

MICRO, SMALL AND MEDIUM ENTERPRISES MANAGEMENT

BBA
Semester-IV, Paper-III

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson- writers of the Centre who have helped in these endeavors.

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Vice-Chancellor
Acharya Nagarjuna University*

B.B.A -SEMESTER – IV
MICRO, SMALL & MEDIUM ENTERPRISES MANAGEMENT

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Unit-I:

Small and Medium Enterprises: Significance in Indian economy - Problems and the steps taken up by the Government to tackle their problems - Role of government in promoting small and medium enterprises - incentives provided to Backward Area Development.

Unit-II:

Project Formulation: Project identification and formulation, Feasibility study - Project report preparation, location of Units, Industrial estates and the role of KIABD, TEKSOC and registration with DIC.

Unit-III:

Management Functions in Small and Medium Enterprises – Finance function: Capital Estimation, Sources of finance - Subsidies and Incentives, Venture Capital - Marketing and Human Resource Management functions.

Unit-IV:

Sickness in Small and Medium enterprises - Causes of sickness, Prevention of sickness, and Remedial measures for sickness Role of Board for Industrial & Financial Reconstruction (BIFR).

Unit-V

Ancillary Industries, Rural Industries and Artisans - Role of SIDO, SSIDC, SISI, DIC - Prospects for small-scale industries.

References:

1. C.S.V. Murthy, Small Scale Industries and Entrepreneurial Development, Himalaya Publishing House.
2. Vasant Desai, Management of SSI, Himalaya publishing House, Delhi, 1998.
3. Vasant Desai, Small Scale Industries & entrepreneurship, Himalayan Publishing House.
4. S S Khanka, Entrepreneurial Development, Sultan Chand & Co. Ltd., New Delhi. 1999.¹

M.K. R.

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LESSON-1

MSME SIGNIFICANCE OF INDIAN ECONOMY, PROBLEMS AND STEPS TAKEN IN THE GOVERNMENT

Learning objectives

To study the Role of MSME
To Understand the MSME in Indian Economy
To Know the Problems associated with MSME

Structure

- 1.1 Introduction
- 1.2 Micro, Small and Medium Enterprises
- 1.3 Role of MSME
- 1.4 MSME in Indian Economy
- 1.5 Problems Associated With MSME
 - 1.5.1 Finance
 - 1.5.2 Raw materials
 - 1.5.3 Managerial skills
 - 1.5.4 Marketing
 - 1.5.5 Quality
 - 1.5.6 Global competition
 - 1.5.7 MSME and Entrepreneurship Development
 - 1.5.8 Systematic Activity
 - 1.5.9 Lawful and Purposeful Activity
 - 1.5.10 Innovation
 - 1.5.11 Organisation of Production
 - 1.5.12 Risk-taking
- 1.6 Intellectual Property Rights
 - 1.6.1 Why is IPR Important for Entrepreneurs?
- 1.7 Summary
- 1.8 Key words
- 1.9 Self Assessment Questions
- 1.10 Suggested Readings

1.1 Introduction

Micro, Small and Medium Enterprises (MSME) contribute significantly to the development process and acts as a vital link in the industrialization in terms of production, employment and exports for economic prosperity by widening entrepreneurial base and use of local raw materials and indigenous skills. MSME dominate the industrial scenario in the country with sizeable proportion of labour force and tremendous export potential.

MSMEs play a significant role in the economic growth and contribute to 29.7 per cent of GDP and 49.66 per cent of exports. The sector offers employment to nearly 60 million people through 28.5 million enterprises, after the agriculture sector. MSMEs are complementary to large industries as ancillary units and form an integral part of value chain for building a conducive

environment for indigenous skills, grass root innovations and entrepreneurship development. This sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products.

Recognising the potential of this sector for the national development, this segment of industry is encouraged in both in pre-reform and post-reform period for fulfilling the objective of self-reliance and rural industrialization. In India, the MSME consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and power looms. The Khadi and Village Industries and Coir segment is another major contributor to the growth of the MSME. Many global companies are increasingly looking to Indian MSMEs for strategic partnerships of mutual benefit due to the innovative capabilities in niche of low-cost manufacturing and local skills and capabilities.

1.2 Micro, Small and Medium Enterprises

It is important to know how size is defined in our country, with reference to MSME establishments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, turnover of business, etc. The definition used by the Government of India to describe MSME is based on the investment in plant and machinery and turnover. This measure seeks to keep in view the socio-economic environment in India where capital is scarce and labour is abundant.

Type of Units	Investment in Plant and Machinery	Turnover
Micro Enterprises	1 Crore	Does not exceed 5 crore
Small Enterprises	10 Crore	Does not exceed 50 crore
Medium Enterprises	50 Crore	Does not exceed 250 core
% share of MSMES in		
Micro Enterprises		99.4%
Small Enterprises		0.52%
Medium Enterprises		0.1%

The emergence of a large service sector has necessitated the government to include other enterprises covering both Small Scale Industries (SSI) sector and related service entities under the same umbrella. Expansion of the small enterprises was taking place growing into medium enterprises and they were required to adopt higher levels of technologies in order to remain competitive in a fast globalising world. Thus, it was necessary to address the concerns of such enterprises as micro, small and medium and provide them with a single legal framework. The MSMED Act, 2006 came into force w.e.f., October, 2006.

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addressed these issues relating to its definition, credit, marketing and technology up gradation. Medium scale enterprises and service related enterprises also come under the purview of this Act.

1.3 Role of MSME

MSME in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The emphasis on MSME has always been an integral part of India's industrial strategy. Development of MSME prevents migration of rural population to urban areas in search of employment and contributes to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.

In fact promotion of MSME and rural industrialization has been considered by the Government of India as a powerful instrument for realizing the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.' The following points highlight their contribution.

- (i) The contribution of these industries to the balanced regional development of our country is noteworthy. Small industries in India account for 95 per cent of the industrial units in the country.
- (ii) MSME are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.
- (iii) MSME in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc. Among the sophisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. A special mention should be made of handlooms, handicrafts and other products from traditional village industries in view of their export value.
- (iv) MSME which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialization can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.
- (v) MSME provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channeled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.
- (vi) MSME also enjoy the advantage of low cost of production. Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side because of low overhead expenses. In fact, the low cost of production which small industries enjoy is their competitive strength.

- (vii) Due to the small size of the organisation, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations. New business opportunities can be captured at the right time

1.4 MSME in Indian Economy

Since its formation, the role of MSMEs has proved to be highly dynamic in the Indian economic sector. MSMEs produce and manufacture a range of products for both domestic as well as for international markets. They have promoted the development of the khadi industry, village, and other small industries. They have collaborated to work with the concerned ministries, state governments, and stakeholders towards rural areas' bringing progress to the nation.

There is an active role of MSMEs in providing employment opportunities in rural areas. They have helped in industrializing these areas with a low capital cost compared to the large industries. The MSME sector has also enormously contributed to its socio-economic development. MSMEs also help immensely in the country's progress in different areas like the requirement of low investment, flexibility in operations, mobility through locations, a flat rate of imports, and a high contribution to domestic production.

The significance of the MSMEs sector lies in the fact that it is the second-largest employment provider by employing 120 million people, after agriculture in India. In India, there are about 56 million such enterprises in various industries, using close to 124 million people. The MSME sector accounts for 8% of India's GDP and 45% of merchandise exports. Due to this, the MSME sector is called *the growth engine of the nation*.

MSMEs are an essential sector for the Indian Economy and have contributed immensely to their socio-economic growth & development. It not only generates employment opportunities for many but also works hand-in-hand towards the development of the nation's backward and rural areas. Hence, we must say that role of MSMEs is not limited but is beyond the clouds.

1.5 Problems Associated With MSME

The potential of MSME is often not realised fully, because of several problems related to size and operations. We shall now examine some of the major problems that small businesses whether in urban or in rural areas are encountering in their day-to-day functioning. MSMEs are distinct disadvantage as compared to largescale industries. The scale of operations, availability of finance, ability to use modern technology, procurement of raw materials are some of these areas. This gives rise to several problems. The problems majorly include remote location with less developed infrastructural facilities, lack of managerial talent, poor quality, traditional technology and inadequate availability of finance. The problems of exporting small scale units include lack of adequate data on foreign markets, lack of market intelligence, exchange rate fluctuations, quality standards, and pre-shipment finance. In general the small businesses are faced with the following problems:

1.5.1 Finance

One of the severe problems faced by MSME is that of non-availability of adequate finance to carry out its operations. Generally these businesses begin with a small capital base.

Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets. As a result, they heavily depend on local financial resources and are frequently the victims of exploitation by the money lenders. These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

1.5.2 Raw materials

Another major problem of MSME is the procurement of raw materials. If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials. Their bargaining power is relatively low due to the small quantity of purchases made by them. Also, they cannot afford to take the risk of buying in bulk as they have no facilities to store the materials. Because of general scarcity of metals, chemicals and extractive raw materials in the economy, the small scale sector suffers the most. This also means a waste of production capacity for the economy and loss of further units.

1.5.3 Managerial skills

These businesses are generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output. Moreover, they may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers.

1.5.4 Marketing

Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements. In most cases, marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

1.5.5 Quality

Many MSMEs do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low. They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology. In fact maintaining quality is their weakest point, when competing in global markets. (vi) Capacity utilisation: Due to lack of marketing skills or lack of demand, many firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.

1.5.6 Global competition

Apart from the problems stated above MSME are not without fears, especially in the present context of globalization. These enterprises face competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes.

1.5.7 MSME and Entrepreneurship Development

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practising some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called an enterprise. It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities, that is, employment and profession. And, in the process, entrepreneurship becomes crucial for overall economic development of a nation. Every country, whether developed or developing, needs entrepreneurs. Whereas, a developing country needs entrepreneurs to initiate the process of development, the developed one needs entrepreneurship to sustain it. In the present Indian context, where on the one hand, employment opportunities in public sector and large-scale sector are shrinking, and on the other, vast opportunities arising from globalisation are waiting to be exploited; entrepreneurship can really take India to the heights of becoming a super economic power. Thus, the need for entrepreneurship arises from the functions the entrepreneurs perform in relation to the process of economic development and in relation to the business enterprise. The following are the characteristics of entrepreneurship:

1.5.8 Systematic Activity

Entrepreneurship is not a mysterious gift or charm and something that happens by chance! It is a systematic, step-by-step and purposeful activity. It has certain temperamental, skill and other knowledge and competency requirements that can be acquired, learnt and developed, both by formal educational and vocational training as well as by observation and work experience. Such an understanding of the process of entrepreneurship is crucial for dispelling the myth that entrepreneurs are born rather than made.

1.5.9 Lawful and Purposeful Activity

The object of entrepreneurship is lawful business. It is important to take note of this as one may try to legitimise unlawful actions as entrepreneurship on the grounds that just as entrepreneurship entails risk, so does illicit businesses. Purpose of entrepreneurship is creation of value for personal profit and social gain.

1.5.10 Innovation

From the point of view of the firm, innovation may be cost saving or revenue-enhancing. If it does both it is more than welcome. Even if it does none, it is still welcome as innovation must become a habit! Entrepreneurship is creative in the sense that it involves creation of value. By combining the various factors of production, entrepreneurs produce goods and services that meet the needs and wants of the society. Every entrepreneurial act results in income and wealth generation. Entrepreneurship is creative also in the sense that it involves innovation introduction of new products, discovery of new markets and sources of supply of inputs, technological breakthroughs as well as introduction of newer organisational forms for doing things better, cheaper, faster and, in the present context, in a manner that causes the least harm to the ecology/environment.

1.5.11 Organisation of Production

Production, implying creation of form, place, time personal utility, requires the combined utilisation of diverse factors of production, land, labour, capital and technology. Entrepreneur, in response to a perceived business opportunity mobilises these resources into a productive enterprise or firm. It may be pointed out that the entrepreneur may not be possessing any of these resources; he may just have the 'idea' that he promotes among the resource providers. In an economy with a well-developed financial system, he has to convince just the funding institutions and with the capital so arranged he may enter into contracts of supply of equipment, materials, utilities (such as water and electricity) and technology. What lies at the core of organisation of production is the knowledge about availability and location of the resources as well as the optimum way to combine them. An entrepreneur needs negotiation skills to raise these in the best interests of the enterprise.

1.5.12 Risk-taking

It is generally believed that entrepreneurs take high risks. Yes, individuals opting for a career in entrepreneurship take a bigger risk that involved in a career in employment or practice of a profession as there is no "assured" payoff. In practice, for example, when a person quits a job to start on his own, he tries to calculate whether he or she would be able to earn the same level of income or not. To an observer, the risk of quitting a well-entrenched and promising career seems a "high" risk, but what the person has taken is a calculated risk. They are so sure of their capabilities that they convert 50 per cent chances into 100 per cent success. They avoid situations with higher risks as they hate failure as anyone would do; they dislike lower risk situations as business ceases to be a game/fun! Risk as such more than a financial stake, becomes a matter of personal stake, where less than expected performance causes displeasure and distress.

1.6 Intellectual Property Rights

Intellectual Property Rights (IPR) Over the past two decades, intellectual property rights have grown to a stature from where it plays a major role in the development of global economy. Intellectual property is everywhere, i.e., the music you listen to, the technology that makes your phone work, the design of your favourite car, the logo on your sneakers, etc. It exists in all the things you can see—all are the products of human creativity and skill, such as inventions, books, paintings, songs, symbols, names, images, or designs used in business, etc. All inventions of creations begin with an 'idea'. Once the idea becomes an actual product, i.e., Intellectual Property, one can apply to the authority concerned under the Government of India for protection. Legal rights conferred on such products are called 'Intellectual Property Rights' (IPR). Hence Intellectual property (IP) refers to products of human mind, hence, just like other types of property, the owners of IP can rent, give or sell it to other people. Specifically, Intellectual property (IP) refers to the creations of the human mind, like inventions, literary and artistic works, symbols, names, images and designs used in business. Intellectual property is divided into two broad categories: industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications, while the other is copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs. The most noticeable difference between intellectual property and other forms of property is that intellectual property is intangible, i.e., it cannot be defined or indentified by its own physical parameters. The scope and definition of intellectual property is constantly evolving with the inclusion of

newer forms. In recent times, geographical integrated circuits and undisclosed indications, protection of plant varieties, information have been brought under the protection of semi-conductors and umbrella of intellectual property. The following types of Intellectual Property Rights are recognised in India: Copyright, Trademark, Geographical Indication, Patent, Design, Plant Variety, Semiconductor Integrated Circuit Layout Design. In addition to this traditional knowledge also fall under IP. You must have often taken homely remedies passed on from your grandparents and great-grandparents as cure for an ailment. These homely remedies are traditional medicines that have been practiced in India for past several centuries. They are also known as 'Traditional Knowledge'. Some examples of Indian traditional medicinal systems are Ayurveda, Unani, Siddha and Yoga. Traditional Knowledge (TK) means the knowledge, systems, innovations and practices of local communities across the globe. Such wisdom has been developed and accumulated over the years and has been used and passed down through several generations. A Traditional Knowledge Digital Library (TKDL) has been developed by Government of India, which is essentially a digital knowledge repository of Traditional Knowledge that has existed in our ancient civilization, especially about medicinal plants and formulations used in Indian systems of medicine. This rich body of knowledge helps prevents wrongful patenting of our traditional knowledge. Another type of IP is Trade Secrets. You must have heard about the popular beverage, Coca Cola. But do you know that the recipe of this beverage is only known to three people in the whole world? This secret information is termed as a 'Trade Secret'. A trade secret is basically any confidential information which provides a competitive edge. Trade secrets in India are protected under the Indian Contract Act, 1872

1.6.1 Why is IPR Important for Entrepreneurs?

It encourages creation of new, pathbreaking inventions, such as cancer cure medicines. It incentivises inventors, authors, creators, etc., for their work. It allows the work created by a person to be distributed and communicated to the public only with his/her permission. Therefore, it helps in the prevention of loss of income. It helps authors, creators, developers and owners to get recognition for their works.

1.7 Summary

Small Scale Industries play a very important role in the socio-economic development of the country. These industries account for 95 per cent of industrial units, contributing up to 40 per cent of the gross industrial value added and 45 per cent of the total exports. SSIs are the second largest employers of human resources, after agriculture and produce a variety of products for the economy. These units contribute to the balanced regional development of the country by using locally available material and indigenous technology. These provide ample scope for entrepreneurship; enjoy the advantage of low cost of production; quick decision making, and have quick adaptability and are best suited to customised production Small business units provide multiple source of income, in wide range of non-agricultural activities and provide employment opportunities in rural areas, especially for the traditional artisan and weaker sections of the society. Entrepreneur: The terms 'entrepreneur,' 'entrepreneurship' and 'enterprises' can be understood by drawing an analogy with the structure of a sentence in English language. Entrepreneur is the person (the subject), entrepreneurship is the process (the verb) and enterprise is the creation of the person and the output of the process (the object)

1.8 Key words

MSME and Entrepreneurship Development - Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practicing some profession. The person who set-up his business is called an entrepreneur.

Marketing- Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements

Managerial skills- These businesses are generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output.

1.9 Self Assessment Questions

1. How do small scale industries contribute to the socio-economic development of india? Discuss
2. Describe the role of small business in rural India.
3. Discuss the problems faced by small scale industries.
4. What measures has the government taken to solve the problem of finance and marketing in the small scale sector?
5. Innovation is integral to MSME'. Discuss giving reasons to your answer.
6. Creativity and Innovation is the key to MSME'. Justify the statement.

1.10 Suggested Readings

1. Michael P. Peters, Robert D. Hisrich, Sabyasachi Sinha, Dean A. Shepherd Entrepreneurship 11th Edition Mc graw Hill publication 2020
2. Dr. Abha Mathur Entrepreneurship Development CBCS TAXMAN PUBLICATIONS 2022
3. Entrepreneurship Kumar Arya Pearson Education India 2022
4. Goyal Mukta , Ekta Gupta Industrial Management & Entrepreneurship Development Notion Press Publication 2022
5. Revitalizing Entrepreneurship Education Taylor & Francis Ltd Routledge Publications 2022

LESSON - 2

STEP TAKEN BY THE GOVERNMENT TO TACKLE THE PROBLEMS

Learning objectives

- To Know the Role of Government in Promoting MSME
- To Understand the Schemes of MSME Sector
- To Study the Schemes of Khadi and Village Industries Sector

Structure

- 2.1 Introduction
- 2.2 Role of Government in Promoting MSME
 - 2.2.1 Mahatma Gandhi Institute for Rural Industrialization (MGIRI)
 - 2.2.2 Coir Board
 - 2.2.3 National Small Industries Corporation (NSIC) Ltd
 - 2.2.4 National Entrepreneurship Development Institutes
 - 2.2.5 National Board for Micro, Small and Medium Enterprises (NB MSME)
 - 2.2.6 Micro, Small and Medium Enterprises Development (MSMED) Act 2006
- 2.3 Schemes for MSME Sector
 - 2.3.1 National Manufacturing Competitiveness Programme (NMCP)
 - 2.3.2 Lean Manufacturing Competitiveness Scheme for MSMEs [NMCP Scheme]
 - 2.3.3 Promotion of Information & Communication Tools (ICT) in MSME sector [NMCP Scheme]
 - 2.3.4 Technology Upgradation and Quality Certification Support to MSMEs [NMCP Scheme]
 - 2.3.5 Credit Guarantee Scheme for Micro and Small Enterprises
 - 2.3.6 Credit Linked Capital Subsidy Scheme (CLCSS) Physical Performance
 - 2.3.7 MSE Cluster Development Programme Physical Performance
 - 2.3.8 Performance & Credit Rating Scheme Physical Performance
 - 2.3.9 Marketing Assistance Scheme Physical Performance
 - 2.3.10 International Cooperation (IC) Scheme Physical Performance
 - 2.3.11 Assistance to Training Institutions Scheme Physical Performance
- 2.4 Schemes for Khadi & Village Industries Sector
- 2.5 Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
- 2.6 Market Development Assistance Scheme for Khadi & Polyvastra
- 2.7 Interest Subsidy Eligibility Certificate for Khadi and Polyvastra
- 2.8 Schemes for Coir Sector
 - 2.8.1 Coir Vikas Yojana
 - 2.8.2 Coir Udyami Yojana
 - 2.8.3 Coir S & T Yojana (Plan S & T)
 - 2.8.4 ASPIRE
- 2.9 Summary
- 2.10 Key words
- 2.11 Self Assessment Questions
- 2.12 Suggested Readings

2.1 Introduction

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas,

thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country.

