UNIT–IV

Nature of Entrepreneurship: Characteristics and skills of an entrepreneur, Entrepreneur scenario in India and abroad. Types of entrepreneur, types of ownership, Small business in Indian economy. Risk Reduction strategies. Strategies for growth. Financial aspects: sources of rising capital, schemes of Department of Industries (DIC), KVIC, SIDBI, NABARD, NSIC, IFCI and IDBI.

Concept of Entrepreneurship: The word "entrepreneur" is derived from the French verb enterprendre, which means 'to undertake'. This refers to those who "undertake" the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

Entrepreneurship refers to the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risk and receiving the resulting rewards of monetary, personal satisfaction and independence.

Definition of Entrepreneurship: According to Fred Wilson: "Entrepreneurship is the art of turning an idea into a business venture capitalist".

According to Stevenson & Jarillo: "Entrepreneurship is the process by which individual pursue opportunities without regard to resources they currently control".

According to Schumpeter, "Entrepreneurship is based on purposeful and systematic innovation. It included not only the independent businessman but also company directors and managers who carry out innovative functions".

In the opinion of A.H. Cole, **"Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or enhance the reputation (aggrandize), profit by production or distribution of economic goods and services".**

Nature and Characteristics of Entrepreneurship: Entrepreneurship is characterized by the following features:

1. Economic and dynamic activity: Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilisation of scarce resources. Since this value creation activity is performed continuously during uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation: Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

3. Profit potential: "Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture." Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing: The essence of entrepreneurship is the 'willingness to assume risk' arising out of the creation and implementation of new ideas. New ideas are always tentative, and their results may not be instantaneous and positive.

Importance of Entrepreneurship:

a. **Creation of Employment-** Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.

b. **Innovation-** It is the hub of innovation that provides new product ventures, market, technology, and quality of goods, etc., and increase the standard of living of people.

c. **Impact on Society and Community Development-** A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organisation towards a more stable and high quality of community life.

d. **Increase Standard of Living-** Entrepreneurship helps to improve the standard of living of a person by increasing the income. The standard of living means, increase in the consumption of various goods and services by a household for a particular period.

e. **Supports research and development-** New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development in the economy.

ENTREPRENEUR

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The process of setting up a business is known as entrepreneurship. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

WHO IS AN ENTREPRENEUR?

- An entrepreneur is a person who buys factor services at certain price with a view of selling its Products at uncertain price.
- Entrepreneur is an individual or associations and Entrepreneurs assemble and then integrate all the resources needed (the money, the people, The Business model, there strategy) to transform an invention or an idea into a viable business.

Definition of Entrepreneur: According to Adam Smith: "Entrepreneur as a person who only provides capital without taking active part in the leading role in the enterprise".

Peter E Drucker defines an entrepreneur as one who always searches for change, responds to it, and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

CHARACTERISTICS OF ENTREPRENEUR

An entrepreneur may be driven by a need to create something new or build something tangible. Characteristics of an entrepreneur include spontaneous creativity, the ability and willingness to make decisions in the absence of solid data and a generally risk-taking personality.

1. **Mental ability**: Mental ability consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them.
2. **Clear objectives**: An entrepreneur should have a clear objective as to the exact nature of the goods to be produced and subsidiary activities to be undertaken.
3. **Business secrecy**: An entrepreneur must be able to guard business secrets.
4. **Human relations ability**: The most important, personality traits contributing to the success of an entrepreneur is emotional stability, personal relations, consideration, and tactfulness.
5. **Communication ability**: Communication ability is the ability to communicate effectively. Good communication also means that both sender and the receiver understand each other and are being understood.
6. **Technical knowledge**: An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the one ability that most people can acquire if they try hard enough.

SKILLS OF ENTREPRENEUR

Many entrepreneurs believe that the most important factor that will determine their level of success with a start-up relates to their overall experience and skills in the niche area.

1. **Ambition:** It is easy to give up when the going gets tough, but the most successful entrepreneurs persist because of their ambitious nature. They want to succeed, and they thrive on reaching small milestones that are steppingstones to their goal.

2. **Willingness to Learn:** Some people think that learning stops when you graduate college or earn a special certification, but this is not the case. Education is a life-long process. Entrepreneur must stay updated with changes in technology, the evolution of your industry, sales processes and more.

3. **Ability to Listen:** To manage a great team or run provide a great customer service if entrepreneur is an effective communicator. Communication is a two-way street. To communicate outwardly in an effective manner, Entrepreneur must pay attention to others' motivations, hot buttons, interests and more. Entrepreneur also must be aware of non-verbal cues, such as body language.

4. **Creativity:** If entrepreneur always do the same thing, you very likely will not enjoy new and better results. entrepreneur must try new things to find what works best. He also needs to enrich their live with new experiences regularly.

5. Assertiveness and Confidence: While listening is important for effective communication, entrepreneur also must know when he need to take control of the conversation and assert his opinions and beliefs. Entrepreneur should listen to others who are making reasonable claims and requests, but he also need to know when to say no. Be consistent yet open-minded to earn respect and trust from those around you.

6. Perseverance: Many of the most successful business owners have suffered devastating defeats and failures. Rather than look at these events as an end to a situation, they have looked at these events as important learning moments. They maintained their optimism and perseverance, but they also made calculated changes to future efforts. Remember that entrepreneur only fail when they stop trying. Persistence is the key to success.

7. Courage and Risk Taking: In order to harness the power of creativity, entrepreneur must have the courage to act on their great ideas and plans. While he need to research his ideas thoroughly, he must also have the courage to take an unknown step and try things that are unfamiliar to him by accepting the risk .

Finding a successful path in life is rarely a straight and narrow process. Many entrepreneurs must take numerous steps to develop the right combination of skills, traits, and knowledge to be successful with their efforts. If entrepreneur focus their attention on nurturing these traits in your own life, they may be able to enjoy better overall success with future entrepreneurial efforts.

FUNCTIONS OF ENTREPRENEUR: An entrepreneur performs a series of functions necessary right from the generation of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. The following are some of the functions of an entrepreneur.

1. **UNDERSTANDING OWN CAPABILITY:** Identify and compare own personal qualities and skills. Know own strengths, weakness, and overall capability to translate idea into a business reality.
2. **IDENTIFYING A NEW VENTURE OPPORTUNITY:** Study market needs and wants for a change. Recognize innovation possibilities and think about a new idea, process device, product, or service.
3. **PLANNING A NEW VENTURE:** Prepare a project report. Estimate technical know-how, plant, machinery, and supporting services needed and know their suppliers. Know legal requirements for setting up a new unit.
4. **ORGANISING A NEW VENTURE:** Determine organizational structure. Ensure proper maintenance of office records. Obtain certificate of registration. Arrange business location, factory shed, power and water supply. Engage office staff and factory workers and secure patent and trademark rights, if necessary.
5. **MANAGING FINANCE:** Arrange own and borrowed capital. Avail grants and subsidies obtainable from government**.** Maintain accounts and prepare, analyze the financial statements and control the performance.
6. **MANAGING PRODUCTION OPERATION:** Acquire details of basic technical knowledge and production operation. Formulate framework for total quality control and guidelines for production schedule and ensure it.
7. **MANAGING WORKFORCE:** Arrange systematic manpower planning. Prepare job descriptions for all positions at all levels. Decide pay and perquisites for each position and aassign responsibility and delegate authority.
8. **MANAGING MARKET**: Collect and regularly analyze data on customer desires with special reference to product quality, function, pricing and after-sales service. Review marketing channel and ensure smooth flow of goods

TYPES OF ENTREPRENEURS: Entrepreneurs can be of different types. Some may prefer to go it alone or share the risk in groups with others. They are found in every economic system and as well as in other social and cultural activities. They are seen from amongst farmers, labourers, fishermen, tribals, artisans, artists, importers, exporters, bankers, professionals, politicians, bureaucrats and so many others.

Basing on the above features C. Danhof has broadly classified entrepreneurs into four types. These are discussed below.

1. **Innovative Entrepreneur:** In the early phases of economic development, entrepreneurs have initiative to start new ventures and find innovative ways to start an enterprise. Thus, **innovative entrepreneurs are those who introduces new products, new method of production techniques, or discovers a new market or a new service or reorganizes the enterprise.** It is the innovative entrepreneurs who built the modern capitalism. They are commonly found in developed countries. They are aggressive in nature who exhibit cleverness in putting attractive possibilities into practice.

2. **Imitative Entrepreneur:** There is a second group of entrepreneurs generally referred as imitative entrepreneurs**. They usually copy or adopt suitable innovations made by innovative entrepreneurs. They are adoptive and more flexible. They are organisers of factors of production rather than creator.** The imitative entrepreneurs are also revolutionary and important. They' contribute to the development of underdeveloped economies.

