

ENTREPRENEURSHIP DEVELOPMENT

CDOE ECO SE0010

BA
Semester I



RAJIV GANDHI UNIVERSITY
Arunachal Pradesh, INDIA-791112

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About the University

Rajiv Gandhi University (formerly Arunachal University) is a premier institution for higher education in the state of Arunachal Pradesh and has completed twenty-five years of its existence. Late Smt. Indira Gandhi, the then Prime Minister of India, laid the foundation stone of the university on 4th February, 1984 at Rono Hills, where the present campus is located.

Ever since its inception, the university has been trying to achieve excellence and fulfill the objectives as envisaged in the University Act. The university received academic recognition under Section 2(f) from the University Grants Commission on 28th March, 1985 and started functioning from 1st April, 1985. It got financial recognition under section 12-B of the UGC on 25th March, 1994. Since then Rajiv Gandhi University, (then Arunachal University) has carved a niche for itself in the educational scenario of the country following its selection as a University with potential for excellence by a high-level expert committee of the University Grants Commission from among universities in India.

The University was converted into a Central University with effect from 9th April, 2007 as per notification of the Ministry of Human Resource Development, Government of India.

The University is located atop Rono Hills on a picturesque tableland of 302 acres overlooking the river Dikrong. It is 6.5 km from the National Highway 52-A and 25 km from Itanagar, the State capital. The campus is linked with the National Highway by the Dikrong bridge.

The teaching and research programmes of the University are designed with a view to play a positive role in the socio-economic and cultural development of the State. The University offers Undergraduate, Post-graduate, M.Phil and Ph.D. programmes. The Department of Education also offers the B.Ed. programme.

There are fifteen colleges affiliated to the University. The University has been extending educational facilities to students from the neighbouring states, particularly Assam. The strength of students in different departments of the University and in affiliated colleges has been steadily increasing.

The faculty members have been actively engaged in research activities with financial support from UGC and other funding agencies. Since inception, a number of proposals on research projects have been sanctioned by various funding agencies to the University. Various departments have organized numerous seminars, workshops and conferences. Many faculty members have participated in national and international conferences and seminars held within the country and abroad. Eminent scholars and distinguished personalities have visited the University and delivered lectures on various disciplines.

The academic year 2000-2001 was a year of consolidation for the University. The switch over from the annual to the semester system took off smoothly and the performance of the students registered a marked improvement. Various syllabi designed by Boards of Post-graduate Studies (BPGS) have been implemented.

VSAT facility installed by the ERNET India, New Delhi under the UGC-Infonet program, provides Internet access.

In spite of infrastructural constraints, the University has been maintaining its academic excellence. The University has strictly adhered to the academic calendar, conducted the examinations and declared the results on time. The students from the University have found placements not only in State and Central Government Services, but also in various institutions, industries and organizations. Many students have emerged successful in the National Eligibility Test (NET). Since inception, the University has made significant progress in teaching, research, innovations in curriculum development and developing infrastructure.

About CDOE

The formal system of higher education in our country is facing the problems of access, limitation of seats, lack of facilities and infrastructure. Academicians from various disciplines opine that it is learning which is more important and not the channel of education. The education through distance mode is an alternative mode of imparting instruction to overcome the problems of access, infrastructure and socio-economic barriers. This will meet the demand for qualitative higher education of millions of people who cannot get admission in the regular system and wish to pursue their education. It also helps interested employed and unemployed men and women to continue with their higher education. Distance education is a distinct approach to impart education to learners who remained away in the space and/or time from the teachers and teaching institutions on account of economic, social and other considerations. Our main aim is to provide higher education opportunities to those who are unable to join regular academic and vocational education programmes in the affiliated colleges of the University and make higher education reach to the doorsteps in rural and geographically remote areas of Arunachal Pradesh in particular and North-eastern part of India in general. In 2008, the Centre for Distance Education has been renamed as “Centre for Distance and Online Education (CDOE)” Continuing the endeavor to expand the learning opportunities for distant learners, IDE has introduced Post Graduate Courses in 5 subjects (Economics, Education, English, Hindi, History, Sociology and Political Science) from the Academic Session 2013-14.

The CDOE is housed in the Physical Sciences Faculty Building (first floor) next to the University Library. The University campus is 6 kms from NERIST point on National Highway 52A. The University buses ply to NERIST point regularly.

Outstanding Features of Institute of Distance Education:

(i) At Par with Regular Mode

Eligibility requirements, curricular content, mode of examination and the award of degrees are on par with the colleges affiliated to the Rajiv Gandhi University and the Department(s) of the University.

(ii) Self-Instructional Study Material (SISM)

The students are provided SISM prepared by the Institute and approved by Distance Education Council (DEC), New Delhi. This will be provided at the time of admission at the IDE or its Study Centres. SISM is provided only in English except Hindi subject.

(iii) Contact and Counselling Programme (CCP)

The course curriculum of every programme involves counselling in the form of personal contact programme of duration of approximately 7-15 days. The CCP shall not be compulsory for BA. However for professional

courses and MA the attendance in CCP will be mandatory.

(iv) Field Training and Project

For professional course(s) there shall be provision of field training and project writing in the concerned subject.

(v) Medium of Instruction and Examination

The medium of instruction and examination will be English for all the subjects except for those subjects where the learners will need to write in the respective languages.

(vi) Subject/Counselling Coordinators

For developing study material, the CDOE appoints subject coordinators from within and outside the University. In order to run the PCCP effectively Counselling Coordinators are engaged from the Departments of the University, The Counselling-Coordinators do necessary coordination for involving resource persons in contact and counselling programme and assignment evaluation. The learners can also contact them for clarifying their difficulties in then respective subjects.

Entrepreneurship Development

Unit-I	Entrepreneur and Entrepreneurship Entrepreneur: Definition, characteristics of entrepreneur, entrepreneur and manager, functions of entrepreneurs and types of entrepreneurs; Entrepreneurship: concept, role of entrepreneurship in economic development, factors affecting entrepreneurial growth, entrepreneurial motivation, entrepreneurial competencies and entrepreneurial mobility.	Pages
Unit-II	Establishment and Licensing Project identification and selection; project formulation; project appraisal: concept and method of project appraisal; financing enterprise; ownership structure: types of ownership and selection of an appropriate form of ownership; licensing – meaning and objective; Income tax, and goods and service tax (GST).	
Unit-III	Institutional Support Institutional Finance to entrepreneurs- Industrial Finance Corporation of India, Unit trust of India, industrial development banks of India, Small Industries Development Bank of India and MUDRA bank; Institutional support to industries- National Small Industries Corporation Limited, Small Industries Development Corporation, Small Scale Industries Board, State Small Industries Development Corporations, Small Industries Service Institutes, District industrial centers and industrial estate; Made in India and Start-up India.	

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UNIT I: Entrepreneur and Entrepreneurship

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1.2 Introduction

Entrepreneurs play a vital role in economic transformation. It involves identifying, evaluating, and exploiting opportunities through effective resource use and risk-taking. Scholars such as

Joseph Schumpeter emphasized the importance of innovation, while others highlighted the diverse roles of entrepreneurs in shaping the economy.

This chapter discusses the main types of entrepreneurs, including innovative, imitative, social, technical, and trading, and their contributions to the entrepreneurial ecosystem. It also examines how entrepreneurship promotes economic development by creating employment, fostering innovation, enhancing capital formation, and improving living standards.

Factors influencing entrepreneurial growth—economic, social, political, technological, and personal—are explored, along with motivations that drive entrepreneurs, both intrinsic, like achievement and independence, and extrinsic, such as profit and recognition.

Finally, the chapter highlights the competencies necessary for success, including opportunity recognition, strategic planning, problem-solving, negotiation, and networking, as well as the importance of entrepreneurial mobility in exploring new markets and optimizing resources. Understanding these aspects is essential for fostering a dynamic and sustainable entrepreneurial environment.

1.2 Definition of Entrepreneur

An entrepreneur is an individual who creates, organizes and manages a business or venture, often taking on financial and operational risks in pursuit of profit and innovation. Entrepreneurs identify opportunities, mobilize resources, and drive growth while adapting to challenges and uncertainties in the market. According to Peter Drucker, “The entrepreneur always searches for change, responds to it and exploits it as an opportunity.” Thus, an entrepreneur is a person who creates something new, explores opportunities, takes risks, and brings together resources like land, labour, and capital. By using skills, innovation, and foresight, entrepreneurs face uncertainties and earn profits. They play an important role in the economic growth and development of a country.

There are various views on an entrepreneur, which are broadly classified into three groups i.e., risk bearer, organizer and innovator, as discussed below-

1. Entrepreneur as risk bearer:

An entrepreneur bears uncertainty in business. Richard Cantillon described entrepreneurs as people who buy resources at certain costs and sell products at uncertain prices. F.H. Knight explained that entrepreneurs face uncertainty, which cannot be predicted or insured against.

2. **Entrepreneur as Organizer:**

J.B. Say stated that an entrepreneur combines land, labour, and capital to produce goods. The entrepreneur pays wages, rent, and interest, and the remaining profit is theirs. This highlights the role of the entrepreneur in organizing and managing resources efficiently.

3. **Entrepreneur as Innovator:**

Joseph A. Schumpeter emphasized the role of innovation in entrepreneurship. Entrepreneurs introduce new products, use new methods of production, open new markets, find new resources, or create new organizational forms. He distinguished between inventors, who create ideas, and innovators, who apply them successfully.

Thus, an entrepreneur is a person who creates, organizes, and innovates while taking risks to handle uncertainties and contribute to economic development.

1.3 Characteristics of Entrepreneur

An entrepreneur must have several qualities to perform their responsibilities successfully. The main characteristics are:

- a) **Innovator** – An entrepreneur applies inventions and new ideas commercially to produce better goods and services. Innovation can involve new products, methods of production, markets, sources of raw materials, or organizational forms.
- b) **Risk-Taker** – Entrepreneurs face uncertainty and take calculated risks. They avoid very low-risk situations (boring) and extremely high-risk situations (unrealistic), preferring challenges that are achievable and rewarding.
- c) **Organizer** – Entrepreneurs coordinate resources like land, labor, and capital efficiently. They delegate tasks, select the right team, and inspire loyalty and productivity.
- d) **Creative** – Creativity allows entrepreneurs to find new and useful solutions. It is the foundation for innovation and successful ventures.

- e) **Motivated/Achievement-Oriented** – Entrepreneurs are driven by challenges and accomplishments, not just money. They seek personal growth and contribution to society.
- f) **Technically Competent** – Knowledge of technology and modern production methods helps entrepreneurs to improve the quality of goods and services.
- g) **Self-Confident** – Confidence allows entrepreneurs to trust others, delegate tasks, and lead effectively.
- h) **Socially Responsible** – Entrepreneurs consider the social impact of their actions and aim to benefit society, such as creating jobs or introducing valuable innovations.
- i) **Optimistic** – A positive attitude helps entrepreneurs face challenges and remain focused on success.
- j) **Driven** – Entrepreneurs work hard with persistence, initiative, and ambition.
- k) **Mentally Able** – Intelligence, analytical thinking, and adaptability help entrepreneurs solve problems effectively.
- l) **Human Relations Skills** – Good interpersonal skills and empathy help maintain strong relationships with employees and customers.
- m) **Communication Ability** – Clear communication ensures understanding and coordination among team members.
- n) **Decision-Making** – Entrepreneurs make informed and timely decisions, often after careful analysis and discussion.
- o) **Planning Skills** – Effective business planning guides long-term growth and prepares the entrepreneur for challenges.
- p) **Visionary** – Entrepreneurs have a clear vision, commitment to change, and persistence to achieve long-term goals.
- q) **Opportunity Spotting** – Entrepreneurs notice and exploit opportunities that others may miss.
- r) **Courage** – They face adversities bravely and remain resilient under pressure.

