Entrepreneurship Support System
Unit-2

UNIT 2

Contents

This chapter aims to:

- familiarise students/learners with the business environment by explaining terms used in the business world

Outcome:

On completion of this chapter, you will be able to:

- recognize the entrepreneurship ecosystem and relevance of various terms used in business

1.1 Entrepreneurship Ecosystem: An Introduction

To understand business, you need to recognise what an entrepreneurship ecosystem is, chiefly because businesses do not succeed independently and require a favourable environment. A business entity is influenced and impacted by socio-economic, environmental, technological, cultural, and political forces present in the relevant areas. Some of these forces would be positive to the success of the business, while many others may harm the business. In order to nurture and sustain a business unit towards growth and development, it is necessary to protect the business from adverse forces. At the same time, it is equally necessary to expose it to favourable forces. When we take a complete view of the business unit together with all the players that interact with them, including the customers, suppliers, service providers, resource providers, policy-regime, enabling institutions, we have an Entrepreneurship Ecosystem (EE). An EE comprises the following key elements:

- Human Capital – People, Knowledge, Skills
- Markets – Customers, Competition, Demand, Supply
- Resources - Finance, Technology
- Culture – Attitudes, Values, Customs, Social Norms, Practices
- Policy - Guidelines, Structures, Norms
- Support – Infrastructure, Advisory

The Entrepreneurship Ecosystem (EE) is the name given to the country's business environment or business culture. As mentioned above, essential requirements for a flourishing Entrepreneurship ecosystem include the availability of finance, support system, innovation, ease of doing business, and availability of guidance/mentorship. Globally, the Isenberg model of EE is considered acceptable. It contains six varied components of the ecosystem model. They are:

- accessible markets
- availability of finance
- conducive culture
- quality human capital
- progressive policy framework
- a range of institutional support[1].

The table below contains the requirements of a thriving ecosystem for MSMEs in India. The Reserve Bank of India recommended it in a 2018-19 study[2]. These pillars are an outcome of the long-term experience with MSME and exposure to the environment.

[1] Entrepreneurial ecosystem in India: Taking stock and looking ahead - ScienceDirect

Seven components of MSME ecosystem as suggested by RBI report:

Pillar	Description
Human Capital Development	Enabling entrepreneurship and skill development to build human capital for the sector
Knowledge Dissemination	Enabling one-stop information sources to resolve information asymmetry
Access to Finance including Insurance	Enabling timely access to credit and insurance products
Access to Technology	Enabling the development of emerging technology ecosystem
Common Facility Infrastructure	Enabling incubation, plug and play facilities in major clusters
Facilitating Access to Markets	Enabling improved access to markets, including digital marketing enablement
Policy Governance and Ease of Doing Business	Enabling responsive policy formulation

Global Entrepreneurship Monitor (GEM) is a consortium of national country teams and aims at survey-based research on entrepreneurship. GEM identifies nine components of a flourishing entrepreneurial ecosystem in a country. These components are:

a) entrepreneurial finance
b) government policies
c) government entrepreneurship programs
d) entrepreneurship education at school and post-school level
e) R and D transfer
f) commerce and legal infrastructure
g) internal market dynamics
h) physical infrastructure
i) cultural and social norms

[2] Reserve Bank of India - Reports (rbi.org.in)

These identified variables have been considered vital for the growth of EE in any country. GEM INDIA Consortium is fully dedicated to evaluating the country's entrepreneurship ecosystem and has been trying to involve other regional /state level leading institutions practicing entrepreneurship to broaden the base. We may note over here that the ecosystem's components may vary according to different research; nevertheless, the broad parametres remain the same.

In this unit 2, you will understand the various aspects of the entrepreneurial ecosystem and its components through varied chapters dealing with the MSME sector, planning, forms of organisations, selection of location, finances, supportive agencies, and significant information for starting a business in the country.

1.2 Role of Family in Entrepreneurship Ecosystem

After reading about the importance of external factors, you need to know the role of family that also may contribute to an entrepreneurship ecosystem as family is part of the culture of a country. Research studies have emphasised the importance of family in an entrepreneurial process. The cultural dimension is one of the key elements for the family background and entrepreneurial approach. The social and family culture among which an individual grows shapes his/her disposition or tenacity towards innovation, risk-taking ability, generating values, and thus creating a family belief that encourages entrepreneurial thinking and autonomy more than another. It is found from studies that sustaining behavior is often a consequence of different socio-cultural values that are taught and learned since youth, and this also applies to entrepreneurial behaviour. Hence, it is found out that if a place/state upholds a culture that encourages entrepreneurship, families belonging to that region will have a similar mindset, and that will nurture and shape up a child’s intention to be entrepreneurial more positively than any other region. Another viewpoint claims that social agencies like the family, and the school, have the task of creating an entrepreneurial-supportive environment that can encourage entrepreneurial activities in students, helping to grow an entrepreneurial culture. Entrepreneurship ecosystems require a supply of people willing and able to create and exploit opportunities, take risks and look to grow businesses. The family, schools, and society at large often contribute to that.

For the disadvantaged or marginal sections, where the society is not conducive and discourages people from being self-reliant, and hence an entrepreneur, the family may play a more significant role in providing both economic and emotional support to nurture an entrepreneur. Being in a marginal role in patriarchal societies, the women entrepreneurs often need this familial support to prosper.

Further, parental role model often influences entrepreneurial intention. In states like Gujarat, where family businesses thrive, children's entrepreneurial intention is also higher. Isenberg's definition of an entrepreneurial ecosystem mentions an environment where entrepreneurs have satisfactory access to the required human, financial, and professional resources. Also, that it functions with a system that is supportive. Keeping isenberg's description in mind, it can be said that family businesses contribute to most of the components of the entrepreneurship ecosystem within their own operations. Family businesses have a vested interest in providing the correct conditions for entrepreneurship. Family businesses exhibit Isenberg's components to be in play at the micro-level within their own individual organisations.

My understanding of the key features of an entrepreneurship ecosystem is:

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UNIT 2

Contents

Chapter II

MSME Sector

1. Definition of Micro, Small, and Medium Enterprise in India
2. Support and Facilities

This chapter aims to:

- enable you to comprehend the MSME sector and the support you receive from the government in starting and managing your business

Outcome:

On completion of this chapter, you will be able to:

- define micro, small and medium enterprises
- list the support and facilities available to you as a small entrepreneur

2.1 Definition of Micro, Small and Medium Enterprise in India

The above chapter sets the stage for your understanding of the entrepreneurial ecosystem. In this chapter, we will further discuss the MSME sector of the Indian economy. As per the MSME 2019-2020 Annual Report, Micro-sector has an estimated 630 lakh of enterprise strength, which employs 1076 lakh people, which is 97% of the total employment in the MSME sector. The small sector, with a strength of 3.31 lakh, and the Medium sector with 0.05 lakh enterprises, generate employment for 31.95 and 1.75 lakh persons respectively (Annual MSME report, 2019-20).

The previously named *Small Scale Industries* (SSI) is now called the MSME sector, and it is one of the highest contributors to India's GDP. It provides large employment to varied categories of the skilled and unskilled labour force of the country. It has the potential to provide more employment per unit of investment and, therefore, the government attaches great importance to the development of this sector. The number of units, the value of output, investment, and employment generated by the MSME sector have grown substantially since independence. This sector is less capital-consuming and more labour-intensive in nature. It is based both in rural and urban India, and the share remains (49-51%) between rural and urban areas (MSME report, 2019-2020). As per the information from the Directorate General of Commercial Intelligence and Statistics, MSME exports stand at 48 percent. Nearly half of India's export in 2018-19 came from MSME. These statistics reflect the vital role played by MSME in the country's GDP and industrial growth[3].

This sector is ideally suited to build on the strengths of our traditional skills and knowledge by infusion of technology, capital, and innovative marketing practices. The MSME sector inducts a great number of new businesses every year. More and more new businesses are coming up to deliver new innovative products, strategies, digital platforms, and growth. MSME sector is a growth-oriented sector. In a country like India, new businesses are emerging every day due to unemployment, conducive business ecosystem, interest in startups, greater awareness, availability of capital, and such other factors. It may be said that the outlook is positive, indeed promising, given certain safeguards. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods.

Micro Small and medium enterprises (MSMEs) are often called the driving force behind new innovations. Having realized the importance of the small-scale sector in the Indian economy, you are perhaps now curious to know how the Government defines the

[3] Nearly half of India's exports came from MSMEs in FY19, up from 7.5% in FY18 - The Financial Express

small-scale industry. After many reforms in the last six decades, the government of India brought about the MSME Act 2006, which categorized MSME as micro, small and medium enterprises. However, the recent development in this definition has changed the criteria for the measurement of an enterprise. In the latest definition, investment and turnover are the criteria as explained below. In this new definition, there is no difference between a manufacturing and a service enterprise. Both are measured by the same investment and turnover criteria.

The discussion is also illustrated in the table below.

The first category among the three is micro-enterprises. These are small retail, wholesale, or manufacturing units or small service rendering enterprises working in every corner of the country and providing products and services to the people. As per the new definition with effect from July 2020, a microenterprise is where the investment in plant and machinery or equipment does not exceed one crore rupees, and turnover does not exceed five crore rupees.

The second category is small enterprises 'where the investment in plant and machinery or equipment does not exceed ten crores and turnover does not exceed fifty core rupees.

Third, and the last category is medium enterprises '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.

Revised MSME Classification WEF 1st July 2020			
Composite Criteria: Investment and Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing and Services	Investment < Rs 1 cr and Turnover < Rs 5 cr	Investment < Rs 10 cr and Turnover < Rs 50 cr	Investment < Rs 50 cr and Turnover < Rs 250 cr

Choose the correct and most appropriate answer

1. Microenterprise

    a) is an enterprise with up to one crore of investment and up to five crores of turnover

    b) has the potential to provide more employment per unit of investment.

    c) cannot be a corporation

    d) all of the above

2. Small enterprises have an investment limit of rupees in machinery or equipment not exceeding

    a) Rs. 5 crore

    b) Rs. 10 crore

    c) Rs. 15 crore

    d) Rs. None

3. Medium enterprises have an investment limit of

    a) 25 crore

    b) 50 crore

    c) 100 crore

    d) None

2.2 Support and Facilities

The Government offers several support and facilities to the MSME sector to facilitate its growth. Various schemes, programmes, and facilities are being launched at the country level and separate policies at the state level. The national startup policy and startup policies in every state reflect the intention towards bolstering the growth of the startup ecosystem in the country. MSME is a focussed sector and has been highly prioritised since economic reforms. The ease of doing business in India has continuously improved in the last five years. The innovation index has also improved.

Looking into the existing and new provisions for MSMEs, the following can be discussed. These facilities such as, financial support, procurement, manufacturing support, export promotion, ease of entry, ease of taxation, government procurement, innovation awards, fund of funds, MUDRA Yojana, startup India, Stand-up India, Atmanirbhar Bharat, GST single taxation system, direct benefit transfer (DBT), ADHAAR based registration, PAN card and GST based easy provisions, short term, medium-term and long term funding, changed the definition of MSME. Let's discuss them in brief one by one.

De-reservation of items for the benefit of MSMEs

The reservation policy or exclusive production of certain goods by MSME has been followed since the 1960s. This policy had curtailed the sector's progress and introduction of new technologies in the country. Finally, in 2018 the government removed the last 20 items from this list. The move came in defence of the opening up of the economy since 1990, when the government changed the economy into a more liberal and global economy. It encourages greater investments, incorporates better technologies, brand building, and enhances competition in Indian and global markets for these products (Commerce and Industry Ministry).

Public procurement policy

This policy is an important addition to the micro and small enterprises (MSE) manufacturing and rendering services in India. The policy came into effect on 1st April 2019. It is based on core principles of competitiveness. According to the policy, every Central Ministry /Department / PSU shall set an annual target for 25% procurement from MSE Sector. The policy also adheres to sound procurement practices and execution of supplies in accordance with a fair, equitable, transparent, competitive, and cost-effective system.

The policy also includes the provision and stake of women and SC/ST enterprises from whom procurement will be done as well. Overall procurement goal of 25% has become mandatory, and every department needs to upload the requirement on the website. There is a list of 358 items for exclusive procurement from MSE. These provisions are showing positive results and helping entrepreneurs, small businesses to be more competitive and work harder to achieve more growth.

