Chapter 5

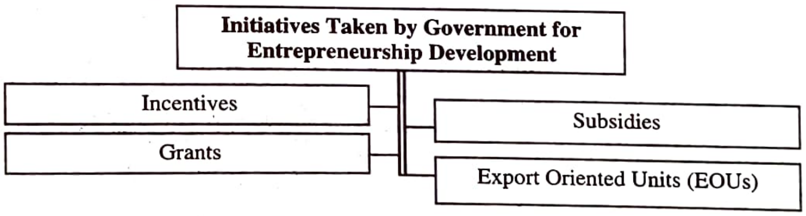
Information for Budding Entrepreneurs

5.1. INITIATIVES TAKEN BY GOVERNMENT FOR ENTREPRENEURSHIP DEVELOPMENT

5.1.1. Introduction

Governments around the world have understood that the entrepreneurial firms play a crucial role in the development of a nation's economy. They support in the economic and social welfare of the nation. The amount of difference made by the entrepreneurial firms may be the point of debate, yet the governments know the role of these firms in the country' development has grown considerably. The developed countries have formulated several progressive policies in order to motivate the entrepreneurial ventures and small business units. The developing and underdeveloped countries are also making various policies for supporting these enterprises. The policies formulated by the governments are generally backed by financial and administrative support provide by the international institutions like World Bank, UNDP, Asian Development Bank (ADB), etc.

Creation of National Institute of Small Industry Extension Training (NISIET) marked the beginning of movements related to entrepreneurship development in India. After that, the scenario of start-ups in India has changed completely; various graduates aspire to launch a start-up in digital products and its related products. Indian Government also provides enough support to existing and aspiring entrepreneurs in order to help them in becoming one of the big companies of the world. Entrepreneurship is a chance for the young and creative minds to prove themselves and made their dreams a reality, it not only benefits the one who started but also creates job opportunity for others. The different initiatives taken by Indian government so as to assist the growth of entrepreneurship are given in the figure below:



5.1.2. Government Incentives for Entrepreneurship

This term is directly associated with encouraging productivity. It simply means a thing which encourages or motivates someone to undertake something. For entrepreneurs, incentives act as a medium of motivation that helps them in taking appropriate decision and act upon it. In broader sense, incentives constitute subsidies, bounties and concessions provided to the entrepreneurs. Incentives can be both financial and non-financial in nature and both help the entrepreneur in taking crucial decision and action.

5.1.2.1. Financial Incentives for SSIs

Micro and small enterprises, especially of developing countries, have to struggle much in fulfilling the requirement of finance, which they need to expand their business. The conventional method of capital generation, i.e., issuing equity shares and debentures, is too costly to afford by micro and small enterprises. Tax rebates, concession in excise duty, exclusion of electricity bills, investment allowance, sales tax exemption, turnover tax exemption, etc., are some of the financial incentives granted by Central and State Government. SSIs get following types of financial incentives:

1) **Investment Allowance:** Investment allowance is defined under Section 31A of the Income Tax Act, 1961. Yet, it was introduced in 1976 and it replaced an allowance, named as, depreciation allowance. According to investment allowance, a SSI can avail the discount of 25% on the purchase of new plant

and machinery. Provided that, the purchased plant and machinery is brought into use in the same year it is been purchased or at most in the immediately following year. Otherwise, the Government can recover the benefit from the beneficiary.

2) **Tax Holidays/Concessions:** Section 80J of the Income Tax Act, 1961 states that a newly established industrial unit need not to pay the income tax on its profit until and unless the profit exceeds 6 per cent per year of the total capital of the unit. This tax concession is applicable on an industrial unit only for first five years of its operation.

   Government of India recently launched a campaign to promote entrepreneurship among Indians. The name of campaign is "Start-up India", which provides exemption from income tax to start-ups on their profits, for first three years of their operation. It also provides exemption from 20 per cent of the income tax to government approved entrepreneurs. Other than income tax, concessions are also given to small scale industries on excise duty, turn-over tax, and sales tax.

3) **Depreciation:** According to Section 32 of the Income Tax Act, 1961 a SSI having a block of assets at the prescribed rate is entitled to a deduction on depreciation account. A maximum amount of ₹20 lac is allowed to be deducted from the actual cost of plant and machinery. For calculating the depreciation amount, diminishing balance method is been used by Income Tax department. And if, assets are obtained before the accounting period, then depreciation is calculated on the written down value.

4) **International Cooperation (IC) Scheme:** The IC scheme covers the activities which can assist the MSMEs to grow such as, upgradation of technology of the firms of MSME sector, their export promotion, etc. The activities covered under IC scheme are as follows:
   i) A group of representatives of MSME sector is sent to different countries in order to identify potential for collaboration and joint ventures, to tap the market opportunities, to identify newer scope of improvements, etc.
   ii) Partaking in events such as, trade fairs, exhibitions, buyer-seller meetings, taking place either in India or in any other country; especially in those where participants came from all over the world.
   iii) Organising the seminars and conferences of global level on topics that could be beneficial to MSMEs.

5) **Credit Linked Capital Subsidy Scheme:** CLCSS has been started by Government of India to assist the MSEs in technological upgradation. According to this scheme, all the manufacturing associated MSEs are entitled for subsidy of 15 per cent or ₹15 lac (whichever is less), in the investment on installation of approved plant and machinery costing maximum ₹1 crore.

5.1.2.2. Non-financial Incentives for SSIs

The incentives which are started for a purpose of developing infrastructural facilities necessary for the smooth functioning of small scale units and overall development of small scale industries are known as non-financial incentives. State Governments develop such facilities and then provide them to the small scale industries either for free or on subsidised cost. Some of the important non-financial incentives prevalent in India for SSI units are as follows:

1) **General Incentives:** Restricting certain items to be purchased in public sector only from micro and small scale units, giving preference to their prices over medium scale units and large scale units, and schemes such as, 'Self-Employment to Educated Unemployed Youth (SEEUY)' are all come in the category of general incentives.

2) **Special Incentives in Backward Areas:** Financial assistance at concessional rate of interests, subsidy in transport facilities, and rebates in income tax are some of the special incentives in backward areas prevailing in India.

3) **Incentives to Non-Resident Indians (NRIs):** NRIs can avail special facilities and incentives if they want to set-up a small scale unit in the state they belong to. State Governments of Uttar Pradesh, Rajasthan, Punjab, and Himachal Pradesh provide such incentives to promote the development of SSIs.

4) **Special Incentives for Women:** Special incentives are provided to those SSI units which are set-up and operated by women and it is run by atleast 80 per cent of women workers as well. Such special incentives include subsidy for rent and acquisition of plant and machinery upto 50 per cent, paid training programmes, managerial grant, etc. Government of Kerala and Tripura have the provision of such incentives.

5.1.2.3. Fiscal and Tax Concessions

Fiscal and tax concessions are one of the major key policies formulated by the government for helping the small and medium enterprises. The best kind of financial incentives provided by the government involves tax rebates and tax holidays given on the direct and indirect taxes. In country like India, everyone is aware that since the inception of first Five Year Plan, development of SSIs has been the important concern as it further associates development of Indian economy. Due to this, the government has continuously provided support to the SSIs and formulated numerous policies keeping in mind the needs of these industries. Beside economic developments and policy liberalisations, tax structure of India has undergone massive changes. **For example,** changes such as relaxation in the rate of corporate taxes and custom duty, simplified tax structures, institution of VAT, harmonisation of custom duties with the standards set by ASEAN, etc. In India several provisions have been made in the tax slab in form of rebates and concessions supporting specific sectors. **For example,** tax concessions for SSIs, enterprises located in rural areas, sick units, infrastructure development units, etc.

Taxation Policies of the Government for Start-ups

Tax exemptions and benefits have been formulated for boosting the start-ups in the country. With the proposal of Union Budget of 2017-18, various changes have been made in the taxation policies which favour the budding entrepreneurs. Some of these changes are made under the 'Start-up India' Policy of the government highlight of which are as follows:

1) **Complete Tax Exemption for First Three Years:** Government has proposed 100 per cent exemption of tax imposed on profits and gains of business for the start-ups involved in development, innovation, distribution or commercialisation of new products, processes or services driven by technology or intellectual property. This relaxation has been given for the first three years of the inception of the entrepreneurial venture. This declaration was made in the Budget Session of the Parliament. The start-ups only need to pay the MAT (Minimum Alternate Tax) at rate of 18.5 per cent. However, the government has also given relief from MAT in case the business fails to make any profit during the first five years of inception. The annual income of the business should not exceed `25 crore in any financial year upto 31 March 2021 else it will be taxed.

2) **Abolition of 'Angel Investment Tax':** Government has also given relief to the start-up firms from 'Angel Investment Tax, which was introduced in 2012. It stated that the angel investors (like family, friends and domestic funds) which are not registered as Venture Capital (VC) funds but which earlier raised capital from VC funds will not be imposed any tax on such investments. These investors enjoy the liberty to issue shares to investors at higher rates without any tax obligations. However, these tax benefits are backed by certain conditions which need to be fulfilled. These conditions are imposed by the Department of Industrial Policy and Promotion (DIPP). For enjoying the benefits of tax concessions, the start-ups need to attain the certificate which states that they are eligible. This certificate is provided by the 'Inter-Ministerial Board of Certification.'

3) **Setting-Up of a 'Fund of Funds' for Start-Ups:** For providing financial support to the start-ups in their inception stage, the government has decided to arrange for funds with an initial corpus of ₹2,500 crore and a total corpus of ₹10,000 crore over a period of four years. The fund will come under 'Fund of Funds (FoF)". These funds will not be invested directly in start-ups but through SEBI registered venture funds.

4) **Exemptions in Capital Gains Tax:** Provisions have also been made for exempting the tax payers from paying capital gain tax which is 20 per cent of the profit from capital gains. Capital gains are derived from the proceeds of sale of capital assets (like bonds, stocks, etc.). Businesses have been demanding for this tax exemption since long. It is seen as a lucrative opportunity for the start-ups. Beforehand, the investments made in Indian start-ups were routed through Mauritius since capital gains tax on investment from that country was waived off due to the policy of Double Tax avoidance.

5) **Other Tax Adjustments and Fund Allocations to Encourage Start-Ups:** Other major adjustments and allocations made for encouraging the start-ups are as follows:
   i) Provisions have been made for boosting entrepreneurs belonging to Scheduled Caste and Scheduled Tribes.
   ii) Funds upto ₹500 crore under Start-up India for SC/ST and women entrepreneurs have been allocated.
   iii) Long-term capital gains tax rates have been lowered for firms which are not in the list from three to two years.
   iv) For enabling the entrepreneurs related with road transport sector, amendment in the Motor Vehicles Act have been made.
   v) The eligibility for the probable tax scheme has been raised for supporting the small businesses. Now, the firms whose turnover is upto ₹2 crore from the earlier ₹1 crore can enjoy the benefit.

vi) For first three years, provision for 'Employee Provident Fund' has also been made. This will help the start-ups in saving 12 per cent of the costs incurred by them. It will also provide security benefits to the employees.

vii) The 80GG deduction has been increased from earlier ₹24,000 to ₹60,000 providing relief to entrepreneurs who are living in rented houses away from their native places.

5.1.3. Government Subsidies

Financial assistance or aid provided to an economic sector including businesses, institutions as well as individuals, aiming at promoting economic and social welfare is known as **subsidy**. The subsidies are generally provided by the government. These subsidies can be given as a support in the form of tax reduction or cash. **For example,** subsidies provided by the government to the BPL (Below Poverty Line) families. The motive behind giving subsidies is to lessen the burden. It is meant for the general welfare of the public. It helps in promoting economic policy and social welfare.

Important Government Subsidies for Small Businesses in India

In case of small scale industry, government subsidies play an important role in supporting small businesses. Both central and state governments provide various incentives for promoting the development of small-scale industries specially MSME. The list of some of the important government subsidies proposed for small business in various sectors is as follows:

1) **Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE):** This scheme is launched by the central government for providing collateral-free credit to Indian MSMEs. The new as well as existing enterprises are eligible for this scheme. A trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been established by SIDBI for implementation of the scheme. Under this scheme, credit facility is given in the form of working capital facility and term loans of up to ₹100 lakh per borrowing unit. This scheme also provides assistance for rehabilitating the sick units.

2) **Government Subsidy for Small Business – Organic Farming:** The commercial production units manufacturing organic fertilizers/bio-fertilizers are given capital investment subsidy by the government. This scheme falls under National Project on Organic Farming. The eligible subsidy amount is declared by NABARD/NCDC. The eligible candidate will receive 50 per cent advance subsidy to the participating bank for keeping the same in subsidy reserve fund account of the concerned borrower.

3) **Technology Upgradation Fund Scheme (TUFS) for Textile Industry:** This scheme is launched by Ministry of Textiles for benefiting the textiles and jute industry. It provides benefits such as 5 percent exchange fluctuation (interest and repayment) from the base rate on FCL, 5 percent interest reimbursement of the normal interest charged by the lending agency on RTL, or 15 per cent credit linked capital subsidy for SSI sector, 20 per cent for power loom sector. Besides, 5 per cent interest reimbursement and 10 per cent capital subsidy for specified processing machinery is also given.

4) **Scheme for Technology Upgradation/Establishment/Modernisation for Food Processing Industries:** Activities such as setting or expanding the food processing industries (fruits and vegetable, milk product, oil seeds, fishery, meat, poultry, etc.) and other agri-horticultural sectors is covered under this scheme. Various other activities like shelf life enhancement of flavours of food, colour of food, spices, coconut, hops, mushrooms, etc., is also covered. Grant is given to the eligible units, upto 25 per cent of the plant and machinery and technical civil work subject to a maximum of ₹50 lakh in General Areas and 33.33 per cent up to ₹75 lakh in Difficult Areas.