3. Fabian Entrepreneurs: The third type of entrepreneur is Fabian Entrepreneurs. **Such type of entrepreneurs are very shy and lazy by nature. They are very cautious people. They do not venture to take risks. They are rigid and fundamental in their approach. Usually, they are second generation entrepreneurs in a family business enterprise.** They follow the footsteps of their successors. They imitate only when they are very clear that failure to do so would result in a loss of the relative position in the enterprise.

4. Drone Entrepreneurs: The fourth type of entrepreneur is **Drone entrepreneurs who refuse to copy or use opportunities that come on their way. They are conventional in their approach. They are not ready to make changes in their existing production methods even if they suffer losses. They resist changes.** They may be termed as laggards.

The above types of entrepreneurs are not comprehensive for it aims at highlighting the broad range of entrepreneurs found in business and profession. Following are some more types of entrepreneurs listed according to the type of business, use of technology, motivation, growth, and stages of development.

According to the Type of Business: Depending on the nature size, type of business, entrepreneurs are divided into five categories. They are as follows:

Business Entrepreneur: Business entrepreneurs are those entrepreneurs who develop an idea for a new product or service and then establish an enterprise to materialize their idea into reality.

Trading Entrepreneur: An entrepreneur who undertakes trading activities whether domestic or overseas is known as a trading entrepreneur. He has to identify the potential market for his product in order to stimulate the demand for the same.

Industrial Entrepreneur: Industrial entrepreneurs are essentially manufacturers who manufacture products and services which have an effective demand in the market .They can convert the economic resources and technology into a profitable venture.

Corporate Entrepreneur: Corporate entrepreneur is one who through his innovative ideas and skill able to organize, manage and control a corporate undertaking very effectively and efficiently.

Agricultural Entrepreneur: Agricultural entrepreneur is one who undertakes agricultural as well as allied activities in the field of agriculture. He engages himself in raising and marketing of crops, fertilizers and other inputs of agriculture through employment of modern techniques, machines and irrigation.

According to use of Technology: The entrepreneurs may be classified into the following categories on the basis of application of new technology in various sectors of the economy.

Technical Entrepreneur: An entrepreneur who is technical by nature in the sense who is capable of developing new and improved quality of goods and services out of his own knowledge, skill and specialization is called a technical entrepreneur. He is essentially compared to a craftsman who concentrates more on production than marketing.

Non-technical Entrepreneur: Non-technical entrepreneurs are those who are mainly concerned with developing alternative marketing and distribution strategies to promote their business. They are not concerned with the technical aspects of the product and services they are dealing with.

Professional Entrepreneurs: Professional entrepreneurs are those who make it a profession to establish business enterprises with a purpose to sell it once it is established. He is always looking forward to develop alternative projects by selling the running business. He is not interested in managing and operations of the business established by him. He is very dynamic in his attitude.

According to Motivation: Entrepreneurs basing upon their motivating factors can be classified into three types as spontaneous, induced and motivated entrepreneurs.

Spontaneous Entrepreneurs: Spontaneous entrepreneurs are otherwise known as pure entrepreneurs who are motivated by their desire for self fulfillment and to achieve or prove their excellence in job performance. They undertake entrepreneurial activities for their personal satisfaction in work, ego, or status. Their strength lies in their creative abilities. They are the natural entrepreneurs in any society. They do not need any external motivation.

Induced Entrepreneurs: Induced entrepreneurs are those who are induced to enter entrepreneurship because of various governmental support provided in terms of financial assistance, incentives, concessions and other facilities to the people who want to set up of their new enterprises. Sometimes prospective entrepreneurs are induced or even forced by their special circumstance, such as loss of job or inability to find a suitable job according to their talent and merit to adapt to entrepreneurship.

Motivated Entrepreneurs: Motivated entrepreneurs are those who are motivated by their desire to make use of their technical and professional expertise and skill in performing the job or project they have taken up. They have enough confidence in their abilities. They are highly ambitious and are normally not satisfied by the slow progress in their jobs.

Other Categories of Entrepreneurs

Solo Operators: Solo operators are those entrepreneurs who essentially work alone or have a few employees. In the beginning, most of the entrepreneurs when start their enterprises perceive themselves like them.

Active Partners: Active partners are basically solo operators who start an enterprise as a joint venture. It is important that all of them actively participate in the business of the firm.

Partners: There are certain entrepreneurs who only contribute funds to the enterprise without actively participating in various activities of the firm are known as simply partners.

Inventors: There are some entrepreneurs whose chief competence is their creativity and inventiveness to invent new product are called as inventors. heir interest is basically in research, and they often-lack managerial experience.

Challengers: These are the entrepreneurs who get into the business because of the challenge it represents. They tend to get bored when it seems that challenges are met and doing well. Then they begin to search for newer challenges.

Life-timers: Life-timers are those entrepreneurs who see their business as an integral part to their life. It is a matter of ego satisfaction and personal concern of life-timers to run the business successfully. Family enterprises and business come in this category.

Buyers: Buyers are those entrepreneurs who tend to purchase business rather than start one themselves as it appears to them to be less risky alternative. They do not like to bear much risk.

Growth Entrepreneurs: These are the entrepreneurs who always take up high growth industries which have substantial growth prospects in future. Such entrepreneurs grow with the growth of industries and vice-versa.

Super-Growth Entrepreneurs: Entrepreneurs who have shown tremendous growth performance in their enterprise are called as super-growth entrepreneurs. The growth performance of enterprise is characterized by liquidity of funds, profitability and gearing.

First-Generation Entrepreneurs: These entrepreneurs start their industrial unit by means of their own innovative skill and expertise. They usually combine different technologies to produce marketable products or services for the consumers.

Classical Entrepreneurs: A classical entrepreneur is a stereotype entrepreneur who is concerned with the customers and marketing needs through a development of a self- supporting venture.

Modern Entrepreneurs: Modern entrepreneurs are those who undertake ventures which run smoothly along with the changing demand of the products or service in the market. They also take up such ventures which suit the current marketing needs of the consumers.

Inherited Entrepreneurs: Inherited entrepreneurs or entrepreneurs by inheritance are seen in India where entrepreneurs inherit the family business through succession and pass it from one generation to another.

Forced Entrepreneurs: Sometimes circumstances compel persons to accept entrepreneurial activities, even if they lack proper understanding and training in the respective field. They are known as forced entrepreneurs. Unemployed youth/job seekers, rich farmers are few examples of such category.

Women Entrepreneurs: Women or female entrepreneurs are those section of the female population who venture out into industrial activities in the field of manufacturing, assembling, job works, repairs/servicing and other business. The women take the lead, organize and manage the business or industry and help in providing employment to others.

Rural Entrepreneurs: Rural entrepreneurs are those who want to carry out their entrepreneurial activities in the rural and backward sector of the economy. They set up their enterprises in rural areas.

Urban Entrepreneurs: Urban entrepreneurs are those who establish their enterprises in the urban or developed sector or the economy and carry out their entrepreneurial activities more successfully than the rural entrepreneurs.

Besides the above types of entrepreneurs, a large number of other types of entrepreneurs are also seen in the economy who have established their business undertakings and perform entrepreneurial activities successfully. They are retail entrepreneurs, services entrepreneurs, large scale entrepreneurs, traditional entrepreneurs, skilled, national, international, bureaucratic entrepreneurs and many more.

Entrepreneur scenario in India and abroad.

- The salience of entrepreneurship in India has **intensified in recent times particularly width the rise in knowledge-intensive services**. New entrepreneurs **who do not belong to traditional business communities** have begun to emerge in large numbers.

- Crucial efforts initiated after economic **liberalization – including systematic attempts to reduce the 'licence raj', greater efforts to make finance more easily** accessible to entrepreneurs and other **institutional support to technopreneurs** have helped improve the climate for entrepreneurship.

- **The software industry has taken giant steps with the top companies working within the market and with a full understanding of the rules of international commerce.**

- Thus, **the opportunities created by today's global knowledge economy coupled with the liberating of indigenous enterprise have contributed to making India a fertile ground for entrepreneurship**.

- **Statistics on the growth of India's technology driven entrepreneurship are telling**. In a recent survey by Deloitte group, **India ranks 2nd globally as home to the fastest growing technology firms**. In high skill innovation driven entrepreneurship, the opportunities offered by complex and interconnected global networks are also relevant.

- The ability to adapt to **changing market conditions and anticipate future technologies and economic trends** and **leverage across large number of markets provides opportunities for exploiting economies of scale**.