Export promotion

The recent developments to increase the export share include a) ease of procedures by the Govt., b) incentives for higher production of exports, c) preferential treatment in the market development fund, d) simplification of duty drawbacks, etc. A few of the schemes are discussed below, and the detailed discussion on this topic is available in the link given in the footnote[4].

The most recent addition to this list is the export promotion council. The MSMEs are widening their range of products and their market access and strength to meet demand both at the domestic and global levels. The MSME Export Promotion Council is a non-profit organization incorporated as a Section 8 company by the Ministry of Corporate Affairs. The Council will be working in close association with the Ministry to assist the MSME units in their Export efforts. The council works consistently for the development of SMEs from the manufacturing, service sector, and allied business sectors and integrates Micro, Small, and Medium Enterprises, Banks, Financial Institutions, Policymakers, Young & Women entrepreneurs, and Startups to establish and enhance contacts for better business growth and expansion. The council aims to be of top support to the MSME sector with a broader aim to make India a top global exporter.

Schemes like market assistance and export promotion remain the main focus, and other schemes include participation in international exhibitions, training programs for export packaging, marketing development assistance schemes for exporters, and national award for quality products. International Cooperation (IC) Scheme provides financial assistance on a reimbursement basis for airfare, space rent, freight charges, advertisement & publicity charges, and entry/registration fee on a reimbursement basis in case of participation in international exhibitions/trade fairs.[5]

MSME financing[6]

As discussed above, the MSME sector is now a priority sector, and new initiatives are being put in place to ensure its growth. The Prime Minister of India recently launched a 12-key initiative that helps in the growth, expansion, and facilitation of MSMEs across the country. The major five aspects covered by these 12 initiatives are access to credit, access to market, technology up-gradation, ease of doing business, and a sense of security for employees.

Coming to the financing aspect, the government has started a 59-minute loan portal. The loans up to 1 crore can be granted in-principle approval through this portal in just

[4] http://dcmsme.gov.in/policies/central/trade.htm?GXHC_gx_session_id_=6126172a1f9e8c80&
[5] 4. Marketing Promotion Schemes | Ministry of Micro, Small & Medium Enterprises (msme.gov.in)
[6] https://www.drishtiias.com/pdf/1598992883-support-and-outreach-initiative-for-msme-sector.pdf

59 minutes[7]. Also, the government will provide a 2% interest subvention/grant for all GST registered MSMEs on fresh or incremental loans. Increase in interest rebate from 3% to 5% for exporters who receive loans in the pre-shipment and post-shipment periods.

Now, looking into access to the market, the new initiatives include 25% instead of 20% production procurement by public sector companies from MSMEs. All public sector undertakings of the Union Government must now compulsorily be a part of Government e-Marketplace (GeM). They should also get all their vendors registered on GeM. The GeM is an online market platform to facilitate the procurement of goods and services by government departments, ministries, and other sections.

Udhyog Adhaar memorandum is a new initiative with a one-page registration form for new MSMEs to promote ease of doing business for MSMEs in India.

Another important initiative in this line is 'A Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE).' The major objective of this scheme is to promote innovation and rural entrepreneurship through rural Livelihood Business Incubator (LBI), Technology Business Incubator (TBI), and Fund of Funds for startup creation in the agro-based industry.

Credit guarantee fund scheme is to facilitate easy flow of credit, and guarantee cover for collateral-free credit extended to MSMEs.

There are various ways the governments at the centre and state are helping people to participate and be a part of this change. There is a great role for entrepreneurs now. There is every support available for new enterprises from start to end, or we can say every enterprise in India now goes through an incubation by different government organisations.

One Nation, One Tax - GST

Goods and service tax (GST) is an integrated system for taxation in the country. It is applicable country-wide and wipes out all the other existing taxes except a few. The earlier taxation system was expensive for both suppliers and consumers. The new system is fast and MSME friendly. It helps in easy tax filling and ensures decreased load of taxation, state-wide and country-wide.

Summary

Chapter two of this unit presents important information related to the MSME sector, its importance in economic growth, and its potential in enhancing economic power and

[7] Budget 2019 speech of Nirmala Sitharaman: Full text - NewsX

employment in the country. The chapter explains the definition, limits of investment and turnover, support and facilities in the form of export promotion, startup funds, etc., and provides details for selected MSME policies and programmes.

SAQ 2.2

My list of special features of MSME is as follows:

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UNIT 2

Contents

This chapter aims to:

- discuss the process and requirements of starting a business.

Outcome:

On completion of this chapter, you will be able to:

- understand various steps in planning a new enterprise
- identify various permissions and clearances required to be obtained
- recognise skills required for planning and setting up a new enterprise

3.1 Steps in Planning a New Enterprise

Having explained the policies monitoring the growth of the MSME sector in the earlier chapter, we now show you how to plan your new business. The process of planning involves the coordination of various resources at an appropriate time. For this purpose, you are required to follow several steps, which also involve Government formalities sequentially.

The overriding reason for anyone to think of establishing a micro-small enterprise (MSE) unit can be summarised in one word - OPPORTUNITY. If you can spot an opportunity to provide a product or service in a manner to generate sufficient surplus, you can create a new enterprise or venture.

Opportunities emerge out of ideas that you come across by observing the environment around you. This can generate ideas about products and services that make things easier for people and improve their quality of life.

The step-by-step process of starting a business, as mentioned here, will help you understand the major steps to be taken. However, just as the business tactics and trends change, rules and regulations also undergo regular changes. Nowadays, trading business and micro-business for retail, wholesale, and franchise models do not need many approvals and land plots. These businesses can be started anywhere in shops and small places. The steps given below are for somewhat establishing a manufacturing unit. However, the process or steps for opening a company, trade business, service, or agriculture-related business may differ. The major task is to understand your opportunity, work on a business plan, consider finances, look for customers and suppliers, understand the returns on investment, and look for this business timeline in the market. Assess the market strength, customer strength, location of the business, working capital. These are important for a business to establish and grow in the long term. The first and foremost step to initiate the process of planning is the identification of a suitable project.

Step 1: Project/Product Identification

"... Our best business missions are based on those ideas that often emerge out of our deepest personal motivation and interests."

-Warren Avis in "Take a Chance to Be First"

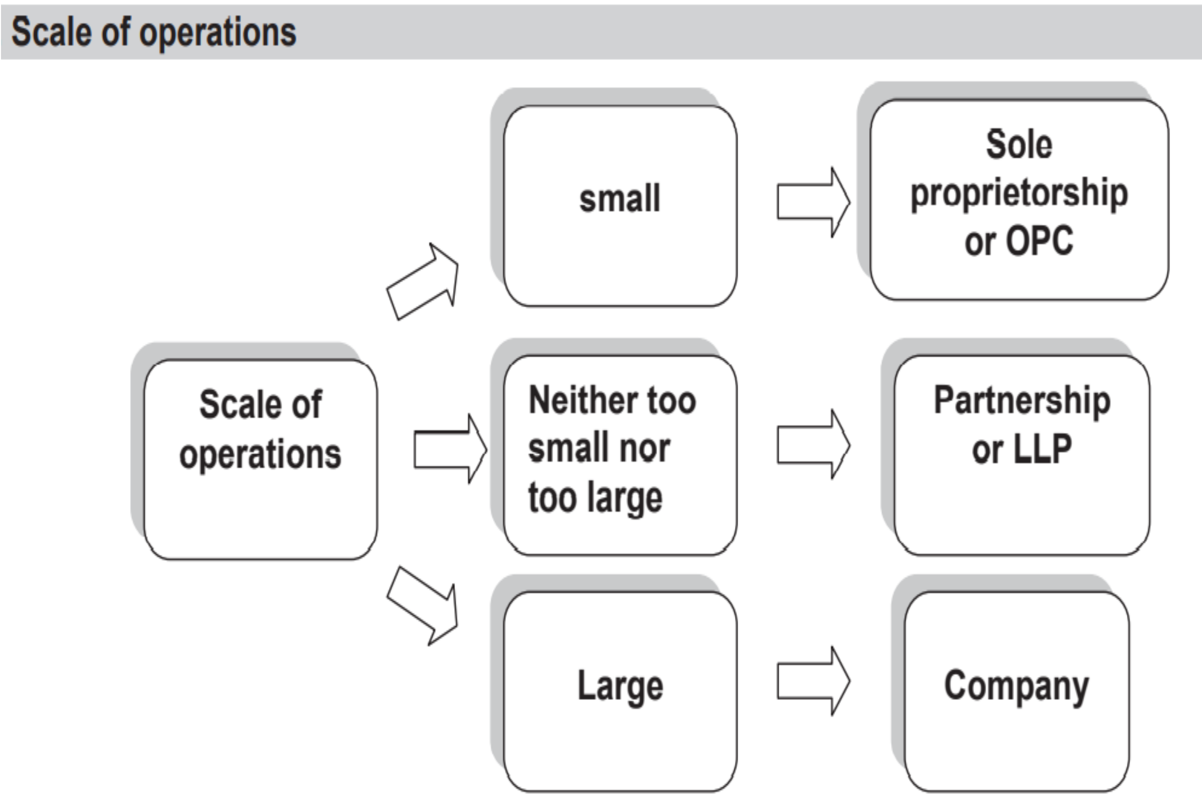
Identifying a suitable project is a crucial decision, as the ultimate success of your venture depends upon selecting the right business idea. It is, therefore, advisable not to take a hasty decision. We shall discuss this in detail in Unit 3. Ask yourself the following questions before selecting an idea:

- Does the idea fire up your motivation?

- Is it viable?
- Will you consult experts?
- How is the competition in this area?
- How can this venture be financed?
- Is it a sunrise industry?

Step 2: Constitution of the Business

Simultaneously, along with other activities, you should also decide on the constitution of your business viz. whether it should be a proprietorship, a partnership, or a private limited company. The decision would largely depend upon the size of the operations and the degree of risk involved. In the case of proprietorship, gains, and losses of the business rest with the proprietor. In the case of a partnership, all the partners are responsible for the gains as well as losses of the firm except minor partners who are exempted from bearing the losses. In the case of a private limited company, the members are liable for the gains and losses to the extent of their holding in the company, as the company is considered a separate legal entity.



Step 3: Prepare a Business Plan

You will also be required to assess the viability and feasibility of your project. For this purpose, you need to carry out a market survey and collect detailed information about your project. Unit 5 helps you in carrying out a market survey. You have to collect information on raw materials, machinery, equipment, etc. This exercise is called a feasibility study, which should answer three basic questions: (a) Can I produce the proposed goods or services? (Assessing your technical capabilities), (b) Can I sell my products or services? (Assessing the market potential and your ability to market). (c) Can I make a profit out of my business? (Assessing the economic viability of your business)

The answers to the above three questions presented in a documented form are called a Business Plan. Unit 6 helps you in preparing such a plan.

Step 4: Selection of Location

The location of a project is a very important factor. Ideally, the location should be decided based on proximity to the sources of raw materials, consumption centre, availability of infrastructure facilities, availability of necessary manpower in the surrounding areas, transportation facilities, and the availability of incentives. At times, some of these requirements are found to be in conflict with each other. A particular location may not fulfil all the requirements. In such an event, you have to strike a balance and arrive at a suitable decision without hampering the viability of the projects. Experience indicates that most of the entrepreneurs tend to give importance to the availability of financial incentives, ignoring other important factors guiding the selection of the location, rendering, at times, the project unviable in the long run. It is, therefore, suggested that your decision about the location should not be based only on the availability of incentives.

Step 5: Registration and permissions

The previous steps take you through business plan formulation, selection of location, and identification. For the successful execution of a business plan, registration is an important process that is now an easy online process. The government has provided facilities for new entrepreneurs to apply for registrations and permission in every state. It is now easy to start as well as close a business. Every business needs to register in compliance with the central and state-level procedures. These formalities would vary from one project to another, from place to place, and from time to time. It is, therefore, advisable to consult a successful entrepreneur from your locality or a chamber of commerce for guidance. There are various agencies at the district level that can be consulted - financing institutions, entrepreneurship development institutions, consulting firms, business chambers, successful entrepreneurs, NGOs, and many others.