5) **Integrated Development of Leather Sector – Scheme for Leather Industry:** As the name suggests, this scheme is meant for boosting the growth of leather industry. It helps the existing footwear, tanneries and leather product units in expanding, improving the design and development, reducing the cost of production, enabling right-sizing of capacity, and motivating the entrepreneurs to set up new units in the leather industry. The new units need to register themselves and provide the copy of the registration for availing the benefits of the scheme. NOC (No Objection Certificate) is also required to be produced to show that the area where plan and machinery is set-up is legally permitted.

6) **Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS):** In order to maintain the competiveness in the market and minimise the production cost, upgradation of the plant and machinery as well as process is important. Ministry of Small Scale Industries runs this technology upgradation scheme.

Its main objective is to facilitate technology upgradation by providing the upfront capital subsidy of 15 per cent which is limited to maximum ₹15 lakh for SSI units. The eligible candidates for this scheme involve private and public limited companies, sole proprietors, partnership firms, and cooperative firms.

7) **Market Development Assistance Scheme for Micro, Small and Medium Enterprises:** This scheme is subjected to offer funds to the manufacturing small and micro enterprises for participating in the International Trade Fairs and Exhibitions organised under MSME India stall, Export Promotion Councils, sector-specific market studies by Industry Associations, Federation of Indian Export Organisation, and reimbursement of 75 per cent of one-time registration and annual fee which has been paid to GSI by the small enterprises for bar code.

8) **Technology and Quality Upgradation Support for MSMEs:** This subsidy has been provided by the government in an effort to enhance the quality standards adopted by the MSMEs in India. It is mainly launched for obtaining the ISO certifications like ISO 9000, ISO 14001 and HACCP. This initiative taken under NMCP focuses on enhancing productivity, technology upgradation, energy conservation, etc., of the manufacturing firms. It also focuses on the expansion of the MSMEs in bot global and domestic markets.

9) **Mini Tools Room and Training Centre Scheme:** In order to assist the state, government has set-up training centres and mini tool room. The government also provides financial support in the form of one-time grant-in-aid. In case new mini tool room has to be created, 75 per cent of the cost (maximum up to ₹7.50 crore) is covered, and in case of setting up of new one, 90 per cent of the cost of machinery/equipment (maximum to ₹9 crore) is covered. The main motive of the government is to develop more tool room facilities. These tool rooms and training centres will help in providing technical support to the MSMEs. It will also create skilled workforce, designers, engineers and supervisors for MSMEs.

10) **Government Subsidy for Small Business from NSIC:** Under this scheme, two basic subsidies namely, marketing assistance and raw material assistance is provided. The main objective of Raw Material Assistance Scheme is to help the Small Scale Industries by providing them financial assistance in purchasing raw material. The raw material purchased can be both imported and indigenous ones. Such assistance helps the small scale businesses to focus on enhancing their product quality standards. National Small Industries Corporation (NSIC) provides support to the MSMEs in improving their product's marketability as well as competitiveness in the market.

11) **Government Subsidy for Small Business for Cold Chain:** Government also provides subsidy to the cold chain under its cold chain scheme. Infrastructure facilities and value addition is provided for having an integrated cold chain. The infrastructure facilities majorly cover pre-cooling facilities at production sites, mobile cooling units, value addition centres and reefer vans. Government aims that the centres should have facilities such as single and multi-line processing and collection centres for cultivated produces, dairy and poultry products, meat, organic products, etc. Any individual, Farmers Producer Organisations (FPOs), Cooperative Societies, NGOs, Self Help Groups (SHGs), entrepreneurs, central or state PSUs, etc., are eligible for setting-up a preservation infrastructure and integrated cold chain. All of them can enjoy the benefits of the grant provided under this scheme.

12) **Under Technology Mission on Coconut (TMOC) for Coconut Producing Units:** Coconut Development Board provides assistance under Technology Mission on Coconut (TMOC). The government helps those who want to start a coconut based business. A subsidy scheme is introduced for the units that employ innovative and value-added coconut producing techniques. All individuals are eligible to avail the benefits provided by government in setting up coconut based business. By paying technology transfer fee, individuals can avail technology for various coconut derived products, e.g., technology for producing coconut oil, packing of tender coconut water, coconut milk powder, vinegar, dietary fibre, etc.

13) **SAMPADA Scheme for Agro-Marine Produce Processing:** This scheme is launched by the government for the development of Agro-Processing Clusters and Agro-Marine processing. The scheme focus on integrating ongoing and upcoming schemes related with the food processing sector. A budget of around ₹6000 Crores has been allocated by the government. Minimising the waste of food and enhancing income of farmers are some of the main objectives of this scheme.

14) **Government Subsidy for Small Business – Dairy Farming:** The NABARD dairy farming subsidy was launched with an aim to support the dairy farming industry in India. It covers all the areas from extracting

milk to managing the manure to convert it into organic fertilizer used in cultivation. The cattle dung can also be used for producing energy through gobar gas for doing mechanical works like drawing water from well and running pumps.

15) **Government Subsidy for Small Business for Horticulture:** National Horticulture Board (NHB) is a government organisation which was established in the year 1984. The main objectives of National Horticulture Board are to develop modern post-harvest management infrastructure, develop hi-tech commercial horticulture, develop the market of horticulture products and also to promote them.

16) **Skill Upgradation and Quality Improvement and Mahila Coir Yojana:** Government has provided various subsidies and schemes for empowering the women in our society, especially the rural women to make them independent. One of these schemes is Mahila Coir Yojana (MCY), which focuses on empowering women by providing them training in spinning at subsidised rate. Skill development (training) programmes are conducted to train these women. Ministry of MSME has launched this scheme and it is applicable in all India states.

5.1.4. Government Grants

The financial assistance given by the government in the way of money without any expectation of receiving back the fund is known as grant. Grants does not include any sort of technical assistance which involves services rather than money or other types of assistance in way of loans, revenue sharing, guarantees, subsidies on interest, insurance, etc. Government serves as the best source for grants even during the times of economic depression.

For example, grants to co-fund the research projects is provided by the government of India. However, the government first examines and verify the project before sanctioning any grants. Government also provides grants for conducting research in technology based project, R & D, and other such initiatives. Small Business Innovation Research (SBIR) is an initiative of Indian government to provide grants for the development of small businesses that are seeking funds for high-risk technologies. The SBIR has provided funds to various start-ups. Grants in the form of funds have been given to healthcare, biotechnology, software, and defence firms.

The communities who are receiving grants have the liberty to develop programmes that helps in meeting the needs in public works, public services, housing, acquisition, economic development, development of property, planning and administration associated with urban needs. However, all these needs should be linked with the national objectives. The grants provided to various communities aims at providing benefits to those having low and moderate income, eliminating poverty, fulfilling basic needs of the BPL families, etc. Sometimes, these communities set-up a revolving loan pools which can be availed by the small businesses and start-ups.

5.1.5. Export Oriented Units (EOUs)

The Export Oriented Units (EOUs) Scheme was launched in 1980. It complements the Export Processing Zone (EPZ) scheme. EOUs follow the same production regime, however, they offer extensive options in terms of sources of raw materials, hinterland facilities, ports, technological skills, infrastructure, and land for the project. EOUs have been set-up aiming at to generating greater production capacity for export products with the help of adequate policy framework, incentives and flexible operations.

In today's time, EOUs have marked an important place in the economic sector. It influences the export production scenario of a country. EOUs have gained dominance in export strategy. Their share in country's export performance is 10 per cent. An export oriented unit can be understood as:

1) Units that offers its entire production for export except for the permitted level of domestic sales and permitted level of rejects.
2) A unit that is indulged in production according to which export targets and export potentials are set by the respective export promotion council.
3) A unit in which an item subject to export control quota ceilings would not be produced that can be availed by the existing units in the country.
4) The main objective of the scheme is to boost exports by enhancing production capacity and also achieving value addition.

Facilities Under EOU Schemes

EOU scheme provides following facilities:

1) **Importability or Procurement of Goods from Domestic Tariff Areas:** EOU scheme permits the EOU/EPZ/EHTP/STP units to procure or import supplies such as raw materials, capital goods, office equipment, packaging material, consumables, spares, etc., from domestic sources without paying any duty. In order to import these supplies, no licence is needed by the export oriented units. These units can use the imported or domestically procured goods for a period of two years.
2) **Exemption from Duties:** The export oriented units are exempted from paying most of the levies and duties like anti-dumping duties, sales tax, etc.
3) **Income Tax Concession:** The EOUs are also given concession on income tax imposed on their profits, as per the Income Tax Act, 1961.
4) **Exemption from Industrial Licensing:** These units are permitted to involve in production of items reserved for Small Scale Industry sector without the need of industrial licensing.
5) **Sub-Contracting:** After taking permission from the Customs Authorities, these units are allowed to sub-contract part of their production and associated process in DTA (Domestic Tariff Area).
6) **Inter-Unit Transfer:** Export oriented units are allowed to provide supplies to other EOU/SEZ units without any payment of duty. These supplies are counted towards fulfilment of export obligation.
7) **Supplies from DTA:** The supplies received by EOU/SEZ units from DTA are considered as 'Deemed Exports' and the suppliers are eligible to avail the benefits of deemed export.
8) **DTA Sale:** EOU units can also sell their goods and services upto 50 per cent off. No DTA sale is permissible in case of tea (except intent tea), alcohol, books and motor cars.

5.2. INCUBATION

5.2.1. Meaning and Definition of Incubation

The idea that innovation fosters economic growth is broadly shared and accepted among economists worldwide. Therefore, one of the most important challenges for economic systems is to encourage technological innovation among research institutes, universities, agencies, and, above all, firms. With this respect, empirical evidence is increasingly showing that young, innovative enterprises should be supported. This need stems from market failures and other shortcomings, such as the difficult relation between academic research and business, the lack of innovation services, the absence of a real "market" for technology transfer, and the difficulties connected to the passage from the seed capital to the venture capital stage. The spread of business incubators represents one of the main answers to the needs of emerging, innovative firms. In some places it is possible for a new venture to use an incubator approach in getting started. Business incubator is a facility with adoptable space that small businesses can lease on flexible terms and at reduced rents. Support services like financial, managerial, technical and administrative are available and shared, depending on the size and nature of tenants needed. Most incubators limit the amount of time, ranging from two or five years, a small business may occupy space in the facility.

According to the American National Business Incubators Association (NBIA), "Business incubation is a dynamic process of business enterprise development. Incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Most also offer entrepreneurial firms shared office services, access to equipment, flexible leases and expandable space – all under one roof. An incubation program's main goal is to produce successful graduates – businesses that are financially viable and freestanding when they leave the incubator, usually in two to three years. Incubator clients are at the forefront of developing new and innovative technologies – creating products and services that improve the quality of our lives – on a small scale today, and on a much grander scale tomorrow".

5.2.2. Types of Incubators

Four types of incubators exist and objectives of each type tend to vary:

1) **Government Sponsored:** These incubators are organised by the government organisations or departments.
2) **Non-profit Sponsored:** These incubators are organised and managed through associations, chambers of commerce, etc. Area development is the major objective of non-project sponsored incubator.

3) **University or Academic Institutions:** Most of them are considered science and technology incubators. The major goal of university related incubators is to transit the findings of fasten research and development into new products and technologies. Some of the academic institutions like IIMs are also acting as business incubators.

4) **Privately Sponsored:** These incubators are organised and managed by private firms or companies or cooperations. The major goal is to make profit.

5.2.3. Incubator Models

The major incubator models are as follows:

1) **First Generation Incubators:** This first model of incubators is basically oriented toward infrastructure component (building new facilities, such as science, technology parks, or technopoles, or by readapting abandoned buildings (e.g., industrial complexes)). These incubators are usually located near research institutes or technical university environments. This approach to development of incubators huge amount of public investment and funding, usually supported by local, regional and state governments. This approach, always demand high level of investments, have long development lifecycles and can suffer from low level of financing in infrastructure.

2) **University Incubators:** University incubators are established by University or higher education institutions. Size and type of those incubators largely depend on kinds of Universities. The common thing for these incubators is orientation toward innovative, research/based firms. Universities usually provide links with technology, research with additional support for commercialisation. Their success is considerably tied to the capacity of linking research with industry.

3) **Virtual Incubators:** Virtual incubators are considered the "second generation" of incubators. Virtual incubators are often hosted by a university or a research centre, and are characterised by their capacity to operate both within walls and outside. When they operate as "incubators without walls" they serve newly created firms without hosting them within the incubator's facilities.

4) **International Enterprise Centres-International Business Incubators:** This model is considered the "third generation" of incubators. These incubators provide a full range of support services for the development of knowledge-based businesses. These incubators create link between different entities such as – universities, research institutes, venture capital and international joint ventures.

5) **Incubator Networks:** This is a network of incubators within the same region or country, or with the same focus. Their strength is based on their capacity to share knowledge and resources, and on the linkages and synergies that can be created in a research and development framework.

6) **Dot.com Incubators:** Dot.com incubators present a 'model' with specific features. This model of incubators or internet business accelerators are a relatively recent but well-known phenomenon in developed markets. Generally it is clear that incubator models have been changing during time, from models that are oriented strictly to infrastructure (buildings, etc.) toward models that are more oriented toward services.

5.2.4. Success Factors of Incubators

Following are the key success factors for business incubators:

1) **Access to Science and Technology Expertise and Facilities:** Conductive environments for business incubation are located where access to scientific and technical knowledge and services and supporting infrastructure is readily available, either from universities or scientific institutions such as the CSIR and science councils.

