UNIT 2

Contents

The aim of this chapter is to:

- familiarise you with the business environment by explaining certain terms which are often used in the business world

Objectives:

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

- recognize the relevance of various terms used in business

Business Terms

Before we begin to learn the various steps involved in setting up a business venture, we must understand the most common and important terminologies used by people engaged in business and industry circles. In this Chapter, we have tried to give you the meanings of these business terms in a simple language. Knowledge of the various terms commonly used in business will enable you to understand well the topics discussed in your study material.

Right at the outset, if you plan to set up a new venture or you will come across fundamental terms such as the following:

Enterprise - A venture to accomplish certain pre-determined objectives. There is always some amount of uncertainty associated while undertaking any enterprise in terms of fulfillment of these objectives. For you the term Enterprise is referred to as Business Enterprise.

Classification of Enterprises (*MSMED Act, 2006, The Act is operational from October 2, 2006*)

Concept of 'Enterprises' as against 'Industry'

Enterprises can be classified broadly into:

i) Enterprises engaged in the manufacture/production of goods pertaining to any industry &

ii) Enterprises engaged in providing/rendering services.

Manufacturing Enterprises:

Defined in terms of investment in plant and machinery (excluding land & building) and further classified into:

- **Micro Enterprise** - investment up to Rs.25 lakh.
- **Small Enterprise** - investment above Rs.25 lakh & up to Rs.5 crore.
- **Medium Enterprise** - investment above Rs.5 crore & up to Rs.10 crore.

Service Enterprises:

Defined in terms of their investment in equipment and further classified into:

- **Micro Enterprise** - investment up to Rs.10 lakh.
- **Small Enterprise** - investment above Rs.10 lakh & up to Rs.2 crore.
- **Medium Enterprise** - investment above Rs.2 crore & up to Rs.5 crore.

Project Planning – Project planning involves formulation of all future project activities by visualising them in advance, determining the quantum of resources required for carrying out these activities and coordination of the same so as to make them available at the right time to complete the activities as per schedule.

Resources - The resources employed in setting up any project. These include man, material, machine and capital.

Location - A place where the project is located or proposed to be located

Factory - Any premise, including precincts thereof, in any part of which a manufacturing process is being carried out or is ordinarily so carried out - (i) with the aid of power, provided that ten or more workers (full time regular employee) are working or were working on any day of the preceding twelve months; or (ii) without the aid of power, provided that twenty or more workers are working or were working on any day of the preceding twelve months and provided that in no part of such premise any manufacturing process is being carried on with the aid of power.

Industrial Undertaking - A legal entity in the form of a registered company under the Companies Act, 1956 or a partnership firm or a registered trust or a legally registered cooperative society or an Individual proprietary concern, engaged or to be engaged in the manufacture or production of one or more items in one or more factories.

SSI Registration - A registration to be made for setting up a small scale industrial undertaking or an ancillary industrial undertaking with the District Industries Centre (DIC) of the district in which such an undertaking is proposed to be located.

Subsidiary - A Company or a firm, which is controlled by another firm or company in terms of financial investment.

Substantial Expansion – When an existing industrial unit increases its investment in fixed capital and also increases its installed capacity by at least 25% or more.

Diversification - Launching of a new product line by the same company, or partnership, or proprietorship concern.

Modernisation - Adoption of a new and upgraded process by an existing industrial unit under the same management which leads to saving in energy or reduction in cost or reduction in pollution and improvement in production capacity by installation of new machinery, balancing equipment, etc. as may be required. If the existing industrial unit merely replaces plant and machinery, it is generally not considered as modernisation.

Venture Capital – The term 'venture capital' has two distinct meanings. In its pure meaning it means 'funds made available for the financing of a new business'. The definition also involves the process of building & financing successful self-sustaining companies, often from scratch.

Patent – A patent for an invention is the grant of property right to the inventor. In general, the term for a new patent is 20 years. Patent grants are effective only within a country territory. Under certain circumstances, patent term extensions or adjustments may be available.

Designs – These are for protection of Industrial designs.

Trademark – A Trademark is a word, phrase, symbol or design, or combination of words, phrases, symbols or designs used in the course of trade which identifies and distinguishes the source of the goods or services of an enterprise from those of others. A SERVICE MARK is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product. Normally, a mark for goods appears on the product or on its packaging, while a service mark appears in advertising for the services.

Copyright – Copyright is a right given by the law to creators of literary, dramatic, musical and artistic works and producers of cinematograph films and sound recordings. In fact, it is a bundle of rights including, *inter alia,* rights of reproduction, communication to the public, adaptation and translation of a work. There could be slight variations in the composition of the rights depending on the work.

BAR-CODING

Bar-Coding is a series of parallel vertical lines (bars and space), that can be read by bar code scanners. It is used worldwide as part of product packages, as price tags, carton labels, on invoices and even in credit card bills. The bar-code is unique and universal and can be recognized anywhere in the world.

Business Incubation - In simple terms, in our context, a business incubator is a micro environment with a small management team that provides physical workspace, access to technology and finance, R&D support, professional services in one affordable package for nurturing high tech start-ups or ventures.

Business to Business (B to B) – Business enterprises engaged in manufacturing products or dealing in certain products or providing certain services required by other business enterprises are called B to B. e.g. Industrial canteens, ancillary units etc.

Business to Consumer – Business enterprises engaged in manufacturing products or dealing in certain products or providing certain services required by consumers are called B to C. e.g. Retail Shops, Departmental Stores, and Multiplex Theatres etc.

Franchise – A franchise is a system of distribution that enables the supplier (called the franchiser) to arrange for a dealer (called the franchisee) to handle a specific product or service under certain mutually agreed upon conditions.

Once you establish a unit you become an owner of not only the factory but of certain goods and property as well. Here are some terms related to ownership:

Ownership Terms - Generally referred to in connection with immovable or movable property including goods, which are in the legal possession of the owner.

Lease - The assets acquired on a lease basis for which a stipulated amount of lease rent at regular intervals has to be paid. The goods on lease do not offer legal ownership to the person in possession of such goods.

Hire Purchase - Assets acquired by paying necessary hiring charges at regular intervals in pre-determined installments. Once the installments of the hiring charges are fully repaid along with interest, the ownership of such assets is transferred to the person who had paid the hiring charges.

Fixed Assets - The assets which are of a permanent or semi-permanent nature, having longer durability such as land, building, plant and machinery, etc.

Capital Goods - Means any plant, machinery, equipment or accessories required by an investor for production of goods or for rendering of services, including those required for replacement or expansion.

Technology plays an important role in any enterprise. Terms related to technology are given below:

Technical Feasibility - Whether with a given set of facilities, it would be possible to manufacture the end product with the quantity and quality envisaged.

Techno-economic Feasibility - Examines the possibility of manufacturing the end product in the predetermined quantity with desired quality and the sale of the same, resulting in adequate returns to pay back the investment made within a reasonable period of time over the life of the project, with the help of the facilities installed and resources employed.

Technical Know-how - The know-how available with all the technical parameters, which can help to carry out any activity including production of an article.

Design and Engineering - The design of the plant which includes preparation of the lay out, prescription of technical specifications of the plant and machinery, electrical fittings, conveying of materials, including chemicals, and other material handling facilities, etc.

Technology Upgradation - Improvement of technology resulting into reduction in cost of production or energy saving or reduction in pollution hazards or up gradation of quality.

Accessory - A part, sub-assembly or assembly that contributes to the effectiveness of a piece of equipment without changing its basic functions.

Part - An element of sub-assembly or assembly, not normally useful by itself and not amenable to further disassembly for maintenance purposes.

Component - One of the parts or sub-assembly or assembly of which a manufactured product is made of and into which it may be resolved, and includes an accessory or attachment.

Spares - A part of sub-assembly or assembly for substitution that is ready to replace the original similar part, sub-assembly, if it becomes faulty or worn out and includes an accessory or attachment.

Intermediates - The materials, which are neither in a raw form nor a finished form. They may have a potential to be converted into a finished form on further processing.

Consumables - Items which are required in, a manufacturing process but do not form a part of the end product. Items other than catalysts, which are totally consumed during the manufacturing process, are regarded as consumables. Once production commences in a factory, the available resources are utilised to get the end products or consumer goods e.g. water, fuel etc.

Terms Related to Production

Raw Material - The material, which is considered as input material in the raw form, required for manufacturing any product.

Stock-in-Process – The raw material, which is locked up during the process of manufacture and is not readily available for sale.

Finished Goods - The material available in a finished form after processing and which can be readily available for sale.

Consumer Goods - Goods, which can be consumed to directly satisfy human needs without further processing. These would also include consumer durables.

Terms Related to Finance

Finance is a very important aspect of any business and you need to be aware of the financial terms given below to succeed in your business:

Financial Viability – Financial viability means whether the resources employed in the implementation of a project are able to generate adequate cash to repay the cost within a reasonable time during the life of the project.

Current Assets – Current assets include bank balance, cash and other such assets or reserves as are expected to be realised in cash or sold or consumed within a period of not more than twelve months in the ordinary course of a business, such as stock-in-process, amounts due from sundry debtors for sale of goods and for services rendered, advance tax payments and bills receivable, but does not include sums credited to provident fund, pension fund, gratuity fund or any other fund for the welfare of employees, maintained by an industrial undertaking.

Outstanding Debtors - A person or any legal entity that is indebted to pay a specific sum towards the purchase of goods to the seller.

Working Expenses - The expenses required for running the day-to-day affairs of a business, including such expenses as wages and salaries, excise and other taxes to be paid to the concerned authorities, electricity bills, utility bills, establishment expenses, etc.

Current Liabilities - Liabilities, which must be met on demand or within a period of twelve months from the date they are incurred.

Term Finance - Finance available for a longer duration against fixed assets of durable nature, generally repayable over a period exceeding 36 months, or six years.

Shares - The capital of a company is divided into a number of indivisible units of specified amount. Each of such units is called a "Share" which represents the right of a person to a specific part of the capital of the company, as well as liabilities vis-à-vis the company. The Companies Act, 1956 defines a share as a share in the capital of a company and includes stock except when a distinction between stock and share is expressed or implied.

Debenture - The word debenture is derived from the Latin word "debere" which means, "to owe". A debenture is an instrument in writing issued by a company under its common seal, acknowledging its indebtedness for a certain sum of money and undertaking to repay it on or after a fixed period at a future date. According to the Companies Act, 1956, the term debenture includes debenture stock, bonds and other securities of a company. Debenture being a form of loan, interest is payable on the same at a certain specified rate per annum and at stipulated intervals. The holder of debentures is not a partner of the company but merely a creditor.

Underwriting - Before issuing a prospectus inviting public subscription for shares and debentures, the promoters have to make such arrangements as would ensure that public response to the issue is encouraging. Without this, the promoters cannot be sure that the shares and debentures would be fully or substantially subscribed by the public and the required capital for commencing business could be raised. This is done by arranging with a broker or a financier to undertake the task of securing public subscription for shares and debentures of the company or undertake subscription to that portion of the shares and debentures which are not subscribed by the public, in return for an agreed commission. This is primarily a sort of an insurance against the risk of the public not subscribing fully to the shares or debentures issued and is called underwriting arrangement.

Debt-Equity Ratio - The ratio of debt and equity of the total cost of project. While calculating the debt-equity ratio, subsidy and such other sources of finance, which are of a permanent nature and not required to be repaid, are considered as part of equity.

Security Margin - Security available over and above the finances advanced by financial institutions, which is calculated as the percentage ratio of the difference between the value of the assets and the term loan available.

Mortgage - A mortgage refers to the transfer of interest in a specific immovable property for the purpose of securing repayment of a loan or debt. Under mortgage, the borrower passes on to the lender, the interest or right of ownership in the asset, but the possession of the mortgaged asset remains with the borrower. If the borrower makes a default in repayment of the loan, the lender is entitled to take possession of the asset and sell it off to realise his/her dues. Mortgage is therefore, created on some specific fixed assets or property of a permanent nature.

Equitable Mortgage - In an equitable mortgage, 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. If there is a default in the repayment of the loan, the lender cannot dispose of or sell the property without obtaining an order for sale from the court. Equitable mortgage is possible only when the title deed of the property to be mortgaged is available.

Hypothecation - It is a device under which an equitable charge is created on a movable asset for securing a loan or debt, without surrender of ownership and possession of the asset. The ownership and possession of the hypothecated asset is not transferred to the lender but remains with the borrower. The borrower only binds himself/herself, under an agreement, to give up possession of the asset on demand. Hypothecation is a convenient mode of creating a charge on movable assets like raw material, stock-in-process or stock-in-trade, since transfer of possession of such goods to the lender is bound to hamper the business of the borrower.

Demurrage - The charges paid to the port authorities after goods are imported, to the port of entry in India, till the same are taken delivery of.

Incentives - Financial aid or concessions being offered as a measure of compensation to mitigate the likely hardship to be faced by an entrepreneur in carrying out any specific activity in under-developed area of a State. Here, incentives are referred to in relation to setting up of an industrial undertaking in the under-developed areas.

Here are a few more terms you should be familiar with:

Proprietorship - A concern solely owned by one person who is known as the proprietor.

Partnership - Refers to a concern where a minimum of two and a maximum of twenty persons are associated for a specific business venture. These owners are known as partners. When such firms are engaged in the business of financial services, the maximum number of partners is restricted to ten. In case of other partnership concerns, the gains are distributed in an agreed proportion to all the partners, while the losses are shared in an agreed proportion by all the partners, excluding minor (in age) partners who are exempted from bearing the losses.

Private Limited Company - A company incorporated under the Companies Act, 1956, having several closely associated members with a minimum of two members but not exceeding fifty, whose liabilities are restricted to the extent of their holding in the company. In the eyes of law, a private limited company is a separate legal entity and can sue or can be sued.

Public Limited Company - 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. In the eyes of law, a public limited company is a separate legal entity and therefore, it can sue or can be sued.

