# **UNIT – 2**

# **Estimating Financial Funds Requirement**

Most businesses, especially when they’re starting up or planning for expansion, face periods when they need to rely on outside resources to stay afloat. Whether the funds come from the owner’s pocket, accumulated business profits, or outside funding sources, they provide the lifeline that keeps the business going when expenses exceed revenue for a prolonged period. Use the information here to forecast how much money you need- and for how long.

1. **Create a realistic forecast of your financial situation.**

Follow the steps for preparing a pro forma or estimated statement of income, expenses, and profit, along with an estimated balance sheet and cash flow statement.

1. **Estimate your funding need.**

Use your financial forecasts, and especially your cash flow projection, to determine how long you anticipate expenses to exceed revenue and by how much. Doing so helps you get a handle on when you expect expenses to be incurred, when you expect revenues to roll in, and the amount of funding you need in order to cover the gap.

1. **Create a funding time frame.**

After you establish how much funding you need, create a schedule for how long you need the funding to last before your business needs to become self-sufficient. This schedule, called your time frame, should include dates by which you plan to meet revenue-generating milestones — for example, first customer, first major contract, first $10,000 in sales, and so on — that you can monitor as indicators that your business is on track to achieve profitability before funding runs out.

As you forecast how long your funding needs to last, be aware of these terms:

* **Runway:** The amount of time funding needs to last before your business becomes profitable and self-sufficient or until additional funding will be required
* **Burn rate:** The speed with which you expect to spend the funding you’ve raised in practical terms, the amount of cash required each month to cover the costs of staying in business

As every experienced entrepreneur knows, sales are only the result of a long line of business activities beginning with market research, manufacturing, inventory building, marketing, fulfillment and customer service. All this costs money, which is supposed to come from revenues earned in the previous year or from financing. Without the money, nothing happens, so the best place to start your financial projections is the money you have available.

1. Create a preliminary first-year budget based on your retained earnings and credit available from your bank. If you’re projecting startup financials and don’t have retained earnings or credit, use the amount of investment you can reasonably expect to raise, including investment by the founders. A conservative estimate is best because spending too much money too early can force you to cut back just as your business begins to pick up.
2. Estimate the cost of producing your product. You can skimp on administrative expenses and hire sales reps on commission only, but you must pay for any products or services you sell. You also need to balance your product inventory with customer demand. This takes careful study of your target market’s demographics, psychographics and buying habits, plus a modest estimation of what percentage of that market you’ll be able to capture. An established company is able to assign a reasonably accurate percentage with growth, but a startup must expect at least a quarter of virtually no sales.
3. Estimate your customer acquisition costs by establishing how you’ll market your product and then pricing out your marketing plan. A startup must develop its brand image and customer awareness during its first year, with sales demand appearing slowly during its second or third quarter; so, for a startup, marketing will carry a high priority. A mature company can estimate marketing costs with respect to its plans for market-share expansion or development of new revenue streams.
4. Adjust your production and marketing costs to fit your budget. The remainder is for administrative expenses. This gives you a figure of how much revenue will be required to offset your expenses. There may need to be some further adjustments once you reach this point. Add money to your marketing, figuring marketing costs at approximately 25 percent of total revenues. Marketing will produce your customers. Keep your production expenses efficient.

**Tip**

* Create a 12-month detailed projection and expand it into three to five years by estimating a year-over-year growth percentage. Doubling your results year-to-year isn’t realistic, so keep your growth estimates well under the 100 percent level. A startup’s second and third years might have higher growth than those of a mature company, but that’s because the first year is a year of experimentation and customer acquisition. If your growth strategy emphasizes a particular area, adjust your costs to reflect that. For example, if you plan to introduce more product lines, you might include R&D costs in your production. If you intend to expand your market share, marketing should receive more funds.

**Warning**

* Optimism is a quality of the entrepreneur. This is often seen in overly optimistic financial projections. Have an accountant, banker or experienced business owner review your projections with a critical and realistic eye. Negative feedback about overly optimistic projections is what you’re looking for, so pay full attention to any skeptical comments. Those comments may save your company from disaster.

# **Sources of finance: Banks**

### **(A) Internal Self-Finance:**

One source, quantitatively of big importance, is the saving of the unit itself. It may be the household, the business or the government.

Normally, the household not only invests out of its own saving but it also has surplus which it lends to other units via, financial institutions. Like banks, capital market etc.

The savings of the business, comprised of depreciation and the retained earnings, are normally short of its investment. Hence it also borrows from financial institutions. Government too finances a part of their investment from internally generated funds.

These arise from the excess of tax and other income over consumption spending plus transfers. For the shortfall, if and when it occurs, it also borrows from the financial system. Altogether, roughly half of all the investment is self-financed.

An advantage of investment through internally generated funds is that it combines the acts of saving and investment. As such certain costs are internalized and reduced. These costs pertain to collection of information in respect of borrowers, transactions with them, monitoring the use of funds, and enforcement of the conditions of borrowing.