2) **Availability of Funding:** Incubators must have the ability to help raise capital and provide business tax and risk management services for its clients. Conducive environments are those that have ready access to low-interest funding such as government grants and loans, or angel and venture capital.

3) **Quality of Entrepreneurs:** Notwithstanding the fact that this research found a weak correlation between stringent selection criteria and incubator success, it did find that successful incubation depends on the quality of entrepreneurs being incubated. Entrepreneurship development seems to be more important than selection. The entrepreneurs must have sufficient knowledge and ability, be prepared to take calculated risks, and have the desire to succeed.

4) **Stakeholder Support:** The involvement and support of stakeholders, consisting of sponsors drawn from the local business community, government, the broader community, venture capital providers, entrepreneurs and incubator management are vital for success. It is important that there is clarity, consistency and cooperation from its stakeholders that is consistent with the needs and capacities of the locality it is aiming to serve. There should be consensus on a mission that defines the incubator's role in the community and quantifiable objectives to achieve the mission. Incubators should develop stakeholder support, including a resource network.

   This research found only a weak correlation between support from an experienced advisory board and incubator success. This could simply be that advisory boards have not yet made an impact because of the early stage of incubation in South Africa, or it might indicate that advisory boards are currently ineffective. Incubators need to appoint effective boards of directors committed to the incubator's mission.

5) **Supportive Government Policies:** The success of services directed to entrepreneurship promotion depends largely on a broad-based consensus on economic and industrial policy. Initiatives such as business incubators make sense only if the relationship between entrepreneurship and economic growth has been acknowledged at all levels of government. Government policies should therefore be aimed at creating and sustaining environments that are conducive for business incubation, i.e., having the characteristics described in this report.

6) **Competent and Motivated Management:** The success of business incubators depends to a large extent on the quality of the management teams appointed to operate them. The team leader should have a business background and entrepreneurial skills, a flair for leadership and organisation and be well networked in the community. The management team should be given measurable objectives against which performance can be monitored and incentives should be offered to managers to encourage and award outstanding performance. Incubators must recruit and appropriately compensate management capable of achieving the mission of the incubator.

7) **Financial Sustainability:** Incubators should operate as viable businesses, with their own sources of sustainability such as taking equity, royalties and even ongoing subsidies. The ultimate test of success of an incubator is whether it can be self-sustaining. Incubators should be dynamic models of sustainable, efficient business operations. It is surprising that we found only a weak correlation between implementing a comprehensive business plan and success in incubation. This might also be due of the early stage of incubation in South Africa. Business plans might simply not have had enough time to make an impact yet.

8) **Networking:** Partner networks contribute to incubator successes through sharing of the wisdom reaped from both achievement and failure. Networking is also important in expanding market opportunities for entrepreneurs and graduates. This network typically includes universities, industrial contacts, and professional service providers such as lawyers, accountants, marketing specialists, venture capitalists, angel investors, and volunteers.

5.2.5. Services Offered by Incubators

Various services offered by incubators are as follows:

1) **Flexible Space and Flexible Leases:** Most incubators provide facilities for start-up companies. Traditionally, incubators provide space at below-market rates.

2) **Administrative Services:** Most incubators (88 per cent) provide shared copiers, fax machines, telephone systems, computers, and high-speed internet access. Many incubators also provide administrative staff assistance such as telephone services and clerical support.

3) **Management Help:** This can be the most important service entrepreneurs receive. It often begins with a consultation to help the entrepreneur evaluate concept or growth prospects for a going concern and continues with regular reviews of the business. Incubators typically provide support on business basics such as developing business plans, refining the business concept, and marketing assistance. Roughly 75 per cent of all U.S. incubators also provide help with accounting and financial management services.

4) **Expert Advice:** Expert advice from university business professors, other business owners, lenders, and accountants can help keep a business on track.

5) **Specialisation:** Some incubators are industry-specific. Others focus on servicing businesses with specific social goals. **For example,** Entergy Arts Business Centre, in New Orleans, started as an incubator specifically for individual artists and arts-related businesses. Other incubators serve specific groups, such as female or minority business owners. **For example,** the San Francisco-based Women's Technology Cluster

is a high-tech incubator for female entrepreneurs. The Cluster helps start-ups get off the ground, hosts weekly seminars on business basics, and offers services such as help with hiring, finances, public relations, sales, and web design.

6) **Increased Credibility:** Acceptance represents a kind of Good Housekeeping seal of approval. Most incubators are highly selective about whom they admit.
7) **Easy Networking:** Incubators provide opportunities to chat with other tenants and make formal presentations to potential investors. Phone calls are more often returned when an entrepreneur is physically located at a known incubator in a normal business building.
8) **Funding:** It is usually not available directly from incubators. However, many will help arrange meetings with potential investors. A few public incubators will provide funds to help entrepreneurs get started. **For example**, the Austin incubator will provide $500,000 in seed money. For-profit incubators usually provide investments but take on average 45 per cent equity *versus* the 2 to 5 per cent common with non-profit incubators. For-profit incubators differ from venture capitalists in that they are willing to fund small seed rounds (those below the venture capitalists radar screen), they take a more active role, and they usually are willing to stay in longer.

5.2.6. Incubation Process

Incubation process involves following steps:

1) **Pre-Incubation Phase:** During the pre-incubation phase the incubate selection and sometimes a pre-programme is conducted. Some incubators have a pre-programme for potential entrepreneurs consisting of a combination of training and business planning. Such programmes help to increase individual entrepreneurship orientation through community support. The selection of the tenants is the core of pre-incubation phase as it is one of the main success factors.

   Incubator managers have to decide which firms from the pool of applicants fit their target market and fulfil the admission criteria. Therefore, it is recommended to use different selection criteria such as picking-the-winners, survival-of-the-fittest, or best idea. In addition, the entrepreneurial person can be selected by its composition of different competences or character properties, which is again an important success criterion. A tenant's idea should be analysed with respect to several criteria such as innovativeness, quality of business plan, type of technology, market potential, fit to the incubator's area of expertise, fit to regional cluster firms or risk of failure.

2) **Main-Incubation Phase:** The main-incubation phase is the core part of the incubator where new businesses should grow through support. An incubator is represented by the stakeholders' incubator management, tenants and affiliates. In the following, these single roles are discussed:
   i) **Incubator Management:** The main task of the incubator management is to design the incubator. That includes the complete organisation of the business incubator during the main-incubation as well as the pre-incubation and after-incubation phase. In the first step, the incubator management chooses its tenants. During the main-incubation time it has to arrange different services for the incubatees. These services can either origin from own sources or from external providers such as lawyers, marketing specialists, consultants or volunteers. In this context, networking is an important task of the incubator management.
   ii) **Incubator Tenants:** Tenants or incubatees are people participating in a business incubator programme to boost their businesses by profiting from the offered services. In reward they often have to pay service charges or share equity with the incubator. As mentioned before, tenants are usually chosen based on their idea as well as their character and competences. This kind of human capital is the largest explanatory factor influencing firm survival.
   iii) **Incubator Affiliations:** In addition to the supportive activities of the incubator management, incubator affiliations are essential in model in order to help creating new businesses. Affiliations can consist in form of a linkage to universities, the government, and non-profit or private organisations. **For example**, universities or government research centres can provide access to high technology laboratories. The process starts with an idea and the decision to proceed. By the provision of incubator space and offered services the tenants are able to further develop their ideas until the graduation. During this process a rigorous monitoring system is needed to increase the survival rate of tenant companies. Summarising, in this phase the factors 'incubator services', 'physical/human resources' and 'networked programme' are crucial for the success of the incubator.

3) **After-Incubation Phase:** After-incubation phase starts with the graduation of the tenants and can be divided in incubator impacts and tenant after-care. Through support services tenants are able to transfer ideas and technologies into commercial products on a competitive basis.

   Thus, they create jobs as well as wealth for economies and therefore also influence and develop the external environment. Those impacts cover the incubator goal of establishing viable, successful start-up companies. Thus, the impacts of a successful graduation are equated with its goal.

5.2.7. Roles of Business Incubation

Business incubation has been identified as a means of meeting a variety of economic and socioeconomic policy needs, which may include:
1) Job creation,
2) Fostering a community's entrepreneurial climate,
3) Technology commercialisation,
4) Diversifying local economies,
5) Building or accelerating growth of local industry clusters,
6) Business creation and retention,
7) Encouraging women or minority entrepreneurship,
8) Identifying potential spin-in or spin-out business opportunities, or
9) Community revitalisation.

5.2.8. Importance of Business Incubators

Business incubators support the development of start-ups by providing them with advisory and administrative support services. According to the National Business Incubation Association, an incubator's primary objective is to produce successful and financially viable firms that can survive on their own. Early incubators focused on technology companies or on a combination of industrial and service companies, but newer incubators work with companies from diverse industries:

1) **Handling of Finance:** Incubators help start-ups save on operating costs. The companies that are part of an incubator can share the same facilities and share on overhead expenses, such as utilities, office equipment rentals, and receptionist services. Start-ups can also take advantage of lower lease rates if the incubator is located in low-rent industrial parks.

   Incubators may also help start-ups with their financing needs by referring them to angel investors and venture capitalists, and helping them with presentations. Start-ups may have better luck securing financing if they have the stamp of approval of incubator programmes.

2) **Management:** In addition to financial help, start-ups also need guidance on how to compete successfully with established industry players. Incubators can tap into their networks of experienced entrepreneurs and retired executives, who can provide management guidance and operational assistance.

   For example, a biotechnology start-up would benefit from the counsel of retired pharmaceutical executives who have first-hand experience of the drug development and clinical approval process. Similarly, a restaurant entrepreneur could learn about the difficulties of overseas expansion from retired hospitality-industry executives. Start-ups usually benefit from having respected individuals on their Boards of Directors and scientific advisory panels, because these individuals bring invaluable connections and experience to the table.

3) **Creates Synergy:** The close working relationships between an incubator's start-ups create synergies. Even after the start-ups leave an incubator, the connections and networks established through these relationships can endure for a long time. Start-up entrepreneurs can provide encouragement to one another, and employees may share ideas on new approaches to old problems. Start-ups may plan joint marketing campaigns and cooperate on product development initiatives.

4) **Economic Assistance:** By helping new businesses prosper, incubators assist in creating long-lasting jobs for their host communities. They create long-lasting jobs for new graduates, experienced mid-career personnel, and veteran executives. This benefits communities and drives economic growth.

5.2.9. Government Incentives for Incubation

Different Government of India's incentives for incubation are as follows:

1) **Setup Grant:** Financial assistance is provided up to a maximum of Rs. 30 lakh per incubator per year up to a period of three years. Financial assistance will be provided to selected institutions for setting up the incubator and other activities.

2) **Recurring Expense Grant**: Incubators are entitled for a grant of maximum Rs. 10 lakhs for meeting the recurring expenditure actually incurred as per the details mentioned below. This grant would be based on the performance of the incubator. Some others are:
   i) Grants for supporting operational expenses in the incubator e.g. Salaries of Regional Coordinators, mentoring programs, networking meetings, conducting Hackathons, etc. - Up to Rs. 2 Lakhs.
   ii) Annual Financial support for projects for Training and Capacity Building for Faculty and students. - Up to Rs. 2 Lakhs.
   iii) Exposure to Support and Network Programs conducted by the departments concerned. - Up to Rs. 1 Lakh.
   iv) Opportunity to visit National/ International startup destinations. - Up to Rs. 2 Lakhs
   v) Internship Stipends - Up to Rs. 2 Lakhs
   vi) Miscellaneous other expenses & Administrative +charges - Up to Rs. 1 Lakh.

3) **Rental Reimbursements:** In case of Govt. owned building is leased to an incubator, no lease rent or O & M charges are levied for a period of five years or until the incubator is self-sustainable, whichever is earlier. In case where private premises are taken on lease/rent basis, a rental reimbursement @ Rs. 5 per sq. per month or 25% of the actual rent paid, whichever is less, are reimbursed for a period of 3 years. This shall be limited to the incubation space only.

4) **Investment Subsidy:** In case of incubator set up in private sector, an investment subsidy of 20% of the value of capital expenditure, other than land building, shall be provided to incubation projects that enter into an MOU with the state within 2 years of the notification of this scheme/policy. This subsidy shall be limited to a maximum of Rs. 50 lakh.

5) **Stamp Duty/Registration Fee Reimbursement:** Incubators and Host Institutes shall be eligible for 50% reimbursement of the Stamp Duty and Registration Fee paid on sale/lease.

6) **Land Allotment:** The private party interested to set up incubator in the state shall be eligible for allotment of plot in industrial area for setting up the incubation facility as per the prevailing policy.

5.3. ACCELERATION

5.3.1. Introduction

Business Accelerators share some of the characteristics of incubators, offering professional advice and guidance to start-ups. However, the incubation period is very short and intense. Accelerators aim to turn business ideas into prototypes or products that are ready for market in a matter of months. Sponsors provide initial funding and expertise to small groups that can demonstrate a great product idea. Accelerators are interested in achieving the same overall goal of helping to improve the odds of success for start-ups, but these programs go about achieving that goal in a very different way. First and foremost, accelerators generally make an investment in the companies enrolled in their programs

Acceleration activities ramp up the fledgling business to a point where it can stand on its own relative to other business platforms in the ultimate receiving unit. Whereas incubation reduces market and technical uncertainty through experimentation and learning, acceleration focuses on building a business to a level of some predictability in terms of sales and operations. The skills needed are those required for managing high growth businesses. Acceleration involves exploitation rather than either exploration (which Discovery requires) or experimentation (which Incubation requires). The activities of acceleration include investing to build the business and its necessary Infrastructure, focusing and responding to market leads and opportunities, and beginning to institute repeatable processes for typical business processes such as manufacturing and order delivery, customer contact, and support.