The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) are two national heritages of India. One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans. KVI today represent an exquisite, heritage product, which is 'ethnic' as well as 'ethical'. The Sector has a potentially strong clientele among the middle and upper echelons of the society. Coir Industry is an agro-based traditional industry, which originated in the state of Kerala and proliferated to the other coconut producing states like Tamil Nadu, Karnataka, Andhra Pradesh, Odisha, West Bengal, Maharashtra, Assam, Tripura, etc. It is an export oriented industry and has greater potential to enhance exports by value addition through technological interventions and diversified products like Coir Geotextiles etc. The acceptability of Coir products has increased rapidly due to its 'environment friendly' image. Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

2.2 Role of Government in Promoting MSME

2.2.1 Mahatma Gandhi Institute for Rural Industrialisation (MGIRI)

The national level institute namely 'Mahatma Gandhi Institute for Rural Industrialization (MGIRI)' (erstwhile Jamnalal Bajaj Central Research Institute) has been established as society under (Registration) Act, 1860 at Wardha, Maharashtra, to strengthen the R&D activities in KVI sector. The main functions of the Institute are to improve the R&D activities under rural industrial sector through encouraging research, extension of R&D, quality control, training and dissemination of technology related information.

2.2.2 Coir Board

The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting overall sustainable development of the coir industry and improving the living conditions of the workers engaged in this traditional industry. The activities of the Board for development of coir industries, inter-alia, include undertaking scientific, technological and economic research and development activities; developing new products & designs; and marketing of coir and coir products in India and abroad. It also promotes co-operative organisation among producers of husks, coir fibre, coir yarn and manufacturers of coir products; ensuring remunerative returns to producers and manufacturers, etc. The Board has promoted two research institutes namely; Central Coir Research Institute (CCRI), Kalavoor, Alleppey, and Central Institute of Coir Technology (CICT), Bengaluru for undertaking research and development activities on different aspects of coir industry, which is one of the major agro based rural industries in the country

2.2.3 National Small Industries Corporation (NSIC) Ltd

The National Small Industries Corporation (NSIC) Ltd. was established in 1955 by the Government of India with a view to promote, aid and foster the growth of small scale industries in the country. NSIC continues to remain at the forefront of industrial development throughout the country with various programmes and projects to assist the MSMEs in the country. The main functions of the Corporation are to promote aid and foster the growth of micro and small enterprises in the country, generally on a commercial basis. It provides a variety of support services to micro and small enterprises by catering to their different requirements in the areas of raw material procurement; product marketing; credit rating; acquisition of technologies; adoption of modern management practices, etc. The NSIC is directly operating different programmes by a dedicated team of professionals at all levels and operates through 142 offices located all over India and one office located at Johannesburg (South Africa).

2.2.4 National Entrepreneurship Development Institutes

Entrepreneurship development and training is one of the key elements for the promotion of micro, small and medium enterprises (MSMEs), especially for creation of new enterprises by the first generation entrepreneurs. In order to inculcate the entrepreneurial culture amongst the first generation of entrepreneurs on a regular basis, the Ministry has set up three national level Entrepreneurship Development Institutes viz; The National Institute for Entrepreneurship and Small Business Development (NIESBUD) (1983) at Noida (Uttar Pradesh), National Institute for Micro, Small and Medium Enterprises (NI-MSME) (1960) at Hyderabad, and Indian Institute of Entrepreneurship (IIE) (1993) at Guwahati, as autonomous societies. These institutes are engaged in developing training modules; undertaking research & training; and providing consultancy services for entrepreneurship development & promotion of MSMEs, including enhancement of their competitiveness.

2.2.5 National Board for Micro, Small and Medium Enterprises (NB MSME)

The range of development work in MSMEs involves several Departments/ Ministries and different organisations of Central/ State Governments. To facilitate coordination and inter-institutional linkages and in pursuance of the MSME Development Act, 2006, a National Board for Micro, Small & Medium Enterprises consisting of a total of 47 members has been constituted with 20 non-official members. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the MSME sector. The Minister In charge of MSME of the Government of India is the Chairman and the Board comprises among others, State Industry Ministers, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field. The board meets periodically to take stock of the issues pertaining to policy matters

2.2.6 Micro, Small and Medium Enterprises Development (MSMED) Act 2006

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory

consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises, are some of the other features of the Act.

2.3 Schemes for MSME Sector

2.3.1 National Manufacturing Competitiveness Programme (NMCP)

The Programme aims to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access. The Programme envisages substantial investments towards enhancing the entire value chain of the MSME sector. All the ten components of NMCP have already been operationalized and are likely to spur innovation and growth in the MSME sector. These include Quality Management Systems and Quality Technology Tools, Design Clinic Scheme, Building Awareness on IPRs, Support for Entrepreneurial and Managerial Development, Marketing Support/Assistance to MSMEs, Setting up of New Mini Tool Room and Lean Manufacturing Competitiveness Scheme. These components seek to introduce the best elements of industrial competitiveness in the MSME sector, which has often been unable to afford such practices and techniques.

2.3.2 Lean Manufacturing Competitiveness Scheme for MSMEs [NMCP Scheme]

Under the Lean Manufacturing Programme (LMP), MSMEs are being assisted in reducing their manufacturing costs, through proper personnel management, better space utilization, scientific inventory management, improved process flows, reduced engineering time and so on. LMP also brings improvement in the quality of products and lowers costs, which are essential for competing in national and international markets. The broad activities planned under the LMP include, Total Productive Maintenance (TPM), 5S, Visual Control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke, TPM, etc. The scheme is initially approved for 100 mini clusters on pilot basis.

2.3.3 Promotion of Information & Communication Tools (ICT) in MSME sector [NMCP Scheme]

The main objective of the scheme is to encourage and assist the potential MSME clusters to adopt ICT tools and applications in their production & business processes, with a view to improve their productivity and competitiveness in national and international markets. The broad activities planned under this component includes identifying the potential MSME manufacturing clusters for ICT intervention, setting up of e-readiness centre, developing web portals for clusters, skill development of MSME's employees/staff, preparation of local software solutions for MSMEs to enhance their competitiveness, etc. and networking MSME cluster portals on the National Level Portals in order to outreach MSMEs into global markets. The scheme is being implemented in 100 clusters. The process for selecting the agency to implement the scheme is being expedited

2.3.4 Technology Upgradation and Quality Certification Support to MSMEs [NMCP Scheme]

The objective of this component of NMCP is to sensitize the MSMEs about the benefits that could accrue from usage of energy efficient technologies, reduction in emissions

of Green House Gases, improve the acceptance of their products by product quality certification, thereby making them globally competitive. The major activities planned under this component include Capacity Building of MSME Clusters for Energy Efficiency/Clean Development Interventions, Implementation of Energy Efficient Technologies in MSME sector, Setting up of Carbon Credit Aggregation centres and encouraging MSMEs to acquire product certification licenses from National / International bodies

Support for Entrepreneurial and Managerial Development of SMEs through Incubators [NMCP Scheme] Physical Performance: This component aims at nurturing innovative business ideas (new/ indigenous technology, process, products, procedures, etc) which could be commercialized in a year. Under this component various institutions like Engineering Colleges, Management Institutions, Research Laboratories, etc are provided funds up to Rs. 6.25 lakh for hand holding each new idea/ entrepreneurs. The Incubators provide technology/guidance, workshop and laboratory support and linkage to other agencies for successful launching of the Business and guide the entrepreneur in establishing the enterprise.

2.3.5 Credit Guarantee Scheme for Micro and Small Enterprises

The objective of the scheme is to make available credit to SSI units, particularly tiny units, for loans up to Rs. 100 lakh without collateral/ third party guarantees. The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 100 lakh per borrowing unit. The guarantee cover provided is up to 75% of the credit facility up to Rs.50 lakh with an incremental guarantee of 50% of the credit facility above Rs. 50 lakh and up to Rs.100 lakh. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and SIDBI

2.3.6 Credit Linked Capital Subsidy Scheme (CLCSS) Physical Performance

CLCSS scheme aims at facilitating technology Upgradation of small scale industries, including tiny, agro and rural industrial units, by providing 15 per cent upfront capital subsidy institutional finance availed of by them for induction of well established and improved technology in specified sub- sectors /products approved under the Scheme. The admissible capital subsidy under the modified scheme is calculated with reference to the purchase price of plant and machinery. The maximum limit of eligible loan for calculation of capital subsidy under this scheme has also been raised from Rs.40 lakh to Rs.100 lakh. The modification in the CLCSS guidelines will further facilitate modernization of small scale industries.

2.3.7 MSE Cluster Development Programme Physical Performance

The Micro and Small Enterprise Cluster Development Programme (MSE - CDP) is being implemented for holistic and integrated development of micro and small enterprises in clusters. The scheme envisages soft interventions i.e diagnostic studies, hard interventions i.e setting up of CFCs and Infrastructure Development in the new/ existing industrial estates.

2.3.8 Performance & Credit Rating Scheme Physical Performance

The scheme is being implemented through National Small Industries Corporation (NSIC) Limited. The main objective of the scheme is to provide a trusted third party opinion on the capabilities and creditworthiness of the MSEs so as to create awareness amongst them about the strengths and weakness of their existing operations. Rating under the scheme is being carried out through empanelled rating agencies i.e. CRISIL, CARE, ONICRA,

SMERA, ICRA and Brickwork India Ratings. Under this Scheme, rating fee payable by the micro & small enterprises is subsidized for the first year only and that is subject to maximum of 75% of the fee or Rs.40000/whichever is less.

2.3.9 Marketing Assistance Scheme Physical Performance

The scheme is being implemented through National Small Industries Corporation (NSIC) Limited. The main objectives of the scheme is to enhance the marketing competitiveness of MSMEs; to provide them a platform for interaction with the individual/institutional buyers; to update them with prevalent market scenario and to provide them a form for redressing their problems. MSMEs are supported under the Scheme for capturing the new market opportunities through organising/ participating in various domestic & international exhibitions/ trade fairs, Buyer-Seller meets intensive-campaigns and other marketing events

2.3.10 International Cooperation (IC) Scheme Physical Performance

Technology infusion and/or upgradation of Indian micro, small and medium enterprises (MSMEs), their modernisation and promotion of their exports are the principal objectives of assistance under the Scheme. The Scheme would cover the following activities :

- (a) Deputation of MSME business delegations to other countries for exploring new areas of technology infusion/upgradation, facilitating joint ventures, improving market of MSMEs products, foreign collaborations, etc;
- (b) Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries as well as in India, in which there is international participation;
- (c) Holding international conferences and seminars on topics and themes of interest to the MSME. IC Scheme provides financial assistance towards the airfare and space rent of entrepreneurs. State/Central Government Organisations, Industry/Enterprise Associations and Registered Societies/ Trusts and Organizations associated with the promotion and development of MSMEs are eligible to apply

2.3.11 Assistance to Training Institutions Scheme Physical Performance

The Scheme envisages financial assistance for establishment of new institutions (EDIs), strengthening the infrastructure of the existing EDIs and for supporting entrepreneurship and skill development activities. The assistance shall be provided to these training institutions in the form of capital grant for creation/strengthening of infrastructure and programme support for conducting entrepreneurship development and skill development programmes. Maximum assistance for creation or strengthening of infrastructure will be Rs. 150 lakhs on matching basis, not exceeding 50% of project cost. However, for the North Eastern region (including Sikkim), Andaman & Nicobar and Lakshadweep, the maximum assistance on matching basis would be Rs. 270 lakhs or 90% of project cost, whichever is less. Any State/Union Territory Government, Training Institutions, NGOs and other development agencies can apply for assistance for creation or strengthening of infrastructure. Training Institutions who wish to conduct training programmes under the Scheme will have to enroll themselves with any of the three National Level EDIs of the Ministry viz, NIESBUD, Noida; IIE Guwahati and NIMSME, Hyderabad. Maximum assistance per trainee per hour for entrepreneurship development and skill development programmes is Rs 50 (Rs.60 for NER,A&N and Lakshadweep)

2.4 Schemes for Khadi & Village Industries Sector

Prime Minister's Employment Generation Programme (PMEGP) PMEGP is a credit linked subsidy scheme of the Ministry, implemented through KVIC, DICs and State KVI Boards with KVIC as the Nodal Agency at the national level for setting up new self-employment ventures/ projects/ micro enterprises to generate employment opportunities in rural as well as urban areas of the country. The other objective is to bring together widely dispersed traditional artisans/ rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place so as to help arrest migration of rural youth to urban areas. Any individual, above 18 years of age can avail the benefit of this programme. However, assistance under the Scheme is available only for new projects sanctioned specifically under the PMEGP. Under this programme, financial assistance is provided for setting up of micro enterprises costing upto Rs.25 lakh in manufacturing sector and 10 lakh in service sector. The assistance is provided in the form of subsidy upto 25 percent (35 percent for special category) of the project cost in rural areas while it is 15 percent (25 percent for special category) for urban areas

2.5 Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

With a view to making the traditional industries more productive and competitive and facilitating their sustainable development, the Govt. of India announced setting up of a fund for regeneration of traditional industries. The objective is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability and economy of scale, and provide sustained employment for traditional industry artisans and rural entrepreneurs to enhance marketability of products of such clusters by providing support for new products, design intervention and improved packaging and also the improvement of marketing infrastructure. The objective is also to equip traditional artisans of the associated clusters with the improved skills and capabilities through training and exposure visits and to make provision for common facilities and improved tools and equipment's for artisans in order to strengthen the cluster governance systems with the active participation of the stakeholders, so that they are able to gauge the emerging challenges and opportunities and respond to them in a coherent manner. Funding for the cluster varies from Rs.1.5 Crore to Rs.8 Crore in view of the size and scale of the project. Funding pattern under the scheme has provision for soft interventions including skill training, capacity building, design development, etc. hard interventions including Common Facility Centres, Raw Material Banks(RMB), training centres, etc. and cross cutting thematic interventions which include brand building & promotion, news media marketing, e-commerce, innovation, R&D initiatives and developing linkages between clusters

2.6 Market Development Assistance Scheme for Khadi & Polyvastra

Under MDA, financial assistance in the form of production incentive is provided to khadi institutions @ 20% of the value of production of khadi and polyvastra, to be shared among artisans, producing institutions and selling institutions in the ratio 25:30:45. Producing institutions shall submit quarterly claim of MDA based on the actual production achieved during the preceding quarter of the financial year. The difference, if any, would be adjusted in the last quarter of the financial year on the basis of audited accounts by the Chartered Accountants. MDA shall be preferably reimbursed electronically by State/ Divisional office of KVIC on quarterly basis. MDA provides institutions flexibility to use the assistance for improving the outlets, products and production processes, besides giving incentive to customers, etc. The Khadi institutions, having valid Khadi certificate and categorized as A+,A,B and C, are only eligible to avail MDA grant from KVIC.

2.7 Interest Subsidy Eligibility Certificate for Khadi and Polyvastra

The ISEC scheme is applicable for all registered institutions under KVIC / State KVIBs. The quantum of subsidy shall be limited to the difference between the actual rate of interest charged by the financing institutions and 4 (four) per cent to be borne by the borrower. If at any stage interest rate charged by the KVIC is modified, the quantum of subsidy shall be limited to the difference between the rate of interest charged by the financial institutions and such modified rate of interest

2.8 Schemes for Coir Sector

2.8.1 Coir Vikas Yojana

Coir Board is implementing the Export Market Promotion Scheme for adoption of strategic and aggressive product specific and market specific promotional programmes for popularizing coir and coir products in markets abroad, supporting the export oriented industry programme and to attain overall and sustainable development of Indian Coir Industry by participating in international fairs / product promotion programmes/ seminars etc. and to assist the entrepreneurs to participate in such programmes through export market development assistance scheme. TA financial assistance of upto Rs.2.00 lakhs is provided to the eligible coir exporters to participate in the international fairs/product promotion programmes etc. Assistance for publicity material up to 25% of the production cost with over all ceiling of Rs.15000/- is also admissible. All micro, small and medium exporters, with FOB turnover of less than Rs.2.00 crore worth coir and coir products in the previous year and micro, small & medium entrepreneurs of coir and coir products, registered with the Coir Board, would be eligible for assistance under the scheme, provided they have not availed the facility from any other source for the same purpose or participated three times in the same exhibition to the same destination thrice with government assistance

2.8.2 Coir Udyami Yojana

The objective of the scheme is to Rejuvenate, Modernized and Technologically Upgrade the most crucial link in the Coir production chain, namely Spinners and Tiny Household sector. The scheme envisages replacement of outdated rats/looms and providing of work sheds to spinners and tiny household units resulting in increase in production and earnings of workers. Any individual above 18 years of age with Indian Citizenship can apply under the scheme. There will be no income ceiling for assistance for setting up of project under CUY Scheme. Assistance under the Scheme is only available for projects for the production of coir fibre/ yarn/ products etc. coming under coir sector. Assistance will be made available to individuals, Companies, Self Help Groups, NGO, Institutions registered under Societies Registration Act 1860, Production Co-operative Societies, Joint Liability Groups and Charitable Trust. The SC/ST, Women, NER and Andaman and Nicobar Island and Lakswadweep beneficiaries will be given priority

2.8.3 Coir S &T Yojana (Plan S & T)

Coir Board is implementing the 'Science and Technology Scheme' since 2000- 01, for Research and Development activities of the Board through the twin research institutes viz. Central Coir Research Institute, Kalavoor and the Central Institute of Coir Technology, Bangalore. With the efforts of these research institutions, the Board could develop many new eco-friendly technologies, processes, diversified products, equipments and machinery for increased productivity and efficiency and grades and quality of the coir products

2.8.4 ASPIRE

A Scheme for Promoting Innovation and Rural Entrepreneurship A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship was launched by the Ministry on 18.3.2015. The scheme was formulated to set up a network of technology centres and to set up incubation centers to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in agro -industry. Th e s c h e m e emanates from the Finance Minister's budget speech for 2014-15, whereby, he has suggested establishing Technology Centre Network to promote Innovation, Entrepreneurship and Agro Industry with a fund of Rs.200 crore. ASPIRE is designed to provide necessary skill set for setting up business enterprises and also to facilitate the market linkages available to entrepreneurs and to provide hand holding for a critical period to ensure self sustainability.

The most important component is to set up Livelihood Business Incubators (LBI) under National Small Industries Corporation (NSIC), KVIC or Coir Board or any other Institution/agency of GOI/State Govt. or under PPP mode with these institutions. The next important component is to set up Technology Business Incubators (TBI) at twin levels, i.e. supporting existing incubation centres operated currently under different Ministries and Departments of the Government of India or Institutions including National / Regional level institutions of GOI / State Governments to set up such centre dedicated to incubation and enterprise creation in the area of Agro based Industries and also new incubation centres to be set up by eligible private institutions including Industry Associations, along with the Academic Institutions, R&D laboratories, Universities, Government entities and Technology Parks. The last important component is to create a framework for Start-up Promotion through Small Industries Development Bank of India (SIDBI) by using innovative means of finance like Equity, Quasi-Equity, Angel fund, Venture capital fund, Impact funds, Challenge funds etc. to enable ideas/innovation with creativity and scalability to come to the fore and convert these into commercial enterprises with specific outcomes and within a specific time period. The financial support under LBI is upto Rs.1 crore for NSIC & others and Rs.50 Lakh for PPP incubators. For setting up of TBI, the assistance is for Rs.30 Lakh for existing and Rs.1 Crore for new incubators. Other financial support includes funds for incubation of ideas @Rs.3 lakh per idea and a seed capital of Rs.1 Crore for setting up of start-ups by the incubators. Under the scheme,500 new incubation centers will be set up all over India by next year.

2.9 Summary

In order to promote coexistence and enable MSMEs to play their rightful role in the rapidly emerging economy of India, following sets of measures can be further recommended: A more discriminating program me of assistance need to be designed and operated for better allocation needs. The principle of discriminating assistance involves, among others, the following.

Favoring the growth-oriented and viable units and the units satisfying the socio-economic norms, and avoiding others.

Fostering more of the clustered units to reinforce backward and forward linkages.

Relying exclusively or principally on assistance related to raw materials, marketing, machinery, technical advice, etc. sparingly.

Giving timely and adequate assistance.

As part of a programme of development assistance, it is necessary to accord priority to measures calculated to improve managerial efficiency and productivity, and bring about modernization of equipment, know-how, techniques, management and organization structure.

2.10 Key words

Mahatma Gandhi Institute for Rural Industrialisation (MGIRI)-The national level institute namely ‘Mahatma Gandhi Institute for Rural Industrialization (MGIRI)’ (erstwhile Jammalal Bajaj Central Research Institute) has been established as society under (Registration) Act, 1860 at Wardha, Maharashtra, to strengthen the R&D activities in KVI sector

Coir Board-The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting overall sustainable development of the coir industry and improving the living conditions of the workers engaged in this traditional industry

National Small Industries Corporation (NSIC) Ltd-The National Small Industries Corporation (NSIC) Ltd. was established in 1955 by the Government of India with a view to promote,aid and foster the growth of small scale industries in the country.