Capital Market - The market through which necessary capital for the project could be raised.

Viable Operations – Viable operations are those which are remunerative in nature and which can pay back the investment made in the project within a reasonable time frame over the life of the project.

Post-Liberalisation Era – This era refers to the period after the commencement of liberalised economic measures initiated by the Government of India. This period is generally considered from June 1991 onwards.

Multinationals – Companies which have got business interests in more than one country.

Global Linkages - Business linkages established with the rest of the world are called global linkages.

These are some of the terms frequently being used in the business world and also by support agencies promoting entrepreneurship in India. An understanding of these terms will enable you to gain insight into the subject of entrepreneurship.

SAQ 1.1

Fill in the blanks:

1) The assets, which are of ______________ nature having __________________ durability, are known as fixed assets.
2) Term finance is generally repayable over a period exceeding ______________ months.
3) When a partnership firm is engaged in the business of financial services, the maximum number of partners is restricted to __________.
4) A private limited company can be formed with a minimum of __________ members and a maximum of __________ members.
5) A public limited company can be incorporated having several members in ____________ number with a minimum of ____________ members.
6) In the case of limited companies, the liability of each of the members is restricted to the extent of their _________ in the company.
7) Post-liberalisation era in India is generally referred to as the period from ________________ onwards.

UNIT 2

Contents

The aim of this chapter is to:

- help you understand the support you receive from government in starting and managing your business

Objective:

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

- define tiny, small and ancillary industrial units
- list the concessions and facilities available to you as a small entrepreneur.

Assuming that you have understood the definition of various terms that are often used in business/industry, let us now try to understand the importance of the small scale sector in the Indian economy.

Small Scale Sector

The Small Scale Sector (SSI) has been recognised as the most powerful and vibrant sector of our economy. It has the potential to provide more employment per unit of investment and therefore, the government attaches great importance to the development of the small and the ancillary sectors. The ancillary units provide support services required for the growth of medium and large-scale sectors in the country. The small sector has acquired prominence over the years through its multifaceted contribution. The number of units, value of output, investment and employment generated by the small sector has grown substantially since independence.

The SSI sector has by its less capital intensive and high labour absorption nature, made significant contribution to employment generation and also to rural industrialization. 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. This is the opportune time to set up projects in the small scale sector. It may be said that the outlook is positive, indeed promising, given certain safeguards. This expectation is based on an essential feature of the Indian industry and the demand structure. The diversity in production systems and demand structure will ensure long term co-existence of many layers of demand for consumer products/technologies/processes. There will be flourishing markets for the same product/process, differentiated by quality, value addition and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and somewhat protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods.

The small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

SSI Sector Significantly Contributes to Exports

SSI sector plays a major role in India's present export performance; 45% - 50% of the Indian Exports is contributed by the SSI sector. Direct exports from SSI sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small scale industrial units indirectly contribute around 15% to exports. This is contributed through merchant exporters, trading houses and export houses, or in the form of export orders from large scale units or production of parts and components for use for finished exportable goods. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products etc.

What is a Small Scale Unit

In our increasingly knowledge-driven economy, emerging trends are the key consideration in day-to-day business decisions. New products, technologies and creative designs appear almost daily in the market and are the result of continuous human innovation and creativity. Small and medium enterprises (SMEs) are often the driving force behind such innovations.

Having realized the importance of the small scale sector in the Indian economy, you are perhaps now curious to know how the small scale industry is defined by the Government.

The following requirements are to be complied with by an industrial undertaking to be graded as 'Small Scale Industrial undertaking'.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two groups:

(a) **Manufacturing Enterprises**- An enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). A Manufacturing Enterprise is **defined in terms of investment in Plant & Machinery.**

(b) **Service Enterprises**: Enterprises engaged in providing or rendering services and are **defined in terms of investment in equipment**.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

Manufacturing Sector	
Enterprise	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprise	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

Small Scale Service & Business (Industry related) Enterprises (SSSBEs)

SSSBEs industry related service/business enterprises with investment upto Rs 10 lakh in fixed assets, excluding land and building, are called Small Scale Service/Business /Enterprises (SSSBEs).

It may be pertinent to note that while defining a tiny or small or ancillary unit, the Government of India has taken into account only the investment made in plant and machinery. In other words, the other fixed assets such as land, building etc. are to be excluded for calculating the maximum investment limit for the purpose of defining a tiny or small or ancillary industrial undertaking.

Value of Plant and Machinery

It is important to understand what assets are generally considered as part of plant and machinery for the unit to be considered as a tiny, small or ancillary industrial undertaking. To calculate the value of plant and machinery, the original price paid, irrespective of whether the plant and machinery are new or second hand shall be taken into account. In general, for being regarded as a tiny, small scale or ancillary industrial undertaking, the Government of India has issued the following guidelines:

1. Cost of gas producer plants;
2. Transportation charges (excluding sales tax and excise) for indigenous machinery from the place of manufacture to the site of the factory;
3. Charges paid for technical know-how, for erection installation and electrification of plant and machinery;
4. Cost of such storage tanks which store raw material and finished products only and are not linked with the manufacturing process; and
5. Cost of fire fighting equipment.

In the case of imported machinery, the following shall be included in calculating the value, namely: -

1. Sales tax
2. Import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port)
3. Shipping charges and
4. Customs clearance charges

SAQ 2.1

Choose the correct and most appropriate answer

1. Small Scale Sector
    a) Is a small unit
    b) Has the potential to provide more employment per unit of investment.
    c) A neglected sector of Indian economy.
    d) Is permitted to sell its products only in the domestic market.
2. Small Scale Industrial Undertaking is defined as an undertaking involving an investment in plant & machinery not exceeding
    a) Rs. 10 lac
    b) Rs. 35 lac
    c) Rs. 60 lac
    d) Rs. 10 million

Concessions & Facilities

The Government offers a number of concessions and facilities to the small scale sector, to facilitate its growth. The important ones are listed below:

a) (i) Reservation of Items

The present policy of encouraging growth of micro and small scale industries is based on several promotional measures – one of these is reservation of products for exclusive manufacture in the small scale sector in areas where there is techno-economic justification for such an approach. Large/Medium units can, however, manufacture such reserved items provided they undertake to export 50% or more of their production.

The issue of reservation/dereservation of product is examined on a continual basis by an Advisory Committee on Reservation constituted under the I (D&R) Act 1951, which is presently headed by the Secretary.

(ii) Reservation for Manufacturing:

Reservation of items for exclusive manufacture in MSME sector statutorily provided for in the Industries (Development and Regulation) Act, 1951, has been one of the important policy measures for promoting this sector.

The Reservation Policy has two objectives:-

- Ensure increased production of consumer goods in the small scale sector.
- Expand employment opportunities through setting up of small scale industries.

b) Export obligation:

If the units presently in the small scale sector manufacturing a reserved item wish to go beyond the MSME limit they have to obtain a license from the Secretariat for Industrial Approvals. The license pegs their production capacity at current levels. A manufacturer is required to export 50% of the additional production beyond the pegged capacity.

Since 1997, till 5th February, 2008 770 items have been de-reserved.

605 items are presently reserved for exclusive manufacture in the MSME Sector.

There is no regulation or restriction on marketing of the reserved items by large industries.

c) Government's Price And Purchase Preference Policy for Marketing MSME Products

The marketing assistance to the small scale units through preferential purchase by the Central and State Purchase Organisations was emphasised in the comprehensive programme for the development of MSME sector drawn in early 50s in pursuance of Industrial Policy Resolution of 1984. The emphasis was reiterated in the Government Policy in 1991.

i. Items of stores reserved for exclusive purchase from KVIC/Women's Development Corporations/Small Scale units and
ii. Others not so reserved.

d) Price Preference Policy

Assistance under Government Stores Purchase Programme in the form of reservation of products for exclusive purchase from small scale sector and price preference is one of Government of India provide a number of facilities to small scale industries under its Government Stores Purchase Programmes. These include reservation of certain products for exclusive purchase from the small scale sector and price preference up to 15% in case of selected items which are produced in both large scale as well as small scale units. The Single Point Registration Scheme of NSIC was launched as a market support measure for the MSME Sector. Under the Scheme, the following benefits are given to MSME units which get themselves registered with the NSIC:-

i. Availability of Tender Sets free of cost;

ii. Exemption from payment of Earnest Money Deposit;

iii. Exemption from payment of Security Deposit;

iv. Price preference up to 15% over the lowest quotation of the large scale units (on merits)

The NSIC while registering a unit under this scheme is required to undertake capacity assessment of the applicant through the institutional set up of the SISIs in the country. They are also required to obtain confidential report from the bankers of the manufacturers about the credit worthiness/financial standing of the same. The units registered with NSIC under this scheme are given a registration certificate indicating items for which registered and monetary limit up to which registered. The Policy of the Price Preference of 15% is a critical benefit available to the MSME sector. The benefit is available to compensate them on account of non-availability of economies of scale, poor resource base, poor access to raw-material etc. as compared to the large scale sector. The policy of the Price Preference of 15% is an independent policy and is in no way linked with the price preference of 10% to the PSUs and other purchasers.

Word of caution for entrepreneurs*:*

You must have realized that after liberalization and globalization, our Government is reducing it's protective role for SSI sector. This is because there is a saying in English, "Nurture the baby, protect the child and free the adult". Our government now considers that the SSI sector has reached adulthood and therefore provides more freedom, which will be evident from the following pages. It is to be noted that freedom comes along with self-imposed accountability and responsibility.

e) Financial Incentives

With a view to promoting the growth of the units in the tiny and SSI sectors, some of the state governments are offering incentives to units in these sectors in the form of capital investment subsidy and sales tax exemption/deferment in the developing areas.

f) Fiscal Support – Excise

The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods. Besides, all imports are sought to be subject to a duty with a view to affording protection to indigenous industries as well as to keep the imports to the minimum, in the interests of securing the exchange rate of Indian currency.

Custom duties are levied on goods imported in or exported from India at the rate specified under the Customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force. For the purpose of exercising proper surveillance over imports and exports, the Central Government has the power to notify the ports and airports for unloading of the imported goods and loading of the exported goods, the places for clearance of goods to be imported or exported, the routes by which above goods may pass by land or inland water into or out of Indian and the ports which alone shall be coastal ports.

In order to give a broad guide as to classification of goods for the purpose of duty liability, the central Board of Excises Customs (CBEC) periodically bring out a book called the "Indian Customs Tariff Guide" which contains various tariff rulings issued by the CBEC. The Act also contains detailed provisions for warehousing of the imported goods and manufacture of goods is also possible in the warehouses.

For a person who does not actually import or export goods, customs has relevance in so far as they bring any baggage from abroad.

g) Importance of Central Excise Duty

Central excise revenue is the biggest single source of revenue for the Government of India. The Union Government tries to achieve different socio-economic objectives by making suitable adjustments in the scope and quantum of levy of Central Excise duty. The scheme of Central Excise levy is suitably adapted and modified to serve different purposes of price control, sufficient supply of essential commodities, industrial growth, and promotion of small scale industries and like Authority for collecting the Central Excise duty.

Article 265 of the Constitution of India has laid down that both levy and collection of taxes shall be under the authority of law. The excise duty is levied in pursuance of Entry 45 of the Central List in Government of India Act, 1935 as adopted by entry 84 of List I of the seventh Schedule of the Constitution of India. Charging section is Section 3 of the Central Excises and Salt Act, 1944.

h) Liability to pay Central Excise Duty

Section 3 of the Central excises and Salt Act, 1944 provides that there shall be levied and collected in such manner as may be prescribed, duties of excise on all excisable goods other than salt which are produced or manufactured in India at the rates set forth in the schedule to the Central excise Tariff Act, 1985.it is therefore clear that as soon as the goods in question are produced or manufactured, they will be liable to payment of Excise duty. However for convenience, duty is collected at the time of removal of the goods. While Section 3 of the Central Excises and salt Act, 1944 lays down the taxable event, Rules 9 and 49 of the Central excise Rules, 1944 provide for collection of duty.

i) Financial Support Measures for Modernisation / Diversification

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise & operational requirements but also for diversification, modernization/upgradation of facilities, capacities, expansion etc. In respect of SSIs, the problem of credit becomes all the more critical in the event of receipt of a large order, rejection of consignment, inordinate delay in payment etc. In General, SSIs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit.

Government of India recognized the need for a focused credit policy for SSIs in the early days of promotion of SSIs. This in turn led to a policy which includes the following: -

1. In order to provide access to the capital market and to encourage modernisation and technological upgradation, it has been decided to allow Foreign Direct Investment upto 24% of equity in a SSI unit. If the equity goes beyond 24%, the industrial unit loses its SSI status. There is no restriction on the extent of equity that can be held by a Non-resident Indian (NRI) as an individual/partner in a SSI unit. This would also provide a further stimulus to ancillarisation and expansion of employment opportunities.
2. A Limited Partnership Act will be introduced to enhance the supply of risk capital to the small scale sector. This act is intended to limit the financial liability of new and non-active partners.
3. Priority Sector Lending: Credit to the small scale sector is ensured as part of the priority sector lending by banks. Banks are required to ensure that a defined percentage (currently 40%) of their overall lending is made to the priority sectors as classified by Government. These sectors include agriculture, small industries, export etc. The inclusion of small scale sector in this list makes it eligible for this earmarked credit.
4. Institutional Arrangement: Small Industries Development Bank of India (SIDBI) was set up on 2nd April 1990 as the apex refinance bank. Term loans are provided by State Financial Corporation (SFCs) and scheduled Banks. Credit lending in direct/indirect forms is also undertaken to some extent by SIDBI/ NABARD/NSIC etc.