Step 6: Arranging Finance for your Enterprise

Finance is one of the most critical ingredients of a business. After obtaining the above-mentioned process and criteria fulfilment, you should concentrate on the financial aspects of the business. The recent research findings show that the biggest cause of low entrepreneurial growth and low business intentions is caused by lack of finances. Finance and its availability are very crucial for opening or starting a business. The major source of finance for a small or micro-business is family, relatives, and friends. Finance is also sourced from banks, financial and non-financial institutions. Finance is also available through the new options of instant loans, non-banking financial institutions. To seek money from the bank, one has to apply for a term loan either to the financial institution or to a commercial bank, with a business plan including a market survey as well as all documentary evidence justifying your claim for the techno-economic feasibility of the project.

The new and emerging online processing of loans, disbursements, and low-interest rates have made loan seeking easy for new entrepreneur. The growth of financing branches of financial institutions has eliminated difficulties faced in the opening of new businesses. Mudra loans, Startup Funds, Mahila banks, self-help groups are new change makers. These are helping people at the grassroots level to open up for new business opportunities.

Step 7: Arrange Land/Shed or Premises

If you plan to locate your project in one of the industrial estates established by the concerned Government agency, you may apply either for a ready-built-up shed or a plot of land. If it is for a plot of land, depending upon the requirement of various facilities proposed, a building structure/plan may be prepared, and based on this, you may assess the requirement of land. The funding requirements needed for the acquisition of land should include legal documentation charges and land development charges, if any. The land should be free from any encumbrances and should be non-agricultural in case you are going for private land.

Step 8: Construct, or Rent a workplace

Once the plot is arranged, you can start with other activities. In case of allotment of a plot, you can start the construction work once the building plans have been approved. Similarly, depending upon the plant layout and the facilities proposed to be installed, you can decide upon the nature of construction and thereafter estimate the cost of the buildings. You can also rent the workplace.

Step 9: Get a Power connection

After the allotment of land/shed, you have to apply for power to the State Electricity Board as well as for water to the concerned authority.

Step 10: Procurement and Installation of Machinery & Equipment

Based on the manufacturing process, you will have to chalk out a list of the plant and machinery required by you for the project. Depending on the proposed installed capacity of the project, you should work out the number and type of machinery. In other words, you should balance the plant and machinery corresponding to the proposed installed capacity of the project, as all the financial projections are based on the installed capacity of the plant. In addition, you should also examine whether the machinery would be able to produce end products with the required quality specifications. In other words, you should ensure that the production facilities are in conformity with the production process and match the pre-determined process parameters to arrive at the requisite quality of the product. Further, you should also make sure that provision for certain other auxiliary equipment such as utility equipment and material handling facilities is made in the project. If these facilities are not envisaged right at the planning stage, it would be very difficult to provide for the same at a later date, resulting in a delay in the implementation of the project. The cost of the plant and machinery must be estimated correctly so that the project is not unduly burdened from the viewpoint of financial viability. Once you have chalked out the list of plants and machinery or equipment, you should begin to identify their supply sources. You need not always select the cheapest supplier. The sources of supply of plant and machinery can be selected on the basis of the input quality and quantity of the raw materials, output quality, and quantity of the end product, the requirement of spares, the pricing, the after-sales service, the delivery schedule, etc. While assessing the cost of the plant and machinery, VAT, transportation, etc., should be considered. In the case of imported machinery, the CIF (import price) value of the machine being imported, customs duty to be paid at the port of entry, clearing and forwarding charges, transportation, etc., should be considered. The cost of auxiliary equipment and material handling facilities, wherever required, should also be considered and included under the head of plant and machinery. In addition, the cost of foundation, erection, and electrification charges of the machine should be included. The cost of electrical installation and electrification is generally considered as part of the cost of the plant and machinery. For installation, a well-thought-out plant layout under the guidance of a technical expert should be prepared to avoid unnecessary material handling, running around, in addition to reducing energy costs.

Step 11: Purchase of Raw materials/Supplies

While machinery is under installation, orders for raw materials and consumables should be placed with predetermined suppliers. You should consider the lead time required for the supply of raw material.

Step 12 Recruiting manpower

Manpower planning is the process of putting the right people and the right number of people in the right place. Business needs manpower to kickstart the enterprise. You may need manpower if you start a manufacturing unit or a service enterprise that needs more people to process work.

Step 13: Carry out Trial Production

You should start trial production once the raw material is in place and the machinery is connected to power. The technical person from the machinery supplier should be available at the time of the trial production for advice if needed. You should also get your workers trained by this technical person, if needed, in operating and maintaining the machinery.

Step 14: Find the first Customer

Now, everything is in place, but your business still cannot start without a customer. Therefore, you have to find a customer for your product or service. Do not forget to take feedback from your first customer on your quality, price, packaging, service, etc., because your first customer is going to be the ambassador of your product/service.

Step 15: Kick-start your Enterprise

When you raise your first bill, your business can be considered as started. If necessary (particularly in the case of a service enterprise), you may arrange a formal inauguration of your enterprise. Here, while your potential customers would be among the prominent invitees, do not forget to invite your banker, government officials, and all those who have directly or indirectly supported you in setting up your enterprise.

Things are changing fast. The process of setting up a business has gone from offline to online mode. The procedures have been reduced in most cases to a single-window clearance system. The table given below highlights the major registrations and clearances required while starting a business.

3.2 Clearances Required for Setting Up an Enterprise

Sl. No.	Type of Clearance	Authority	Remarks
1	MSME Registration	Online Process/Udyog Aadhar	
2	Registration under Shops and Establishment Act	Local government, i.e., Panchayat/Municipality/Corporation	Required for service enterprises
3	Allotment of plots/shed in an industrial estate	State Industrial Development Corporation (SIDC)/	

5	NA permission	District Collector/DDO/concerned local authority	
	Construction of Building[8]		
6	Plan approval in industrial areas	State industrial development corporation/industries department	
7	Plan approval in other areas	The local authority, e.g., Nagar panchayat, Municipal corporation or urban Development Authority, etc.	
	Water Requirement	Concerned authority	
	In Industrial Estate	SIDC	
	River/Public Service	Department of Water Resources of the State Government	
10	Power requirement	State Electricity Board	
	Environmental Clearance		
11	No Objection Certificate	State Pollution Control Board or other concerned authority	Environment pollution Act, water & Air Pollution Acts
	Clearance for Specific Projects		
13	Food, Pharmaceutical & Cosmetic Projects	Food and Drugs Control Administration	
14	Boiler Act	Chief Inspector of Steam Boiler	Indian Boilers Act
15	Permission for Extraction of Minerals	Director, Geology & Mining	
	Clearances before going into Production		
16	Registration as	Chief Inspector, Factories	Factories Act

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	Factory		
17	Good and Service Tax Registration	Online/offline	

The details above clarify the procedure and steps to be followed while starting a business in India. It is the enthusiasm of a person which leads to new venture creation. By planning a startup, you can avail more benefits and government facilities. Here we have briefly introduced how you can initiate a startup and the primary reasons behind taking such a decision.

Summary

This chapter elaborates on the steps of planning to start a new Enterprise. The steps explain the opportunity identification, the business constitution, and preparing a business plan. After that, identification of location, registration of the company under specified Acts, arranging finance, purchase, procurement, identifying customers, etc., that enable one to kick-start the enterprise, have been discussed.

SAQ 3.1

Meet an entrepreneur around you. List out the different steps that he/she took up in his/her business while starting a business. Make a list below of the steps that you have found out:

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UNIT 2

Contents

This chapter aims to:

- assist you in deciding on a suitable form of organization for your enterprise

Outcome:

On completion of this chapter, you will be able to:

- learn about different forms of ownership
- plan the main features of each form of ownership
- identify the advantages and disadvantages of each form of business ownership
- understand the important considerations in the selection of an appropriate form of ownership structure.

Before conversing about various forms of ownership in a business, let's discuss what has recently changed in the company's act. The choice of a business organisation is driven by a combination of several factors such as the nature of the activity, capital requirement, degree of independence required, etc. There is no ready-made formula for selecting a particular type of business organisation. Tax consideration is also an extremely important factor. While playing the advisory role, Company Secretaries help clients decide the type of organisation one may want to opt for when considering starting a business.

4.1 Proprietorship

In small trading businesses, professions, and rendering of personal services, sole-proprietorship is predominant. Examples are Laundromats, beauty parlours, repair shops, consulting agencies, small retail stores, medicine stores, dentists, accounting concerns, boarding-house, restaurants, jobbing builders, painters, decorators, bakers, confectioners, tailoring shops, small scale shoe repairers and manufacturers, etc[9].

Proprietorship (also called sole ownership) is the oldest form of business ownership in India. In a proprietorship, the enterprise is owned and controlled by one person. He/she is the master of the show. He/she sows, reaps, and harvests the output of his/her effort. He/she manages the business entirely. If necessary, he/she may take the help of family members, relatives and employ some personnel[10].

As a sole proprietor, there is no legal distinction between you and your business. You can carry on sole proprietary business in any name and style. It can be set up easily and inexpensively as there is no formal requirement for incorporation. Proprietors enjoy all the profits, bear all the losses, and incur all the liabilities of the business. Your personal liability towards the business creditors and lenders is unlimited.

The majority of the micro-enterprises in India are sole proprietorships. They exist everywhere, and their major form of existence is retail shops, home-based businesses, micro-manufacturing units. They may also exist in the small sector as a certain business has high turnover, but their control is based on one person. As a sole proprietor, a new business needs to go through a small number of processes and documentation to start a business. However, it is necessary to get relevant permissions and ensure compliance with laws that are necessary for the type of business you have selected.

[9] FINAL_FULL_BOOK_of_EP_SBEC_2018.pdf (icsi.edu)
[10] bba-301 (ddegjust.ac.in)

Main features[11]

- **One Man Ownership**: In a proprietorship, only one man is the owner of the enterprise.

- **No Separate Business Entity**: No distinction is made between the business concern and the proprietor. Both are one and the same.

- **No Separation between Ownership and Management**: In a proprietorship, management rests with you. You are also the manager.

- **Unlimited Liability**: Unlimited liability means that in case the enterprise incurs losses, your private property can also be utilized or attached for meeting business obligations to outside parties.

- **All Profits or Losses to the Proprietor**: Being the sole owner of the enterprise, you enjoy all the profits earned and bear the full brunt of all losses incurred by the enterprise.

- **Income Tax** Calculation: In India, a sole proprietorship business is not taxed as a different legal entity. Rather, the business owners file their business taxes as parts of their individual tax returns. However, the business income of a sole proprietor is added to his individual income.

Advantages

1. **Simple Form of Organisation**: Proprietorship is the simplest form of organisation. You can start your enterprise after obtaining the necessary licenses and permits. There is no need to go through legal formalities. For starting a small enterprise, no formal registration is statutorily needed.

2. **Owner's Freedom to Make Decisions**: As an owner, the proprietor, you are free to make all decisions and reap all the fruits of your labour.

3. **Tax Advantage**: Compared to other ownership forms, the proprietorship form of ownership enjoys certain tax advantages. For example, as a proprietor, your income is taxed only once, while corporate income is, on occasion, taxed twice. Thus there is double taxation.

4. **Easy Dissolution**: In the proprietorship business, you are all in all. As there are no co-owners or partners, there is no scope for difference of opinion in case you want to dissolve the business. It is due to the easy formation and dissolution that proprietorship is often used to test business ideas.

[11] COMMERCE FORM FOUR STUDY NOTES-TOPIC 3: BUSINESS UNITS - Darasa Letu

Disadvantages

1. **Limited Resources**: As a proprietor, you will have limited resources at your command. You will have to mainly rely on your funds and savings and, to a limited extent, borrowings from your relatives and friends and some loans from the financial institution and banks. This, in turn, deters the expansion and development of your enterprise.

2. **Limited Ability**: Proprietorship is characterized as a one-man show. You may be an expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Thus, due to the lack of adequate and relevant knowledge, the decisions taken by you may be imbalanced.

3. **Unlimited Liability**: Proprietorship is characterized by unlimited liability also. It means that in case of loss, your private property will also be attached to clear the business obligations. Hence, you may avoid taking the risk.

4.2 Partnership

The sole proprietorship suffers from the problems of limited financial resources and competency/skill shortfall because a single individual owns it. The risk inherent in any business is also borne by a single individual.