National Entrepreneurship Development Institutes -Entrepreneurship development and training is one of the key elements for the promotion of micro, small and medium enterprises (MSMEs), especially for creation of new enterprises by the first generation entrepreneurs.

National Small Industries Corporation (NSIC) Ltd-The National Small Industries Corporation (NSIC) Ltd. was established in 1955 by the Government of India with a view to promote,aid and foster the growth of small scale industries in the country

2.11 Self Assessment Questions

1. Briefly Explain the Role of Government in Promoting the MSME
2. Explain the schemes of MSME Sector
3. Discuss the Schemes of Khadi and Village Industries Sector

2.12 Suggested Readings

1. Michael P. Peters, Robert D. Hisrich, Sabyasachi Sinha, Dean A. Shepherd Entrepreneurship 11th Edition Mc graw Hill publication 2020
2. Dr. Abha Mathur Entrepreneurship Development CBCS TAXMAN PUBLICATIONS 2022
3. Entrepreneurship Kumar Arya Pearson Education India 2022
4. Goyal Mukta , Ekta Gupta Industrial Management & Entrepreneurship Development Notion Press Publication 2022
5. Revitalizing Entrepreneurship Education Taylor & Francis Ltd Routledge Publications 2022

LESSON -3
**GOVERNMENT PROMOTING MSME AND INCENTIVES PROVIDED
TO THE BACKWARD AREA DEVELOPMENT**

Learning objectives

- To Understand the MSME Classification
- To Know the incentives provided to the Backward area Development
- To study the Benefits of MSME of the Indian Economy
- To Learn the Government Initiatives to the MSME sector

Structure

- 3.1 Incentives provided to the Backward area development
- 3.2 MSME Definition
- 3.3 MSME Classification
- 3.4 Importance of MSME in the Indian Economy
- 3.5 MSMEs are also helping India by making it a manufacturing hub.
- 3.6 Limitations of MSME
- 3.7 Factors Leading to the Growth of MSME
- 3.8 Government Schemes to Promote MSME
- 3.9 Other Initiatives for MSME
- 3.10 Benefits of MSME by the Indian Economy
 - 3.10.1 MSME Sector's Contribution to Indian Economy
 - 3.10.2 MSME Contribution to Export in India
 - 3.10.3 Employment Generation
 - 3.10.4 Connecting Remote Areas to Rest of the Country
 - 3.10.5 Improving Standard of Living
- 3.11 Government Initiatives to Promote the MSME Sector
 - 3.11.1 The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act)
 - 3.11.2 Prime Minister's Employment Generation Programme (PMEGP)
 - 3.11.3 Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)
 - 3.11.4 Entrepreneurship and Skill Development Programme (ESDP) Scheme
 - 3.11.5 Udaan Training program
 - 3.11.6 National Skill Certification & Monetary Reward (STAR scheme)
 - 3.11.7 Pradhan Mantri Kaushal Vikas Yojana
 - 3.11.8 Promotion of Information, Education, and Communication (IEC) in AYUSH
 - 3.11.9 National Skill Certification & Monetary Reward (STAR scheme)
 - 3.11.10 Pradhan Mantri Kaushal Vikas Yojana
- 3.12 Summary
- 3.13 Key words
- 3.14 Self Assessment questions
- 3.15 Suggested Readings

3.1 Incentives provided to the Backward area development

Micro Small and Medium Enterprises (MSMEs) were introduced by the government through the MSME Act, 2006. Micro, Small and Medium Enterprises are engaged in the production, manufacturing, processing, or preservation of goods and commodities subject to limits of investment. The government revised the MSME definition in 2020 to boost its growth.

3.2 MSME Definition

MSME new definition eliminates the distinction between manufacturing and services enterprises and also increases the investment and annual turnover criteria for such enterprises. The new definition of MSME was announced in the Atmnirbhar Bharat package and expanded the investment and turnover limit.

3.3 MSME Classification

The MSME classification into Micro, Small, and Medium Enterprises based on investment in plant and machinery equipment are as follows:

Micro – the investment in plant and machinery equipment will not be more than 1 crore, and annual turnovers will not be more than 5 crores.

Small – the investment in plant and machinery equipment will not be more than 10 crores, and annual turnovers will not be more than 50 crores.

Medium-As per the MSME classification criteria, the investment in plant and machinery equipment of Medium enterprises is not more than 20 crore, and the annual turnover is not more than 100 crore.

3.4 Importance of MSME in the Indian Economy

Micro, Small, and Medium Enterprises (MSME) play a vital role in the nation's economic development. The significance of MSME for the growth and development of the country is as follows:

Micro, Small, and Medium Enterprises contribute to 29% of the Indian GDP, 45% of manufacturing output, and about 40% of overall export, and it employs over 11 crore people, out of which 55% of employment happens in urban enterprises which make MSMEs the second largest employer after agriculture.

The Ministry of Micro, Small, and Medium Enterprises has the aim to increase MSME's contribution to Indian GDP from 29% to 50% by 2025 to become a 5 trillion dollar economy.

3.5 MSMEs are also helping India by making it a manufacturing hub.

Micro, Small, and Medium Enterprises also help uplift backward people and tackle poverty by generating employment in rural areas through industrial development.

Khadi and Village Industries, with low capital investment, employ a large number of women in rural India and helps in the upliftment of rural and other backward areas.

3.6 Limitations of MSME

Along with the various advantages of MSME, there are some challenges as well on which the government should work upon. Some of the limitations of MSME, which every UPSC aspirant must be familiar with, are listed below:

Delay in payment even though the MSME Samadhan portal which was set up to help enable faster payments to India's micro, small and medium enterprises.

Due to the lack of assets among micro, small and medium enterprises such as land and building etc., there is a huge credit gap. In 2018 approx, 40% of micro, small and medium enterprises lending was done through the informal sector means finding access to formal credit is still a challenge for MSMEs.

Although in just a decade, the number of women-led MSMEs in India has jumped from 2.15 lakh to 1.23 crore. They largely rely on informal sources and face a financial gap of 158 billion dollars.

Delay in getting access to water and power connection in the remote area.

Most of the micro, small and medium enterprise owners are not well educated and are from poverty-hit regions.

Lack of skilled manpower and labour law compliances restrict the growth of the sector resulting in a slower production process and compromise with product quality.

Poor infrastructure for capacity building and poor marketing strategy.

Lack of modern technology and modernization.

A study conducted by Khadi and Village Industries Commission (KVIC) revealed that due to the COVID-19 pandemic, more than 50% of MSMEs were shut down, and there was also a drop in production and revenue.

The COVID-19 pandemic further increased the problems like delays in payments, scarcity of raw material availability, high informality, etc.

3.7 Factors Leading to the Growth of MSME

To support MSME during the COVID-19 pandemic, the Parliamentary Standing Committee on Industry has recommended providing soft loans to micro, small and medium enterprises at lower interest rates of 3-4%. Some other factors leading to the growth of MSME in India are as follows:

Changing the mindset of the youth of India to become an entrepreneur and generate jobs for others.

By integrating with Global Value Chains (GVC) now, MSME can produce quality goods and services, which will increase their acceptability in the global market.

The productivity of micro, small and medium enterprise players increases with the help of campaigns like – Skill India, Digital India, Startup India, etc.

3.8 Government Schemes to Promote MSME

The following are the government initiatives to promote MSME in India for the country's growth and development:

Udyam Portal – It is the portal that simplifies the process of registration of any enterprise under the MSME category. Recently, the government's new guidelines will make wholesale and retail enterprises eligible for registration in Udyam Portal.

MSME Samadhan – A portal that empowers micro and small entrepreneurs to directly register issues related to delayed payments by the Central Ministries/departments/ CPSEs/ State Government.

Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS) – A scheme for the up-gradation of Technology for micro, small and medium enterprises.

Interest Subvention Scheme – For the incremental credit to MSMEs.

Micro and Small Enterprises Cluster Development Programme (MSE-CDP) – An credit guarantee scheme.

A Scheme for Promoting Innovation, Ruler Industry and Entrepreneurship (ASPIRE) – Helping in reducing unemployment and promoting a culture of excellence in entrepreneurship.

Scheme of Fund for Regeneration of Traditional Industries (SFURTI) – With the help of the latest modern technology, regenerates the traditional industry in a systematic way to make them competitive by enhancing their productivity and product quality.

Micro, Small and Medium Enterprises (MSMEs) form the cornerstone of the Indian economy. The MSME sector in India has exhibited a strong performance and protected the economy from global adversities and shocks. It is estimated that there are 633.9 lakh MSMEs in India. The Micro sector includes 630.5 lakh enterprises, accounting for over 99% of the country's total number of MSMEs. The Small sector includes 3.3 lakh enterprises (0.5% of total MSMEs), while the Medium sector includes 0.05 lakh enterprises (0.01% of total MSMEs). Around 324.9 lakh enterprises (52.3% of total MSMEs) are in rural areas, while 309 lakh enterprises (48.8%) are in urban areas.

Manufacturing Enterprises and Enterprises rendering Services	Micro	Small	Medium
Investment in Plant and Machinery or Equipment	Not exceeding 1 crore	Not exceeding 10 crore	Not exceeding 50 crore
Annual Turnover	Not exceeding 5 crore	Not exceeding 50 crore	Not exceeding 250 crore

3.9 Other Initiatives for MSME

Recently Central Sector, assisted by the World Bank scheme, Raising and Accelerating Micro, Small and Medium Enterprises Performance (RAMP) has been launched under the Ministry of Micro, Small and Medium Enterprises (MSME) for supporting various COVID 19 Resilience and Recovery Intervention with the recommendation in the line made by UK Sinha committee, KV Kamath committee, and Prime Minister Economic Advisory Council.

Online portal 'Champion' – It is a grievance redressal mechanism in the MSME sector.

ZED Certification Scheme- It is a Zero Defect and Zero Effect practice to improve the product quality of micro, small and medium enterprises (MSMEs) by indirectly supporting the Make in India initiative.

The Indian MSME sector provides a crucial employment opportunity with low capital requirements. The sector helps uplift the country's rural and less developed areas, reducing regional imbalances and inequality. Moreover, the sector is complementary to large companies and industries, providing them with the necessary parts and components. All these factors make the SME sector crucial in the country's socio-economic development.

3.10 Benefits of MSME by the Indian Economy

The Indian MSME sector provides several benefits to the Indian society as well as economy. Some of the benefits are given below.

3.10.1 MSME Sector's Contribution to Indian Economy

The sector significantly boosts the country's economy. As per the Ministry of Statistics & Programme Implementation, the contribution of the MSME sector to the Gross Value Added (GVA) in the country's GDP in FY 20 was 30%. The share has been around 30% over the past few years. The sector's contribution to manufacturing in all India manufacturing gross value output in FY 20 stood at 36.9%, the same as that in FY 19. This share signifies the sector's role in India's economic growth.

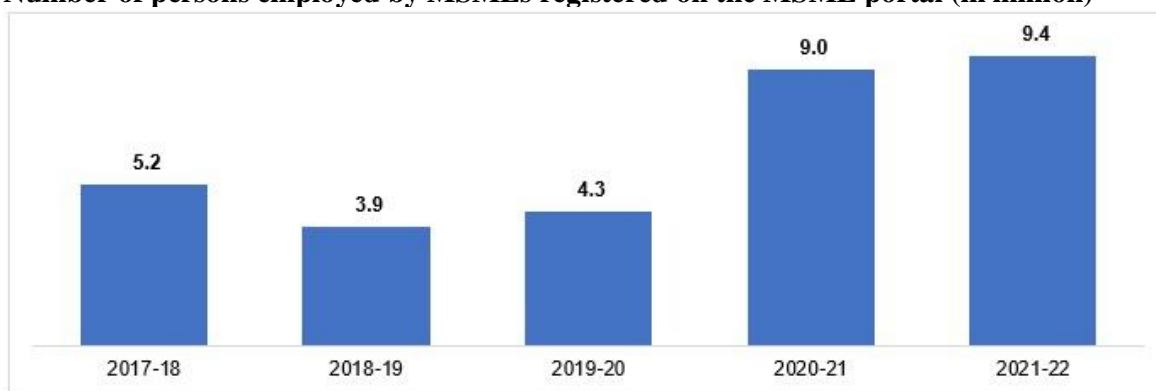
3.10.2 MSME Contribution to Export in India

The MSME sector is among the country's major exporters. Specified MSME-related product exports accounted for 49.5% of India's total exports in FY 21, compared to 49.8% in FY 20. Textiles, garments, different types of shoes, rice and castor oil are among the major products exported by the Indian MSME sector.

3.10.3 Employment Generation

The MSME sector is one of the country's major employers. Setting up an MSME would provide owners with a job, helping them avoid hunting for jobs elsewhere. It also enables them to create employment opportunities for others. The sector has been instrumental in generating employment opportunities in rural and remote areas of the country. As per the data from the Udyam Portal of the Ministry of MSMEs, 93,94,957 people were employed by MSMEs registered on the portal in FY 22.

Number of persons employed by MSMEs registered on the MSME portal (in million)



Source: Ministry of MSMEs, PIB

3.10.4 Connecting Remote Areas to Rest of the Country

By preparing key raw materials and finished goods with global demand, MSMEs in remote and backward areas help connect these areas with the rest of the country and the world. Several MSMEs operate in rural areas while providing ancillary goods to large multinational companies across the globe.

3.10.5 Improving Standard of Living

By creating employment opportunities and connecting backward areas, the MSME industry in India plays a key role in lifting people out of poverty and improving their standard of living. Thus, the sector helps reduce regional imbalances across the country and increase equality among citizens.

3.11 Government Initiatives to Promote the MSME Sector

Considering the importance of the MSME sector in the socio-economic development of India, the government has announced several reforms to grow the sector and promote exports. Some of these reforms are mentioned below.

3.11.1 The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act)

The MSMED Act was passed by the parliament in 2006. The act categorised industries into manufacturing and services and further classified enterprises based on size into micro, small and medium enterprises. The act encouraged enterprises to register by providing certain safeguards and benefits such as skill development, marketing assistance, infrastructure facilities, and forward linkages, as well as facilitating credit.

3.11.2 Prime Minister's Employment Generation Programme (PMEGP)

The PMEGP scheme provides financial assistance for establishing small businesses and creating employment opportunities in urban and rural areas. It aims to generate sustainable employment opportunities for India's youth as well as prospective traditional artisans. Financial assistance will be provided in the form of a bank-financed subsidy programme. Margin money subsidy on bank loans in the range of 15-35% will be provided for manufacturing projects not exceeding Rs. 50 lakh (US\$ 61,230) and for services sector projects not exceeding Rs. 20 lakh (US\$ 24,492). For beneficiaries meeting certain criteria, the subsidy will be 35% for projects in rural areas and 25% for projects in urban areas.

3.11.3 Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)

The CGTMSE scheme encourages first-generation entrepreneurs to opt for self-employment opportunities by providing them credit guarantee support for loans. Moreover, the scheme applies to aspiring and existing entrepreneurs. Loans not exceeding Rs. 2 crore (US\$ 0.2 million) will be provided without any collateral or third-party guarantee. The guarantee under the scheme will be provided:

For micro enterprises, up to 85% of the loan amount not exceeding Rs. 5 lakh (US\$ 6,123)

75% for other enterprises

50% for retail enterprises

3.11.4 Entrepreneurship and Skill Development Programme (ESDP) Scheme

The scheme aims to promote the establishment of new MSMEs and enhance the existing MSMEs' capacity, encouraging an entrepreneurship culture among the citizens of the country. Similar to the earlier scheme, this applies to aspiring and existing entrepreneurs. As the name suggests, the scheme provides entrepreneurship and skill development programmes and training to help entrepreneurs grow their enterprises rapidly.

The Indian MSME industry plays a crucial role in the development of the Indian economy. The MSME contribution to GDP was nearly a third of the country's GVA and while the sector contributed nearly half of the country's exports. Moreover, the sector is a major employer, especially in the country's rural and less developed areas, helping reduce regional imbalances. The sector also strengthens other industries by providing them with raw materials and ancillary products. However, the sector faces challenges such as procuring raw materials and necessary funding. The government recognises the sector's importance and thus

supports it by providing various financial incentives and training. These factors make the sector more competitive while boosting India's economic growth.

3.11.5 Udaan Training program

For unemployed youth of J&K (SII J&K) Related scheme National Skill Certification & Monetary Reward (STAR scheme) Description This scheme provides employment oriented training to the youth from the state over five years covering various sectors like business management, software, BPO. Nature of assistance The duration, place and nature of training is decided after considering the profile of the candidates and their skill gap. After completion of the training, the corporate training company will take necessary measures for placement of the trainees in association with NSDC. Government of India will bear the expenditure on travel from J&K to training destination, boarding & lodging, stipend and placement fee in respect of trainees.

3.11.6 National Skill Certification & Monetary Reward (STAR scheme)

The scheme is for encouraging skill development among the youth by providing monetary rewards for successful completion of approved training programmes.

The scheme shall be implemented through Public Private and Public-Public partnerships. The scheme will provide monetary incentives for successful completion of market-driven skill training to approximately Rs.10 lakh youth in a span of one year from the date of implementation of the scheme. After the training programme a STAR (Standard Training Assessment & Reward) certificate will be given by GoI, NSDC, RASCI/GJSCI which is valid all over India. Nature of assistance Assessment and training bodies for all purposes of the scheme will be separate and no overlap of roles will be allowed to maintain transparency and objectivity. The monetary reward will be wholly funded by the Ministry of Finance, Government of India, and will be effected through direct bank transfer to the beneficiaries' accounts. Appropriate consideration will be provided to the economically backward sections.

3.11.7 Pradhan Mantri Kaushal Vikas Yojana

The objective of this scheme is to encourage skill development for youth by providing monetary rewards for successful completion of approved training programs. Key features of the PMKVY includes adhering to standards (National Occupational Standards – NOS and Qualification Packs – QPs for specific job roles), fund is directly transferred to the trainees bank account, Training would be based upon assessment of skill demand and the skill gap studies, it will be aligned to the demand from the Central Governments other flagship programmes, it will target drop out students after class 10 and class 12, special focus would be on youth in regions affected by left-wing extremists and from North Eastern States and J&K, trainees with prior experience or skills and competencies will be assessed and they will also be given monetary rewards for undergoing assessments, Monetary reward for various job roles within a sector would also vary, Robust regime for registration of training providers would be followed, Awareness building & mobilization activities would be carried out with the involvement of local State and district Governments as well as involvement of Members of Parliament in the activities to ensure.

It was greater outreach and ownership. Improved curricula, better pedagogy and trained instructors (all skill training would include soft skill training, personal grooming,

behavioural change for cleanliness and good work ethics as a part of the training curricula), Enhanced monitoring, mentorship support, evaluation and grievance redressal.

3.11.8 Promotion of Information, Education, and Communication (IEC) in AYUSH

Though AYUSH systems of medicine are popular and progressively a large section of population uses these systems for health care, there is a lack of awareness among the general public about remedies available in these systems. Keeping this in view, a scheme of Information, Education and Communication (IEC) was implemented. The scheme is meant for achieving the following objectives:

- i) Creation of awareness about the efficacy of AYUSH systems, their cost-effectiveness and the availability of herbs used for prevention and treatment of common ailments at their door steps through various channels including the production of audiovisual educational material to achieve the objective of Health for all;
- ii) Dissemination of proven results of R&D work in AYUSH systems at national and international forums;
- iii) Providing a forum among stakeholders of AYUSH systems can take place through conferences, seminars and fairs at regional, national and international levels and encourage stakeholders to participate in them. Nature of assistance The eligible organisation has to apply in the prescribed format complete in all respects well in advance for consideration and approval of the Project Appraisal Committee of the Department the grant will be limited to 50% of the cost of participation in fair a maximum of Rs.1,00,000. This grant in aid will be released on reimbursement basis. The cost of participation means the expenditure towards rent of the space, fabrication, hiring of manpower and transport, etc. Incentives are provided to AYUSH Industry to participate in arogya and other fairs/exhibitions organized by government organizations at national level.

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The scheme is for encouraging skill development among the youth by providing monetary rewards for successful completion of approved training programmes.

The scheme shall be implemented through Public Private and Public-Public partnerships. The scheme will provide monetary incentives for successful completion of market-driven skill training to approximately Rs.10 lakh youth in a span of one year from the date of implementation of the scheme. After the training programme a STAR (Standard Training Assessment & Reward) certificate will be given by GoI, NSDC, RASCI/GJSCI which is valid all over India. Nature of assistance Assessment and training bodies for all purposes of the scheme will be separate and no overlap of roles will be allowed to maintain transparency and objectivity. The monetary reward will be wholly funded by the Ministry of Finance, Government of India, and will be effected through direct bank transfer to the beneficiaries' accounts. Appropriate consideration will be provided to the economically backward sections.