- s) **Leadership** – Entrepreneurs influence, motivate, and guide others toward achieving organizational objectives. Leadership turns potential into reality.

1.4 Entrepreneur and Manager

The main difference between an entrepreneur and a manager lies in their role, focus, and approach to risk and innovation:

- a) Role and Function:

An entrepreneur creates and builds a business from scratch, identifies opportunities, takes risks, and drives innovation, while a manager oversees and runs an existing business or department, ensuring that operations are efficient and goals are met.

- b) Focus:

An entrepreneur focuses on growth, innovation, and long-term vision while a manager focuses on maintaining systems, following rules, and achieving short-term objectives.

- c) Risk:

An Entrepreneur always bears financial and business risks, facing uncertainty for potential profits, but a manager only works within defined parameters and minimizes risks; usually does not bear personal financial risk.

- d) Decision-Making:

An entrepreneur makes strategic, innovative, and sometimes unconventional decisions to create opportunities. On the other hand, a manager makes operational decisions to implement plans efficiently and maintain stability.

- e) Innovation:

An Entrepreneur seeks new ideas, products, or markets and drives change, but a manager focuses on organizing, coordinating, and optimizing existing resources and processes.

Although managers and leaders have different features, in small businesses, an entrepreneur often has to play both roles. By creating an environment that encourages personal interaction, the entrepreneur can motivate employees, foster trust, and attract talent.

In the past, managers were often strict autocrats, giving orders with little concern for employees. Today, leadership emphasizes respect, recognition of potential, and employee involvement. Entrepreneurs and manager-leaders encourage participation in decision-making, allowing employees to contribute ideas and make decisions about their work.

This approach, known as empowerment, goes beyond seeking opinions—it grants employees authority to act independently, improving motivation, efficiency, and overall business performance.

1.5 Functions of Entrepreneur

An entrepreneur performs many functions, from generating ideas to running a successful business. These functions can be grouped into three main areas: innovation, risk-bearing, and organizing/managing. The key functions are:

a) Idea generation-

The first function is to generate business ideas. This involves selecting products or projects based on observation, experience, education, and understanding of the market. Entrepreneurs also study the business environment and customer needs.

b) Setting business objectives-

Entrepreneurs define clear goals for their business. They decide the type of business, whether it is manufacturing, service, or trading, and plan all activities to achieve these objectives.

c) Raising funds-

Finance is essential for business. Entrepreneurs raise money from internal and external sources and can use government schemes for seed capital, working capital, or other assistance.

d) Procurement of Machines and Materials-

Entrepreneurs buy raw materials and machinery from reliable sources. They consider quality, cost, capacity, warranty, and service before making purchases.

e) Market research-

Entrepreneurs study the market to understand product demand, customer preferences, competition, and pricing. This helps in making informed decisions.

f) Choosing the form of enterprise-

Entrepreneurs decide the legal form of their business, such as sole proprietorship, partnership, company, or cooperative, based on investment and business needs.

g) Recruitment of manpower-

Entrepreneurs plan workforce needs, recruit staff, design compensation, define service rules, and provide training and development.

h) Project Implementation-

Entrepreneurs develop plans and schedules to complete the project on time. They organize resources, coordinate activities, and ensure smooth execution to avoid delays and extra costs.

Thus, the main functions of an entrepreneur include creating new ideas, taking calculated risks, and organizing resources effectively to establish and run a successful business.

1.6 Types of Entrepreneur

Entrepreneurs can be found in industries, services, agriculture, and commerce. They are classified in several ways based on innovation, scale, behaviour, and sector.

a) Based on Innovation

- i. **Innovative Entrepreneur:** Introduces new ideas, technologies, markets, or organizations. They drive change and transform lifestyles. E.g., Elon Musk (Tesla, SpaceX) – introduced electric cars and reusable rockets.
- ii. **Adoptive or Imitative Entrepreneur:** Adopts existing technologies or methods from others rather than creating new ones. E.g., Entrepreneurs in developing countries who set up mobile phone assembly units using existing designs.
- iii. **Fabian Entrepreneur:** Cautious and skeptical; adopts changes only when necessary to maintain business position. E.g., Traditional textile business owners who slowly adopt modern machinery.
- iv. **Drone Entrepreneur:** Conservative and traditional; resists change and sticks to old methods, even if it reduces profits. E.g., Shopkeepers still using manual billing and record-keeping despite digital tools.

b) Based on Knowledge

- i. **Empirical Entrepreneur:** An empirical entrepreneur primarily relies on practical experience and traditional methods rather than formal analysis or research. They follow established “rules of thumb” or routines and rarely make major innovations. Their focus is on continuity, minimizing risk, and maintaining steady operations. E.g. Small local bakery following traditional recipes.
- ii. **Rational Entrepreneur:** A rational entrepreneur uses knowledge of economic conditions, market trends, and business analysis to make informed decisions. They are willing to introduce significant changes and innovations based on careful planning, research, and evaluation of potential risks and rewards. E.g., A tech startup founder who updates apps based on market research.
- iii. **Cognitive Entrepreneur:** A cognitive entrepreneur takes a highly informed and systematic approach, often consulting experts and using professional advice to implement radical innovations. They break from traditional practices entirely, introducing new products, services, or business models that transform the enterprise. E.g., Biotech company founder developing a new vaccine using expert advice.

c) Based on Scale of Enterprise

- i. **Small-Scale Entrepreneur:** A small-scale entrepreneur operates a business with limited resources, workforce, and production capacity. These entrepreneurs typically serve local or niche markets and rely on traditional methods or low-cost technologies. They usually cannot undertake large-scale production or significant technological innovations due to resource constraints. E.g., A neighbourhood tailoring shop.
- ii. **Large-Scale Entrepreneur:** A large-scale entrepreneur operates businesses with substantial resources, a large workforce, and advanced production capabilities. They can introduce technological innovations, implement research and development (R&D), and serve national or international markets. These entrepreneurs often lead industries and have a significant impact on the economy. E.g., Reliance Group of Industries.

d) Based on Behaviour and Sector

- i. **Solo Operators:** Work independently with minimal staff; typical of new startups, e.g., Freelance graphic designer.
- ii. **Active Partners:** Collaborate actively with partners in management and operations, e.g., Founders of Flipkart managing operations together.
- iii. **Inventors:** Focus on research and innovation; develop new products or production methods, e.g., Thomas Edison – invention of the electric bulb.
- iv. **Challengers:** Seek challenges and convert problems into business opportunities, e.g., Richard Branson (Virgin Group) – enters diverse, competitive industries.
- v. **Buyers:** Purchase existing businesses and manage them using expertise, e.g., Warren Buffett – acquires and manages established companies.
- vi. **Life Timers:** Treat business as a lifelong or family enterprise, often skill-based, e.g., Tata Group – family-led industrial enterprise.
- vii. **Industrial Entrepreneurs:** Manufacture and sell physical products, e.g., Henry Ford – mass production of automobiles.
- viii. **Service Entrepreneurs:** Provide services such as consultancy, repair, or personal care, e.g., Zomato founders – online food delivery service.
- ix. **Business/Trading Entrepreneurs:** Buy and sell goods in trading activities, e.g., Local wholesale traders in markets.
- x. **Agricultural Entrepreneurs:** Operate in agriculture, horticulture, poultry, or animal husbandry, e.g., Entrepreneurs running large-scale poultry farms or organic farms.
- xi. **Corporate Entrepreneurs:** Run businesses under legally registered companies or trusts, e.g., Infosys founders – IT services under corporate structure.
- xii. **Rural Entrepreneurs:** Establish enterprises in villages or rural areas, including small-scale and farm-based industries, e.g., Women producing Khadi products in villages under KVIC schemes.

- xiii. **Women Entrepreneurs:** Owned and managed by women, with majority stake and employment of women, e.g., Falguni Nayar (Nykaa) – cosmetics and e-commerce business.

1.7 Entrepreneurship

Entrepreneurship is the ability and mindset to take calculated risks with confidence to achieve business or industrial objectives, combining innovation, decision-making, and resource management. The term, meaning “to undertake,” has evolved over time: in the 16th century, it referred to military leaders; in the 18th century, it described merchants trading under uncertain conditions. Globally recognized, including in developing countries like India, an entrepreneur is defined as one who organizes, owns, and manages a business (National Seminar on Entrepreneurship, Delhi, 1975). Entrepreneurship is influenced by social, psychological, and economic factors, such as caste, family, leadership traits, creativity, risk-taking ability, occupational background, and access to capital. It plays a critical role in economic and social development by generating employment, promoting innovation, creating new markets, and improving living standards. Modern entrepreneurship spans industrial, agricultural, service, and technology-driven sectors, emphasizing social responsibility, environmental consciousness, and the ability to leverage global opportunities, making it central to sustainable economic growth and progress.

1.8 Role of entrepreneurship in Economic Development

Entrepreneurship plays a crucial role in the economic development of a country by creating businesses, introducing new products and services, and generating employment opportunities. Entrepreneurs identify gaps and opportunities in the market, mobilize resources, and establish enterprises that contribute to the social and economic well-being of society. By doing so, they not only improve the standard of living but also stimulate growth in multiple sectors.

One of the key contributions of entrepreneurship is job creation. Entrepreneurs start new ventures or expand existing businesses, which provide employment opportunities to skilled and unskilled workers alike. This helps reduce unemployment, improve household incomes, and alleviate poverty, particularly in rural and underdeveloped regions. Entrepreneurship also drives innovation and creativity, as entrepreneurs introduce new technologies, products, and processes. These innovations increase productivity, reduce production costs, and improve the quality of goods and services available to consumers.

Entrepreneurs play a significant role in economic diversification. By entering different sectors such as agriculture, manufacturing, services, and technology, they reduce dependence on a single industry and make the economy more resilient to external shocks. Similarly, entrepreneurship promotes regional development by creating business clusters in specific areas. These clusters attract investment, skilled labor, and infrastructure development, leading to balanced growth across regions.

Entrepreneurship also contributes to social development by addressing societal challenges. Many entrepreneurs establish ventures that provide essential services, such as clean energy, healthcare, education, and sanitation, improving the quality of life and fostering sustainable development. Furthermore, entrepreneurship attracts investment and trade, both domestic and international, enhancing resource utilization, increasing economic efficiency, and promoting competitiveness in the global market.

Thus, entrepreneurship is a driving force behind economic development. By combining innovation, risk-taking, resource mobilization, and social responsibility, entrepreneurs create opportunities, improve living standards, and contribute to the long-term progress of society. Governments and policymakers play a critical role in fostering entrepreneurship through supportive regulations, access to finance, education, and training, ensuring that entrepreneurship can sustainably contribute to national development.

1.9 Factors Affecting Entrepreneurial Growth

The growth of entrepreneurship is influenced by multiple internal and external factors. Despite possessing innovative ideas or determination, entrepreneurs often face challenges that hinder the establishment and success of their ventures. The major problems can be elaborated as follows:

- a) **Incompetence and Poor Management:** Successful entrepreneurship requires a combination of technical knowledge, managerial skills, and effective planning. Many entrepreneurs lack formal training in management, financial planning, marketing, and human resource management. This deficiency often leads to operational inefficiency, poor decision-making, misallocation of resources, and ultimately, business failure. Training programs and exposure to modern management practices are essential to overcome this limitation.