Acceleration involves turning early customer leads into a set of qualified customers and predictable sales forecasts. Similar to an independent start-up firm in first stage growth, acceleration pursues top line revenue rather than bottom line profitability. Once a RI program is generating profitable returns, it can be integrated into an existing business unit with less chance of neglect. It may also become a standalone business unit or spinout with P&L responsibilities.

5.3.2. Components of Business Accelerator

An accelerator should always aim to generate economic benefit and contain specific components which are increasing the likelihood of success. The goal of economic benefit through financial returns determines the building blocks of the accelerator, which usually have to be tweaked and adjusted in order to achieve the desired returns. The various components of business accelerator are as follows:

1) **Selection Process**: The selection process defines the methods of scouting and selecting startups. The targeted startups can typically range from ventures with only a business plan and no prototype or traction in the market, through to startups that have a validated business model and have managed to build a product with initial traction. Scouting takes place via multiple channels, including professional net-work and social media channels where a call for proposals is launched. The selection procedure can be rigorous with multiple interactions such as interviews, pitch events and QETA sessions, or it can be a simpler two-step pitch and choose model. It can be focused around specific verticals or it can be open to any topic, allowing admittance startups in batches or on a continuous basis. Teams are usually preferred over single founders and are selected based on criteria such as the experience of the lead founders, their ability to adapt, quality and scalability of the idea as well as technical specifications of the product. The teams can also emanate from within the corporation, who are run by company employees known as "intrapreneurs".
2) **Deal:** The deal marks the beginning of the acceleration program and deter-mines the contractual ties between the startup and accelerator. The deal is not necessarily financial; a deal can entail, among other terms, a money-for-equity agreement, a resources-for-equity agreement, a convertible loan agreement, or "come with a no-strings-attached" non-equity model.
3) **Acceleration Program:** The acceleration program enables startups to receive hands-on support and gain access to the accumulated knowledge, skills and entrepreneurial expertise the accelerator offers. This access is suppor-ted by an established mentor network, exclusive events, workshops and a growing alumni network. The mentor network is a key element of any acceleration program. A vast and engaged mentor network can support startups by sharing experience concerning pitfalls, advising on next moves and connecting to experts and investors.
4) **Completion:** The completion of the official accelerator program is typically marked by a showcase event often called "demo day" that connects the startups to investors for follow-on funding. Some accelerators do not offer such an event but instead choose to connect startups with investors individually during and after the program.
5) **Alumni Program:** In the alumni program, startups continue to develop and scale. This is also the time when startups receive follow-on funding from investors subsequently raising their valuations. For a financially-driven accelerator such as Y-Combinator, this period is particularly interesting since additional investments, an exit, or an IPO raises their return on investment and thereby proves the success of the program.

5.3.3. Models of Business Accelerator

Two possible models for a successful corporate accelerator designed to drive economic benefit are: the accelerator geared towards financial returns and the innovation integration accelerator.

5.3.3.1. Financial Returns

One way of achieving economic benefit for the organization through the accelerator is investing in startups, building them and producing financial returns through exits. In this case, the organization is acting as an early-stage venture fund. The acceleration program focuses on speeding up the development and valuation growth of a carefully selected class of scalable startups. In order to benefit from existing mechanisms and knowledge, it can be advantageous for the accelerator to cooperate closely with the corporate venture capital arm.

In this model, the organization understands the mechanisms of early-stage venturing and that meaningful financial results for early-stage ventures are typically achieved after 5-7 years. Thus, even if an accelerator were to double this result, a 2-4 year timeframe would still be needed.

This type of accelerator requires a strong long-term financial commitment with lasting C-level and board support, anticipating that the accelerator will most likely be a cost center before achieving returns. Chances are high that along the way, a significant number of startups will fold or fail to achieve acceptable results.

1) **Selection Process**
   i) Will this startup be able to exit or be integrated within the next 5-7 years?
   ii) Does it have the potential to return 10 times the funds invested?
   iii) Does the team have a prototype and first traction in the market?
   iv) Is the founding team visionary, ambitious and able to scale this business beyond borders?
   v) Is the founding team receptive to criticism and ready to pivot from the original idea if the market demands it?
   vi) Do we have a network of experts that can help this startup in its specific vertical?
2) **Deal**
   i) Money-for-equity
   ii) Resources-for-equity
   iii) Convertible loan
3) **Acceleration Program:** The acceleration period focuses on building the venture and making it investor-ready with the understanding that the investor may or may not be the mother company it-self. It supports and guides the startups during their growth with a mentor network including serial entrepreneurs, industry experts and subject matter experts from both outside and inside the organization.
   Alumni are regularly involved in order to share their know-how and experience both on a professional and personal basis, while a strong network of investors and business angels establishes funding opportunities. Workshops and office hours enable faster development of the business model and product. Tangible support like office facilities and IT infrastructure are provided giving the startups the opportunity to concentrate on their development and growth. Regular reporting and milestone meetings evaluate the development of the startup and spot potential focus areas for improvement.
4) **Completion:** For visibility and follow-on funding purposes, the program closes with an investor/ demo day inviting the network of investors and business angels, as well as internal investors, to create funding opportunities, as well as representatives of the organization to assess possibilities of further cooperation.
5) **Alumni Program:** The organization has several options after a startup completes the acceleration program. These options depend on the predefined deal the accelerator has with the startup and the current fit of the startup within the organization. For financial results, the corporation can connect the startups to investors and business angels in order to achieve follow-on funding and thus raise the value of the owned equity. If the startup is of strategic interest to the organization, the corporate venture capital arm can choose to be a co-investor. In case of a convertible loan the organization should convert into equity at a favorable moment according to the agreed conditions.

5.3.3.2. Innovation Integration

Another way for the organization to achieve economic benefit is to directly integrate the innovative technology or business model into the organization. The accelerator thereby acts as a funnel for startups with innovative business models and disruptive technologies, while collaborating closely with business units in order to assure a seamless integration. The more focused the corporation is on specific verticals and core competencies, the higher the chance to create startup partnerships that can be integrated. In this model, the organization already recognizes the need to look outside of its core business and search for opportunities on the edge of the business. Secondly, the organization adopts a culture which is open to innovation and can provide for the agility and speed a startup requires flourishing. Thirdly, a dedicated team is supporting the integration of new technology and business models into the organization, and lastly strong C-level and board commitment ensures that innovation integration is a strategic priority within the organization. Economic benefit is then derived from the impact the integrated technology or business model has on the organization.

1) **Selection Process**
   i) Is this a venture representing the edge of our business?
   ii) Is the market moving in such a way that this innovation may soon be part of, or close to, the core of our business?

iii) Do we have the specific resources the startup needs to further develop the technology?
iv) Do we have a network of experts that can help this startup in its specific vertical?
v) Is the founding team visionary, ambitious and able to scale this business beyond borders?
vi) Is the founding team receptive to criticism and ready to pivot from the original idea if the market demands it?

2) **Deal**
   i) Warrant
   ii) Money-for-equity
   iii) Resources-for-equity
   iv) Non-equity deal (with the option to invest after the program)

3) **Acceleration Program:** The acceleration program focuses on building the venture while anticipating the potential implementation into the core business. It supports the development of the business model or technology through a network of mentors who are specialized in the chosen vertical; understand technical specifications and business model building. Mentors come from both inside and outside the organization in order to enable the later integration of the technology or business model. Events around the focus area bring together experts and industry representatives for a vivid knowledge exchange while office hours track the progress and ensure learning. Office facilities and access to additional resources such as technical infrastructure, human resources and databases are offered to the startups in order to enable them to develop a solution which can be easily integrated into the organization. Additionally, a dedicated team works on connecting the startups to the organization. Regular reporting continuously assesses the readiness of the technology/business model.

4) **Completion:** For the presentation of the technology or business model to the organization, an internal roadshow is organized. Additionally, an external demo day can be organized in order for the startups to obtain follow-on funding from external sources if they can't be integrated successfully or if co-investments are desired.

5) **Alumni Program:** The organization assesses the startup again for the possibility of full integration and moving it towards their core or announcing a new "edge" business. Further possibilities to integrate the startup in the organization are co-development or setting up a partnership. If the startup is an attractive investment case, it can be referred to the corporate venture capital arm for investment in order to yield financial results. If the startup has pivoted to a point where it is neither strategically interesting to the organization nor an investment case, it can simply continue its growth and development with external sources.

5.3.4. Difference between Accelerator and Incubator

Basis of Difference	Incubators	Accelerators
1) Type of Organisation	Non-profits normally	For profit
2) Public	SMEs according to any governmental or regional policy	Companies with potential for rapid and scalable growth, regardless of previous requirements
3) Requirement	Business plan	Business model
4) Leadership	Managers with experience in mediating the government, universities and companies	Entrepreneurs or experienced investors
5) Support	Traditional model of consultants	Mentoring sessions
6) Investment	Public funds	Private investments
7) Support Time	Typically 12 to 24 months	3 to 8 months normally

5.4. FUNDING NEW VENTURES

5.4.1. Introduction

The prospective sources of finance are generally prioritised in advance by the entrepreneurs based on their availability. They usually start with the sources of finance that are readily and cheaply available, followed by sources that are costly and difficult to access. The most prevalent source used by entrepreneurs is self-financing the business requirements.

After this, the next feasible source is accessing funds from family members, friends and relatives. However, this source is risky in terms that personal relationships might get affected if any uncertainty arises in returning the funds back. Entrepreneurial finance initially involves private equity and venture capital funding, where entrepreneur holds the highest equity share in the capital of the organisation. However, the classic investments or corporate financing sources or even private equity sources like Micro Finance Institution (MFIs) vary greatly from venture capital funding. In case of further requirements of funds, entrepreneurs go for debt financing sources like Non-Banking Financial Companies (NBFCs).

According to Janet Kiholm Smith and Richard L. Smith, "Just as corporate finance is concerned with financial decision-making by managers of public corporations; entrepreneurial finance is concerned with financial decision-making by entrepreneurs who are undertaking new ventures".

5.4.2. Need of Funds to New Venture

The reasons because of which most of the new ventures require money are as follows:

1) **Cashflow Challenges:** When a company and its customer base grows, then in order to render the services to them the company needs new machines and equipment, more resources, more number of employees, etc. All these in turn create the need of money which the company has to invest in advance if it wants to generate extra income from the new customers associated with it. The gap that a new or growing company faces between making investments in advance and generating revenue from the customers pose challenges related to cashflows.

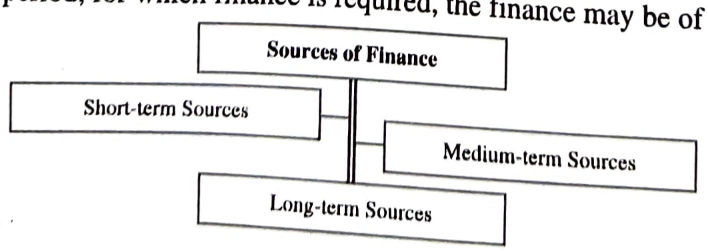
2) **Capital Investments:** The founder of the company may be able to bear the expenses required for initial activities. But, later on, when the need of own building, costlier equipment, other parallel projects, etc., arises then it may become challenging for the founder to bear the cost on his own. In such cases, the companies look for financing options from the concerned institutions. Several companies opt for the alternative of these heavy investments such as, by taking the building on rent or lease. But, in the near future, as the company grows, they may need to procure capital assets permanently instead of obtaining them on lease or rent.

3) **Lengthy Product Development Cycles:** Some products have a long process of product development and firms, that are going to enter such industry, should be able to invest money for a longer period of time without expecting the pay-off very early. If they are not able to bear it on their own, then the need of financing from financial institutions arises. There are various industries were product development cycle is very lengthy, such as, electronic games industry, biotech and research industry, etc.

   For example, a electronic game requires the effort of approximately two years and the investment of near about ₹10 lac. Similarly, a biotech firm, named as Scios took almost 20 years since their inception to develop and get approval for their first medicine.

5.4.3. Sources of Finance

Depending upon the period, for which finance is required, the finance may be of the following types:



5.4.3.1. Short-term Sources of Finance

The finance acquired for a period of one year or slightly more falls under this category. This is also called as working capital finance. It is needed for:

1) Fulfilling daily expenses, like payment of wages and salaries to workers or employees,
2) Purchase of raw-material,
3) Tax liabilities arising out of the process of conversion of raw-material into finished goods, etc.

Short-term finance may be obtained through various means, some of which are as follows:

1) **Trade Credit:** Under this type of short-term finance, an understanding between the companies to purchase goods or services without paying instantly is referred as trade credit. In simple words, the payment is deferred for a period, as agreed upon by both the parties. The merit of trade credit is that, it is an informal and spontaneous source of finance, which is quite convenient as it does not involve any negotiation or formal agreement. There are no restrictions or terms and conditions, which are generally merit imposed upon under negotiated source of finance. Another merit of trade credit is flexibility of not paying instantly. Volume of trade credit is directly proportional to the level of sale of the organization.

2) **Accrued Expenses and Deferred Income: Accrued expenses** are the expenses, which have already been incurred by the organisation but the payment thereof has not become due and not yet made. Such accruals are liabilities of an organisation as they represent the goods and services already received and payment of which would be made in due course. Some examples of accrued expenses or liabilities are salaries, wages, interest, taxes, etc., which become payable only on their becoming due (may be at week-end, month-end, quarter-end or year end, as the case may be). Those incomes which are received in advance by the company for the supply of goods or services in the future period are known as **deferred incomes**. These incomes increase the flows of liquidity of the company. This income also, like Accrued Expenses, is a liability for the organization and a source of indirect short-term finance. Until the goods are supplied to the customers, these payments are not shown as income but showed in the balance sheet as income received in advance.