Recent **surveys such as those undertaken by Goldman Sachs and Price Water House Coopers**, have estimated that India **has the potential to be among the world's leading economies by 2050**. **Further, India's economy can potentially gain significantly from the country's characteristic features –**

a) A democratic open society,

b) A strong technology base and Unparalleled diversity,

c) Vibrant capital markets including private equity and venture capital markets,

d) An increasingly youthful population (50 per cent of India is 25 years and younger),

e) A sizable market of a large number of customers with vast unmet needs as well as

f) An environment of full and free competition in the private sector.

- **The Indian entrepreneurship segment, comprising of SME's, Start-up is, first generation entrepreneurs and those looking to expand their family business, is a thriving and dynamic part of the Indian economy.**

- **The government and taxation policies, GST, improved access to FDI and ease of getting investments etc., have all brought about unprecedented changes to the sector**

As we embark into the next decade, here are top trends that will drive the sector:

1 Digitisation & Automation: Even as technology is making its presence felt across sectors, **digitisation and automation of business processes will be adapted faster, even by smaller start-ups and entrepreneurs.** Adaption of latest technology, automation driven processes was considered as a fancy investment afforded only by bigger players, until a few years ago.

2 Business Collaborations: In this era**, the consumer is spoilt for choice between Indian and international brands. With the flexibility to access similar products and services on the online and traditional platforms, entrepreneurs and start-up founders have been devising methods to combat competition and thrive.** This has led to a stronger focus on business collaborations

3 Customer Service focus: Again, **driven by competition, modern entrepreneurs and businesses today are waking up to the need of engaging with their customers, and building a loyal base**. While products and services do matter, customer service approach to business has become vital to flourish and expand . A trend that is again set to change the consumer buying patterns and drive growth.

4 Diversification: From focusing on niche product and service offerings to collaborations and outsourcing the non-core areas of business, entrepreneurs have adopted varied means to remain relevant to their millennial consumer base. **This decade is going to see a new trend of diversification, where entrepreneurs are increasingly opting for multiple businesses that are not only diversified in nature but are also independent and even drastically separate from the main business**

5 Focus on R&D/ Innovation: With access to the latest **know-how using digital learning and global knowledge exchange platforms, increasing number of businesses are waking up to the need of continuous learning and innovation**. This trend is set to rise, with more and more businesses investing time and resources to study, implement, and improve their product and service offerings, thereby enhancing their growth potential and possibilities for international expansion.

6. Supporting Organizations: The Government has setup various organizations which specialize in industry promotion & entrepreneurship development in different sectors. The organizations provide policy framework support, in addition to training & financial aid.

7. Development Support Organizations: Government of India has also set up various organizations that are at the forefront in providing support and training for the budding entrepreneurs.

8. Industry Associations: There are a variety of associations which help & encourage the cause of industry. These associations provide support & strength to the entrepreneurs & the organizations they setup. Additionally, industry association networks are crucial in steering government policy & action as well.

Types of Ownership

In private sector a business may be owned singly by an individual or jointly by a group of individuals. The ownership provides an individual or a group of individuals with the legal title to business assets the authority to control a business operation and the right to enjoy profits earned.

- **An enterprise owned by single private individuals is called sole proprietorship or individual proprietorship business. All other types of ownership in private sector are owned by groups of individuals.**
- **The group ownership is noticeable in a Hindu joint family business, partnership, corporative or joint stock company. Besides a business undertaking completely owned by the state, i.e government, is commonly known as a government enterprise or public sector undertaking. A business with joint participation by both private businesspersons as well as government is what we call a joint-sector enterprise.**

TYPES OF OWNERSHIP:

In private sector a business may be owned singly by an individual or jointly by a group of individuals. Some of the different forms of business ownership in private sector are discussed in the following paragraphs.

INDIVIDUAL OWNERSHIP:

)**SOLE PROPRIETORSHIP:** The sole proprietor **invests own and borrowed funds and uses own skills and abilities in the management of affairs of his of her firm. The proprietor is the only persons who has the legal rights or exclusive title to all the assets of his or her business and is solely responsible for its operations.** He takes all the profits and bears all risks alone. This form of organization is also called sole trading concern sole ownership, and single entrepreneur business. It is also the simplest and most natural. It is the most convenient and effective form of business organization.

)**FAMILY BUSINESS:** The expression "Family business" **denotes a particular type of commercial enterprise that is owned, directed managed and financed by single individuals**, usually the family heads. **Family business firms may be broadly classified into three groups according to their functions namely a) manufacturing or production units b) trading units c) service units.**

ADVANTAGES:	LIMITATIONS:
a)Easy to start or close.	a)Inadequacy of resources
b)Negligible restrictions	b)Limited manpower
c)Owners exclusive control	c)Owners unlimited liability
d)Direct supervision of employees	d)Excessive burden on owners

COLLECTIVE OWNERSHIP:

)**HINDU JOINT FAMILY BUSINESS:** This form of **business is found only among the Hindu joint families in India. Under Dayabhaga system of inheritance, which is prevalent in West Bengal Assam and Orrisa, following the death of the father, the family members of his family inherit his business along with other property**. It is only after the death of the father that his inheritors will acquire legal title to the ownership of his business. Other basic features of this system are business is managed by "**karta**" head of the family.

ADVANTAGES:

a) Male family members are assured of some income from business
b) Opportunity for all to gain business experience
c) Continuity of business
d) Registration not compulsory

LIMITATIONS:

)Only "KARTHA" is privileged to head the management of business
)Unless a member serves connection with family, he cannot question the authority and decision of kartha
)One severing connection with business cannot ask for accounts of past profits and losses.

2). PARTNERSHIP: Partnership **is a business relation between two or more persons who have agreed to share the profits of a business carried out by all or any one of them acting for all, in simple words**, when by means of a contractual agreement several associate with common ownership and management of a venture such a business relationship is termed as partnership. Partnership form of organization has developed due to the limitations of sole trading concern. **It is governed by the partnership act 1932.**

Types of partnership: it is broadly classified in two groups:

)General or ordinary partnership (two or more individuals agree to share in all assets, profits, and financial and legal liabilities of a jointly-owned business.**)**

)Limited partnership (the **limited partners** are only liable up to the amount of their investment.)

Types of partners: **Active or General Partners, Secret Partners, Sleeping or Dormant Partners, Working Partners, Quasi Partners, Holding Out Partners.**

ADVANTAGES:

)Not much of statutory formalities are involved for setting up a unit

)Partners mobilize own resources and thus facilitate inflow of required funds

)More manpower and expertise add to organization efficiency and

)Partners take personal attention for better management and profitability

LIMITATIONS:

)Every partner is liable for business debts to an unlimited extent and all partners will be held responsible for mistakes

)Death, retirement or insolvency of a partner or anyone desiring to quit will result in the dissolution of business

3) COOPERATIVE: A cooperative society is a voluntary association of ten or more individuals who come together for the benefit of their common economic interests. A cooperative is a joint enterprise where all the members contribute capital and labour and manage its affair with an understanding to primarily distribute among themselves equally the profits earned, or benefits derived out of that venture. At least ten individuals are required to form a cooperative society there being no restriction on the upper limit of the members.

ADVANTAGES:

)It is relatively easy and simple to form and establish.

)It is managed by a committee directly elected by its members.

)Liability of each member is limited to the extent of one's investment in it.

LIMITATION:

)Generally, people having technical skill or managerial expertise are not admitted as members or appointed as employees.

)Want of skilled personnel or absence of coordination among members adversely affect operational efficiency.

4. JOINT STOCK: Section 3 of the Indian Companies Act 1956 however denotes a company as "A company formed and registered under this Act" and that an existing company means a company formed or registered under any of the previous company laws. **In India, all matters concerning formation, registration and operation of joint stock companies are governed under the Indian Companies Act 1956.**

ADVANTAGES:

)Liability of every shareholder is limited.
)Shares are transferrable freely.
)Continuity of existence is certain.

LIMITATIONS:

)Burdensome procedure to be completed for formation and registration.
)Numerous statutory requirements make the operation difficult and expensive.
)Few shareholders control the management and enjoy most of the benefits.