- b) **Low Level of Commitment:** Entrepreneurship demands consistent dedication and persistence. Entrepreneurs who are not fully committed may fail to invest sufficient time, effort, and resources into their ventures. Partial commitment reduces the likelihood of overcoming challenges and limits the growth potential of the business. Commitment also ensures long-term strategic thinking and resilience in adverse conditions.
- c) **Socio-Cultural Restrictions:** Social norms, traditional customs, and rigid cultural expectations can discourage entrepreneurship. In many societies, entrepreneurial activity is not considered a prestigious career option, and individuals may face resistance from family or community. Such societal pressures often restrict risk-taking behaviour, limit innovation, and reduce the willingness of potential entrepreneurs to venture into new businesses.
- d) **High Risk Involvement:** Entrepreneurship is inherently associated with financial, market, and operational risks. The fear of uncertainty, potential financial loss, or failure can deter individuals from starting new ventures. Risk aversion is particularly strong in developing countries, where safety nets such as insurance or credit support are limited. Entrepreneurs must adopt calculated risk-taking strategies to balance potential gains against possible losses.
- e) **Lack of Motivation and Entrepreneurial Aptitude:** Entrepreneurship requires a combination of personal drive, creativity, and problem-solving ability. Many individuals are either unaware of business opportunities or lack the confidence, ambition, and innovative mindset needed to exploit them. Without intrinsic motivation or entrepreneurial aptitude, potential business ideas remain unrealized.
- f) **Infrastructural and Financial Barriers:** The absence of adequate infrastructure—including electricity, transportation, and communication networks—directly affects operational efficiency. Delays in accessing finance, such as bank loans or government funding, create liquidity constraints and increase the financial burden of entrepreneurs. Insufficient infrastructure and funding often limit scalability and the sustainability of enterprises.
- g) **Legal and Regulatory Hurdles:** Setting up and operating a business often involves navigating complex legal frameworks, obtaining multiple licenses, and complying with

bureaucratic procedures. These formalities can be time-consuming and costly, discouraging entrepreneurs from initiating or expanding their ventures. Simplified regulations and one-window clearance systems are necessary to facilitate business development.

- h) **Market Imperfections:** Entrepreneurs may face challenges due to weak demand, monopolistic competition, or market inefficiencies. Limited access to markets, price fluctuations, and competition with established firms can reduce profitability and discourage new entrants. Effective market research, awareness of customer preferences, and strategic marketing are essential to overcome these challenges.
- i) **Low Status of Businessmen:** In some societies, entrepreneurship is perceived as a less prestigious or insecure career path compared to traditional professions such as medicine, law, or government service. Negative social perception can prevent talented individuals from pursuing business ventures, thereby slowing entrepreneurial growth. Awareness campaigns and showcasing successful role models can help improve societal attitudes.
- j) **Product Quality and Compensation Issues:** Entrepreneurs often face constraints in maintaining high product quality due to limited resources, inadequate technology, or lack of skilled labour. Simultaneously, they may struggle to offer competitive salaries to attract and retain talent. These issues affect productivity, customer satisfaction, and the overall sustainability of the enterprise. Investment in quality improvement and employee welfare is crucial to address these barriers.

1.10 Entrepreneurial Motivation

Entrepreneurial motivation refers to the inner drive that influences an individual to start, manage, and grow a business venture. It is the set of internal and external factors that inspire entrepreneurs to identify opportunities, take risks, and work towards achieving business goals. Motivation in entrepreneurship often begins with unmet needs or ambitions, such as the desire for achievement, independence, innovation, or financial success. Entrepreneurs channel these drives into creative actions, persistence, and problem-solving, even in uncertain or challenging situations. The following are the key elements that motivate entrepreneurs-

- a) **Innovation**

Innovation is a core driver of entrepreneurial motivation. It refers to the creative urge

to develop new products, services, processes, or business models that provide value to customers. Innovative entrepreneurs constantly seek improvement and adaptation, enabling them to stay competitive in dynamic markets. Innovation is not limited to technological change; it also includes new ways of organising work, delivering services, or reaching target audiences.

b) Self-Confidence

Self-confidence is the belief in one's ability to handle challenges, make sound decisions, and achieve desired outcomes. For entrepreneurs, self-confidence provides the mental strength to persist despite setbacks and uncertainty. It enables them to take calculated risks, trust their judgment, and inspire confidence in investors, employees, and customers.

c) Future Orientation

Entrepreneurs are typically forward-looking, with a vision that extends beyond immediate gains. Future orientation involves setting long-term goals, anticipating future trends, and preparing strategies accordingly. This quality motivates entrepreneurs to invest time, resources, and energy into sustainable growth rather than focusing solely on short-term profits.

d) Responsibility

Responsibility is the willingness to take ownership of both successes and failures. Entrepreneurs accept accountability for their decisions and actions, ensuring that they fulfil commitments to stakeholders. This sense of responsibility fosters trust, strengthens professional relationships, and reinforces an entrepreneur's credibility in the marketplace.

e) Feedback and Learning-

Successful entrepreneurs actively seek feedback to evaluate their performance and identify areas for improvement. Constructive feedback, whether from customers, mentors, or peers, is a valuable source of learning. This openness to critique helps entrepreneurs refine strategies, adapt to market changes, and enhance product or service quality.

f) Tolerance for risk

Entrepreneurship inherently involves uncertainty, and tolerance for risk is essential to navigate it effectively. Tolerant entrepreneurs are willing to operate without guaranteed outcomes, making informed decisions in the face of possible losses. Rather than avoiding risk, they manage it through research, planning, and flexible strategies, maintaining composure even when plans deviate from expectations.

Entrepreneurial motivation is essential for sustaining effort, encouraging resilience, and ensuring continuous growth. It transforms ideas into action and is a crucial factor in the success and sustainability of any enterprise.

1.11 Entrepreneurial Competencies

Entrepreneurial competencies are the knowledge, skills, and personal qualities that enable an entrepreneur to perform business tasks effectively and achieve desired goals. They are the behavioural patterns and abilities that contribute to business success. Research shows that while some entrepreneurs may have these competencies naturally, they can also be developed through training, experience, and practice. Some of the key entrepreneurial competencies are as follows:

a) **Initiative**

Entrepreneurs take the first step to start new activities, explore opportunities, and act without waiting for others. This proactive behaviour helps them stay ahead in competitive markets.

b) **Vigilance**

Being alert to changes in the environment, market trends, and customer needs enables entrepreneurs to respond quickly and effectively.

c) **Learning from mistakes**

Mistakes are treated as opportunities for learning. Entrepreneurs analyse what went wrong and make improvements to avoid repeating the same errors.

d) **Information-Seeking**

Gathering relevant data from various sources, such as research, experts, and market studies, helps in making informed decisions and reducing risk.

e) **Quality Consciousness**

Maintaining high standards in products or services builds customer trust and gives a competitive advantage.

f) Dedication and Determination

Strong commitment to goals and perseverance in completing tasks are essential for overcoming challenges in business operations.

g) Efficiency

Using resources such as time, money, and manpower effectively ensures higher productivity and cost savings.

h) Realistic Planning and Implementation

Developing practical, well-researched plans and executing them systematically helps in achieving targets on time.

i) Persistence

Even in the face of difficulties or delays, entrepreneurs continue working toward their goals rather than giving up.

j) Self-Confidence

Believing in one's own abilities to solve problems and achieve results motivates entrepreneurs to take risks and face challenges.

k) Persuasiveness

The ability to convince investors, customers, and employees helps in building support for the business.

l) Teamwork and Relationship Management

Treating employees as valuable partners and maintaining good relationships with all stakeholders ensures cooperation and trust.

m) Growth Orientation

A constant desire to improve products, services, and processes drives long-term business success.

n) Adaptability and Risk-Taking

Entrepreneurs remain flexible to adjust to changes in the market and are willing to take calculated risks to achieve higher rewards.

1.12 Entrepreneurial Mobility

Entrepreneurial mobility refers to the movement of entrepreneurs across different occupations or geographical locations, influencing the pace and structure of entrepreneurial development. This mobility is shaped by factors such as education, formal training, work experience, availability of facilities, and political conditions, all of which determine an entrepreneur's ability to adapt and seize opportunities. It is broadly classified into occupational mobility, which includes intergenerational mobility (shifts from the parents' occupation) and intragenerational mobility (career changes within an individual's lifetime), and location mobility, which involves relocating businesses for advantages such as access to raw materials, skilled labour, markets, resources, and favourable socio-political environments. By enabling entrepreneurs to optimize resources, expand markets, and respond to changing conditions, mobility plays a vital role in fostering innovation, competitiveness, and economic growth.

1.13 Lets Sum up

From the discussion made in this chapter we have a clear idea about the definition and properties of entrepreneurs, entrepreneurship and enterprises. Moreover, discussion is made about the differences between entrepreneur and managers. Further we have discussed about entrepreneurial motivation, entrepreneurial competencies and entrepreneurial mobility. Finally discussion is made about the role played by the entrepreneurs in economic development of a country.

1.14 Keywords

Entrepreneur, enterprise, entrepreneurship, manager, economic development, entrepreneurial growth, entrepreneurial motivation, entrepreneurial competencies and entrepreneurial mobility.

1.15 Sample Short Questions:

1. Define an entrepreneur.
2. Mention any three functions of an entrepreneur.

3. Write two important characteristics of an entrepreneur.
4. What is entrepreneurial motivation?
5. How many types of entrepreneurs are there?

1.16 Sample Long Questions:

1. Discuss the role of entrepreneurship in the economic development of a country.
2. Explain the major characteristics of a successful entrepreneur.
3. Compare and contrast an entrepreneur with a manager.
4. Analyse the major factors affecting entrepreneurial growth in developing countries.
5. Describe the main sources of entrepreneurial motivation and their importance in sustaining business success.
6. Explain the concept of entrepreneurial competencies and describe at least five with suitable examples.

1.17 Suggested Readings

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UNIT II: Establishment of Enterprises and Licensing

Structure

- 2.1 Introduction
- 2.2 Project Identification
- 2.3 Project Formulation
- 2.4 Project Appraisal
- 2.5 Financing Enterprises
- 2.6 Ownership Structure
- 2.7 Licensing a Business
- 2.8 Income tax and Goods and Service tax (GST)
- 2.9 Let's Sum Up
- 2.10 Key Terms
- 2.11 Short Questions
- 2.12 Long Questions
- 2.13 Suggested Readings

2.1 Introduction

In the previous chapter, we have discussed about the definition of entrepreneur and enterprises and also about the important role played by the enterprises in the economic development of a country. Here, queries arise regarding how an entrepreneur establishes a business activity or what are steps of establishing an enterprise. Here, the business activity (enterprise) is termed as the project.

The 'Project' is a type of proposal which contains numerous decision of an entrepreneur that he takes to convert his business ideas into reality. The project presupposes some commitments regarding some tasks to be performed with well-defined goals and objectives, and time schedules. According to Encyclopaedia of Management, "A project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications." Therefore, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time.

2.2 Project Identification

Project identification is the initial stage to set up an enterprise. For an entrepreneur it means finding a profitable and feasible business idea that matches market demand, personal skills and available resources. It refers to the process of discovering, analysing, and selecting a business opportunity that can be developed into a viable project. It helps the entrepreneur to recognise areas where investment has the potentiality to realise maximum return and contribute towards economic growth. Project identification is especially important for the entrepreneurs, because:

- (a) It helps the entrepreneurs to select the most profitable business idea.
- (b) It minimises the risk of failure by choosing feasible opportunities.
- (c) It ensures best utilisation of limited available resources.
- (d) It provides the base for detailed project formulation and planning.
- (e) It helps the entrepreneur to set his/her business goal with the market requirement.

The process of project identification is affected by the factors like market demand and competition, availability of raw materials and technology, government policies and incentives, personal interest and experience of the entrepreneur, and availability of financial resources and risk-bearing capacity of the entrepreneurs. Project identification involves certain steps; which are discussed below:

2.2.1 Idea Generation

The project identification starts with the idea generation. In order to choose the most promising, valuable and profitable project, the entrepreneur has to generate the basic ideas about the project that he/ she takes for his business. The entrepreneur can generate the ideas from different internal and external sources. These sources include-

1. Ideas provided by some knowledgeable persons or some business experts.
2. Publications of the various government departments.
3. Scope and market values of the substitute products.
4. A new product produced by the competitor or rival entrepreneur.
5. Stories of success in business of familiar entrepreneurs and friends.
6. Market condition of certain products.
7. Trade magazines also give basic ideas about the project.
8. Knowledge of the potential consumer needs.