3) **Commercial Paper (CP):** A commercial paper is an unsecured promissory note and money-market instrument, issued by large corporate houses for raising funds with a view to meeting their short-term debt obligations such as payroll. CP is not secured by any collateral security. It is supported by an issuing bank or company who promise to pay the face value at the maturity date indicated on the note. As it is an unsecured instrument, only the organizations with exceptional credit ratings are capable of issuing their commercial paper at an economical price. The maturity period of Commercial Paper ranges between 15 days and one year. On maturity date, the issuer has to repay the due amount without any delay. There is no provision of grace period in this case.

4) **Certificates of Deposit (CD):** CD is also a money market instrument issued by banks to the depositors, in the form of certificate showing the existence of such deposit with them. These certificates are in turn traded by the depositors (when such a need arises) between their business associates. In short, under this arrangement, the Bank deposit may be transferred from one owner to another, any number of times, before its maturity. Interest on such deposits continues to be paid in the normal course. The price of CD depends on the (i) Rate of interest available on the Bank Deposit (which is fixed), and (ii) Rate of interest prevailing in the market at that particular time. The unique feature of CD is that it is the only money market instrument, wherein the element of 'discounts' is missing. Certificates of deposit are issued by banks as a means to promote awareness of short-term deposits.

5) **Letter of Credit (LC):** Letter of Credit (LC) is a form of Bank Guarantee. It is an arrangement, under which a bank helps its customer to obtain credit from its (customer's) suppliers, by undertaking the responsibility to honour the commitment of its customer, in case of the customer's inability to do so. LCs is opened by banks in respect of specific transactions entered into by their customers.

6) **Instalment Credit:** Under this type of finance, the payment for purchase of goods/services is made in one go by the lender (either the seller himself or a financier) and the buyer is required to make payment in equal instalments (generally monthly). Each instalment includes part payment of principal and interest accrued thereon. Auto loans and consumer loans for purchase of luxury goods like T.V., Refrigerator, Furniture, etc., are good examples of this type of finance.

7) **Bank Finance:** For business organisations, borrowing from banks is a common and important source of funds, not only for short-term working capital finance but also for medium-term. In our country, working capital needs of business entities are generally met through 'Trade Credit' arrangement followed by institutional finance provided by banks. Banks have a methodology to assess the working capital requirement of borrowers; the amount so approved is called 'credit limit'. The 'credit limit' represents the maximum funds, which can be availed by the borrower from the entire banking system. For the borrowers engaged in seasonal activities, banks assess separate credit limits for 'peak season' and 'non-peak season' and borrowers are expected to avail the limits mentioned under 'peak level' and 'non-peak level' respectively.

8) **Factoring:** Factoring is a process under which invoices representing commercial 'accounts receivables' are sold to another buyer called 'Factor'. at a discount to get instant cash. The factor has the whole responsibility regarding the credit analysis, collection of payments and credit losses on new accounts. There are three parties involved in factored invoice:
   i) **Seller:** Sells the product or service and acts as maker of the invoice/bill.
   ii) **Debtor:** He is the receiver of the invoice and agrees to pay remaining amount for the services.
   iii) **Factor:** He is the intermediary or an agent who buys the invoices and assumes all the responsibilities of the original buyer.

9) **Bill Discounting:** Raising short-term finance through discounting of trade bills drawn by bank borrowers on their customers is a common practice amongst traders. Discounting is done by the banker of the drawer on the consideration of discount or commission amount, which adds to the bank's revenue.

   On due date, the bills so discounted are presented by the bank to the borrower's customer for payment and the entire amount is collected by the bank. If there is a delay in the payment of bills, the borrower or his customer is liable to pay the bank a pre-determined interest as per the terms of transaction.

5.4.3.2. Medium-term Sources of Finance

Working capital finance acquired for a period beyond one year is known as medium-term finance. Generally, this finance is used to purchase the assets with a medium term life, e.g., plant and machinery. The medium-term finance is raised through:
1) Debenture issue,
2) Borrowing from Commercial Banks or Financial Institutions,
3) Acceptance of public deposit, etc.

Medium-term Finance is raised for a period between 1 year and 5 years. Such funds are needed for:
1) Acquisition of fixed assets or replacement thereof,
2) Permanent working capital,
3) Specific expansion or diversion plans of the business entrepreneurs.

In India, the companies' requirements of medium-term finance are fulfilled by the following sources:
1) **Financial Institutions:** Financial institutions such as Life Insurance Corporation (LIC) of India, Industrial Finance Corporation of India (IFCI), State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), Industrial Development Bank of India (IDBI), etc., are the main sources of Medium-Term Finance (in addition to being sources of Short-Term and Long-Term Finance).

   They are especially designed to meet the medium-term demands of working capital in an appropriate manner. Rate of interest on such loans is fixed and repayment schedule is made by the way of instalments over a suitable number of years.

2) **Commercial Banks:** Commercial Banks, besides undertaking basic banking functions, i.e., "acceptance of deposits for the purpose of lending and investment", perform agency functions also. They are established as joint stock companies. Nowadays, they have started providing loans of various maturities, *viz.*, 'Short Term", "Medium-Term" and "Long-Term". In India, 20 major commercial banks have been nationalised (some of them are Andhra Bank, Canara Bank, Indian Bank, Punjab National bank, etc.). However, in developed countries, banks are set-up as joint stock companies. There are few such banks in private sector (joint stock companies) also in India.

3) **Public Deposits:** Another major source of funding the 'Medium-Term' and 'Long-Term' needs of a company is 'Public Deposits'. The money received or collected from public either as deposit or loan may be termed as 'Public Deposit'. The term 'Public' here includes, in addition to the general public, employees and shareholders of the company. Money received by way of issue of shares/debentures, however, does not form part of 'Public Deposits'.

4) **Hire Purchase:** Hire Purchase involves hiring of an asset for a specific period, during which the hirer pays the cost of the asset in instalments (known as hire charges) and at the end of that specific period after the payment of the last instalment, the hirer becomes the owner of the asset. The unique feature of this type of arrangement is that the hirer acquires possession of the asset and the right to use it immediately at the beginning of that specific period. It is a very convenient form of financing of capital goods as well as consumer goods.

The following terms are used in the hire purchase transaction for the purchase and sale of goods:

i) There must be instalment payment.
ii) The buyers get instant ownership of the goods.
iii) Till the last payment of instalment, the ownership of the property remains with the seller.
iv) In case the buyer fails to pay any instalment, the goods will be repossessed by the seller.
v) Till the last payment of instalment, each instalment is treated as hire charges.

Lease Financing: Under this type of finance, a firm or company acquires an asset for its use without making the full payment for the same. Only the rent of the asset (termed as lease rent) is paid during the lease period; ownership of the asset is not transferred unless the firm or company takes a decision to buy the asset it has taken on lease. The biggest advantage of taking an asset on lease (instead of buying it) is tax benefit accrued to the lessee on lease rentals during the entire lease period. Leasing is suitable for costly equipments having a short life span, e.g., IT equipment, which are required to be replaced every two to three years.

Currency Bonds: Foreign and domestic entities (business organisations) raise medium and long-term finance through issue of currency bonds having maturity period ranging between 9 months to 30 years. They are popular amongst investors because they offer better rate of interest and yield. Currency bonds are also issued by government.

Instalment Credit: Instalment credit is provided by the sellers to the customers for durable goods and services. The repayment of such credit is required to be made in equal instalments, mostly monthly, over a period of time. Each instalment includes part of principal amount and interest accrued thereon.

5.4.3.3. Long-term Sources of Finance

Long-term Finance is the backbone for the financial strength of a business entity (firm or company). In general, the financial requirements of more than 5 years are considered as the long-term finance. The long-term funds are required to purchase fixed assets such as land and building, plant and machinery, furniture and fixture, etc. As the funds required for investment in these assets, which are permanent in nature, are for a long period, their repayment-schedule is also set accordingly for a long period.

Long-term Finance is obtained from the following sources:

1) **Shares:** It is a primary source of a joint stock company for procuring long-term finance. Capital of a company is split into smaller units termed as 'Shares'. The investors subscribing to such shares are termed as 'Shareholders' of the company. Shareholders are the owners of the company to the extent of their shareholding. Transfer of shares of a company is affected in the manner prescribed under the "Memorandum and Articles of Association" of the company.

2) **Debentures:** A debenture is an instrument through which an Indian Public Limited Company can raise funds from the market. A debenture is signed by the company with its seal, to acknowledge the debt of the person(s), ensuring the advanced amount of debt. So this is a security issued by a company against debt. A company may issue debentures after getting 'Certificate of Commencement of Business', provided its 'Memorandum of Association' contain a clause which permits the company to issue debentures.

3) **Term Loans:** Term loans are loans procured for the acquisition of fixed assets and working capital margins and are repayable over a long period of time, generally ranging between one year and ten years. Term loans are extended by banks and other financial institutions set up for the purpose of extending term finance. Term loans differ from short-term bank loans, also known as 'Working Capital Finance', which are sanctioned by banks to meet day-to-day business requirements like purchase of raw- material, work-in-progress and finished goods, etc.

4) **Lease Financing:** In simple terms, a lease financing may be defined as: "A contractual arrangement (**lease agreement**) in which a party owning an asset/equipment (**lessor**) allows its use to another (transfer the right to use the equipment) party (**lessee**) for an agreed period of time for the consideration of periodic payment (**lease rentals**) with or without a further payment (**premium**)". At the end of the period of contract (**lease period**), the leased asset/equipment reverts back to the lessor, provided there is no provision for the renewal of the lease agreement.

5) **Venture Capital Investing:** New start-ups promising long-term growth are financed through venture capital investing. Venture capital is crucial for start-ups not having support from capital markets.

5.4.4. Bootstrapping

Bootstrapping is building a company from the ground up with nothing but personal savings and, with luck, the cash coming in from the first sales. The term is also used as a noun: A bootstrap is a business launched by an entrepreneur with little or no outside cash or other support. Bootstrapping is a means of financing a small firm through highly creative acquisition and use of resources without raising equity from traditional sources or borrowing money from a bank.

The word bootstrapping has come to be used for a variety of other self-starting processes. It describes the creation of complex software programs in successive and interdependent stages. The term "booting up" for starting up a computer's operating system may come from bootstrapping. Bootstrapping has its origin in the early 19th century with the expression "pulling up by one's own bootstraps". Initially, it implied an obviously impossible feat. Later, it became a metaphor for achieving success with no outside assistance.

Bootstrapping is one of most effective and inexpensive ways to ensure a business' positive cash flow. Bootstrapping means less money has to be borrowed and interest costs are reduced.

5.4.4.1. Bootstrapping Options

Bootstrapping options available to entrepreneurs can be divided into four categories:

1) **Bootstrapping Options for Product Development:** Important bootstrapping techniques for product development are:
   i) Prepaid licenses, royalties, or advances from customers.
   ii) Special deals on access to product hardware.
   iii) Development of product at night and on weekends while working elsewhere.
   iv) Customer-funded research and development.
   v) Free or subsidized access to general hardware.
   vi) Turning a consultant project into a commercial product.

2) **Bootstrapping Options for Business Development:** Important bootstrapping techniques for business development are as follows::
   i) Foregone or delayed compensation.
   ii) Reduced compensation.
   iii) Personal savings.
   iv) Working from home.
   v) Deals with professional service providers at below-competitive rates.
   vi) Space at below-market or very low rent.
   vii) Personal credit cards and home equity loans.

3) **Bootstrapping Options to Minimise the Need for Capital:** Important bootstrapping techniques to minimise the need for capital are:
   i) Buy used equipment instead of new.
   ii) Borrow equipment from other businesses for short-term projects.
   iii) Use interest on overdue payments from customers.
   iv) Hire personnel for shorter periods instead of employing permanently.
   v) Coordinate purchases with other businesses (mutual purchasing of goods).
   vi) Lease equipment instead of buying.
   vii) Use routines to speed up invoicing.
   viii) Cease business relations with customers who frequently pay late.
   ix) Offer same conditions to all customers (that is, no expense on preferential treatment to some).
   x) Buy on consignment from suppliers.
   xi) Obtain trade credit from suppliers.
   xii) Deliberately choose customers who pay quickly.
   xiii) Share business premises with others.
   xiv) Employ relatives or friends at non-market salaries.
   xv) Run the business completely from your home.

4) **Bootstrapping Options to Meet the Need for Capital:** Important bootstrapping techniques to meet the need for capital are:
   i) Withhold Entrepreneur's salary payment for short or long period of time
   ii) Pay employees with company stock (that is, save on cash expenditures and give the employees some ownership and additional motivation to work hard)
   iii) Seek out best purchasing conditions with suppliers
   iv) Deliberately delay payment to suppliers
   v) Use the entrepreneur's private credit card for business expenses
   vi) Obtain capital via the entrepreneur's assignments in other businesses
   vii) Obtain loans from relatives and friends
   viii) Barter underused products or services with other firms
   ix) Franchise or license the product or business idea to others for a royalty fee.

5.4.4.2. Advantages of Bootstrapping

The advantages of bootstrapping a company are:
1) The owner(s) maintains complete control of the company, without outside influences from investors, for example.
2) Relying on existing resources, without loans, reduces the need to outlay cash to pay back a loan.
3) Carefully managing money from the outset creates smart spending habits.
4) It can be a way to start slowly bringing in revenue and establishing a safety net that will fund future investments in the business.
5) Bootstrapping allows business owners to experiment more with their brand, as there is no pressure from investors to get the product right the first time. There is another kind of pressure, though, and that comes from the fact that the entrepreneur has personal assets, and maybe family assets as well, on the line.