Partnership seeks to overcome the above limitation of sole proprietorship because it brings together multiple owners for a single business. Typically, two or more persons come together to set up and/or run a business because one person does not have (or does not wish to) enough money for the required investment, or does not have all knowledge (he may be a technologist but not exposed to marketing) or time to run the business or does not want to face full consequences of business failure single-handedly. Obviously, it is colleagues, associates, friends, relatives who come together and form a partnership. Trust and understanding among partners are critical, and sometimes things go wrong for want of this. A husband and wife, together, can set up a partnership business. It is not necessary that one is a partner in business from the beginning. One may enter or exit at any point. Indian Partnership Act, 1932 describes the partnership as follows.

“The relation between persons who have agreed to share the profits of a business carried out by all or any of them acting for all.”

There are three types of partnership in vogue.

- General partnership
- Limited partnership
- Limited liability partnership (LLP)

General partnership:

General partnership, while the firm may have its trade name, logo, bank account, etc. is not a separate legal entity. All partners may participate in the conduct of the business or some may do so. The basis of the partnership is partnership deed or agreement. While, it is not mandatory to have a written agreement, such argument is a common practice. Its typical contents are:

1. Name of the firm
2. Nature of business
3. Names of partners
4. Place of business
5. Amount of capital to be contributed by each partner
6. The profit-sharing ratio among the partners
7. Loans and advances from the partners and the rate of interest thereon
8. Withdrawal allowed to the partners and the rate of interest thereon
9. Amount of salary and commission, if any, payable to the partners
10. Duties, powers, and obligations of partners
11. Maintenance of accounts and arrangement for their audit
12. Mode of valuation of goodwill in the event of admission, retirement, and death of a partner
13. Settlement of accounts in the case of dissolution of the firm
14. Arbitration in case of disputes among the partners
15. Arrangements in case a partner becomes insolvent

A major feature of a general partnership is "joint and several" liability, which means the personal liability of individual partners is unlimited. Let us say a partner, based on powers held by him, commits the partnership firm to a bad, loss-making contract. The firm is liable to fulfill the contract, and if its resources are not enough to fulfill it, other partners must bring in personal resources to face the consequences of non-performance of a contract. Let us take another example. There are five partners, and the share in the profit of partner "A" is 5% because his contribution to the firm's capital is 5%. The firm goes bankrupt and owes Rs.10 lacs to creditors. The firm assets are nil; the personal assets of partners other than "A" are Rs.3 lacs. Evidently, there is a shortfall of Rs.7 lacs for meeting creditors' dues. The personal assets of "A" are Rs.8 lacs. Under the law, all personal assets of "A" will be utilized to meet dues of Rs.7 lacs because his liability is "joint and several."

The general partnership stands dissolved based on the mechanism provided under the partnership deed or in the event of the death of a partner.

Limited Partnership:

This overcomes the “joint and several” liability disadvantages of general partnership partially. Under a limited partnership, one or more general partners actively manage the business and whose personal assets are liable to be utilized to meet the business debt if the need arises. On the other hand, there are some limited partners who are not actively involved in the running of the business, and whose liability for meeting business debt is limited to the financial contribution made by them to the business. In other words, their personal assets are safe.

The limited liability requires registration and is a separate legal entity, unlike a general partnership.

This type of partnership is particularly suitable for short term projects, e.g., film or real estate. The film producer may become the general partners; financiers, directors, and distributors may work as limited partners. The developer might become the general partner for a real estate project, while landowners, financiers, architects/engineers, and marketing agencies may become limited partners.

Limited Liability Partnership (LLP):

This came into force vide the Limited Liability Partnership Act, 2008. It blends the concept of limited liability of shareholders/promoters, as in a company, with the advantages of a partnership. While there must be a minimum of two partners, there is no ceiling on the maximum number of partners. LLP must be a separate legal entity. All partners have to be Indian citizens. Unlike a general and limited partnership, each partner in LLP is protected; his liability on account of LLP is limited to his financial contribution to LLP; his personal assets are not to be liquidated to meet LLP business debt. All or some partners may be actively involved in the running of the business. Unlike companies, there is no minimum capital requirement to register LLP. Likewise, an audit is not mandatory unless LLP capital/turnover exceed specified limits LLP is ideal for operating professional firms, say, chartered accountants, lawyers, architects, doctors, because partners in such firms wish to focus on professional work, avoid liability-related risk and such firms are unlikely to incur a large external debt.

Partnership Deed[12]

By now, you have learned that a partnership is an agreement between persons to carry on a business. The agreement entered into among partners may either be oral or written. But it is always desirable to have a written agreement so as to avoid misunderstandings and unnecessary litigations in the future. When the agreement is in a written form, it is called ‘Partnership Deed.’ It must be duly signed by the partners,

[12] bba-301 (ddegjust.ac.in)

stamped, and registered. Any alteration in the partnership deed can be made with the mutual consent of all the partners.

4.3 Registration of the Firm[13]

Essentially, companies could be either private limited or public limited. Public limited companies could be unlisted or listed. Each entity must sit down and carefully consider all the advantages and disadvantages of each type of entity before choosing one of the forms of business entity suited best to the nature and size of the business that the entrepreneur/business owner desires to undertake. A business enterprise can be owned and organized in several forms. Each form of organization has its own merits and demerits.

One Person Company

The Companies Act, 2013 provides for the formation of one-person companies. Typically, companies are private or public. Both require a minimum number of members, directors, minimum capital, considerable registration and recurring compliance formalities. There are individuals who wish to avoid these features of private/public limited company but secure the company's main advantage – the liability of the member/director is limited to his financial contribution to the company and does not extend to his personal assets. In other words, he wishes to become the sole proprietor with limited liability. One Person Company (OPC) is the solution. There are two restrictions on OPC. First, the members (sole) must be an Indian citizens. Secondly, suppose OPC becomes large (paid-up capital exceeding Rs.50 lacs or the average annual turnover of last three years exceeding Rs.2 crores). In that case, it must mandatorily graduate to a private or public limited company. Non-banking financial investment and related business are not open to OPC's. The angel investors/venture funds/banks are reluctant to invest in a sole proprietorship. OPC form helps. OPC, formality-wise, is easy to incorporate, and compliance requirement is low. Most importantly, there is just one owner, and so decision-making/management is uncomplicated. Its existence is perpetual if the one person appoints a nominee because the nominee takes over in the event of one person's death.

You have seen above that in both-proprietorship and partnership-forms of ownership, resources and the life of the organization are limited, and liabilities are unlimited. Given such a situation, a developing industrial world needs a legal form of ownership that would provide limited liability for the owners and perpetual life for the business. This is answered through the company form of organization. Given below is the meaning of a company, its main features, advantages, and disadvantages.

[13] FINAL_FULL_BOOK_of_EP_SBEC_2018.pdf (icsi.edu)

4.4 Company

In brief, a company can be defined as an artificial (legal) person with an independent legal entity. The Companies Act, 2013 highlights three basic types of companies that may be registered under the Act are: (a) Private Companies; (b) Public Companies; and (c) One Person Company (to be formed as a Private Limited Company)

Main features

1. **Artificial Legal Person**: A company is an artificial person created by law. Though it has no body, no conscience, it still exists as a person. Like a person, it can enter into contracts in its own name and likewise may sue and be sued in its own name.

2. **Separate Legal Entity**: A company has a distinct entity separate from its members or shareholders. Therefore, a shareholder of the company can enter into a contract with the company. He/she can sue the company and be sued by the company.

3. **Common Seal**: Being an artificial person, a company cannot sign documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers relating to the company's transactions makes them binding on the company[14].

4. **Perpetual Existence**: Unlike a partnership, the existence of a company is not affected by the death, lunacy, insolvency, or retirement of its members or directors. This is because the company enjoys a separate legal existence from that of its members. It is said, "Members may come, members may go, but the company goes on forever." It is created by law and is dissolved by the law itself[15].

5. **Limited Liability**: The liability of the members of a company is normally limited to the number of shares held or guarantee given by them.

6. **Transferability of Shares**: A member of a public limited company can sell his/her shares to others without the consent of other shareholders. But he/she has to follow the procedures laid down in the companies act for transferring the shares. However, there are restrictions on transferring shares in the case of a private limited company.

7. **Separation of Ownership from Management**: The shareholders, i.e., owners being scattered all over the country, give a right to the directors to manage the affairs of the company. The directors are the representatives of the shareholders. Thus, ownership is separated from management.

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[14] COMPANY: Meaning and Features (beingmesmerised.com)
[15] BB0016- SBM - [DOC Document] (vdocuments.mx)

8. **Number of Members**: In the case of a public limited company, the minimum number is seven, but there is no maximum limit. However, the minimum number is two for a private limited company, and the maximum number is fifty.

Private and Public Company

Private Company: Under section 2(68) of the Companies Act, 2013, a private company is defined as having a minimum paid-up share capital as may be prescribed. A private company does not transfer shares and prevents the public at large from subscribing to them. A private company may issue debentures to any number of persons with the condition that an invitation to the public for the subscription of debentures is prohibited.

Public Company: Under section 3(i) (a) of the Companies Act, a public company is a company that seven or more people can form for any lawful purpose. In principle, any member of the public who is willing to pay the price may acquire shares in or debentures of it. The securities of a public company can be quoted on a stock exchange. The number of members is not limited to two hundred persons. By implication, a public company is one that places no restrictions by its Articles of Association on the transfer of shares or the maximum number of members and can invite the public to subscribe for its shares and debentures and public deposits[16].

The distinctions between a private company and a public company have been detailed out in a more orderly manner in Exhibit given below.

Exhibit

The distinction between a Private Company and a Public Company with regard to Company Act 2013[17]

Basic of Difference	Private Company	Public Company
1. Members	The minimum number of members is two, and the maximum is two hundred	The minimum number of members is seven, and there is no maximum limit
2. Directors	The minimum number of directors is two	The minimum number of directors is three

[16] FINAL_FULL_BOOK_of_EP_SBEC_2018.pdf (icsi.edu)
[17] BOBC-hons-updated.pdf (rccmindore.com)

3. Prospectus	Filing of the prospectus or a statement 'in lieu of prospectus with the Registrar of companies is not needed before the company can allot shares	Filing of the prospectus or a statement 'in lieu of prospectus with the Registrar of companies is necessary
4. Documents	Two members need to sign the Memorandum and Articles of Association.	Seven members need to sign the documents.
5. Allotment of Shares	It may commence allotment of shares before the minimum subscription has been applied for	It cannot commence allotment of shares unless the minimum subscription has been applied for
6.Commencement of Business	It can commence business soon after incorporation	It cannot commence business without obtaining a certificate to that effect.
7. Transfer of Shares	Transfer of shares is restricted by the articles	Shares are freely transferable

Advantages of a Public Limited Company[18]

1. **Limited Liability**: Unless and otherwise stated, the liability of shareholders is limited to the face value of shares held by them or the guarantee given by them.

2. **Perpetual Existence**: Death, insanity, insolvency of shareholders or directors do not affect the company's existence. A company has a separate legal entity with perpetual succession.

3. **Professional Management**: In a public company, the management is in the hands of directors elected by the shareholders and well-experienced persons. In order to manage day-to-day activities, salaried professional managers are appointed. Thus, the company's business offers professional management.

[18] Advantages and Disadvantages of a Company Form of Business – Explained! (yourarticlelibrary.com)

4. **Expansion Potential**: As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally use their reserves for expansion purposes.

5. **Transferability of Shares**: If the shareholders of a company are displeased with the progress of the business, they can sell their shares at any time. During all this change of ownership, the business continues to operate.

6. **Diffusion of Risk**: As the membership is very large, the whole business risk is divided among several members of the company. This is an advantage, particularly for small investors.

Disadvantages of a Public Limited Company

1. **Lack of Secrecy**: As per the legal provisions, a company has to make various statements available to the Registrar of the Companies, Financial Institutions; the secrecy of business thus comes down. It is further reduced when the company provides its annual report to the shareholders as the competitors also find out the details of all financial data[19].

2. **Legal Restrictions**: Compared to proprietorship and partnership, a company has to comply with more legal requirements. It claims considerable time and effort.

The other forms of organisation include non-profit organisations as well as co-operatives. Let's explain both of them in brief.