When all these sources are combined, it may provide some ideas about the possible projects that could be looked into and one of the projects may be chosen. After going through all these

sources, if an entrepreneur has ideas about five projects, then he /she will be able to select one of them through the project selection process.

2.2.2 Project Selection

After getting ideas about the feasible projects, the process of the project selection starts. At this stage, the projects are critically analysed in the light of the prevailing market conditions, economic conditions, existing government policies and so on. To analyse the project ideas, Strength, Weakness, Opportunity and Threat (SWOT) analysis is done. The prospective entrepreneur evaluates each project ideas' strengths, weaknesses or problems, opportunities or advantages as well as threats or challenges. Apart from the SWOT analysis, the entrepreneur examines the other relevant factors such as location, capital, labour, raw materials or inputs, possible market etc. It is necessary to evaluate each of these factors independently in connection with the other factors. This creates a continuous and back and forth process. Based on this analysis, the perfect and valuable project idea is selected to convert it into an enterprise or business entity. The process involved in selecting a project out of few projects is also termed as "Zeroing in Process".

There is a time interval or time lag between the project identification and project selection. It may take a few minutes in some situations, while in others it takes several months.

2.3 Project Formulation

Project formulation is the systematic development of a project idea into a tangible plan that ultimately leads to an investment decision. It involves a thorough analysis of different aspects of a project to determine its viability, feasibility and potential impact. This process helps in identifying the possible problems at the early stage and ensures effective resource utilization. The major aspects of project formulation are:

2.3.1 Feasibility analysis

It helps to determine whether the selected project is technically, financially and economically viable or not. The feasibility analysis is conducted to know whether the entrepreneur should proceed with the project idea or not.

2.3.2 Techno-Economic Analysis

It determines the economic viability and technological requirement of the project. The techno-economic analysis has two parts. The techno analysis looks into the adequacy of the proposed

plant and equipment; while economic analysis looks into the size of the project and technology to be used.

2.3.3 Project Design and Network Analysis

Project design is the planning phase of a project where the overall structure, objectives, activities, timeline and resources are clearly defined before implementation begins. It serves as the blueprint for how the project will be executed, monitored and evaluated. While network analysis is a project management technique used to plan, schedule and control complex projects. It also identifies the flow of events.

2.3.4 Input Analysis

Input analysis in a business refers to the systematic study of all resources used in the production or operation process. It helps to understand what inputs are needed, how efficiently they are used, and how they affect the output or overall performance of the business. It is well known to the students of economics that the primary factors of production are land, labour, capital and entrepreneurship. Now a days, information and technology including data, software and innovation that improves efficiency in production is also regarded as the primary input of production.

2.3.5 Financial Analysis

Financial analysis refers to the detailed coverage of the financial aspects such as costs, revenues and profit analysis. Financial analysis is an important aspect that to be taken care of before starting an enterprise.

2.3.6 Social Cost-Benefit Analysis

Social cost-benefit analysis is the method used to evaluate a project from the point of view of the society as a whole, rather than just a private investor. It compares the total social benefits of the project with the total social cost it incurs. Social cost-benefit analysis helps in evaluating the impact of the project on society and environment. There are many projects whose social costs and benefits are significantly different from that of private cost and benefits.

Thus the scope of project formulation refers to the range of activities involved in developing the project from collecting general Information, location selection, to analysis social cost and benefits of the project.

2.4 Project Appraisal

The project appraisal is a process by which a lending financial institution evaluates various aspects of an investment proposal independently and impartially in order to reach the financial decision. Project appraisal refers to the evaluation or assessment of a project in terms of its financial, social and economic viability. Project appraisal is a full scanning of a project. When an entrepreneur submits a project proposal to the banks and other financial institutions for getting loans, the banks and financial institutions evaluates the proposal critically. During the evaluation of the project, the banks and financial institutions accepts traditionally the information provided by the entrepreneur as accurate.

Project appraisal is the process when an expert neither involved nor connected to the preparation of the proposal but taking a second look carefully and critically. The promoter is as such able to take a dispassionate, objective and independent review of the project in overall and also with regard to its various components. Therefore, we can say that the project appraisal includes careful and critical checking of the basic data, methodology and assumptions used in the preparation of the project, an in-depth review of the work plan, estimates of costs and proposed return, examine the organizational and management aspects of the project and finally the viability of the project.

2.4.1 Techniques of Project Appraisal

There are different methods to check the viability of an investment project. These are known as the techniques of project appraisal. The methods of project appraisal are discussed below:

2.4.2 Urgency:

Based on the urgency of the project, the preference is given. According to this criterion, the more urgent project gets the preference over the less urgent project. But there is a problem in using this criterion, that is how to judge the urgency of any project. The decision makers may have personal biases that may influence the decisions.

2.4.3 Payback period:

The payback period refers to the time an investment project takes to recover its initial cost of investment. In other words, it is the time an investment project takes to reach the breakeven. Account and fund managers use the concept of payback period to decide whether an investment to be made or not. Shorter payback period means more attractive investments, while longer payback periods are less desirable. An example of payback period is given in Table.2.1. Let the initial cost of investment of a project is Rs.100 crores.

Table. 2.1

Time Period	Cash Flow	Cumulative Cash Flow
--------------------	------------------	-----------------------------

1	Rs.10 crores	Rs.10 Crores
2	Rs.30 crores	Rs.40 Crores
3	Rs.20 crores	Rs.60 Crores
4	Rs.30 Crores	Rs.90 Crores
5	Rs.10 Crores	Rs.100 Crores
6	Rs.20 Crores	Rs.120 Crores
7	Rs.40 Crores	Rs.150 Crores

In Table. 4.1 the first column gives the time period, the second column gives the annual cash flow and the third column gives the cumulative cash flow. The cumulative cash flow is equal to initial cost of investment (Rs.100 crores) in the fifth year. In other words, the initial cost of investment is recovered after five years. Therefore, the payback period is five years. The most significant advantage of the payback method is its simplicity. It's an easy way to compare several projects and then to take the project that has the shortest payback time. However, it has several limitations as given below:

- The payback period method ignores the time value of money. Let's have an idea about the time value of money. Noted that the value of hundred rupees an investment project is going to give after one year is not equal to the Rs.100 the investor has today. Similarly, the value of Rs.100 an investor will get after one year is not equal to the Rs.100 the investor would get after five years. The future returns are comparable only with the present value of such returns. So, to make some decision regarding an investment project, the investor must have knowledge about the present value of future return. To have the present value of future return, the future return is to be discounted with an appropriate discount rate. The discount rate may be equal to the market rate of interest or rate of inflation.
- The payback period method neglects cash flows received after payback period.
- This method ignores a project's profitability.
- The payback period method does not consider a project's return on investment.
- The payback method is hardly use for evaluation of different projects.

Discounted Payback period

One of the limitations of payback period is that it ignores the time value of money. This limitation of payback period can be addressed with the discounted payback period which consider the time value of money. The discounted payback period shows how long it will take to recover the initial investment of the project, based on the present value of the project's future cash flows. The shorter the discounted payback period is; the sooner a project or investment will generate cash flows to cover its initial cost.

Table. 2.2

Time	Cash Flow	Discounted cash flow	Cumulative Discounted Cash Flow
1	Rs.10 crores	Rs.10 crores	Rs.10 Crores
2	Rs.30 crores	$\frac{R2}{(1+r)} = \frac{30}{(1+10\%)} = \frac{30}{1.1} = 27.27$	Rs.37.27 Crores
3	Rs.20 crores	$\frac{R3}{(1+r)^2} = \frac{20}{(1+10\%)^2} = \frac{20}{(1.1)^2} = 16.53$	Rs.53.80 Crores
4	Rs.30 Crores	$\frac{R4}{(1+r)^3} = \frac{30}{(1+10\%)^3} = \frac{30}{(1.1)^3} = 22.54$	Rs.76.34 Crores
5	Rs.10 Crores	$\frac{R5}{(1+r)^4} = \frac{10}{(1+10\%)^4} = \frac{10}{(1.1)^4} = 6.83$	Rs.83.17 Crores
6	Rs.20 Crores	$\frac{R6}{(1+r)^5} = \frac{20}{(1+10\%)^5} = \frac{20}{(1.1)^5} = 12.42$	Rs.95.59 Crores
7	Rs.40 Crores	$\frac{R7}{(1+r)^6} = \frac{40}{(1+10\%)^6} = \frac{40}{(1.1)^6} = 22.58$	Rs.118.17 Crores

The discounted payback period of the investment project is shown in Table 4.2. The third column of the table gives the discounted cash flow and the fourth column gives the cumulative discounted cash flow. Here, the discount rate is assumed to be 10 per cent. Noted that the time period 1 indicates the present period, so it need not be discounted. The cumulative discounted cash flow is more than (equal to) the initial level of investment (Rupees 100) in the seventh year. So, the discounted payback period of this project is seven years. Noted that the discounted payback period is longer than the payback period.

2.4.4 Accounting Rate of Return:

Accounting rate of return (ARR) is the average net income an asset is expected to generate divided by its average capital cost, which is expressed as an annual percentage. The accounting rate of return measures profitability by comparing income and investment in accounting terms. Accounting rate of return can be calculated by using the following formula:

$$\text{Accounting Rate of Return} = \frac{\text{Average Annual Profit}}{\text{Average Investment}} \times 100$$

2.4.5 Debt Service Coverage Ratio:

The debt service coverage ratio (DSCR) is used to calculate the financial worthiness or financial viability of a project that needs long term financing. It is also known as the debt coverage ratio (DCR) which is a financial ratio that determines an entity's capacity to earn sufficient amount of cash in order to meet the debt obligations such as principal, interest and lease payments. Debt service coverage ratio (DSCR) can be calculated by using the following formula:

$$\text{Debt Service Coverage Ratio (DSCR)} = \frac{\text{Annual Net Operating Income}}{\text{Annual Debt Obligations}}$$

2.4.6 Present Value Criterion of Investment

Investors make investment with the motive to earn profit. It is profitable to invest in a project, if the return of a project is higher than the cost. Generally, investment is done in the initial period of production. And the investment project pay return over a longer period of time. However, it is not appropriate to simply compare the future receipts with the present investment expenditure. One of the methods is to compare the present cost of investment with the present value of future receipt. If we discount future receipt with some discount rate, then we have the present value of future return. Let an investment project gives return of Rs.105 after one year. To know the present value of this future receipt, we have to discount the future return:

$$\text{PVR} = \frac{R}{(1+r)^n}$$

Where, R= Future return

r= Discount rate (%)

n = Number of Years

Let the discount rate is 10%

Then, the present value of Rs.105 i.e. the return from the project after one year is

$$PVR = \frac{105}{(1+10\%)^1}$$

$$PVR = \frac{105}{(1+0.10)} = \frac{105}{1.1} = 95.45$$

Having present value of future receipt, we can compare the PVR with the initial cost. If the PVR is higher than the initial cost, it is profitable to invest in that project.

Discount Rate: It is the rate (%) used to derive the present value of future return. However, there is no definite rule regarding what should be the discount rate, it depends on the investor. Generally, market rate of interest is used as discount rate. The rate of inflation may also be used as the discount rate.

Let a project gives return of Rs.100 in the present year and Rs.100 in 2nd, 3rd and 4th year each. In this case,

$$PVR = 100 + \frac{100}{(1+5\%)^1} + \frac{100}{(1+5\%)^2} + \frac{100}{(1+5\%)^3}$$

$$PVR = 100 + \frac{100}{(1+0.05)^1} + \frac{100}{(1+0.05)^2} + \frac{100}{(1+0.05)^3}$$

$$PVR = 100 + 95.24 + 90.70 + 80.38$$

$$PVR = 372.32$$

Noted that the present value will be different depending on the discount rate.