PRIVATE LIMITED COMPANY: A company having its liability limited by shares can be formed as a private limited company and this means **it cannot openly invite the general public to subscribe its shares**. **Number of shareholders must not be either less than two or more than fifty.**

PUBLIC LIMITED COMPANY: An enterprise having its liability limited by shares can also be setup as a public limited company and for which **it will have at least seven and a maximum of any number of shareholders, members of the general public may be invited to subscribe its shares debentures and bonds.**

SMALL BUSINESS IN INDIAN ECONOMY

- The interpretation of small business varies across countries and continents. Different countries identify small business by different rules, principles, and standards. **In simple words small business generally refers to private enterprises managed on a small scale. These include manufacturing and processing units, workshops, distribution houses, wholesale or retail stores, advertising agencies, professional and personal service firms, construction and interior decoration firms, tailoring shops, hotels and restaurants and many more of diverse description that are owned and run independently by private individuals.**

- **In India small business is categorized primarily into such broad groups as tiny, ancillary, small scale business, small scale service and small-scale industrial units**. For example, cottage and small-scale industries Department Government of West Bengal, classify small units in the following order:

1. A business enterprise whose activity falls within the purview of the government's specified list and whose investment in fixed assets, excluding land & buildings, does not exceed Rs 5 lakh is treated under the category of **"small scale service** (Industries Related)" and "Business Enterprises";

2. A unit with investment in plant & machinery not exceeding Rs 25 Lakh may be registered as a "**Tiny Industry**";

3. An industrial undertaking having investment in plant & machinery not exceeding Rs 1 Crore is considered as a "**small scale Industry**"; and

4. a unit with investment in plant and machinery not exceeding Rs 1 Crore and engaged in supplying 50% or more of its goods or services in other industries is registrable as an "**Ancillary Industry**".

Small scale industry means an industry that employs capital less than 1 crore. Almost all items can be manufactured in a small-scale industry, but there are large scale manufacturing activities like rolling mills, extrusion presses, pilger mills etc., that cost much more.

Role of Small Businesses in India: Small business has played a very **crucial role in transforming the Indian economy from a backward agrarian economy to its present stature.** Its benefits range from creating job opportunities for millions of people, including many with low levels of formal education. It has nurtured the inherent entrepreneurial spirit in far flung corners of the nation resulting in the growth and development of all regions. It has been instrumental in raising the standard of living of the multitudes**. The small-scale sector has contributed specifically to the following areas:**

1. **Employment Generation:** The SSI sector in India is the second largest manpower employer in the country next only to the agriculture sector. India is characterized by abundant labour supply and is plagued by unemployment and underemployment.
2. **Low Initial Capital Investment:** Another feature of the Indian economy and most of the developing economies is the scarcity of capital. The modern largescale sector requires colossal investments whereas the small sector is just the opposite.
3. **Balanced Regional Development:** Dispersion of small business in all parts of the country helps in removing regional imbalances by promoting decentralized development of industries. It helps in industrialization of rural and backward areas.
4. **Equitable Distribution of Income:** This is a natural corollary of the above. When entrepreneurial talent is tapped in different regions and areas the income is also distributed instead of being concentrated in the hands of a few individuals and B families.

5. Promotes Inter-Sectoral Linkages: SSI units are supplementary and complementary to large and medium scale units as ancillary units. Many small units produce sub-parts, assemblies, components and accessories for the largescale sector especially in the electronic and automotive sectors.

Exports: The most significant contribution of the SSI has been in the field of exports. There has been a significant increase in the exports from this sector of both traditional and non-traditional goods including jewellery, garments, leather, hand tools, engineering goods, soft ware etc.

Development of Entrepreneurship: Small business taps the latent potential available locally. This way they facilitate the spirit of enterprise, which results in overall growth, and development of all the regions /sectors of the nation.

Utilization of local resources: The awareness of needs and demands of the local community make the small businesses emerge in rural and semi-urban areas. Small business is community-based and generally focused on fewer areas. This gives the opportunity to the businesses to utilize the local resources like raw material, talent, labour, demographic opportunities.

Flexible and Adaptable: New business opportunity is captured at right time. The strength to adapt and grow in the face of upcoming changes gives an edge to the small businesses. Also, being the manufacturer and distributor, small businesses develop a sense of personal touch with the area of business and their customers. Limited in size and finance, there is little or no government intervention.

RISK REDUCTION STRTAGIES FOR NEW ENTRY EXPLOTATION:

A new entry involves considerable risk for the entrepreneur and his firm**. Risk here refers to profitability and magnitude of downside loss which could result in bankruptcy. The risk of downside loss is partly derived from entrepreneurs' uncertainties over market demand, technological development, and the actions of competitors**.

New entry refers to:

- **Offering a new product to an established or new market.**
- **Offering an established product to a new market.**
- **Creating a new organization.**

Entrepreneurial strategy – The set of decisions, actions, and reactions that first generate, and then exploit over time.

Strategies can be used to reduce some or all these uncertainties and thereby to reduce the risk of downside loss. Three such strategies are **Market scope, Imitation and Managing newness**.

2. MARKET SCOPE STATEGY: Scope is a choice by the entrepreneur about which customer groups to serve and how to serve them. The choice of market **scope ranges from narrow –broad scope strategy** and depends on the type of risk the entrepreneur believes is more important to reduce.

a) **NARROW SCOPE STATEGY:** A narrow scope strategy **offers a small product range to a small number of customer groups** in order to satisfy a particular need. The **narrow scope can reduce the risk that the firm will face competition with larger, more established firms in several ways.**

1) A narrow scope strategy **focuses the firm on producing customized products localized business operations** and high level of craftsmanship.
2) By **focusing on specific group of customers, the entrepreneur can build up specialized expertise** and knowledge that provide an advantage over companies that are competing more broadly.
3) The **high end of the market typically represents a highly profitable niche that is well suited to those firms that can produce customized products,** localized business operations and high levels of craftsmanship

b). **BROAD SCOPE STRATEGY:** **Broad-scope strategy involves offering a range of products across many different market segments.** A broad scope strategy **can be thought of as taking a "portfolio" approach to dealing with uncertainties about the attractiveness of different market segments.** By offering a range of products across many different market segments, the entrepreneur can gain an understanding of the whole market then the dropped and resources concentrated on those product markets that show the greatest promise.

1. **Strategy emerges through the information provided by a learning process.**
2. **Opens the firm up to many different "fronts" of competition.**
3. **Reduces risks associated with market uncertainties but increases exposure to competition.**

2. IMITATION STRATEGY: Imitation is another type of strategy to minizine risk of downside loss associated with new entry. **Imitation involves copying the practices of other firms, whether those other firms are in industry being entered or from related industry.** The idea of using imitation strategy to improve firm performance at first appears varying with the competitor . There are two types of imitation strategy franchising and me-too strategy.

)FRANCHISING: Franchising is an example of a new entry that focuses on imitation to reduce the risk of downside loss for a franchisee. Franchising means giving authority to others operate. For example, an entrepreneur might enter the fast-food industry by franchising McDonald's store in a new geographical location.

)ME-TOO STRATEGY: Coping products that already exist and attempting to build advantage through minor variation. In other words, the successful firm occupies a prime position in the minds of customers, and now the imitator is there too and hopes to be considered by the customers. **Variations often takes the form of minor changes to the launch the product being offered, taking an existing product or service to a new market not currently served, or delivering the product to customers in a different way** .Ice-cream shops are an example of me-too imitation strategy, where the new entrance have imitated successful stores but have also been able to differentiate themselves from those already in the industry by offering some form of variation.

3. **MANAGING NEWNESS:** New entry can occur through the creation of a new organization, offers some challenges not faced by entrepreneurs who manage established firms.

The liabilities of newness arise from the following unique conditions.

)New organization **face costs in learning new task**. It may take some time and training to customize employee's skills to the new task they are asked to perform.

)As people are assigned to the roles of the new organization **there will be some overlap or gaps** in responsibilities.

)Communication within the organization occurs through **both formal and informal channels**.

GROWTH STRATEGIES: A successful new entrepreneur provides the opportunity for the entrepreneur to grow the business. Most small companies have plans to grow their business and increase sales and profits.

- However, there are certain methods companies must use for implementing a growth strategy. The method a company uses to expand its business is largely contingent upon its financial situation, the competition and even government regulation.

- Some common growth strategies in business include **Market penetration, Market expansion, Product expansion, Diversification and Acquisition.**

1. **Market Penetration Strategy :** It **focus on a firm's existing product in the existing market and the entrepreneur attempts to penetrate this product or market further by encouraging existing customers to buy more of the firm's current products.** . Marketing can be effective when we encourage more frequent repeat purchase. Thus, growth strategy does not involve anything new for the firm and relies on taking market share from competitors and expanding the market size.

