of IDBI and was granted autonomy in 1998.

6- EXIM Bank: Export-Import Bank was established in January 1982 to provide technical assistance and loan to exports.

7- NABARD: National Bank for Agriculture and Rural Development was established in July 1982 on the recommendation of the Shivraman Committee and functions as a refinancing institution.

8- NHB: National Housing Bank was established in 1988 to finance housing projects.

After two important DFIs, namely, ICICI and IDBI were merged with their banking units, many functions of DFIs are now performed by commercial banks and these are actively performed by commercial banks that finance projects like DFIs. Thus, Commercial banks are called universal banks which provide all kind of financial services under one roof.

Structural challenges

The funding environ would continue with strong competitors. Commercial banks are an integrated intermediary for both mobilising deposits and also on-lending. As deposits are of mixed tenure and price, incremental growth in deposit/liability book ensures continuous repricing, which adjusts average cost and maturity on an ongoing basis. Other competitors, also operate on a favourable low-cost matrix. DFIs, on the other hand, are essentially lending vehicles created for the purpose of channelising medium- to long-term resources for specific purpose. Resources are raised by DFIs through financial instruments crafted to meet its specific needs. That makes resource raising costlier and inflexible for a DFI vis-à-vis a bank, with its implication on relative product pricing, and institutional asset and liability management (ALM) profile over time.

In the above context, certain suggestions from an risk mitigation outlook, are placed below:

Refinance risk: As loans are refinanced, after project commences operation/attains stability, NaBFID may consider stipulating repricing option with suitable rate incentives, after implementation. Incentives may be designed carefully, so as to retain/exit the underlying loan, on asset quality considerations.

Cost/ maturity risk: Resources may be largely raised with a weighted average maturity to cover the implementation period of the portfolio loan assets, and not over long term, based on the “held to maturity” concept. This would help reduce cost and also impart flexibility in average cost and maturity, over time.

Security package: NaBFID should have security right over all present and future cash flows of the assisted company on pari passu basis along with other lenders, and not be secured by first charge over fixed assets only.

NaBFID may closely review and choose to be selective in fund-based lending and instead concentrate more on the following activities, which are prominently included in its mandate/ objective:

Non-fund-based business: Considering the high capitalisation of NaBFID and its quasi sovereign status, guarantees issued by NaBFID are likely to be well accepted. It may, therefore, look at having a large guarantee/NFB book, instead of concentrating on funding.

Corporate bond/debt market: NaBFID with its large capital base, government support, and systemic importance may concentrate well on strategies/modalities to harness resources for facilitating vibrancy in the debt market. This would then have a more beneficial long-term impact on infrastructure development than term lending alone.

DFIs in the past had taken steps to set up an efficient financial architecture of the country, comprising of screen-based trading, and setting up of depositories and rating agencies, amongst others. These have facilitated evolution of the financial market, and made it more transparent. Success of NaBFID in imparting bond/debt market vibrancy will well be an important and a positive step in continuation of India’s endeavour in developing a robust financial structure.

Way Forward

Mobilizing Capital For DFI: To lend for the long term, DFI requires correspondingly long-term sources of finance.

DFIs of the earlier era were over-reliant on cheap government funds and today’s commercial banks ran into asset-liability mismatches due to their reliance on retail deposits to fund long-term projects.

Therefore, it may be best for new-age DFIs to focus on diversified sources of funding.

Presently, DFI can be adequately capitalized by the sovereign-backed funds, alternative routes such as capital gains/tax-free bond issues, external borrowings, and loans from multilateral agencies.

Specialized DFIs: Specialised project lenders focussed on specific verticals tend to do better at building project appraisal skills and managing risks than ‘supermarket’ lenders who fund any project that comes their way.

The Centre must therefore be open to the idea of multiple specialized DFIs modeled on the success of refinancing institutions such as NHB and NABARD.

Ensuring Good Governance: While freeing a DFI from political interference or crony lending is necessary, merely having private shareholders or professional managers on board isn’t sufficient to ensure good governance.

This has to be backed by a robust system of external checks and balances such as supervision by RBI and proper due diligence by auditors and rating agencies.

Ensuring Ease of Doing Business: In the past, ambitious highway and pipeline projects have been continually held up by local protests and land acquisition woes, retrospective taxes, and poor contract enforcement.

The success of DFIs is contingent on ironing out such issues and removing on-ground impediments to the ease of doing business.

Conclusion

While boosting investment in the infrastructure sector is imperative for sustained growth, the need for the hour is to resolve persistent issues in the debt market that impede long-term financing flow.

6.6 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. Explain the various form of financial support for MSME Sector
2. Elaborate on the long term financial support for SME Sector
3. Explain in short the Central level Development institutions
4. Explain any three institutional aids for entrepreneurship development
5. Explain the role and functions of Development financial institutions

Short Answer Questions

1. Explain the meaning and need of Development financial Institution
2. Write short note Venture capital as source of finance for small businesses
3. Explain commercial as source of finance for MSMEs
4. Write a short note on Development of Khadi, Village and Coir Industries
5. List down few development institution for MSME

B. Multiple Choice Question

1. ________scheme provides credit-guaranteed funds to eligible beneficiaries from a Trust that is jointly established by the Ministry of MSME and Small Industries Development Bank of India (SIDBI).

   a) CGTSME
   b) employment generation
   c) Credit creation
   d) Regional development

2. _________ do not mobilise savings like other banks but invest the resources in a productive manner.

   a) Investment Institutions
   b) Development Banks
   c) Co-operative Banks
   d) Regional Rural Banks

3. __________can grasp global market dynamics relatively better and create competitive, efficient and innovative enterprises.

a) Young entrepreneurs

b) Old entrepreneurs

c) Big industries

d) Established indurstries

4. ________investing is best suited for startups and young businesses that have a great idea or product, but need a launch pad

a) Angel

b) Equity

c) Bank

d) Debt

5. ___________ is India's first development financial institution

a) IFCI

b) RRB

c) SIDCO

d) SSI

Answers

1-a, 2-b, 3-a, 4-a, 5-a

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UNIT 7 - ISSUES AND CHALLENGES

STRUCTURE

7.0 OBJECTIVES

- Define : – Central and State level Development Institutions
- Understand : Issues and challenges with development institutions
- Define: Role of various development institutions
- Explain: Entrepreneurial guidance bureaus.

7.1 CENTRAL LEVEL DEVELOPMENT INSTITUTIONS

Introduction

Development Banks are special industrial financing Institutions. This concept is of recent origin. These banks were mostly set up after World War II in both developed and underdeveloped countries. The role of Development Banks is more pronounced in developing countries where governments have taken upon themselves the task of accelerating the pace of economic development.

Development Banks do not mobilise savings like other banks but invest the resources in a productive manner.

Definition of a Development Bank

A Development Bank may be defined as a financial institution concerned with providing all types of financial assistance medium as well as long term to business units.

Features of a Development Bank

● A Development Bank does not accept deposits from the public like commercial banks

and other financial Institutions who entirely depend upon saving mobilisation.

● It is a specialised financial institution which provides medium term and long term lending

facilities.

● It provides financial assistance to both private as well as public sector institutions.

● The objective of this bank is to serve Public Interest rather than earning profits.

Development banking in India

1. In 1949 Reserve Bank had undertaken a detailed study to find out the need for specialised Institutions.

2. It was in 1948 that the first Development Bank Industrial Finance Corporation of India

IFCI was established. IFCI was assigned the role of a gap filler and it was not expected

to compete with the existing channels of industrial finance.