There are some projects where there is perpetual return, i.e. return over the infinite period of time.

Let, a project gives perpetual return of Rs.100. In this case PVR is

$$PVR = \frac{100}{(1+r)} + \frac{100}{(1+r)^2} + \frac{100}{(1+r)^3} + \frac{100}{(1+r)^4} + \dots$$

$$PVR = 100 \left[\frac{1}{(1+r)} + \frac{1}{(1+r)^2} + \frac{1}{(1+r)^3} + \frac{1}{(1+r)^4} + \dots \right]$$

$$\text{Let, } \frac{1}{(1+r)} = x$$

$$PVR = 100 [x + x^2 + x^3 + x^4 + \dots] \dots\dots\dots(1)$$

The sum of geometric product up to infinite (x + x² + x³ + x⁴ +) is given by

$$S = \frac{a}{1-r}$$

Where, a is the first term and r is the common ratio.

$$S = \frac{a}{1-r} = \frac{x}{1-x} = \frac{\frac{1}{(1+r)}}{1-\frac{1}{(1+r)}} = \frac{\frac{1}{(1+r)}}{\frac{1+r-1}{(1+r)}} = \frac{\frac{1}{(1+r)}}{\frac{r}{(1+r)}} = \frac{1}{(1+r)} \cdot \frac{(1+r)}{r} = \frac{1}{r} \dots\dots\dots (2)$$

Substituting equation (2) in (1), we have

$$PVR = 100 \left(\frac{1}{r}\right)$$

Net Present Value

It is not necessary that the entire cost investment is done in the initial period. Sometimes cost of investment is also there for different years. In this case we have to calculate PVR as well as PVC. The difference between these two is known as net present value (NPV) of the investment project.

$$NPV = \text{Present value of return} - \text{Present Value of cost}$$

Net present value gives answer to two questions.

- (a) Does an investment project is to be undertaken?
Answer: Yes, if NPV is positive.
- (b) Given a number of projects, how to rank those projects?

Answer: Higher the NPV, the better the project is.

NPV assumes that there is no uncertainty regarding future return and cost. Further, there is no limit of funds that the investors can borrow.

Another measure of investment criterion is the profitability rate.

$$\text{Profitability rate} = \frac{PV \text{ Return}}{PV \text{ cost}}$$

If Profitability rate is greater than 1, it is profitable to invest, otherwise not

2.4.7 Internal Rate of Return

Internal rate of return (IRR) is the rate of discount (i), which makes net present value of an investment project equal to zero (NPV=0). In other words, it is the rate of discount which makes present value of future receipts of an investment project equal to the present value of cost of investment. If IRR is higher than the market rate of interest, then it is profitable to invest in a particular project and it gives the same result as that is given by net present value criterion.

Let there is an investment project, which initial investment is Rs.4000 crores. It gives return of Rs.5000 crores after one year. In this case internal rate of return is 25%. Because it is the discount rate which makes present value of future return (Rs.5000 crores) equal to the cost of initial investment.

$$\text{Present Value of Return} = \frac{5000}{(1+25\%)} = \frac{5000}{(1.25)} = 4000 \text{ crores}$$

Question: Let, there is an investment project, which costs Rs.100,000 in the initial period of investment. It gives return of Rs.48,000, Rs.43,200 and Rs.51,840, after completion of 1st, 2nd and 3rd year respectively. Market rate of interest is 14%. Examine, considering IRR whether the investment project is profitable or not.

Answer:

The present value of Cost = Rs.100,000

$$\text{Present Value of Return} = \frac{48,000}{(1+i)} + \frac{43,200}{(1+i)^2} + \frac{51,840}{(1+i)^3}$$

Here, the present value of return will be Rs.100,000 if the rate of discount (i) is 20%.

Given, the market rate of interest 14%, it is profitable to invest in that project as interest rate (r) < internal rate of return (i) or 14% < 20%.

2.4.8 Benefit-Cost Ratio

Benefit-cost ratio (BCR) is the ratio of the benefits of a project relative to its costs where both benefits and costs are expressed in monetary terms. All benefits and costs of the project are expressed in discounted present value. In other words, benefit-cost ratio expresses the ratio of total benefits over total costs. It is an indicator which is used in cost-benefit analysis that attempts to summarize the overall value of a project in monetary terms. We can use the following formula to calculate the benefit-cost ratio:

$$\text{Benefit-Cost Ratio (BCR)} = \frac{\text{Present Value of Benefits}}{\text{Present Value of Costs}}$$

Here, the present value of costs is the initial investment of the project. Therefore, the BCR may be expressed as the ratio of present value of benefits to initial investment of the project.

If benefit-cost ratio is greater than one, then it is profitable for the investor and the investor may accept the project. On the other hand, if benefit-cost ratio is less than one, then it is not beneficial for the investor and the investor may not accept the project.

2.4.9 Annual capital charge

The annual capital charge is a method for evaluating an investment project by converting the capital cost into an annual average, and then determining whether the project is acceptable by comparing that charge to the annual net cash flow it generates.

Among the above mentioned techniques urgency, payback period, accounting rate of return and debt service coverage ratio are known as the non-discounting technique. On the other hand, net present value, internal rate of return, benefit cost ratio, and annual capital charge are known as discounting criteria of investment. Noted that within the payback period, discounting payback period is also a discounting criteria of investment.

2.5 Financing Enterprises

The process of providing necessary capital resources to start, operate, and grow a business is known as the financing enterprises. In other words, financing an enterprise refers to the providing funds which required for various activities. The financial needs of an enterprise can be broadly classified into capital expenditure, and working capital expenditure. Capital expenditure includes the cost required to start a new business and for large scale expansion of the existing one. In order to start a business, capital is required for purchasing various equipment, tools and inventory. For smoothly operating a business capital is required for daily expenses, payroll expenses and other related costs for example labour wage, costs of raw materials etc. This part of expenditure is categorised as working capital expenditure. Considering the sources of money, the pattern of financing a business may be of different types such as debt financing, equity financing, and internal financing.

2.5.1 Debt financing

Debt financing refers to the borrowing of funds from different sources to invest in the business. An entrepreneur may borrow from different sources, such as formal, semi-formal or from informal sources. Formal Financial Institutions include banks and other term lending institutions. Semi-formal institutions include Self Help Groups (SHGs), Micro-finances institutions etc. And the informal sources include indigenous money lenders, traders and friends and relatives. Debt financing also includes the issues of debentures. If a business is financed through loan (debt) financing the entrepreneur has to pay a fixed rate of interest on that loan. The entrepreneur has to pay the interest irrespective of the business is earning profit or incurring losses. Thus loan financing imposes an additional burden (risk) on the entrepreneur. It is known as the financial risk.

2.5.2 Equity financing

Equity financing involves the raising of capital through selling the shares of the company; which reduces the ownership stake of the existing shareholders. Private equity, venture capital investment, angel investment etc. are different types of equity financing. In case of equity financing the person who purchase equity or shares, becomes one of the the owners of the business. In this case, the shareholders (equity holders) do not earn any fixed interest or return. They earn certain percentage of profit (dividend), if the enterprise is earning profit, and incur losses (the value of their share decreases) if the enterprises is incurring losses. As the new equity holders have shares in the profit, equity financing reduces the share of the existing

shareholders (owners) in profit. However, as there is no obligation to pay fixed amount of interest as in case of loan financing, the risk is lower.

2.5.3 Internal financing

When a business corporation reinvest a part of its profit for the growth of the corporation, then it is called as the internal financing.

2.6 Ownership Structure

Ownership is one of the most important and integral part of the business formation. Ownership of an enterprise means having the legal right and control over the business including its assets, profits, and decision making. In simple words, it refers to who owns the business and is responsible for its risk and rewards. Ownership structure refers to the way in which ownership of an enterprise is organised or distributed among individuals, or business entities. In most of the developed and developing economies, there are various types of business ownership. They are as follows:

- (1) Sole Proprietorship
- (2) Partnership
- (3) Limited Liability Company
- (4) Co-operative Society
- (5) Public Corporation

2.6.1 Sole Proprietorship:

Sole proprietorship is that business organization which has a single owner, and he or she run the business for his or her individual profit. A larger percentage of businesses classified as small businesses are the sole proprietorship business entity. Example of sole proprietorship businesses includes hotel and restaurant, poultry farming, trading and retail establishments, transport concerns eating and drinking places etc. Some salient features of sole proprietorship form of business are-

- (a) The sole proprietorship business has a single owner
- (b) In sole proprietorship business, the entrepreneur cannot be separated from the enterprise. Both are same.
- (c) In sole proprietorship, the proprietor and the manager are the same person. In other words, there is no separation between ownership and management.

2.6.2 Partnership:

Partnership is another type of ownership where two or more than two persons make contributions of skills, capital etc. and divided the profit among themselves. In partnership business, a single individual cannot change any business decisions and make new guidelines without consultation and support of the partners or other shareholders. Partnership grows essentially because of the limitations of the proprietorship. Partnership is popular among professional people such as lawyers, doctors, accountants, architects etc. Main features of the partnership form of business are-

- (a) In the partnership form of business, there are two or more than two owners of the business.
- (b) There is an agreement among the partners to share the profits and loss of the business.
- (c) In partnership form of business, partnership is formed through a written agreement among the partners.

2.6.3 Limited Liability Company

A limited liability company is a business entity, where the owners liability is limited to that amount they have invested in that company. In other words, limited Liability of shareholders is limited to the face value of shares held by them. It is a type of business structure which combines both corporation and partnership or proprietorship. The existence of the company is not affected by death, insolvency and insanity of the shareholders. The share of the limited liability company is easily transferable. The shareholders can sell their shares at any time, if the shareholders of a company are displeased with the progress of the business.

2.6.4 Co-operative Society

A cooperative society is a voluntary association of some individuals (who are economically weak), who come together in order to meet their common economic, social as well as cultural needs through a jointly owned and run business. The fundamental objectives of such organization are self-help. In co-operative society, profit is shared among the members. The activities and management of the cooperative societies are expected to be democratic in nature.

2.6.5 Public Corporation

Public Corporations are also known as the public enterprises. These type of business organizations are formed and owned by the government of the country, financed from the country's purse with the aim of providing essential services to all the citizen of the country. In

public organisation, the main sources of capital is the government. These corporations are not set up for making profits. Revenues generated by the public organisations are utilized in developmental works. But this type of organisation has some challenges. Most of the decisions of these organisations are taken politically; which adversely affect their productivity and profitability.

2.7 Licensing a Business

To establish an enterprise in India, an entrepreneur must obtain several licenses and registration depending on the type, size and nature of the business. Licensing ensures legal operation, consumer protection, and compliance with the government. The licensing gives an enterprise the legal right to operate. It ensure that businesses comply with government laws and regulations. The licenses are provided to the enterprises only after satisfying certain basic norms. It ensures that the product and services provided by the enterprise meets quality and safety standard. As only the license holders can produce that type of products, it protects consumers from fraud, adulteration and unsafe products. In sectors like food, drugs and manufacturing, licenses ensure that businesses maintain hygiene and safety standards preventing harm to public health. Certain industries requires to obtain pollution control licenses to minimise environmental damage and promote sustainable development. Issuance of pollution control license to enterprise means that the particular enterprise has adopted the appropriate steps to control pollution. Licensing helps the government to collect taxes and fees; which ultimately contributing to the revenue of the government. Licensing prevents unauthorised or harmful businesses such as illegal trade, exploitation and unsafe practices. By setting common standards, licensing helps to create a level playing field and discourages unfair and unethical business practices. Licensed business are registered and monitored, making them accountable to consumers and authorities.

Sometimes, licenses are also issued by the innovators or inventors of an idea. Here, licensing is a kind of business agreement where the innovator (or a business organisation) gives right or permission to the other business organisation to use its intellectual property (such as copyrights, patents and trademarks) in exchange for royalties. It's a way for expansion of the business and reach to the large number of population and generate revenues without any significant investment.