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Capital Goods Scheme Description Under the Capital Goods Scheme assistance is provided for following activities:

- a) Common engineering facility centre may be set up by the local industry and the industry association so that manufacturing services, hitherto, not available, will be accessible to capital goods sector in the catchment area.
- b) Integrated industrial infrastructure facilities for machine tool industry provide an ecosystem for manufacturing of machine tools in industrial cluster mode in order to cut down the logistic cost substantially and therefore making the sector cost effective having enhanced export capability and favourable for attracting more investment.
- c) The Centre will become test and certification centre for statutory and regulatory requirements of earthmoving machinery. The facility will be implemented by the Government of India
- d) The fund will provide financial assistance to existing capital goods industrial units for acquiring / transferring and assimilating advanced technologies and also development of technologies through contract route, in-house route or through joint route of contract in order to achieve global standards and competitiveness.

Nature of assistance

- a) Central Assistance will be by way of one time grant-in-aid (not equity) not exceeding 80% of the project cost subject to maximum of Rs. 48.96 crore for two Common Engineering Facility Centres
- b) One time grant-in-aid (not equity) not exceeding 80% of the project cost subject to maximum of Rs. 125 crore.
- c) Central Assistance will be Rs. 100 crore from DHI, during the Pilot phase. d) Central Assistance will be by way of onetime grant upto 25% of the cost of Technology Acquisition of each technology. Maximum amount given shall not exceed Rs. 10 crore. The funding support will be through a Government R & D institution

3.12 Summary

For a country to grow, the government should actively promote business enterprises. Among business enterprises, the Micro, Small and Medium Enterprises (MSME) deserve special attention. Though MSMEs are small investment enterprises, but their contribution to the Indian economy is very significant. In India, capital is scarce and labour abundant. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. The MSME sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4% in the number of units and 4.62% in employment (currently employing 30 million). Not only do

MSMEs generate the highest employment per capita investment, they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment.

3.13 Key words

MSME- Micro Small and Medium Enterprises (MSMEs) were introduced by the government through the MSME Act, 2006. Micro, Small and Medium Enterprises are engaged in the production, manufacturing, processing, or preservation of goods and commodities subject to limits of investment

Udyam Portal – It is the portal that simplifies the process of registration of any enterprise under the MSME category. Recently, the government's new guidelines will make wholesale and retail enterprises eligible for registration in Udyam Portal

MSME Samadhan – A portal that empowers micro and small entrepreneurs to directly register issues related to delayed payments by the Central Ministries/departments/ CPSEs/ State Government

Prime Minister's Employment Generation Programme (PMEGP)- The PMEGP scheme provides financial assistance for establishing small businesses and creating employment opportunities in urban and rural area

3.14 Self Assessment Questions

1. Briefly Explain the MSME classification
2. Discuss the Incentives Provided to the Backward area Development
3. Describe the Benefits of MSME of the Indian Economy
4. Explain the Government initiatives to MSME Sector?

To Understand the MSME Classification

3.15 Suggested Readings

1. Michael P. Peters, Robert D. Hisrich, Sabyasachi Sinha, Dean A. Shepherd Entrepreneurship 11th Edition Mc graw Hill publication 2020
2. Dr. Abha Mathur Entrepreneurship Development CBCS TAXMAN PUBLICATIONS 2022
3. Entrepreneurship Kumar Arya Pearson Education India 2022
4. Goyal Mukta , Ekta Gupta Industrial Management & Entrepreneurship Development Notion Press Publication 2022
5. Revitalizing Entrepreneurship Education Taylor & Francis Ltd Routledge Publications 2022

LESSON -4

PROJECT FORMULATION AND PROJECT IDENTIFICATION

Learning objectives

- ✓ To Understand the Scope of Project Formulation approach
- ✓ To Know the Role and importance of Project Formulation
- ✓ To Discuss the preparing work plans

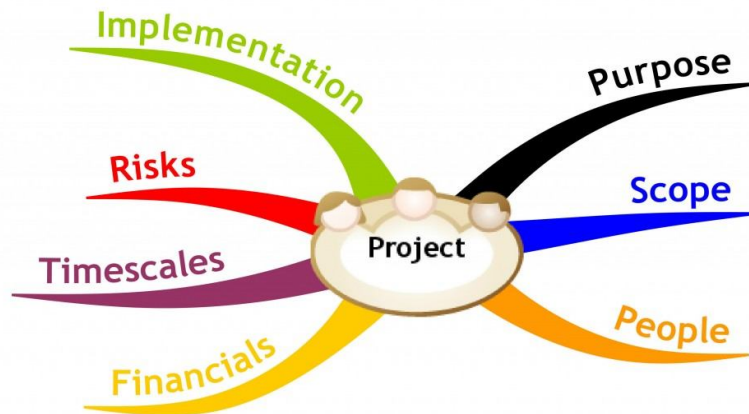
Structure

- 4.1 Project formulation
- 4.2 Project formulation Approach
- 4.3 Scope of Project formulation
- 4.4 Need/ Role/Importance/ Significance for Project Formulation:
 - 4.4.1 Selection of Appropriate Technology
 - 4.4.2 Absence of External Economies
 - 4.4.3 Dearth of Technically Qualified Personnel
 - 4.4.3 Resource Mobilization
 - 4.4.4 Knowledge about Government Regulations
- 4.5 Project identification
 - 4.5.1 Project identification
 - 4.5.2 Stakeholder analysis
 - 4.5.3 Limitations of stakeholder analysis
 - 4.5.4 Problem analysis
- 4.6 Preparing work plans
- 4.7 Summary
- 4.8 Key words
- 4.9 Self Assessment questions
- 4.10 Suggested Readings

4.1 Project formulation

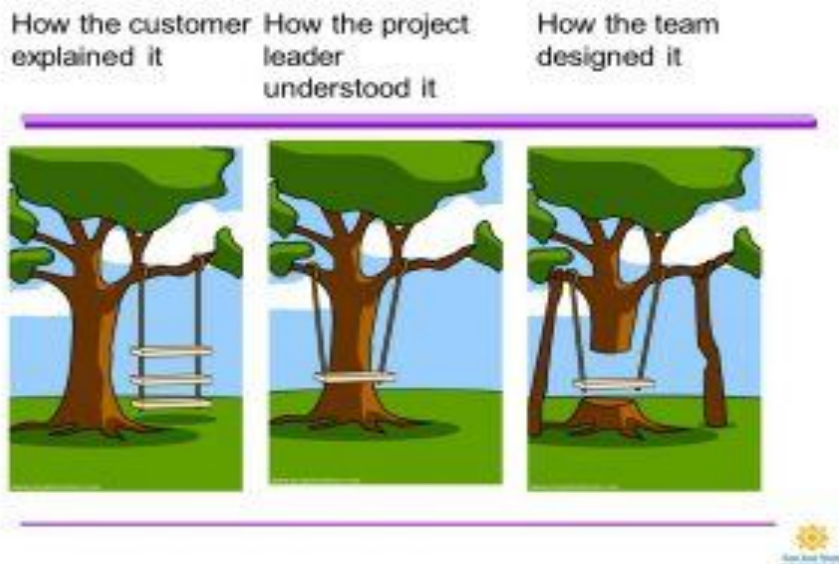
Project formulation is the systematic development of a project idea for arriving at an investment decision. It has the built-in mechanism of ringing the danger bell at the earliest possible stage of resource utilization. Project formulation is a process involving the joint efforts of a team of experts. Each member of the team should be familiar with the broad strategy, objectives & other ingredients of the project. Besides being an expert in his area of specialization, he should be able to play his role in the overall scheme of things.

It aims at a systematic analysis of project potential with the ultimate objective of arriving at an investment decision. In this process it makes an objective assessment from all possible angles starting from project identification up to its appraisal stage. Thus, project formulation is the process of examining technical, economic, financial & commercial aspects of a project. It refers to a preliminary project analysis covering all aspects such as technical, financial, commercial, economic & managerial to find out whether it is worthwhile to take project for detailed investigation & evaluation.



4.2 Project formulation Approach

The success of your project depends on the clarity and accuracy of your business case and whether people believe they can achieve it. The best way to make an objective clear to all the teams involved is to state it in such a way that it can be verified. It is important to provide quantifiable definitions to qualitative terms.



How the customer explained it How the project leader understood it How the team designed it

4.3 Scope of Project formulation

- A General Information
- B Product
- C Market potential
- D Plant and Machinery
- E Location
- F Raw Material
- G Utilities
- H Capital Cost

I Working capital**J Manufacturing Cost****K Financial Analysis****4.4 Need/ Role/Importance/ Significance for Project Formulation:**

In a developing economy, an entrepreneur has to face a number of problems while establishing a new project. However, these problems can be avoided to a large extent, by undertaking project formulation at the right time. The following are the problems;

4.4.1 Selection of Appropriate Technology

The first problem faced by entrepreneur is in the matter of selection of appropriate technology for his enterprise. Modern technology developed in the highly advanced countries may not be suitable for adoption in the developing countries, as the conditions prevailing differ from country to country.

4.4.2 Absence of External Economies

The second problem relates the absence or non-availability of external economies. A project has to depend on other industries for the supply of raw materials, power, tools, spare parts etc. or an ancillary enterprises which can provide technical , financial & managerial services or on a complex network of transport & communication facilities or on an intricate system of business practices.

4.4.3 Dearth of Technically Qualified Personnel

The third problem is the non-availability of technically qualified & appropriate personnel. Modern technology calls for a certain minimum supply of various skills that are generally lacking in developing countries.

4.4.4 Resource Mobilization

The fourth problem is resource mobilization. In the context of present day development of the magnitude & the size of the project, it would be very difficult for an entrepreneur to provide the entire development capital that a project may need.

4.4.5 Knowledge about Government Regulations

The government from time to time formulates its own policies regarding industry, import, export, taxation, price control etc. The entrepreneur must have a thorough knowledge about government regulations, policies & licensing procedures etc.

These problems make the entrepreneur to undergo a lot of harassment & disappointment. But a project formulation, at the right time minimizes the severity & the magnitude of the above problems.

4.5 Project identification

The five major stages of the project cycle are identification, preparation, appraisal, implementation and evaluation. The first two stages are largely the responsibility of

government, which may intend to finance a project from its own resources or to seek external assistance, though donor agencies may play an influential role.

Viewed as a technical process identification involves, in the following sequence

- Preliminary stakeholder analysis
- Problem analysis
- Setting of objectives
- Analysis of alternatives
- Accountability analysis
- Logical framework thinking
- Analysis of assumptions and associated risks
- Progress indicator definition
- Stakeholder review

It can be powerfully argued that this is the most critical stage of the cycle. If the potential of the most viable concepts are overlooked at identification there is little prospect that they will be retrieved at a later stage, when the emphasis shifts from examining options to filling in the details of a specific proposal. It can be costly and difficult to abort or radically revise the preparation of a project once underway. Economists often think in terms of resources, opportunities, and constraints, and this provides an analytical framework with which to generate project ideas. 1.1.1, below, illustrates this and the wide range of possible sources for project concepts

4.5.1 Project identification

In practice, project ideas often result from the identification of

- a discrete set of activities identified as important within programme-based activities, a country's poverty reduction strategy and/or sector-wide approach
- problems or constraints in the development process caused by shortages of essential facilities, services, and material or human resources and by institutional or other obstacles
- unused or underused material or human resources and opportunities for their conversion to more productive purposes; or, conversely, overused natural resources that need to be conserved or restored
- unsatisfied demands or needs and possible means to meet them including opportunities arising from new technology or technological development, for example, the internet and mobile telephony
- the need to complement other investments (such as providing railway and port links for a mining project, transport, packing and marketing facilities for an agricultural development project, or access roads for a sugar factory and bio-ethanol plant)

Project ideas may also emanate from

- initiatives by local private or public entrepreneurs who wish to take advantage of opportunities they perceive or who are responding to government incentives
- community initiatives (often supported by national or international NGOs)
- a government response to local political or social pressures originating, for example, from economic, social, or regional inequalities
- a need for advocacy aimed at government in a weak policy environment

- the pursuit of national objectives such as food security
- the occurrence of natural events (drought, floods, earthquakes) and the short-term responses to crisis
- as a response to long-term trends such as migration, environmental degradation, and climate change
- a desire to create a permanent local capability to carry out development activities by building up local institutions Finally, project ideas originate not only from within a country but also from abroad as a result of
- investment proposals of multinational firms
- programming activities of bilateral and multilateral aid agencies and their ongoing projects in the country
- influence of investment strategies adopted by other developing countries as well as opportunities created by international agreements (for example, on the use of offshore resources)
- prevailing professional opinion or public consensus within the international community in such fields as population, environment, and the alleviation of poverty it should also be noted that the idea of project identification as transparent, purely technocratic and objective does not always hold true. Project identification can be highly political, involving powerful groups which conflict and bargain in their attempts to manipulate the agenda for public action.

4.5.2 Stakeholder analysis

As a first stage it is important to carry out a preliminary stakeholder analysis. This enables identification of the primary stakeholders, as well as partners and their roles. Greater understanding of interest groups and their interest should result in a better quality project.

Stakeholders are individuals, groups or organisations who have an interest or stake in a project. They may be direct or indirect interests, and positive or negative. Their stake in the project may be in terms of their rights or duties or they may be affected by the outcome.

Different roles for stakeholders can be identified at this stage, and these can be developed as the project progresses. Different organisations can play different roles such as sub-contractors, delivery agency, enabling agency etc. Furthermore, it is also possible to identify if any interest groups present threats to the success of the projects, and plans can be put in place to respond to any such events.

There is increasingly a focus on the identification of agriculture and rural development initiatives using a 'bottom-up' learning approach which emphasises the importance of primary stakeholders informed and participating in the identification stage. For process projects which encourage learning from experience, and listening to participants, engaging with stakeholders from the outset is particularly important.

The outcome of the stakeholder analysis at this stage is that the primary stakeholders identified before the objectives of the project are finalised. This ensures that the problem analysis relates specifically to the primary stakeholders Stakeholder tables can be developed

in different formats, for example, 1.2.1 shows the different stakeholders, their interest in the project, and whether their interest is positive or negative

1.2.1 Example stakeholder table

Stakeholder	Interest in project	-ve/+ve
Small farmers	• Higher output and incomes	+
Food traders	• More sales	+
Labourers	• More jobs	+
Moneylenders	• Empowered clients • Less business	- -
Government officials	• Success of project • Possible loss of rent if farmers become empowered	+ -

Source: DFID (2002) p. 2.3.

4.5.3 Limitations of stakeholder analysis

Stakeholder analysis is an effective and commonly used tool, but its use does not guarantee success. There are a number of risks and practical problems that should be avoided in its use. These include:

- that the jargon can be threatening to many
- the analysis can only be as good as the information collected and used
- use of matrices for analysis and presentation can oversimplify complex situations
- the judgements used in placing stakeholders in a matrix or table are often subjective. Ideally, several opinions from different sources will be used to confirm or deny the judgement
- team working can be damaged if the differences between groups in an activity, rather than their common ground, are over-emphasised
- trying to describe winners and losers, as well as predicting hidden conflicts and interests, can alienate powerful groups
- the analysis may lead to the re-emergence of conflicts that had lain dormant

4.5.4 Problem analysis

Projects aim to address a problem or constraint. It is vital to understand the causes of the problem or constraint, how they affect stakeholders, and how to focus on tackling them. A helpful tool for systematically understanding the causes of a problem is the problem tree method. This involves the identification of a core problem (at the centre) which is based on the best understanding and sources of information available. It is important to reach agreement amongst the participants of the key core problem. The causes of the problem are then traced back as the 'roots' of the problem and provide the causal chain.

The effects of the problem are then traced forward as the branches and main effects of a problem on stakeholders.

Diagnosis is a crucial stage in project identification and there are many examples of mistaken diagnosis in project design.

Typical examples of mistaken diagnosis in project design

- (1) Failure to understand the motivation of the intended beneficiaries, or the existence of factors which would restrict their participation in, or response to, a project: eg credit to women farmers.
- (2) Failure to understand the limits to improvements in institutional performance.
- (3) Inadequate market analysis of demand and price forecasts for commodities for which production is to be increased.
- (4) Non-recognition of the degree of dependence of a form of development on subsidies which a government may not be able to sustain or is committed to remove under macroeconomic reforms.
- (5) Non-recognition of the unattractiveness to entrepreneurs of the services which a government seeks to privatise. Simply they are not profitable.
- (6) Proposals for provision of services by government agencies which could be supplied more efficiently and effectively by the private sector.
- (7) Failure to properly determine and understand the physical locations and causes of water losses within an irrigation scheme and also to take account of competing plans for water use in urban areas.
- (8) Underestimation of the difficulty in the humid tropics of maintaining soil fertility and structure, for sustainable annual cropping.
- (9) Incomprehension of the political and social factors which may militate against decentralisation or meaningful peoples' participation in project design and execution.
- (10) Poor assessment of the adequacy of essential infrastructure.

Objectives

When there is agreement and understanding about the core problem and the causes and effects, the project objectives can be specified. The project purpose is developed by restating the core problem in positive terms. The project goal is created by articulating the effects of the problem in positive terms.

Although setting project objectives appears to be straightforward, the process may provide insights which could require revisiting the core problem. Overall the approach may need to be an iterative one. Initial consideration of objectives may prompt further investigation and data collection, and/or consultation with stakeholders.

Trade-offs must be assessed that arise between multiple and conflicting objectives. For example, the objective of raising production of cash crops for export may have to be weighed against the objective of increasing domestic employment or of improving equity. The objective of an agricultural sector project could be functional (to provide a national service), regional (to develop a particular area), or subsector (to expand the production of a crop)-but can probably not be all of these at once.

Selection of a clear and simple objective, such as strengthening a national agricultural extension service, may enhance the prospects of success. It may also, however, limit the project's overall contribution to development unless other complementary investments (such as in agricultural research or credit) are also undertaken project preparation

4.6 Preparing work plans

Work plans enable the project designers to see if, with the planned resources, it is possible to complete all the project activities and produce the outputs in the time allocated. A work plan will draw attention to any problems with scheduling, for example:

- too many activities taking place at one time competing for resources such as labour, equipment, and management time
- lack of co-ordination of activities with for example the cropping season or policy processes
- delays in procurement of inputs or non-production of outputs in time for subsequent activities that require them
- over-optimistic assumptions about possible achievement rates

Work planning is also an integral part of project preparation, not just a final scheduling exercise. Emergence of the problems listed above should lead to modification of the project design. Preparation is an iterative process and frequent revisions of both the project design and work plan may be necessary before the final complete design is reached. The work plan also provides a basis on which to monitor the overall progress of the project and eventually to evaluate it.

Sources of error in preparing work plans tend to result in underestimates of duration, ie there are virtually no compensating errors.

These biases include the following.

- Total omission of essential tasks.
- Failure to allow for interdependence of tasks ie correct sequencing. For example, you cannot start training until training materials are largely completed.
- Failure to allow for resource competition between tasks. For example, specialist skilled workers or vehicles may be required for more than one operation in the same period.
- Failure to allow for seasonal constraints (agricultural production).
- Failure to identify and allow for risks and external factors that may cause delay.
- Over-optimism by planners, especially in the delivery of inputs and failure to allow adequate time for project start-up.
- Pressures to assume early achievement of benefits in order to show results and project high economic and financial internal rates of return.

At the design stage, a work plan should include a schedule showing for each significant activity and its output

- the target starting and completion dates, ie the planned time frame
- who will be responsible for the activity
- who will carry out the activity and what the key inputs required are
- any preconditions for activities including the production of another output

This schedule may be best presented in the form of a time-scaled bar chart. Bar charts have a number of advantages for the presentation of project schedules. Most important is that, for planning, scheduling and, after implementation starts, for the progress made, information is graphically recorded on a single sheet of paper. It is a very simple and effective tool for showing the component activities of the project and its schedule to all levels of management concerned, and can focus attention on potential problem areas. It will not always be desirable to set out a detailed work plan for the whole project at the design stage. Detailed annual work plans may only be established on the basis of yearly inputs made available to the project and the degree of progress achieved in the previous year. The realities of project work preclude precise scheduling any more ambitious than this. However, regarding project start up, work plans should be precise. Several lessons can be drawn, for example, from experience with project implementation in the agricultural sector.

- Specialist consultants should not be brought in before counterpart and supporting services are available; similarly, equipment should not be delivered before buildings and/or stores are ready.
- The development of technological packages must precede effective extension work; training packages precede training; survey and review of existing situation precede research, etc.
- Plans should be co-ordinated with seasons. For example, those that require a local labour commitment should not be scheduled at harvest time.
- Impact evaluations should not be scheduled before some manifestations of impact can be measured.
- Adequate time must be allowed for project start-up. The preparation of work plans and then budgets can be integrated with the use of logical framework analysis. Once the Log frame is complete the activities from the narrative summary column can be copied into the work plan format. The duration of each activity must be estimated, and their logical sequence determined. This must take into account any interdependencies between activities and results. With the work plan prepared, the timing of inputs and hence costs can be specified. The format in which inputs and costs (style of budgets) should be presented and summarised will depend on the procedures of the organisation for whom it is being prepared – eg donor or partner country, but it can be seen that an integrated approach flowing from problem analysis, through the Log frame to preparation of detailed work plans and budgets will bring a more integrated and systematic approach to planning and implementation of the project cycle

4.7 Summary

This unit has provided an overview of the identification, design and preparation of the project cycle. These processes are iterative, so that the project concept can continually be refined and improved.