These costs would have to be met if these funds were to be lent to someone else. Self- financing also reduces the risks of lending’s as it does not involve preparation of documents in respect of contract, collateral or security etc.

The shortcoming of this source is that it may fall short of investment opportunities or its use may be inefficient. That is funds may not be wholly or partly invested in the most productive lines.

### **(B) Equity, Debentures and Bonds:**

A large part of finance for fixed investments [building, machines, etc.] comes from different types of equity or shares such as ordinary, cumulative and non-cumulative preference shares. These shares bear risks of different degrees and are tailored to suit the temperament of different investors.

The latest trend is to issue shares in small denominations of ten rupees so as to enable the largest number of people to participate in providing long-term finance. The credit-worthiness of promoters of industries and profitability of industries, determinate the extent to which savers invest their money in shares. In this way, industries are not burdened with interest, and therefore do not get involved in complications on this account during recession or depression.

Often industrial companies also get long-term finance through the issues of debentures and bonds. These are debt (loans), instruments. The buyers of those debentures and bonds are the creditors of companies. They get a fixed rate of interest on the money invested in these securities.

For this reason debentures are safer investments. Till recently, these debt-instruments were not very popular. At present many industries are tapping this source. Public sector undertakings too have started depending upon them. Since recently they have raised funds through the sale of bonds bearing fixed interest.

### **(C) Public Deposits:**

Another source is public deposits. It is also a debt-instrument, mostly for short-term finance. Under this system, people keep their money as deposit with these companies or managing authorities for a period of six months, a year, two years, three years or so. Depositors receive a fixed interest.

They can ask for the refund of money at any time. This money is used by companies to meet their needs of working capital. However, this source of finance is unreliable because depositors can seek refund at any time.

And if the refund happens to coincide with the time when a company needs funds most, then it complicates matters. With the growth of banking habits and increase in dealings with other financial institutions, the importance of public deposits, as a source of finance, will decline.

### **(D) Loans from Banks:**

Commercial banks can do also provide funds for meeting short-term needs or for working capital. Loans are given against the guarantee of government securities and stocks with companies. Loans are advanced in the form of overdraft and credit limit. Commercial banks are generally reluctant to put their money in the purchase of shares.

The reason is that the deposits that they receive from the public are generally for a short-term and therefore, banks can ill-afford to take any risk in investing public money in shares. They can, however, do something by way of buying debentures of companies.

They can earn fixed interest on such investment and at the time of need they can sell these debentures in the market and recover their money. Still, little has been achieved in this field because of the fear that banks may find it difficult to cash debenture precisely at a time when they need.

### **(E) The Managing Agency System:**

The system of industrial finance, peculiar to India, and which prevailed till the recent times, is of little importance now days. Under this system an individual or a group of individuals finance the initial stage of the establishment of industries, and manage many activities of the company thus established very often, one managing agent controls more than one concern and uses fund of one concern to meet the needs of others under him.

In the past when there was a great shortage of industrial finance and almost complete lack of financial institutions, and capital market in the real sense had not even come into existence, managing agents did render a valuable service in the promotion of industries within the country. Of course, it is true that their funds were mostly used for the establishment of consumer goods industries.

In due course, however, the system developed certain drawbacks and came to be plagued by serious shortcomings. The management of so many units, good and bad, and producing a variety of products led to certain evils.

The payments which managing agents extracted for themselves, interest on their money, commission for their services etc., were too much and were out of proportion with the paying capacity of the companies and/or the work performed by those agents. It is for these reasons that the government put a ban on this system in 1970.

### **(F) Indigenous Bankers:**

Inspite of the establishment of new financial institutions, indigenous bankers also advance financial help to a few large-scale industries, particularly during the time of stress, both for fixed capital and working capital. But mainly they have provided finance to small scale industries.

In the absence of adequate institutional finance, these industries have been forced to depend upon indigenous bankers. These banks charge a very heavy rate of interest, thus making finance a costly affair. However, the importance of these banks, even as a source of finance for small industries, is on the decline.

### **(G) Development Finance Institutions:**

Established with the help of the Government to fill-in the gap in industrial finance and to promote the objective of planning, these institutions cater to the needs of large and small industries.

The new institutions supplying industrial finance are Industrial Development Bank of India, Industrial Finance Corporation of India, Unit Trust of India, and General Insurance Corporation of India, Industrial Reconstruction Bank of India, State Financial Corporations, and State Industrial Development Corporations.

These institutions provide huge quantity of finances for setting up of new industries, for meeting their several needs and in several forms. These also ensure and monitor the use of finance in pre-planned directions. As such these fit well with the modem scenario of industrial development.

### **(H) Foreign Capital:**

As a supplement to domestic finance, external capital too has been made use of in meeting the needs of industrial finance, mostly for long-term needs. This has taken several forms. There is the foreign aid (i.e., loans on concessional term) from foreign governments and foreign institutions (like the World Bank) extended to the Government.

A part of this assistance has also gone to the private sector. A part of foreign funds has come through foreign companies which have Indian subsidiaries in our country or through Multinational Corporations which have branches in India.