2. Market Expansion or Development : This strategy involves selling the firms existing product to new group of customers. They can be categorized in terms of

- **New geographical market**: it suggests selling the products in new locations. This has potential of increasing sales by offering the product to customers who have not previously had the chance to purchase its products.
- **New demographic market**: demographics are used to categorize customers based upon their income, where they lie, education, age, gender,.
- **New product use**: In entrepreneur might find out that people use its products in a way that was not intended or expected. This new knowledge of product use provides insight into how the product may be valuable to new groups of buyers.

3. Product Expansion Strategy: This strategy involves in **developing and selling new products to people who are already purchasing the firms existing products.** Experience with a particular customer group is a source of knowledge on the problems customers have with the existing technology and ways in which they can be better served. His knowledge is an important resource in producing a new product. A chance to capitalize in the existing distribution systems and on the corporate reputation the firm has with these customers will be the advantage.

4. DIVERSIFICATION STRATEGIES: It involves selling a new product to a new market. There are three types of related diversification.

Backward integration refers to taking step back up on the value-added chain towards the raw materials which in this case means the manufacturer also becomes a raw material wholesaler.

Forward integration is taking step forward on the value-added chain towards the customers which in this case means that the firm also a becomes a finished goods wholesaler.

Horizontal integration: the growth opportunity occurs at the same level of value-added chain but simply involves a different but complementary value-added chain.

5. Acquisition of Other Companies: Growth strategies in business can also include an acquisition. In acquisition, **a company purchases another company to expand its operations. A small company may use this type of strategy to expand its product line and enter new markets. An acquisition growth strategy can be risky, but not as risky as a diversification strategy.** One reason is that the products and market are already established. A company must know exactly what it wants to achieve when using an acquisition strategy, mainly because of the significant investment required to implement it.

Sources of Rising Capital

Many **entrepreneurs do not know where to acquire funding when starting out or expanding**. There are many different sources for entrepreneurs to raise capital. However, not every source of capital is suitable for every business. An **entrepreneur should choose one which meets the capital structure that best fits their business**. A business' capital structure is the way that it is funded, either through debt (loans) or equity (shares sold to investors) financing.

Sources of capital / finance for business are equity, debt, debentures, retained earnings, term loans, working capital loans, letter of credit, euro issue, venture funding etc. These sources of funds are used in different situations

Sources of capital are the most explorable area especially for the entrepreneurs who are about to start a new business. There are various capital sources, we can classify based on different parameters.

- **Based on a time period, sources are classified as long-term, medium term, and short term.**
- **Ownership and control classify sources of finance into owned and borrowed capital.**
- **Internal sources and external sources are the two sources of generation of capital.**

All the sources have different characteristics to suit different types of requirements. Let us understand them in a little depth.

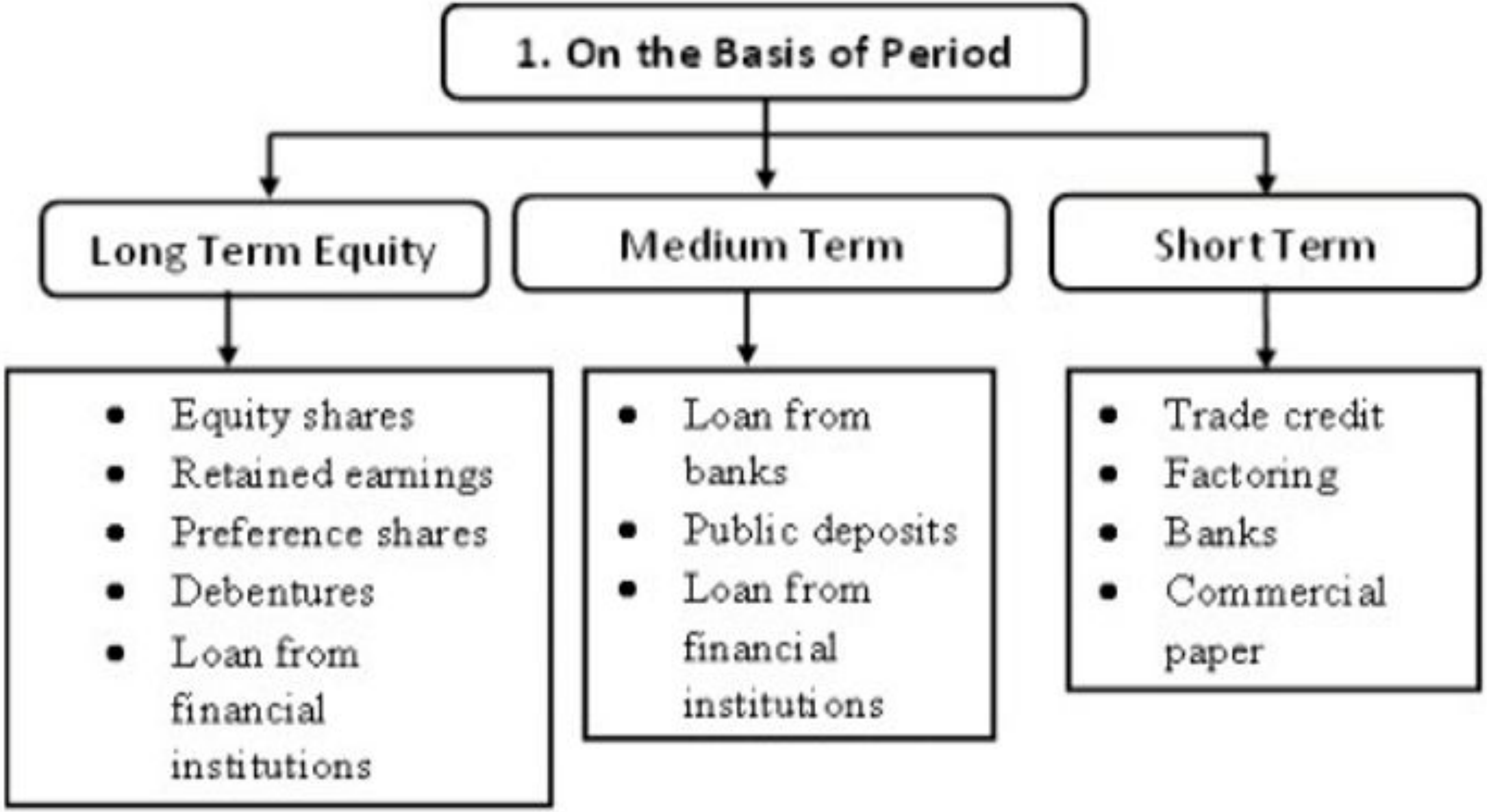
1. According to Time Period

Sources of financing a business are classified based on the time period for which the money is required. The time period is commonly classified into the following three:

a. **Long-Term Sources of Finance:** Long-term financing means capital requirements for a period of more than 5 years to 10, 15, 20 years or maybe more depending on other factors. Capital expenditures in fixed assets like plant and machinery, land and building, etc of business are funded using long-term sources of finance. Part of working capital which permanently stays with the business is also financed with long-term sources of funds.

b. **Medium Term Sources of Finance:** Medium term financing means financing for a period of 3 to 5 years and is used generally for two reasons. One, when long-term capital is not available for the time being and second when deferred revenue expenditures like advertisements are made which are to be written off over a period of 3 to 5 years.

c. **Short Term Sources of Finance:** Short term financing means financing for a period of less than 1 year. The need for short-term finance arises to finance the current assets of a business like an inventory of raw material and finished goods, debtors, minimum cash and bank balance etc. Short-term financing is also named as working