Ideas for projects may arise from many sources. It is useful to ensure that projects are linked in order to identify needs such as those that arise from a country's poverty reduction strategy paper. It is important to think in terms of the resources and opportunities which are available, and identify constraints which need to be removed.

Project identification must be based on a good understanding of local stakeholders, their priorities and the context and situation in which they are living. For grassroots projects, participation is vital and all of the project identification/planning tools discussed in this unit can be used in a participatory way.

There is a logical flow and process to project formulation and design, and various tools to help at each step of the process from understanding who the stakeholders or clients are and the main problem which an intervention aims to address, to setting objectives, analysing alternatives, and creating a logically consistent project. The inclusion of appropriate stakeholders at each of these steps adds to the 'ownership' and 'buy-in' of stakeholders to the project.

Project preparation involves designing the project in more detail, which often requires further information gathering and feasibility studies. Planning may be more or less detailed, depending on the type of project. Many project planners now recognise that there is little point in preparing extremely detailed plans in advance if projects are experimental and many known or unanticipated factors are likely to emerge during implementation. Even when projects are not experimental, they need to be adapted to changes in the external environment eg the market prices of crops. There should be a certain amount of flexibility in project design.

4.8 Key words

Project identification

Project identification of a discrete set of activities identified as important within programme-based activities, a country's poverty reduction strategy and/or sector-wide approach

Project formulation Approach

The success of your project depends on the clarity and accuracy of your business case and whether people believe they can achieve it. The best way to make an objective clear to all the teams involved is to state it in such a way that it can be verified. It is important to provide quantifiable definitions to qualitative terms.

Problem analysis

Projects aim to address a problem or constraint. It is vital to understand the causes of the problem or constraint, how they affect stakeholders, and how to focus on tackling them

4.9 Self Assessment Questions

1. Briefly explain the scope of Project formulation approach
2. Discuss the role and importance of project formulation

3. Describe the Project Preparation in work plans

4.10 Suggested Readings

1. Michael P. Peters, Robert D. Hisrich, Sabyasachi Sinha, Dean A. Shepherd Entrepreneurship 11th Edition Mc graw Hill publication 2020
2. Dr. Abha Mathur Entrepreneurship Development CBCS TAXMAN PUBLICATIONS 2022
3. Entrepreneurship Kumar Arya Pearson Education India 2022
4. Goyal Mukta , Ekta Gupta Industrial Management & Entrepreneurship Development Notion Press Publication 2022
5. Revitalizing Entrepreneurship Education Taylor & Francis Ltd Routledge Publications 2022

Lesson-5

INDUSTRIAL ESTATES AND THE ROLE OF KIADB, TEKSOC AND REGISTRATION WITH DIC

Objective

- To introduce the functions and activities of various Central and State Government agencies supporting small-scale industries.
- Discuss the functions of DIC.
- Present the activities and focused consultancy areas of TECSOK.
- Discuss the functions of KIADB.

Structure

5.1 Introduction

5.2 District Industries Centers (DIC)

5.2.1 The main functions of DIC are:

5.2.2 Resources For District Industries Centers (DICS)

5.2.3 Structure Of District Industries Centers (DICS)

5.2.4 .Activities Of District Industries Centre (DICS)

5.2.5 Schemes Under District Industries Centers (DICS)

5.2.6 Role of DIC for the Promotion of Small Scale and Cottage Industries

5.2.7. List of Andhra Pradesh State DICS

5.3 Technical Consultancy Services Organization of Karnataka (TECSOK).

5.3.1 Focused Consultancy Areas of TECSOK

5.4 Karnataka Industrial Areas Development Board(KIADB)

5.5 Summary

5.6 Key Words

5.7 Self Assessment Questions

5.8 References

5.1 Introduction

The list of various State and Central Government agencies supporting small-scale industries is given in previous chapter. Their activities and functions are discussed in the following sections.

The industrial development of a State depends on creation of a favourable investment climate by providing industrial land within reasonable time, with necessary infrastructure and faster clearances for projects. Karnataka Industrial Areas Development Board (KIADB) is a statutory body constituted (July 1966) under Section 5 of the Karnataka Industrial Areas Development Act, 1966, (KIAD Act) to aid the industrial development in the State. In terms of Section 13 of KIAD Act, the functions of KIADB are to promote and assist in the rapid and orderly establishment, growth and development of industries and to provide industrial infrastructural facilities and amenities in Industrial Areas(IAs).

Entrepreneurship development (ED) refers to the process of improving entrepreneurial skills and knowledge through structured training and institution-building programmes. Entrepreneurship

development focuses on the individual who wishes to start or expand a business. This accelerates employment generation and economic development. District Industries Centers (DICs) provide full assistance to the entrepreneurs who are going to start the business on their own and in their regional places. These centers provide service and support to small entrepreneurs under a single roof at both pre and post investments. The DICs program was started on May 1st in the year of 1978 with a view to providing integrated administrative framework at the district level for promotion of small scale industries in rural areas. Providing complete assistance and support to entrepreneurs in multi-regions are the ultimate aims of DICs. These DIC programs can take over the responsibilities in order to promote cottage and small scale industries at district level effectively. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. Management of DIC is done by the state government.

KIADB comes under the administrative control of the Commerce and Industries Department, headed by Additional Chief Secretary to the Government of Karnataka (GoK). KIADB is headed by a Chief Executive Officer and Executive Member (CEO & EM) who is assisted by various officers. There are 12 Development Offices (DOs) across the State. There are 162 Industrial Areas covering 30 Districts in the State.

5.2 District Industries Centers (DIC)

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

5.2.1 The main functions of DIC are:

- (1) To prepare and keep model project profiles for reference of the entrepreneurs.
- (2) To prepare action plan to implement the schemes effectively already identified.
- (3) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e., industrial sector, service sector and business sector.
- (4) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of it supply and procedure for importing machineries.
- (5) To provide guidance for appropriate loan amount and documentation.
- (6) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.
- (7) To appraise the worthness of the project-proposals received from entrepreneurs.

- (8) To help the entrepreneurs in obtaining required licenses/permits/clearance.
- (9) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
- (10) To conduct product development work appropriate to small industry.
- (11) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
- (12) To conduct artisan training programme.
- (13) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).
- (14) To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.
- (15) To help the specialized training organizations to conduct Entrepreneur development programmes.

In fine DIC's function as the torch-bearer to the beneficiaries/entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.

The DIC's programme is funded jointly by the concerned state and central government. It took part in various promotional measures In order to bring out the development of small unit sectors in the district level. The DIC's performs the following functions mainly:

1. To spot the entrepreneurs

DICs conducting various motivational programmes so that they can find new entrepreneurs throughout the districts. It is done particularly under some schemes and with the association of SIS's and TCO's for conducting Entrepreneurial programmes.

2. Purchase of fixed assets

To purchase fixed assets, the DICs suggest loan applications of the prospective entrepreneur to some of the concerned financial and development institutions like NSIC, SISI etc., DCI's also recommend commercial banks so that to meet the working capital requirement of SSI to run operations daily.

3. Offers subsidies and other incentives

DCIs help the rural people to subsidies offered by the government on various schemes. It leads to the betterment in boosting financial capacity of the units and may undergo for further development activities.

4. Guidance of import and export

Government provides various types of incentives for import and export on particular goods and services. The license to the importer and exporter is issued on the basis of recommendation of DIC.

5. Entrepreneurial training programmes

DCIs allow a lot of training programmes for the rural entrepreneurs who are new to the business

world and also recommend other institutions to take part in such training programs. These are intended to give better assistance to the new entrepreneurs.

6. Provides employment for unemployed educated ones

The DICs have introduced a scheme to guide the unemployed educated youth by providing them facilities for self-employment. The age limits between 18 to 35 years with minimum qualification of metric or technical trade. The notable thing here is that the technocrats and women are given importance.

5.2.2 Resources For District Industries Centers (DICS)

Funding assistance is provided by the Government of India for District Industries Centre in the following manner:

1. A non-recurring grant up to Rs.2 lakh for the construction of an office building.
2. A non-recurring grant up to Rs.3 lakh to meet the expenditure on furniture and fixtures, office equipment and vehicles.
3. Recurring establishment expenditure to the extent of 75% of the actual expenditure, bounded up to Rs.3.75lakhs.

5.2.3 Structure Of District Industries Centers (DICS)

DIC's consists of:

A General Manager.	
Functional Managers (4 members)	Three of the functional managers would be in the economic investigation domain, credit and village industries. Whereas the fourth functional manager may be with the responsibility in any of the areas such as raw materials marketing, training etc. based on the particular requirements of that district.
Project Managers (3 members)	Based on the needs in the area of the district concerned they provide technical service. Their role is to work for modernization and up gradation of technology in small units.

5.2.4 .Activities Of District Industries Centre (DICs)

The DIC's performs the following activities primarily:

- Economic Investigation.
- Plant and Machinery.
- Research, education and training.
- Raw materials.
- Credit facilities.
- Marketing assistance.
- Cottage industries.

5.2.5 Schemes Under District Industries Centers (DICS)

The following are the some of the schemes under District Industries Centre (DIC):

1. Prime minister's employment generation program (PMEGP)

The objective of this centrally sponsored scheme of Ministry of Micro, Small & Medium Enterprises, and Government of India being implemented since October, 2008 is to provide gainful self-employment opportunities to educated unemployed one's through industrial activities, services and business.

2. Seed money scheme

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

3. DIC loan scheme

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

4. Entrepreneurship development training program

The objective of training educated unemployed persons to take up self-employment ventures or skilled wage employment. Entrepreneurs are given guidance related to industry/service/business activities & skill up gradation. Entrepreneurs are also guided in respect of choice of activity, necessities of land, project report, obtaining various no objection certificates, licenses and marketing strategy.

5. District award schemes

To encourage entrepreneurs in establishing small scale enterprises and also to extols them for their success and achievements, the State Government has started honoring such entrepreneurs with District Award Scheme at the district level. Proprietors / Partner's / Directors of enterprises who have obtained EM registration with the concerned District Industries Centre at least three years earlier and in production for two continuous years are eligible for the award. These awards are given to them under the scheme of this District Award scheme.

6. PMRY Scheme

PMRY(Prime Minister Rozgar Yojana) scheme was introduced on the auspicious day of 2nd October, 1993, the birth Anniversary of Mahatma Gandhi all over the country .The main objective of the PMRY scheme was to provide easy subsidized financial assistance to educated unemployed youth for starting their own businesses in the fields like manufacturing, business & service and trade sectors. Firstly the scheme was aimed at providing self-employment to one million educated unemployed youth in the country by making up 7 lakh micro enterprises through inducting service and business ventures within 2 ½ years . The scheme was successfully captured the imagination of the youth. Overwhelmed with the response and ever-increasing need, the Government has confirmed to make it as a permanent scheme and framed modalities & guidelines for its successful implementation and to fulfill the purpose for which it is designed.

5.2.6 Role of DIC for the Promotion of Small Scale and Cottage Industries

- DIC provides the information on sources of machinery and equipment.
- Promotes new industrial growth centers, electronic industries etc.,
- Conducts multiple training programs to encourage the entrepreneurs.
- Gives assistance to entrepreneurs under State Incentives scheme and funding assistance through self-employment schemes.
- It allots raw materials to the concerned industries at district level.
- DIC gives the information about marketing and its assistance on participating trade fairs/buyers-sellers meet and so on.
- Guidance regarding Import and Exports of specific goods and services.
- Improves the managerial capacity by organizing various seminars, workshops etc.
- It clears the problems related to SSI Registration/Bank loan/Marketing of production etc.
- Single window assistance through SIDA and District Industries Centers.
- Products standardization
- Promotion of products under Non-conventional Energy Sources.
- Design and product development for handicrafts.

5.2.7. List of Andhra Pradesh State DICs

S.NO	District	Address of DIC's
1	Adilabad	Near Collectorate-Adilabad
2	Anantapur	DPAP Compound, Anantapur-515001
3	Chittoor	Industrial Estate, Chittoor-517127
4	Kadapa	Income Tax Road, Smith road, Kadapa-516001.
5	East Godavari	Industrial Development Area, Kakinada-533001.
6	Guntur	Opp. Collectorate, Guntur-522004
7	Karimnagar	Industrial Estate, Karimnagar
8	Khammam	Industrial Estate, Khammam
9	Krishna	Jawahar Auto Nagar, Patamata, Krishna Vijayawada-520007

Table: Some of the DIC's and its address in Andhra Pradesh state.

5.3 Technical Consultancy Services Organization of Karnataka (TECSOK).

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing; IT related studies, detailed feasibility studies and reports.

TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas

through feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition it offers expert professional services to various institutions and departments of the state and central government.

TECSOK undertake the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys.
- Fact-finding and opinion reports.
- Corporate planning.
- Collection and collation of information.
- Impact assessment.
- Evaluation of schemes and programmes.
- Asset evaluation.
- Infrastructure development project proposal.
- Event management and publicity campaigns, and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced engineers in different disciplines, MBAs economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

5.3.1 Focused Consultancy Areas of TECSOK

Promotion of agro based industries: TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

Energy management and audit: Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

Environment and ecology: TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka cleaner production center (KCPC) to provide total consultancy support in the area of environment.

Human Resource Development: TECSOK designs and organizes business development programmes, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka.

Other TECSOK activities:

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas.
- System study and software development.
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

5.4 Karnataka Industrial Areas Development Board(KIADB)

The Karnataka industrial areas development board is statutory board constituted under the Karnataka industrial area development act of 1996. Since then it is in the business of apportioning land for industries and gearing up facilities to carryout operations. The KIADB now acquires and provides developed land suited for industrialization, by drawing up well laid-out plots of varying sizes to suit different industries with requisite infrastructure facilities. The facilities include roads, drainage, water supply etc. The amenities such as banks, post offices, fire stations, police outposts, ESI dispensaries etc are also provided. It also plans to initiate the provision of common effluent treatment plants wherever necessary.

KIADB has acquired a land of 39,297 acres out of which 21,987 acres had been developed till March 1996. Developed industrial plots had been allotted to 7882 units. Application forms for the allotment of land may be obtained from the executive member, KIADB Bangalore or general manager DIC of concerned district or from the Zonal office of KIADB located at Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan and Belgaum. Applications duly filled must be accompanied by:

- (a) A brief project report.

- (b) Details of constitution of the company
- (c) Provisional registration certificate
- (d) EMD of Rs 500/- per acre, subject to a maximum of Rs 10,000/- along with 20%, 15% and 5% of the land cost for various districts.

On receipt of applications for all districts other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned district headquarters. The district level allotment committee will take a decision on allotment of land to the SSI units. In case of Bangalore, the screening committee comprising of executive member

KIADB, director of SISI, chief advisor TECSOK with discuss the project and make necessary recommendation to a sub-committee. The sub-committee will in turn allot the land. Once land is allotted the remaining payment should be made within six months of the date of issue of allotment letter.

The industry should be started after obtaining the necessary license /clearance / approval from the concerned authorities. Plans for the proposed factory / building or other structure to be erected on the allotted sites are executed only after prior approval of the board. On being satisfied that the land is not being put to the prescribed use, the board reserves the right to re-enter and take possession of the whole or any part of the land. If necessary the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and subsequent charges of the land.

Hire purchase: This scheme provides for a fast, easy alternative to ready cash. Industrial concerns in commercial production for two years and earning profits and regular in repayment to financial institutions/banks can avail assistance of Rs.1lakh. Professionals and commercial operators can also avail hire purchase assistance.

5.5 Summary

The main functions of DIC are preparing and keeping model project profiles, prepare action plans, carrying out industrial potential survey to identify feasible ventures, providing assistance for land/shed, equipment etc.

In India, District Industrial Center performs an important role in Entrepreneur development. DICs Provide complete assistance and support to entrepreneurs to start and develop the industries. This government program is yielding better results when compared with the past programmes in terms of generating self-employment. This process will cause to reduce the regional imbalance among developed and developing areas of the country. The DICs should take much more efforts to give advices and also help the entrepreneurs to start, run and develop the industries effectively.

TECSOK is leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, merger and acquisition etc. KIADB is in the business of apportioning land

for industries and gearing up facilities to carry out operations.

5.6 Key Words

KIADB : Karnataka Industrial Areas Development Board

(TECSOK): Technical Consultancy Services Organization of Karnataka

DIC: District Industries Centers

5.7 Self Assessment Questions

1. Brief explain the DIC?
2. Discuss the KIADB ?
3. Explain the TECSOK?

5.8 References

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Lesson-6
**MANAGEMENT FUNCTIONS IN SMALL AND MEDIUM ENTERPRISES-
FINANCE FUNCTIONS, CAPITAL ESTIMATIONS AND SOURCES OF
FINANCE**

Objective

1. To introduction to Management functions in Small and Medium
2. To brief analysis of Finance Functions
3. To discuss the Capital Estimations

Structure of lesson

- 6.1. Introduction
- 6.2 Finance Functions
 - 6.2.1 Three stages in the development of finance function
- 6.3. Methods
- 6.4 Capital Estimates
- 6.5 Sources of Finances
- 6.7 Key Words
- 6.8 Self Assessment Questions
- 6.9 References

6.1. Introduction

Doing business in the current context is the prerogative of competent and strategically oriented entrepreneurs. The times, when the market was accepting any solutions offered by novice businessmen, are long gone. The role and importance of management, as well as management culture, and management methodology in today's business is especially important, because today the upsurge of any company in the competition depends on the quality of management, the ability to anticipate every step in advance. Therefore, the improvement of business management should be considered as one of the main factors to improve its efficiency. In the modern context, the problems of innovation in general and new management thinking, in particular, are especially relevant, as well as the ability to build cause-and-effect relationships, to determine the long-term capabilities of a particular business structure (firm), and to develop new business models.

The economic development of each country is provided by large, medium-sized, and small enterprises, as well as individual entrepreneurs. At that, each group of these economy entities occupies the niche most favorable for its functioning. While large enterprises tend to focus on the production of high-labor-intensive products that are in mass demand, SMEs produce products, whose manufacturing is unprofitable for large enterprises.

As noted by R. MacIntyre, it is small private enterprises and entrepreneurs that can play a key role in ensuring the development of the national economy.

Domestic economists have repeatedly stressed the key role that SMEs can play in creating new jobs and ensuring the dynamic development of the national economy. Thus according to S.Yu. Shevelev, E.A. Shevelev, and L.A. Kropotova, the special importance of SMEs is manifested "during the transition period to a market economy in stimulating the structural adjustment of the economy, forming a new social layer of enterprises- owners as a social base of market transformation of the economy, which ensure the stability of society and guarantees of irreversibility of movement to the market".

In addition, SMEs quickly and efficiently provide services to the population, as well as other business entities. In addition, SMEs create new jobs and serve the basis for the training of highly qualified managers, who can subsequently work in large public and private enterprises.

Therefore, in some countries, SMEs form a significant part of the gross domestic product (GDP). Thus, according to the Stolypin Institute for the Economy of Growth, in Germany, the proportion of SMEs in total value added amounts to 53%, in Sweden-58%, in Finland and Israel-60%, in Norway -61%, in the Netherlands- 63%, and in Italy - 68%. As a comparison, the proportion of SMEs in Russia's GDP is only 21%. Russia is also noticeably inferior to advanced countries except the United States in terms of the number of SMEs per 100 people. In terms of this indicator, the Czech Republic has 4.7 times more SMEs than Russia, Sweden- 3.4 times, Spain- 2.7 times, and Poland- 2.1 Rossiya i Mir (2018)

A comparison of countries in terms of the proportion of workers employed in the SME sector also indicates a significant lag in the Russian economy. While in Russia the proportion of SME employees does not exceed 1/5 of all employees in organizations, in countries, such as the UK, France, Germany, Romania, and the Netherlands their proportion is more than 50%, while in the Czech Republic, Poland, Turkey, Spain, Portugal, and Italy this figure reaches more than 2/3. The weak development of the SME sector in Russia is confirmed also by another indicator characterizing the size of the SME sector, namely, the proportion of SME turnover. In countries, such as the UK, Brazil, Sweden, Belgium, France, Germany, Romania, the Netherlands, the Czech Republic, Poland, Turkey, and Spain, this indicator is more than 50%, in Italy and Portugal more than 2/3, while in Russia it is less than 30% Rossiya i Mir (2018)

The analysis of the organizational and economic status of SMEs in Russia has shown that the development of this economic sector is inferior not only to countries with established market traditions but also to the former socialist states.