Some foreign companies have given funds as part of direct investment or as part of collaborations with Indian companies. There are also non-resident Indians who have invested in collaboration with Indians. Indian companies have also raised loans from foreign markets.

The sources of industrial finance are thus of various types. And so are the instruments of finance. A number of them are modem Such as shares, debentures, and loans from the financial institutions. The old ones like, deposits from public, the finances of managing agents as also of indigenous bankers are on the decline. This is as it should be for these are neither enough, nor suitable for meeting the needs of the modern industrial growth.

# **Capital Markets: Organizations**



**Government Securities Market:**This is also known as the Gilt-edged market. This refers to the market for government and semi-government securities backed by the Reserve Bank of India (RBI).

**Industrial Securities Market:**This is a market for industrial securities i.e. market for shares and debentures of the existing and new corporate firms. Buying and selling of such instruments take place in this market.

This market is further classified into two types such as the New Issues Market (Primary) and the Old (Existing) Issues Market (secondary). In primary market fresh capital is raised by companies by issuing new shares, bonds, units of mutual funds and debentures.

However in the secondary market already existing i.e old shares and debentures are traded. This trading takes place through the registered stock exchanges. In India we have three prominent stock exchanges. They are the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and Over The Counter Exchange of India (OTCEI).

**Development Financial Institutions (DFIs):** This is yet another important segment of Indian capital market. This comprises various financial institutions. These can be special purpose institutions like IFCI, ICICI, SFCs, IDBI, IIBI, UTI, etc. These financial institutions provide long term finance for those purposes for which they are set up.

**Financial Intermediaries:** The fourth important segment of the Indian capital market is the financial intermediaries. This comprises various merchant banking institutions, mutual funds, leasing finance companies, venture capital companies and other financial institutions.

# **Financing of Small Scale Industries in Developing Countries**

suggests that small businesses fail at a higher rate than big businesses, thus default risk is also high. This is the reason that small businesses have less access to credit than larger companies because lending to a small business is riskier and more expensive than lending to larger companies. Additionally, evaluating small companies is difficult and not very cost effective as its data is not as easily accessible as large companies.

#### **SOURCES OF FINANCE FOR A SMALL BUSINESSES**

Following are some of the financing methods that small businesses can use:

### **1-OWN CAPITAL / SAVINGS -**Number one & the easiest source of finance for a small business is one’s own savings. At any stage of business, when a business is in need of capital, an entrepreneur can tap into his personal assets such as – stocks, mutual funds, real estate or jewelry – to raise money. He can either sell the assets to raise money or take a loan on any of the assets. Entrepreneurs can invest such personal capital in their business as equity capital, or they can give loans to their own company.

### **2-FAMILY & FRIENDS -** Parents, sibling, extended relatives & friends who have excess cash to lend may be willing to finance your business. They may lend the money to the business in the form of a loan or may be willing to take an equity stake in the company.

### **3-BANKS -** Banks have a special department dedicated to providing loans to small companies. To get a loan from a bank, companies have to qualify for bank’s minimum criteria. Every bank has its own criteria with regards to earning potential, annual turnover, credit scores, etc. There are many types of loans that banks offer such as working capital loans, term loans, loan against property, etc. Companies can choose the type of loans as per their requirement.

### **4-SMALL BUSINESS LOANS -** Each country has certain banks or institutions dedicated to providing loans only to small businesses, an example of such institute in India is SIDBI, in the USA there is SBA. The main target of these institutions is to lend money to small businesses who have not been able to obtain financing on reasonable terms through normal lending channels. These entities usually give money as loans only.

### **5-PERSONAL LOANS -** If a company is unable to get a business loan, the entrepreneur might consider getting a personal loan & using it in their business. The entrepreneur must have a good credit history for raising a personal loan. We can get a personal loan by mortgaging home, jewelry, etc.

### **6- TRADE CREDIT -** Some small businesses might have suppliers willing to sell on credit. Such credit may range anywhere from one month to three months. This is a very good method for small companies to fulfill short-term funding needs. This is an inexpensive method of finance for any small business.

### **7- PRIVATE EQUITY FIRMS -** Private equity is a type of equity capital that is not listed on any stock exchange. These firms raise funds from investors. It then invests these funds to buy capital of promising startups& small businesses. The drawback of such finance is that the private equity firms will acquire a controlling position or substantial minority position in a company and then look to maximize the value of their investment. Thus, the entrepreneur might not have sole control over the business decisions, which may lead to conflict.

### **8- VENTURE CAPITAL FIRMS -** Venture capital firms are a type of private equity firms, but venture capitalist provides funds to only those companies who are in the early stages of their business cycles. These are emerging small companies with high growth potential. Venture capital firms invest in emerging companies in exchange for equity, or an ownership stake. Small start-up firms may receive series of rounds of financing from venture capital firms.