   SIDBI is working with a mission to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

   With liberalization of the Indian economy, greater emphasis has been placed on meeting the credit needs of SSIs and tiny industries. This is manifest through the following initiatives of SIDBI: -

   - Earmarking of credit for the tiny sector within overall lending to the SSI sector
   - Opening of specialized SSI bank branches
   - In the National Equity Fund Scheme, the project cost limit is raised to Rs. 50 lac.
   - A composite loan scheme is launched covering both term loan and working capital for units having a project costs Rs. upto 25 lac.
   - Technology Development & Modernisation Fund through SIDBI.

- Enhancement of turnover limit for assessing aggregate working capital requirement.
- No collateral security for loans upto Rs. 5 lac.
- Launch of Credit Guarantee Scheme to cover loans upto Rs.25 lac
- Credit Linked Capital Subsidy Scheme to provide for subsidy against loan taken for technology up gradation.

5. In order to solve the problem of small and tiny sector units in respect of delayed payment for the sale of their products, SIDBI has set up factoring services. Under this facility, the delayed payments on the sales of small scale units will be handled by SIDBI, by undertaking to make the payment on behalf of the purchasers (Factoring).

6. Alternatively, for delayed payment, the Government of India vide a official gazette, has enacted a law whereby any buyer who fails to make payment of an outstanding amount to the supplier of an ancillary or small scale industrial undertaking, shall be liable to pay interest to the supplier on that amount from the date immediately following the date agreed upon, at a rate which is 5% above the floor rate for comparable lending.

g) Infrastructure Facilities

i) To facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a scheme of integrated infrastructural development for small scale industries is being implemented by SIDO (Small Industries Development Organisation) with active participation of the state governments and financial institutions. Under this scheme assistance upto 40% or Rs. 2 Crore, whichever is less, is provided to State Government / Industry Associations / NGOs for setting up industrial estates in rural/backward areas.

ii) A Technical Development Cell (TDC) has been set up in (SIDO). SIDO would provide technology inputs to improve productivity and competitiveness of products manufactured in the small scale sector. The TDC would also coordinate the activities of the tool rooms, process-cum-development centre-existing as well as those which are to be established under the aegis of SIDO and also interact with other industrial research and development organisations in order to achieve these objectives.

iii) Adequate and equitable distribution of indigenous and imported raw material would also be ensured.

h) Marketing and Exports

i) In spite of the vast domestic market, marketing still continues to remain a prime area of concern for small and tiny entrepreneurs. Mass consumption labour intensive products are predominantly being marketed by the organised sector in India. Looking at the potential of the tiny/small scale sectors, it is felt that these sectors should be offered a significant share of such markets. In addition, market promotion for them should be undertaken through cooperative/public sector institutions, other specialized/professional marketing agencies and, if required, a consortium approach may be adopted.

ii) National Small Industries Corporation (NSIC) has been advised to concentrate on marketing of mass consumption items under a common brand name.

iii) The Government, recognizing the needs of both, the large/medium sector and the SSI sector, encourages the large/medium sector to outsource the parts, components, sub-assemblies etc. required by them, to the SSI and ancillary unit.

Industry associations have also been asked to establish sub-contracting exchanges.

iv) Though the small scale industry, as mentioned earlier, is making a significant contribution to the total exports of the country both directly and indirectly, a large potential still remains untapped. SIDO is the nodal agency to support the small scale industries in export promotion. Market Development Assistance Programme (MDA) for the purpose, has been launched by SIDO, which offers funding upto 90% for to and fro airfare for participation by SSI Entrepreneurs in overseas fairs/trade delegations. The scheme also provides for funding for preparing publicity material (upto 25% of cost), sector specific studies (upto Rs. 2 lacs) and for contesting anti-dumping cases (50% or upto Rs. 1 lac) – for individual SSIs & Associations.

i) Technological Support and Quality Improvement

Technological Support

Small enterprises are known for their labour intensity and the capability to work with local resources. In the past, this has often led to less emphasis on technology. Ordinary functional packaging and inadequate finishing have at times, led to small sector products being labeled as being of poor or substandard quality. This has a negative impact on competitiveness. In the Indian context, a desire to cut initial costs also often leads to purchase of second hand machinery. As small enterprises realize the need to link up with large ones, they are having a relook at technology options which would improve productivity and competitiveness. While sourcing technology, small entrepreneurs need to concentrate on the following essential issues: -

1. Information about technology
2. Actual procurement of technology
3. Finance for technology upgradation

1 <u>Information about technology</u>

For small entrepreneurs, information about technology options is often through word of mouth or a visit to an advanced unit. Few have access to technical literature, professional journals or information about new product launches. In India, much of this is now changing. With the advent of Internet, new vistas are opening up through electronic journals; catalogue downloads and advanced search facilities. The Technology Bureau for Small Enterprises (TBSE)) http://ww.techsmall.com/) promoted with the assistance of the UN offers access to databases and information on technology. In addition, NSIC has taken up an initiative to enhance technology options for SSIs. Technology intervention in clusters offers the cluster members an opportunity to gain knowledge about the latest technology worldwide. Entrepreneurs are also assisted for participation in overseas trade fairs to update themselves with the latest technologies. Tool Rooms, Testing Centres, Production-cum-Process Centres and Workshops also assist in this task.

2) Actual procurement of technology

Even with information, barriers to import of technology, technology transfer issues, vendor capability, after sales support, import procedures, etc. impede procurement. In India, the Asia Pacific Centre for Transfer of Technology (APCTT) promotes match-making between buyer and seller and facilitates procurement through escort services. Encouragement for import of capital goods has also helped matters.

3) Finance for technology upgradation

Small enterprises look to external sources of funding for upgrading technology as withdrawing money from business entails its own costs which they cannot afford. In India, a Technology Upgradation and Modernisation Fund and a Hire Purchase Scheme attempt to meet this requirement. These are however, funds at normal lending costs. A new scheme called Credit Linked Capital Subsidy Scheme for Technology Upgradation in small industries has been put into place to reduce the cost of funds. Under this scheme Capital subsidy is available @12% upto Rs. 4.8 lac on loans taken for technology upgradation to individual small entrepreneurs.

Quality Improvement

ISO 9000/ISO 14001 Certification Reimbursement scheme

To encourage total quality management an incentive scheme of reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 certification/environment management (EMS) ISO 14001 certification to the extent of 75% or Rs. 75,000/-, whichever is lower, has now been made available to SISI / Ancillary / tiny / SSSBe units.

j) Promotion of Entrepreneurship

i) To support first generation entrepreneurs through training, a large number of EDP trainers and motivators have been trained in the country to significantly expand the entrepreneurship development programmes (EDPs). Entrepreneurship Development Institute of India (EDI) in Gujarat is one such national level institute, which offers training programmes for both trainers and entrepreneurs.

ii) Entrepreneurship is also being included in the curricula of vocational and other degree level courses.

iii) Woman entrepreneurs are given special impetus through specially designed training programmes.

k) Simplification of Rules and Procedures

There has been a persistent complaint from the small scale units of being subjected to a large number of acts and laws and having to maintain registers, submit returns and face an army of inspectors to ensure compliance to those acts and laws. In the new policy, it has been decided to make necessary amendments to the laws both at the central and state level to simplify and streamline the procedural aspects to facilitate setting up of small and tiny sector units. To minimize harassment to the small scale sector, Government of India is working towards abolishing the "Inspector Raj" by introducing self-certification, which is prescribed under following three conditions:

- On receipt of specific complaint
- Selection of unit for sample check
- For audit and safely purposes

We suggest that you know about all the above concessions and facilities available to your business.

SAQ 2.2

Choose the correct and most appropriate answer.

i) At present, the items reserved for exclusive manufacture in small scale sector are under:

(a) 497 headings
(b) 605 headings
(c) 807 headings
(d) 1007 headings

ii) SSI units are offered a price preference over medium and large scale units in government purchase upto:

(a) 15%
(b) 25%
(c) 50%
(d) 100%

iii) Presently, the share of SSI sector in export from India is:

(a) 15%
(b) 30%
(c) 35%
(d) 50%

UNIT 2

Contents

The aim of this chapter is to:

- familiarise you with the process and requirements of starting a business.

Objectives:

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

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

Having explained the policies monitoring the growth of SSI sector in the country, in the earlier chapter, we now show you how to plan your enterprise. The process of planning basically involves coordination of various resources at the appropriate time. For the purpose, you are required to sequentially follow a number of steps, which also involve Government formalities.

The overriding reason for anyone to think of establishing a SSI unit can be summarised in one word - OPPORTUNITY. If you can see an opportunity to provide a product or service in a manner to generate sufficient surplus, then one way is to start a SSI unit. This is all the more true if you believe in the maxim, "Small is Beautiful"

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

Steps in planning a New Enterprise

We assume, by now, you would be eager to know how you should go about planning a new enterprise. In these days of competition, it is of utmost importance to ensure that your project is implemented in the shortest possible time. If you have planned all the activities well in advance and arranged for and evaluated the resources required you should be able to implement the project in a minimum possible time. The first and foremost step to initiate the process of planning is the identification of a suitable project.

Step 1: Project Identification

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

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

Identification of a suitable project is a very crucial decision, as the ultimate success of your venture depends upon the selection of the right business idea. It is therefore advisable not to take a hasty decision. We therefore advise you 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 my motivation?
- Is it viable?
- Shall I consult with experts?
- What is the competition
- 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 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 as well as losses to the extent of their holding in the company, as the company is considered to be 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 lot of information about your project. Unit 4 helps you in carrying out market survey. You have to collect information on raw material, machinery, equipment etc. This exercise is called as 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 profit out of my business? (Assessing the economic viability of your business)

The answers to the above three questions presented in a documented form is 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 on the basis of proximity to the sources of raw materials, consumption centre, availability of infrastructure facilities, availability of necessary needed manpower in the surrounding areas transportation facilities and, though not very important, the availability of incentives. At times, some of these requirements are found to be at conflict with each other. A particular location may not fulfill all the requirements. In such an event, you have to strike a balance and arrive at a suitable decision, without hampering the viability the projects. Experience indicates that most of the entrepreneurs tend to give more weight age 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: Obtain permissions & Licenses

After having prepared a business plan and selected the location you are expected to complete various government formalities by obtaining necessary permissions and licenses. Small business in India is governed by various laws, rules and acts formulated by our government. Though in the post liberalization era our government intends to reduce the number of permissions/clearances required for starting and running a business, you need to undertake certain necessary formalities. 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. Annexure-1 gives you list of clearances required for setting up an enterprise.

Step 6: Arranging Finance for your Enterprise

Finance is one of the most critical ingredients of a business. After obtaining the above clearances, you should apply for a term loan either to the state financial institution, or to a commercial bank, with a business plan including market survey as well as all documentary evidences justifying your claim for the techno economic feasibility of the project. The next chapter deals with various sources of finance. e.g.: term loan, working capital & entrepreneur's own capital or contribution.

After the sanction for a loan is received, you may have to execute necessary legal documents mortgaging your assets. The disbursement of term loan generally begins after you fulfill all the conditions stipulated in the sanction letter and also after 25% to 30% own contribution is raised by you and invested in the project. Generally, the institutions disburse 75% of the quantum of the term loan sanctioned on a matching basis and thereafter, you are expected to raise and invest the rest of your contribution to stake your claim for disbursement of the balance of term loan, unless other special conditions governing the disbursement are stipulated.

Step 7: Purchase 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 on the basis of this, you may assess the requirement of land. Normally, land in excess of 5-6 times the built-up areas is considered necessary. However, it all depends upon the project requirements. If the land acquired is in excess of the requirement; you will be unnecessarily blocking funds, which can otherwise be utilised for other productive purposes. The funding requirements needed for 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 Building

Once plot is offered, 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. The fees of the architect will also have to be included under this head.

Step 9: Get 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 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 has been 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 delay in implementation of the project. The cost of the plant and machinery must be estimated correctly so that the project will not be unduly burdened from the viewpoint of financial viability. Once you have chalked out the list of plant and machinery, you should begin to identify the sources of their supply. 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, excise, sale tax, transportation, etc. should be taken into account. In the case of imported machinery, the CIF (import price) value of the machine being imported, customs duty paid at the port of entry, clearing and forwarding charges, transportation, etc. should be taken into account. The cost of auxiliary equipment and material handling facilities, wherever required, should also be taken into account and included under the head of plant and machinery. In addition, the cost of foundation, erection and electrification charges of the machine should also 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 and to reduce 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 the raw material.

Step 12: Carry out Trial Production

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

Step 13: Find first Customer

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

Step 14: Kick-start your Enterprise

When you raise your first bill your business can be considered as started. If necessary (particularly in case of a service enterprise) you may arrange a formal inauguration of your enterprise. If you do so, though 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. We are sure; you would also extend an invitation to EDI.

Annexure 1

Clearances required for setting up an Enterprise

Sl. No.	Type of Clearance	Authority	Remarks
1	SSI Registration	District Industries Centre	Required only for the record purposes
2	Registration under shops and establishment act	Local government i.e. Panchayat/Municipality/Corporation	Required for service enterprises
3	Allotment of plots/shed in industrial estate	State Industrial Development Corporation (SIDC)	
4	Allotment of private land-Government of India	District Collector	
5	NA permission	District collector/DDO	
	Construction of Building		
6	Plan approval in industrial areas	State industrial development corporation	
7	Plan approval in other areas	Local authority e.g. Nagar panchayat, Municipal corporation or urban Development Authority	
	Water requirement	Concerned water authority	
8	In Industrial Estate	SIDC	
9	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 and water & Air Pollution Acts
12	Site clearance certificate	IC Office	
	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 Factory	Chief Inspector, Factories	Factories Act
17	Sales Tax Registration	Sales Tax Office	
18	Trade Union		Trade Union Act

Source: Small Industries in India: Policies & Perspectives in the Emerging Global Context by Yerraam Raju.

SAQ 3.1

Choose the most appropriate word from amongst the options given and fill in the blanks

a) Project identification is the most _____________ decision.