3. The Industrial credit and Investment Corporation of India Limited ICICI was established

in 1955 as a joint stock company.

4. In 1964 Industrial Development Bank of India IDBI was setup as an Apex institution in the area of industrial finance. IDBI was a wholly owned subsidiary of RBI and was expected to coordinate the activities of the Institutions engaged in financing promoting or developing industry.

Need for Development Banks

● Lay Foundation for industrialisation

● Meet capital needs

● Need for promotional activities

● Help small and medium sectors.

Functions of development banks

1. Financial Gap Fillers:

Development banks do not provide medium-term and long-term loans only but they help industrial enterprises in many other ways too.

These banks subscribe to the bonds and debentures of the companies, underwrite their shares and debentures and, guarantee the loans raised from foreign and domestic sources. They also help undertakings to acquire machinery from within and outside the country.

2. Undertake Entrepreneurial Role:

Developing countries lack entrepreneurs who can take up the job of setting up new projects. It

may be due to a lack of expertise and managerial ability. Development banks were assigned the

job of entrepreneurial gap filling.

They undertake the task of discovering investment projects, promotion of industrial enterprises,

provide technical and managerial assistance, undertaking economic and technical research, conducting surveys, feasibility studies, etc. The promotional role of the development bank is very significant for increasing the pace of industrialization.

3. Commercial Banking Business:

Development banks normally provide medium and long-term funds to industrial enterprises. The working capital needs of the units are met by commercial banks. In developing countries,

commercial banks have not been able to take up this job properly. Their traditional approach in dealing with lending proposals and assistance on securities has not helped the industry.

4. Joint Finance:

Another feature of the development bank's operations is to take up joint financing along with

other financial institutions. There may be constraints of financial resources and legal problems

(prescribing maximum limits of lending) which may force banks to associate with other

institutions for taking up the financing of some projects jointly.

5. Refinance Facility:

Development banks also extend the refinance facility to the lending institutions. In this scheme,

there is no direct lending to the enterprise. The lending institutions are provided funds by

development banks against loans extended' to industrial concerns.

6. Credit Guarantee:

The small scale sector is not getting proper financial facilities due to the clement of risk since

these units do not have sufficient securities to offer for loans, lending institutions are hesitant to extend the loans. To overcome this difficulty many countries including India and Japan have

devised the credit guarantee scheme and credit insurance scheme.

7. Underwriting of Securities:

Development banks acquire securities of industrial units through either direct subscribing or

underwriting or both. The securities may also be acquired through promotion work or by

converting loans into equity shares or preference shares. So, as learn about development banks may build portfolios of industrial stocks and bonds.

Objectives of Development Banks:

The main objectives of the development banks are:

1. They promote industrial growth.

2. To develop backward areas.

3. To create more employment opportunities.

4. They generate more exports and encourage import substitution.

5. To encourage modernization and improvement in technology.

6. To promote more self-employment projects.

7. The revive sick units.

8. To improve the management of large industries by providing training.

9. To remove regional disparities or regional imbalance.

10. They promote science and technology in new areas by providing risk capital, and.

11. To improve the capital market in the country.

Operational activities of Development Banks

1. Project appraisal and Eligibility of applicant - every financial institution serves a particular area of activity are there are certain limits prescribed beyond which we cannot go. Before processing the application, it is important to find out whether the applicant is eligible under the norms of the institution or not.

The second aspect which is looked into is to determine whether the enterprise has fulfilled various conditions prescribed by the government.

2. Technical appraisal - Technical appraisal involves the study of :

● Feasibility and suitability of Technical process in Indian conditions.

● The scale of operations and its suitability for the planned project.

● The technical soundness of the projects etc

3. Economic viability - The economic appraisal will consider the national and industrial priorities of the project export potential of the product employment potential, study of market.

4. Assessing commercial aspects- The examination of commercial aspects related to the arrangements for the purchase of raw materials and sale of finished products. If the concern has some arrangement for sale then the position of the party should be assessed.

5. Financial feasibility -the analysis of existing capital structure contribution of owners debt equity ratio past performance help in assessing the financial position of the concern and viability for investing in the project.

6. Managerial competence

7. National contribution

8. Balancing of various factors

9. Loan sanction -if the Advisory Committee is satisfied by the proposal than it recommends the case to the Managing Director or board of directors along with its own report.

10. Loan disbursement - the loan is disbursed after the execution of loan Agreement the execution of Documents of security or guarantee etc should proceed the disbursement of loan.

Promotional activities of Development Banks

1. Surveys of backward areas -surveys studied the availability of resurveys, demand potential and availability of infrastructure facilities.

2. Establishing technical consultancy organisations

3. Entrepreneurial development programs.

4. Technological improvements- the main thrust of EPP'S has been to institutionalize entrepreneurship activities, generating, sharpening and sharing knowledge through research documentation and publication, developing a cadre of professionals.

Central or National Level Development Institutions

Industrial Finance Corporation of India (IFCI)

Government of India set up the Industrial Finance Corporation of India (IFCI) in July 1948 under a special Act. This is the first financial institution set up in India with the main object of making medium and long term credit to industrial needs.

The Industrial Development Bank of India, Scheduled banks, insurance companies, investment

trusts and co-operative banks are the shareholders of IFCI. The Union Government has guaranteed the repayment of capital and the payment of a minimum annual dividend. The corporation is authorised to issue bonds and debentures in the open market, to borrow foreign currency from the World Bank and other organisations, accept deposits from the public and also borrow from the Reserve Bank.

Functions:

The functions of the IFCI base as follows:

i) The corporation grants loans and advances to industrial concerns.

(ii) Granting of loans both in rupees and foreign currencies.

(iii) The corporation underwrites the issue of stocks, bonds, shares etc.

iv) The corporation can grant loans only to public limited companies and co-operatives

but not to private limited companies or partnership firms.

Activities of the IFCI:

The promotional activities of IFCI are explained below:

1. Soft Loan Assistance:

This scheme provides soft loan assistance to existing industries in small and medium sector for

developing technology through in-house research and development.

2. Entrepreneur Development:

IFCI provides financial support to EDPs (Entrepreneur Development Programmes) conducted by several agencies all-over India. in cooperation with Entrepreneurship Development Institute of India.

3. Industrial Development in Backward Areas:

IFCI also take measures to promote industrial development in backward areas through a scheme of concessional finance.

4. Subsidised Consultancy:

The IFCI gives subsidised consultancy for,

(i) Small Entrepreneurs for Meeting the Cost of Project.

(ii) Promoting Ancillary Industries

(iii) To do the Market Research.

(iv) Reviving Sick Units.

(v) Implementing Modernisation.

(vi) Controlling Pollution in Factories.

5. Management Development:

To improve the professional management the IFCI sponsored the Management Development Institute in 1973. It established the Development Banking Centre to develop managerial, manpower in industrial concern, commercial and development banks.

Industrial Credit and Investment Corporation of India (ICICI)

The Industrial Credit and Investment Corporation of India was registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

Broad objectives of ICICI

(a) to assist in the creation, expansion and modernisation of private concerns;

(b) to encourage the participation of internal and external capital in the private concerns;

(c) to encourage private ownership of industrial investment.

Functions of the ICICI

(i) It provides long-term and medium-term loans in rupees and foreign currencies.

(ii) It underwrites new issues of shares and debentures.

(iii) It guarantees loans raised by private concerns from other sources.

(iv) It provides technical,managerial and administrative assistance to industrial concerns.

Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) was set up in July 1964, as a wholly-owned subsidiary of the Reserve Bank of India. It was given complete autonomy in February 1976. Today, the IDBI is regarded as an apex institution in the arena of development banking. The IFCI and the UTI are the subsidiaries of the IDBI. As an apex development bank, the IDBI's major role is to coordinate the activities of other development banks and term-financing institutions in the capital market of the country.

Functions of the IDBI

1. Planning, promoting and developing industries with a view to fill the gaps in the industrial structure by conceiving, preparing and floating new projects.

2. Providing technical and administrative assistance for promotion, management and expansion of industry.

3. Providing refinancing facilities to the IFCI, SFCs and other financial institutions approved by the government.

4. Coordinating the activities of financial institutions for the promotion and development of industries.

5. Purchasing or underwriting shares and debentures of industrial concerns.

6. Guaranteeing deferred payments due from industrial concerns and for loans raised by them.

7. Undertaking market and investment research, surveys and techno-economic studies helpful to the development of industries.

In short, the IDBI is the leader, coordinator and innovator in the field of industrial financing in our country. Its major activity is confined to financing, developmental, coordination and promotional functions.

Industrial Reconstruction Bank of India (IRBI)

To provide financial assistance as well as to revive and revitalise sick industrial units in public/private sectors, an institution called the Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 with a share capital of Rs. 10 crores.

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.

Functions of 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.

Small Industries Development Bank of India (SIDBI)

With a view to ensuring larger flow of financial and non-financial assistance to the small-scale

sector, the Government of India set up the Small Industries Development Bank of India (SIDBI) under a special Act of the Parliament in October 1989 as wholly-owned subsidiary of the IDBI.

The bank commenced its operations from April 2, 1990 with its head office in Lucknow. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small-scale sector.

Functions performed by SIDBI

1. To initiate steps for technological up-gradation and modernisation of existing units.

2. To expand the channels for marketing the products of SSI sector in domestic and international markets.

3. To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

The SIDBI’s financial assistance to small-scale industries is channelised through the existing credit delivery system comprising State Financial Corporation, State Industrial Development Corporations, Commercial Banks, and Regional Rural Banks.

The SIDBI introduced two new schemes during 1992-93; equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology up-gradation,

modernisation, and refinance for resettlement of voluntarily retired workers of the National Textile Corporation (NTC).

The other new scheme launched was venture capital fund exclusively for small -scale units, with

an initial corpus of Rs. 10 crore. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Small Industrial

Corporation (NSIC) for providing leasing, hire-purchase, and marketing support to the industrial units in the small-sector.

7.2 ISSUES AND CHALLENGES CENTRAL LEVEL INSTITUTIONS

1. Measuring the fulfilment of their mandate.

- a precise formulation of the mission and the definition of KPIs matching that mission;
- the effective and factual assessment of the DFI against these KPIs by independent economists or accountants;

- the implementation of a system across the DFI that effectively ranks projects against mission benchmarks, so that those projects achieving the highest score can be prioritised and those failing the test can be abandoned.

2. Formulating an actionable strategy.

- realistic, and therefore resulting from an internal process of not only top-down but bottom-up elaboration, taking into consideration the experience and feedback from the operational teams;
- clear and measurable, with targets defined by sector, geography, product …

3. Attracting private sector funds, not competing with them.

- inviting private sector investors and lenders to join in the financings where the development bank would take the senior and longer term debt. Their participation would demonstrate that the financings take place on market terms;
- having a rigorous risk / pricing matrix, rating each project;
- researching the market to place the DFI in the wider landscape of available sources of finance;
- having in place a mechanism to acknowledge eventual complaints regarding unfair competition.

4. Reaching out to SMEs.

- create SME-focused teams with special sets of incentives not volume-driven;
- develop facilities providing wholesale finance to selected financial intermediaries with a sufficiently large branch network, for on-lending to SMEs at local level;
- facilitate trade finance, often a good way to provide focused finance to smaller local companies;
- support local advisory networks providing business advice to SMEs, through technical assistance or cooperation agreements.

7.3 STATE LEVEL INSTITUTIONS

“State-level financial corporation” refers to a body that is established by the government of India in order to provide quality support to enhance and grow the economy. The economy can develop itself by promoting various industries on small and medium scales. This is effectively done by providing them with monetary support. This institution plays a vital part in effectively balancing development with the rural arena, by encouraging higher investment and as well as improving the rates associated with employment. In addition to these, “State-level financial corporation” supports the development of broad ownerships depending on “various industries”.

Objectives and functions of a state-level financial corporation

Certain significant objectives are noticed that are set forth by “State-level financial corporation”, that are as follows.

The primarily objective caters to providing assistance in terms of both small and medium scale industries. This notion of assistance lies outside the arena of I.F.C.I.

The functions that are conducted by the SFCs need to be limited within the respective state.

SFCs cater to not only “public limited companies” but also “private limited companies”, “proprietary concerns” and as well as “firms based on partnerships”.

Features of state financial corporation

Various notable features are associated with the institutions of SFCs that are developed by the government in successive development of the economy, that are as follows.

The prime function is that SFCs provide “loans and advances” related to industrial concerns that need to be paid within a maximum period of 20 years.

SFC underwrites several debentures as well as shares that relate to industrial concerns.

SFCs subscribe to industrial shares as well as debentures.

SFCs serve as representatives of both the state and central government.

SFCs also grant loans that are raised by the industries.

Overview and role of “State Industrial Development Corporations (SIDs)” institutions in India

Overview and role of “State Industrial Development Corporations (SIDs)” fall under the “state-level institutions” in India. They are associated with the development of the industrial sectors thereby effectively enhancing the economy. Moreover, “State Industrial Development Corporations (SIDs)” aim at successive enhancements in the small, micro and as well as medium scale organization of a business. This institution is quite effective in providing assistance in entrepreneurship formation and as well takes care of effective development of required skills that are essential in the pathway of development. They also provide development with respect to the infrastructure of industries in “marketing and advertisements”.

Some of the kinds of institutions to study the state-level industrial development banks are:

1. The SFCs and

2. The SIDCs/SIICs.

At the state-level, too, there is a combination of financing agencies and industrial development

banks, mainly for the development of medium and small-scale industries in respective states,

with some emphasis on the industrial development of their backward regions. They are State

Financial Corporation’s (SFCs) which are primarily financing agencies. Besides, most individual

states have either a State Industrial Development Corporation (SIDC) or a State Industrial

Investment Corporation (SIIC). In 1994-95, there were 18 SFCs and 26 SIDCs/SIICs. We study

the two kinds of institutions separately.

1. The SFCs:

The SFCs came to be organized in individual states after the enabling Central Act to this effect

came into force in August 1952. They are state-level organizations for the provision of term

finance to medium and small scale industries. The share capital has been contributed by the

state governments, the RBI (transferred to the IDBI after its separation from the RBI in February

1976), the IDBI, scheduled banks, insurance companies, and others.

The two most important items of liabilities were bonds and debentures and borrowings from the IDBI. The IDBI, which is the main source of loans, provides funds mainly in the form of

refinance. It also administers the International Development Association (IDA) credit to them in the form of foreign currency loans. The SFCs also borrow from the SIDBI and IDBI.

The SFCs are authorized to provide financial assistance in all the four major forms, namely

loans and advances, subscription to shares and debentures, underwriting of new issues, .and

guarantee of loans from third parties and deferred payments.

2. The SIDCs/SIICs:

The SIDCs/SIICs came on the scene much after the SFCs. Whereas the SFCs of the state

governments and IDBI (earlier, the RBI) the SIDCs/SIICs have been set up entirely by state

governments. Besides providing finance, these institutions perform a variety of functions, such

as arranging for land, power, roads, licenses for industrial units, sponsoring the establishment of such units, especially in backward areas, etc.