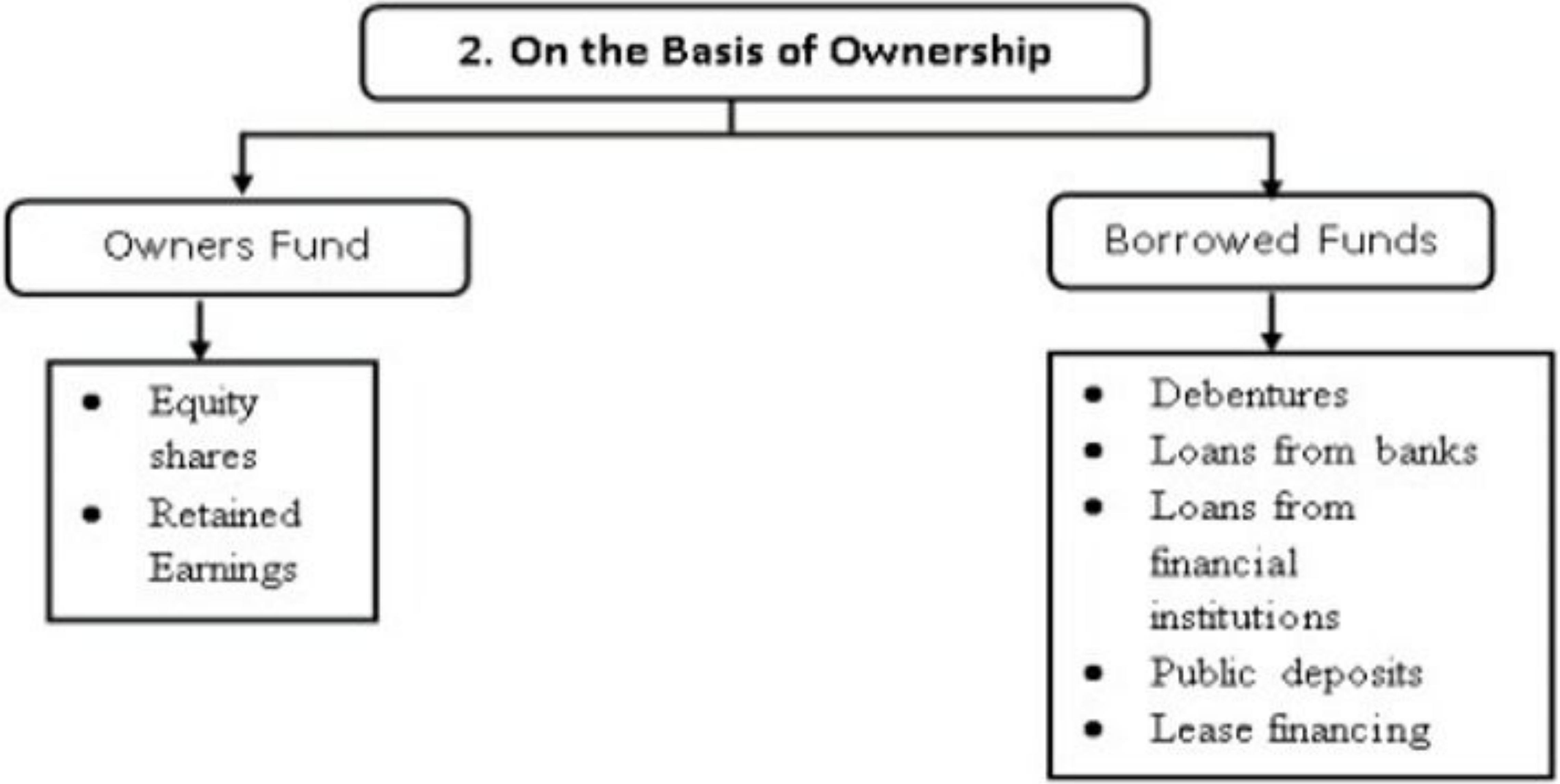

1. On the Basis of Period
Long Term Equity
Medium Term
Short Term
Equity shares
Retained earnings
Preference shares
Debentures
Loan from financial institutions
Loan from banks
Public deposits
Loan from financial institutions
Trade credit
Factoring
Banks
Commercial paper

2. According to Ownership and Control: Sources of finances are classified based on **ownership and control** over the business. These two parameters are an important consideration while selecting a source of funds for the business. **Whenever we bring in capital, there are two types of costs – one is the interest, and another is sharing ownership and control.** Some entrepreneurs may not like to dilute their ownership rights in the business and others may believe in sharing the risk.

a. Owned Capital: Owned capital also refers to equity. It is sourced from promoters of the company or from the public by issuing new equity shares. Promoters start the business by bringing in the required money for a start-up.

Further, when the business grows and internal accruals like profits of the company are not enough to satisfy financing requirements, the promoters have a choice of selecting ownership capital or non-ownership capital. This decision is up to the promoters.

b. Borrowed Capital: Borrowed or debt capital is the finance arranged from outside sources. **In this type of capital, the borrower has a charge on the assets of the business which means the company will pay the borrower by selling the assets in case of liquidation.** Another feature of the borrowed fund is a regular payment of fixed interest and repayment of capital. Certain advantages of borrowing are as follows:


2. On the Basis of Ownership
Owners Fund
Equity shares
Retained Earnings
Borrowed Funds
Debentures
Loans from banks
Loans from financial institutions
Public deposits
Lease financing

3. According to Source of Generation: Based on the source of generation, the following are the internal and external sources of finance:

a. Internal Sources: The internal source of capital is the one which is generated internally by the business. These are as follows:

- **Retained profits.**
- **Reduction or controlling of working capital**
- **Sale of assets etc.**

The internal source of funds has the same characteristics of owned capital. The best part of the internal sourcing of capital is that the business grows by itself and does not depend on outside parties. Disadvantages of both equity and debt are not present in this form of financing. Neither ownership dilutes nor fixed obligation/bankruptcy risk arises.

b. External Sources: An external source of finance is the capital generated from outside the business. Apart from the internal sources of funds, all the sources are external sources.

- **Equity**
- **Debt or Debt from Banks**
- **All others except mentioned in Internal Sources**.

Deciding the right source of funds is a crucial business decision taken by top-level finance managers. **The usage of the wrong source increases the cost of funds which in turn would have a direct impact on the feasibility of the project under concern**. Improper match of the type of capital with business requirements may go against the smooth functioning of the business.

Schemes of Department of Industries (DIC), KVIC, SIDBI, NABARD, NSIC, IFCI and IDBI.

Schemes of Department of Industries (DIC)

- In pursuance of the Industrial Policy-1977, a programme for setting up District Industries Centres (DICs) was launched by the Government of India, to be operational from 1st May 1978.
- The programme provided for setting up a DIC in each district of the country, in a phased manned in order to make **the district headquarters a focal point for the development of small-scale and cottage industries, to shift the emphasis from cities and state capitals to the district headquarters and to provide under a single root, all services and support needed by small and village entrepreneurs**. Accordingly, the Government of India issued guidelines to the State Government for setting up DIC in each district of the state.
- In each District Industries Centre, there are groups of Managers in the rank of Asst. Director of Industries and also a number of Industrial Development officers to assist the General Manager who is the organizational Head of the District

Objectives of District Industries Centres (DICs): The main objects of the DIC programme are firstly to make available various assistance and clearance required under one roof and secondly to promote rural industries.

1. Accelerate the overall efforts for industrialization of the district.
2. Rural industrialization and development of rural industries and handicrafts.
3. Attainment of economic equality in various regions of the district.
4. Providing the benefit of the government schemes to the new entrepreneurs.
5. Centralization of procedures required to start a new industrial unit and minimization- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

Following are the schemes under District Industries Centre (DIC):

1. Prime Minister's Employment Generation Program (PMEGP):

The objective of this centrally sponsored scheme of Ministry of Micro, Small & Medium Enterprises, Government of India being implemented since October 2008 is to provide gainful employment and self-employment opportunities to educated unemployed persons through activity of industry, service and business.

The scheme is implemented through agencies namely Khadi & Village Industries Commission, Khadi & Village Industries Board and District Industries Centre (Directorate of Industries) in the state. KVIC is the nodal agency for implementation of the scheme.

Features of the scheme :

A. ₹ 25 lakhs cost of the project under manufacturing sector and ₹ 10 lakhs under Business/ Service sector. 90 to 95% amount will be given as loan by banks and 5 to 10% will be applicants share
B. Scheme is implemented through Nationalized Banks, Regional Rural Banks and IDBI

2. Seed Money Scheme: The objective of the scheme is to encourage an unemployed person to take up self-employment ventures through industry, service, and business, by providing soft loans to meet part of the margin money to avail institutional finance.

3. DIC Loan Scheme: The objective of the scheme is to **generate employment opportunities including self-employment to tiny units located in towns and rural areas** having population of less than 1 lakh and with investment in plant & machinery below ₹ 2 Lakhs. Such identified tiny units falling within the purview of the Small-Scale Industries Board and Village Industries, handicrafts, handlooms, Silk & Coir Industries are covered for financial assistance in the form of margin/seed money under the Scheme.

4. Entrepreneurship Development Training Program: This scheme was introduced with the **objective of training educated unemployed persons to take up self-employment ventures or skilled wage employment**. Entrepreneurs are given guidance related to industry/service/business activities & skill upgradation. Entrepreneurs are also guided in respect of choice of activity, necessities of land, project report, obtaining various no objection certificates, licences and marketing strategy.

5. District Award Schemes: In order to encourage entrepreneurs establishing **small scale ventures and to acknowledge them for their success and achievements, the State Government has started honouring such entrepreneurs with District Award Scheme** at the district level. Proprietors / Partner's / Directors of enterprises who have obtained EM registration with the concerned District Industries Centre at least three years earlier and in production for two continuous years are eligible for the award.