4.5 Non-Profit Organisations (NPO)

Non-profit organisation majorly emerges out of societal needs. These organisations come into existence to address a social cause. Their finance is based on donations and government funding. These organisations are gaining momentum throughout the world. So, it can be said that an NPO is based on a social cause and works on the social cause with the help of a team of volunteers as well as employees. The organisation is not profit-oriented. Every non-profit organisation has a basic structure, and it is the core of it. Non-Profit Organisations consist of a board of directors and executive, managerial and administrative positions.

These people are working mostly voluntarily. They work for the basic cause of the organisation. Appoint people, do fundraising, gather volunteers, and attend meetings throughout the year to discuss any immediate concerns, upcoming events, and changes in programme or staff. The three important positions held by the Board of Directors are Chairperson, Vice President, and Treasurer and Secretary. Executive-

[19] Advantages and Disadvantages of a Company Form of Business – Explained! (yourarticlelibrary.com)

level staff is responsible for day-to-day dealing and activities. They also work under the Board of Directors.

4.6 Co-operatives

Co-operatives are people-centered enterprises. They are owned, measured, and run by and for their members to attain their mutual economic, social, and cultural needs and aspirations. With these intentions, co-operatives are formed by people with similar goals and plans to help and provide benefit to every member of the organisation. It is a voluntary association of usually economically weaker sections of society. These people come together to achieve a common goal. In a credit cooperative society, the maximum limit of members is 100 while the minimum number is 10. However, for a non-credit co-operative, the number of members are not limited[20].

H.C. Calvert defines a cooperative organization as follows:

"*A co-operative society is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interests of themselves*."

There are some important features related to a co-operative. The motto of the organisation or society is to work for the greater benefit of the members and provide services. It finances from the member of the co-operative and can also obtain loans. Co-operatives may also issue shares to raise funds. It works as a limited liability company that any uncertainty or failure will impact only the share one holds. Co-operative follow democratic management and within which the managing committee manages the affairs of the co-operative society. For example, in a company, people holding 5 shares and 500 shares have 5 and 500 votes respectively. But in a co-operative both have just one vote (equal). The organisations are government (state) controlled to safeguard the greater interest of the members attached with such co-operatives.

The managing committee usually consists of the following office-bearers:

1. President

2. Vice-president.

3. Secretary

4. Joint Secretary, if any

5. Treasurer.

Every co-operative must comply with the fundamental features as given below.

[20] How will you distinguish between a Cooperative Society and a Joint Stock Company? (preservearticles.com)

Every co-operative must be registered under the Co-operative Societies Act, 1912, or under a State Co-operative Societies Act. With registration, the existing society becomes a body corporate, having a separate legal entity of its own, with perpetual succession and limited liability of its members.

A co-operative is a voluntary affair, and people cannot be discriminated against on any basis while they join. Any person sharing a common goal and purpose can join the organisation to fulfil and promote in his individual capacity. No force can be used on a person to stay as a member of the organisation. Entry and exit are open, but no member can transfer his share to another person. The principle of 'one man one vote' governs the co-operative society.

4.7 Selection of an Appropriate Form of Ownership Structure[21]

You have understood that the various forms of business ownership have their relative advantages and disadvantages. Thus, none of them is ideal in all respects. In a way, selecting one best form of business ownership is like looking for a shirt that may fit everybody in the family. The best form of ownership is one, which helps an entrepreneur attain the business objectives decided upon by you. While selecting the best form of ownership structure, you should keep the following in mind:

1. **Nature of Business**: The selection of an appropriate form of business ownership depends upon, to a great extent, the nature of the proposed business itself. For example, a business that requires personal attention and skill for its success is usually organised as a proprietary concern. Businesses requiring pooling of funds and skills are generally run as partnership firms. For businesses involved in large-scale production, the company form of business ownership is preferred.

2. **Area of Operation**: The area of operation also has an important bearing on the selection of the form of ownership. If the operations of a business are confined to an area or locality only, the appropriate form of ownership will be proprietorship. But, in case the area of operation is widespread, catering to national and international markets, the suitable form of business ownership may be the company.

3. **Degree of Control**: Direct control over business operations is required in a proprietorship or partnership concern. If direct control over business operations is not needed, the best form of business ownership will be a company.

4. **Capital Requirement**: The capital required for the business also determines the selection of business ownership. If a business requires a small amount of capital, the best form of ownership may be either proprietorship or

[21] Choosing an Appropriate Form of Business Ownership (yourarticlelibrary.com)

partnership. In case of huge capital requirements, the company form of ownership will be the best.

5. **The Extent of Risk and Liability**: Business involves risk. If an entrepreneur is ready and capable of bearing the risk involved in the business, he/she can organise his/her business as a proprietorship or partnership concern. But if the entrepreneur is hesitant to bear the risk involved in the business, he/she can go for a company where individual risk is limited.

6. **Duration of Business**: If a business is proposed for a definite duration and on an ad-hoc basis, proprietorship or partnership is better business ownership. The reason is that it is easy to form and dissolve. In case the business is to be run on a permanent basis, it can be organised as a company or a co-operative society because these enjoy perpetual succession.

7. **Government Regulations**: If an entrepreneur does not like much government involvement in his/her business, he/she can select proprietorship or partnership as the form of business ownership instead of a company or co-operative society where more government rules and regulations apply.

Summary

The chapter gives an overview of various types and forms of firms and their respective advantages and disadvantages. The chapter in detail talks about Proprietorship, Partnership, Company, Non-profit Organisations (NPO), and Co-operatives. These overviews will help in selecting an appropriate form of ownership.

SAQ 4.1

1. Partnership can be formed with minimum __________________ persons.
2. For a Pvt. Ltd. Co. maximum number of members can be _________________.
3. Pvt. Ltd. Co. is registered with ____.
4. For a proprietorship maximum number of persons required is ______________.
5. In a partnership the liability of a partner will be __________________________.

UNIT 2

Contents

This chapter aims to:

- help you in selecting the right location/site for your enterprise

Outcome:

On completion of this chapter, you will be able to:

- understand the reasons for locating the right place for your enterprise
- recognize and adopt the criteria for selecting a location/site for your enterprise
- identify the sources of information on the appropriateness of location/site for your enterprise
- distinguish the common errors that you commit in determining the location for your enterprise

5.1 Search for Location: Reasons

There are several reasons because of which you may have to consider locations other than your hometown or a chosen place. These could be:

* High price of land

* You may want to set up a chemical/paper/cement/firecracker or such other industry, which requires water and involves air pollution or safety hazards. In such a case, given the regulations, you may be prohibited from setting up the industry in the vicinity of your city.

* Financial incentives like a subsidy, sales tax exemption, etc., may influence your decision to set up industries in less developed areas.

* There could be problems like non-availability of ready sheds, frequent electricity disruptions, militant trade unions, or civic disturbances in your city, and so you, in all possibility, would consider other locations.

It is not enough to merely choose a location. You have to select a site that suits your needs.

5.2 Checklist for Location and Site Selection

You should identify just two or three locations and then select a few possible sites at each of these locations. Next, you have to compare these locations/sites in relation to your requirements. Do you have any idea how you would do that? The checklist below provides six considerations for comparison. It also provides a checklist of points for each of these considerations.

A. Basic Considerations

1. Location (city/town/village)
2. Population
3. Nearest large city (name and distance)
4. Connections to major cities (rail, road, air distance, frequency)
5. Climate (minimum/maximum temperature, humidity, minimum/maximum rainfall)
6. Distance from potential markets
7. Distance from major raw material sources and significance of enterprise proximity to such sources

8. Distance and connection to relevant ports (in case of export/import oriented enterprises)

9. Availability of manpower with required skills and prevailing wage rates

10. Overall industrial relations (strike/lockout/dispute) in the area

11. Law and order position in the area

12. Level of industrial development in the area and anticipated development

13. Composition of industrial development (in terms of types of industry and size/health of existing enterprises)

14. Proposed enterprise and govt. preference for types of industries at the proposed location

15. Availability of desired (in terms of size and other factors) built-up factory shed at the location

B. Physical Infrastructure Position

1. Land: Availability and price

2. Existence of an organized industrial estate

3. Water Supply: Source (river, canal, tube well), distance, quality (PH, hardness), rate, common storage facility, operating authority (Public Works Department, Estate-Corporation, Municipality)

4. Power supply: Nearest substation, feeder type (industrial/rural) availability, quality of power, etc.

5. Effluent treatment and disposal (if relevant): Disposal point (land, sea, river), arrangement for treatment (individual, common), drainage arrangement for conveying the effluent (open, underground), treatment and conveyance charges

6. Approach road/internal roads

7. Street lighting

8. Responsibility for maintaining roads, drainage, and street lighting (single or multiple agencies)

9. Annual maintenance charges

C. Commercial Infrastructure Position

1. Postal facility
2. Bank facility
3. Transport facility
4. Weighbridge
5. Courier
6. Photocopying
7. Warehousing
8. Proximity to offices of law enforcing agencies (tax, labour laws, pollution control, etc.)
9. Proximity to offices of industry assisting agencies (State Financial corporation, industrial infrastructure corporation, raw material/marketing corporation, district Industries Centre which sanctions and disburses financial incentives)
10. Building/electrical/fabrication contractor facilities
11. Shops for building material, spare parts, and such other things
12. Motor-rewinding, painting, gas supply, and such other industrial services
13. Technical, educational facility (e.g., industrial training institute, polytechnic)
14. Professional resource position (management/industrial consultants, financial/legal advisers, management/productivity associations).

D. Social Infrastructure Position

1. Housing: Availability, quality, price (ownership and rent), public housing (actual and planned housing by State Housing Board, infrastructure corporation or such other agencies)
2. Education: Primary, secondary, and university education facilities (quality, number of seats, ease of admission, medium of instruction)
3. Health: Dispensary, hospitals
4. Recreational facility: Cinema, restaurant, library, parks, etc
5. Business hotel accommodation

E. Financial Incentive Position

1. Investment subsidy (central govt. /state govt.)
2. Income tax concession
3. Promoter's contribution (margin) and interest rate policy followed by banks/ financial institutions

F. Site-specific Considerations

1. Location specifications such as a vantage, highway, frontage
2. Whether the proposed site is a part of an organized industrial estate
3. Direction of town growth with reference to the site
4. Non-agricultural status of the site
5. Site shape (regular/irregular)
6. Immediate proximity to the railway line, national highway, state highway *
7. Overhead telephone or power lines or underground water/drainage/gas lines passing through the site *
8. Access to national/state highway or other roads provided by the state
9. Wind direction in relation to the site #
10. Soil type

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* This may imply leaving out some portions of a plot for building purposes.

\# In India, normal wind direction, except during winter, is north-south. If there is a dense population concentration in the south, a factory involving gas/smell/emission may cause a problem

\+ Loose soil may increase construction costs.

5.3 Information Sources

You need information on locations/sites. The sources of information are:

1. Industrial estate officials
2. Local authority officials
3. Revenue department officials

4. State electricity Board
5. Public Works department
6. Office bearers of local industry associations
7. Knowledgeable persons/businessmen residing at the location
8. Officials in banks/State Financial corporation
9. Officials in District Industries Centre
10. Landowners, residents of nearby villages, towns, local Rotarians, etc.

The government, you will notice, is a vast storehouse of information. The revenue department officials have tremendous first-hand knowledge of an area. Because he has escorted such prospective entrepreneurs as you before, the estate agent is familiar with the right questions and, in all probability, knows the answers. Existing entrepreneurs gather knowledge guided by their experiences. They view things from various viewpoints. So, their feedback could prove very valuable.

5.4 Location / Site Selection: Common Errors

Location plays an important role in starting a business. Different locations are suitable for different types of businesses. Urban, rural and semi-urban locations have different features, and every location does not qualify for every industry.

i) Location outside the industrial Estate

Many small entrepreneurs find the industrial estate facilities overpriced and choose a site outside an organized industrial estate. In this case, too, they overlook the hidden costs. You have to fill and level the land, sink a tube well, arrange for power supply, build a factory shed, and arrange for drainage, etc. In the absence of an adequate number of industries in the vicinity, facilities such as; godowns, post offices, banks, workshops, etc., might also not be available. Think twice before establishing a factory outside an estate or at a virgin, remote site.

ii) Industrially Backward Area

Selection of an industrially backward area for a business such as (manufacturing) may not always provide the expected outcome as such areas are majorly less developed. And so, expecting these to have all the required facilities may lead to miscalculations. Entrepreneurs may be tempted by the investment subsidy, sales tax incentive, generous loan margins, lower interest rates, and other benefits. While the infrastructural facilities may be inadequate, skilled human resources may also not be easily available. You may have to spend considerable money and time reaching a nearby city for various requirements. You, as a small entrepreneur, may also not have the resources to create your own infrastructure. A large company can organise an employee transport system, set up a housing colony, and attract a photocopier, bank, or courier firm. The infrastructural problems can affect your business. Sometimes, they can far outweigh the financial benefits. So, think carefully before deciding on an industrially backward location.