Conclusion

After delving into the topic it is quite well understood that in order to develop the economy the government has initiated several steps and established institutions such institution referred to as the "State Finance Corporations (SFCs)" that promotes growth of the economy by providing quality support to the several small as well as medium industries in India. "State Industrial Development Corporations (SIDCs)" also comes under state-level institutions that also help in promoting growth. Therefore, it is significantly understood that the SCF plays a vital role. In addition to these, fundamental features of these institutions are successfully explored giving quality importance to the enhancement of the Indian economy.

7.4 OTHER AGENCIES

1. Office of Development Commissioner (MSME)

Development Commissionerate implements the policies and various programmes/schemes for providing infrastructure and support services to MSMEs. The Office of the Development

Commissioner [O/o DC (MSME)] is an attached office of the Ministry, headed by the Additional Secretary & Development Commissioner (AS & DC), MSME.

It functions through a network of MSME-Development Institutes (DI), Regional Testing Centres, Footwear Training Institutes, Production Centres, Field Testing Stations and specialized institutes. It renders services such as:

Advising the Government in Policy formulation for the promotion and development of MSMEs.

Providing techno-economic and managerial consultancy, common facilities and extension services to MSME units.

Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.

2. Khadi Village Industries Commission (KVIC)

Khadi & Village Industries Commission (KVIC) established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the Ministry of MSME.

Objectives: The main objectives of KVIC include:-

The social objective of providing employment in rural areas;

The economic objective of producing saleable articles; and

The wider objective of creating self-reliance amongst people and building up a strong rural community spirit.

3. Coir Board

The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry.

Functions

The functions of the Coir Board for the development of coir industry, inter-alia, include:

- Promoting exports of coir yarn and coir products and carrying on propaganda for that purpose.

- Regulating under the supervision of the Central Government the production of husks, coir yarn and coir products by registering coir spindles and looms for manufacturing coir products as also manufacturers of coir products.
- Undertaking, assisting or encouraging scientific, technological and economic research and maintaining and assisting in the maintenance of one or more research institutes;
- Collecting statistics from manufacturers of and dealers in coir products and from other persons as may be prescribed, on any matter relating to the coir industry and the publication of statistics so collected.
- Fixing grade standards are arranged when necessary for inspection of fibre, coir yarn and coir products.
- Improving the marketing of coconut husk, coir fibre, coir yarn and coir products in India and elsewhere and preventing unfair competitions;
- Setting up or assisting in the setup of factories for the producers of coir products with the aid of power.

3. National Small Industries Corporation Limited (NSIC)

The National Small Industries Corporation Ltd. (NSIC) is an ISO 9001-2015 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.

Objective

The mission of NSIC is “To promote and support Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services.”

The vision of NSIC is “To be premier organization fostering the growth of Micro, Small and Medium Enterprises in the country.”

Functions

- It runs a number of schemes, and is also an implementing partner for a number of schemes of the Ministry of MSME. These schemes/ activities include:
- Consortia and Tender Marketing

- Credit Support
- Raw Material Distribution
- Single Point Registration Scheme (SPRS)
- NSIC Technical Services Centers
- E-Marketing/ Digital Services facilitation for MSMEs
- National Scheduled Caste and Scheduled Tribe Hub
- NSIC provides technical support to MSMEs through 'NSIC Technical Services Centres' (NTSCs) and a number of TICs & LBIs spread across the country. The range of technical services provided through these centres includes skill development in Hi-Tech as well as conventional trades, material and product testing.

4. National Institute for micro, Small and Medium Enterprises (NIMSME)

NIMSME was originally set up as Central Industrial Extension Training Institute (CIETI) in

New Delhi in 1960 under the then Ministry of Industry and Commerce, Government of India. The Institute was shifted to Hyderabad in 1962 as a registered society in the name of Small Industry Extension Training Institute (SIET). After the enactment of MSMED Act, 2006, the Institute expanded focus of its objectives and re-designed its organization structure. In line with the new Act, the Institute was rechristened as National Institute for Micro, Small and Medium Enterprises (NIMSME). It is currently an organization under the aegis of the Ministry of Micro, Small and Medium Enterprises (formerly Ministry of SSI & ARI), Government of India.

NIMSME's long-term mission is to excel at the following

- Turning new corners in Information Technology.
- Spotlighting of topical issues through conferences, seminars, etc.
- Greater attention to need based programmes.
- Shift towards client driven approach and innovative interventions.
- Programme evaluation.

- Emphasis on research publications.

7.5 COMMERCIAL BANK -APPRAISAL OF BANK FOR LOANS.

Credit Appraisal is a process which require sufficient knowledge and proper due diligence. Credit involves risk of default, which can not be avoided but can be minimized. So you should minimize the risk.

The first step is to act early and act fast. If you do not start your due diligence process immediately on receiving the loan proposal, the chances are you won’t be able to complete it. Its better to have thorough knowledge in advances before going for the dip.

Here is a comprehensive step by step guide to help you in credit appraisal process:

Customer Identification

Understanding the business of the borrower

Understanding credit requirements

Selecting appropriate scheme/ credit facility

Loan application

KYC

Draw Credit Information Reports (CIBIL)

RBI Defaulter List

CERSAI Search

MCA Search

Visits before sanction

Documents and information to be obtained from the borrower

Obtaining Due Diligence Report

Due Diligence of Immovable Property

Credit Risk Rating (Internal)

External Credit Risk Rating

Confidential Reports from existing bankers

Fixing Repayment of Term Loan

Assessment of Eligible amount of Loan

Appraisal Note

Terms & Conditions

Disbursement

Customer Identification

Its better, you approach the customer rather customer approaches you. Avoid middleman introducing customer to you. First thing is customer identification. Not just collecting copies of ID and address proof but actually knowing the customer. You must know, who he is, what he does, where he lives, how much he earns, what is his reputation in the society and his credit worthiness.

Remember banks extend loans to only those, who have ability to repay and intent to repay both.

Gather information by your prospective customer from different sources. Your existing customers may help you in this or his neighbors, business associates, competitors or his business community.

Understanding the business of the borrower

Understanding the business of the borrower is very important before going further in the process of extending credit. Enquire about the nature of business, the industry in which he operates, the processes of business, modus operandi of business etc. Do some research about the industry, whether the industry has going good, what are margins in that industry, are there any adverse government directives, is it regulated. It doesn’t take much time but saves you and the bank. Know the product the borrower is dealing into. Is the product viable and have a future? For example, is it wise to lend to manufacturer of trader of CDs (Compact Disks), knowing that CDs are disappearing and rarely used? Enquire about the major suppliers and buyers of the borrower and their reputation in the market.

Understanding credit requirements

Understand what type of credit facilities the borrower require. The assessment depends on the type of facilities borrower require. Further, you'll have to head to the guidelines after you know, which credit facilities are to be sanctioned.

Requirement analysis is important because, you can not take risk of neither over financing or under financing. Both the cases are dangerous and may have adverse consequences. Over financing would lead to stress in account as borrower has been provided more funds than required, which he'll use for non-business purposes. While in case of under financing, borrower will not be able to execute the project properly resulting into business failure.

Selecting appropriate scheme/ credit facility

Banks have different schemes for different types of borrower depending upon the nature of activity and volume of activity. These schemes have a set of guidelines for different parameters such as eligibility calculations, collateral security requirement, margins, rate of interest, service charges etc. For example there may be a scheme for traders, distributors, car dealers, tour operators, travel agents, professionals etc. Select the appropriate scheme, if applicable to the borrower before going for a conventional fund based working capital facility or term loan.