2.8 Income tax and Goods and Service tax (GST)

2.8.1 Income tax

Income tax is a direct tax. It is imposed by the government on the income of the business organisations and individuals. It is one of the important source of government revenue. In case of individual income tax tax is imposed on the income of an natural person such as salaries, wages, business profits, rent, interest or dividends. In most of the countries, income tax is a progressive tax. In other words, individuals with higher income pays taxes at a higher rate. The tax imposing authority tries to bring equality in sacrifices as a result of tax payment. Noted that all the people in the economy need not to pay income tax. Presently in India, people with annual income up to 12 lakhs need not to pay any tax. However, people who earn more than 12 lakhs annually have to pay tax from rupees 4 lakh onward. In other words, people with annual income more than four lakh need not to pay tax for the first 4 lakh rupees. There are provisions under income tax act for some concessions under different heads.

Tax imposed on income or profit of the business organisation is known **corporate tax**. It is imposed on the net income or profit of companies or corporate entities. Key features of corporate tax:

- (i) It is imposed on domestic and foreign companies operating in within the geographical territory of India.
- (ii) The tax rate is flat, unlike individuals' progressive tax rate.
- (iii) Domestic companies are taxed on global income, while foreign companies are taxed only on income earned in India.
- (iv) Companies can claim business expenses, depreciation, and incentives before computing taxable profits.

As already mentioned above, income tax including both individual income tax and corporate tax constitutes a major source of government revenue. It promotes equality through redistribution of income. Some objectives of income tax are-

- (a) To reduce inequalities in the distribution of income and wealth.
- (b) To bring out equity between different classes of tax payers.
- (c) To accelerate the economic growth and development of the country.
- (d) To make available of funds for different development projects.
- (e) To encourage investment in new capital goods.

2.8.2 Goods and Service tax

Goods and service tax (GST) is a comprehensive, indirect tax imposed on the supply of goods and services in India. It was introduced in 1st July 2017. Earlier there was different indirect

taxes like excise duty, value added tax, excise duty etc. GST was introduced as a part of the 'one nation, one tax, one market' policy of the government. Earlier there were different taxes with different tax rates. Many a times the same product was taxed at different stage of production and distribution. As a result there was the possibility of cascading effect, i.e. The imposition on tax on the already imposed tax. GST is designed to create and unified national market and remove the problem of cascading. Similarly, earlier it was not clear whether a product is to be taxed by the state where it is produced or by the state where it is consumed. In case of GST, the tax is collected by the state where consumption takes place. In other words, it is a destination base tax. Objectives of goods and service tax:

- (a) To eliminate the cascading effects of indirect taxes.
- (b) To integrate various indirect taxes under a single system, facilitating free movement of goods and services across the states.
- (c) To replace the complex system of multiple taxes with a single, transparent and simple tax regime.
- (d) To encourage better tax compliance and reduce tax evasion.
- (e) To increase the revenue collection of both the central and state government through widening tax base and reducing tax evasion.
- (f) To promote economic growth through reduction in the cost of production, increase in competitiveness and attracting new investment.
- (g) To promote make in India programme by encouraging domestic manufacturing industries.
- (h) To reduce corruption and increase transparency.

Initially there were four main slabs of GST i.e. 5%, 12%, 18% and 28%. Recently, these slabs are modified and presently there are three slabs of GST i.e. 5%, 18% and 40%. The 5% slab is mainly for the merit and essential goods. The 18% slab is applicable to standard goods and services; while the 40% slab is for the sin, luxury and demerit goods. Many essential goods and services are made GST free after this modification.

2.9 Let's Sum Up

This chapter has discussed different steps involve in the establishment of a new enterprises i.e project identification, project formulation and project appraisal. Discussions is also made about different types of enterprises or ownership structure of the businesses. We have also discussed about the pattern of financing a business and risk associated with different types of financing. The necessity and objectives

of licensing the businesses is also discussed. Finally, different types of taxes imposed on the enterprises and the entrepreneurs is discussed in the last section.

2.10 Key Terms: Project identification, project formulation, project appraisal, Payback period, net present value, internal rate of return, equity financing, loan financing, internal financing, licensing business, sole proprietorship, partnership, corporate business and cooperatives, Income tax and corporate tax, goods and service tax.

2.11 Short Questions

1. What is meant by project identification?
2. What is meant by project formulation?
3. What is financing enterprises?
4. What is the meaning of licensing?
5. Define the concept of income tax.
6. Define the concept of goods and service tax (GST).

2.12 Long Questions

1. Discuss the various aspects of project formulation
2. Define project appraisal. Discuss its different techniques.
3. What is ownership structure? Explain the types of ownership.
4. Elaborate the major objectives of licensing.
5. How an entrepreneur identify a perfect project for his business? Discuss.

2.13 Suggested Readings

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UNIT III: Institutional Support to the Entrepreneurs

Structure

- 3.1 Introduction
- 3.2 Institutional Finance to entrepreneurs
- 3.3 Institutional support to industries
- 3.4 Let's Sum Up
- 3.5 Keywords:
- 3.6 Sample Short Questions
- 3.7 Sample long Questions
- 3.8 Suggested Reading list

3.1 Introduction

In the previous chapters we have discussed different concepts of entrepreneurship development and steps towards the establishment of a new enterprise. From those discussions it can be easily understood about the role played by the entrepreneurs in economic development of a country. Having recognised the important role played by the enterprises, the government of India as well as the state governments have implemented various programmes and policies for entrepreneurship development. The programmes and policies implemented by the government are basically of two types: programmes to provide institutional finance to the enterprises and other institutional support. This chapter discusses some of the programmes and policies implemented by the government for entrepreneurship development in India.

3.2 Institutional Finance to entrepreneurs

The progress of an enterprise (entrepreneurs) depends on accessibility to credit. In other words, credit is a vital determinant of entrepreneurship development. Financial access is a wider notion as it constitutes of those having accessibility to different financial services as well as those willingly eliminated. Actually, it is a supply side concept. Financial inclusion refers to the ease of accessing financial services by all (enterprises) without facing any obstacle. An entrepreneur needs credit for different purposes. The purposes of credit can be classified into expenditure on capital investment, working capital expenditure, and expenditure on entrepreneurs' consumption. Capital investment is meant for establishment of new industries or for large scale expansion of the existing one. Working capital expenditure means the day to day expenditure to run a business. It includes expenditure on labour and raw materials. The small and micro entrepreneurs sometimes also borrows to bridge the gap between consumption and income period. Moreover, financial inclusion is indicative of financial accessibility from the institutional as well as non-institutional sources. One entrepreneur may borrow from formal, semi-formal or from informal sources. Formal Financial Institutions include banks and

other term lending institutions. Semi-formal institutions include Self Help Groups (SHGs), Micro-finance institutions etc. And the informal sources include indigenous money lenders, traders and friends and relatives.

Owing to the dearth of employment opportunities, many people strive for self-employment by planning their personal business, but they experience capital constraint. Several studies have stated that the small and micro enterprises seldom get funding from FFIs. Therefore, to fulfil their financial needs, these people use personal savings or borrow from other individuals before starting their venture. The problem is far more serious for women entrepreneurs. Further, if the enterprise belongs to the informal sector the problem is more serious one. Moreover, the entrepreneurs avoid applying for loans because of the complicated application processes, unfriendly interest rates, and high collateral prerequisites. As a result, the entrepreneurs are made to borrow from the informal sources of credit. Literature state that the informal sources of credit exploits the entrepreneurs by charging higher rates of interest. To save the small and micro entrepreneurs from the exploitation of the money lenders, and to increase their production and productivity, the government has taken various initiatives. Further government has established various specialised institutions to provide credit to the micro, small and medium enterprises. Some of such initiatives are discussed below:

3.2.1 Industrial Finance Corporation of India

The industrial finance corporation of India was set up as company by the government of India in the year 1948 to provide financial support to the entrepreneurs. IFCI provides financial assistance to entrepreneurs through rupee and foreign currency loans, underwriting and direct subscriptions to shares, debentures and guarantees. It helps the entrepreneurs financially in equipment procurement, equipment leasing and finance to leasing and hire purchase companies. Further, it provides consultancy facilities to micro and small enterprises in marketing sector. IFCI has a specially designed scheme to provides interest subsidies to the women entrepreneurs. The need to control pollution and protect the environment is globally recognised subject now a days. IFCI helps small and medium enterprises to adopt appropriate measures to control pollution. Again, IFCI provides assistance to the micro, small and medium enterprises to modernise their respective enterprises.

3.2.2 Unit trust of India

The Government of India established UTI in the year 1964 under an act of parliament. There are many small savers in the country who are unable to invest their tiny savings. This may be because of the small size of their savings or they may not have any idea about the available investment opportunities. The main objective of UTI is to mobilise the savings of the small savers and cannalise it to the investment activities. In other words, it acts as a mediator between the small savers and the investors. Thus, UTI has given investment opportunities to many small savers to invest their resources. Before, economic

reform 1991, UTI was the only agency in India for the middle class to invest their savings. The following are the major objectives of UTI:

- (a) To mobilise savings of small investors.
- (b) To channelize these savings towards corporate investment.
- (c) To provide financial assistance to the business houses in the form of term loans and underwriting and direct subscriptions to shares and debentures.

3.2.3 Industrial development banks of India:

The industrial development bank of India (IDBI) was established in 1964 under the provision of an Act passed by the parliament. In the initial days it was a wholly owned subsidiary of Reserve Bank of India (RBI). Later, in 1976, the IDBI was converted into an autonomous organisation owned by the Government of India. The following functions are undertaken by the IDBI bank:

- (a) Providing financial assistance to entrepreneurs through refinance scheme and bills rediscounting scheme.
- (b) Through its special set up Small Industrial Development Fund (SIDF), IDBI bank coordinates the financial and nonfinancial inputs for growth of small industries.
- (c) IDBI bank established the national equity fund (NEF) in association with government of India. The NEF gives equity support to the micro and small enterprises in India.
- (d) IDBI bank gives term loans and working capital assistance to micro and small enterprises through its single window assistance scheme.
- (e) It has established a voluntary executive corporation cell to organise consultancy and counselling programme for the micro and small enterprises from various informed sources.

Up to 2019, the IDBI bank was fully controlled by the Government of India. But the financial health of the IDBI bank was deteriorated during those days. To address this issue, the Life Insurance Corporation of India purchased 51% shares of IDBI in the year 2019. Thereafter, the IDBI bank has experienced a positive growth. In the recent days, the Government of India is planning to sell equities of IDBI bank to the private agencies.

3.2.4 Small Industries Development Bank of India

Small Industries Development Bank of India (SIDBI), was established in April 1990. SIDBI is a government-owned financial institution, which was established under the Small Industries Development Bank of India Act, 1989. It is a subsidiary institute of the Industrial Development Bank of India. The primary objective of SIDBI is to promote and financing the micro and small scale industries in India. The specific objectives of SIDBI is to provide financial assistance to the micro and small-scale industries in India. The institution offers loans and other financial services to entrepreneurs

who want to start or expand their existing businesses. Another object of SIDBI is to provide training and other support services to the entrepreneurs to expand their businesses, and increase their productivity. SIDBI provides financial assistance to the small scale industries to create employment opportunities in the country. SIDBI also aims to encourage innovation and entrepreneurship in the country.