Summary

The chapter asserts the importance of choosing the right location for business success. It mentions reasons for **s**earching locations, selection criteria, information sources, and common errors while selecting the location.

SAQ 5.1

A. What is the six-point criterion for selecting the location of an enterprise?

1. ____

____

2. ____

____

3. ____

____

4. ____

____

5. ____

____

6. ____

____

B. Write one sentence on each of the two common errors that entrepreneurs are likely to commit while selecting the location for their enterprise.

1. ____

____

2. ____

____

UNIT 2

Contents

The chapter aims to:

- help you raise the finance required for setting up your business enterprise

Outcome:

On completion of this chapter, you will be able to:

- distinguish between long term and short term financial requirements
- know various sources of raising finance
- identify suitable agencies and schemes that provide financial support to your business.

6.1 Institutions Providing Finance

Newly launched financing schemes for MSMEs

The major obstacles faced by micro-enterprises countrywide include finance-related problems, skill inefficiency, infrastructure gaps, knowledge gaps, lack of growth orientation, and many others. **The MUDRA Yojana, announced in 2015,** is particularly working upon these issues and aims to eradicate them gradually. The major problem faced is access to finance, and numbers establish that only 15% of bank finances reach these micro, small and medium enterprises.

The **MUDRA Yojana** was announced and registered as a company in March 2015, and the announcement brought new hopes. The major target of this initiative is to fund micro-units that have low access to financing. It is a re-financing institute for non-corporate business units. It is a refinancing institution and provides loans via banks, NBFC, and other institutions. The micro and non-corporate units comprise millions of shops, businesses, and service units that help make a living to the country's whopping ten-crore population.

The interventions through MUDRA have been named Shishu, Kishor, and Tarun. These names signify the stage of growth and funding needs of the unit. It also provides a reference to the next phase of development. Shishu covers loans up to Rs. 50000, while Kishor covers above Rs. 50000 and up to five lakh, and Tarun covers loans from Rs. Five lakh to 10 lakh. With an aim to promote entrepreneurship among the young generation, the MUDRA particularly focuses on the Shishu category of units and then Kishor and Tarun.

MUDRA runs two important financial categories: micro-finance through micro-finance institutions that provide up to Rs. 1 lakh for micro-units. The second is refinancing through financing institutions like banks, NBFCs, commercial banks, and others.

Stand-up India

Stand-up India is two major announcements made by the government in recent times. Stand-up India will majorly benefit SC/ST and women entrepreneurs. The start-up India is an umbrella campaign and will sponsor stand-up India. Start-up India is a huge 10000 crore fund of funds. It will enrich the new enterprise creation in the country. These two schemes are vital on account of their ease and availability of funds. The schemes provide loans between Rs. 10 lac and 100 lac with an extended moratorium period.

Key takeaways from the schemes

- Start-up India and Stand-up India are both government schemes to promote and enhance entrepreneurship in India and the Indian community.

- The Stand-up India scheme will facilitate two entrepreneurial projects one each for women and SC/ST per bank branch.
- The scheme will receive a fund of 10000 crores from SIDBI for effective implementation of the scheme.
- A credit guarantee scheme will be implemented in the first place. The system will work through the National Credit Guarantee Trustee Company (NCGTC), which will act as the operating agency for financial aids.
- The scheme has provisions to take care of needs such as making entrepreneurs able to use online portal sources, e-marketplaces and be capable as web entrepreneurs.
- Start-up India promotes App based interface for single-window clearance of applications.
- It is a 10000-crore fund of funds, and there are 80 percent reductions in the patent registration fee.
- With the help of a new modified and more friendly bankruptcy code to ensure a 90-day exit window for new start-ups
- Will reduce red tape and help with self-certification
- Provides innovative hub under Atal Innovation Mission to encourage entrepreneurship in the country.

Prime Minister Employment Generation Programme (PMEGP)

PMEGP is an initiative by the government to provide loans with subsidies for starting a business. Prime Minister Rozgar Yojana (PMRY) is a subsidiary scheme under PMEGP. The implementation agency for this scheme is the Khadi and Village Industries Commission (KVIC). At the state level, the scheme is implemented by the state KVIC directorate, District industrial centres, and banks. The disbursal of loans and subsidies is directly transferred to the beneficiary.

The PMEGP allows a total cost of 25 lakhs for manufacturing projects and 10 lakh loans for service businesses. The categories of beneficiaries differ (including SC/ ST/ OBC/ Minorities/Women, Ex-servicemen, Physically handicapped, NER, Hill, and Border areas, etc.). As per the scheme guidelines, an applicant of PMEGP must invest at least 10 percent of the project's total cost, and the remaining amount is provided by the bank in the form of loans and working capital.

Eligibility criteria for getting a PMEGP loan are as follows:

- Individuals above 18 years of age, with a minimum qualification of having cleared 8th class.

- Projects applied for sanctions have to be new.

Institutions such as; co-operative societies, charitable trusts are also eligible. Units that have already availed funds from other schemes are not eligible for this scheme.

CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)

The scheme advocates hassle-free funding for new businesses. The scheme was advocated to emphasise the availability of funds – free of hassles, collaterals, or third-party guarantees. It is a great source of funding for new start-ups and young innovators. The scheme is implemented to strengthen the credit delivery mechanism and boost the flow of credit to the micro and small sector of the economy. The Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to operationalize the scheme.

Credit Guarantee in CGTMSE: The scheme dictates that any collateral or guarantor-free credit facility (both fund and non-fund based) provided by eligible institutions to new as well as existing micro and small enterprises, with a maximum credit cap of 200 lakh are eligible to be covered. The guarantee cover differs between categories of businesses. For instance, for micro-enterprises, guarantee cover is 85 percent for credit up to five lakh rupees. The extent of guarantee cover for finances is 50 percent for the sanctioned amount of the credit facility for credit from 10 lakh to 100 lakh per micro-small enterprise borrower for retail trade activity. The same credit guarantee cover is 80 percent for women-owned micro-small enterprises. The table here gives an exact analysis of the percentage of credit guarantees available for each category.

Table: *Category and extent of credit guarantee available*[22]

Category	Maximum extent of Guarantee where credit facility is		
	Up to 5 lakhs	Above 5 lakh up to 50 lakh	Above 50 lakh up to 200 lakh
Micro Enterprises	85% of the amount in default subject to a maximum	75% of the amount in default subject to a maximum of 37.50 lakh	75% of the amount in default subject to a maximum

[22] CGTMSE: About CGTMSE

	of 4.25 lakh		of 150 lakh
Women entrepreneurs/ units located in North East Region (incl. Sikkim) (other than credit facility up to 5 lakh to micro-enterprises)	80% of the amount in default subject to a maximum of 40 lakh		
All other categories of borrowers	75% of the amount in default subject to a maximum of 37.50 lakh		
Activity	From 10 lakh upto 100 lakh		
MSE Retail Trade	50% of the amount in default subject to a maximum of 50 lakh		

Marketing of MSME products	
Objectives	To provide financial assistance to MSME units to undertake various activities necessary to increase their sales turnover in the domestic and export markets. To finance corporate entities to enable them to provide support services and/or infrastructural facilities to small scale sectors to improve their marketing capabilities
Eligible Borrowers	Existing MSME units in the small-scale sector with a good track record and sound financial position are eligible for assistance on a selective basis. Specialised organizations incorporated as corporate entities and providing marketing assistance, infrastructure, and support services to industrial concerns in the small-scale sector.
Purpose	Assistance under the scheme may be availed for undertaking various marketing related activities such as: 1. Marketing research 2. R & D, product up-gradation, and standardization 3. Preparation of strategic marketing plan 4. Advertising, branding, catalogue preparation, and production of audio-visual 5. Participation in trade fairs and exhibitions, sales promotion tours, etc. 6. Establishing distribution network including showrooms/retail outlets and warehousing facilities. 7. Training of personnel in activities relevant to marketing etc. 8. Setting up of new showrooms and/or renovation of existing showrooms for marketing predominantly small-scale, cottage, and village industry products. Such showrooms could be set up within the country or abroad. 9. Development of infrastructure like permanent exhibition centers, industrial parks e.g. garment and software parks, emporia, design, and fashion forecasting studios, auction houses (say for floriculture products), container depots and container freight stations, and trade centres (within India and abroad) Such infrastructural projects should largely benefit the small scale, cottage, and village industries. 10. Setting up of facilities for providing marketing support to small service units, e.g. data bank, libraries, Internet services, etc.

	11. Any other activity directed towards promoting the marketing of MSME products in domestic or international markets.
Amount of loan	Would be need-based, but would not normally be below Rs. 10 lac per borrower.

In this chapter, various financing sources have been explained. The chapter explains short-term, long-term, existing, and newly launched financing tools for new businesses. The chapter is very important for every new entrepreneur seeking funds for his new venture.

SAQ 6.1

a) Short-term finances are called ________________ capital.

b) Fixed capital is used in creating _________________ asset.

c) Factoring services are provided in India by ________________.

d) SIDBI's direct finance scheme is called as ________________.

e) Under National Equity Fund Scheme soft loan is available at the rate of ____% of project cost @___% of the services charges p.a.

SAQ 6.2

a) Seed capital is a part of Debt and not Equity. (True / False)

b) Venture capital is available for any type of Business (True / False)

c) SFCs do not provide cash-credit facilities (True / False)

d) SIDBI does not provide assistance for marketing. (True / False)

e) The single Window Scheme means having a term loan and working capital from the same bank. (True /False)

Q1: Choose any one Government scheme promoting entrepreneurship in the country and write a brief note about it.

Summary

The chapter provides a complete overview of finance and an important aspect of starting a new enterprise. The chapter discusses the types of finances required for a new enterprise and explains the various sources of financing. Various institutions extending financial support have been discussed. Details the various schemes and funding sources through the Small Industrial Development Bank of India (SIDBI) have been dealt with.

UNIT 2

Contents

This chapter aims to:

- detail the sources of support other than financial to your business

Outcome:

On completion of this chapter, you will be able to:

- prepare a comprehensive list of agencies that provide support to your business.

7.1 Institutional Network

As mentioned earlier, the MSME sector has been recognised as a vibrant and powerful segment of the Indian economy, potentially generating more employment opportunities with relatively low investment. The growth of this sector is, therefore, vital for the economy. Realizing the importance of the MSME sector, a strong institutional network has been evolved for the promotion of MSMEs in the country. In this era of changing paradigms full-fledged resource base and infrastructure are needed to accomplish goals. In this endeavour and to increase the number of MSMEs and their growth prospects, government has established, over these five-six decades, a number of institutions and organisation that have proved a great treasure for the development of MSME sector. This institutional network can broadly be classified as under:

1. National level institutions/agencies
2. State-level institutions/agencies
3. Research and Development laboratories/institutions

In the subsequent pages, we shall discuss the major functions of these institutions and how they are linked to the promotion of small-scale industries in the country.

The various categories of institutions can be put in the below table:

Finance	**Technology Upgradation**	**Industrial Inputs**	**Technical training**	**Marketing**	**Entrepreneurship**
SIDBI Commercial Banks Co-op Banks Pvt. Banks SFCs SIDCs	NSIC SIDO IEDC New Gen IEDC PPDCs TBIs	NSIC SSIDCs Department of Industries	SIDO DI-MSMEs TCOs PPDCs Sector Specific R&D Institutions Tool Rooms	SIDO NSIC Specialized Institutions TCOs EPCs	EDII NIESBUD Ni-MSME IIE IEDs/CEDs TCOs NGOs Academia

SIICs Angel Investors Venture Capitalists Lease & Finance companies					

7.2 National Level Institutions

Development Commissioner: Ministry of Micro, Small and Medium Enterprises, (DCMSME), Government of India

The Office of the Development Commissioner Ministry of Micro, Small and Medium Enterprises (DCMSME), Government of India, is directly under the Union Ministry of Micro, Small and Medium Enterprises and is a nodal agency for formulating, coordinating, and monitoring the policies and programmes for promotion and development of small-scale industries in the country.