### **9- CROWDFUNDING -** Crowdfunding is a relatively new method when we consider sources of finance. It is a method of raising funds by borrowing a small amount of money from a large group of people. A typical example of crowdfunding is proposing people to invest US$ 10, and even if 1000 people invest, the company can raise US$ 10,000. Such financing is usually done for a particular project. The benefit of crowdfunding is that small company can make flexible proposals as per their requirement. They can offer equity against the money or take the money on loan; they can offer simple interest payments as against compound interest like most regular loans.

Crowdfunding gained popularity after the rise of social media because it became easier to reach a number of people by putting minimum effort.

# **Role of Central Government and State Government in Promoting Entrepreneurship with Various incentives, Subsidies, Grants**

The Government of India has undertaken several initiatives and instituted policy measures to foster a culture of innovation and entrepreneurship in the country. Job creation is a foremost challenge facing India. With a significant and unique demographic advantage, India, however, has immense potential to innovate, raise entrepreneurs and create jobs for the benefit of the nation and the world.

In the recent years, a wide spectrum of new programmes and opportunities to nurture innovation have been created by the Government of India across a number of sectors. From engaging with academia, industry, investors, small and big entrepreneurs, non-governmental organizations to the most underserved sections of society.

Recognising the importance of women entrepreneurship and economic participation in enabling the country’s growth and prosperity, Government of India has ensured that all policy initiatives are geared towards enabling equal opportunity for women. The government seeks to bring women to the forefront of India’s entrepreneurial ecosystem by providing access to loans, networks, markets and trainings.

A few of India’s efforts at promoting entrepreneurship and innovation are:

**Startup India**:

 Through the Startup India initiative, Government of India promotes entrepreneurship by mentoring, nurturing and facilitating startups throughout their life cycle. Since its launch in January 2016, the initiative has successfully given a head start to numerous aspiring entrepreneurs. With a 360 degree approach to enable startups, the initiative provides a comprehensive four-week free online learning program, has set up research parks, incubators and startup centres across the country by creating a strong network of academia and industry bodies. More importantly, a ‘Fund of Funds’ has been created to help startups gain access to funding. At the core of the initiative is the effort to build an ecosystem in which startups can innovate and excel without any barriers, through such mechanisms as online recognition of startups, Startup India Learning Programme, Facilitated Patent filing, Easy Compliance Norms, Relaxed Procurement Norms, incubator support, innovation focused programmes for students, funding support, tax benefits and addressing of regulatory issues.

**Make in India**:

 Designed to transform India into a global design and manufacturing hub, the Make in India initiative was launched in September 2014. It came as a powerful call to India’s citizens and business leaders, and an invitation to potential partners and investors around the world to overhaul out-dated processes and policies, and centralize information about opportunities in India’s manufacturing sector. This has led to renewed confidence in India’s capabilities among potential partners abroad, business community within the country and citizens at large. The plan behind Make in India was one of the largest undertaken in recent history. Among several other measures, the initiative has ensured the replacement of obsolete and obstructive frameworks with transparent and user-friendly systems. This has in turn helped procure investments, foster innovation, develop skills, protect intellectual property and build best-in-class manufacturing infrastructure.

[**Atal Innovation Mission (AIM)**](http://aim.gov.in/index.php)**:**

 AIM is the Government of India’s endeavour to promote a culture of innovation and entrepreneurship, and it serves as a platform for promotion of world-class Innovation Hubs, Grand Challenges, start-up businesses and other self-employment activities, particularly in technology driven areas. In order to foster curiosity, creativity and imagination right at the school, AIM recently launched Atal Tinkering Labs (ATL) across India. ATLs are workspaces where students can work with tools and equipment to gain hands-on training in the concepts of STEM (Science, Technology, Engineering and Math). Atal Incubation Centres (AICs) are another programme of AIM created to build innovative start-up businesses as scalable and sustainable enterprises. AICs provide world class incubation facilities with appropriate physical infrastructure in terms of capital equipment and operating facilities. These incubation centres, with a presence across India, provide access to sectoral experts, business planning support, seed capital, industry partners and trainings to encourage innovative start-ups.

[**Support to Training and Employment Programme for Women (STEP)**](http://wcd.nic.in/schemes/support-training-and-employment-programme-women-step)**:**

STEP was launched by the Government of India’s Ministry of Women and Child Development to train women with no access to formal skill training facilities, especially in rural India. The Ministry of Skill Development & Entrepreneurship and NITI Aayog recently redrafted the Guidelines of the 30-year-old initiative to adapt to present-day needs. The initiative reaches out to all Indian women above 16 years of age. The programme imparts skills in several sectors such as agriculture, horticulture, food processing, handlooms, traditional crafts like embroidery, travel and tourism, hospitality, computer and IT services.

[**Jan Dhan- Aadhaar- Mobile (JAM)**](http://pib.nic.in/newsite/PrintRelease.aspx?relid=136865)**:**

JAM, for the first time, is a technological intervention that enables direct transfer of subsidies to intended beneficiaries and, therefore, eliminates all intermediaries and leakages in the system, which has a protential impact on the lives of millions of Indian citizens. Besides serving as a vital check on corruption, JAM provides for accounts to all underserved regions, in order to make banking services accessible down to the last mile.