The functions of SIDBI are discussed below:

- (i) SIDBI provides loans and credit facilities to small-scale industries in the country. The institution also provides credit guarantees to banks and other financial institutions that lend to small-scale industries.
- (ii) It provides equity and venture capital to small-scale industries in the country. This helps entrepreneurs with innovative business ideas get the funding they need to start or expand their businesses.
- (iii) SIDBI provides training and other support services to small-scale industries in the country.
- (iv) SIDBI also helps the small and micro entrepreneurs to connect with international business partners and provides support services to expand their businesses globally.
- (v) SIDBI is involved in developing and promoting new financial products that cater to the needs of small-scale industries.
- (vi) SIDBI provides refinancing facilities to banks and other financial institutions that lend to small-scale industries. This helps these institutions to manage their liquidity and increase their lending capacity.
- (vii) SIDBI provides advisory services to small-scale industries on various aspects of business management.

SIDBI is an important institution in the Indian financial sector, particularly in developing the small-scale industry sector. The institution's role in providing refinancing facilities and advisory services has further strengthened the financial ecosystem for small-scale industries. Overall, SIDBI's objectives and functions align with the government's vision for promoting inclusive and sustainable economic growth in India.

3.2.5 MUDRA bank

Considering the inability of the existing FFIs to fulfil the credit needs of the nonfarm unorganised sector, the National Commission for Enterprises in the Unorganised Sector (2007) suggested for the creation of a National Fund for the Nonfarm Unorganised Sector following the structure of National Bank for Agricultural and Rural Development (NABARD). Realising the importance of the micro and small enterprises, the Finance Minister of India in his 2015-16 budget speech announced the creation of a new bank named Micro Units Development and Refinance Agency Ltd. (MUDRA). This was formally

inaugurated by the Prime Minister of India on 8 April, 2015. MUDRA was set up through a statutory enactment. The bank was given the responsibility for refinancing micro-finance institutions in the business of lending to small entities. It is responsible for developing and refinancing all micro-finance institutions (MFIs) which are in the business of lending to micro and small business entities. Moreover, the vast postal network of the nation is expected to be used for increasing access to the formal financial system. MUDRA bank is expected to regulate the lenders and borrowers of micro-finance and bring stability to micro-finance system through regulation and inclusive participation. It also provides credit to micro-finance agency for on lending to individuals, SHGs etc. It is expected to register all MFIs and introduce a system of performance rating and accredit them to create a system of competitiveness among these agencies for the benefit of the borrowers. It is given the responsibility to provide structured guidelines for the borrowers to avoid defaults and also to the lenders to reduce default risks. To achieve such objectives, it aims to introduce appropriate technologies to assist in the process of efficient borrowing, lending and monitor the disbursed capital. Finally, MUDRA bank is given the responsibility to offer credit guarantee scheme for providing guarantee to loans being offered to micro business.

A framework was built under Pradhan Mantri MUDRA Yojana (PMMY) for developing an efficient last mile credit delivery system to small and micro businesses. Initially, PMMY classified the borrowers into three categories. The starter were provided a loan called Sishu that amounts up to Rs.50,000. The mid stage finance seeker were given loans ranging from Rs.50000 to Rs.5 lakhs called Kishor. Finally, established business persons were given a loan product named as Tarun that ranged from Rs.5 lakhs to Rs.10 lakhs. Initially, these loans were limited to the sectors like land transport, community, social and personal services, food products and textile product sector which was expected to expand to other sectors in future. These measures were targeted towards mainstreaming young, educated or skilled workers and entrepreneurs, including women entrepreneurs, the release said.

Noted that the loan provided to the enterprises through the PMMY was given through the scheduled commercial banks. The budget allocation of the government of India, under the PMMY has increased over the years. Similarly, the amount of loans given to different categories of enterprises has also increased. However, it has increased the volume of non-performing assets with the scheduled commercial banks.

3.3 Institutional support to industries

In the previous section we have discussed different institutions and schemes introduced by those institutions to provide financial assistance to the micro and small enterprises. Along with the above mentioned institutions the government of India as well as the respective state governments has established a number of institutions to support the micro, small and medium enterprises. In this section discussions are made about some of those institutions.

3.3.1 National Small Industries Corporation Limited (NSIC)

The NSIC is a central government enterprise under the ministry of micro, small and medium enterprises. It was established in 1955. Presently it is an ISO 9001-2008 certified organization. It was established to promote small and newer enterprises. Since its establishment, NSIC has proved its strength within the country by promoting modernization and upgradation of technology, quality consciousness, strengthening linkages with large and medium enterprises and enhancing exports from small enterprises. The principal objective of NSIC is to help the corporations for the growth of their business. NSIC helps such business houses to achieve operational efficiency and self-sustenance through better productivity and business performance. Another objective of NSIC is to upgrade the professional skills of the employees for the needs of the business.

The functions of NSIC are discussed below:

- (1) Provide financial assistance to the enterprises for capital investment. Capital investment means the investments in machinery and equipment.
- (2) It also provides assistance to the enterprises to have equipment on lease.
- (3) NSIC undertakes construction of industrial estates.
- (4) NSIC also helps the small scale industries in marketing of their products.
- (5) NSIC helps in modernization of small scale industries through technological development and upgradation.
- (6) NSIC helps the small and micro enterprises in exporting their products.
- (7) NSIC tries to train the employees of the small scale industries in various trades.
- (8) NSIC distributes basic raw materials among SSIs through raw material depots.
- (9) NSIC develops prototype of machines and equipment to pass on to small scale industries for commercial production.
- (10) NSIC also helps other developing countries to set up SSIs.

National Small Industries Corporation Ltd. has presence across India, with its offices at different locations. It is a profit making dividend paying company. Along with supporting the small scale enterprises commercially, NSIC works extensively in social sector like health care and medical assistance, education, women empowerment, and skill development.

3.3.2 Small Industries Development Corporation (SIDCOs):

SIDCOs are state-owned agencies established under the policy of the Government of India to promote and support the small and micro enterprises in the respective states. These corporations play an important role in promoting business enterprises, creating employment opportunities, and contributing to the overall economic development of the nation. SIDCOs

provide financial and non-financial assistance to small and micro enterprises, offering a comprehensive range of services, including loans, guarantees, technical support, marketing assistance, and infrastructure facilities. SIDCOs aims to bridge the gap between the government, financial institutions, and small and micro enterprises, ensuring smooth access to resources and support. Through its financial and non-financial assistance, SIDCOs empower small scale entrepreneurs to overcome challenges and expand their business.

Functions of SIDCOs:

- (a) One of the primary functions of SIDCOs is to provide financial support to small and micro enterprises. This assistance may be in the form of loans, equity participation, and guarantees. SIDCOs collaborate with banks and other financial organisations to offer loans to the micro and small enterprises both for capital investment and working capital expenditure.
- (b) SIDCOs also offer a range of non-financial assistance to nurture and strengthen the small and micro enterprises. The nonfinancial assistance provided by the SIDSOs include technical assistance, market research, and training programs to help business organisations to improve their business performances.
- (c) SIDCOs play a crucial role in developing industrial infrastructure by establishing common industrial facilities like industrial estates and industrial parks. These facilities increase the operational efficiency of the micro and small enterprises and enable them to reduce their cost of production.
- (d) SIDCOs organize exhibitions, trade fairs, and buyer-seller meets to promote the products of small and micro enterprises and create awareness about their capabilities. These promotional activities help micro and small enterprises to connect with potential customers and explore new markets.

SIDCOs have made significant contributions to the growth and development of MSMEs in India. Small and micro enterprises, supported by SIDCOs, have been a major source of employment generation in India. The MSME sector provides livelihoods to crores of people, contributing to poverty reduction and inclusive growth. By establishing industrial estates and parks in less developed areas, they have helped in the equitable distribution of economic opportunities. Many small and micro enterprises nurtured by SIDCOs have contributed to the export basket of India. These industries manufacture a diverse range of products, including handicrafts, textiles, engineering goods, and processed foods, catering to global demand. This contributes to the foreign exchange reserve of India. SIDCOs facilitate micro and small enterprises to adoption and upgrade their technology through training programs and workshops. Small and micro enterprises

supported by SIDCOs have provided significant opportunities to women entrepreneurs to establish and run their businesses. It is a step towards women empowerment in the country.

While SIDCOs have made substantial contributions to the growth of small and micro enterprises, they encounter certain challenges that hinder their effectiveness. Some of the key challenges include:

- (i) SIDCOs often face **financial constraints** due to limited funding from the government; which affects their ability to provide adequate financial support to small and micro enterprises.
- (ii) SIDCOs are often criticized for bureaucratic red-tappism that lead to delays in providing assistance to entrepreneurs.
- (iii) The rapid advancement of technology and changing market dynamics require continuous skill development among entrepreneurs.
- (iv) Small and micro enterprises often face challenges in accessing the latest technologies due to financial constraints. SIDCOs can play a pivotal role in facilitating technology transfer and adoption through partnerships and collaborations.
- (v) Developing effective market linkages and access to both domestic and international markets is crucial for the sustained growth of small and micro enterprises. SIDCOs can provide vital assistance in this regard.

To enhance the impact of SIDCOs on the growth of small and micro enterprises, the government should allocate sufficient funds to SIDCOs to ensure that they can provide timely and substantial financial support to small entrepreneurs. Simplifying bureaucratic procedures can improve the efficiency of SIDCOs and expedite the delivery of services to small and micro enterprises. SIDCOs may proactively encourage technology adoption by organizing training programs and workshops to upgrade the skills of entrepreneurs. Capacity building and entrepreneurial training programs should be an integral part of SIDCOs' initiatives to foster innovation and business acumen among small entrepreneurs. Collaborating with private enterprises, industry associations, and non-governmental organizations can broaden the scope of support provided by SIDCOs and leverage additional resources.

3.3.3 Small Scale Industries Board (SSIB)

The Small Scale Industries Board (SSIB), established in 1954, is the apex advisory body of the Indian government for policies concerning small and micro enterprises. The objective of SSIB is to provide advice to the Government of India on programs and policies for the development of small-scale industries. This board advises on programs, provide inter-institutional linkages, and functions under the ministry of Micro, Small and Medium enterprises.

Minister of Industries, Government of India is the chairman of this board. The members of this board includes representatives from different sectors. They are ministers of industry from different states, some members of parliament, government secretaries, industry experts and representatives from different financial institutions and public sector undertakings. SSIB acts as an apex advisory body, facilitating coordination between various government departments and different organs of the central and state governments to ensure effective implementation of programs and policies for the development of the micro, small and medium enterprises.

3.3.4 State Small Industries Development Corporations (SSIDCs)

State Small Industries Development Corporations (SSIDCs), also known as Small Industries Development Corporations (SIDCOs), are state-owned enterprises to promote and develop MSMEs. These corporations provide essential support to small businesses, including developing industrial infrastructure, ensuring access to raw materials and machinery, offering technical assistance, and helping with marketing and export activities. Their overarching goal is to stimulate industrial growth, create employment, and encourage entrepreneurship, particularly in backward areas. Basic functions of the SSIDCs are:

- (i) The primary objectives of the SSIDCs is to provide infrastructures to the micro and small enterprises. SSIDCs develop industrial estates with factories, roads, water, and electricity, providing the necessary physical framework for small industries.
- (ii) Reports and literature states that non-availability of raw materials is a problem faced by the micro and small industries. SSIDCs procure and distribute scarce raw materials to such industries. SSIDCs also supply machineries to MSMEs on a hire-purchase basis.
- (iii) Reports of national sample survey organization states that the small scale industries face problems while marketing their products. SSIDCs offer marketing support to help small-scale industries to sell their products. Further SSIDCs helps the MSMEs to export their products. and even assist with export promotion.
- (iv) SSIDCs provide technical guidance to the MSMEs and take initiatives to establish skill-training institutes to enhance the capabilities of entrepreneurs and workers.
- (v) SSIDCs actively promote entrepreneurship, including supporting women entrepreneurs, and facilitate the setup of new industrial units.

The primary objective of SSIDCs is to foster industrial growth in underdeveloped regions of the state, helping to balance regional economic development. These state run corporations play a crucial role in nurturing new businesses and promoting a culture of entrepreneurship among the local population. Though the growth of MSMEs, the SSIDCs contribute significantly to generating employment opportunities across the states.