[Suitable, crucial, uncertain, inevitable]

b) You should try to implement the project within________________time

[Longest possible, reasonable, shortest possible]

c) More weight age should be given to ___________________ while selecting the location of a project.

[Incentives, nearness to raw material sources, proximity to market, availability of infrastructure facilities]

d) Before availing of technical know-how, you should evaluate ________________ of technology.

[Availability, present status, charges for acquisition]

e) The Constitution of a business is decided on the basis of _____________________

[One’s own discretion, size of the operations, number of investors]

f) Financial institutions generally disburse ______% of the quantum loan on a matching basis.

[25, 50, 75, 100]

UNIT 2

Contents

The aim of this chapter is to:

- help you decide on suitable form of organization for your enterprise

Objectives

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

- learn about different forms of ownership open to an enterprise
- outline the main features of each form of ownership
- know the advantages and disadvantage of each form of business ownership
- understand the important considerations in the selection of an appropriate form of ownership structure.
- establish overseas office.

Proprietorship

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 effort. He/she manages the business on his or her own. If necessary, He/she may take the help of family members, relatives and employ some personnel.

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. For example/S ABC Software a proprietary concern of Mr. XYZ.It can be set up easily and inexpensively as there is no formal requirement for incorporation

As a sole proprietor you don't have to make any legal documents to begin your business except ofcourse to get such permissions and compliance of such laws which are necessary for the type of business you carry on.

You realise all the profits, bears all the losses, and incurs all the liabilities of the business. Your personal liability towards the creditors and lenders is unlimited.

Main features

- **One Man Ownership**: In 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 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 the 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 bears the full brunt of all losses incurred by the enterprise.

Advantages

1. **Simple Form of Organisation**: Proprietorship is the simplest form of organsiation. You can start your enterprise after obtaining necessary license 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 Take Decisions**: As an owner, the proprietor, you are free to take all decisions and reap all the fruits of your labour.
3. **Tax Advantage**: As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages. For example, as proprietor your income is taxed only once while corporate income is, on occasion, taxed twice, thus there is double taxation.
4. **Easy Dissolution**: In 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.

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 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 risk.

Partnership

You have just seen that the proprietorship form of ownership suffers from certain limitations such as limited resources, limited skills and unlimited liability. Expansion in business requires more capital and managerial skills and also involves more risk.

Let us consider the Indian definition of partnership.

The Indian Partnership Act, 1932, Section 4, defined partnership as "The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

Now, we can define partnership as an association of two or more persons who have agreed to share the profits of a business, which they run together. This business may be carried on by all or any one of them acting for all. The persons who own the partnership business are individually called partners and collectively 'firm' or 'partnership firm'. The name under which a partnership business is carried on is called 'Firm Name".

Main features

1. **More Persons**: As against proprietorship, there should be at least two persons subject to a maximum of ten persons for banking business and twenty for non-banking businesses to form a partnership firm.
2. **Profit and Loss Sharing**: There is an agreement among the partners to share the profits earned and losses incurred in partnership business.
3. **Contractual Relationship**: Partnership is formed by an agreement-oral or written-among the partners.
4. **Existence of Lawful Business**: Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry out some charitable work, for example, it is not regarded as partnership.

5. **Utmost Good Faith and Honesty**: A partnership business solely rests on utmost good faith and trust among the partners.
6. **Unlimited Liability**: Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners' private assets will also be used for the purpose.
7. **Restrictions on Transfer of Share**: No partner can transfer his/her share to any outside person without seeking the consent of all other partners.
8. **Principal-Agent Relationship**: The partnership firm may be carried on by all partners or any of them acting for all. While dealing with the firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm as well as of the other partners.

Advantages

1. **Easy formation**: Partnership is a contractual agreement between the partners to run an enterprise. Hence, it is relatively easy to form. Legal formalities associated with formation are minimal. Though the registration of a partnership is desirable, it is not obligatory.
2. **More Capital Available**: We have just seen that sole proprietorship suffers from the limitation of limited funds. Partnership overcomes this problem, to a great extent, because now there is more than one person who provides funds to the enterprise. It also increases the borrowing capacity of the firm. Moreover, the lending institutions also perceive less risk in granting credit to a partnership than to a proprietorship because the risk of loss is spread over more than one person rather than only one.
3. **Combined Talent, Judgement and Skill**: As there is more than one owner in partnership, all the partners are involved in decision-making. Usually, partners are selected from different specialized areas to complement one another. For example, if there are three partners, one partner might be a specialist in production, another in finance and the third in marketing. This gives the firm an advantage of collective expertise for taking better decisions.
4. **Diffusion of Risk**: You might have just seen that in a proprietorship the entire losses are borne by the proprietor only but in case of partnership, the losses of the firm are shared by all the partners as per their agreed upon profit-sharing ratios. Thus, the share of loss in case of each partner will be less than that in the case of proprietorship.
5. **Flexibility**: Like proprietorship, the partnership business is also flexible.
6. **Tax Advantages**: Taxation rates applicable to partnership are lower than those for proprietorship and company forms of business ownership.

Disadvantages

1. **Unlimited Liability**: In a partnership firm, the liability of partners is unlimited. Just as in proprietorship, the partners' personal assets may be at risk if the business cannot pay its debts.

2. **Divided Authority**: Sometimes the earlier stated maxim of "two heads are better than one" may turn into "too many cooks spoil the broth." Each partner can discharge his/her responsibilities in his/her concerned individual area. But, in case of areas like policy formulation for the whole enterprise, there are chances for conflicts among the partners. Disagreement among the partners over enterprise matters has destroyed many a partnership.
3. **Lack of Continuity**: Death or withdrawal of one partner causes the partnership to end. So, there remains uncertainty in continuity of partnership.
4. **Risk of Implied Authority**: Each partner is an agent for the partnership business. Hence, the decisions made by him/her bind all the partners. At times, an incompetent partner may lead the firm into difficulties by taking wrong decisions. Risks involved in decisions taken by one partner are to be borne by other partners also. Choosing a business partner is, therefore, much like choosing a life partner.

Partnership Deed

By now you have learnt that 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 future. When the agreement is in a written form, it is called 'Partnership Deed'. It must be duly signed by the partners, stamped and registered. Any alteration in the partnership deed can be made with the mutual consent of all the partners.

Although it is left to the choice of the partners of the firm to decide themselves as to what should be mentioned in their partnership deed, yet a partnership deed generally contains the following:

1. Name of the firm.
2. Nature of the business.
3. Names of partners.
4. Place of business.
5. Amount of capital to be contributed by each partner.
6. 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.

Registration of the Firm

Under the Indian Partnership Act, 1932, registration of a firm is not compulsory. However an unregistered firm suffers from certain limitations; hence registration of the firm is desirable. Registration can be done at any time.

Company

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 are the meaning of a company, its main features, advantages and disadvantages.

Meaning

Let us first understand what a company is. A company is an artificial person being created by law that has an existence separate and apart from its owners. In other words, a company is an artificial person created by law, with a distinct name, a common seal and perpetual succession of members. It can sue and be sued in its own name. Let us consider a few more definitions of company.

The Indian Companies Act, 1956 defines a joint stock company limited by shares having a permanent paid up or nominal share capital of fixed amount divided into shares also of fixed amount held and transferable as stock and formed on the principles of having as its members only the holders of those shares or stocks and no other persons."

In brief, a company can be defined as an artificial (legal) person with an independent legal entity.

Main features

1. **Artificial Legal Person**: A company is an artificial person created by law. Though it has no body, no conscience, still it 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 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 company's transactions makes them binding on the company.
4. **Perpetual Existence**: Unlike partnership, the existence of a company is not affected by 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 for ever". It is created by law and is dissolved by law itself.

5. **Limited Liability**: The liability of the members of a company is normally limited to the amount 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. Yes, s/he to follow the procedure laid down in the companies act for transferring his shares. However, there are restrictions for transferring shares to others in 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.
8. **Number of Members**: In case of a public limited company, the minimum number is seven and there is no maximum limit. But, for a private limited company, the minimum number is two and the maximum number is fifty.

Private and Public Company

Private Company: Under section 3(i) (iii) of the Companies Act, a private company has been defined as a company which, by its Articles of Association:

a) restricts the right to transfer shares, if any,
b) limits the number of its members to fifty, and
c) prohibits any invitation to the public to subscribe for the shares or debentures of the company.

Public Company: Under section 3(i) (ii) of the Companies Act, a public company is a company, which is not a private company. By implication, a public company is one which places no restrictions by its Articles of Association on the transfer of shares or on the maximum number of members and can invite the public to subscribe for its shares and debentures and public deposits.

The distinctions between a private company and a public company have been detailed out in a more orderly manner in Exhibit 4.1.

Exhibit 4.1

Distinction between a Private Company and Public Company

Basic of Difference	Private Company	Public Company
1. Members	The minimum number of members is two and maximum is fifty	The minimum number of member is seven and there is no maximum limit
2. Directors	Minimum number of directors needed is two	Minimum number of directors needed is three
3. Prospectus	Filing of prospectus or a statement 'in lieu of prospectus' with the Registrar of companies is not needed before company can allot shares	Filing of 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 minimum subscription has been applied for	It cannot commence allotment of shares unless 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
8. Filing of Balance Sheet	It need not file its Balance Sheet with the Registrar	It must file its Balance Sheet with the Registrar
9. Statutory Meeting	It need not hold a statutory meeting nor it is necessary for it to forward a statutory report to the Registrar	It must hold a statutory meeting and forward a statutory report to the Registrar
10. Directors	No provisions of the Companies Act regarding appointment of directors, their consent to act or to pay for qualification shares apply	These provisions apply to at least three directors of a public company.

Advantages of a Public Limited Company

1. **Limited Liability**: The liability of shareholders, unless and otherwise stated, is limited to the face value of shares held by them or 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 the hands of directors who are elected by the shareholders and are well experienced persons. In order to manage the day-to-day activities, salaried professional managers are appointed. Thus the company's business offers professional management.
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 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.
2. **Legal Restrictions**: Compared to proprietorship and partnership, a company has to comply with more legal requirements. It claims considerable time and effort.
3. **Management Mischief's**: Sometimes the managers and directors misuse the company resources for their personal benefits. This brings losses to the company and the company is closed.
4. **Lack of Personal Interest**: Unlike proprietorship and partnership, the day-to-day affairs of a company are looked after by salaried managers. Since they are employees and not owners, they hardly have any personal interest in and commitment to the company. This may result in inefficiency and in turn, losses.

Selection of an appropriate form of ownership structure

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, 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 business involved in large scale production, the company form of business ownership is preferred.
2. **Area of Operations**: The area of operations has also 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 company.
3. **Degree of Control**: In direct control over business operations is required, the suitable form of ownership may be proprietorship or partnership. 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 partnership. In case of huge capital requirements, the company form of ownership will be the best.
5. **Extent of Risk and Liability**: Business involves risk. If an entrepreneur is ready and capable to bear risk involved in business, he/she can organise his/her business as proprietorship or partnership. But if the entrepreneur is hesitant to bear the risk involved in 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 ad hoc basis, proprietorship or partnership is a better form of business ownership. The reason is that it is easy to form and dissolve. In case, the business is to be run on 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 the more government rules and regulations apply.

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

The aim of this chapter is to:

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

Objectives:

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

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

Before starting your enterprise you also have to decide about its location. Many of you however may opt for your hometown.

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 are:

* The price of land may be too high.
* You may want to set up a chemical or paper or cement or a firecracker project or such other industries, which require water and involve air pollution or safety hazards. In this case, you may prohibit from setting it up in your city.
* There are financial incentives like subsidy, sales tax exemption etc. for setting up industries in less developed areas. You may find these tempting.
* There could be such 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. Sometimes, the decisions are linked together. You may have to select a location you had ranked lower because you get an excellent site there while the site at the location of your choice may not suit your needs at all.

Selection Criteria

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. Have you any idea how you would do that? Exhibit 5.1 lists six considerations for comparison. It also provides a checklist of points for each of these considerations.

Exhibit 5.1
Checklist for Location and Site Selection

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 important markets
7. Distance from major raw material sources and significance (or lack of it) 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 proposed location
15. Whether readily built up factory shed is available at the location and whether its size confirms to your need

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. Telecommunication (availability of new telephone connections, ISTD facility, Internet facility, etc.)
2. Postal facility
3. Bank facility
4. Transport facility
5. Weighbridge
6. Courier
7. Typing/photocopying
8. Warehousing
9. Proximity of offices of law enforcing agencies (excise, sales tax, labour laws, factory inspection, pollution control etc.)
10. Proximity of offices of industry assisting agencies (State Financial corporation, industrial infrastructure corporation, raw material/marketing corporation, district Industries Centre which sanctions and disburses financial incentives)
11. Building/electrical/fabrication contractor facilities
12. Shops for building material, spare parts and such other things
13. Motor-rewinding, painting, gas supply and such other industrial services
14. Technical, educational facility (e.g. industrial training institute, polytechnic)
15. 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
6. Service organization: Rotary Club, Lions Club etc

E. Financial Incentive Position

1. Investment subsidy (central govt. /state govt.)
2. Income tax concession
3. Sales tax exemption/interest free sales tax loan
4. Promoter's contribution (margin) and interest rate policy followed by State Financial Corporation
5. Octroi exemption, electricity duty exemption, local tax exemption and such other incentives.

F. Site-specific Considerations

1. Vantage or otherwise location (e.g. on the highway), frontage, approach etc.
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 contours (leveled, hilly, pits, ravines)
6. Site shape (regular/irregular)
7. Immediate proximity to railway line, national highway, state highway *
8. Overhead telephone or power lines or underground water/drainage/gas lines passing through the site *
9. Access to national/state highway or other roads provided by the state
10. Wind direction in relation to the site #
11. Soil type

---

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

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

\+ Loose soil may increase construction cost.

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. Land owners, residents of nearby villages, towns, local Rotarians etc.