Small Industries Development Organisation (SIDO)

Small Industries Development Organisation (SIDO) was set up in 1954 to act as a policy formulating, coordinating, and monitoring agency for the development of small-scale industries in the country. The SIDO functions through a network of 27 offices, 31 Small Industries Service Institutes (SISI), 37 Extension Centres, 6 Product-cum-Process Development Centres, 4 Production-cum-Testing Centres, and 4 Regional Testing Centres. The SIDO covers all the small-scale industries except those falling within the specialised boards and agencies like KVIC, Coir boards, Central Silk Board, etc. The main functions of SIDO are classified into three categories – coordination, industrial development, and; extension services.

It coordinates the work concerning the development of small-scale industries on an all-India basis through the programmes listed below:

1. Evolving all-India policies and programmes for the development of the MSME sector
2. Coordinating the policies and programmes of various state governments
3. Liaisoning between different institutions

4. Coordinating the programme for states as also between the states and the Union Ministries, Planning Commission, the District Industries Centres (DICs), and monitoring development of industrial estates all over the country

SIDO also aids the state governments in formulating their schemes within the overall plan allocations and objectives for the promotion of small-scale industries in their respective states. SIDO suggests the pattern of small-scale industries' development for the entire country, including responsibility for indicating the lines of manufacture suitable for the small-scale sector. It also helps in the promotion, procurement of raw materials and machinery and extends financial advice to small entrepreneurs from time to time. In addition, SIDO provides a wide range of inspection services through its network of Small Industries Service Institutes (SISI), branch institutions, inspection centres, regional testing centres, and other institutions at the field level.

National Small Industries Corporation Ltd. (NSIC)

National Small Industries Corporation Ltd. (NSIC), an ISO 9001 certified company, since its establishment in 1955, has been working to fulfill its mission of promoting, aiding, and fostering the growth of small-scale industries and industry-related small-scale services/business enterprises in the country. Over a period of five decades of transition, growth, and development, NSIC has proved its strength within the country and abroad by promoting modernization, up-gradation of technology, and quality consciousness. It has also contributed to strengthening linkages with medium to large enterprises and enhancing products export from small industries.

NSIC operates through 9 Zonal Offices, 33 Branch Offices, 14 Sub Offices, 10 NSIC Business Development Extension Offices, 5 Technical services Centres, 3 Extension Centres, and 2 Software Technology Parks supported by a team of over 500 professionals spread across the country. To manage operations in African countries, NSIC operates from its office in Johannesburg.

NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position. The main functions of NSIC are to;

- supply machinery on a hire purchase basis.
- procure orders from small-scale units.
- develop small-scale units as ancillary to big industries.
- arrange markets for products from small manufactures.
- import and distribute scarce raw material and promote exports.
- construct industrial estates.

NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position. The schemes comprise facilitating marketing support, credit support, technology support, and other support services. NSIC has set up an e-commerce portal exclusively for MSMEs. The portal will provide both B2B and B2C services[23].

7.3 Marketing

Marketing, a strategic tool for business development, is critical to the growth and survival of small enterprises in today's intensely competitive market. NSIC acts as a facilitator to promote small industries products and has devised a number of schemes to support small enterprises in their marketing efforts, both within and outside the country. These schemes are briefly described as under[24]:

Single point Registration for Government Purchase: NSIC operates a single Point Registration Scheme under the Government Purchase Programme, wherein the registered MSME units get purchase preference in Government purchase programme, exemption from payment of Earnest Money Deposit, etc[25]. The various facilities of the Scheme include:

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

Exhibitions and Technology Fairs: To showcase the competencies of Indian MSMEs and to capture market opportunities, NSIC participates in select International and National exhibitions and Trade Fairs every year. NSIC facilitates the participation of small enterprises by providing concessions in rent etc. Participation in these events exposes MSME units to international practices and enhances their business prowess.

Buyer-Seller Meets: Bulk and departmental buyers such as the Railways, Defence, Communication departments, and large companies are invited to participate in buyer-seller meets. These meetings are organised to increase knowledge of MSME units regarding terms and conditions, quality standards, etc. required by the buyer.

[23] About Us | NSIC
[24] NSIC: Functions and Support Provided by National Small Industries Corporation Ltd (yourarticlelibrary.com)
[25] NSIC – SME Power

These programmes are aimed at vendor development from MSME units for bulk manufacturers.

Export of Products and Projects: NSIC is a recognized Export House, and is engaged in exporting products and projects of small industries of India to other countries. The major areas of operation are:

- export of products such as handicrafts, leather items, hand tools, pipes/fittings, hardware, etc.
- supply of small industry projects on a turnkey basis

Credit Support: NSIC facilitates credit requirements of small enterprises in the following areas.

Financing for Procurement of Raw Material (Short term)

NSIC's Raw Material Assistance Scheme aims at helping small-scale industries/ enterprises by way of financing the purchase of raw material (both indigenous & imported). The salient features are

1. Financial Assistance for procurement of Raw Materials up to 90 days.
2. Bulk purchase of basic raw material at competitive rates.
3. NSIC facilitates the import of scarce raw materials.
4. NSIC takes care of all procedures, documentation & issue of letters of credit in case of imports.

Financing for Marketing Activities (Short term)

NSIC facilitates financing for marketing activities such as internal marketing, exports, and bill discounting.

Finance through syndication with Banks

In order to ensure smooth credit flow to small enterprises, NSIC is entering into strategic alliances with commercial banks to facilitate long-term/working capital financing of the small enterprises across the country. The arrangement envisages forwarding loan applications of the interested small enterprises by NSIC to the banks and sharing the processing fee.

7.4 Performance and Credit Rating Scheme for Small Industries

To enable small enterprises to ascertain the strengths and weaknesses of their existing operations and take corrective measures to enhance their organizational strength, NSIC operates a Performance and Credit Rating Scheme through empanelled agencies like ICRA, ONICRA, Duns & Bradstreet (D&B), CRISIL, FITCH, CARE, and SMERA. Small enterprises have the liberty to choose among any of the rating agencies empanelled with NSIC. Rating agencies will charge a credit rating fee according to their policies. The benefits to small enterprises are as follows:

- An independent, trusted third-party opinion on capabilities and credit worthiness of MSME units
- Good rating to enhance the acceptability of the MSME units with Banks. financial institutions, customers, and buyers
- Facilitates prompt credit decisions from banks on proposals of MSME units
- 75% of the credit rating fee is subject to a maximum of Rs. 25,000/- which is reimbursed to the small enterprise having a turnover up to Rs.50 lac by way of grants
- 75% of the credit rating fee subject to a maximum of Rs. 30,000/- is reimbursed to the small enterprise with a turnover above Rs.50 lakh to Rs.200 lac through grants.
- 75% of the credit rating fee subject to a maximum of Rs. 40,000/- is reimbursed to the small enterprise with a turnover above Rs.200 lac through grants.

7.5 Technology Support

All products and services entail technology. What is technology? It helps to be clear about it. Let us list major points in this regard.

√ For producing/rendering a product or service, what kind of machinery and equipment do you need?

√ How much will such equipment produce? Conversely, if you wish to produce a certain volume, what should be the capacity of such equipment?

√ What utilities – electricity, water, oil, steam, and other support-effluent treatment, vehicles, etc. – do you need? For getting these, what equipment/work do you require-electrification, transformer, storage tanks, water treatment plant, etc. – do you need? You do not need just the copying machine; you need paper storage, stapler, trash bin, etc.

√ How many persons do you need to operate the plant? What precise skills should they possess? What will be the average productivity (output/hour) of these individuals?

√ What is the production/service process?

√ What parts and accessories do you need to ensure that production/service does not come to an end for want of these?

√ What raw materials do you require? Quantity? Specifications?

√ How to check the quantity of finished products? What is the acceptable standard for rejection? For wastage in the process?

√ Equipment, training, work practices, and mock-drill required to ensure occupational health and safely.

You need information/understanding on the above questions. If you do not have relevant experience, you will draw knowledge from other sources. Most entrepreneurs begin with substantial preparation and perfect the knowledge in the course of doing things. What are the sources of knowledge?

First, it might be you. You have worked as a restaurant manager and possess knowledge about menu design, recipes, kitchen design and equipment, interior and furniture, manpower, and required skills.

Secondly, there are machinery suppliers. They tell you about the raw material requirement, utility consumption, manpower need, etc. They have a vested interest, and so some of them may start information in their favour – exaggerating the capacity of a given machine, deflating the raw material consumption norm, or manpower requirement.

Private Technical Consultants and Institutions

There are sector/product-specific technical consultants – food processing, chemicals, textile, healthcare, education, etc. Within this group, there are consultants who specialize in products. For instance, fruit and vegetable processing consultants will be different from bakery consultants, though both belong to the food processing domain. The consultants, sometimes, may present the project in a favourable light because or else you may lose interest. Consultant integrity is important because they recommend, among other things, machinery suppliers.

The industries have also set up research and technology institutes, which may provide support to you – Ahmedabad Textile Industry Research Association (ATIRA), The Synthetic Art Silk Mills' Research Association (SASMIRA), NASSCOM Foundation (IT and ITE's). These are industry-sponsored organisations.

Central/State Governments

There are several central government organisations, which provide technology support. But you must read, understand and remain alive to the basic character of the organization in order to judge how useful it is likely to be for you.

First, there are Micro, Small, and Medium Enterprise – MSME – Development Institutes (MSME-DI). These are managed by the Development Commissioner-MSME, Govt. of India. There is 30 MSME-DI's spread across the country, and many have branches. The mandate for MSME-DI includes technology assistance. Each DI has technical specialists but not in all fields. For instance, you need technology assistance for an IT project, but MSME-DI in your area may not have one, and in this case. DI may not be able to help you much. So, ascertain the resources of a DI and proceed.

Secondly, there are District Industries Centres (DIC) in almost all districts. The officer there may assist you or direct you to organisations/individuals who can assist you.

Thirdly, there is a Khadi and Village Industries Commission (KVIC) set up by the Central Govt. The state governments have set up Khadi and Village Industries Board (KVIB). There is a list of industries that are recognized As khadi and village industries. Village industry denotes character of activity – bakery, agarbatti, etc; it does not mean that the village industry must be in a village. KVIC recognized village industry could be in the city. KVIC/KVIB officers possess a wealth of knowledge, including technology, on KVIC industries (Baishali; give a list of KVIC industries, if you wish to increase the size).

Central Scientific and Industrial Research (CSIR) Laboratories

These have done remarkable work on developing new technologies and solving technology-related problems. Each lab specializes in a subject. There are 38 labs in the country, and the work pertains to a gamut of domains, e.g., ceramic, glass, drug, medicinal and aromatic plants, leather, food processing, electronics, marine chemicals, etc. The labs offer new technologies for commercial exploitation. You should get an overview of the work of the concerned lab and judge its suitability for your need.

Development Boards/Institutes/Corporations

The central government has set up boards for the development of specific industries, e.g., spice, silk, handloom, handicraft, coir, tea, coffee, etc. These organisations possess accumulated and continuing knowledge and may provide assistance on their own or through others. The state governments have also established such organisations including on subjects like rural industry technologies, appropriate technologies, renewable energy.

The foregoing classification is meant to provide an overview of sources. You should research in an open-ended way and shortlist sources of interest to you, regardless of classification. For example, Central Institute of Petrochemicals Engineering &

Technology (CIPET) is under the jurisdiction of Department of Chemicals but is an excellent source on technology assistance for plastic industry entrepreneurs.

There are also unorganized knowledge providers. For example, the head of the worker-team in metal processing or in mini-sugar industry is, often, a valuable resource.

On the whole, you need to research meaningfully, talk to existing entrepreneurs and other stakeholders (large buyers render some components of technology support in metal-processing, automotive part, and such other industries), and move further.