KHADI VILLAGE INDUSTRIES COMMISSION(KVIC): The Khadi and Village Industries Commission (KVIC) is a statutory body established by an Act of Parliament (No. 61 of 1956, as amended by act no. 12 of 1987 and Act No.10 of 2006. In April 1957, it took over the work of former All India Khadi and Village Industries Board.

OBJECTIVES:: The broad objectives that the KVIC has set before it are...

1) The social objective of **providing employment**.

2) The economic objective of **producing saleable articles**.

3) The wider objective of **creating self-reliance amongst the poor** and building up of a strong rural community spirit.

FUNCTIONS: Some of the major functions of KVIC are:-

)To **plan and organize training of persons employed or desirous of seeking employment in Khadi** and Village Industries.

)To build **up reserves of raw materials and supply them to persons engaged** or likely to be engaged in production of handspan yarn or Khadi or Village Industries at such rates as the Commission may decide.

c) To **encourage and assist in the creation of common service facilities** for the processing of raw materials or semi finished goods and for otherwise facilitating production and marketing of Khadi or products of Village Industries.

d) To **promote the sale of marketing of Khadi or products of Village Industries or handicrafts** and for this purpose forge links with established marketing agencies wherever necessary and feasible.

e) To **encourage and promote research in the technology used in Khadi and Village Industries**, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and to arrange for dissemination of salient results obtained from such research.

f) To **undertake directly or through other agencies studies of the problems** of Khadi or Village Industries.

g) To **provide financial assistance to institutions or persons engaged in the development and operation** of Khadi or Village Industries and guide them through **supply of designs, prototypes and other technical information** for the purpose of producing goods and services for which there is effective demand in the opinion of the Commission.

h) To **undertake experiments or pilot projects which in the opinion of the Commission are necessary for the development** of Khadi and Village Industries.

i) To **establish and maintain separate organizations** for the purpose of carrying out any or all of the above matters

j) To **ensure genuineness and to set up standards of quality and ensure that products of Khadi** and Village Industries do conform to the said standards, including issue of certificates or letters of recognition to the concerned persons.

SIDBI (Small Industries Development Bank of India)

SIDBI is a wholly-owned subsidiary of IDBI (Industrial Development Bank of India), established under the special Act of the Parliament 1988 which became operative from **April 2, 1990**. SIDBI was made responsible for administering Small Industries Development Fund and National Equity Fund that were administered by IDBI before.

OBJECTIVES: In the setting up of SIDBI, the main purpose of the government was to ensure larger flow of assistance to the small-scale units. To meet this objective, the immediate thrust of the SIDBI was on the following measures:

(i) **Initiating steps for technological up gradation and modernization** of existing units;

(ii) **Expanding the channels for marketing the products** of the small-scale sector; and

(iii) **Promotion of employment-oriented industries, especially in semi- urban areas to create more employment** opportunities and thereby checking migration of population to urban areas.

Functions of SIDBI:

Small Industries Development Bank of **India refinances loans that are extended by the Primary Lending Institutions (PLIs) to the small-scale industrial units** and also offers resources assistance to them.

It **discounts and rediscounts bills**.

It also **helps in expanding marketing channels for the products of SSI** (Small Scale Industries) sector both in the domestic as well as international markets.

It offers **services like factoring, leasing etc. to the industrial concerns** in the small-scale sector.

It **promotes employment-oriented industries particularly in semi-urban areas for creating employment opportunities** and thus checking the relocation of people to the urban areas.

It also initiates steps for modernisation and technological up-gradation of current units.

It also **enables the timely flow of credit for working capital as well as term loans** to Small Scale Industries in cooperation with commercial banks and it also co-promotes state-level venture funds.

Finance Facilities Offered by SIDBI: Small Industries Development Bank of India, offers the following facilities to its customers:

1. **Direct Finance:** SIDBI offers Working Capital Assistance, Term Loan Assistance, Foreign Currency Loan, Support against Receivables, equity support, Energy Saving scheme for the MSME sector, etc. under its various direct finance loan schemes.

2. **Indirect Finance:** SIDBI offers indirect assistance by providing Refinance to PLIs (Primary Lending Institutions), comprising of banks, State Level Financial Institutions, etc. with an extensive branch network across the country. The key objective of the refinancing scheme is to raise the resource position of Primary Lending Institutions that would ultimately enable the flow of credit to the MSME sector.

3. **Micro Finance:** Small Industries Development Bank of India offers microfinance to small businessmen and entrepreneurs for establishing their business.

INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI):

- Government of India set up the Industrial Finance Corporation of India (IFCI) in July 1948 under a special Act. **This is the first financial institution set up in India with the main object this development bank was to provide assistance to the industrial sector to meet their medium and long-term financial needs**.
- The Industrial Finance Corporation of India was **converted into a public company on 1 July 1993 and is now known as Industrial Finance Corporation of India Ltd.**
- The Industrial Development Bank of India (IDBI), Scheduled banks, insurance companies, investment trusts and co-operative banks are the shareholders of IFCI. The Union Government has guaranteed the repayment of capital and the payment of a minimum annual dividend.
- The corporation is **authorised to issue bonds and debentures in the open market, to borrow foreign currency from the World Bank and other organisations, accept deposits from the public and also borrow from the Reserve Bank**.
- The authorised share capital of the IFCI was Rs. 10 crore at the initial stage, According to the Industrial Finance Corporation (Amendment) Act, 1986, the authorised capital of the corporation has been raised from Rs. 100 crore to Rs. 250 crore (the authorised capital may be fixed by the government of India by notification from time to time).

OBJECTIVES IFCI:

1) The main object of Industrial Finance Corporation of India Limited is **to provide financial assistance to large-scale industrial units.**

2) Provides financial assistance **when the normal banking accommodation is inadequate and not forthcoming to assist these industrial units.**

3) Industrial enterprises, organized based on proprietary or private limited company basis, cannot take loans from this corporation. **Only the public limited companies are eligible to take loans from it.**

Functions of IFCI: The functions of the IFCI base as follows:

1. First, the main function of the IFCI is **to provide medium and long-term loans and advances to industrial and manufacturing concerns.** It looks into a few factors before granting any loans.
2. The Industrial Finance Corporation of India can also **subscribe to the debentures that these companies' issue in the market** and provides guarantees to the loans taken by such industrial companies.
3. When a **company is issuing shares or debentures the Industrial Finance Corporation of India can choose to underwrite such securities** and It also **guarantees deferred payments** in case of loans taken from foreign banks
4. There is a special department the Merchant Banking & Allied Services Department. They look **after matters such as capital restructuring, mergers, amalgamations, loan syndication, etc.**
5. It the process of promoting industrialization the Industrial Finance Corporation of India has also **promoted three subsidiaries of its own, namely the IFCI Financial Services Ltd, IFCI Insurance Services Ltd and I-Fin.**

Activities of the IFCI: The promotional activities of IFCI are explained below:

1. Soft Loan Assistance: This scheme provides soft loan assistance to existing industries in small and medium sector for developing technology through in-house research and development.

2. Entrepreneur Development: IFCI provides financial support to EDPs (Entrepreneur Development Programmes) conducted by several agencies all-over India. In co-operation with Entrepreneurship Development Institute of India.

3. Industrial Development in Backward Areas: IFCI also take measures to promote industrial development in backward areas through a scheme of concessional finance.

4. Subsidised Consultancy: The IFCI gives subsidised consultancy for, Small Entrepreneurs for Meeting the Cost of Project, Promoting Ancillary Industries, To do the Market Research, Reviving Sick Units, Implementing Modernisation, Controlling Pollution in Factories.

5. Management Development: To improve the professional management the IFCI sponsored the Management Development Institute in 1973. It established the Development Banking Centre to develop managerial, manpower in industrial concern, commercial and development banks.

NATIONAL SMALL INDUSTRES CORPORATION (NSIC): The National Small Industries Corporation Ltd (NSIC) was set up in 1955 as a central government undertaking main aim of which is **to fulfill the requirement of machinery and equipment for the development of the small entrepreneurs.**

 It is observed that the main constraint faced by the entrepreneurs is the dearth of investible funds to purchase machinery and equipment. Non-availability of finance deprives many new entrepreneurs from availing entrepreneurial opportunities. NSIC is established to cater to this need of the entrepreneur.

NSIC provides plant, machinery and equipment on a hire-purchase basis. Under its special scheme, entrepreneurs can procure indigenous as well as imported machinery.

OBJECTIVES:

Creating **sustainable entrepreneurship development** for first generation entrepreneurs.