5.4.4.3. Disadvantages of Bootstrapping

On the other hand, there are downsides to declining outside cash infusions:
1) The business' growth may be limited or hampered if demand exceeds the company's ability to procure inventory or raw materials to sell.
2) The entrepreneur assumes nearly all the financial risk by not sharing the burden with outside investors, who put up cash to support the company's growth.
3) Another downside to bootstrapping can be a lack of credibility. The backing of respected investors can automatically give a business higher visibility and greater respect from vendors and customers.

5.4.5. Crowdsourcing

Crowd-funding or crowdsourcing means rising funds from general public by open call method for some project. It basically assembles funds for project which is launched by persons or organisations and for business activity. The funds are collected from different groups of individuals in the type of small contribution for the desired level of financing and also for making Internet-based service platforms. The different crowd-funding websites are Kickstarter, Indiegogo, RocketHub, FundRazr, GoGetFunding, Crowd-funder and Start Some Good. They all have different focuses and requirements in which all the funds are lost for meeting the financial goal. The transaction fees change with the percentage of total funding.

5.4.5.1. Types of Crowdsourcing Platforms

The various models for crowdsourcing are as follows:
1) **Pre-Order Model:** The pre-order model is in which the customer orders the product or service from before like musician, a CD for a planned album or an invitation to an event.
2) **Donation-Based Crowd-funding:** In this method of crowd-funding the donations are collected for the specific project and time period by collecting funds from Internet and social media.
3) **Rewards-Based or Pre-Sales Crowd-Funding:** In this, the contributors get certain type of compensation like an opportunity for taking part in some cultural program which they can finance or in the making of the product by using the collected funds.
4) **Equity Crowd-Funding:** In equity crowd-funding, the people invest in the business entity and gets the equity share of the company. The cash is taken from the public and in return they get shares or some small stake in business entity. In the traditional equity funding if the equity is successful than the value changes.

5) **Debt Crowd-Funding:** In this, the lenders gets the money back with interest and this allow for lending of money while avoiding the traditional banks. The lenders will get both the financial return and also the profit for contributing in the idea in which they believed.

6) **Reward Crowd-Funding:** In reward crowd-funding the people contributing does not get any financial return but gets the reward like free gifts, tickets to events and acknowledgements. They have their own personal motive for doing so.

5.4.5.2. Advantages of Crowdsourcing

Some advantages of crowdsourcing are as follows:

1) **Income:** The obvious first benefit is cash. Addressing capital needs is often the most difficult challenge facing a young business. Crowdfunding can provide a much-needed cash infusion that can allow one's team to focus on other points of execution in the business.

2) **Honest Feedback.** If one observes best practices in a crowdfunding campaign and is still having trouble attracting interest in the project, it may be that the product or service is not meeting a big enough need or solving a meaningful problem. By inviting input from the masses, one can get invaluable insight from would-be customers as to what is good and not good about the idea. One can even set up for pre-orders to gauge consumer interest and make the first run more worth the effort.

3) **Advantage of the Lab.** Just as backers in crowdfunding will give the feedback on whether one's project has legs, they will also give very valuable feedback on whether or not the product or services is likely to work as promised. Expect to get comments, questions, and critiques of the product or service as well as requests for improvements to make the product more useful or adaptable to certain situations.

4) **Legitimacy from the Platform:** Respected crowdfunding sites check projects before they are listed, so if one makes it through that process, there is instant credibility that is attached to the project.

5.4.5.3. Disadvantages of Crowdsourcing

Disadvantages of crowdsourcing are as follows:

1) **Poor Quality Entries:** Crowdsourcing contestants normally submit whatever comes to them off the top of their heads. They may not know much about one's industry and do not take the time to learn about it. They often ignore any naming criteria one stated, so one has to walk through a ton of wildly off-target suggestions. They do not think carefully about all aspects of one's naming challenge the way professional name consultants would.

2) **Paying More does not Improve Quality:** Some talented crowd source members will work hard for paisas on the rupee; meanwhile, their not-so-talented associates will demand a high price for mediocre results. This is inevitable with any business but it is more prevalent with crowdsourcing because the group consists of a mixture of individuals. In contrast, outsourced and/or hired labour is more carefully screened, and paying more for its services typically results in higher quality ideas and/or products.

3) **Wrong Marketing:** At times crowdsourcing can result in wrong marketing by passing the bad word of mouth publicity. Take for examples an automobile company tries to crowdsource its next model design. In case if the end product is proved not good from the comfort aspect and not good in aesthetics, who is to be blamed? People will simply say that the company nowhere takes quality seriously and rather tries to crowdsource to get the work done in very small amount of money.

4) **Bad Reputation/Marketing Risk:** Crowdsourcing can be a useful method for one's ecommerce business to start generating ideas and deducing which of these ideas have merit. By harnessing the "power of the masses", one finds out what the customers and the public at large are looking for in the business. The benefits of such an approach are numerous and come at a low cost. Conversely, crowdsourcing also has its detractions, including questionable intellectual rights, lack of member productivity, and the risk of gaining a bad reputation

5.4.6. Angel Investors

Business angels or angel investors are the investors who invest their own money, along with their time and expertise, in unquoted firms in the hope of any financial gain. Angel funding is generally considered the entry level of funding for entrepreneurs and their ideas and/or start-up companies. Historically, angels have been defined as high net worth individuals that have an interest in using their resources to fund and grow start-up companies. Generally speaking, many of these same high net worth individuals have been through the entrepreneur start-up process with some level of success and would like to use their experience and personal resources to facilitate individuals with the same type of interest in developing a company from scratch and later see it become successful in the marketplace.

Business angels activity constitutes what is also known as the informal venture capital market, in contrast to the formal source of equity funding, namely the institutional venture capital industry made up of private partnerships or closely-held corporations funded by pension funds, endowments, foundations, wealthy individuals, foreign investors, and venture capitalists themselves.

5.4.6.1. Types of Angels

The types of angel investors are as follows:

1) **Corporate Angels:** Former business executives from large corporations who have been downsized, have taken early retirement, or have been replaced. Even though profitability of their investment is their overall goal, they also seek personal opportunity when investing, claiming that they are looking for an investment opportunity when, in reality, they are really looking for a job. For instance, many corporate angel investors are known to invest in one company and seek a paid position, which is often part of the business deal.

2) **Professional Angels:** These angel investors are professionally employed as doctors, lawyers, accountants, etc. who invest in companies in their related field. They may also provide services to their invested firm (legal, accounting or financial) at a discounted rate. Professional angel investors are of tremendous value for initial needed capital and rarely make follow-on investments.

3) **Professional Angel Investors:** These angel investors are the qualified acclaimed professionals like engineers, lawyers and doctors who are seeking to make investments in start-ups and small businesses. They do not seek for any position in the company and rarely make re-investments in the same company. These angel investors make investments in several companies at a time. Professional angel investors provide their own services to the companies they invest in at highly discounted rates. These angel investors seek fast and high returns, turning a little impatient at times.

4) **Enthusiastic Angel Investors:** These angel investors are the senior investors (age 65 and above) who have a flourishing business and like to make small investments in the small businesses to seek huge returns. Enthusiastic angel investors make the investment as their hobby and do not seek any position in the company they invest in. These angel investors make small chunks of investments in many small companies at a time.

5) **Micromanagement Angel Investors:** These angel investors are the self-made investors who earned wealth with their own hard and sincere efforts but at the same time some of these angel investors were born with a silver spoon. These angel investors seek important position in the board of the invested company but do not take active part in the management of the company unless needed in case of company incurring loss. Professional angel investors are known to use the same strategies in the invested companies as they used in their own successful businesses.

5.4.6.2. Advantages of Angel Funding

The advantages of angel funding are as follows:

1) **Provides Capital for Start-Ups:** When entrepreneurs have exhausted money from friends and family, personal savings, bank loans, and credit cards for their start-ups, they may seek angel investors to help them fill their needed equity gap. According to one research, nearly 2/3 of funding for new enterprises is obtained from angel investors. Therefore, angel investor capital can provide a great source of funding for new businesses that have a high potential for growth.

2) **Flexible Business Agreements:** Angel investors have a more informal investment criteria compared to the traditional financial lenders, including banks and venture capitalists. Because they are investing their own money, their business deals can often be negotiable. Because of this flexibility, they are more likely to be excellent sources of capital for early-stage businesses.

3) **No-Debt Financing:** As opposed to loans and other forms of credit financing, angel investor funding is a much cheaper form of seed capital. Angel funding does not require monthly payments on the capital and

interest, aside from the portion of company profits apportioned to the investor. The ownership share allotted to angel investors typically starts at about 10 percent, but increases with the amount of funding invested in the business venture.

4) **Community Involvement:** Many angel investors choose to invest locally. The capital they provide for a new business will not only assist the launch of a new enterprise but it will also create employment opportunities and help stimulate economic growth by encouraging consumers to purchase their products. Many angel investors take pride in using their expertise in giving back to their community. These are the angel investors who look beyond monetary return.

5) **Brings Vast Knowledge and Experience to a New Company:** Many angel investors were once entrepreneurs themselves and have founded several successful companies under their leadership; therefore, they will not only provide the needed capital that entrepreneurs need but they can also offer desired support, expertise, and contacts in making a business grow.

An angel's insight and resources are of tremendous value for a company's success, and an entrepreneur should always recognise the need for help, embracing the participation of their angel investor in daily business activities.

5.4.6.3. Disadvantages of Angel Funding

The disadvantages of angel funding are as follows:

1) **Rarely make Follow-on Investments:** The reason why most angel investors are less likely to make follow-on investments is because of the risk associated with losing even more money when reinvesting in an unsuccessful company. On the other hand, venture capitalists have a different approach to follow-on investing. They tend to spend approximately 2/3 of their funds on follow-on investments, taking the opportunity to allow companies to expand while diversifying their current portfolio firms.

2) **Deceptive:** While the majority of angel investors truly look beyond the promise of monetary return, there are a few angel investors who are greedy and motivated by money rather than in promoting the good of the firm.

These angel investors tend to be less patient with new entrepreneurs and do not provide any mentoring or guidance during a company's early stage of development. To avoid such complications, it is crucial that an entrepreneur obtain complete information about the character and reputation of any potential investors before pursuing and agreeing to any terms.

3) **Costly:** In exchange for providing the needed start-up capital for a new company, many angel investors often require a certain percentage of stake in a company, starting at 10% or more, and expect a large ROI for their exit. From their perspective, this is a reasonable exchange since they are investing in very young and risky businesses that have not yet been established. In addition, angel investors may hire skilled professionals to ensure the day-to-day business operations.

4) **Active Company Involvement Creates Problems:** Each level of company involvement varies from investor to investor; however, it is not uncommon for an angel investor to have a certain amount of control in running a company. The entrepreneur may unwillingly be forced to give up some degree of control in order to meet their angel investor's requirements, which can often lead to resentment on the part of the entrepreneur. Another problem that may arise is the angel investor's lack of industry experience. This limited knowledge adds very little value to a company's success. That is why entrepreneurs should only seek angel investors with proven experience in their industry.

5) **No National Recognition:** While there are well-documented directories of venture capital firms available, there is any national register for angel investors. Due to these differences, angel investors do not have the national recognition as their VC counterparts. They remain hidden and mysterious but choose to do so in order to have a degree of separation from entrepreneurs, who may pester them with their business plans and telephone calls.

5.5. GOVERNMENT OF INDIA'S EFFORTS AT PROMOTING ENTREPRENEURSHIP AND INNOVATION

5.5.1. Introduction

With due attention to role of entrepreneurship in economy, government is interested to lead and guide entrepreneur's needs to capital, technology and other facilities for performing their activities. Therefore government can play important role for providing these facilities. With approval of laws and regulations, Governments can give necessary information and capital, and provide to better technology can help entrepreneurs. Government can also perform planning, draw policy, and determine strategy for helping entrepreneurs. In the early stages of sustained growth, government has often provided the incentives for entrepreneurship development to take hold. In some economies the development of transportation, power, and other utilities has been carried-out by the government.

In others the government has offered financial inducements and subsidies. Another important role governments have played in the early stages is to help establish the sort of capital and money markets in which lenders could have confidence. Without financial intermediaries acting as brokers between lenders and business borrowers, it is difficult to predict economic growth taking place on a sustained and rapid basis.

The movement of entrepreneurship development is mainly based on the notion that entrepreneurship can be pursued by people as a career. For gearing-up the pace of entrepreneurship development and self-employment, the Government of India has formulated several authorised agencies. The primary task of these agencies is to fulfil the needs of the business and that of the entrepreneur. These agencies can be divided into state level and central level institutes. Usually, the term 'institutional support system' means economic environment of business and industry. It consists of various institutions and authorities, whose operational agenda and decisions have a great influence on the business. Such institutions include governmental institutions, legal institutions, quasi-government organisations and private bodies. In India, these institutes and agencies are sponsored by the government and are authorised for regulation and promotion of SMEs in particular areas.

Mainly, the institutional support system is needed at the following phases of enterprise development:
1) Formation or promotion of a production or business unit,
2) Routine or daily management, and
3) Diversification and expansion.

Besides providing financial support, these institutions also help in several other ways like availability of resources, advertising and marketing of goods, training the employees, infrastructure development, etc. In India, a group of institutions like NIESBUD, DIC, IDBI, SFC, SIDBI, SIDC, SISI, etc., which are mainly interested in fulfilling the long-term and short-term financial needs for entrepreneurship development is also available.