The government, you will notice, is a vast storehouse of information. It is of course a maze, but you can traverse through it. The revenue department officials have tremendous first hand knowledge of an area. The estate agent, because he has escorted such prospective entrepreneurs as you before, is familiar with the right questions and in all probability knows the answers. Existing entrepreneurs have knowledge due to their experiences. They view things from the same angle, as you are apt to do. So, their feedback could prove very valuable.

Location / Site Selection: Common Errors

i) Backward Area Location

Backward area location selection is quite often an error, which some entrepreneurs make and you, therefore, need to guard against it. Often entrepreneurs select a backward area location without realising its full implications. They are tempted by the investment subsidy, sales tax incentive, generous loan margins, lower interest rates and other benefits. Backward area location makes your rupee go a long way. Let us assume you have Rs. 3 lac. You can set up a Rs. 10 lac project with this amount, if you do it in a developed area. But, if you choose a backward area, you can, with your own investment of Rs. 3 lac, set up a Rs. 15 lac project. You will get a subsidy (depending on the policy) probably of Rs. 3 lac. So, it is tempting. But you should choose a backward area location only after considering all the implications such as hidden costs. Besides the infrastructural facilities may be poor, skilled manpower may not be easily available; you may have to spend a considerable amount of money and time for reaching a nearby city for various requirements. You, as a small entrepreneur, may also not have 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. But your business is small. The infrastructural problems will affect your business. Sometimes, they can far outweigh financial benefits. So think carefully before deciding on a backward location.

ii) 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. This means hassles. Since you do not have industrial neighbours, so, go downs, post office, bank, workshop and such other facilities do not develop. Think twice before establishing a factory outside an estate or at a virgin, remote site. Look at the following example:

The Power Feeder: Powerless Gupta

Gupta selected a backward area site, away from an industrial estate because land was cheap and it was on a vantage highway location. There was no industrial power feeder and he figured out that the nearest point was 2 kms away using which would cost about Rs. 3 lac. He wanted to avoid this cost. So, he located an administrative circular in which the state government assured reliable supply from a rural feeder (which was already there). However, he failed to gain the advantage mentioned in the circular.

Since the factory was ready, he did not have any other option but to approach the State Electricity Board (SEB) for permission to get an industrial power feeder. They gave him an estimate of Rs. 8 lac and the minimum time by which he could get it, he was told, was 8 months. This was mainly because of a railway level-crossing which the feeder had to cross and for which, SEB needed approval from the railway authorities. If Gupta wanted to save time, he had to hire liaison personnel to get the approval from the railways quickly and this could cost him another Rs. 1 lac!

SAQ 5.1

A. What are the six-point criteria for selecting location of your enterprise? Write one sentence each specifying the points.

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 aim of this chapter is to:

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

Objectives:

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

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

Types of finance required

For starting any business enterprise you require two types of finances. Viz; medium/long-term finance and short-term finance. The medium and long-term finance is also called fixed capital whereas short-term finance is called working capital or operating capital. Fixed capital is used for creating fixed assets like land, building, plant and machinery, patents etc. Whereas working capital is used to finance current assets like purchase of raw material, payment of wages and other costs, and credit provided to customers etc. Fixed capital is required while starting any new business or expanding an existing business whereas working capital is required for running a business.

Fixed capital needs will have to be met by long-term financial sources whereas working capital needs will have to be met through short-term financial sources to have smooth operations over the project life cycle.

Exhibit 1 shows your various ways of raising long-term (fixed capital) and short-term finances (working capital).

Exhibit-1

- Finance/ Capital Required for Business
  - Medium/Long Term finance (Fixed capital)
    - Equity
      - Personal Savings
      - Funds from Relatives & friends
      - Internal accruals (in case of existing enterprise)
      - Subsidies & Grants
      - Seed capital
    - Others
      - Lease & Hire purchase
      - Venture Capital
    - Debt
      - Term loans
      - Soft loans
      - Debentures
      - Unsecured loans
  - Short-term finance (working capital)
    - Equity
      - Personal
      - Funds from Relatives and friends
      - Operational Cash accruals (existing enterprise)
    - Debt
      - Cash credit/Overdraft
      - Short term
      - Factoring
      - Unsecured loans

Sources of raising finance

We will now try to understand various sources and ways of raising necessary finance for starting and running your business enterprise.

A) Long –term Finance Sources.

1. Equity: Equity refers to your own investment and does not carry any interest. When you are starting any new project and are a first generation entrepreneur, it is always advisable to use maximum of your equity because then you need not have to pay any interest and there is no burden on your head to repay it within a stipulated time. This helps you smoothen in the initial days of your business. Some entrepreneurs try to bring minimum equity even when they are capable of raising more and tend to depend on borrowed funds. This is not advisable especially if you are a first generation entrepreneur. The various ways of bringing equity are as follows.

- Personal Savings: This is one of the most common sources of raising finance when you are starting a small business.
- Funds from friends and relatives without interest burden.
- Internal accruals: If yours is an existing business then the profit generated in previous years is one of the sources of your equity.
- Subsidies and grants: Under certain schemes you get subsidies from the government or financial institutions like SIDBI (Small Industries Development Bank of India). Some state governments also provide subsidies if you set up your business enterprise in a priority specified area/sector. This also forms part of your equity.
- Seed Capital: Under certain schemes seed capital is provided particularly for first generation entrepreneurs by the state government. Seed capital though is to be repaid, forms a part of equity. Seed capital generally carries only transaction and administrative cost, ranging from 1% to 5% p.a and no real interest.

2. Others

- Lease and Hire purchase: Lease represents a contractual arrangement whereby the lessor grants the lessee the right to use the asset in return for periodic lease rental payments, whereas in hire purchase the (the counter part of lessor) purchases the asset and gives it on hire to the hirer (counter part of lessee). The hirer pays regular hire installments over a specified period of time. This installment covers interest as well as principal repayment. When the hirer pays the last installment, the title of the asset is transferred from the hiree to the hirer. In case of lease the lessee not being the owner of the asset, cannot sell or enjoy the salvage value of the asset, whereas in case of hire purchase the hirer being the owner of the asset can sell assets and also enjoy the salvage value of the asset. State industrial development corporations e.g. GIDC in Gujarat, MIDC in Maharashtra etc., provide you land and building on lease whereas National Small Industries Corporation (NSIC) provides plant and machinery on hire purchase.

- Venture capital: Today the term "Venture Capital" has two distinct meanings. In its pure meaning it means, "Funds made available for the financing of a new business". It involves the process of building and financing successful self-sustaining companies, very often from scratch. The definition thus incorporates all high risk, high potential investments. To put it briefly, it can be called as the early stage financing of new and young companies who want to grow fast. In broad terms, however, it covers a wider range of activities than just start – up situations, which are financed by venture capital funds. Here, the term refers to long-term equity or semi-equity investments for the setting up of firms, specializing in new ideas or new technologies, involving high risk but having potential for significant growth and financial returns. (Venture capital is separately covered in detail in unit no.11.)

3. Debt

- Medium/Long term loans: Term loan represents a major source of debt finance. State financial corporations (SFCs), nationalized banks, Commercial banks etc. provide term loans for small business enterprises. Generally, term loans are refinanced by the Small Industries Development Bank of India (SIDBI) or National Bank for Agriculture Rural Development (NABARD). In selected cases, SIDBI provides direct assistance in the form of term loan.
- Soft loans: Soft loans are similar to term loans with very low rate of interest. Soft loans are provided under certain schemes like National Equity Fund Scheme, Mahila Udyam Nidhi etc.
- Unsecured loans: Loans taken from private sources, friends or relatives, which carry interest, are called unsecured loans. These are called unsecured loans because while taking the loan the entrepreneur does not provide any security for the loan.

B) Short-term finance Sources

Various sources for raising short-term finance can broadly be divided into two categories (1) Equity & (2) Debt

1. **Equity**: As discussed earlier, equity refers to your own investment; either your personal savings or the funds collected from your relatives without paying any interest. For an existing business enterprise, one of the common sources of equity financing is through operational cash accruals. The profit generated in the businesses is usually ploughed back and gets invested in current assets like inventories, debtors etc.
2. **Debt**: Working capital loan is usually provided by commercial banks. The common ways of financing working capital are as follows:

- Cash credit/ Overdraft: Under a cash credit or overdraft arrangement, a pre-determined limit for borrowing is specified by the bank. The borrower can draw as often as required, provided the outstanding does not exceed the cash/credit/overdraft limit. The borrower also enjoys the facility for repaying the amount, partially or fully, as and when he/she desires. Interest is charged only on the running balance, not on the limit sanctioned. A minimum charge is payable irrespective of the level of borrowing, for availing this facility.

This form of advance is highly attractive from the borrower's point of view because when the borrower has the freedom of drawing the amount in installments as and when required, interest is payable only on the amount actually outstanding.

- Short –term Loans: These are advances of fixed amounts to the borrower. The borrower is charged with interest on the entire loan amount, irrespective of how much he/she draws. In this respect, this system differs markedly from the overdraft or cash credit arrangement wherein interest is payable only on the amount actually utilized. Loans are payable either on demand or in periodical installments. When payable on demand, loans are supported by a demand promissory note executed by the borrower. There is often a possibility of renewing the loan.

Factoring:

Factoring is a financial option for the management of receivables. In simple definition it is the conversion of credit sales into cash. In factoring, a financial institution (factor) buys the accounts receivable of a company (Client) and pays up to 80 %(rarely up to 90%) of the amount immediately on agreement. Factoring company pays the remaining amount (Balance 20%-finance cost-operating cost) to the client when the customer pays the debt. Collection of debt from the customer is done either by the factor or the client depending upon the type of factoring. The account receivable in factoring can either be for a product or service. Examples are factoring against goods purchased, factoring for construction services (usually for government contracts where the government body is capable of paying back the debt) in the stipulated period of factoring. Contractors submit invoices to get cash instantly), factoring against medical insurance etc.

Institutions providing Finance

Development Banks and State Financial Corporations (SFCs)

After attaining independence, the government had chalked out a course for achieving rapid industralisation in the country and hence an acute need was felt for setting up institutions which could offer long term finances to enterprises. This resulted in the emergence of term lending institutions both at the national as well the state level. These institutions are known as Development Banks.

For meeting the term finance requirements of small and medium scale industries, the Government of India passed an act in the Parliament called the State Financial Corporations Act, 1951 with the principle objective of assisting industries, especially when the traditional sources of finance for creation of fixed assets are either not adequately available or raising finance from capital markets is difficult.

Small Industries Development Bank of India (SIDBI)

Principal Development Financial Institution for SSI

SIDBI was established on April 2, 1990. The Charter establishing it, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for promotion, financing and development of industry in the small scale sector and coordinating the functions of the institutions engaged in the promotion, financing and developing industries in the small scale sector and for matters connected therewith or incidental thereto.

The business domain of SIDBI consists of small scale industrial units, which contribute significantly to the national economy in terms of production, employment and exports.

In addition, SIDBI's assistance flows to the transport, healthcare and tourism sectors and also to the professional and self-employed persons setting up small sized professional ventures.

Four basic objectives are set out in the SIDBI Charter. They are:

- Financing
- Promotion
- Development
- Co-ordination

As an apex institution, SIDBI makes use of the network of banks and state level financial institutions. SIDBI supplements the efforts of these institutions through its direct assistance schemes to reach financial assistance to the ultimate borrowers in the small scale sector. Refinancing, bills rediscounting, lines of credit and resource support mechanisms have evolved over a period of time to route SIDBI's assistance through the network of other institutions in the financial system.

Some relevant schemes of SIDBI

(a) Direct Finance Scheme (DFS)

SIDBI had been providing refinance to State Level Finance Corporations/State Industrial Development Corporations/Banks etc., against their loans granted to small scale units.

Since the formation of SIDBI in April 1990, a need was felt/representations were made that SIDBI being the principal financial institution for the small sector, should take up financing of SSI projects directly on selective basis. It was felt that SFCs/SIDCs and banks etc., had confined themselves to financing of rather traditional/conventional projects and at times projects with advanced technology with slightly higher investment outlay etc., were not being supported to the extent required. Further, investment activity in SSI sector in some states was not picking up due to poor financial position of SFCs/SIDCs.

Considering all the above factors it was decided to start extending direct finance to SSI units by introduction of - Equipment Finance Scheme

While introducing the DFS, the intention was to enhance the flow of credit to the SSI sector by following a selective approach of direct financing.