[**Digital India**](http://www.digitalindia.gov.in/content/introduction)**:**

The Digital India initiative was launched to modernize the Indian economy to makes all government services available electronically. The initiative aims to transform India into a digitally-empowered society and knowledge economy with universal access to goods and services. Given historically poor internet penetration, this initiative aims to make available high-speed internet down to the grassroots. This program aims to improve citizen participation in the digital and financial space, make India’s cyberspace safer and more secure,abdimprove ease of doing business. Digital India hopes to achieve equity and efficiency in a country with immense diversity by making digital resources and services available in all Indian languages.

[**Biotechnology Industry Research Assistance Council (BIRAC)**](http://www.birac.nic.in/desc_new.php?id=89)**:**

BIRAC is a not-for-profit Public-Sector Enterprise, set up by Department of Biotechnology to strengthen and empower emerging biotechnology enterprises. It aims to embed strategic research and innovation in all biotech enterprises, and bridge the existing gaps between industry and academia. The ultimate goal is to develop high-quality, yet affordable, products with the use of cutting edge technologies. BIRAC has initiated partnerships with several national and global partners for building capacities of the Indian biotech industry, particularly start-ups and SME’s, and has facilitated several rapid developments in medical technology.

[**Department of Science and Technology (DST)**](http://www.dst.gov.in/about-us/introduction)**:**

**T**he DST comprises several arms that work across the spectrum on all major projects that require scientific and technological intervention. The Technology Interventions for Disabled and Elderly, for instance, provides technological solutions to address challenges and improve quality of life of the elderly in India through the application of science and technology. On the other hand, the ASEAN-India Science, Technology and Innovation Cooperation works to narrow the development gap and enhance connectivity between the ASEAN countries. It encourages cooperation in science, technology and innovation through joint research across sectors and provides fellowships to scientists and researchers from ASEAN member states with Indian R&D/ academic institutions to upgrade their research skills and expertise.

[**Stand-Up India**](https://www.standupmitra.in/Home/AboutUs)**:**

Launched in 2015, Stand-Up India seeks to leverage institutional credit for the benefit of India’s underprivileged. It aims to enable economic participation of, and share the benefits of India’s growth, among women entrepreneurs, Scheduled Castes and Scheduled Tribes. Towards this end, at least one women and one individual from the SC or ST communities are granted loans between Rs.1 million to Rs.10 million to set up greenfield enterprises in manufacturing, services or the trading sector. The Stand-Up India portal also acts as a digital platform for small entrepreneurs and provides information on financing and credit guarantee.

[**Trade related Entrepreneurship Assistance and Development (TREAD)**](http://www.dcmsme.gov.in/schemes/treadwomen.htm)**:**

To address the critical issues of access to credit among India’s underprivileged women, the TREAD programme enables credit availability to interested women through non-governmental organizations (NGOs). As such, women can receive support of registered NGOs in both accessing loan facilities, and receiving counselling and training opportunities to kick-start proposed enterprises, in order to provide pathways for women to take up non-farm activities.

[**Pradhan Mantri Kaushal Vikas Yojana (PMKVY):**](http://www.pmkvyofficial.org/Index.aspx)

A flagship initiative of the Ministry of Skill Development & Entrepreneurship (MSDE), this is a Skill Certification initiative that aims to train youth in industry-relevant skills to enhance opportunities for livelihood creation and employability. Individuals with prior learning experience or skills are also assessed and certified as a Recognition of Prior Learning. Training and Assessment fees are entirely borne by the Government under this program.

[**National Skill Development Mission**](http://www.skilldevelopment.gov.in/nationalskillmission.html)**:**

Launched in July 2015, the mission aims to build synergies across sectors and States in skilled industries and initiatives. With a vision to build a ‘Skilled India’ it is designed to expedite decision-making across sectors to provide skills at scale, without compromising on quality or speed. The seven sub-missions proposed in the initial phase to guide the mission’s skilling efforts across India are: (i) Institutional Training (ii) Infrastructure (iii) Convergence (iv) Trainers (v) Overseas Employment (vi) Sustainable Livelihoods (vii) Leveraging Public Infrastructure.

[**Science for Equity Empowerment and Development (SEED)**](http://dst.gov.in/scientific-programmes/st-and-socio-economic-development/science-equity-empowerment-and-development-seed)**:**

SEED aims to provide opportunities to motivated scientists and field level workers to undertake action-oriented, location specific projects for socio-economic gain, particularly in rural areas. Efforts have been made to associate national labs and other specialist S&T institutions with innovations at the grassroots to enable access to inputs from experts, quality infrastructure. SEED emphasizes equity in development, so that the benefits of technological accrue to a vast section of the population, particularly the disadvantaged.