5.5.2. Small Industries Service Institute (SISI)/Micro, Small and Medium Enterprises Development Institute (MSME-DI)

MSME-DI (formerly SISI) was incorporated by Central Government in order to provide training and consultancy to small-scale entrepreneurs or the potential entrepreneurs. These institutes are spread all over the country and they function in every state under the supervision of Director and Deputy Directors. In total, there are 30 MSME-DIs and 28 branch MSME-DIs situated in various industrial cities as well as the capital cities. The industrial management training division of the office of Development Commissioner (MSME) manage the activities of MSME-DIs. A comprehensive range of activities such as, management, administrative, and technological are performed by the MSME-DI.

Entrepreneurship Development Programmes (EDPs) on various fields are provided by MSME-DIs, such as courses related to conservation of energy, prevention and control of pollution, material handling, management approaches, technological updation, etc. MSME-DIs also provides EDPs of four weeks duration, especially for ex-servicemen, capable but unemployed youths, etc. In these general EDPs, discussions and lectures are organised in order to impart knowledge about the facilities available from agencies and departments of Central and State Governments, commercial banks, other financial institutions, NSIC, etc.

5.5.2.1. Objectives of SISI/ MSME-DI

Prime objectives of MSME-DIs are as follows:

1) To assist the potential entrepreneurs,
2) To assist the new or existing entrepreneurs,
3) To prepare industrial profile of the state,
4) To conduct or update the survey on the potential of industries in a district,
5) To prepare the project profiles,
6) To organise entrepreneurship development programmes,
7) To conduct campaigns so that entrepreneurs can be motivated and encouraged,
8) To prepare the production index,
9) To organise management development programmes, and
10) To work in the direction of skill development of entrepreneurs.

5.5.2.2. Role of SISI/ MSME-DI

MSME-DI plays the following roles:

1) **Technical Consultancy Services:** The services rendered as per this role are guiding the entrepreneurs to choose project best suitable for them, preparing its profile, helping them to select the machinery and equipment, its regular updation, procurement of raw material, quality control, organising workshop or seminar for technical guidance, etc.

2) **Managerial Consultancy Services:** As per this role of MSME-DI, industrial management courses on marketing, finance, human resource, logistics, taxation, quality improvement, labour efficiency, product development, process development, etc., are provided. Other than these, several short-term and customised courses are also provided by MSME-DI.

3) **Economical Investigation Services:** These services include market surveys to identify the potential for industries, checking the viability of project, collection of several types of data, census of MSMEs, preparation of production index, revamping of sick units, suggestions on issues related to governmental policies, assistance on facilities offered by commercial banks and financial institutions, etc.

4) **Entrepreneurial Development Programme and Prime Minister's Rojgar Yojana:** Under this scheme, general EDP courses of one month duration, EDP on process and product development, one week EDPs for young entrepreneurs and women entrepreneurs, demonstration of products and processes. As per this role, DICs are assisted in process of implementation of PMRY and various other agencies that provide EDP are also helped.

5) **Ancillary Development Programmes:** These programmes of MSME-DI comprises of relationship building with public as well as private sector undertakings, arranging the meet for buyers and sellers, organising a development programme for vendors, identifying the ancillary products for small and large scale industries, and preparing its reports, organising a state-level committee for development of market of ancillary products, etc.

6) **Marketing Assistance and Services:** These services of MSME-DIs are focussed on providing market information, checking viability of project, gaining information related to market by combining efforts with other large organisations, i.e., sub-contract exchange, and assisting in government and semi-government purchases.

7) **Export Promotion Services:** These services of MSME-DI help the entrepreneurs in extracting information related to exports, procedures, and formalities for exports, management and packaging training for exports, preparation of reports and directories of exports, etc.

8) **Modernisation / Technology-Upgradation Services:** These services of MSME-DI include programmes related to quality improvement, technology advancement, energy conservation, product, process, and performance standards, awareness on social issues such as pollution, and management of all other activities relating to modernisation and advancement.

9) **Library Facility:** MSME-DI has its own well-developed library consisting of a wide range of technical books, industry related journals and reports, various business plans, reference booklets, etc.

10) **Assistance to State Government Agencies:** All the aforementioned assistances, provided by MSME-DI, not only to the existing and potential entrepreneurs but also to the agencies of State Government such as, Directorate of Industries, DICs, etc.

5.5.3. Khadi and Village Industries Corporation/ Board (KVIC)

'Khadi and Village Industries Commission Act' was passed in Parliament in 1956 by Government of India, under which the KVIC was formulated. This organisation is governed by the Ministry of MSME, Government of India and it is concerned with the khadi and village industries operative in India. There was a board by the name of All India Khadi and Village Industries Board, which was overtook by the Khadi and Village Industries Commission in April, 1957. KVIC is headquartered in Mumbai and it has six zonal offices in Kolkata, Mumbai, Bhopal, Delhi, Guwahati, and Bangalore. Alongwith it, for the proper execution of its range of activities, it has a network of branch offices spread across 29 states of the country.

The functions of KVIC are planning, promoting, facilitating, organising, and assisting the setting-up and expansion of khadi and village industries. KVIC performs these functions by coordinating with other agencies, which are also involved in the development of rural areas. Other than these, KVIC also performs the function of creating reserve of raw materials and equipment, providing facilities to process the raw materials, marketing of khadi and village industry products, providing training to artisans, etc.

5.5.3.1. Objectives of KVIC

There are three main objectives of KVIC which are as follows:

1) **Social Objective:** To provide employment opportunities to rural people is one of the main objectives of KVIC.
2) **Economic Objective:** The next objective associated with KVIC is producing saleable products or articles. This comes under the economic objective of KVIC.
3) **Wider Objective:** The wider objective of KVIC is growth of rural economy and creation of the self-reliance spirit among individuals.

The commission has formulated various programmes and schemes, which are regularly implemented and monitored for achieving the above mentioned objectives.

5.5.3.2. Role of KVIC

Following points highlight the role of KVIC:

1) To organise the training programmes for existing and aspiring workers of khadi and village industries;
2) To create reserve of raw materials and equipment related to khadi and village industry and provide them to those who are involved or want to involve in this industry, these things are provided at the rates as decided by the KVIC;
3) To create or help in creating common facilities to process the raw material and work-in-progress; alongwith this KVIC also assists in manufacturing and marketing activities of khadi and village industry products;
4) To encourage the marketing and sales activities of handicrafts, khadi, and other village industry products by coordinating with specialised agencies for marketing activities;
5) 3To stimulate the activity of research and development in relation to the technology used in various processes of KVI such as, in manufacturing, packaging, energy source, etc. Intent behind this function is to increase the level of production, decrease the use of manpower, which in turn can increase the competitiveness of the units. KVIC also has to communicate the outcome of R&D, if any positives are achieved;
6) To take the problems and issues of KVI units under consideration or instruct any other agency to do so;
7) To extend credit and loan facilities towards the entities involved in khadi and village industries and its development, KVIC also has to assist them in production of goods in demand by providing valuable ideas and information on design and pattern of product as well as on other technical concerns.
8) To carry out experiments and try dummy projects which they feel are necessary for the growth of KVI;
9) To incorporate and manage various organisations which will be dedicated to undertake the functions stated above.
10) To instil the quality of being supportive and helpful towards each other among the persons associated with khadi and village industries;
11) To set quality standards for the products and to make sure that the KVI products are conforming to those standards, issuance of certificates and recognition letters are also the functions of KVIC;
12) To encourage the quality of cooperation and mutual support among workers; and
13) To undertake all other issues and concerns related to the aforesaid matters.

5.5.3.3. Assistance Provided by KVIC

Several schemes are operated and managed by KVIC in order to realise its purposes. Schemes of KVIC are as follows:

1) Credit facilities for acquiring land, factory, equipment, plant and machinery, etc. at nominal interest rate of 4 per cent;
2) Working capital provision;
3) Prime Ministers Employment Generation Program (PMEGP);
4) Rebate Scheme;
5) Equity capital;
6) Credit facility for acquiring raw materials;
7) Centres and places for selling the products of craftsmen, artisans, etc.
8) Subsidies and grants for the registered societies of artisans and craftsmen belonging to scheduled castes, scheduled tribes, ex-servicemen, women, etc.

5.5.4. Directorate General of Foreign Trade (DGFT)

Directorate General of Foreign Trade (DGFT) organisation is an attached office of the Ministry of Commerce and Industry and is headed by Director General of Foreign Trade. Right from its inception till 1991, when liberalisation in the economic policies of the Government took place, this organisation has been essentially involved in the regulation and promotion of foreign trade through regulation. Keeping in line with liberalisation and globalisation and the overall objective of increasing of exports, DGFT has since been assigned the role of "facilitator". The shift was from prohibition and control of imports/exports to promotion and facilitation of exports/imports, keeping in view the interests of the country.

Before 1991, DGFT was known as the Chief Controller of Imports and Exports (CCI&E). DGFT is a government organisation in India working under Ministry of Commerce and Industry. It is responsible for issuing and formulating Foreign Trade Laws, Rules and Regulations, Foreign Trade Policy, Foreign Trade Procedures, granting IEC Code Number to Importers and Exporters, granting Pre-Export and Post-Export Benefits, Licences to restricted products in special cases and resolving the committee and cases relevant with Foreign Trade.

The primary role of Directorate General of Foreign Trade (DGFT) is promotion of India's foreign trade by implementing various export promotion schemes. Before 1991, Directorate General of Foreign Trade worked more as a regulator but in the post WTO liberalised economic scenario, Directorate General of Foreign Trade is required to play a more effective and wide ranging role as a trade facilitator. DGFT is required to act as a resource centre for trade information, as a monitoring agency for imports and exports and as a support organisation for WTO negotiations.

5.5.4.1. Functions and Responsibilities of DGFT

Some of the major functions of DGFT and its regional offices throughout the country are as follows:

1) To implement the Exim Policy or Foreign Trade Policy of India by introducing various schemes and guidelines through its network of DGFT regional offices throughout the country. DGFT perform its functions in coordination with state governments and all the other departments of Ministry of Commerce and Industry, Government of India.
2) To grant exporter importer code number to Indian exporter and importers. IEC Number is a unique 10 digit code required by the traders or manufacturers for the purpose of import and export in India. DGFT IEC Codes are mandatory for carrying out import export trade operations and enable companies to acquire benefits on their imports/exports, Indian customs, export promotion councils, etc., in India.
3) DGFT permits or regulate transit of goods from India or to countries adjacent to India in accordance with the bilateral treaties between India and other countries.
4) To promote trade with neighbouring countries.
5) To grant the permission of free export in Export Policy Schedule 2.
6) DGFT also play an important role in controlling DEPB Rates.
7) Setting standard input-output norms is also controlled by the DGFT.
8) Any changes or formulation or addition of new codes in ITC-HS Codes are also carried-out by Directorate General of Foreign Trade (DGFT).

Apart from the above, DGFT also acts as a trade facilitator. It also deals with the quality complaints of the foreign buyers. Officials of DGFT works in close coordination with other related economic offices like Customs Commissionerates, Central Excise Authorities, DRI Authorities and Enforcement Directorate.

5.5.4.2. Export Promotion Initiatives by DGFT: Incentives for Export

A number of initiatives have been taken by DGFT to promote exports under the Foreign Trade Policy (FTP) 2015-20 in the country. Some of these incentives have been discussed under following broad headings:

1) **Simplification and Merger of Reward Schemes:** Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY with different kinds of duty scrips with varying conditions attached to their use have been replaced by a comprehensive single scheme, namely Merchandise Export from India Scheme (MEIS) with the specific feature that there would be no conditionality attached to the scrips issued under MEIS. Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS).

   i) **Merchandise Export from India Scheme (MEIS):** The Government of India has brought in the Merchandise Exports Incentive Scheme (MEIS), replacing five other similar incentive schemes present in the earlier Foreign Trade Policy 2009-14. The schemes that have been replaced by the MEIS scheme include:

      a) Focus Product Scheme (FPS),
      b) Focus Market Scheme (FMS),
      c) Market Linked Focus Product Scheme (MLFPS),
      d) Agri Infrastructure Incentive Scheme, and
      e) Vishesh Krishi Gramin Upaj Yojna (VKGUY).

   As per the present FTP, the MEIS scheme does not aim to merely replace these five schemes but also aims to rationalise the incentives and enlarges their scopes by removing various restrictions. With the aim in making India's products more competitive in the global markets, the scheme provides incentive in the form of duty credit scrip to the exporter to compensate for his loss on payment of duties. The incentive is paid as percentage of the realised FOB value (in free foreign exchange) for notified goods going to notified markets. To determine the quantity of incentive, the countries have been segregated into three groups. Incentives on export of each product at 8-digit level (ITC HS codes), depend on the group in which its destination country belong.

   ii) **Service Exports from India Scheme (SEIS):** It is an incentive scheme through which government nurture service exporter by way of several incentives. Through this scheme, the infrastructural inefficiencies attached to the present system of trading in India is intended to be reduced alongwith prime focus on generating more employment opportunities and forex reserves. Duty Credit Scrips shall be granted as rewards under Service Exports from India Scheme (SEIS). The Duty Credit Scrips and goods imported/domestically procured against them shall be freely transferable. The Duty Credit Scrips can be used for the following requirements:

      a) Payment of customs duties for import of inputs or goods, except items listed in Appendix 3A.
      b) Payment of excise duties on domestic procurement of inputs or goods, including capital goods as per DoR notification.
      c) Payment of service tax on procurement of services as per DoR notification.

2) **Trade Facilitation and Ease of Doing Business:** The DGFT already provides the facility of online filing of various applications under the FTP by exporters/importers, such as IEC. However, certain documents such as certificates issued by Chartered Accountants/Company Secretary/Cost Accountant, etc., are required to be filed in physical form only. In order to move further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant/Company Secretary/Cost Accountant.