There are many barriers on the way of SMEs development, which can be classified into external and internal ones. According to R.R. Sidorchuk (2012), the latter include problems in management, lack of qualified personnel, as well as lack of experience and knowledge.

Meanwhile, among the key success factors of SMEs, which plan and achieve rapid growth in turnover, and in number of staff, European researchers attribute primarily a high level of management, especially management of human resource, marketing orientation of the management structure, constant training, and active involvement of external consultants and analysts.

6.2 Finance Functions

Given the great economic and social importance of small and medium- sized businesses, most advanced countries are developing programs to support SMEs. Thus, in the OECD member countries, four main areas of assistance to the SME sector have been identified: facilitating access to sources of financing; creating an appropriate entrepreneurial climate; developing managerial skills; helping to obtain information resources, and creating business networks to facilitate access to markets. Moreover, as noted in the OECD report, the governments of all countries have recognized that the improvement of corporate management in SMEs plays a core role in improving the competitiveness of small firms

In France, for example, in 1993, 2,840 companies were awarded grants to pay for services of consulting firms for a total amount of 173 mln francs. Particular success in this direction was achieved in Japan, where since 1962 nine colleges for SMEs have been established offering 278 long-term and short-term educational programs annually to more than 11 thousand participants

In Finland, training sessions and courses for entrepreneurs are attended by about eight thousand businessmen a year. At that, the training program for executives includes the development of managerial skills, management of various activities, business development forecasting, and planning. The latter is especially important because, as studies have shown, 28.6% of Finnish SMEs do not plan their activities at all, while only 10.1% of firms have a developed strategic plan.

Another SME study conducted in Germany has shown that more than 80% of companies do not develop long-term plans. Most of them have a financial planning system based on budgeting. In many companies, these are very simple budgets, and there is no activity that could be called strategic planning.

The managers of SMEs often do not have special education, and studied management independently in practice. Government programs offer them qualified assistance providing a system of grants to attract specialists. As the French practices show, such recruitment schemes were predominantly used by small businesses -59.9% (among them 25.1% -by the medium-sized firms, and 13.1% -by microfirms).

Therefore, the problem of SME management is typical not only for Russia but also for many countries of the world. As noted by A.P. Medvedev, "improving the competitiveness of small and medium-sized entrepreneurship and ensuring its sustainable development is impossible without continuous improvement of production processes and the implementation of advanced, including management, technologies".

The purpose of the present article is to identify the features of SME management, as well as to distinguish areas of concern in the business structures (firms) management to find out the causes and sources of business inefficiency, and consequently, to offer a way to assess the forecast expectations from the implementation of a new business model of the enterprise structure (firm), when designing a strategy canvas of a new product or service.

Research hypothesis consists of the idea that the solution of SME management problems lies in the implementation of modern management models, whose essence is based on principles generally accepted in the world practice. According to the results of the study, it can be concluded that the goal set in the study was achieved.

6.2.1 Three stages in the development of finance function

Using CHAID (decision tree) analysis according to the methodology discussed in Section 2 makes it possible to visualise the development of the finance function through different business sizes and to discuss the forces that drive this. As a rule, it is the least proactive firms that drive the level of adoption of management reporting and business planning practices in the general population. About 73% of the more proactive group produce accounts even at turnover levels of less than £75m. Similarly, more than half produce written business plans even if they have no employees yet. The conclusion is that, while a minority of SMEs begin

life with at least the beginnings of an adequate finance function, the majority is forced to develop one owing to the demands of simply doing business.

The Monitor data tell us that, for the average business, the development of the finance function proceeds through three distinct stages. Although we use turnover and employment thresholds to define these, the three stages are mostly not about size, but about changing business needs. Moreover, although it is not possible to reconcile all the findings to simple patterns, they can nonetheless be summarised as follows.

Stage 1: Agency Problems And Financial Controls.

As very small businesses begin to generate consistent revenues (typically while they still have fewer than 10 members of staff and turnover of less than £100k), ownermanagers begin to reconcile themselves to the fact that they cannot control everything or everyone, or operate without giving an account of themselves to third parties.

The earliest uses of management reporting, formal business plans and financially trained staff are therefore mostly about monitoring employees and aligning their incentives with business objectives, putting internal controls into place and, in the case of newly incorporated businesses, living up to the obligations of a company to its stakeholders. These priorities become even more pressing if the business is growing particularly fast, in which case both the use of financially trained staff and formal business planning are even likelier.

These findings are corroborated by other studies, most notably Davila and Foster (2005), who demonstrate that agency costs are an important driver in the adoption of management accounting practices in early start-ups and that the latter is positively correlated to firm performance at this stage. Importantly, they also note that professional financial managers are hired by start-ups along with the adoption of management accounting practices as a 'bundled pair'.

While many entrepreneurs pre-start-up, as well as microenterprises, use business plans primarily in order to approach providers of finance, the findings discussed below suggest that the effect of external financing on the use of business planning is negligible after the effects of fast growth are taken into account. Indeed, it appears to be the case that among very small businesses, only those with aspirations of substantial growth take a consistent approach to business planning.

This is not surprising. The presence of a business plan can be a mere formality, or simply a means for finance providers to discourage the least creditworthy or investment-ready applicants; as such it does not in itself confer any advantage to start-ups – it is the process of continuous planning and revision of business plans that makes a difference to the prospects of growing firms. Davidsson and Honig (2010), for instance, find that subsequent revisions of business plans are positively correlated with the profitability of new ventures, while formulation of business plans in itself (ie the use of one-off business plans) is actually negatively correlated with profitability. Similarly, in a representative US study, Kirsch et al. (2009) find that venture capitalists gain little information from the one-off business plans used in funding applications.

Stage 2: Standardisation And Monitoring

At the next level (turnover from about £100k to £1m, no more than 50 members of staff), small businesses with diversified internal resources begin to use financial information to optimise their internal processes. Moreover, they gradually become better at producing standardised information and feeding this into formal business plans. At this stage, quality management and online revenue become important drivers of both management reporting and business planning. In addition to this, financially trained staff are hired to monitor cash flow and manage credit as well as report on the progress and resource implications of improving business processes.

In their award-winning paper, Davila et al. (2011) demonstrate that this transition to formal monitoring and standardisation of processes is a catalyst for growth, and they even demonstrate a link between equity finance, the imposition of such controls by the new shareholders, and rapid growth. Von Krogh and Cusumano (2001) identify this as an element of what they call the ‘scaling’ strategy for growth, in which firms invest aggressively so that they can distribute a stable, focused set of goods and services widely at low cost.

Oe and Mitsuhashi (2012) offer a particularly useful insight into the role of accounting information in start-up growth. Their findings suggest that a commitment to information distribution and interpretation makes it easier for founders to put their human capital (namely their prior industry and start-up experience) to good use and thus help start-ups reach break-even sooner. It is very likely that accounting provides an avenue for such distribution and interpretation of firm information: serial entrepreneurs and industry specialists tend to know what information they would ideally need in order to monitor their businesses and therefore adequate information systems make it easier for them to exploit the advantage of their superior experience.

It’s less clear why online activity coincides with a strengthening of the finance functions of small businesses at this stage of their development, but research suggests that important synergies exist between accounting and marketing in e-commerce. E-commerce means that small businesses increasingly rely on intangible assets such as intellectual property and user networks; it also makes it cheaper and quicker to generate information about the business, while going virtual and addressing a global audience means it’s that much more challenging to allocate and control costs or to understand what drives sales. The convergence of technological and strategic decisions in e-commerce, moreover, has implications for management accounting. The very role of the management accounting function is changing with the increased ubiquity of e-commerce, reorienting itself away from standardised information and towards more flexible reporting that enables creative managerial responses to a rapidly changing environment, both within and outside the firm.

Stage 3: accounting for growth.

Upon reaching turnover of roughly £1m, or 50 members of staff, a growing business may still appear relatively small to casual readers of the financial press or to government officials, but internally its resources are stretched to the limit. At this stage, management reporting, business planning and the use of trained finance staff are typically tied to supporting growth by enabling businesses to access finance, make and assess the case for new products and services, monitor their supply chains and manage their headcount. This stage corresponds more closely to what Van Krogh and Casumano (2001) call the granulation strategy for growth, in which businesses attempt to balance the need for standardisation with that for greater responsiveness to market conditions and customer needs.

Not all growth is the same, of course: the Monitor data suggest that the steady-state growth of mature enterprises of this size tends to generate more business planning than the explosive growth of what are commonly known as ‘gazelles’ – perhaps because this allows for periods of consolidation and reflection, or perhaps because businesses become more introverted as they begin to exhaust their potential for growth in a given market.

And then there is another kind of growth altogether: the rising tide that lifts all boats. In an economic boom, businesses can grow substantially for a while without building the crucial foundation of a finance function focused on growth. For instance, medium-sized UK businesses launched in the boom years between 2002 and 2007 were less likely, even four years later, to have a financially trained person in charge of their finances. It is likely that the need for such staff appears less urgent while economies and individual businesses are growing strongly and the firm’s continued survival and growth seem certain.

6.3. Methods

The importance of corporate management in the development of SMEs has caused the need for research on management processes in domestic firms. In order to identify weaknesses in management, reveal the causes of problems, and identify priority measures to improve the situation in this area, the authors conducted a remote survey of SME managers, which involved 252 managers.

In terms of the industry affiliation of enterprises, the majority of firms were from the trade sector (54.8%), 10.6% were production companies, while the rest were financial and intermediary firms, as well as companies representing construction, transport, tourism, service, etc. (Table 1).

Table-1

Field of activity	Proportion, %
Trade	54
Production	10
Construction	6
Transport	3
Public catering	5
Tourism	2
Financial and intermediary activities	10
Consumer service	4
Multifunctional organizations	6

Table 2

The implementation of the planning function by managers Monitoring of planning as the main component of the management process of the organization has shown that it is the most

critical area in the SME management: it is used by just 24% of respondents (Table 2).

Do not plan	76%
Are planning	24%
among them:	
short-term planning	47.2%
operative planning	75%
medium-term planning	30.5%
long-term planning	8.3%

The majority of those who plan their activities are limited to the preparation of short-term and operative plans (47.2 and 75% of entrepreneurs, respectively), 30.5% of managers use medium-term planning, while only 8.3% are practicing long-term planning.

Analysis of planning of functional areas (Table 3) has shown that financial planning is used most often (94% of managers, who are engaged in planning), the next are production planning (42%) and material resources planning (37%). At that, marketing, foreign economic activity, and corporate development are planned on rare occasions.

Table-3

The types of planning used by SMEs

Types of planning	Proportion, %
Development planning	3
Foreign trade planning	5
Marketing planning	14
Personnel planning	28
Investment planning	36
Material resource planning	33
Production planning	42
Financial planning	94

Thus, there is a need to develop measures that would help SME executives to implement and improve the corporate planning system.

When it comes to improving the efficiency of management of SMEs, it should be noted that effective management of socio-economic systems is carried out under the condition of personal shared responsibility for achieving a clearly defined goal that is possible only in the case of differentiation of labor in the managerial apparatus and the provision of managers with all levels of appropriate authority and rights to adopt positive and negative sanctions.

An integral part of management is also the existence of goals that must be achieved through persevering activities. Goals can be set independently or externally, by the highest level of management. They should be clear, definitely formulated, such that can be really achieved and monitored. Otherwise, it is only about desires or intentions.

A characteristic feature of SME is the versatility of actions taken by a businessman, who founded and runs a business at his own risk, is responsible for the results of activities, and makes decisions. Therefore the SME management is characterized by both features inherent in large enterprises, and at the same time the following features typical for SME:

- combining the functions of manager and owner;
 - the absence of planning departments in many enterprises, which is the reason that the plans are not being documented;
 - SMEs are adaptive systems, which are characterized by a flexible organizational structure, temporary assignment of tasks and work to performers, decentralization of authority and responsibility, the benefits of horizontal linkages, minimal use of formal rules and procedures, and readiness for change;
 - use of flexible control methods;
- advantage of oral (verbal) communication. According to V.N. Tashlykov, the management system of SMEs should be characterized by simplicity and flexibility. The main criterion of its optimality is to ensure the competitiveness of the enterprise. At the same time, the organization of management provides for the resolution of the following issues:
- 1) creating the company structure;
 - 2) distributing powers;
 - 3) and forming a decision-making mechanism.

6.4 Capital Estimates

The organizational structure serves the means for achieving the set goals of the enterprise. Its formation should begin with the definition of enterprise goals and strategies. The structure of the firm is formed after the choice of strategy and is determined by the strategy, that is, the structure changes when the strategy of the firm changes. At that, the structure of a sole-owned enterprise is typical for SMEs. With this form, the management is carried out by the enterprise owner, who takes on business risks.

Structure rationalization, typical for the SMEs, is the formation of small units with highly qualified personnel, the minimum number of management levels, focus of the enterprise on consumers, quick response to changes in the external environment, high productivity, and low costs.

Among the factors that affect the structure of the enterprise, it is necessary to distinguish the production technology, the external environment, the scope of the business, and the decision-making system. The effectiveness of the SME management system also largely depends on the timely identified problems, the so-called blind spots of business.

The next important stage in the SMEs management system is the formation of a decision-making mechanism. This process should take into account the influence of consumers and competitors. To do this, it is advisable to use the assessment of the forecast expectations of a new product or service offered by the company for implementation, the so-called strategy canvas, which is developed in the following sequence.

- Firstly, it is necessary to determine the criteria that are important for potential consumers, when choosing products (services) of a certain industry. The maximum number of such criteria should not exceed ten to reduce the complexity of the analysis. It is important to take into account that when choosing criteria, it is necessary to evaluate them from the viewpoint of the consumer, rather than the firm. For example, a perfect management system means nothing for customers if it does not lead to better service and low prices. - Secondly, one should evaluate the goods or services of the main competitors according to similar criteria, and develop their strategy canvas.

- Thirdly, the goods or services offered by a particular firm should be evaluated, and own strategy canvas should be designed. If the criteria are basically the same, it means that the offers of the firm are not sufficiently differentiated, while exactly this fact leads to price competition and lower profits.

The market economy conditions are more demanding to executives, so a new concept of organization's evolution should be developed, which should meet the needs of new economic formations at all stages of their life cycle.

Any enterprise goes through at least three phases: the first phase is the launching and the beginning of the activity, the second is the phase of consolidation in the market and competitive environment, and the third is the phase of expansion and development that leads to sustainable profit.

The main task of the entrepreneur is to minimize the period of the first two phases. In other words, it is necessary to overcome these phases at maximum pace with a minimum of barriers.

Each of these phases has its own management processes, which for SMEs have certain features. Basically, they stem from the imperfection of the organizational structure, the lack of a clear division of managerial labor, and small-scale production.

However, the initial phase of the enterprise's existence can be considered almost the most important, because it determines the main aspects of the enterprise. To better understand the importance of the early stage of the business, American scientists N.C. Churchill and V.L. Lewis developed a model which included five stages of SME development.

At the first stage, the company is just starting its business. The main task here is to attract the interest of the consumer to offered goods or services. Important issues are to ensure the production of products that meet the requirements of the consumer, as well as the search for funds to cover the initial costs. At this stage, many businesses go bankrupt.

The second stage is called survival. At this stage, the main thing is to achieve a certain turning point in the formation and profit earning to expand the enterprise funds.

Entrepreneurs are trying to form a sufficient amount of funds to finance the company growth and ensure the current assets ratio. This stage determines the further fate of the enterprise. At that, the enterprise can be managed by a manager, who is not its owner.

At the third stage, the enterprise is characterized by a good economic condition, and the level of revenues is above average. The enterprise is able to stay at this stage for a quite long period if it adapts to environmental changes and emerging internal problems. The owners work together with the management and solve the problems of the corporate finances to invest in future projects.

6.5 Sources of Finances

The main problems of the fourth stage are related to the following aspects: how to accelerate the growth of the enterprise and how to finance it. Important issues that need to be addressed are whether the owner wants to shift the responsibility for managing a growing enterprise to others and whether the cash flow will be sufficient to ensure the normal functioning of the enterprise. At the same time, poor management and unwillingness of executives to transfer responsibility can lead to undesirable changes in the management structure. If at this stage efforts are not successful, the enterprise may find itself at one of the previous stages.

At the final fifth stage, the company must combine and control the financial revenues that result from its growth. However, at this stage, growth may stop due to the lack of innovation and the disappearance of development motives. Depending on how quickly the changes are implemented, the company may return to growth or go bankrupt. At this stage, the company should move to the active implementation of innovations.

All managerial work at SMEs can be reduced to certain basic processes, namely: setting the task, planning and forecasting, coordination and decision-making, marketing, the motivation of activity, and control over the implementation of set tasks. This helps the managers to coordinate effectively their further actions for managing the enterprise.

It should also be remembered that an integrated approach makes it possible to determine the functions of enterprise management subsystems and complex large systems in which the entrepreneur has to act. Because the systems, with which the entrepreneur cooperates, make up the elements of other larger subsystems (namely, the economic complexes of areas, cities, regions, and industries involving many companies and enterprises various in terms of their business sectors), it should be borne in mind that these systems and subsystems are in constant dynamics; they are modified, improved, reorganized (and possibly degrade or disappear).

6.6. Conclusion

Small and medium-sized businesses play an important role in ensuring the dynamic development of the Russian economy, creating new jobs, developing investment and innovation, and training future managers to manage large companies.

The management process in SMEs should be based on the basic functions of management, its adaptation to the characteristics and needs of a particular enterprise. The peculiarity of SMEs is the simplicity of the management, as well as small managerial staff. As a rule, there is no separation of ownership and management functions, since there are no practices of the delegation of authority. One of the main features of SMEs is the lack of regimentation of the initiative, attention is focused on informal communication, which is characterized by high intensity, and, in fact, becomes a system of strict control.

An important task of SME managers is to be as flexible and adaptive to the business environment as possible, to thoroughly investigate the business, the external environment, and the factors affecting the enterprise operation, using the appropriate tools.

Surely, there is no universal formula, which can be used by the manager to increase the profits of the enterprise effectively and within a short time. For the Russian practice in the field of management, the following tasks are particularly relevant today.

1) First, the implementation of successful foreign management practices after the proper adaptation. Since today knowledge has the ability to age quickly, the ability to think logically and analytically, identify the causes, and predict the consequences, as well as be able to learn actively, becomes the key factor of an effective employee;

2) Second, it is always important to understand the business environment in which the entrepreneur works, as well as the current challenges that this environment creates. And for this purpose it is necessary to communicate with counterparts from other enterprises, jointly forming an understanding of the market and developing the relevant solutions.

6.7 Key Words

SME: Small and Medium Enterprises

Capital Estimations : a calculation of the value of a company's assets

GDP : Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period

6.8 Self Assessment Questions

1. What is the Capital Estimates in the Enterprises ?
2. What is the SME? To brief Discuss the SME?
3. To Discuss the Finance Functions in the Small and Medium Enterprises?

6.9 References

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Lesson-7

SUBSIDIES AND INCENTIVES, VENTURE CAPITAL, MARKETING AND HUMAN RESOURCES MANAGEMENT FUNCTIONS

Objective

To brief discuss the Subsidies and Incentives

To explain the Venture Capital

To Study the Marketing and Human Resources

Structure of the Lesson

7.1 Introduction to Subsidies and Incentives

7.1.1 the Advantages of incentives and subsidies

7.1.2 Fiscal Incentives

7.1.3 Processing Industries

7.2 Venture Capital for MSMEs

7.2.1 Venture Capital for MSMEs in India

7.2.3 Benefits of VC over other Funding Methods

7.2.4 Venture Capital Funds in India

7.2.5 Obtain Venture Capital

7.3 Marketing Assistance Scheme

7.4. Marketing Support to MSMEs

7.5. Procedure For Implementation Of The Scheme

7.5.1. Screening Committee

7.5.2. Administrative Expenditure

7.6 Human Resource Management

7.7 Conclusions

7.8 Key Words

7.9 Self Assessment Questions

7.10 References

7.1 Introduction to Subsidies and Incentives

In India Entrepreneurs are offered a number of incentives because they fulfill two main objectives of economic development. Firstly, they facilitate the decentralization of industries. They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production, and a higher standard of living.

This is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concessions, subsidies, and bounties. 'Subsidy' denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry that is considered essential in the national interest.

The term Bounty denotes bonus or financial aid which is given by a government to industry to help it compete with other units in the home market or in a foreign market. Bounty offers

benefits on a particular industry; while a subsidy is given in the interest of the nation. The object of incentives is to motivate entrepreneurs to start new ventures in the larger interest of the nation and society.

7.1.1 the Advantages of incentives and subsidies

For this, the following six offers you the following Advantages: Which you need to look at.