7.6 Financial Institutions

Small Industries Development Bank of India (SIDBI)

Set-up in 1990, SIDBI has been a distinct financial institution for the country's promotion, financing, and development of micro, small, and medium enterprises. It also helps in the coordination of functions for banks and institutions involved in similar activities.

Commercial Banks[26]

Through their countrywide network of more than 68,000 branches, twenty-seven commercial banks cater to the working capital requirements of small-scale industries. They have offered about 17.5 percent of net bank credit to the MSME sector. Besides short-term assistance, the MSME sector, which enjoys the status of ‘priority sector’ in terms of financing, has also been provided term loans and other assistance by nationalized banks. Specialized branches are opened in select industrial estates and cities to exclusively cater to the requirements of small-scale entrepreneurs.

Regional Rural Banks

Regional rural banks have been created to promote agriculture, trade, commerce, and industry in rural areas to improve the rural economy. They provide credit facilities in the rural areas, particularly to artisans, farmers, and small entrepreneurs. With the restructuring of 139 Regional rural banks (RRBs) by the Government of India, there has been a paradigm shift in the working of RRBs in terms of the needs of the MSMEs being attended to.

Cooperative Banks

Cooperative banks, through a network of over 12,000 branches, provide working capital funds to small entrepreneurs. The Primary Agriculture Cooperative Society (PACS) finances the agriculture and agriculture-related industry. The primary

[26] Institutional_support_agencies_notes.doc | Entrepreneurship | Business (scribd.com)

Cooperative Banks (PCBs) play a vital role in meeting the working capital needs of micro and small businesses.

National Bank of Agriculture and Rural Development (NABARD)[27]

NABARD was set up as an apex Development Bank with a mandate for facilitating credit flow to promote and develop agriculture, small-scale industries, cottage, and village industries, handicrafts, and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development, and secure the prosperity of the rural regions. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with

1 providing refinance to lending institutions in rural areas

2 bringing about or promoting institutional development, and

3 evaluating, monitoring, and inspecting the client banks

Besides this pivotal role, NABARD also:

- acts as a coordinator in the operations of rural credit institutions
- extends assistance to the government, the Reserve Bank of India, and other organizations in matters relating to rural development
- offers training and research facilities for banks, cooperatives, and organizations working in the field of rural development
- helps state governments in reaching their targets of aiding eligible institutions in agriculture and rural development
- acts as a regulator for cooperative banks and RRBs

Other Agencies

Khadi and Village Industries Commission (KVIC)[28]

The Khadi and Village Industries Commission (KVIC) is a statutory body established by an Act of Parliament (No. 61 of 1956).

Some of the major functions of KVIC include :

- Planning, promoting, organizing, and implementing programmes for the development of Khadi and other village industries in rural areas in coordination with other agencies engaged in rural development

[27] National Bank for Agriculture and Rural Development (NABARD) - Syskool
[28] Project on SIDBI | Iso 9000 | Entrepreneurship (scribd.com)

- Creating a reserve of raw materials and ensuring supply to producers, creating common facility services for facilitating processing of raw materials into semi-finished goods, marketing of KVI products, and training of artisans engaged in these industries
- Providing financial assistance to institutions and individuals for the development and operation of Khadi and Village industries and guiding them through the supply of designs, prototypes, and other technical information[29]

Council of Scientific and Industrial Research (CSIR)

CSIR has set up a large number of Regional Research Laboratories all over the country, which are developing new processes for the manufacture of industrial products on a commercial scale. You may avail of the services and information from the nearest CSIR-Polytechnology Transfer Centre in your state.

These agencies act as pillars of support for the promotion and growth of small-scale industries in India. A list of a few national laboratories and institutions is given as Annexure III. To know more about similar laboratories and institutions, you may visit www.indiaonestop.com/research.

SAQ 7.1

Tick mark the most appropriate answer from amongst the options given:

I. Small Industries Development Organisation

a) coordinates the work relating to the development of MSMEs on an all-India basis

b) is an advisory body to the Government

c) conducts training programmes

II. Development Commissioner (MSME)

a) assists small scale industries to procure raw materials.

b) offers concessions to small scale industries set up in backward areas.

c) acts as a nodal agency for promotion and development of small-scale industries in the country.

III. National Small Industries Corporation assists small scale industries by way of

a) direct term loan

[29] employmentnews.gov.in/NewEmp/MoreContentNew.aspx?n=Editorial&k=121

b) directly undertaking exports

c) offering imported and indigenous machines on hire-purchase basis

IV. Entrepreneurship Development Institute of India conducts

a) Entrepreneurship Development Training Programmes

b) Technology Upgradation Training Programmes

c) Quality Upgradation Training Programmes

V. The State Directorate of Industries functions to

a) regulate the growth of small-scale industries

b) develop and promote small scale industries

c) regulate the growth and also to develop and promote the growth of small-scale industries

VI. Single Window Coordination Mechanisms established in various states are meant for

a) achieving coordination between various departments of the Government.

b) offering all Government clearances/permissions through one window.

c) acting as a link between the entrepreneurs and various departments of Government to accelerate industrialization.

VII. Council for Scientific and Industrial Research.

a) develops and offers process know-how.

b) provides information on Government policies.

If you wish to be successful in business, you need to search thoroughly about all factors in the ecosystem that may partially affect your business. Following is an example of the Readymade Garment business.

This is a sample for seeking other partial information once you are ready with your business idea. Say, for example, if your business is Readymade Garments, you need to contact the following agencies/sectors to make a foolproof plan. Similar other sources need to be searched for different areas of business.

- Trade Associations – location specific

- Market: Domestic
- Apparel Export Promotion Council
- Competition for Export
- Sri Lanka Industry
- Bangladesh Industry
- EU guidelines/regulations – quota, quality, trade practices, etc.
- US guidelines
- Research on competitiveness
- Research on issues
- Market: Export
- Project Profile
- CARE Rating
- The prevailing trend in Indian Readymade Garment Industry
- Analysis on understanding Indian Readymade Garment Industry
- Textile Industry in India
- Top 10 garment manufacturers in India

Summary

The seventh chapter provided an insight into various support mechanisms which work as a system in support of new enterprise creation and growth. The chapter explains countrywide institutional networks comprising national-level institutions, marketing support, and others. The chapter also explains performance and credit rating schemes for small industries. Technology support sources are also discussed. The chapter ends with a briefing on financial institutions working in the country and their support towards new enterprise creation.

Q:

1. Write a brief note of how different support networks help and promote Entrepreneurship.

List of Abbreviations

CB	Commercial Bank
CECD	Central Excise and Customs Department
CIPET	Central Institute of Plastic & Engineering Tools
CSIR	Council of Scientific & Industrial Research
CCIE	Chief Controller of Imports & Exports
CITD	Central Institute of Tool Design
CIF	Chief Inspector of Factories
DEP	Director General of Supplies & Disposal
DDCA	Directorate of Drugs Control Administration
DIC	District Industries Centre
DGTD	Director General of Technical Directorate
EB	Electricity Board
EDII	Entrepreneurship Development Institute of India, AHMEDABAD
EPC	Export Promotion Council
GMD	Geology and Mining Department
ICICI	Industrial Credit & Investment Corporation of India Ltd.

IDBI	Industrial Development Bank of India
IIC	Indian Investment Centre
IIFT	Indian Institute of Foreign Trade
IFCI	Industrial Finance Corporation of India
IPB	Investment Promotion Board
BIS	Bureau of Indian Standards
IDCs	Industrial Development Corporations (State level)
IICs	Industrial Investment Corporations (State level)
IC	Industries Commissioner
IEB	Industrial Extension Bureau/State level co-ordinating agencies
IRL	Industrial Research Laboratory
LA	Local Authorities-municipal, panchayat, etc
LC	Leasing Companies
MID	Ministry of Industrial Development
MMTC	Mineral and Metal Trading Corporation
MDC	Mineral Development Corporation
NIESBUD	National Institute of Entrepreneurship and Small Business

	Development
NRDC	National Research & Development Corporation
NI-MSME	National Institute of Micro Small and Medium Enterprises
NSIC	National Small Industries Corporation
RIMCO	Rural Industries & Marketing Corporation
RC	Registrar of Companies
RT	Registrar of Trade Marks
SBI	State Bank of India
SIDO	Small Industries Development Organisation
MSME-DI	Micro Small and Medium enterprises-Development Institute
SC	Office of the Salt Commissioner
SEC	State Export Corporation
SFC	State Finance Corporation
STC	State Trading Corporation
TC	Textile Commissioner
TCO	Technical Consultancy Organisation of the State
WPCB	Water Pollution Control Board

EDP	Entrepreneurship Development Programmes - Agencies Conducting EDP
ICAR	Indian Council of Agricultural Research
ICMR	Indian Council of Medical Research

ASSIGNMENT

I. From the options given, mark the right one

1. An industrial undertaking that complies with the requirements laid down by the Ministry of MSME is
a) MSME unit
b) Industrial Undertaking
c) Small scale industrial undertaking

2. If a new product line is launched by the same company or partnership or proprietorship concern, it is:
a) Substantial expansion
b) Diversification
c) Modernisation

3. The assets acquired on a lease basis for which stipulated amount of lease rental at regular intervals has to be paid is:
a) Hire-Purchase
b) Fixed Assets

4. Goods that can be directly consumed to satisfy human needs without further processing are:
a) Consumables
b) Consumer goods
c) Capital goods

5. If the documents of title or ownership are deposited by the borrower with the lender, without transferring legal ownership or possession of the mortgaged property to the lender, it is:
a) Mortgage
b) Equitable Mortgage
c) Hypothecation

6. A Company incorporated under the Companies Act, 1956 having several members in an unlimited number with a minimum of seven, whose liabilities are restricted to the extent of their holding in the company is a:
a) Partnership
b) Public Limited Company
c) Private Limited Company

II. Please indicate the following statements as true or false. In case of a false statement, please rewrite the correct statement.

1. An enterprise is a venture to accomplish any objective.

   (true / false)

2. Diversification means an increase in fixed capital investment and installed capacity.

   (true / false)

3. Modernization is merely a replacement of the existing setup of plants and machinery. (true / false)

4. Assets acquired on a lease basis do not offer legal ownership to the leaser.

   (true / false)

5. Fixed assets include such assets as land, building, plant, and machinery, etc.

   (true / false)

6. Current assets in the ordinary course of business can be realised in cash or consumed, within a period of 36 months.

   (true / false)

7. Stock-in-process means the material readily available for sale.

   (true / false)

8. Working capital in a project is required to meet only the working expenses.

   (true / false)

9. Term Finance is repayable over a period exceeding thirty-six months.

   (true / false)

10. Capital of a company is divided into a number of indivisible units of a specified amount called shares

(true / false)

11. The ratio of equity to debt of a project is known as the debt-equity ratio.

(true / false)

12. Hypothecation is a charge created on an immovable asset for securing a loan or

debt.

(true / false)

13. Capital investment subsidy is to be repaid after a specific period of time.

(true / false)

14. In the case of a private limited company, the maximum number of members is fifty. (true / false)

15. Viable operations would mean the operations, which yield profit only.

(true / false)

III. Answer the following in one or two sentences.

1. What does the project planning involve?

2. What is the first step in the project planning exercise?

3. Why is the identification of a project important?

4. Which are the agencies that assist in the identification of a project?

5. What are the factors that govern the location of a project?

6. Why is the approval of the Pollution Control Board necessary?

7. How much area of land is generally considered adequate for a project?

8. How do you evolve a suitable manufacturing process from 2 or 3 available alternatives?

9. What is the meaning of balancing plant & machinery?

10. What are the items generally considered under the head of plant & machinery?

11. Why are miscellaneous fixed assets provided a bare minimum?
12. Why are Preliminary and Pre-operative Expenses provided for?
13. What do contingencies serve for?
14. What does working capital consist of?
15. What does financial viability mean?
16. Which are the major sources of funding for a project?
17. Why does a project have to be profitable?
18. What is the significance of the breakeven point?
19. What does a cash flow statement reflect?
20. What is an internal rate of return?
21. What are the objectives of the Government in promoting industrialization in our country?
22. What is the significance of MSME registration?
23. What are the factors that generally decide the constitution of a business?
24. Who offers finances for meeting the working capital requirement of the project?
25. Why should adequate weightage be given to complying with various government formalities?
26. What is the importance of coordination of various resources in the process of project planning?