   Further, facility has been created to upload documents in exporter/importer profile. There will be no need to submit copies of permanent records/documents (e.g., IEC, manufacturing licence, RCMC, PAN, etc.) repeatedly with each application, once uploaded. On the export side, landing documents of export consignment as proofs for notified market can be digitally uploaded, viz., an exporter may upload the scanned copy of Bill of Entry under his digital signature.

3) **Steps towards Make in India Initiative:** DGFT has taken a number of steps to give boost to make in India initiative. Some of these steps are:
   i) Reduced Export Obligation (upto 75%) for capital goods procured domestically, in order to promote domestic capital goods manufacturing industry.
   ii) Higher reward under MEIS for labour incentive sectors and the products with high domestic content and more value addition in India. DGFT has proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.

4) **Limiting Trade Restrictions:** Some of the steps take to limit the restrictions on foreign trade are:
   i) The validity of SCOMET export authorisation has been extended from the present 12 months to 24 months, which will obviate the need to seek revalidation of the same.
   ii) Authorisations for repeat orders will be considered on automatic basis subject to certain conditions. This will considerably ease the timeline and procedure for regular/recurrent exports of items falling under the SCOMET List.
   iii) The verification of End User Certificate (EUC) will be simplified for SCOMET items exported under Defence Export Offset Policy.

5) **Other Initiatives**
   i) EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves.
   ii) Inter-unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs.
   iii) EOUs have been allowed facility to set-up warehouses near the port of export.
   iv) 100% EOU units have been allowed facility of supply of spares/components upto 2% of the value of the manufactured articles to a buyer in domestic market for the purpose of after-sale service.
   v) In case of adverse market condition or any ground of genuine hardship, the period of 5 years for NFE completion can be extended by one year.

5.5.5. Small Industries Development Bank of India (SIDBI)

SIDBI is a development bank dedicated for the betterment of small-scale industries. It was incorporated in 1990 and is undertaken by Central Government of India. Providing financial assistance and worthy factors of production in order to improve and encourage the small-scale industries is the main objective behind the establishment of SIDBI. SIDBI is the chief financial institution for providing finances, encouraging and improving the small-scale industries. It is responsible for directing all those commercial banks and financial institutions which provide financial assistance to small-level businessmen. The objective of SIDBI is to make MSME sector capable of generating employment, contributing the growth of economy, and in bringing evenness in industrial development in different regions.

5.5.5.1. Objectives of SIDBI

As per the Small Industries Development Bank of India Act, 1989 the objective of SIDBI is to finance, promote, develop and coordinate the development of the small scale industry.

5.5.5.2. Role of SIDBI

SIDBI performs various roles. Some of the main roles are as follows:

1) **Re-Financing:** SIDBI refinances the credits and loans granted by financial institutions to small-scale industries. It also assists financial institutions by providing them finance and other resources so that they can sufficiently help the small-scale industries to grow and develop.
2) **Discounting and Re-Discounting:** SIDBI also serves the function of discounting and re-discounting of bills of the small scale industrial units. Bills can either be of purchases made by any small-scale unit or by the purchases of products produced by any small-scale unit.
3) **Direct Assistance:** Other than the re-financing of loans granted by credit institutions, SIDBI also extend direct assistance to the small-scale industrial sector for exporting of goods.
4) **Soft Loans and Seed Capital:** There are various schemes of SIDBI, by which it provides soft loans, i.e., loans which can be availed on very lenient terms and conditions. Some of them are Mahila Vikas Nidhi, National Equity Fund, Mahila Udyam Nidhi, etc. In the same way, through the specific credit agencies, SIDBI also provides schemes of seed capital.

5) **Support to SSIDCs:** The two most important difficulties that are often faced by the companies of small-scale sector are procuring the scarce resources, and marketing and selling of the finished goods. The financial assistance needed to carry out these two activities is given by SIDBI, not directly but through one of its agencies, named as State Level Small Industries Development Corporations (SSIDC).
6) **Other Services:** Alongwith all the aforementioned functions, SIDBI also assists the small-scale industrial units in services such as factoring, leasing, etc.
7) **Help to NSIC:** National Small Industries Corporation (NSIC) is a body that helps small-scale industrial units in making hire-purchases, leasing, marketing activities, etc. The SIDBI assists NSIC financially, so that the latter can perform its functions effectively.
8) **Technological Upgradation:** In the era of globalisation, technology and its regular updation is becoming a necessity for all the sectors and same applies to small-scale industrial sector. This is the reason why SIDBI took a step ahead in order to renovate the small-scale industrial units by instituting advanced technology in their operations.

5.5.5.3. Financial Schemes Offered by SIDBI

The growth and development of industrial units is hampered by various factors such as, lack of basic infrastructure, absence of appropriate market places, insufficient working capital of companies, untimely realisation of bills, etc. In the view of all such hindrances, SIDBI includes following provisions in its several schemes:
1) Extend credit facilities to those institutions which provide marketing opportunities or markets to the small-scale entrepreneurs.
2) Extend credit facilities in order to renovate and technologically upgrade the subsidiary units.
3) Extend credit facilities to those institutions which provide infrastructure and other basic facilities, and also create the growth opportunities for SSI units.
4) Extend credit facilities to National Small Industries Corporation.
5) Extend credit facilities to those companies which provide their services on contractual basis.

5.5.6. Government Efforts at Promoting Entrepreneurship and Innovation in Defence

The government is considering to indigenously manufacturing majority of the defence systems that are currently imported, over the next five-six years. The government has come out with many mechanisms to promote the industries to get them into defence research in a big way and come out with many indigenous products. The Union government has decided to promote innovators in defence manufacturing sector.

Different Government of India efforts for promoting entrepreneurship and innovation in defence sector are as follows:
1) **Innovations for Defence Excellence (iDEX):** Innovations for Defence Excellence (iDEX) launched by the Government in April 2018, primarily aims at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, start-ups, individual innovators, R&D institutes & academia, and provide them grants/funding and other support to carry out R&D which has good potential for future adoption for Indian defence and aerospace needs.
2) **Defence India Start Up Challenge:** Taking the iDEX initiative further, "Defence India Startup Challenge" has been launched by Ministry in partnership with Atal Innovation Mission, aimed at supporting Startups/MSMEs/Innovators to create prototypes and/or commercialise products/solutions in the area of National Defence and Security. The vision of the challenge is two-fold:
   i) Help create functional prototypes of products/technologies relevant for national security (prototyping), and spur fast-moving innovation in the Indian defense sector;
   ii) Help new tech products/technologies find a market and early customer (commercialisation) in the form of the Indian defence establishment.

5.5.7. Government Efforts at Promoting Entrepreneurship and Innovation in Railways

The Indian Railways has taken a big step to promote micro and small enterprises by reserving 358 items including cleaning apparatus, stationery and leather items exclusively for procurement from the MSE sector. Besides, in a relief to the MSEs, the sector has been exempted from paying tender cost and earnest money deposit for participating in the railway tender.

The growth of small business is crucial for India's economic development and the support of the formal and organised sector like railways will help it unleash its true potential. There are a total of 9,973 MSE vendors registered on the Indian Railways procurement portal and ₹4,400 crore worth of materials are procured in a year from the sector.

The state-run transporter has firmed up an action plan to increase participation of the MSE sector in the public transporter's procurement. In addition to the 358 items including handicraft and painting brushes exclusively reserved for procurement from MSEs, railways will now allow the sector in procurement of several other items also.

The Government of India is going to come up with a 'National Rail Plan' which will enable the country to integrate its rail network with other modes of transport and develop a multi-modal transportation network. A 'New Online Vendor Registration System' has been launched by the Research Designs & Standards Organisation (RDSO), which is the research arm of Indian Railways, in order to have digital and transparent systems and procedures.

Investment by SMEs in product development or process improvement to meet the new requirements might be substantial relative to their respective firm sizes. While the Ministry of MSME and state government has several programs for the MSMEs, access to finance still remains a major concern. There is no program currently in place for offering financial support to the SMEs in the railway sector. This might need to be looked into as newer technologies are introduced in the railways.

Technology Mission for Indian Railways (TMIR) – an initiative of the Department of Science and Technology (DST), Ministry of Railways (MoR), Ministry of Human Resource Development and Ministry of Industry – will take up research projects to develop state-of-the-art technologies for use in Indian Railways on an investment sharing model.

5.6. EXERCISE

5.6.1. Multiple Choice Questions

1) **The IC scheme covers the activities which can assist the ________ to grow.**
   a) MSMEs b) SIDBI
   c) KVIC d) SIC

2) **________ can be given as a support in the form of tax reduction or cash.**
   a) Incentive b) Grants
   c) Subsidies d) Loans

3) **Non-financial incentive for SSI does not include:**
   a) Special incentives in backward areas b) Depreciation
   c) Incentives to Non-resident Indians d) Special incentives for women

4) **________ incubators are considered the "second generation" of incubators.**
   a) Dot.com b) First generation
   c) Incubator networks d) Virtual incubators

5) **Acceleration involves exploitation rather than either ________.**
   a) Exploration or experimentation b) Exploration or exemption
   c) Exemption or experimentation d) Experimentation or exploitation

6) **Cash required for conducting the business is:**
   a) Short term loan b) Fixed capital
   c) Working capital d) Long term loans

7) **A business launched by an entrepreneur with little or no outside cash or other support is called:**
   a) Crowdsourcing b) Angels
   c) New venture d) Bootstrapping

8) **All of these are types of angel investors, EXCEPT:**
a) Macromanagement angels
b) Micromanagement angels
c) Corporate angels
d) Professional angels

9) **KVIC is headquartered in:**
a) Bihar
b) Kolkata
c) Mumbai
d) Chennai

10) **SIDBI was incorporated in:**
a) 1990
b) 1991
c) 1992
d) 1993

11) **All of these are roles of SISI, EXCEPT:**
a) Modernization
b) Managerial consultancy
c) Depreciation
d) Technical consultancy

12) **In DGFT, F stands for,**
a) Finance
b) Fund
c) Foreign
d) None of the above

13) **The __________ provides the facility of online filing of various applications under the FTP by exporters/importers, such as IEC:**
a) Government
b) DGFT
c) Bank
d) KVIC

14) **The public-private partnership model in railways is given the name:**
a) Innovation challenge
b) Public private challenge
c) Rail Vikas challenge
d) Swiss challenge

15) **The vision of the defense India start up challenge is:**
a) To help create functional prototypes of products/technologies relevant for national security (prototyping).
b) To spur fast-moving innovation in the Indian defense sector.
c) To help new tech products/technologies find a market and early customer (commercialization) in the form of the Indian Defence Establishment.
d) All of the above

16) **__________involves obtaining work, information, or opinions from a large group of people.**
a) Bootstrapping
b) Crowdsourcing
c) Public deposits
d) Brainstorming

17) **All of these are sources of short term finance, EXCEPT:**
a) Trade credit
b) Factoring
c) Shares
d) Bill discounting

18) **Government initiatives to promote entrepreneurship in India at large scale includes:**
a) SANKALP
b) UDAAN
c) Make In India
d) All of the above

19) **Financial incentives for SSIs does not include:**
a) Tax Holidays/Concessions
b) Investment allowance
c) Depreciation
d) General Incentives

20) **The main-incubation phase in the incubation process involves:**
a) Incubator affiliations
b) Incubator management
c) Incubator tenants
d) All of the above

21) ____________ **are units undertaking to export their entire production of goods.**
   a) Import oriented units
   b) Export oriented units
   c) Gross production units
   d) None of the above

22) **Role of SIDBI includes:**
   a) Discounting and re-discounting
   b) Re-financing
   c) Technology degradation
   d) Both a) and b)

23) **In ____________, the lenders get the money back with interest and this allow for lending of money while avoiding the traditional banks.**
   a) Debt crowd funding
   b) Donation-based crowd-funding
   c) Pre-order model
   d) None of the above

24) ____________ **programs are often sponsored by private companies or municipal entities and public institutions, such as colleges and universities.**
   a) Business nurturing
   b) Business incubation
   c) Business cultivation
   d) Business fostering

Answers:

1) a	2) c	3) b	4) d	5) a	6) c	7) d	8) a
9) c	10) a	11) c	12) c	13) b	14) d	15) d	16) b
17) c	18) d	19) d	20) d	21) b	22) d	23) a	24) b

5.6.2. Short Answer Type Questions

1) What do you mean by incentives and grants? Discuss the types of financial incentives.
2) State the important non-financial incentives prevalent in India for SSI units.
3) What do you mean by subsidies? What are Export Oriented Units (EOUs)?
4) Explain the incubator models in brief.
5) Write a brief note on business acceleration.
6) Why a venture needs funds? Elaborate the types of funds available to the entrepreneurs.
7) Highlight the advantages and disadvantages of bootstrapping.
8) Describe DGFT in brief along with its functions and responsibilities.

5.6.3. Long Answer Type Questions

1) What role does the central and state government play in promoting entrepreneurship? Explain the initiatives taken by the government to promote entrepreneurship.
2) Discuss business incubation alongwith its process and roles in detail.
3) Illustrate the sources of finance for new venture. Explain each source in brief.
4) Throw some light on the new initiatives taken by government to promote entrepreneurship in India at larger scale
5) Explain in detail crowdsourcing and angel investors.
6) Estimate the fixed and working capital funds requirement for an entrepreneurial venture.
7) Discuss the functions of KVIC, SISI, and SIDBI.
8) Elaborate the efforts of government at promoting entrepreneurship and innovation in defense and railways.