Details about the Scheme		
	For	For
	• SSIs • Service sector units with project cost upto Rs.25 crore	• Medium Sector Enterprises (MSE) and Service sector units with project cost above Rs.25 crore and upto Rs.250 crore.
Eligible Borrowers	I] New or existing SSI units. ii] SSI units graduating to medium scale, and iii] Service sector units with an overall project cost not exceeding Rs.25 crore.	i] New or existing medium sector enterprises, and ii] Service sector units with an overall project cost above Rs.25 crore and upto Rs.250 crore with Bank's assistance not exceeding Rs. 50 crore.
Constitution	The unit should generally be a private limited / public limited company. However, partnership firms, sole proprietorship concerns and Societies and Trusts would also be considered on a case-to-case basis.	The unit as a general rule should be a private limited / public limited company
Nature of assistance	Term loan and other forms of assistance such as Working Capital and Bills Discounting (on selective basis).	Term loan and other forms of assistance such as Working Capital Loan, suppliers' & purchasers' bills discounting. Investment products such as debentures, optionally convertible cumulative preference shares, zero coupon bonds, etc.
Currency of loan	In Rupee or foreign currency	In Rupee or foreign currency
Purpose	Assistance for purposes, such as:	Assistance for purposes, such as:
	• <u>Setting up of a new SSI unit/ service sector unit.</u> • Expansion / Diversification/ modernisation/ technology up gradation/ quality certification. • Any other activity considered	• <u>Setting up of a new MSE unit/ service sector unit.</u> • Expansion / Diversification/ modernisation/ technology up gradation/ quality certification.

	relevant to the project. <u>For undertaking various marketing related activities</u> • Acquisition of additional machinery / equipment • Meeting working capital requirements including gap in MPBF or margin on selective basis. • Any other activity as per the guidelines (having linkages and benefits accruing to SSI sector from the proposed assistance). • All activities covered under erstwhile marketing assistance scheme for SSIs.	• Any other activity considered relevant to the project. <u>For undertaking various marketing related activities.</u> • Acquisition of additional machinery / equipment. • Meeting working capital requirements including gap in MPBF or margin on selective basis. • Any other activity as per the guidelines (having linkages and benefits accruing to MSE sector from the proposed assistance). • All activities covered under erstwhile marketing assistance scheme for SSIs.
Minimum loan amount	• Generally Rs.50 lac for setting up new unit and Rs.25 lac for other purposes. • In respect of well run existing SSI units, the minimum loan could be Rs. 10 lac	Generally Rs.100 lac for setting up new unit and Rs.50 lac for other purposes.
Rate of interest	As applicable from time to time.	As applicable from time to time.
Desirable Norms and parameters		
Debt Equity Ratio	Generally not exceeding 2:1 for the firm as a whole.	Generally not exceeding 2:1 for the company as a whole.
Minimum Promoter's contribution (wherever applicable)	New projects - 33%, lower contribution [upto 25%] could be accepted in respect of existing well performing firms. Others - 25% (minimum)	New projects - 33%, lower contribution [upto 25%] could be accepted in respect of existing well performing companies. Others - 25% (minimum)
Period of loan / limit	Minimum 6 months to maximum 8-10 years for term loan (including moratorium of not exceeding 18	Minimum 6 months to maximum 8-10 years for term loan (including moratorium of not

	months).	exceeding 18 months).
Upfront fee [non refundable]	1% of the term loan sanctioned at the time of issue of LoI.	Upto 1% of the term loan sanctioned at the time of issue of LoI.

(b) SIDBI's Refinance Scheme

Scheme	Purpose	Eligible Borrowers	Norms
General Refinance Scheme	For setting up new small scale units or expansion, modernisation, diversification etc. of existing units and for all activities eligible for assistance under the scheme including professional practice/consultancy ventures and service sector units such as tourism related activities / hospitals / nursing homes / polyclinics / hotels / restaurants / marketing and industrial infrastructural projects.	All forms of organisations in the small scale sector (i.e., proprietary, partnership) etc. For infrastructure development - All forms of organisations such as public/ pvt ltd. cos., partnerships, sole proprietary, and municipalities, SIDCs.	Schemes operated through SFCs/SIDCs/banks. Cost of project in respect of service sector units not to exceed Rs.20 crore for banks and as prescribed by IDBI/SIDBI for SFCs/SIDCs.
National Equity Fund Scheme	To meet gap in prescribed minimum promoters' contribution and/or in equity	Small and tiny entrepreneurs for setting up new projects in tiny/small scale sector and rehabilitation of potentially viable sick SSI units irrespective of the location. Existing tiny and small scale industrial units and service enterprises [tiny enterprises would include all industrial units and service industries (except road transport operators) satisfying the	Schemes operated through SFCs/twin function SIDCs/scheduled Commercial Banks/Select Urban Co-operative Banks Cost of project – Not to exceed Rs. 50 lac

		investment ceiling prescribed for tiny enterprises] undertaking expansion, modernization, technology up gradation and diversification can also be considered irrespective of the location	Soft Loan Limit – 25% of cost of project subject to a maximum of Rs. 10,00,000 per project. Service Charges – 5% p.a. on soft loans
Single Window Scheme	To provide both term loan for fixed assets and loan for working capital through the same agency. The total working capital requirement of such units inclusive of all fund based facilities may be taken into account for determining the working capital facility eligible for refinance	Entrepreneurs setting up new projects in SSI/tiny sector, new promoters acquiring unencumbered fixed assets of existing SSI concerns as also existing well run units undertaking modernization/technology up gradation and potentially viable sick units undertaking rehabilitation scheme	Scheme operated though SFCs/twin function IDCs/scheduled commercial banks/eligible state co-operative banks/scheduled urban co-operative banks Term Loan – Not to exceed Rs. 20 crore
Mahila Udyam Nidhi	To meet gap in equity	Women entrepreneurs for setting up new projects in tiny / small scale sector and rehabilitation of viable sick SSI units. Existing tiny and small scale industrial units & service enterprises [tiny enterprises would include all industrial units and service industries (except Road Transport Operators) satisfying the investment ceiling prescribed for tiny enterprises] undertaking expansion, modernisation technology up gradation & diversification can also be considered.	Schemes operated through SFCs / twin function SIDCs / Scheduled Commercial Banks / Select Urban Co-operative Banks Cost of Project not to exceed Rs.10 lac. Soft Loan limit - 25% of cost of Project subject to a maximum of Rs.2,50,000 per project. Service charges -

			1% p.a. on soft loan
Composite Loan Scheme	Assistance for equipment and working capital as also for work Sheds	Artisans, village and cottage industries and small industries in tiny sector	Loan Limit - Not to exceed Rs.25 lac.

(c) Other Schemes of SIDBI

Marketing of SSI products	
Objectives	▪ To provide financial assistance to SSI 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 sector to improve its marketing capabilities
Eligible Borrowers	▪ Existing SSI 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 of 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, production of audio-visual aids, etc. 5. Participation in trade fairs and exhibitions, undertaking 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. ▪ For setting up 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. ▪ 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 centers (within India and abroad) Such infrastructural projects should largely benefit the small scale, cottage and village industries. ▪ Setting up of facilities for providing marketing support to small service units, e.g. data bank, libraries, Internet services, etc. ▪ Any other activity directed towards promoting the marketing of SSI products in domestic or international markets.
Amount of loan	▪ Would be need based, but would not normally be below Rs. 10 lac per borrower.

SAQ 6.1

a) Short-term finances are called as ________________ 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) Single Window Scheme means having term loan and working capital from the same bank. (True /False)

UNIT 2

Contents

Chapter VII

1. Institutional Network
2. Other Agencies

The aim of this chapter is to:

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

Objectives:

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

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

Institutional Network

As mentioned earlier, the small scale sector has been recognised as a vibrant and powerful sector of the Indian economy, having a potential to generate more employment opportunities with relatively low investment. The growth of this sector is therefore vital for the economy. Realizing the importance of the small scale sector, a strong institutional network has been evolved for the promotion of small industries in the country. 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.

National Level Institutions

Small Scale Industries Board: A Think Tank

The Small Scale Industries Board at the national level is an apex body acting as the `Think Tank' to advise the Government on the growth of the small scale sector. It is chaired by the Union Minister of Industries and a meeting of the board is held at least once every year. The Board operates through a number of standing committees for detailed deliberations on major and important issues relating to the growth of the small scale sector. These committees broadly operate on:

(1) Policies and Programmes (2) Development of Industries in specific regions such as the North Eastern Region (3) Ancillary Development (4) Quality Improvement and Marketing Assistance (5) Credit Facilities (6) Taxation and Modernisation (7) Industrial Sickness

The office of the Development Commissioner (Small Scale Industry) serves as the secretariat for the Board.

Small Industries Development Organisation (SIDO):

Small Industries Development Organisation (SIDO) was set up in 1954 to act as a policyformulating, coordinating and monitoring agency for development of small scale industries in the country. It coordinates the work concerning the development of small scale industries on an All India basis through the programmes listed below:

1. Evolving an All India policy and programmes for the development of the SSI sector
2. Coordinating the policies and programmes of various state governments
3. Providing liaison 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 development of industrial estates all over the country

SIDO also provides assistance to 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, which includes responsibility for indicating the lines of manufacture which are suitable for the small scale sector. It also offers assistance in the form of promotion, procurement of raw materials and machinery and 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 centre, regional testing centre and other institutions at the field level.

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

The office of the Development Commissioner Ministry of Micro, Small and Medium Enterprises (Government of India) (DCMSME).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.

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, quality consciousness, strengthening linkages with large medium enterprises and enhancing exports - projects and products 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 schemes comprise of facilitating marketing support, credit support, technology support and other support services.

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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 in an outside the country. These schemes are briefly described as under:

Single point Registration for Government Purchase: NSIC operates a single Point Registration Scheme under the Government Purchase Programme, wherein the registered SSI units get purchase preference in Government purchase programme, exemption from payment of Earnest Money Deposit etc.

- 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 SSIs and to capture market opportunities, NSIC participates in select International and National exhibitions and Trade Fairs every year. NSIC facilitates the participation of the small enterprises by providing concessions in rent etc. Participation in these events exposes SSI 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 to enrich SSI units' knowledge regarding terms and conditions, quality standards, etc required by the buyer. These programmes are aimed at vendor development from SSI units for bulk manufacturers.

Export of Products and Projects: NSIC is a recognized Export House and 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, builders? hardware etc.
- supply of Small Industry projects on 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 Material upto 90 days.
2. bulk purchase of basic raw material at competitive rates.
3. nsic facilitates import of scarce raw material.
4. nsic takes care of all procedures, documentation & issue of letter 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 of loan applications of the interested small enterprises by NSIC to the banks and sharing the processing fee.

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 is operating 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 SSI units
- Good rating to enhance the acceptability of the SSI units with Banks. financial institutions customers and buyers
- Facilitates prompt credit decisions from Banks on proposals of SSI units
- 75% of the credit rating fee is subject to a maximum of Rs. 25,000/- which will be 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/- will be reimbursed to the small enterprise having a turnover above Rs.50 lakh to Rs.200 lac by way of grants.
- 75% of the credit rating fee subject to a maximum of Rs. 40,000/- will be reimbursed to the small enterprise having a turnover above Rs.200 lac by way of grants.

Technology Support

Technology is the key to enhancing a company's competitive advantage in today's dynamic information age. Small enterprises need to develop and implement a technology strategy in addition to financial, marketing and operational strategies and adopt the one that helps integrate their operations with their environment, customers and suppliers.

NSIC offers small units the following support services through its Technical Services Centres and Extension Centres

1. Advising on application of new techniques
2. Material testing facilities through accredited laboratories
3. Product design including CAD
4. Common facility support in machining, EDM, CNC, etc.
5. Energy and environment services at selected centres
6. Classroom and practical training for skill upgadation

NSIC Technical Services Centres are located at the following places

Name of the Centre	*Focus area*
Chennai	Leather & Footwear
Howrah	General Engineering
Hyderabad	Electronics & Computer Application
New Delhi	Machine Tools & related activities
Rajkot	Energy Audit & Energy Conservation activities
Rajpura (Pb)	Domestic Electrical Appliances
Aligarh (UP)	Lock Cluster & Die and Tool making

Infomediary Services

Information today is becoming almost as vital as the air we breathe. We need it every minute of our working lives. With increase in competition and melting away of international boundaries, the demand for information is reaching new heights. NSIC, realizing the needs of MSMEs, is offering Infomediary Services which is a one-stop, one-window bouquet of aids that will provide information on business, technology and finance, and also exhibit the core competence of Indian SMEs.

Membership Benefits

- Tender & Trade Information.
- Banner display on NSIC?s Website
- Access to a wide range of technologies from India and abroad.
- Access to national and international business leads, JV opportunities and trade information.
- Comprehensive information on Government policies, rules and regulations, schemes and incentives.
- Access to industrial databases and members? directory.
- Various value added, specialized services for Infomediary Services members.

Software Technology Parks

NSIC Software Technology Parks (STPs) facilitate small industries in setting up 100% export oriented units for software exports. They also act as a nodal point to activate software exports directly through NSIC. These STPs extend support in terms of the requisite infrastructure to the SSI units to start business operations with a minimum lead time.

Technology Business Incubators

Enterprise development is one of the thrust areas for nurturing development and growth of micro and small enterprises in the country that is being facilitated by providing handholding support to the micro and small enterprises in every field of business. Incubation is one of the appropriate tools to achieve this goal, as it provides necessary facilities for the prospective entrepreneurs and start-up companies to learn product manufacturing processes coupled with technology development, business development under one roof. In these incubators working projects depicting appropriate technology for small enterprises are displayed in working conditions.

Small Enterprise Establishment Programme(SEEP)

This programme facilitates setting up of new enterprises all over the country by creating self-employment opportunities for unemployed persons. The objective of this scheme is to facilitate establishment of new small enterprises by way of providing integrated services in the areas of training in all aspects of starting and managing small business.

International Cooperation

NSIC facilitates sustainable international partnerships. The emphasis is on sustainable business relations rather than on one-way transactions. Since its inception, NSIC has contributed to strengthening enterprise-to-enterprise cooperation, south south cooperation and sharing best practices and experiences with other developing countries, especially those in the African, Asian and Pacific regions. The features of the scheme are:

- Exchange of Business/Technology missions with various countries.
- Facilitating Enterprise to Enterprise cooperation, JVs, Technology Transfer & other form of sustainable collaboration.
- Explore new markets & areas of cooperation:
- Identification of new export markets by participating in sector- specific exhibitions all over the world.
- Sharing of Indian experience with other developing countries

International Consultancy Services

For the last five decades, NSIC has acquired various skill sets in the development process of small enterprises. The inherent skills are being networked to offer consultancy services for other developing countries. This activity has been started during 2004-05 and is expected to occupy a place in the future service profile of the Corporation. The areas of consultancy are as listed below:

1. Capacity Building
2. Policy & Institutional Framework
3. Entrepreneurship Development
4. Business Development Services

Insurance of Export Credit for Micro and Small Enterprises

NSIC is facilitating micro and small enterprises to insure their export credits by entering into strategic alliance with Export Credit Guarantee Corporation of India Limited (ECGC). MSEs would be helped in insuring their export credits through any office of the Corporation, located all over the country. This arrangement is made to strengthen promotion of exports from small enterprises.