- They encourage the entrepreneur to start industries in backward areas.
- They help to develop new enterprises which lead to economic development They make the entrepreneur to face competition successfully.
 - They act as a motivational force which makes the potential entrepreneur enter into business activities.
 - They help the government to get a balanced regional development.
- They help to reduce the overall problems of small scale entrepreneurs. Need For Incentives and Subsidies
- Incentives and subsidies are required for the following four reasons given below. Which you need to see.
- To Generate More Employment and Remove Unemployment: Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

To Promote Entrepreneurship: Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy, etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures

- To Remove Regional Disparities in Development: Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.
- To Provide Competitive Strength, Survival, and Growth: several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference, etc. will improve the competitive strength. Other concessions like concessional finance, tax relief, etc., contribute their survival and growth.
- Problems Relating To Subsidies
- Some problems may arise in formulating and implementing the subsidy system. They are as follows. Which you should take a look.
 - Subsidies may lead to inefficiency in the long run.
 - Subsidies once introduced are difficult to withdraw.
 - The administrative procedure must be effective.
 - A subsidy may remain unutilized.
 - The quantum of subsidy should be adequate to produce the desired results.
 - The target groups to whom the subsidy is to benefit should be clearly determined.
 - If the administration is inefficient or corrupt, the subsidy will not produce the desired results.
 - It is very difficult to measure the impact of subsidies.
 - The cost of administering a subsidy should be considered.

- The subsidy scheme should be communicated to prospective beneficiaries.

7.1.2 Fiscal Incentives

1. Project Category Definition Micro, Small and Medium Enterprise (MSME): GoAP follows the MSME definition laid out by the Government of India as per the MSMED Act 2006 from time to time. The definition updated based on the notification released on 1st June 2020 is as follows

Classification	Criteria
Micro	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover: not more than Rs. 5 crores
Small	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover: not more than Rs. 50 crores
Medium	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover: not more than Rs. 250 crores

Table : MSME definition according to Govt. of India

Large Industrial Project - A large Project is a unit which has investment and turnover thresholds more than the Medium enterprises as described in the MSMED Act,2006.

Mega Industrial Project- Projects with direct employment generation of 2,000 will be accorded a mega- industry status.

The Government may extend tailor-made benefits to mega projects to suit particular investment requirements on case to case basis based on the gestation period, pioneering nature, locational aspects, technology, project's importance to the state's industrial growth and its ability to generate large scale employment for people, overall economic impact or revenues for the state.

The incentives mentioned in this section are applicable to General Industries as well as for Food

7.1.3 Processing Industries

1.1 Incentives for Micro and Small Enterprises

- Reimbursement of 100% stamp duty and Transfer duty paid by the industry on purchase of land meant for Industrial use.
- Reimbursement of 100% stamp duty for lease of land/shed/buildings, mortgages and hypothecations
- GoAP is committed to supplying uninterrupted 24x7 quality power to all industries operating in the state
- Fixed power cost reimbursement @ ₹1.00 per unit for a period of five years from the date of commencement of commercial Production

- e. Reimbursement of 100% of net SGST accrued to state for a period of 5 years from the date of commencement of commercial production or up to realization of 100% fixed capital investment, whichever is earlier
- f. 15% Investment Subsidy on Fixed Capital Investment limited upto ₹20 lakh, whichever is lower. The subsidy will be released only after 3 years of continuous operation with atleast 80% efficiency in all parameters i.e employment, production etc.
- g. Interest subsidy of 3% on the term loan taken for fixed capital investment by new Micro and Small enterprises for 5 years from the date of commencement of commercial production
- h. Reimbursement of 25% land conversion charges for Industrial use limited to ₹10 lakh 3
- i. Water and Power will be delivered to door-step of the industry, if it is located in the designated Industrial Park

1.2 Incentives for Medium Enterprises, Large and Mega Industries

- a. GoAP is committed to supplying uninterrupted 24x7 quality power to all industries operating in the state.
- b. 100% Reimbursement of net SGST accrued to the State for 5 years or 100% fixed capital investment, whichever is lower, from the date of commencement of commercial production, linked to employment

Direct Employment generated	SGST reimbursement
<1000	50%
1000 to 2000	75%
2000+	100%

- c. GoAP places significant thrust on adoption of sustainable green measures across industries in the state. Common facilities like Waste water treatment, Continuous Emission Monitoring System (CEMS) etc. would be setup in new APIIC Industrial parks.

7.2 Venture Capital for MSMEs

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. SMEs have traditionally been dependent on Bank finance for expansion and working capital requirements. However, in the recent past, bankers have curtailed lending to SMEs due to the greater risk of non-performing assets (NPAs) in a downturn. Thus, even though many SMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects.

In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are

different from the traditional moneylenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologists, planners and managers.

7.2.1 Venture Capital for MSMEs in India

Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players reluctant to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the VC scenario in India is rapidly changing. Alternative funding like VC is picking up in the India, including in the MSME sector. Moreover, the VCs are expanding their reach into areas besides the traditional VC sectors like Information Technology (IT); nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc. is also growing.

In recent years, the government controlled financial institutions have initiated positive and progressive measures to provide MSMEs access to funds at a reasonable and affordable costs and without any usual hurdles. Venture capital funding institutions have been floated to induct fund at low cost, share the risk and to provide management and technology upgradation support to these enterprises. Government-funded schemes exist at both the national and the state levels. They tend to be relatively small — they typically do not exceed US\$ 5 million.

The Small Industries Development Bank of India (SIDBI) is the main public financial institution involved in VC funding operations. SIDBI operates through wholly owned subsidiary, SIDBI Venture Capital Limited (SVCL). It co-finances state-level funds, and sometimes co-invests with private sector VCs on a case-by-case basis.

Since 2006, some new VCs are also operating at the SME level, such as Helion Venture Partners, Erasmic Venture Fund (Accel India Venture Fund), SeedFund, and Upstream Ventures. While technology remains the most sought after investment fields, interest has been shifting from internet companies to other types of operations—especially ICT enabled services and bio-technology.

A few VCs also operate at the early-stage, including Erasmic Venture Fund, Seed Fund, Headline, IFI sponsored facilities such as Swiss Tech VCF, and the government schemes such as SIDBI VC and Gujarat VF. Early stage VCs seek smaller deals, typically in the US\$ 1 – 3 million range. However, they rarely go below the half million dollar mark, where there is a strong appetite for financing, but very few opportunities. Possible sources of smaller investments are represented by local public-sector facilities, business angels, business incubators funds, and isolated cases of seed VCFs, such as the microventure schemes like Aavishkaar India Micro Venture Capital Fund (AIMVCF).

7.2.3 Benefits of VC over other Funding Methods

Venture capital has a number of advantages over other forms of finance:

- It injects long term equity finance which provides a solid capital base for future growth.
- The venture capitalist is a business partner, sharing both the risks and rewards. Venture capitalists are rewarded by business success and the capital gain.
- The venture capitalist is able to provide practical advice and assistance to the company based on past experience with other companies which were in similar situations.

- The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners, and if needed co-investments with other venture capital firms when additional rounds of financing are required.

7.2.4 Venture Capital Funds in India

In India, venture capital funds (VCFs) can be categorized into the following groups:-

- Promoted by the Central Government controlled development finance institutions, for example:
 - SIDBI Venture Capital Limited (SVCL)
 - IFCI Venture Capital Funds Limited (IVCF)
- Promoted by State Government controlled development finance institutions, for example:
 - Gujarat Venture Finance Limited (GVFL)
 - Kerala Venture Capital Fund Pvt Ltd.
 - Hyderabad Information Technology Venture Enterprises Limited (HITVEL)

To find more Government VCFs, click here.

- Promoted by public banks, for example:
 - SBI Capital Markets Limited
- Overseas venture capital fund, for example:
 - Walden International Investment Group
 - SEAF India Investment & Growth Fund
 - BTS India Private Equity Fund Limited

To access the list of all registered VCFs in India, please visit <https://www.sebi.gov.in/index.html>

7.2.5 Obtain Venture Capital

While seeking VC funding, one needs to know

The best way to get noticed by VCs is to get recommended by someone known to them. If you can afford it, you should get a merchant banker to advise and introduce you. But most entrepreneurs looking for funding may not be that lucky. That is where networking comes in. Organizations like TiE provide networking opportunities that entrepreneurs should make the most out of.

Take help of **Angel investment networks**, such as:

- TiE Entrepreneurship Acceleration Programme
- Indian Angel Network

It is important to select venture capitalists with whom it is possible to have a good working relationship. Often businesses do not meet their cash-flow forecasts and require additional funds, so an investor's ability to invest in additional financing rounds if required is also important. Finally, when choosing a venture capitalist, the entrepreneur should consider not just the amount and terms of investments, but also the additional value that the venture capitalist can bring to the company. These skills may include industry knowledge, fund raising, financial and strategic planning, recruitment of key personnel, mergers and acquisitions, and access to international markets and technology.

Once a short list of appropriate venture capitalists has been selected, the entrepreneur can proceed to identify which investors match their funding requirements. At this point, the

entrepreneur should contact the venture capital firm and identify an investment manager as an initial contact point.

Looking for funding

- You can find information on Indian Investment Network, an online platform connecting local entrepreneurs with angel investors in India and internationally.
- You can also send your requirement to Indian Venture Capital Association. Go to http://en.wikipedia.org/wiki/Indian_Venture_Capital_Association for submitting your details.

Read more on raising VC funding for your business from the book “Smooth Ride to Venture Capital”, by Pankaj Sahai. Click here to read the contents of the book.

VCs look for

Venture capitalists are higher risk investors and, in accepting these risks, they desire a higher return on their investment. The venture capitalist manages the risk/reward ratio by only investing in businesses which fit their investment criteria and after having completed extensive due diligence.

Venture capitalists have differing operating approaches. These differences may relate to location of the business, the size of the investment, the stage of the company, industry specialization, structure of the investment and involvement of the venture capitalists in the companies activities.

The venture capital firm will ask prospective investee companies for information concerning the product or service, the market analysis, how the company operates, the investment required and how it is to be used, financial projections, and importantly questions about the management team.

All the above questions should be answered in the Business Plan. Assuming the venture capitalist expresses interest in the investment opportunity, a good business plan is a prerequisite.

Sources

- *Business Portal of India*
- *Financing Technology Entrepreneurs & SMEs in Developing Countries: Challenges and Opportunities – India Country Study, an infoDev publication*
- *India Venture Capital Association*Neytri.com

Marketing

The Micro, Small and Medium Enterprises (MSMEs) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socioeconomic development of the country. Fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities are opened up for this sector to enhance productivity and look for new markets at national and international level, it has also, on the

other hand, put an obligation to upgrade their competencies to meet the competition as new products are launched at an astonishing pace and are available worldwide in short time. Micro, Small & Medium Enterprises do not have any strategic tools / means for their business/ market development as available with large industries. In the present competitive age, Marketing is one of the weakest areas wherein MSMEs face major problems.

7.3 Marketing Assistance Scheme

Marketing, a strategic tool for business development, is critical for the growth and survival of micro, small & medium enterprises. Marketing is the most important factor for the success of any enterprise. Large enterprises have enough resources at their command to hire manpower to take care of marketing of their products and services. MSME sector does not have these resources at their command and thus needs institutional support for providing these inputs in the area of marketing. Ministry of Micro, Small & Medium Enterprises, inter-alia, through National Small Industries Corporation (NSIC), a Public Sector Enterprise of the Ministry, has been providing marketing support to Micro & Small Enterprises (MSEs) under Marketing Assistance Scheme. Emergence of a large and diverse services sector in the past years had created a situation in which it was no longer enough to address the concerns of the micro & small enterprises (MSE) erstwhile known as small scale industries (SSI) alone but essential to include the entire gamut of enterprises, covering both MSE Sector and related service entities, in a seamless web. There was a need to provide space for the small enterprises to grow into medium scale enterprises, for that is how they will be able to adopt better and higher levels of technology and remain competitive in a fast globalizing world. Thus, as in most developed and developing countries, it was necessary that in India too, the concerns of the entire range of enterprises – micro, small and medium, were addressed and the sector was provided with a single legal framework. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues and also other issues relating to credit, marketing, technology upgradation etc concerning the micro, small and medium enterprises. The enactment of MSMED Act 2006, w.e.f. from 2nd October, 2006 has brought medium scale industries and service related enterprises also under the purview of this Ministry.

The need of the hour presently is to provide sustenance and support to the whole MSME sector (including service sector), with special emphasis on rural and micro enterprises, through suitable measures to strengthen them for converting the challenges into opportunities and scaling new heights. Thus although the medium enterprises have also been included as the target beneficiaries under the scheme, special attention would be given to marketing of products and services of micro and small enterprises, in rural as well as urban areas.

7.4. Marketing Support to MSMEs

Under the Scheme, it is proposed to provide marketing support to Micro, Small & Medium Enterprises through National Small Industries Corporation (NSIC) and enhance competitiveness and marketability of their products, through following activities:

7.4.1 Organizing International Technology Exhibitions in Foreign Countries by NSIC and participation in International Exhibitions/Trade Fairs: International Technology Expositions / exhibitions may be organized by NSIC with a view to providing broader exposure to Indian micro, small & medium enterprises to facilitate them in exploring new business opportunities in emerging and developing markets. These exhibitions may be organised in consultation with the concerned stakeholders and industry associations etc. The calendar for these events may be finalized well in advance and publicized widely amongst all participants/stakeholders. The calendar of events would also be displayed on the Web-site of NSIC. Such expositions showcase the diverse technologies, products and services produced/rendered by Indian MSMEs and provide them with excellent business opportunities, besides promoting trade, establishing joint ventures, technology transfers, marketing arrangements and image building of Indian MSMEs in foreign countries. In addition to the organisation of the international exhibitions, NSIC would also facilitate participation of Indian MSMEs in the select international exhibitions and trade fairs. Participation in such events exposes MSMEs to international practices and enhances their business prowess. These events provide a platform to MSMEs where they meet, discuss, and conclude agreements on technical and business collaborations.

7.4.2 Organizing Domestic Exhibitions and Participation in Exhibitions/ Trade Fairs in India: In order to provide marketing opportunities to MSMEs within the country, certain theme based exhibitions / technology fairs etc. may be organized by NSIC, focused on products and services offered by MSMEs, including technologies suitable for employment generation, products from specific regions or clusters (like North Eastern Region, Food processing, Machine-tools, Electronics, Leather etc). Micro, Small & Medium Enterprises would be provided space at concessional rates to exhibit their products and services in such exhibitions/fairs. Apart from above NSIC may also facilitate participation of MSMEs in the exhibitions / trade fairs / events being organized by various State Government departments, industry associations and other institutions, all over the country to exhibit their products and services. These exhibitions may be organised in consultation with the concerned stakeholders and industry associations etc. The calendar for these events may be finalized well in advance and publicized widely amongst all participants/stakeholders. The calendar of events would also be displayed on the Web-site of NSIC. Participation in such events is expected to help the MSMEs in enhancing their marketing avenues by way of capturing new markets and expanding existing markets. This would also help them in becoming ancillaries, partners in joint ventures and sub-contracting for large companies.

7.4.2.1 Scale of Assistance: Built up space would be provided by the implementing agency i.e. NSIC, to MSMEs in various domestic exhibitions at subsidised rates to enable them to exhibit their products and services. The rates of subsidy available on space charges would be as under:

General Category

Micro Enterprises : 75%

Small Enterprises : 60%

Medium Enterprises : 25%

Enterprises belonging to NE Region/ Women / SC/ST category

Micro Enterprises : 95%

Small Enterprises : 85%

Medium Enterprises : 50%

The budget for organizing the Domestic exhibition/trade fair would depend upon the various components of the expenditure, i.e. space rental including construction and fabricating charges, theme pavilion, advertisement, printing material, transportation etc. However, the budgetary support towards net expenditure for organizing such exhibition/trade fair would normally be restricted to a maximum amount of Rs. 45 lakh. The corresponding budgetary limit for participation in an exhibition/trade fair shall be Rs. 15 lakh. In cases exceeding the above budgetary limits, the approval of Administrative Ministry would be required.

7.4.2.2 "Techmart" exhibition by NSIC: NSIC has been organising "Techmart" exhibition every year during India International Trade Fair (IITF) in the month of November. This is an international exhibition showcasing the best MSME products, technologies and services of India. No subsidy would be available to General Category entrepreneurs participating in this exhibition. Upto 30% of the total area may be allocated for the entrepreneurs belonging to the Special Category i.e. Entrepreneurs belonging to NE Region/ Women / SC/ST category, keeping in mind the instructions and guidelines issued in this regard from time to time. The rates of subsidy available on space charges for the Special category would be as under:-

Micro Enterprises : 95%

Small Enterprises : 85%

Medium Enterprises: 50%

The total budgetary support for organizing "Techmart" would normally be restricted to Rs. 75 lakhs only. The proposal exceeding this limit would require approval of the Administrative Ministry.

7.4.3 Support for Co-sponsoring of Exhibitions organized by other organisations/ industry associations/agencies: Support may be provided to various institutions, industry associations and organisations engaged in promotion & development of MSMEs, for organizing exhibitions/ fairs within the country for the benefit of MSME sector. This support would be in the form of co-sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation/agency must fulfil the following criteria/conditions:

- (a) The applicant organization / industry association / institution should be engaged in the development of MSMEs for at least three years and should be able to demonstrate sufficient experience and capability for holding such events.
- (b) The event to be organized should have at least 5000 sq ft covered area exclusively for stalls/shops and must have participation from at least 50 MSME units. The organizer shall be required to submit a blueprint / layout of the proposed exhibition along with his application.

(c) The organizer would provide a stall of at least 100 sq. ft. to NSIC, to disseminate information about the promotional and other schemes of the Ministry and its organisations.

(d) The name of event would be prefixed with 'NSIC' and also display prominently that the event is for the 'MSMEs' and supported by Ministry of MSME.

(e) The names of NSIC and Ministry of MSME would be prominently displayed in all publications, literature, banners, hoardings etc. of the event.

7.4.3.1 Scale of Assistance: The scale of assistance to the applicant organisation/agency for co-sponsoring of an exhibition/trade fair would depend on the place of the event. The budgetary support towards partially meeting the expenditure on hiring of exhibition ground/hall, erection of stalls, publicity etc. for co-sponsoring the event and would be limited to 40 % of the net expenditure (gross expenditure - total income), subject to maximum amount of –

Rs. 5 lakh in case of 'A' class cities.

Rs. 3 lakh in case of 'B' class cities.

Rs. 2 lakh in case of 'C' class cities.

Rs. 1 lakh in case of rural areas.

The assistance towards co-sponsoring the event shall be provided to the applicant organisation on reimbursement basis after the event, on submission of event report and other relevant documents.

7.4.4 Buyer-Seller Meets:

Buyers-Sellers Meets are organized to bring bulk buyers / Government departments and micro, small & medium enterprises together at one platform. Bulk and departmental buyers such as the Railways, Defence, Communication departments and large companies are invited to participate in buyer-seller meets to bring them closer to the MSMEs for enhancing their marketing competitiveness. These programmes are aimed at vendor developments from micro, small & medium enterprises for the bulk manufactures. Participation in these programmes enables MSMEs to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of MSMEs for their purchases. These Buyers-Seller Meets may be organized in consultation with the concerned stakeholders, including industry associations and other agencies involved in industrial development, and the calendar for these events may be finalized well in advance and publicized widely.

7.4.4.1 Scale of Assistance: No subsidy would be available to General Category entrepreneurs participating in such meets. However, the entrepreneurs belonging to North-East/women/SC/ST category, would be provided space at subsidized rates for participation in Buyer-Seller Meets as per the rates mentioned hereunder:-

Micro Enterprises : 95%

Small Enterprises : 85%

Medium Enterprises : 50%

Upto 30% of the total area in such Buyer-Seller Meets may be allocated for the entrepreneurs belonging to the Special Category i.e. Entrepreneurs belonging to NE Region/ Women / SC/ST category, keeping in mind the instructions and guidelines issued in this regard from time to time.

7.5. Procedure For Implementation Of The Scheme:

Ministry of MSME shall implement the scheme through National Small Industries Corporation (NSIC), which shall carry out the various activities under the Scheme through its offices located all over the country. Funds for implementing the scheme shall be placed in advance at the disposal of NSIC, which shall be wholly responsible for proper utilization of the same and submission of Utilization Certificates and other reports as required.

NSIC will upload the forthcoming events at least three months in advance so that target beneficiaries can be able to decide their participation well in advance. The applications/proposals for seeking assistance under the scheme shall be submitted directly to NSIC, with full details and justification. The consolidated proposal shall be put up before the Screening Committee, set up under para 6 of the scheme, for consideration. The Screening Committee shall examine and consider the proposals, keeping in view the eligibility conditions and other criteria laid down under the scheme. While processing the proposals preference shall be given to participants/units who have not availed of the benefits under this scheme or other such schemes of the Ministry earlier. The proposals, after processing by the Screening Committee, shall be put up for approval by the Chairman-cum Managing Director of NSIC alongwith its recommendations. The proposals requiring approval of the Administrative Ministry shall be forwarded by CMD, NSIC, with proper justification, for consideration and approval of the Ministry, in consultation with IFD. The assistance shall be released by NSIC to the concerned applicant organisation on reimbursement basis on receipt of the event report and other prescribed documents, including feedback from the participants.

