STUDY MATERIAL

SUBJECT : ENTREPRENEURSHIP
COURSE : BCOM
SEMESTER : VI
UNIT : III
FACULTY : Dr.S.SIVAGNANAM

SYLLBUS

Institutions assisting entrepreneurs- DIC, SIDO, NSIC, SSIC, SISI AND SIPCOT.
Sources of finance – IFCI, IDBI-ICICI- SIDBI, IRCI/IRBI, SFC.

INSTITUTIONAL SUPPORT TO ENTREPRENEURS
INTRODUCTION

Starting a business or industrial unit-say, enterprise in short-requires various resources and facilities. Small scale enterprises, given their small resources, find it difficult to have their own. Finance has been an important resource to start and run enterprise. Hence finance is considered as "life-blood' for an enterprise.

Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activity, a minimum level of prior built-up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the governments to the entrepreneurs to establish industries in backward areas.

The following are the various kinds of support and facilities provided by various institutions to the entrepreneurs to help them establish industries.

District Industries Centres (DICS)

This programme was started by 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scale industries in rural areas.
Its main functions are

- To prepare an action plan to effectively implement the schemes identified.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To undertake product development work appropriate to small industries.
- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.

Industrial Estates:

Industrial estates are yet another institutional measure to promote industrialization ion the country. In India, industrial estates have been utilized as an effective tool for the promotion and growth of small-scale industries. The following are the objectives

- To provide infrastructure and accommodation facilities to the entrepreneurs.'

- To encourage the development of small-scale industries in the country
- To decentralize industries to the rural and backward areas.

Small Industries Development Organisation (SIDO)

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small-scale industries, development of industrial estates, etc. The main functions of SIDO are

- Functions relating to Co-ordination
- Functions relating to Industrial Development
- Functions relating to extension

National Small Industries Corporation Ltd (NSIC)

The national Small Industries Corporation Ltd (NSIC) an enterprise under the union ministry of Industries, was set up in 1955 to promote, aid and foster the growth of small-scale industries in the country. It main functions are

- To provide machinery on hire-purchase scheme to small scale industries
- To provide equipment leasing facility
- To help in export marketing of the products of small-scale industries
- To help in development and upgradation of technology and implementation of modernization programmes of small-scale industries

Small Scale Industries Board (SSIB)

The government if India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on development of small-scale industries in the country. The SSIB is also known as Central Small Industries Board.

Hence to facilitate Co-ordination and inter-institutional linkages, the Small Scale Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small scale industries

Small Industries Service Institutes (SISIs)

Small Industries Service Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. It main functions are

- To serve as interface between Central and State Governments
- To render technical support services
- To conduct Entrepreneurship Development Programmes.
- To initiate promotional programmes

11.3 SOURCES OF FINANCE

The primary responsibility of financing enterprise is that of the entrepreneurs. However, loans and credit also meet the financial requirements of the business. If the entrepreneur starts a small scale business, he can invest his own savings to start with. He may reinvest a part of the profits earned in course of time. Also he can borrow money on his personal security or the security of his assets. For the company form of business, the entrepreneurs can raise funds from various ways. The company form of organisation enables the promoters (entrepreneurs in most cases) to raise necessary funds from the public who may contribute capital and become members (Shareholders) of the company. In due course of its business, the company can raise loans directly from banks and financial institutions or by issue of securities (debentures) to the public. In addition the profits earned may also be reinvested instead of being distributed as dividend to the shareholders. Thus, for any business enterprise, there are two sources of finance, that is

a) Internal Sources (Funds contributed by owners), and

b) External Sources and (Funds available from loans and credits).

Let us have a cursory look at which these sources consist of.

a) INTERNAL SOURCES

The internal sources of financing could be owner's equity, deposits and loans given by the owner, the partners, the directors as the case may be, to the enterprise. Owners funds is also known as risk capital. Because every business runs the risk of loss or low profits, and it is the owners who bears this risk. In the event of low profits they do not have adequate return on their investment. If losses continue the owners may not be in a position to recover even their original investment after meeting the loan obligations. Owners contribute risk capital in the hope that the value of the firm will appreciate as a result of higher earnings and growth in the size of the firm. Entrepreneurs can raise funds by getting personal loans from his personal assets like provident fund, life Insurance policy, buildings, investment, etc. In case of a running enterprise, funds could also be raised through the retention of profits or conversion of some assets into funds. An entrepreneurs should religiously plough back a good portion of his/her profits into the enterprise itself. A big firm has more scope for raising funds from internal sources, whereas a small-scale one has limited scope of raising capital from internal sources.

b) EXTERNAL SOURCES

Funds raised from other than internal sources can be described as external sources. The external sources usually include the following:

- Deposits or borrowings from relatives, friends and others.
- Borrowings from the banks for working capital purposes.
- Credit facilities from the commercial banks.
- Term loans from financial institutions.
- Hire-purchase or leasing facility from the National Small Industries Corporation (NSIC) and State Small Industries Corporation (SSICs)
- Seed/margin money, subsidies from the Government and the financial institutions.