Loan application

You must obtain duly filled loan application in the prescribed format of your bank from the borrower. Loan application is designed in a way so that crucial information of the borrower are obtained. Read the whole application alongwith the annexures and documents.

KYC

Yes KYC is must. You must first identify the customer. Complete the KYC norms before going further in the loan proposal. Following things are required for establishing KYC:

Proof of Identity

Proof of residence

Proof of business address

PAN

Photocopies of all these must be verified with original and also get them signed by the borrower and kept on record.

Draw Credit Information Reports (CIBIL)

Draw the credit information reports like CIBIL/ Equifax/ Exparian as required by your bank's guidelines. CIBIL is the most important and widely used CIR in India.

There are two types of CIBIL reports, personal and commercial. Commercial is for business entities be it proprietorship or a limited liability company, whereas personal is for individuals. This report contains credit history of the borrower.

Read this report carefully and specially check for any settlements, defaults, past dues and written off amounts. If any of these appear, that means the credit history of the borrower is not good. Even if there are minor amounts in default, you must ask for explanation and evidences to your satisfaction.

You'll also come to know about the current loans the borrower is availing, that will help you analyse his repayment capacity because you need to take care the repayment of all the loans while assessing repayment of your loan.

RBI Defaulter List

The defaulter list is available on CIBIL website and can be accessed from here. Check this list to ensure that names of borrower/ proprietor/ partners/ directors/ guarantors or associate and allied concerns of the borrower are not appearing therein.

CERSAI Search

If there is any Immovable Property involved, whether as primary security or collateral security, check the CERSAI database, to ensure that the property is not mortgaged with other lenders. Further, now even particulars of movable assets like stocks and book debts are required to be registered with CERSAI, so you should also check for that, so that you get to know about the loans taken by the borrower.

MCA Search

If the prospective borrower is a limited liability company (private limited company or a limited company) or an LLP (Limited Liability Partnership), search the details in MCA website.

Check Company Master Data, charge details, details of other companies, in which directors of borrower company are director.

Create account of MCA website, its easy and anybody can create an account. With the payment of Rs.150, you can access all the documents of that company. Download Balance

Sheets and Annual Returns of the company for atleast 3 years. Compare the balance sheets submitted by the borrower and downloaded from MCA website.

Visits before sanction

Before processing the loan, you must visit residence of borrower, all business places of the borrower such as registered office, corporate office, factories and godowns And the location of properties to be mortgaged in the account. Make enquiries from neighbors, local prominent peoples, local property dealers. This will give you an idea about the worth of your prospective borrower. Note down your observations during the visit and names and telephone numbers of the people, you have spoken and place it on record.

Documents and information to be obtained from the borrower

Registration Certificates

Obtain the copies of necessary registrations as per nature of business. Some of the registrations are TAN (Tax Deduction Account Numner), GSTIN, IEC (Import Export Code), Registration under Shop & Establishment Act etc.

Financial:

Generally, it is understood that Financial means only balance sheet and profit & loss account. But you should obtain complete financials including Annual Report/ Directors' Report, Audit Report, cash flow, tax audit report and all the annexures.

Financial for previous three years should be obtained. If some part of the financial year is over, obtain a provisional balance sheet upto some latest date.

Analyse the financial thoroughly such as trend in sales, profitability, sources and uses of cash flows, use of capital, trend in unsecured and secured loans. (we'll discuss the financial analysis in separate article). Check if there are any adverse remarks in audit report or annexures. Compare the loans appearing in balance sheet with those in CIBIL. Reconcile them and ask for explanation, if required.

Obtain the financials of associate and allied concerns too for previous 3 years and analyse them.

CMA Data (for working capital limits)

CMA data contains the analysis of balance sheet of profit & loss account for previous 3 years and projected for next 2 years. The maximum permissible bank finance for working capital limits is fixed based on the projections for upcoming years.

Broadly, you should check for the trend in the projected finacials comparing with the actuals. For example, if turnover has increased with y-o-y growth of 10% during previous years, and it is projected to increase with 25% growth, you should raise question. (we'll discuss analysis of CMA data in a separate article).

Project Report (for Term Loan)

Project report is required in case of term loan, which contains all the details about establishing and running the project and financial projections of the project. Project report should be detailed containing the details of machineries, price, suppliers, specifications, installed capacity and capacity utilization etc. Verify the quotations of fixed assets and make direct payment to suppliers.

Read this detailed article about analyses required in case of term loan.

Asset Liability Statement or Net worth statements

In order to establish the credit worthiness of the borrower and guarantors, you need to know about their assets and liabilities. The net worth statement should preferably be authenticated by a Chartered Accountant. But don't simply accept the asset liability statement, verify the assets which are disclosed in the net worth statement and their value.

Income Tax Returns

Obtain Income Tax Returns of borrower, partners, directors and guarantors for previous three years. Have them verified by a Chartered Accountant (in bank's panel). Also verify the authenticity of ITRs independently.

Sales Tax/ Service Tax/ Excise/ GST Returns

Obtain Sales Tax/ Service Tax/ Excise/ GST Returns. You'll get the sales of current year, for which balance sheet is not available. Excise/ GST returns will also tell you about the installed capacity of the borrower, which will give you idea if the projected sales is achievable or not.

Electricity Bills

Why? Electricity consumption gives you the idea about the level of operation in being undertaken in the factory.

Obtaining Due Diligence Report

Obtain due diligence report from a CA/ CS as per your bank's policy and empanelment. CA/CS will conduct due diligence of financials, ROC charges and income tax returns and will provide a report in prescribed format. Read and analyse the due diligence report thoroughly for any adverse remarks, seek explanation from borrower if there are any.

Due Diligence of Immovable Property

IP may be a primary security in the account or collateral security. This is very crucial part because mostly decisions are taken based on the available security. Mostly frauds in loans are related to immovable property such as fake title deeds

Visit of the Immovable Property is most crucial and important factor and should be done invariably. In most of the fraud cases, it is found that bankers did not visit the property. After sanction of loan, periodic visits should be made as per bank guidelines.

Search Report or Non Encumbrance Certificate from advocate on bank's panel should be obtained and analysed before grating loan. The opinion of the advocate is important if the property is not encumbered and can be mortgaged. Obtain all the documents as reported by advocate for creation of mortgage.

Valuation should be obtained from a valuer on bank's panel. The valuation report should be thoroughly checked and if there is any discrepancy, it should be got rectified from the valuer.

The valuation given by valuer should be independently checked from other sources such as local property dealers, neighbours etc. Now a days there are various property websites, where you can check the price of a property in a particular locality.

Owner of the property should be identified and efforts should be made that his guarantee is obtained.

Credit Risk Rating (Internal)

There is system of scoring and rating in almost all the banks for determining the risk involved in lending to particular borrower. Rating of the borrower depends upon the financial performance, management evaluation, industry in which it is operating, past conduct of his account, quality of books of accounts etc. Rating should be done judiciously since sometime the lending depends upon the risk rating of the borrower. Also the pricing is linked to risk rating of the borrower. There may be different models for rating depending upon the type of advance and category and level of borrower. Further there are separate models for rating of corporate loans and retail loans.

External Credit Risk Rating

Risk rating from an approved agency such as CRISIL, ICRA etc. is obtained in all the cases above Rs.5 crores. BBB and above rating is generally treated as investment grade. Purpose of this rating is for determining capital charge but sometimes the lending decision is also linked to External Credit Rating. If there is no external risk rating and the borrower is given time for getting the rating, it should be got done within the time period allowed by the sanctioning authority.