# **Export Oriented units: Fiscal & Tax Concessions**

### **Some incentives given to EOUs**

* No import licences are required by the EOU units and import of all industrial inputs exempt from customs duty.
* Supplies from the DTA to EOUs are regarded as deemed exports and are hence exempt from payment of excise duty which means that high quality inputs are available at lower costs.
* On fulfillment of certain conditions, EOUs are exempted from payment of corporate income tax for a block of 5 years in the first 8 years of operation. Export earnings continue to be exempt from tax even after the tax holiday is over.
* Industrial plots and standard design factories are available to EOUs at concessional rates.
* Single window clearance for EOU. For example, the State Government of Kerala as well of Karnataka has constituted single window clearance mechanisms such as District Single Window Clearance Board (in Kerala) and Karnataka UdyogMitra (in Karnataka) for the purpose of speedy issue of various licences, clearances.
* Private bonded warehouses in the 7 EPZs can be set up for
	+ Import and sale of goods including in the DTA, subject to payment of applicable duties at the time of sale.
	+ Trading including re-export after repacking/labeling.
	+ Re-export after repair, reconditioning or re-engineering
* EOUs and EPZs are permitted to sub-contract part of their production processes for job work to units in the DTA on a case by case basis.
* Supplies to the DTA under international competitive bidding against payment in foreign exchange to other EOUs and EPZ units and against import licenses are considered towards fulfilment at the export obligation.
* The FOB value of exports of EOUs and EPZ units can be clubbed with that of parent companies located in the DTA for the purpose of obtaining a Trading or Export House status.
* EOUs and EPZ units may export goods through Trading and Export Houses or other EOU and EPZ Units.

### **Attractive Policy Provisions for EOUs:**

* EOU can also import second hand capital goods without any age limit.
* 50% of physical exports can be sold in domestic market on payment of concessional duty.
* EOUs can process and export rice (Basmati & Non-Basmati).
* EOUs including Gem & Jewellery units are permitted to sub-contract upto 50% of their production (or) production process in DTA / other EOUs.
* EOUs are allowed to utilize plant and machinery for job work DTA units provided the goods are exported directly from the EOU premises.
* EOUs in Agriculture and allied sectors and in granite sector may transfer the capital goods and the inputs to the Farms/field/quarries for usage relating to the production in the EOU.
* In case of new EOUs, Advance DTA sale will be allowed not exceeding 50% of its estimated exports for the first year except the pharmaceutical units where this will be based on its estimated exports for the first two years.
* Simultaneous Advance DTA sale permission is given on quarterly basis for perishable goods like mushrooms, cut flowers etc.
* Exports through third party is permitted
* Exports from the job workers premises is allowed
* 100% FDI investment permitted through Automatic Route similar to SEZ units
* EOUs can obtain Foreign currency loans from OBUs situated in the SEZs
* EOUs have to achieve only positive Net Foreign Exchange (NFE) within 5 years i.e., A – B > 0 where (A) is the FOB value of Exports and (B) is CIF value of imports.

### **Fiscal Incentives available to 100% EOUs:**

* Exemption from Customs and Central Exciuse duties on import/local procurement of Capital goods, raw materials, consumables, spares, packing material etc.
* Reiumbursement of Central Sales Tax (CST) on purchases made from Domestic Tariff Area (DTA)
* Corporate Tax Holiday upto 2010
* CENVAT credit on Service Tax paid
* Re-iumbursement of duty paid on fuels procured from domestic oil companies as per the rate of Drawback notified by the DGFT from time to time.

### **Special Package of Incentives for Star Export House EOUs (Fast Track Clearance):**

* Permissions and Customs clearances for both Imports and Exports on self declaration basis.
* Fixation of Input-Output norms on priority within 60 days.
* Exemption from compulsory negotiation of documents through Banks.
* 100% retention of foreign exchange in EEFC account.
* Enhancement of normal repatriation period from 180 days to 360 days.
* Exemption from furnishing of Bank Guarantee in Schemes under this policy.
* Exemption from examination of Import Cargo
* Install one Fax machine & Two computers in their Administrative/Registered Office on prior intiation only.
* Procurement of DG set intimation to the Development Commissioner/Jurisdictional Customs/Central Excise authority
* Remove their Capital goods (or) part thereof for repairs under prior intimation to the jurisdictional Asst./Deputy Commissioner of Customs & Central Excise authority
* DTA clearance of rejects on priority basis
* Personal carriage of samples of Gems & Jewellery without a need for prior permission
* DTA sale of finished products on prior intimation only
* Participation in exhibition for export promotion on prior intimation only

# **Role of Agencies Assisting Entrepreneurship:**

#  **DICs**

**The ‘District Industries Centre’ (DICs)** programme was started by the central government in 1978 with the objective of providing a focal point for promoting small, tiny, cottage and village industries in a particular area and to make available to them all necessary services and facilities at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government. To facilitate the process of small enterprise development, DICs have been entrusted with most of the administrative and financial powers. For purpose of allotment of land, work sheds, raw materials etc., DICs functions under the ‘Directorate of Industries’. Each DIC is headed by a General Manager who is assisted by four functional managers and three project managers to look after the following activities :