3.3.5 Small Industries Service Institutes (SISIs):

Small Industries Service Institutes (SISIs), were government-established centres in India designed to support micro, small and medium enterprises (SMEs) and prospective entrepreneurs. SISIs were set up across different states of India, along with branches in different locations of the respective states. The key functions of the SISIs include providing technical and managerial consulting, offering entrepreneurship and management training programs, assisting with quality control and testing, disseminating market information, and advising governments on policies for SME development. The main functions of the SISIs were:

- (i) The SISIs offered technical, managerial, and entrepreneurship development programs to both new and existing entrepreneurs.
- (ii) The SISIs provided assistance with selecting appropriate machinery, adopting quality standards, and testing raw materials and products.
- (iii) The SISIs disseminated market information and promoted marketing channels for small businesses.
- (iv) The SISIs **advised** central and state governments on policies related to small industry development.
- (v) The SISIs supported the technological upgradation and modernization of existing units and helped promote employment-oriented industries.
- (vi) The SISIs conducted industrial surveys and prepared feasibility reports to identify development potential.
- (vii) The SISIs organized events on various topics, including energy conservation, pollution control, and financial management.

Latter, the SISIs were integrated into the micro, small and medium enterprise development institutes.

3.3.6 District Industries Centres

District Industries Centres (DICs) were established by the Government of India in 1978 as part of its commitment to fostering industrial development and entrepreneurship at the grassroots level. These centres serve as one-stop shops for micro, small, and medium enterprises (MSMEs), offering a range of support services, from financial assistance to skill development. DICs play an important role in promoting self-employment, encouraging balanced regional development, and ensuring that government schemes reach budding entrepreneurs. DICs are instrumental in fostering entrepreneurship and small-scale industries by providing end-to-end support to entrepreneurs. The principal functions of DICs are:

- (a) DICs help entrepreneurs access funding through government schemes and financial institutions. They play a crucial role in implementing initiatives such as the Prime Minister's Employment Generation Programme (PMEGP), offering subsidies, and guiding entrepreneurs in loan applications.
- (b) These centres provide various business-related services, including: guidance on project feasibility and preparation of project reports; assistance in obtaining licenses, clearances, and regulatory approvals, and advisory services for technology adoption and market strategies.
- (c) DICs organize skill development programs to enhance the entrepreneurial and technical skills of individuals. These programs are tailored to the needs of the local population and industry requirements.
- (d) DICs facilitate the establishment of industrial clusters by identifying potential sectors, developing infrastructure, and encouraging resource sharing among enterprises.
- (e) DICs assist entrepreneurs in marketing their products by organizing trade fairs, exhibitions, and buyer-seller meets. They also support entrepreneurs in securing government procurement opportunities.
- (f) DICs serve as the primary agencies for implementing government schemes at the district level, ensuring that the benefits of these programs reach eligible beneficiaries.

Along with the above mentioned functions, DICs also provide guidance to the MSME sector on business opportunities, project formulation, and operational strategies. Development of industrial estates and provision of basic infrastructure like power and water for the MSMEs are done by the DICs. DICs does counselling for the micro and small entrepreneurs and advise them on technology upgradation and access to modern machinery.

DICs are a cornerstone of India's efforts to promote entrepreneurship and balanced regional development. DICs empower individuals to become self-reliant by providing the resources and support needed to start their businesses. This is especially critical in rural and semi-urban areas where employment opportunities are limited. By supporting industries in backward and underserved areas, DICs reduce regional disparities and contribute to balanced economic development. DICs play a vital role in nurturing the MSME sector, which is a significant contributor to India's GDP, exports, and employment generation. Their efforts ensure that MSMEs receive the support required to thrive in a competitive environment. Through targeted programs and incentives, DICs encourage entrepreneurship among women, Scheduled Castes (SC), Scheduled Tribes (ST), and other marginalized groups, fostering inclusivity and social equity. DICs equip individuals with the skills needed to succeed in their entrepreneurial ventures, thereby addressing skill gaps and improving workforce productivity.

The DICs in India are facing several challenges, despite their critical role. These are:

- (a) Many DICs operate with constrained financial and human resources, affecting their ability to provide comprehensive support to entrepreneurs.
- (b) Lengthy administrative processes and lack of coordination between departments often delay service delivery, frustrating entrepreneurs.
- (c) DICs in rural and remote areas often lack the infrastructure and facilities needed to support industrial development effectively.
- (d) Many entrepreneurs, especially in rural areas, are unaware of the services and schemes offered by DICs, leading to underutilization of resources.
- (e) DICs often struggle to keep up with rapid technological advancements, limiting their ability to guide entrepreneurs in adopting modern practices.
- (f) The lack of robust mechanisms to monitor and evaluate the impact of DIC initiatives makes it challenging to assess their effectiveness and make necessary improvements.

3.3.7 Industrial Estates

An industrial estate is a place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. In India, industrial estates are seen as an effective tool for the promotion and growth of small-scale industries. Industrial estates are used as an effective tool to decentralize industrial activity in the rural and backward areas. Sometimes, industrial estates are also called as industrial region,

industrial park, industrial area, industrial zone, etc. The responsibility of establishment and management of the industrial estates is given upon the state governments. However, the financial assistance for establishing the industrial estates are given by the central government. The industrial estates may be of different types. For example, some of the industrial estates may be for the information and communication technology sector, some may be specialized in the export sector and some other may be in the manufacturing sector. The District Industrial Centres are also closely related the establishment of industrial estates. The main objectives of the establishment of industrial estates are:

- (a) To provide infrastructure and accommodation facilities to the small and micro entrepreneurs.
- (b) To encourage the development of small and micro industries in the country.
- (c) To decentralize industries to the rural and backward areas.
- (d) To encourage small and ancillary industries around the major industries.
- (e) Develop entrepreneurship by creating a congenial climate to run the industries in these estates/area /township, etc.

However, the industrial estates in India have faced different challenges. These includes:

- (a) Many industrial estates are unable to perform according to their potentiality. It's an example of wastage of resources.
- (b) The infrastructure facilities developed in the industrial estates takes more times to become ready for the industries. Delays in developing and providing necessary infrastructure can hinder their effectiveness.
- (c) Moreover, choice of the location of the industrial estates are made politically. It also affects their performance.
- (d) Ambiguities in policies can also impede progress.

3.3.8 Make in India

A major national initiative of the Government of India "Make in India" which was launched in 25th September, 2014 designed to facilitate investment promote innovation, improve skill development, intellectual property rights and build top tier manufacturing infrastructure in the country. The principal objective of this initiative is to attract global investment and strengthen India's manufacturing sector. The 'Make in India' initiative is being led by the Department for Promotion of Industry and Internal Trade (DPIIT). The Make in India is a significant initiative in the perspective of economic growth of India. It aims at utilizing the existing Indian talent base, increase additional employment opportunities and strengthen the secondary and tertiary sectors. By removing the unnecessary laws and regulations and by making the bureaucratic processes easier transparent, responsive and accountable. Over the last

decade, the “Make in India” campaign has significantly boosted the domestic manufacturing, attracting foreign direct investment and encouraging innovation. The initiative also improved India’s rank as a global manufacturing hub, particularly in sectors such as electronics and automobile. Overall, the “Make in India” initiative has played a crucial role in changing the industrial landscape of India and enhancing its competitiveness on the world stage. The initiative has experienced success largely because of the surge in Foreign Direct Investment (FDI). The Foreign Direct Investment inflows have demonstrated a steady rising trend from USD 45.14 Billion in 2014-15 to a record high of USD 70.95 Billion in the year 2023-24.

3.3.9 Start-up India

Start-up India is an initiative of the Government of India that was launched on 16th January, 2016, to rebuild a strong ecosystem for nurturing innovation and start-ups in the country. Start-up India is spearheaded by the Department for Promotion of Industry and Internal Trade (DPIIT). It is an innovative scheme that has been started to help the people, who want to start their own business. Since these people have ideas and capabilities, therefore the government will give them support and encourage them to make sure that they can utilize their ideas and grow. It aims to drive economic growth and generate large scale employment opportunities. This indicates a significant increase highlighting the scheme’s expanding impact in empowering entrepreneurs across the country. The start-up India scheme provides financial assistance to the start-ups for the proof of concept, prototype development and market entry. It also recognizes and rewards exceptional start-ups across various sectors. Under the start-up India initiative, the eligible companies can get accepted as start-ups by DPIIT (Department for Promotion of Industry and Internal Trade), in order to access a host of tax benefits, IPR fast-tracking, easier compliance and more. To be considered as a start-up, an entity must meet the following criteria.

- (a) **Company Type:** The entity must have incorporated as a private limited company or recorded as a partnership firm.
- (b) **Age of the Company:** Any entity up to ten years from the date of its registration.
- (c) **Annual Turnover:** The annual turnover of the entity for any of the financial year since registration must not be exceeded Rs.100 crores.
- (d) **Innovative and Scalable:** It is working towards innovation, growth and development and improvement of the products or it is a scalable business model with a high prospective of employment generation or wealth creation.
- (e) **Original Entity:** It should not have been formed by reconstructing of an already existed business.

The start-ups that are accepted by the DPIIT can get the following benefits under the Start-up India Initiative-

- (a) **Self-Certification:** The main aim under this benefit is to reduce the regulatory burden on start-ups, thereby allowing them to focus on their essential business and keep compliance costs low.
- (b) **Start-up Patent Application and IPR:** The objective is to reduce the cost and time taken for a start-up to acquire a patent, making it financially viable to them to protect their innovations and boosting them to innovate further.
- (c) **Tax Exemption under 80IAC:** The eligible start-ups can be freed from paying income tax for three sequential financial years out of their first ten years since registration.
- (d) **Easy winding up of the Company:** It is aimed to build it easier for start-ups to finish up the operations, with the target of permitting entrepreneurs to apportion capital and resources to a lot of productive avenues quicker.
- (e) **Easier Public Procurement Norms:** Public procurement refers to that process by which government and state owned organizations purchase products and services from the private sector. The aim is to make it easier for newly established firms to participate in public procurement processes and gain access to a new market for their products.

Start-up India may be a major initiative of the government of India which aims to form a strong system for fostering innovation and start-ups in the nation that will carry a long term economic growth and creating large scale job opportunities. Through this impressive initiative, the government of India hopes to empower start-ups to grow through Innovation and style.

3.4 Let's Sum Up

The discussion made in this chapter talks about various policies undertaken by the government for the entrepreneurship development. The government has adopted some policies, such as introduction of MP MUDRA yojana to provide easier credit facilities to the enterprises. Again some other policies are adopted to give overall institutional support to the enterprises. Establishment of district industrial centres, industrial estates, and made in India and start up policies are of the second category policies. Although such policies have not realised their full potentiality, they have contributed a lot towards entrepreneurship development in India.

3.5 Keywords:

Industrial Finance Corporation of India, Unit trust of India, industrial development banks of India, Small Industries Development Bank of India, MUDRA bank, National Small Industries Corporation Limited, Small Industries Development Corporation, Small Scale Industries Board, State Small Industries Development Corporations, Small Industries Service Institutes, District industrial centres, industrial estate, Made in India and Start-up.

3.6 Sample Short Questions:

6. What is a start up?
7. Why an entrepreneur need credit?
8. What are the sources of credit for an entrepreneur?
9. What is industrial estate?
10. What are the principal functions of UTI?
11. Define start-up.

3.7 Sample Long Questions

7. Discuss the role of district industrial centres in entrepreneurship development in India.
8. Explain the objectives of make in India programme.
9. Critically discuss the role of industrial estates in industrial development of India.
10. Explain the initiatives taken under the prime minister MUDRA Yojana for industrialisation in India.
11. Explain the functions of Small Industries Development Corporation. What are the challenges faced by these corporations?

3.8 Suggested Reading

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