Entrepreneurship Development Institute of India (EDI)

Since its inception in 1983, the EDI has been striving to promote creation of new enterprises. It was instrumental in setting up several state level entrepreneurship development (ED) institutions, which in turn, conduct EDPs for potential entrepreneurs. EDI provides training to trainers of ED organisations and institutions. It also conducts programmes for professionals from financial organisations, students, existing entrepreneurs, sons and daughters of existing entrepreneurs and teachers from science and technology colleges in a number of developing countries. EDI had evolved an EDP model which has been adopted by several ED and voluntary organisations in India and other developing countries.

State Level Institutions

The network of state level institutions offering assistance to the small scale sector consists mainly of Industrial Infrastructure Corporations, State Financial Corporations, and State Small Industries Development Corporations. Other establishments like District Industries Centres are by and large, coordinated by the State Directorate of Industries. The Directorate serves the interest of the small scale sector under the overall guidance of SIDO and the concerned central institutions associated with various programmes for development of the small scale sector. The functions of the Directorate can be divided into two parts viz. Regulatory activities and Development activities. In the post-liberalisation period in India, since the aim of the government is to minimise regulations for the healthy growth of industries in the country, the emphasis is slowly changing, and is getting more inclined towards developmental functions. Certain schemes of assistance are directly implemented by the State Directorates. It also oversees the implementation of other schemes with the help of specialised agencies operating at the state level for small and village industries.

District Industries Centres (DICs)

As mentioned earlier, the State Directorate of Industries oversees the implementation of various schemes through its network of DICs, which were established in 1978, primarily to serve as a focal point for the small, tiny, village and cottage industries in their respective district. The objective of the DICs is to make available to the decentralised sector of industries under a single roof all the support services, wherever possible, right from conception to commissioning of projects. The main reason for setting up DICs is the development of small and tiny industrial units in the rural and semi urban areas through which large scale employment opportunities could be created, which in turn would prevent migration of rural workers to urban centre.

Centres & Institutions for Entrepreneurship Development (CEDs & IEDs)

These Institutes have been set up in most of the states to promote entrepreneurship; they identify potential entrepreneurs and motivate them to set up their own ventures by providing necessary training. Annexure I gives a list of these Institutes and Centres.

Technical Consultancy Organisations (TCOs)

The all India financial institutions, with the support of the state level institutions and commercial banks, have promoted Technical Consultancy Organisations (TCOs) at the state level, in different states primarily to provide better quality technical, managerial and marketing consultancy services to new as well as existing small scale entrepreneurs.

They undertake a wide spectrum of consultancy services aimed at securing financial assistance and implementation assistance for new as well as existing enterprises.

Their services include project identification, preparation of techno-economic feasibility studies and detailed project reports, undertaking detailed national and state level market studies, identification of technology sources, evaluation and absorption of technology, turnkey project assignments, preparation of project profiles and desk-based market analysis reports etc. for new entrepreneurs. Whereas for existing enterprises, TCOs undertake diagnostic reports for sick or weak units, marketing assistance including actual sales as well as consultancy for domestic and export markets, technology oriented studies like energy auditing, pollution control, valuation and modernization, stock audit, management consultancy-monitoring on a retainer ship basis, software development, seminars on technology up gradation, etc. Fees for the services rendered by TCOs are subsidsed on account of the institutional support of the promoting institutions. The list of such TCOs is at Annexure II.

State Financial Corporations (SFCs)

The SFCs were mandated to serve as regional agencies for promoting regional growth through the development of small and medium enterprises by grant of loans and participation in their equity base. The main objectives of SFCs are to provide financial assistance to industries, catalyse investment, generate employment and widen the industry base.

The eighteen SFCs across the country provide financial assistance by way of term loans. Moreover SFCs also operate schemes of refinance of IDBI/SIDBI. They also have tailor-made financial schemes for artisans and special target groups. They have also been extending working capital assistance along with term loans under the single window scheme of SIDBI.

State Industrial Development Corporation/State Industrial Investment Corporation (SIDCs/SIICs)

These organizations, developed in 1956 as wholly owned subsidiaries of state governments, act as catalysts to industrial growth. SIDCs are instrumental in providing infrastructure facilities like roads, water supply, and electricity etc. to the industries. They also give assistance by way of term loans, subscription to equity, underwriting etc. They have also diversified by entering into areas like merchant banking, venture capital and mutual funds.

Single Window Coordination Mechanism

Some of the leading industrialised states in India have also made a novel experiment by setting up single window organisations. Gujarat is the first state to have taken the lead in establishing such a mechanism by setting up an autonomous organisation called Industrial Extension Bureau (iNDEXTb) way back in 1978. Other states followed, and today a number of states have evolved a mechanism which can act as a single point contact for entrepreneurs desiring to set up their industrial ventures. These organisations are primarily expected to play the role of industrial promotion in their states in a coordinated manner. They are therefore assigned the responsibility of dealing with inquiries received from prospective entrepreneurs, offering them industrial counseling, helping them to comply with the necessary government formalities, thus ensuring that their projects are implemented in the shortest possible time. The states, which have set up such organisations, are:

Gujarat	- Industrial Extension Bureau (iNDEXTb)
Maharahstra	- Udyog Mitra
Uttar Pradesh	- Udyog Bandhu
Punjab	- Udyog Sahayak
Madhya Pradesh	- Audyogik Sahayata Kendra (ASK)
Haryana	- Industries Assistance Group
Karnataka	- Karnataka Udyog Mitra
Rajasthan	- Bureau of Industrial Promotion
Tamil Nadu	- Industrial Guidance Bureau
Goa	- Udyog Vikas, etc.

Experience reveals that wherever such mechanisms are well supported by various government departments, especially by the higher-ups in the secretariat, they have proved very effective in accomplishing their objectives. You may, therefore, avail of the services of such organisations, if any, in your state, while setting up your venture.

Financial Institutions

Small Industries Development Bank of India (SIDBI)

Commercial Banks

Twenty seven commercial banks, through their countrywide network of more than 68,000 branches, cater to the working capital requirements of small scale industries. They have offered about 17.5 per cent of net bank credit to the SSI sector. Besides short term assistance, the SSI sector, which enjoys the status of 'priority sector' in terms of financing, have also has 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 the small scale entrepreneurs.

Regional Rural Banks

Regional rural banks have been created to promote agriculture; trade, commerce and industry in rural areas and thereby 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 whereby the needs of the SSIs are 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 Cooperative Banks (PCBs) play a vital role in meeting the working capital needs of cottage and tiny industries.

National Bank of Agriculture and Rural Development (NABARD)

NABARD was set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of 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 prosperity of rural areas. 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 the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development Acts as regulator for cooperative banks and RRBs

Other Agencies

Khadi and Village Industries Commission (KVIC)

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 are ...

- The KVIC is charged with the planning, promotion, organisation and implementation of programmes for development of Khadi and other village industries in rural areas in coordination with other agencies engaged in rural development wherever necessary.
- Its functions also comprise building up of a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods and provisions of facilities for marketing of KVI products apart from organisation of training of artisans engaged in these industries and encouragement of co-operative efforts amongst them.
- Further, the KVIC is entrusted with the task of providing financial assistance to institutions and individuals for development and operation of Khadi and village industries and guiding them through supply of designs, prototypes and other technical information.

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 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 Scale Industries Board
   a) offers incentives.
   b) acts as a Think Tank.
   c) lends financial assistance.

II. Small Industries Development Organisation
   a) coordinates the work relating to development of SSI on an all-India basis
   b) is an advisory body to the Government
   c) conducts training programmes.

III. Development Commissioner (SSI)
   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.

IV. National Small Industries Corporation assists small scale industries by way of
   a) direct term loan.
   b) directly undertaking exports.
   c) offering imported and indigenous machines on hire-purchase basis.

V. Entrepreneurship Development Institute of India conducts
   a) Entrepreneurship Development Training Programmes
   b) Technology Upgradation Training Programmes
   c) Quality Upgradation Training Programmes

VI. The State Directorate of Industries functions
   a) to regulate the growth of small scale industries
   b) to develop and promote small scale industries
   c) to regulate the growth and also to develop and promote the growth of small scale industries

VII. District Industries Centres are expected to serve as
   a) retardant
   b) accelerator
   c) static bodies to the growth of small scale industries.

VIII. 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.

IX. Council for Scientific and Industrial Research.

a) develops and offers process know-how.

b) provides information on Government policies.

c) assists in identification of projects.

UNIT 2

Contents

The aim of this chapter is to:

- explain to you the importance of sources of information in the support system for your business

Objectives:

On completion of this chapter, you will understand:

- the importance of obtaining appropriate information on the support available to your business

I have got some surplus funds, which I propose to invest in a suitable industrial project.........

- What should I do?
- Which are the projects which offer potential for investment?
- How should I go about setting up an industrial project?
- Who would guide me?
- Which are the agencies that can help me in my venture?
- In what way can these agencies be of help?
- Where should I locate my project?
- What is going to be the likely requirement of investment?
- What should be the installed capacity to make my operations viable?

These are some of the pertinent questions, which arise in your mind before you can take an investment decision. Elaborating on this idea further, let us first examine broadly the information needs of an entrepreneur.

The information needs of an entrepreneur can be divided into three broad categories:

Viz. (1) General (2) Technical (3) Support agency related

Let us go into further details of the information needs of an entrepreneur.

Information Related to the Project

Before the actual implementation of any project, you need to plan for the project and by and large you would need the following information:

Information on selection of a suitable project

In order to select a suitable project, you first need to identify a few projects suited to your background and the resources available with you. For the purpose, you need to have a prima facie assessment about the market potential of the item. Various publications such as "Guidelines for Industries" published by Ministry of Industry, Government of India, "Bombay Market", "Handbook of Industrial Statistics" published by Ministry of Industry, "Handbook of Statistics" published by Confederation of Indian Industry, etc. may be useful to work out the gap between demand and supply.

Information on the identified project

Based on the market intelligence on several products, you may identify the most suitable project keeping in mind your own background and the resources available with you. After having identified the project, in order to formulate the idea into a concrete proposal, you need to collect a lot of information about various requirements of the project. These include assessment of infrastructure facilities such as land, building, power, water, etc., nature of the facilities proposed to be installed, including sources of supply of plant and machinery and cost thereof, information relating to the supply of raw material and prices thereof, in order to establish the techno-economic feasibility of the project.

Institutions like the Small Industries Service Institute, Technical Consultancy Organisation, Single Point Contact Organisation, District Industrial Centres, etc. offer assistance in these areas. In addition, the Development Commissioner (SSI) has also published project profiles on all the items reserved for the SSI sector. Special directories listing manufacturers of machinery as well as suppliers of raw material such as All India Manufacturers' Organisation Directory, Indian Industries' Directory, Chemical Weekly Buyer's Guide, etc. are available in the market. Directorate General of Technical Development also publishes, from time to time, a directory of manufacturers of engineering stores and chemical stores. With the help of these publications you should be able to collect basic information about the project you have selected.

Information Related to Support System

Information on Infrastructure facilities

In order to select a suitable location for the project, you need to collect information on the availability of infrastructure facilities at different locations. These facilities include availability of land, power, water, facilities for disposal of effluents, transportation etc. This information should be available either with the offices of District Industries Centres, Directorate of Industries or the industrial Infrastructure Development Agencies in your respective state.

Information on Incentives

To reinforce the decision of selection of location coupled with availability of infrastructure facilities, you also need to know about the nature of incentives/ concessions available at the location selected by you. This information should be available with the office of the District Industries Centre of the district in which the project is proposed to be located.

Having collected information about availability of infrastructure facilities and incentives in alternative locations, you may finally select the location of your project.

Financial Tie-up

Having worked out the estimated cost of the project, you now need to know which agencies offer financial assistance. The State Financial Corporations serve as the regional development banks in every state, offering term finance for acquisition of fixed assets. In addition, commercial banks also sometimes offer term finance against the refinance facility available from Small Industries Development Bank of India (SIDBI). However, in both the cases you need to know their terms of operations under various schemes of financial assistance. Further, you should also know the norms under which banks are offering working capital assistance for your type of industry. This would enable you to plan your own resources

Availability of Raw Material

Right at the planning stage, you must know about the sources of raw materials, as near as possible to the proposed location. This information can be had from the DIC as also from the State Directorate of Industries. In addition, as mentioned earlier, several directories are available which would assist you in sourcing out the reliable suppliers of raw materials.

Information Related to Procedures and Formalities

Government Formalities

Before you begin the actual implementation of the project, right at the planning stage, you need to know various Government formalities required to be undertaken for implementation of the project. These formalities would primarily include obtaining SSI registration, pollution control clearance if needed, undertaking formalities for availing of the infrastructure facilities, incentives, financial assistance by way of term loan, working capital, etc. There are certain industries where specific clearances are required, such as approval of Food and Drug Control Authority; as in the case of pharmaceutical industry or food processing industry; clearance from Directorate of Explosives in case any of the materials used/handled by you are explosive in nature; Central Insecticides Board in case you propose to manufacture insecticides/pesticides; and from the prohibition authorities in case of use of prohibited items, etc. Information on such formalities can be had from the DIC or Directorate of Industries or a single point contact organisation in your state. It is advisable to know well in advance the likely formalities and the procedures so that the same could be undertaken at the appropriate time. Besides, the time involved in complying with various laws and acts should be kept at a minimum, which ultimately would help you to implement your project in the shortest possible time.

Import Export Formalities

If you plan to import any capital goods or raw material, you need to know the provisions of the current import policy of the Government of India. Similarly, if you propose to undertake the export of your products, you need to know the current export policy of the Government of India and accordingly, you are required to undertake certain formalities. The information on current policy of import and export can be had from the publication "Export-Import Policy" and the information about the procedural part is available from the "Handbook of Procedures on Exim Policy" published by Ministry of Commerce, Government of India. Further, assistance in this matter can also be availed of from the regional office of Director General of Foreign Trade situated in your state. In addition, concerned Export Promotion Councils also offer help in undertaking these formalities. There are certain states which have also established State Export Corporations in order to help small scale industries to undertake export of various items by way of preparing documents and administering export formalities. If such an organisation exists in your state, you may avail of their assistance. Some basic ideas about export formalities are given in unit 11.