Confidential Reports from existing bankers

Obtain CRs from the existing bankers of the borrower. Also obtain bank statements for last one year and thoroughly check it. Bank statement would tell you a lot about the conduct of the borrower. If borrower does not have credit facilities from any other bank, analyse the current account statement.

Fixing Repayment of Term Loan

There is no repayment schedule in working capital limits but term loans are to be paid within a specified period. Repayment period should be fixed based on the cash flows of the borrower. If cash flows are low initially and increases gradually, instalments should be ballooning, keeping them initially low and then increasing the same in the pattern of increase in cash flows. It should be checked that at no point of time, instalment plus interest amount exceed the cash inflow. A wrong repayment schedule may stress the account, even if it is viable in totality. DSCR of each year should preferably be above 1.25 but not below 1 in any case.

Repayment schedule should clearly mention the date of instalment and servicing of interest. Instead of mentioning June 2019, it should be 1st June 2019 or 30th June 2019 as the case may be.

Assessment of Eligible amount of Loan

For working capital requirement (including LC requirement) assessment should be done as per prescribed method for assessing Maximum Permissible Bank Finance. Generally Simplified Turnover method is used for limits upto Rs.5 Crores for MSME borrowers for assessing MPBF, and second method of lending is used for limits above Rs.5 Crores.

We’ll come up with separate detailed guide about assessment of MPBF. However, you should know what is Working Capital, What is holding period and how holding periods/ levels are analysed in working capital assessment and analysis of of current assets and current liabilities before assessing MPBF.

Appraisal Note

Credit Appraisal note should be prepared on bank’s prescribed and approved format only. This ensures that complete information is presented to sanctioning authority. There should not be any concealment of information and misrepresentation of information. The borrower should not be allowed to prepare the appraisal note or part of it. All the merits and demerits of the proposal should be presented in appraisal note.

Before preparing appraisal note, have a checklist of all the bank guidelines and documents/ information required.

Terms & Conditions

Terms & Conditions should be discussed with the borrower before sanction of loan and the borrower should agree to the terms and conditions. An acknowledgement for the same should be obtained from the borrower.

Terms & Conditions should be thoroughly read and understood before incorporating them and if there are prescribed set of conditions, it should be ensured that nothing is left out. It is terms & conditions which are the basis on which legal recourse may be taken in case of default.

Disbursement

Disbursement should be made only after complete documentation and borrower agreeing to all the terms and conditions.

In case of term loan disbursement should be done as per schedule and against the bills/ invoices as approved by sanctioning authority. Payment should be made directly to supplier and disbursement through current account of the borrower should be avoided. Original bills may be kept in the branch against which disbursement has been made. Borrower should bring his margin upfront or in proportion to disbursement as approved by sanctioning authority but disbursement should not be made without borrower bringing his margin. Physical progress should be monitored and looked into before making further disbursements. Obtain periodic CA certificate for monitoring the funds incurred. See if there is any cost-over run or time over-run, if there is any, it should be brought to the notice of sanctioning authority and borrower should justify the same. Report of Lender' Engineer be obtained and analysed to check cost over run and time over run.

In case of working capital limits, disbursement should be done after getting approval of competent authority. Remittances to associate/ allied/ group concerns, directors, partners should not be done. For major amount, it should be ensured that funds are being remitted for genuine trade transactions.

7.6 INSTITUTIONAL AIDS FOR ENTREPRENEURSHIP DEVELOPMENT

Entrepreneurship Development Institutions are one of the educational firms that conduct EDP or Entrepreneurship Development programs that help in guiding the first generation entrepreneurs and hence, open up sustainable paths which they should take to enhance their entrepreneurship journey.

7.6.1. Central Government Institutions:

The Government Formulated the Micro, Small and Medium Enterprises:

Development Act, 2006 and established the National Board for Micro, Small and Medium Enterprises (NBMSME) and made rules there under in the year 2006. This Board examines the factors affecting promotion and development of MSMEs and reviews policies and programmes from time to time relating to these enterprises, from time to time and makes recommendations to the Government in formulating the policies for the growth of MSMEs.

The Government of India constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS) to examine the problems of the enterprises in the unorganized/informal sector. The Commission has made recommendations to provide technical, marketing and credit sup-port to these enterprises.

The various policies and schemes of Government assistance for the development of rural industries insist on the utilisation of local resources and raw materials and locally available manpower. These are translated into action through various agencies, departments, corporations, etc., all coming under the purview of the industries department. All these are primarily concerned with the promotion of small and rural industries.

7.6.1 Role of DST

The Department of Science & Technology (DST) is promoting schemes to support research and entrepreneurial skills among youth through various programmes that will help explore uncharted territories of science and technology. It is also supporting youth who are coming forward to develop sustainable solutions for betterment of society at large and through these initiating their entrepreneurship journey.

A snapshot of selected schemes for young scientists and entrepreneurs are presented below.

MANAK (Million Minds Augmenting National Aspiration and Knowledge)

Innovation in Science Pursuit for Inspired Research (INSPIRE) is a national programme implemented by the DST to tap students early in life and nurture the young intelligentsia to take up science and pursue a career in Research. In the context of Start-up India initiative of the Government, INSPIRE Awards-MANAK (Million Minds Augmenting National Aspiration and Knowledge) scheme has been revamped to foster culture of innovation among school children of class VI to class X. Ten Lakh ideas will be targeted from 5 lakh schools across the country in one year.

Student Startup NIDHI Award

Student Start-up NIDHI award aims to take forward student innovations in IEDC/NewGen IEDC to commercialization stage and accelerate the journey of idea to prototype by providing initial funding assistance. NSTEDB, DST has taken this initiative of helping startups with initial / ignition funding. It aims to support maximum 20 student start-ups in each year financially with Rs 10.00 lakh each.

Knowledge Involvement in Research Advancement through Nurturing (KIRAN)

This is an exclusive scheme for women with the mandate to bring gender parity in S&T through gender mainstreaming. The programme is aimed at providing opportunities to women scientists who had a break in their career primarily due to family responsibilities. The key components of KIRAN are:

1. Women Scientist Scheme-A (WOS-A): Aimed to provide opportunities to women scientists and technologists for pursuing research in basic or applied sciences in frontier areas of science and engineering.

2. Women Scientists Scheme-B (WOS-B): Focused on S&T solutions of challenges/issues at the grassroots level for social benefit.

3. Women Scientists Scheme-C (WOS-C): Create opportunity for self employment and/or also sustainable career for the women scientists. The scheme provides one year internship in the domain of Intellectual Property Rights (IPRs) which includes theory as well as hands-on training in law firms.

Early Career Research Award (ECRA)

SERB-Early Career Research Award scheme aims to provide quick research support to the young researchers who are in their early career for pursuing exciting and innovative research in frontier areas of science and engineering. It is a one-time award and carries a research grant up to Rs. 50 Lakhs (excluding overheads) for a period of three years. The research grant covers equipment, manpower, consumables, manpower, travel and contingency apart from overheads.

National Post Doctoral fellowship (NPDF)

The SERB-National Post Doctoral Fellowship (N-PDF) is aimed to identify motivated young researchers and provide them support for doing research in frontier areas of science and engineering. The fellows will work under a mentor, and it is hoped that this training will provide them a platform to develop as an independent researcher. It is also normally not availed at the same Department / institution where the candidates have earned their PhD/M.S/M.D degree. The fellowship is purely a temporary assignment, and is tenable initially for a period of 2 years. The upper age limit for the fellowship is 35 years at the time of the submission of application.