If we analyses both the internal and external sources, we can identify the following as important sources of finance.

- Personal funds / equity capital or owners funds.
- Loans from relatives and friends and / or credit facilities.
- Borrowings, from the commercial banks.
- Term loans.

Now we can discuss the above mentioned sources of finance little more elaborately.

i) PERSONAL FUNDS/EQUITY CAPITAL/OWNERS FUNDS

We have already seen the meaning of personal funds or owners funds. Therefore, here only the significance of owners funds are taken for discussion. The significance of ownership capital may be briefly stated as follows:

- It provides risk capital.
- It is a source of permanent capital.
- It is the basis on which owners' acquire the right of control over management of business.
- It does not require security of assets to be offered for raising ownership capital.

pends upon the volume of business, reputation of the buyer company, its financial position, degree of competition in the market, etc.

- ***Factoring:*** Factoring is a financial service designed to helps firms in managing their book debts and receivable in a better manner. The factor purchase the book debts of the client, administrates the client's sales ledger and collect the book debts. For rendering these services the factor charges fee or commission, which is usually a certain percentage on the value of the book debts / receivables factored. Thus, factoring helps the suppliers companies to secure finance against their book debts and receivables.
- ***Advances from Customers:*** Advances from customers become one of the cheapest source of raising funds for meeting working capital requirements of business. Examples, advances given at the time of booking car, flat etc.

11.6 ROLE OF FINANCIAL INSTITUTIONS IN INSTITUTIONAL FINANCE

Financial institutions play critical role in the institutional finance. They provide medium and long-term finance to the institutions. In this section, we can discuss the role of financial institutions in institutional finance.

- Institute of Financial corporation of India (IFCI)

IFCI was set up in 1984 under an Act of Parliament to provide medium and long-term financial assistance to public limited companies and cooperatives societies. The IFCI started its lending operations on a modest scale in 1948. The important functions of IFCI are given below:

i) Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the public market.

ii) Underwriting of the issue of stocks, shares, bonds or debentures issued by industrial concerns.

iii) Granting loans or advances to or subscribing to debentures of industrial concerns repayable within a period not exceeding 25 years.

iv) Acting as the agent of the central government or for world bank in respect of loans sanctioned to the industrial concern.

v) Undertaking financing of projects with the industrial development bank of India and other financial institutions.

IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans. The corporation provides financial assistance for setting up new industrial projects, renovation, modernisation, expansion, diversification of existing ones. IFCI also provides financial assistance on concessional terms for setting up industrial projects in industrially backward areas. IFCI has also been registered with SEBI as a category 1 merchant banker since August 1, 1993 and also been granted registration to act as a debenture trustee. IFCI financial services Ltd. incorporated during 1994-95 commenced its operation during 1996-97. The merchant banking services of IFCI have been transferred to this new company.

Activity - B *Visit IFCI Website and collect information about the various financial assistance provided by them. Prepare a report based on the collected information.*

a) INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The IDBI was established in July 1964 under the industrial development bank of India Act as a wholly owned subsidiary of the Reserve Bank of India. However, in February 1976, IDBI was declined from RBI and has emerged as an independent organisation. Now, it functions as an apex financial institution.

The IDBI has been assigned a special role in respect of the following matters.

i) Planning, promoting and developing industries to fill the gaps in the industrial structure in India,

ii) Coordinating the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such institutions,

iii) Providing technical and administrative assistance for promotion, management or expansion of industry, and

iv) Undertaking market and investment research and survey as also techno-economic studies in connection with development of industry.

IDBI finances all types of industries irrespective of the form of organisation or size of the unit. There are no restrictions on the nature and type of security and quantum of assistance which the bank can provide. IDBI adopts two types of schemes of assistance, viz., I) Direct Assistance Schemes, and ii) Industrial Assistance Schemes, Direct Assistance Schemes include Project Finance Scheme, Modernisation Assistance Scheme, Textile Modernisation Fund Scheme, Technical Development Fund Scheme, and Equipment Fund Scheme, etc. Indirect Assistance Schemes include Refinance of Industrial Loans Schemes, Bills Rediscounting scheme, Seed Capital Assistance Scheme, and Resources support scheme.

b) INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LTD. (ICICI)

The industrial credit and investment has now been renamed as ICICI Ltd. ICICI was set up in January 1955 under the Indian companies Act with the primary objectives of developing small and medium industries in the private sector. ICICI performs the following functions:

i) It provides assistance by way of rupee and foreign currency loans, underwriting and direct subscriptions to shares/debentures and guarantees.

ii) It offers variety of financial services such as deferred credit, leasing credit, instalment sale, asset and venture capital.

iii) It guarantees loans from other private investment sources.