Annexure – I

List of Centres/Institutes for Entrepreneurship Development

1	Director Centre for Entrepreneurship Development 4, T.B. Road, Chokkikulam, MADURAI-625 010 (Tamilnadu)
2	Director The Centre for Entrepreneurship Development Block No. 1, 9 th Floor, Udyogbhavan, Sector 11, Gandhinagar - 382 017 Phone: 079-23256671, 079-23243847 Fax: 23256679 E-mail: dir-ced@gujarat.gov.in, cor-ced@gujarat.gov.in
3	Executive Director Centre for Entrepreneurship Development, M.P (CEDMAP) 16-A, Arera Hills,Jail Road, BHOPAL-462 008 (Madhya Pradesh)
4	Director Centre for Entrepreneurship Development of Karnataka (CEDOK) Plot No. 1, (A&B), Belur Indl. Area, Belgaum Road, Dharwad-580 007 (Karnataka)
5	Director Institute of Entrepreneurship Development, UP A-1 & A-2, Sarojini Nagar, Kanpur Road, LUCKNOW-260 008 (Uttar Pradesh)
6	Executive Director Institute of Entrepreneurship Development, Bihar 5th Floor, BSFC Building, Fraser Road, P.B.No. 114, PATNA-800 001 (Bihar)
7	Executive Director Maharashtra Centre for Entrepreneurship Development A-38, MIDC Centre, Nr. Railway Station, P.B.No. 4546, AURANGABAD-431 005 (Maharashtra)
8	Executive Director Entrepreneurship management Development Institute (EMDI) Laboratory Building, 22, Godam Industrial Area, JAIPUR-302 006 (Rajasathan)

9	Executive Director Himachal Pradesh Centre for Entrepreneurship Development Udyog Bhuvan, Bemloe, SHIMLA-171 001 (Himachal Pradesh)
10	Member Secretary J&K Entrepreneurship Development Institute Directorate of Industries and Commerce Govt. of Jammu and Kashmir Exhibition Ground, JAMMU (J&K)

Annexure – II

State level Technical Consultancy Organisations

1	Andhra Pradesh Industrial & Technical Consultancy Organisation Ltd. Parishrama Bhavanam, 8th Floor Eastern Wing, 5-9-58/B, Basheer Bagh Hyderabad-500 029 Andhra Pradesh
2	Bihar Industrial & Technical Consultancy Organisation Udyog Bhawan East Gandhi Maidan Patna-800 004 Bihar
3	Gujarat Industrial & Technical Consultancy Organisation Ltd. GITCO HOUSE Opp. Sardar Patel Stadium Ahmedabad-380 009 Gujarat
4	Himachal Consultancy Organisation Ltd. New Bridge View Estate The Mall Shimla-171 001 H.P.
5	Industrial & Technical Consultancy Organisation of Tamilnadu Ltd. 50-A, Gream Road Chennai-600 006 Tamil Nadu
6	J&K Industrial & Technical Consultancy Organisation Ltd. Nasib Bhawan, Purani Mandi Post Box No. 84 Jammu-180 001 J & K

7	Kerala Industrial & Technical Consultancy Organisation Ltd. 'Shema', Mahatma Gandhi Road, Post Box No. 1820 Kochi-682 016 Kerala
8	Madhya Pradesh Consultancy Organisation Ltd. Gangotri, T.T. Nagar, Post Box No. 339 Bhopal-462 003 M.P.
9	Maharashtra Industrial & Technical Consultancy Organisation Ltd. Udyog Bhawan, Ist Floor Pune Vidyapith Rasta P.O.Box No. 5599 Pune-411 007 Maharashtra
10	North Eastern Industrial & Technical Consultancy Organisation Ltd. Moniram Dewan Road Bamunimaidan Gauhati-781 021 Assam
11	Orissa Industrial & Technical Consultancy Organisation Ltd. Plot No. 4, Satyanagar Bhubaneswar-751 007 Orrisa
12	Rajasthan Consultancy Organisation Limited Devi Niketan, Sardar Patel Marg Jaipur-302 001 Rajasthan
13	Technical Consultancy Services Organisation of Karnataka Directorate of Industries & Commerce Rashtrothana Parishad Bhavan VI Floor Nrupatunga Road Bangalore-560 002 Karnataka
14	U.P. Industrial Consultants Ltd. Handloom Bhavan, 5th Floor G.T. Road, Sarvodaya Nagar

	Kanpur-208 002 Uttar Pradesh
15	West Bengal Consultancy Organisation Limited Chatterjee International Centre 4th Floor, 33-A Chowringhee Road Calcutta-700 071 West-Bengal
16	North Indian Technical Consultancy Organisation Limited S.C.O. 131-132 (First Floor) Sector 17-C Chandigarh-160 017
17	Haryana Industrial Consultants Ltd. 459, Sector 14 P.B. No. 48 Sonepat-131 004 Haryana

Annexure - III

National Laboratories & Institutes

The following Institutes in India are doing fundamental and applied research on the subject mentioned against each. Industry and trade can benefit from their research and application of scientific knowledge:

SR. No.	Name	Location	Function
1	National Physical Laboratory	New Delhi	Research in problems relating to physics, both fundamental and applied. Maintenance of Standards Testing facilities are also available
2	National Chemical Laboratory	Pune (Maharashtra)	Fundamental and applied research covering the whole field of Chemistry for which other specialised institutes have not been set up. The National Collection of Type Cultured is housed in the Laboratory.
3	Central Fuel	Dhanbad	Fundamental and applied

	Research Institute	(Bihar)	research on fuelsolid, liquid and gaseous. Physical and chemical surveys of Indian coals are conducted through seven coal survey stations under the institute.
4	Central Glass and Ceramic Research Institute	Jadavpur Calcutta (West-Bengal)	Research on different aspects of glass and ceramics, pottery, porcelain, refractories and Institute enamels; development of processes for manufacture of glass and ceramic articles;standardisation of raw materials used in the ceramic industry
5	Central Food Technological Research Institute	Mysore (Karnataka)	Food processing and conservation of food, food engineering and all aspects of fruit technology. Regional fruit and vegetable Preservation stations at Trichur, Nagar, Mumbai, Shimla and Lucknow have been established.
6	National Metallurgical Institute	Jameshdpur (Jharkhand)	Fundamental and applied metallurgical research. It also maintains Regional Laboratory Foundry Research Stations
7	Central Drug Research Institute	Lucknow (Uttar Pradesh)	All aspects of drug research including evaluation and Standardisation of crude drugs, Discovery of substitutes for Pharmacopoeial drugs and plants, Pharmaceutical and synthetic chemical Biochemistry and biophysics, infection Immunisation Pharmacology, Chemotherapy & Experimental medicine
8	Central Electro-Chemical Research Institute	Karaikudi (Tamilnadu)	Research on different aspects of electro-chemistry, including electro metallurgy, electro-

			deposition and allied problems
9	Central Leather Research Institute	Chennai (Tamil Nadu)	Fundamental and applied aspects of leather technology. It has regional extension centre at Bombay, Calcutta, Kanpur, Rajkot and Jalandhar.
10	Central Building Research Institute	Roorkee (Orissa)	Engineering and structural aspects of building and human comforts in relation to buildings.
11	Central Electronics Engineering Research Institute	Pilani (Rajasthan)	Design and construction of electronic equipment and components and testing equipment.
12	. Central Salt and Marine Chemical Research Institute	Bhavnagar (Gujarat)	Investigation on production of pure salts; reduction in cost of production, economic by-products of salt manufacture; of new methods and techniques forth recovery, production and utilisation of marine and allied chemicals
13	Central Mining Research Station	Dhanbad (Bihar)	Research in methods of mining. Research safety in mining and mine machinery
14	Regional Research Laboratory	Hyderabad (A.P.)	Research in problems relating to the industries and raw materials of the region
15	Indian Institute of Experimental Medicine	Calcutta (West Bengal)	Research in various aspects of biochemistry, as applied to medicine bacteriology etc
16	Regional Research	Jammu Tawi (J&K)	Research in problems relating to the industries and raw materials of the region and research specially directed to medicinal plants of the Himalayas (Kashmir Region).
17	Central Mechanical Engineering Institute	Durgapur (West Bengal)	Research in mechanical engineering in all aspects

18	National Environment Engineering Research Institute	Nagpur (Maharashtra)	Research in all aspects of public health engineering and co-ordination of work of all interested agencies in this field in the country.
19	National Aeronautical Laboratory	Bangalore (Karnataka)	Scientific investigation of the flight problems with a view to their practical application to the design, construction and operation of aircraft in India.
20	Regional Research Laboratory	Jorhat (Haryana)	Research in problems relating to more efficient utilisation and better conservation of important national resources of Assam and other regional needs posing special problems.
21	Central Indian Medicinal Plants Organisation	Lucknow (U.P.)	Co-ordination of activities in the development of cultivation and utilisation of medicinal plants on organised basis
22	. Central Scientific Instruments Organisation	Chandigarh	Promotion and development of indigenous manufacture of scientific instruments for teaching research and industry
23	Indian Institute of Petroleum	Dehradun (Uttaranchal)	Research in petroleum refining and processing of natural gas petro-chemicals providing facilities for the training of personnel for petroleum industry.
24	National Geophysical Research Institute	Hyderabad (A.P.)	Correlation of the field data in all fundamental aspects of geology and geophysics with laboratory investigations and theoretical studies.
25	Indian National Scientific Documentation Centre	New Delhi	Provides full range of documentation services

26	National Institute of Oceanography	Panaji (Goa)	Research on various aspects of physical, biological geological and chemical oceanography including Prospecting for petroleum and minerals in sea bed.
27	National Register Unit	New Delhi	Maintenance of information pertaining to Indian scientific and technical personnel in the country and Abroad.
28	Central Design Engineering Research Institute	New Delhi	Provides assistance in the translation of laboratory results into industrial practice and designing of plants based on process
29	Regional Research Laboratory	Bhubaneshwar (Orrisa)	Research in problems relating to the industries and raw materials of the region
30	National Biological Laboratory	New Delhi	Fundamental and applied research in modern of biological sciences
31	Structural Engineering Research Centre	Roorkee	Research in specialised design and development work in structural problems
32	Industrial Toxicological Research Centre	Lucknow (U.P.)	Studies in harmful effects of industrial toxins on Toxicological skin, blood, gastro-intestinal tract, central nervous system, bones, etc.

Annexure – IV

Whom to Contact for what Information?

Sr. No	Area of Assistance	State level Sources	National Level Sources
1	For Selection of Project	SISI, DIC, IDCs, IICs TCOs,SFCs,SIC,IC IEB or PTC	CB,SIDO, CSIR, DEP IIC, IFCI, IPB, NRDC EDI

2	Registration and Licenses	CIF,DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA, STC,TC	CECD,CCIE,ISI, IDC NSIC,RC,RT,SC, DGTD
3	Finance	DIC Banks, SFC, SIC IICs, IDCs	CB,CEC,ICICI,IDBI IFCI,NSIC, SBI,DIC
4	Technical	DDCA, DIC,DJCII,TCOs GMD	CIPET,CSIR,IIC,IIFT MRDC, NSIC,RT,SBI SISI, CITD,ICMR
5	Training	CEDs, IEDs, SISI,TCOs, DICs	SBI,CB, CIPET,IRL, NISIET,IITs, NIESBUD, EDI
6	Infrastructure Facilities	DIC, EB, IDC, LA	
7	Raw Materials	DIC, MID,MDC, SIC, IC STC	CCIE, MMTC, MDC SPC
8	Plant & Machinery	DIC,IIC,SFC,SEC IC, IEB	CCIE, MMTC, MDC SPC
9	Marketing Information	DIC, TCOs, SEC, SIC RIMCO	DEP,DGSD,CCIE,IIFT MID,SIC,ICMR,ICAR
10	Product standardisation, inventions, quality marks	DIC, IC, IRL, Technical Research Laboratories, IITs or Tech. Colleges	IPB, ISI, RT, SISI CITD, ICMR

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
EDI	Entrepreneurship Development Institute of India
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
ISI	Indian Standard Institute
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 Development

MDC	Mineral Development Corporation
NIESBUD	National Institute of Entrepreneurship and Small Business Development
NRDC	National Research & Development Corporation
NISIET	National Institute of Small Industry Extension Training
NIDC	National Institute Development Corporation
NSIC	National Small Industries Corporation
PTC	Polytechnology Transfer Centres
RIMCO	Rural Industries & Marketing Corporation
RC	Registrar of Companies
RT	Registrar of Trade Marks
SBI	State Bank of India
SIDO	Small Industries Development Organisation
SISI	Small Industries Service Institute
SC	Office of the Salt Commissioner
SPC	State Chemicals & Pharmaceuticals Organisation of India
SEC	State Export Corporation
SFC	State Finance Corporation
SSIC	State Small Industries 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 II

I. From the options given, mark the right one

1. An industrial undertaking which complies with the requirements laid down by the Ministry of Industry is
a) Enterprise
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 which can be consumed to directly 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 increase in fixed capital investment and installed capacity.

(true / false)

3. Modernization is merely a replacement of existing set up of plant 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 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 identification of a project important?
4. Which are the agencies that assist in identification of a project?
5. Which are the factors that govern the location of a project?
6. Why is the approval of 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 of 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 a project?
17. Why does a project have to be profitable?
18. What is the significance of break even 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 SSI 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 weight age be given to complying with various Government formalities?
26. What is the importance of coordination of various resources in the process of project planning?