Overseas Visiting Doctoral Fellowship

The scheme has been instituted for enhancing the international mobility of Indian research students which has the potential to create a talented pool of globally trained manpower. The scheme provides an opportunity for research students to gain exposure and access to top class research facilities in academia and labs across the world. This scheme offers opportunities for up to 100 PhD students admitted in Indian institutions for gaining exposure and training in overseas universities or institutions of repute in areas of importance for the country for up to 12 months during their doctoral research.

SERB Distinguished Investigator Award (DIA)

This award has been initiated to recognize and reward Principal Investigators (PIs) of SERB and DST projects who have performed remarkably well. The scheme aims not only to reward the best PIs of completed projects but also to motivate the ongoing PIs to perform exceedingly well. This positive reinforcement strategy would effectively improve the productivity of the research undertaken and the overall efficiency of the research ecosystem. DIA is a one-time career award devised to specifically cater to the younger scientists who have not received any other prestigious awards or fellowships.

AWSAR (Augmenting Writing Skills for Articulating Research)

AWSAR has been initiated by the National Council of Science and Technology Communication (NCSTC), to encourage, empower and endow popular science writing among young PhD Scholars and Post-Doctoral Fellows during the course of their higher studies and research pursuits. As over 20,000 youth are awarded PhD in S&T every year in India, the scheme aims to tap this tremendous potential to popularize & communicate science and also to inculcate scientific temperament in the masses. One hundred best entries from PhD scholars are awarded in a year. Further, twenty entries are selected from articles submitted exclusively by Post-Doctoral Fellows relating to their line of research for monetary incentives, the highest of which can go up to Rs. 1 lakh.

Scheme for Young Scientists & Technologist (SYST)

The scheme is focused on young scientists & technologists who have adequate background and training in fields of science and technology and show inclination to undertake socially relevant action research projects. This is also to encourage academic institutions, national labs and other S&T institutions (including voluntary organizations) to develop societal projects involving young scientists & technologists.

DST-STI Policy Award

Policy Research Cell has initiated DST-STI Fellowships at post-doctoral level to generate a critical mass of policy researchers. This will provide an opportunity to develop the skills for young scientists and engineers who are interested in engagement with the STI policy domain and/or as STI policy researchers. This programme aims to attract and encourage top-quality researchers to work on the issues pertaining to STI policy and contribute their knowledge and analytical skills in the policy realm.

National Children's Science Congress

National Children's Science Congress is targeted to spread the concept of the method of science among the children with their project activities adopting the principle of learning through doing'. It is not only for the school going children but is also open for the children outside the formal boundary of schools, in the age group of 10 to 17 years (where 10 to 14 years is considered as junior group and 14 + to 17 years as senior group).

7.6.2 Role of SIDCO

SMALL INDUSTRIES DEVELOPMENT CORPORATION (SIDCO)

Need for Small Industries Development Corporation (SIDCO)

In many state governments, for the promotion of small scale industries, a separate corporation has been set up which is known as Small Industries Development Corporation. 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.

In short, they provide infrastructure facilities to small scale industries. Due to the assistance provided by SIDCO, many backward areas in most of the states have been developed. So, SIDCO has also been responsible in spreading the industrial activity throughout several states.

Objectives of SIDCO

The following are the main objectives of SIDCO

The main objective of SIDCO is to stimulate the growth of industries in the small scale sector

To provide infrastructure facilities like roads, drainage, electricity, water supply, etc is one of the primary objective of SIDCO.

To Promote industrial estates which will provide industrial sheds of different sizes with all basic infrastructure facilities.

To Provide technical assistance through training facilities to the entrepreneurs.

To Promote skilled labor through the setting up of industrial training institutes.

7.6.3 Role of NSIC

National Small Industries Corporation (NSIC) offers support and works for the growth and development of Micro, Small, and Medium Enterprises (MSMEs) nationwide. NSIC works under the Ministry of Micro, Small, and Medium Enterprises (MoMSME) for the promotion of these enterprises.

NSIC offers Credit support to MSMEs with the help of three major credit facilities:

Raw Material Assistance (RMA) against Bank Guarantee

Credit Facilitation through Bank

Bill Discounting

Banks/NBFCs Interest Rates under NSIC Scheme – 2022

NSIC offers interest rates to MSMEs under RMA against Bank Guarantee Scheme from 7.50% to 9.00% p.a.

With the objective to meet the credit needs of MSME units, the NSIC has signed an MOU (Memorandum of Understanding) with leading nationalized and private sector banks and non-banking financial institutions. Under this pivotal deal with the bank, NSIC enables MSME units to avail the credit support from the banks to successfully operate and manage their business venture.

The interest rates levied on MSME loan varies from bank to bank, banks typically charge floating interest rates – 7.50% – 9% p.a. Certain significant sectors play a crucial role in deciding the interest rates, including the credibility of the venture and present and future viability and stability.

Features & Benefits

Facilitates credit to MSMEs through public and private sector banks

Promotes the priority sector

Option to the enterprise to switch over from one bank to another

Mentoring in documentation process to MSMEs

Guidance at every step to MSMEs in obtaining the best interest rates

Facilitate and guide MSMEs in availing the credit

Handholding support to MSMEs

Types and categories

MSME Loan

Working capital loan

Term loan

Working capital loan: Under the working capital loan, a range of loans are disbursed to MSMEs to give impetus to their growth, these include:

Current Account with overdraft facility

Cash Credit facility

Bills Discounting

Short Term Unsecured Business Loans

Loans under the CGTMSE scheme

Guarantees

Letter of Credit

7.6.4 Role of IRCI

Industrial Reconstruction Corporation of India (IRCI): Function, Resources and Working!

The Industrial Reconstruction Corporation of India was established as a public limited company in April, 1971 under the control of Reserve Bank of India and the Central Government.

The basic objective of this corporation is to assist rehabilitation of sick industrial units or rehabilitation of units likely to face closure, but showing promise of viability. The down fall of the units may be due to frequent strikes, mismanagement, shortage of raw materials, general recession etc. Their closure will result in unemployment and dislocation of productive activities.

So, in order to protect them, the IRCI has been set up. This corporation aims at providing financial, technical or managerial assistance so that they can be put up again as viable units.

Functions:

While accomplishing its main objective, the corporation performs the following functions.

1. Restructuring of the management.

2. Providing technical and managerial guidance either through its own staff or by procuring the suitable personnel from the market.

3. Helping in getting assistance from other banks and financial institutions and Government agencies.

4. Restructuring the financial base of the assisted companies.

5. Finding out viable solutions to the labour problems.

6. Advising the management with regard to product mix and other allied matters.

Besides the corporation also makes a close follow up of the course of reconstruction.

Resources:

The corporation has an authorized capital of Rs. 25 crores out of which Rs. 10 crores have been issued to and subscribed by IDBI, IFCLICICI, Life Insurance Corporation of India, State Bank of India and the 14 nationalised banks. The Corporation has received Rs. 10 crores from Govt, of India and has raised Rs. 11 crores by issuing bonds to the public.

It is managed by the board of directors whose members shall not be less than 9 and more than 15. Three directors are appointed by IDBI. It has also constituted an executive committee to consider the grant of restructuring loans up to the extent of Rs 5 lakhs in any single case. The repayments period varies from 4 to 12 years.

7.6.5 Role of NIDC

The NIDC plans and formulates projects for setting up new Industries or for developing new lines of production. It undertakes establishment of such undertakings which in the opinion of the central government would contribute to the industrial development of the country.