### **Activities of District Industries Centre (DIC):**

1. Economic Investigation
2. Plant and Machinery
3. Research, education and training
4. Raw materials
5. Credit facilities
6. Marketing assistance
7. Cottage industries

### **Objectives of District Industries Centre (DIC):**

The important objectives of DICs are as follow :

1. Accelerate the overall efforts for industrialisation of the district.
2. Rural industrialisation 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. Centralisation of procedures required to start a new industrial unit and minimisation- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

### **Functions of District Industries Centre (DIC):**

1. Acts as the focal point of the industrialisation of the district.
2. Prepares the industrial profile of the district with respect to :
3. Statistics and information about existing industrial units in the district in the large, Medium, small as well as co-operative sectors.
4. Opportunity guidance to entrepreneurs.
5. Compilation of information about local sources of raw materials and their availability.
6. Manpower assessment with respect to skilled, semi-skilled workers.
7. Assessment of availability of infrastructure facilities like quality testing, research and development, transport, prototype development, warehouse etc.
8. Organises entrepreneurship development training programs.
9. Provides information about various government schemes, subsidies, grants and assistance available from the other corporations set up for promotion of industries.
10. Gives SSI registration.
11. Prepares techno-economic feasibility report.
12. Advices the entrepreneurs on investments.
13. Acts as a link between the entrepreneurs and the lead bank of the district.
14. Implements government sponsored schemes for educated unemployed people like PMRY scheme, JawaharRojgarYojana, etc.
15. Helps entrepreneurs in obtaining licenses from the Electricity Board, Water Supply Board, No Objection Certificates etc.
16. Assist the entrepreneur to procure imported machinery and raw materials.
17. Organises marketing outlets in liaison with other government agencies.

### **Small – Scale Industries of India (SSIs)**

An industrial undertaking is graded as small-scale industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms, on lease or on hire purchase, does not exceed R.s 10 million.

As the economy improved, the Government of India raised the investment limit and thus redefined the SSI sector. For example, in the year 1970, the investment limit in SSI was only 7.5 lakh which was raised to 10 lakh in 1975, 20 lakh in 1980, 35 lakh in 1885, 60 lakh in 1991 and 300 lakh in 1997. It was brought down to 100 lakh in 1999, which continues till date. Likewise, investment limit in ‘tiny industrial unit’ in the year 1977 was 1 lakh which has risen to 25 lakh.

A small-scale industrial unit/industry-related service or business enterprise, managed by one or more women entrepre­neurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent has been treated by the government as a women’s enterprise. Women entrepreneurship enjoys special benefits from the government.

The small-scale industry sector has been India’s engine of growth and continues to be so in the new millennium. By the end of March 2000, the SSI sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of total exports from the country. Through over 32 lakh units that exist, the sector provided employment to about 18 million people.

The office of the Development Commissioner (SSI) has till date conducted three censuses of registered SSI units. The first census was conducted in 1973-74 and found 2.58 lakh units regis­tered up to 30 November, 1973.

The reference year for this census was the calendar year 1972. During this census, only 1.4 lakh units were found working. The second census was conducted during 1989-91and was found that 9.87 lakh units were registered up to 31 March, 1988.

The reference year for this census was 1987-88. During this census, only 5.82 lakh units were found working. The Third All-India Census was conducted during 2002-03 and it was found that 22.62 units were registered up to 31 March, 2001. The reference year for this census was 2001-02. During this census, only 13.75 lakh units were found working.

It is significant to note that the entrepreneurial supply to India, as is apparent from the above statistics, has been sluggish. In a period of forty years since independence, the country could produce only six lakh successful entrepreneurs. It is only after India adopted the New Economic Reforms in 1991 that the supply of entrepreneurs gathered momentum.

**Thus the speedy growth of entrepreneurship in the country may be attributed to mainly two conditions:**

1. Economic Reforms Policy, 1990, which liberalized the industrial policy by doing away with the compulsory cumbersome licensing system and making trade practices easier.
2. Cumulative impact of urbanization and modernization processes in the country.

# **NSICs**

**The NSIC was** established in 1995 by the Central Government with the objective of assisting the small industries in the Government purchase programmes. The corporation provides a vast-market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

NSIC provides a wide range of services, predominantly promotional in character, to small-scale industries.

### **Its main functions are to:**

1. Provide machinery on hire-purchase scheme to small-scale industries.
2. Provide equipment leasing facility.
3. Help in export marketing of the products of small-scale industries.
4. Participate in bulk purchase programme of the Government.
5. Develop prototype of machines and equipments to pass on to small-scale industries for commercial production.
6. Distribute basic raw material among small-scale industries through raw material depots.
7. Help in development and up-gradation of technology and implementation of modernization programmes of small-scale industries.
8. Impart training in various industrial trades.
9. Set up small-scale industries in other developing countries on turn-key basis.
10. Undertake the construction of industrial estates.