ICICI Ltd has diversified its activities. Recently it has set up a merchant banking division. It has also set up ICICI Asset Management Company Ltd. in June 1993 to operate the schemes of the ICICI Mutual Fund. ICICI Investors Service Ltd. (March 1994), and ICICI Banking Corporation Ltd (January 1994), have started their operations. ICICI assists all sectors, that is, the private sector, the joint sector, the public sector and the cooperative sector.

c) LIFE INSURANCE CORPORATION OF INDIA [LIC]

The life insurance corporation of India [LIC] was established under the LIC Act in 1956 as a wholly – owned corporation of the Government of India. On nationalisation of the life insurance business in the country, LIC not only offers insurance policies but also provides various assistance to the corporate. It provides loans for various purposes like housing, water supply, rural electrification, etc. to benefit individuals and groups. LIC also provides term-loans and underwriting / direct subscription to shares and debentures of corporate sector. As per its investment policy, LIC invests 75% and above of the accretion to its controlled fund in central and state government's securities including government – guaranteed marketable securities and in the socially oriented sector.

d) STATE FINANCIAL CORPORATIONS (SFC&LC)

In order to provide financial assistance to small-scale industries and medium – size industries. State Finance Corporation Act was passed by Parliament in 1951. The Act is applicable to all states except the state of Jammu and Kashmir. At present, all almost as the states set up such corporations.

The main functions of SFCs are:

i) To provide long-term finance to small and medium sized industrial units organised as proprietary, partnership, cooperative, public or private company concerns.

ii) Undertake the issue of stock, shares, bonds, or debentures of industrial concern.

iii) Grant loans and advances to industrial concerns repayable within a period not exceeding 20 years.

iv) Subscribe to debentures floated by the industrial concerns. and,

v) Grant financial assistance to small road transport operators, hotels, tourism related activities, hospitals, and nursing homes, etc.

e) INDUSTRIAL RECONSTRUCTION BANK OF INDIA (IRBI)

Industrial reconstruction corporation of India (IRCI) was set up in April 1971 under the Indian Companies Act mainly to look after the special problems of sick unit and to provide assistance for their speedy reconstruction and rehabilitation. In August 1984, the Government of India passed an Act converting the industrial reconstruction corporation of India into the industrial reconstruction bank of India (IRBI). IRBI functions as the principal all – India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns. The IRBI had diversified its activities into ancillary lines such as consultancy services, merchant banking and equipment leasing. However, all these activities are allied to its task of rehabilitation of sick industrial units.

f) UNIT TRUST OF INDIA (UTI)

UTI came into existence on February, 1964 under the Unit Trust of India Act 1963. The main objective of UTI is to stimulate and pool the savings of the middle and low income groups and channelises them into corporate investments. UTI has introduced a variety of schemes to meet the need of diverse sections of investors. At present , UTI assists corporate sectors through term loans, underwriting, direct subscription to shares / debentures.

g) STATE INDUSTRIAL DEVELOPMENT CORPORATIONS (SIDCS)

State industrial development corporations have been set up by different state governments for promoting industrial development in their respective states. The main functions of SIDCs are to provide assistance in the form of term-loans, underwriting, direct subscription to shares/debentures and guarantees. SIDCs also undertake a number of promotional activities such as preparation of feasibility reports, conducting industrial potential surveys, entrepreneurship development programmes and developing industrial estates. Some SIDCs also offer a package of developmental services such as technical guidance, assistance to plant locations, and coordination with other agencies.

h) SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

The small industries development bank of Indian (SIDBI) was set up as a wholly-owned subsidiary of the IDBI in October 1989 under a special Act of the parliament. SIDBI is intended to work as a principal financial institution for the promotion, financing and development of industries in the small-scale sector. It is also expected to coordinate the functions of the financial institutions engaged in the promotion, financing and developing the small – scale industries. The following are the important functions of SIDBI:

i) To initiate steps for technological up gradation and modernisation of existing units.

ii) To expand the channels for marketing the products of SSI sector in domestic and international markets.

iii) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

i) EXPORT – IMPORT BANK OF INDIA [EXIM BANK]

The Exim bank was set up on January 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers to promote India's foreign trade. It takes promotional activities and provides counselling services persons connected with export import business.

The important functions of the Exim Bank are given below:

i) Financing of export and import of goods and services both of India and outside India.

ii) Providing finance for joint ventures in foreign countries.

iii) Undertaking merchant banking functions of companies engaged in foreign trade.

iv) Providing technical and administrative assistance to the parties engaged in export and import business.

v) Offering buyer's credit and lines of credit to the foreign governments and banks.

vi) Providing advance information and business advisory service to Indian exporters in respect of multilaterally funded projects overseas.

vii) Refinancing commercial banks and financial institutions against their export import finance activities.

11.7 VENTURE CAPITAL

Venture capital is of relatively recent origin in India. A young private company that is not yet ready or willing to tap the public financial market may seek venture capital. Venture capital is a form of financing designed for funding high technology, high risk and perceived high reward projects. Venture capitalists (investors) differ from conventional financiers. While conventional financiers fund projects with proven technologies and already established markets, venture capitalists provide funds to the entrepreneurs pursuing new and higher to unexplored avenues and ideas. Thus, venture capital helps the entrepreneurs to translate their new ideas into commercial production.