The main objective of the corporation is promotion of industries rather than granting of finance. It builds up industrial schemes of its own or collaborates with the private industry. It can also render assistance for the modernisation of industries.

The corporation was set up with the authorized capital of Rs. 1 crore out of which Rs. 10 lakhs have been issued and paid up by the government which was increased to 50 lakhs by the end of March 1963. It can also borrow from the government. It is also empowered to issue shares and debentures to enlarge its financial base.

The NIDC has been started for providing assistance to cotton, jute, and sugar industries for modernisation. It has established a consultancy in private and public sector. In the year 1970 it rendered consultancy services worth Rs. 69 lakhs.

The services of the MIDC are being availed of by Indian and foreign entrepreneurs as well as by United Nations organisation. The management of the NIDC is entrusted to a board of directors consisting of 8 members including the chairman and a managing director. All the appointments are made by the central government.

7.6.6 Role of SIDBI

The SIDBI (Small Industries Development Bank of India) is a wholly-owned subsidiary of IDBI (Industrial Development Bank of India), established under the special Act of the Parliament 1988 which became operative from April 2, 1990.

SIDBI was made responsible for administering Small Industries Development Fund and National Equity Fund that were administered by IDBI before. SIDBI is the Primary Financial Institution for promoting, developing and financing MSME (Micro, Small and Medium Enterprise) sector. Besides focussing on the development of the Micro, Small and Medium Enterprise sector, SIDBI also promotes cleaner production and energy efficiency.

SIDBI helps MSMEs in acquiring the funds they require to grow, market, develop and commercialize their technologies and innovative products. The bank provides several schemes and also offers financial services and products for meeting the individual's requirement of various businesses.

Finance Facilities Offered by SIDBI

Small Industries Development Bank of India, offers the following facilities to its customers:

Direct Finance

SIDBI offers Working Capital Assistance, Term Loan Assistance, Foreign Currency Loan, Support against Receivables, equity support, Energy Saving scheme for the MSME sector, etc. under its various direct finance loan schemes.

Indirect Finance

SIDBI offers indirect assistance by providing Refinance to PLIs (Primary Lending Institutions), comprising of banks, State Level Financial Institutions, etc. with an extensive branch network across the country. The key objective of the refinancing scheme is to raise the resource position of Primary Lending Institutions that would ultimately enable the flow of credit to the MSME sector.

Micro Finance

Small Industries Development Bank of India offers microfinance to small businessmen and entrepreneurs for establishing their business.

Functions of SIDBI

Small Industries Development Bank of India refinances loans that are extended by the PLIs to the small-scale industrial units and also offers resources assistance to them.

It discounts and rediscounts bills.

It also helps in expanding marketing channels for the products of SSI (Small Scale Industries) sector both in the domestic as well as international markets.

It offers services like factoring, leasing etc. to the industrial concerns in the small-scale sector.

It promotes employment-oriented industries particularly in semi-urban areas for creating employment opportunities and thus checking the relocation of people to the urban areas.

It also initiates steps for modernisation and technological up-gradation of current units.

It also enables the timely flow of credit for working capital as well as term loans to Small Scale Industries in cooperation with commercial banks.

It also co-promotes state-level venture funds.

7.6.7 Role of SISI

The small industries service institutes (SISI’s) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are coordinate by the industrial management training division of the DC, SSI office (New Delhi). In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI has wide spectrum of technological, management and administrative tasks to perform.

Functions of SISI

1. To assist existing and prospective entrepreneurs through technical and managerial counseling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;

2. Conducting EDPs all over the country;

3. To advise the Central and State governments on policy matters relating to small industry development;

4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;

5. To provide market information to the SISI's;

6. To recommend SSI's for financial assistance from financial institutions;

7. To enlist entrepreneurs for partition in Government stores purchase programme;

8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.

9. Identify the potential for ancillary development through sub-contract exchanges;

10. Organize seminars, Workshops and Industries Clinics for the benefit of entrepreneurs.

The Small Industries Service Institutes have been generally organizing the following types of EDPs on specialized courses for different target groups like energy conservation, pollution control, Technology up-gradation, Quality improvement, Material handling, Management technique etc. as mentioned earlier.

7.6.8 Role of SIPCOT

SIPCOT - State Industries Promotion Corporation of Tamil Nadu Limited

Objectives

SIPCOT has rendered fruitful services to the state by identifying, developing, maintaining industrial areas in backward and most backward talukas of the State, which had potential to grow.

Establish, develop, maintain and manage industrial complexes, parks and growth centres at various places across the State of Tamil Nadu.

SIPCOT's role in assisting the industrialization in the State is not only quantitative but also qualitative.

To ensure a good impact with the available limited resources, SIPCOT has created Industrial Complexes and Parks, strategically located in Nineteen places and Twelve Districts, which occupy a place of pride in the State's industrial map.

Functions of SIPCOT

The Functions of State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) are]

Development of industrial complexes/parks/industrial estate in Nallamballi Road growth centres with basic infrastructure facilities

Establishing sector-specific Special Economic Zones (SEZs);

Implementation of Special infrastructure Projects;

7.7 ENTREPRENEURIAL GUIDANCE BUREAUS.

Its one of the pioneer institution thats involved in guiding and developing entrepreneurship in India Committed to Entrepreneurship education, training and research EDII provides innovativetechniques, competent faculty support, consultancy and quality teaching & training material.

The objective of this institution is to achieve sustainable development through enterprise ISEDs leading-edge is the identification of methodologies and processes that empower one to break out of existing mental models in order to identify new opportunities ISED's interest in linking research, policy, and action is realized through the programs of its Activity Centers

The EGB is considered an innovation steering committee. It's strategically positioned, and set up, to make fast and impactful decisions; meeting regularly to review, discuss, and ultimately fund or kill new growth initiatives. In the Entrepreneurial Operating Model, it governs how and when the Fast-track the Future unit can leverage the assets of the core organization and it has the authority to take crucial buy/build/partner decisions that may well determine the pace and direction of innovation.

7.8 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. Explain the role and functions of IFCI
2. Write a short note on SIDBI
3. List down the issues and challenges for Central level Development institutions
4. Explain any three institutional aids for entrepreneurship development
5. Explain the credit appraisal process in commercial banks

Short Answer Questions

1. Write a note on operational and promotional activities of development banks
2. List down the functions of IRBI
3. What are the objectives and functions of SIDBI
4. Write a short note on entrepreneurial guidance bureau
5. Write a short note on SIDCO

B. Multiple Choice Question

1 ____________is a wholly-owned subsidiary of IDBI (Industrial Development Bank of India)

a) The SIDBI (Small Industries Development Bank of India)

b) Development Banks

c) Co-operative Banks

d) Regional Rural Banks

2. ____________ is a financial institution that helps individuals, entities, or governments to raise capital and also provide financial consultancy services.

a) Investment Institutions

b) Development Banks

c) Co-operative Banks

d) Regional Rural Banks

3. The ___________was set up in July 1964, as a wholly-owned subsidiary of the Reserve Bank of India..

a) Industrial Development Bank of India (IDBI)

b) SIDBI

c) IDFC

d) IRBI

4. Government of India set up the ___________ under a special Act of the Parliament in October 1989 as wholly-owned subsidiary of the IDBI.

a) SIDBI

b) RRB

c) SIDCO

d) SSI

5. In many state governments, for the promotion of small scale industries, a separate corporation has been set up which is known as ________

a) SIDBI

b) RRB

c) SIDCO

d) SSI

Answers

1-a, 2-a, 3-a, 4-a, 5-c

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