**EDII**

**Entrepreneurship Development Institute of India (EDI)**, an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions – the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). EDI has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In the international arena, efforts to develop entrepreneurship by way of sharing resources and organizing training programmes, have helped EDI earn accolades and support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. EDI has also set up Entrepreneurship Development Centre at Cambodia, Lao PDR, Myanmar and Vietnam and is in the process of setting up such centres at Uzbekistan and five African countries.

**EDII** has emerged from the Centre for Entrepreneurship Development (CED) of the Gujarat Industrial and Technical Consultancy Organisation. It is a national organisation sponsored by All-India finance institutions and Government of Gujarat, set up in the year 1983.

It is the Principal agency with special responsibility for entrepreneurship development. It has been focusing attention on developing programmes for entrepreneurship development and innovative training techniques for trainees. It has developed an experimental EDP for women keeping in view their special needs. It also conducts research, training and institution building activities for encouraging the participation of backward regions and special target groups in entrepreneurship. EDII has continued to offer its services to Sri Lanka, Nepal, Kenya, Ghana and other African Common wealth nations.

The principal activities of EDII are conducting and organising EDPs for potential entrepreneurs throughout the country, generation and dissemination of new knowledge, conducting seminars and workshops on various themes, extension of motivation programmes for officers, performance improvement programmes for existing entrepreneurs, competent management programmes for unemployed non-technical graduates etc. The various programmes run by EDII is said to be the oldest, largest, most comprehensive, organised and successful EDPs in the country.

# **NIESBUD, NEDB**

It was established in 1983 by the Government of India. It is an apex body to supervise the activities of various agencies in the entrepreneurial development programmes. It is a society under Government of India Society Act of 1860.The major activities of institute are:

**i)** To make effective strategies and methods

**ii)** To standardize model syllabus for training

**iii)** To develop training aids, tools and manuals

**iv)** To conduct workshops, seminars and conferences.

**v)** To evaluate the benefits of EDPs and promote the process of Entrepreneurial Development.

**vi)**To help support government and other agencies in executing entrepreneur development programmes.

**vii)** To undertake research and development in the field of EDPs.

The main objective of the National Entrepreneurship Development Board (NEDB) is promotion of entrepreneurship for encouraging self-employment in small scale industries and small business.

### **Salient Features:**

**(i)**  To identify and remove entry barriers for potential entrepreneurs (first generation and new entrepreneurs) including study on entrepreneurship development.

**(ii)** To focus on existing entrepreneurs in micro, tiny and small sector and identify and remove constraints to survivals, growth and continuously improve performance.

**(iii)**To facilitate the consolidation, growth and diversification of existing entrepreneurial venture in all possible ways.

**(iv)**To support skill up gradation and renewal of learning processes among practicing entrepreneurs and managers of micro, tiny, small and medium enterprises.

**(v)** To support agencies in the area of entrepreneurship about the current requirement of growth.

**(vi)** To act as catalyst to institutionalize entrepreneurship development by supporting and strengthening state level institutions for entrepreneurship development as most entrepreneurship related activities take place at the grass root level and removing various constraints to their effective functioning.

**(vii)**Setting up of incubators by entrepreneurship development institutions and other organizations devoted to the promotion of entrepreneurship development.

# **Entrepreneurship Development Institute (EDI)**

Entrepreneurship Development Institute of India (EDI), an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions – the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). EDI has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In the international arena, efforts to develop entrepreneurship by way of sharing resources and organizing training programmes, have helped EDI earn accolades and support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. EDI has also set up Entrepreneurship Development Centre at Cambodia, Lao PDR, Myanmar and Vietnam and is in the process of setting up such centres at Uzbekistan and five African countries.

**Currently focusing on:**

**(1)** Entrepreneurship education and research;

**(2)** Micro-enterprises, micro-finance and sustainable livelihood;

**(3)** SMEs and business development services;

**(4)**Cluster competitiveness, growth and technology;

**(5)** Social entrepreneurship and CSR and

**(6)**Women entrepreneurship and gender studies.

In the near future, EDII will focus on creating and assisting more start-ups with emphasis on innovation, technology and global competitiveness. EDII has set up its own Technology Business Incubator named as the Centre for Advancing and Launching Enterprises

The Government of India has undertaken several initiatives and instituted policy measures to foster a culture of innovation and entrepreneurship in the country. Job creation is a foremost challenge facing India. With a significant and unique demographic advantage, India, however, has immense potential to innovate, raise entrepreneurs and create jobs for the benefit of the nation and the world.

In the recent years, a wide spectrum of new programmes and opportunities to nurture innovation have been created by the Government of India across a number of sectors. From engaging with academia, industry, investors, small and big entrepreneurs, non-governmental organizations to the most underserved sections of society.

Recognising the importance of women entrepreneurship and economic participation in enabling the country’s growth and prosperity, Government of India has ensured that all policy initiatives are geared towards enabling equal opportunity for women. The government seeks to bring women to the forefront of India’s entrepreneurial ecosystem by providing access to loans, networks, markets and trainings.