Nurturing the innovative ideas to commercially viable business prepositions. **Encouraging commercialization of R&D outputs into commercial ventures.**

Harness the expertise of NSIC in **extending hand holding of start-up companies to become successful SSI** enterprises. Networking between R & D and industry Target beneficiaries.

Functions of National Small Industries Corporation Ltd. (NSIC) : They provide a wide range of services mostly promotional in character to small scale industries. The important functions NSIC performs are grouped as under:

1. Provides financial assistance by way of hire-purchase scheme for purchase of machinery and equipment, required for the setting up industries.
2. Provides various equipment on lease basis.
3. Assists in marketing of the products of SSIs.
4. Helps in exporting the product of SSIs.
5. Provides training to workers of SSIs in various trades.
6. Helps in the development and upgradation of technology and modernization of the industries.
7. Undertakes construction of industrial estates.
8. Purchases huge quantity of important raw materials and distribute the same to SSIs at reasonable rates.
9. Develops prototype machines and equipment to pass on to SSIs for commercial production.
10. Sets up small scale industries in other developing countries on turn-key basis.

Industrial Development Bank of India (IDBI) Industrial Development Bank of India (IDBI) established under Industrial Development Bank of India Act, 1964, is the principal financial institution for providing credit and other facilities for developing industries and assisting development institutions.

- **Till 1976, IDBI was a subsidiary bank of RBI**. In 1976 it was separated from RBI and the ownership was transferred to Government of India. **IDBI is the tenth largest bank in the world in terms of develo**pment. The National Stock Exchange (NSE), the National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the Institutions which has been built by IDBI.

Organisation and Management: IDBI consist of a Board of Directors, consisting of a chairman and Managing Director appointed by the Government of India, a Deputy Governor of the RBI nominated by that bank and 20 other Directors are nominated by the Central Government.

The board had constituted an Executive Committee consisting of 10 Directors, including the Chairman and Managing Director. The executive committee is empowered to sanction financial assistance.

- The Head office of IDBI is located in Mumbai. The bank has five regional offices, one each in Kolkata, Guwahati, New Delhi, Chennai and Mumbai. Besides the bank have 21 branch offices.

OBJECTIVES: The main objective of IDBI is to serve as apex institution for term finance for industry in India. Its objectives include

1. **Co-ordination, regulation and supervision** of the working of other financial institutions such as IFCI, ICICI, UTI, LIC and commercial banks etc.
2. **Supplementing the resources of other financial institutions** and there by widening the scope their assistance.
3. Planning, **promotion and development of key industries and diversification industrial growth**.
4. Devising and enforcing a system of industrial growth that conforms to national priorities.

Functions of IDBI: The main functions of IDBI are as follows:

1. To co-ordinate the activities of other institutions providing term finance to industry and to act as an apex institution and provide refinance to financial institutions granting medium and long-term loans to industry.
2. To provide refinance to scheduled banks or co-operative banks and for export credit granted by banks
3. To provide technical and administrative assistance for promotion management or growth of industry.
4. **To undertake market surveys and techno-economic studies for the development of industry and render financial assistance to industrial concerns. IDBI operates various schemes of assistance. e.g., Direct Assistance Scheme, Soft Loans Scheme, Technical Development Fund Scheme, Refinance Industrial Loans Scheme, Bill Re-discounting Scheme, Seed Capital Assistance Scheme, Overseas Investment Finance Scheme, Development Assistance Fund, etc.**

National Bank for Agriculture and Rural Development (NABARD)

The Indian economy post independence was an agricultural economy. After independence, the focus was mainly on manufacturing and trade sector of the economy to boost development. However, a major part of the population in India live in the rural sector and so it is important to develop rural financial activities. Therefore, the government set up NABARD.

Established on 12th July 1982, it had an initial capital of 100 crores. The bank is under the supervision of a Board of Directors which the Government of India will appoint. The headquarters of NABARD is in Mumbai, but it has many branches and regional divisions.

OBJECTIVES: NABARD was established in terms of the Preamble to the Act, "for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas and for matters connected therewith in incidental thereto".

The main objectives of the NABARD as stated in the statement of objectives while placing the bill before the Lok Sabha were categorized as under:

1. The national bank will be an apex organization in respect of all matters relating to policy, planning operational aspects in the field of credit for promotion of agriculture, small scale industries, cottage and village industries and other allied economic activities in rural areas.

2. The bank will serve as a refinancing institution for institutional credit such as long term, short term for the promotion of activities in the rural areas.

3. The bank will also provide direct lending to any institution as may approve by the central government.

4. The bank will have organic links with the reserve bank and maintained a close link with in.

Functions of NABARD: **some of the main functions of this organisation. It basically performs three kinds of roles, i.e., credit functions, development functions, and supervisory functions.**

1.Frames the policy for rural credit in the country for all financing institutions

2.NABARD will itself provide finance and refinancing facilities to the banks and rural regional banks

3.Identification of credit potential and preparation of the credit plans for all districts

4.It also helps all regional banks and institutes under its governance with the preparation of their own credit plans

5.Helps Regional Rural Banks establish an agreement with State Governments and other Co-op Banks and institutions

6.It will also monitor the implementation of such plans and track their progress

7.Helps banks improve their MIS system, modernize their technology, develop human resources etc

8.As per the Banking Regulation Act 1949, NABARD has to conduct the inspection of Regional Rural Banks and other Co-op banks

9.It communicates and consults the RBI in matters such as issuing of licenses for new banks, the opening of branches of Rural Banks etc.

0.From time to time it will also inspect the investment portfolios of Regional Rural Banks and other State Co-op Banks

1) Refinance – Short Term Loans: Short-term loans or crop loans are offered by various financial institutions to farmers for the purpose of crop production. By providing this loan, one can assure about the food security in the country. For seasonal agricultural operations, NABARD has sanctioned short-term credit loan of amount Rs. 55,000 cr to several financial institutors in the financial year of 2017-18.

2) Long Term Loans: Long-term loans are provided to financial institutions for various farm and non-farm related activities. The tenor of the long-term loan is from 18 months to maximum of 5 years. NABARD has refinanced around Rs. 65,240 cr for financial institutions in the FY 2017-18 that also include concessional refinance of Rs. 15,000 cr to Corporative banks and Regional Rural Banks (RRBs).

3) Rural Infrastructure Development Fund (RIDF): Rural Infrastructure Development Fund was introduced by RBI considering the shortfall in lending to priority sector for supporting rural infrastructure projects. The primary focus of this fund is the rural infrastructure development in India and under this fund the amount disbursed was Rs. 24,993 cr in the FY 2017-18.

4) Long-Term Irrigation Fund (LTIF): This fund was introduced mainly to provide funding for 99 irrigation projects by initiating an amount of Rs. 20,000 cr. Post the amount sanctioning of 99 projects, there were two additional projects introduced named as ‘North Koel Reservoir Project’ from Bihar and Jharkhand and ‘Polavaram National Project’ from Andhra Pradesh.

5) Pradhan Mantri Awaas Yojana -Grameen (PMAY-G): Under this yojana, National Rural Infrastructure Development Agency (NRIDA) received an amount of Rs. 9000 cr that plans to build a pucca house, with all the basic amenities, to needy households by the year 2022.

6) NABARD Infrastructure Development Assistance (NIDA): NABARD Infrastructure Development Assistance (NIDA) is a special program initiated to provide credit to financially well-to-do state-owned institutions and corporations.

7) Warehouse Infrastructure Fund: Warehouse Infrastructure Fund provides scientific warehousing infrastructure for agricultural commodities. Initial loan of the amount Rs. 5000 was provided by NABARD in the FY 2013-14. As on 31st March 2018 the amount disbursed is Rs. 4778 cr.

8) Food Processing Fund: Under this fund, Government of India has done a loan commitment of Rs. 541 cr for 11 mega food park projects, 3 food processing units and 1 integrated food park project on 31 March 2018.

9) Direct Lending to Cooperative Banks: NABARD has provided assistance to 58 Co-operative Commercial Banks (CCBs) and 4 State Cooperative Banks (StCBs) spread across 14 states with sanctioned amount of Rs 4,849 crore.

10) Credit Facility to Marketing Federations (CFF): This federation promotes marketing of farm activities and agricultural produce; also, it promotes and strengthens marketing federations and cooperatives. Amount disbursed, as on Mar 2018 was Rs. 25436 crore.

11) **Credit to Producer Organizations & Primary Agriculture Credit Societies (PACS):** NABARD launched Producer Organizations Development Fund (PODF) to support and finance Producer Organizations (POs) and Primary Agriculture Credit Societies (PACS). These organizations are formed to operate as Multi Service Centres.