7.5.1. Screening Committee

The proposals received under the Marketing Assistance Scheme shall be examined by a Screening Committee headed by Director (Planning & Marketing), NSIC which shall also include representatives from Finance and Exhibitions divisions. The Screening Committee shall meet at least once every month or as and when required.

7.5.2. Administrative Expenditure

NSIC is the nodal agency for implementing the Marketing Assistance Scheme of Ministry of MSME. The administrative expenditure to the tune of 10% of the total expenditure of the Marketing Assistance Scheme shall be reimbursed to NSIC for implementing the scheme. The administrative expenditure includes overheads as well as the cost of the manpower and efforts put in by the NSIC for implementation of the scheme. 8. MONITORING AND EVALUATION The progress of the scheme shall be reviewed and monitored by NSIC as well as Ministry of MSME from time to time and periodic reports on the progress shall be submitted to the Ministry. The impact and benefits of the scheme shall also be evaluated

through internal studies, sample surveys, feedback reports etc. as well as study by an independent agency.

7.6 Human Resource Management

Careful human resources management creates good opportunities to certify efficiency in the production process of goods and services that assurance a satisfactory level of living in society. If managed effectively and efficiently, human resources can play as a significant role in realizing the objectives of the venture as an integral source. "MSMEs, substantial contributor to India's GDP, which employs 40% of country's workforce, pay less attention to human resource management and put more attention on day to day business operations. On one hand, the rise of skill based economy increases the importance of human resource management function while on the other hand it is ignored by MSMEs. HR is not core for these small firms however, as the size of firm increases human resources becomes important and to change the level of dimension it becomes necessary also.

The other side of the spectrum is that even if the MSMEs want to give due importance to the Human Resources, are unable to attract the right talent to manage the function who could lead the organization, on account of lack of BRAND PULL of the organization. The adventurous HR Professionals are also not willing to join these MSMEs as they are not sure of two things one meddling by the owner and level of empowerment to the function" said Dr. Rajesh Mohan Rai, HR Strategist, Business Coach & Facilitator An HR professional many a times may end up getting questioned on the productivity being offered by them especially when the questions are asked by the management of a small factory pretty much affected by the present satiation. The metrics for the same even though they exist are still not much in vogue in smaller organizations. Does this mean a smaller organization can do away with this function? Probably make it a secondary function to the more primary ones of Finance, Operations & Marketing.

In this era where India has emerged from the shadows of being an economy heavily dependent on Agriculture, it is pertinent to understand what drives this economy? As Hemingway put it, "The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists." "Since our economy is not burdened with either of these unlike Venezuela or the US, we need to understand that our economy is held together by not only giants like Tata, Reliance, Wipro, Adani or Mahindra; it is held together by your neighbourhood IDC or SEZ which is populated by the ever-growing MSME sector buoyed by the Start-up India & Make In India scheme" said Dr. Sheetal Nair, Corporate Head, DSS Group of Companies.

"MSMEs nowadays face the double challenge of resource constraints on one hand and the requirement of highly trained employees on the other. External uncertainty, the typical characteristic of MSMEs, adds up to the woes. This cumulates the need for effective HR practices in small firms. Small firms are also considered as less specialised than large and HR practices are still considered to be emergent rather than fully developed because relatively

little focus has actually been placed on the HR Practices. Human Resource Management (HRM) is best considered as range of policies which have strategic significance for any organisation. HRM is typically used to facilitate integration, Employee Engagement, flexibility, and quality of work life as well as meeting broader business goals like changing organisation values, productivity and delivery mechanism.

Nowadays, irrespective of small or large organisation, as technology and capital has become commodity in the market, the only thing left really to distinguish firms are skills in managing human resources and that is on which an organisation can gain competitive advantage" added Dr. Rajesh Mohan, HR Strategist, Business Coach & Facilitator "It is pertinent to let go off the ideology that HR is a support function only & become a business partner. One can probably write a thesis on this subject but to put it short let here are 3 factors wherein HR cannot just make a difference but also drive the business i.e Workforce Planning, Benchmarking Compensation & Benefits, Evolving Performance Management Dynamics" added Dr. Sheetal Nair, Corporate Head, DSS Group of Companies.

7.7 Conclusions

Research has shown that the strategic use of human resource management (HRM) is likely to be one of the most important determinants of organizational performance. The success of SMEs largely depends upon the enthusiasm, competency, resources and commitment of a single person (owner) around whom the enterprise revolves. Since the owners often involve themselves in doing manual work and taking responsibility for employment matters including the determination of pay, people issues are often taken for granted and managed informally. The role of human resources in enhancing firm efficiency and effectiveness is well established. According to the resource based view of management also (Barney, 1992), irrespective of the firm size, employees are a strategically important, indispensable resource to achieving an organization's objective.

7.8 Key Words

Venture Capital Funds : Venture capital (VC) is a form of private equity and a type of financing that investors provide to startup companies

Incentives : something that incites or tends to incite to action or greater effort, as a reward offered for increased productivity.

Subsides : to sink to a low or lower level

7.9 Self Assessment Questions

1. What is the meaning to Venture Capital and Brief Discuss
2. Brief explain of HRM ?
3. Explain the subsidies and Incentives in MSME?

7.10 References

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LESSON 8

SICKNESS IN SMALL AND MEDIUM ENTERPRISES

Learning Objectives:

1. To make the students to know the basic concepts of Small and Medium enterprises
2. To make the students to understand overview of small and medium enterprise in India
3. To make the students to understand sickness in small and medium enterprise
4. To make the students to analyse the causes of sickness and prevention of sickness
5. To make the students to understand the role of BIFR in reconstruction of sick units

Structure of the lesson

- 8.1 Introduction:
- 8.2 Overview of MSMEs
- 8.3 Concept of Small and medium enterprises
- 8.4 Definition of Micro, small and medium enterprises
- 8.5 Sickness in small and medium enterprises
- 8.6 Causes of sickness
- 8.7 Internal Causes for Sickness
- 8.8 Other reasons of internal causes
- 8.9 External Causes of Sickness
- 8.10 Other reasons of external causes
- 8.11 Effect of Sickness on Economy
- 8.12 Symptoms of sickness
- 8.13 Prevention of Sickness (or) Preventive Measures
- 8.14 Remedial Measures for sickness
- 8.15 Role of Board for Industrial & Financial Reconstruction (BIFR)
- 8.16 Reasons for Establishment of BIFR
- 8.17 Objectives of Board for Industrial and Financial Reconstruction
- 8.18 Duties of Board for Industrial and Financial Reconstruction
- 8.19 Achievements of Board for Industrial and Financial Reconstruction
- 8.20 Benefits of Board for Industrial and Financial Reconstruction
- 8.21 Limitations of Board for Industrial and Financial Reconstruction
- 8.22 Summary
- 8.23 Key Words
- 8.24 Self-Assessment Questions
- 8.25 Suggested Readings:

8.1 Introduction:

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

Small and medium sized enterprises (SMEs) have been and are the basis for economic development all over the world. They play an important role for employment, innovation and

societal change. Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important sector of the Indian economy, contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. Micro, Small and Medium Enterprises (MSME) are the backbone of the socio-economic development of our country. It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% of GDP. MSMEs also contribute to 30.50% of services. The total contribution of MSMEs to the GDP is 37.54. Global trends in classifying the MSMEs show that it widely differs across jurisdictions and depends upon the government policies of the country. Though, a comparison of some of the countries revealed that most of them are using number of employees as a variable to define MSMEs, in India, MSMEs are presently defined based on investment in plant and machinery / equipment.

8.2 Overview of MSMEs:

Micro, Small and Medium Enterprises (MSMEs) consist of those enterprises which are engaged in production of goods which pertains to any industry and are specified in the first schedule of Industry Development & Regulation Act, 1951. These enterprises can be further classified as registered and unregistered Enterprises

8.3 Concept of Small and medium enterprises : An industrial unit is known as sick when the unit is not functioning well means the unit is not having the higher utilizing capacity, liquidity, highest complain from customers. The definition of sickness in the industry is complicated to define; the definition is based on the generation of income, the position of liquidity and insolvency, and the irregularities in the accounts. Small and medium enterprises is a situation where revenue could not meet the cost and investment of the product. In general, a sick unit whose various departments and functional areas such as production, marketing, finance, personnel, and corporate management develop any abnormality, the whole unit may become sick. The small and medium enterprise is subjective in handle and perceived differently from person to person. The workers may consider the unit as sick if they are not getting their wages on time. The management and shareholders may measure the sickness in terms of low return on their investment and irregular dividend. The financial institutions/banks give importance to the repayment of their loans and units' ability to pay interest regularly. To an investor, the small and medium enterprises is one who skips dividends. To an industrialist, it means recurring losses and tottering on the brink of closure. So, the meaning of sickness based on different norms such as the generation of surplus, liquidity and solvency position, erosion of equity, the amount and the period of irregularities, etc. The definition and meaning of sickness are given below.

8.4 Definition of Micro, small and medium enterprises:

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below.

- a) micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
- b) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
- c) (iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items

not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

- (i) A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh**;
- ii) A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore**; and
- (iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs. 5 crore these will include small road & water transport operators, small business, retail trade, professional & self-employed persons and all other service enterprises.

Other Definition of Micro, Small and Medium Enterprise in India In India, in 1948 soon after the independence, our prominent leaders recognized the need to facilitate the small-scale and cottage industries. In the ongoing process of Government effort, up-gradation of Small-scale enterprise was started in 1953-54 when Ministry of Commerce and Industry invited an International Planning Team to get suggestions for measures to be taken to develop the small businesses. The team recognized the scope and expansion of small-scale enterprises in the country and recommended to the Government of India to establish the Central Small Scale Industries Organization (CSSIO), with an 6 advisory body - Small Scale Industries Board (SSIB). Subsequently, as per the approval of the Federation of Association of Small Industries of India (FASII), the investment in fixed assets in plant and machinery whether held in terms of ownership or by lease or by hire purchase, was considered in granting the status of a unit under Small enterprises (Desai, 2006). Previous to MSMED Act 2006, SEs covered a wide spectrum of two clearly identifiable segments under Traditional SEs, including Khadi and Village Industries (KVI), Handlooms, Handicrafts, Coir, Silk and modern SEs, including Ancillary, Small Scale Industrial Undertaking, Tiny Industry, Small Scale Service and Business Enterprise (SSSBE) (Desai, 2006).

Growth and Performance of Micro Small and Medium Enterprises in India The Micro, Small and Medium enterprises (MSMEs) have played a vital role in shaping the destiny of the nation and strengthen the unity of the nation. It has emerged as a highly energetic and dynamic sector of the Indian economy. It has helped to invent new products and start-up to new entrepreneurs. The MSMEs are contributing to the expansion of entrepreneurial culture through business environment. The MSMEs widely spread all communities and produce around 8,000 varieties of product from traditional to modern technology product. The contribution of MSMEs in the Gross domestic product is 6%, in the manufacturing sector 33%, and 45% in export. This sector also provides the maximum opportunities for both self-employment and employment generation for others.

Leading Definition of Small and medium enterprises: Small and medium enterprises can be described as a phenomenon whereby large numbers of industries are unable to meet their dues or service their debts due to deteriorating financial position for a variety of internal and external causes. The real sickness starts in the industry when a unit unable to plan for future. The unit begins working below the break-even point. In India, the small and medium enterprises was first coined during mid of 1960 when the first time the engineering and cotton textile industries experienced problems in their operations in different parts of the country. Over the more than five decades that have elapsed since, small and medium enterprises has spread to various other segments, bringing under its gamut several thousand units of different sizes. It would be quite relevant to place the definition and meaning of the term small and

medium enterprises now because the extent and dimension of sickness cannot be made clearer before revealing the introduction and connotation of the phrase

Definition by Leading Institutions State bank of India (1975) study team headed by J.S. Varsheya in his report on small-scale industrial advance defined a sick unit which fails to regenerate adequate internal surplus regularly and depends on its continuous infusion of external financial assistance, to which it brings a severe imbalance in financial structures (Desai,1983).

The Government of India enacted the Sick Industrial Companies (Special Provisions) Act (SICA) 1985, which defines sickness by consecutive losses and the complete erosion of the equity base of the unit. According to this Act, "an industrial units becoming a company registered not less than seven years is as sick when it has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such fiscal year, and the financial year immediately preceding such financial year" (MCA,1993).

According to MSMEs Act, 2006 a unit may become sick, if any, of the borrowed accounts of the enterprise remains Non-Performing Assets (NPA) for consecutive three months or more or there is erosion in the net worth due to accumulated losses to the extent of 50% of its total net worth. However, the willful defaulter account is identified, or the borrower is absconding would not be under the category of the sick unit and not liable for any relief from the government

8.5 Sickness in small and medium enterprises:

Sickness in MSME sector is a cause of concern. The definition of sickness in MSME sector has been undergoing changes over time. The Reserve Bank of India (RBI) has appointed committees from time to time to look into this issue. The working group on rehabilitation of sick units set by the RBI (Kohli Committee) has defined sickness as "a small scale industrial unit is considered as sick when if any of the borrowable accounts of the unit remains substandard for more than six months, i.e., principal or interest, in respect of any of its borrowable accounts has remained overdue for a period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course; or there is erosion in the net worth due to accumulated losses to the extent of 50% of its not worth during the previous accounting year, and the unit has been in commercial production for at least two years".

Criteria to identify sickness/incipient sickness Information on sickness and incipient sickness has been collected during Fourth All India Census. In order to measure incipient sickness, continuous decline in gross output for three consecutive years has been identified as a suitable indicator, whereas for measuring sickness latest definition given by Kohli Committee has been used. The following criteria have been adopted to identify sick/incipient units in the Fourth All India Census of MSME sector.

- (i) Continuous decline in gross output compared to the previous two financial years.
- (ii) Delay in repayment of loan, taken from institutional sources, for more than 12 months. and
- (iii) Erosion in net worth to the extent of 50% of the net worth during the previous accounting year.

8.6 Causes of sickness

Significant Causes and Reasons of MSME Sickness

There are numerous and differed explanations behind sickness in MSME sector. Some of these are:

- Deficiency of working capital, delay in sanction of working capital and delay between authorisation of term credit and working capital.
- Out of date, i.e, not up to date and poor technology
- Issue connected with accessibility of raw material
- Deficient demand and other marketing issues
- Inconsistent supply of power
- Problems and issues related to labour
- Infrastructural limitations and constraints
- Deficient regard for R&D
- Redirection of assets and resources
- Failure of the units to confront developing rivalry because liberalisation and globalisation
- Inefficient and unproductive management

Causes of Small and medium enterprises The small and medium enterprise is the worst hit. A number of Small Scale Industries are either born sick or stay sick. The earlier the detection of sickness, the earlier will be the remedy for sickness. As soon as they are detected as sick, immediate actions require curing them. The reasons for sickness are different in different units. The main reasons of sickness are management failure, non-availability of raw materials, power cuts, labour unrest, marketing problem etc. causes of small and medium enterprises under two important categories as follows;

8.7 Internal Causes for Sickness:

Internal causes are the factors which are within the control of management. This sickness arises due to internal disorder in the areas as follow;

- a. Lack of finance: This includes weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.
- b. Bad production policies: The another very important reason for sickness is wrong selection of site which is related to production, inappropriate Plant & Machinery, bad maintenance of Plant & Machinery, lack of quality control & lack of standard research & development .
- c. Marketing and sickness: This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate production mix, absence of product planning, wrong market research method and bad sales promotions.
- d. Inappropriate personnel management: The another internal reason for the sickness is inappropriate personnel management policies which include bad wages and salary administration, bad labour relations, lack of behavioral approach causes dissatisfaction among the employees and workers.
- e. Ineffective corporate management: Another reason of sickness is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of co-ordination and control etc.

8.8 Other reasons of internal causes:

- Excessive conservatism
- Excessive complacency
- Growth mania

- Weak watch dog function
- Poor financial and marketing management
- Poor financial control
- Excessive centralisation and authoritarianism
- Weak board
- Excessive commitment to policies that worked well once, but no longer appropriate etc.

8.9 External Causes of Sickness The external causes are those which affect industrial group as a whole and on these the industry has no direct control. Following are some external causes:

a. Personnel constraints: The first and most important reason for the sickness are non-availability of skilled labour or manpower, wages disparity in similar industry and general labour invested in the area.

b. Marketing constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restraint of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by government and market recession.

c. Production constraints: This is another cause of sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d. Finance constrains: The another external cause for sickness is credit restrains policy, delay in disbursement of loan by government, unfavourable investments & fear of nationalization.

8.10 Other reasons of external causes:

- Industry specific factors
- Government related factors
- Financial institutions related factors
- others

it is the internal factors which contribute to major sickness. An American study shows that external factors may have been mainly responsible for only about 10 per cent of corporation decline. Internal causes account for 7- per cent of decline. The remaining 20 per cent decline is a mix of external and internal factors. RBI study

8.11 Effect of Sickness on Economy:

A sick unit maybe compared to a patient at home who not only suffers but cause inconvenience to others. If the family cannot afford to meet his medical expenses, the entire family is ruined.

1. Similarly, impact of sickness on economy can be compared to the above example, which affects the competitiveness of the economy at home and abroad.
2. Industrial sickness is mainly the problem of 88 per cent terminally sick units. The investment of these units is completely dead. This is a burden on banks and budget. Consumers have to bear this ultimately by paying high cost for the products.
3. Persistent nature of industrial sickness especially when policies do not permit flexibility for exit and other forms of adjustment. These restrict new employment opportunities and curtail technological innovation. Non-viable units remain closed and employment in this units, in effect is disguised unemployment.
4. Sickness worsens the problem of stringency of financial resources in the economy.

8.12 Symptoms of sickness

1. Continuous irregularity on cash credit accounts
2. Low capacity utilisation
3. Reduction in credit summations (whenever the companies are in financial difficulty, they open a separate account with another bank and deposit all collections therein)
4. High rate of rejection of goods manufactured
5. A general decline in that particular industry combined with many failures
6. Rapid turnover of key personnel
7. Existence of a large number of lawsuits against company
8. Rapid expansion and too much diversification within a short time
9. Diversion of funds for purposes other than running the units
10. Any major change in the share holding
11. Failure to pay statutory liabilities
12. Larger and longer out-standing in the bills accounts
13. Longer period of credit allowed on sale documents negotiated through the bank and frequent returns by customers of the same
14. Constant utilisation of credit facilities and failure to pay timely instalment of principal and interest on the loans and instalment credit
15. Non-submission of periodical financial data/stock statement etc. in time.
16. Financing capital expenditure out of funds provided for working capital purposes
17. Decrease in working capital
18. Sudden/frequent changes in management

8.13 Prevention of Sickness (or) Preventive Measures

Role of the Government:

The number of units in India has increased enormously after the independence. The country has diversified industrial structure with widespread entrepreneurship. Government has done a good job for this with its efforts at creating infrastructural facilities, specialised industrial estates and FIs, package of incentives for entrepreneurs. These have borne rich fruits. At the same time, government has failed in many things like.

- Its vacillating policies
- Incompetence in managing core sector
- Excessive protection to domestic units
- Frankensteinian control structure that has mostly bred corruption and vitiated national objectives

Role of Financial Institutions:

The apex financial institutions like IDBI, IFCI, ICICI and nationalised commercial banks many a times are in a favourable position to prevent industrial sickness. The institutions are to keep in constant touch with the likely sick units to know their market conditions, and the finance positions of such units. These will provide an excellent position to know early warning of sickness.

Role of Industry Associations in India:

The industry associations in India have always played some sort of a sickness prevention role. These have the rich knowledge about the industry. Hence these have taken the form of lobbying the government for solving problems faced or likely to be faced by the industries. These associations could take the assistance of representatives of stake holders, government, labour, FIs, suppliers, customers, consultants, by having industry self-regulations programmes in the light of the national policies and a greater self-monitoring and sickness prevention role.

8.14 Remedial Measures for sickness:The measures to overcome small and medium enterprises or remedies of small and medium enterprises are enlisted below

- Effective Planning
- Identifying sickness at initial stage
- Financial Assistance
- Improving Infrastructure
- Technology Up-gradation
- Marketing assistance
- Liquidation
- Government Intervention
- Training
- Rehabilitation

Effective Planning: It is essential for every small and medium sized enterprise to conduct in-depth survey of prevailing circumstances in small scale sector and productive programmes. Only a small number of entrepreneurs initiate their operations based on an accurate and diligent plan. Thus, effective planning is essential as all small entrepreneurs require a detailed project report or an all-inclusive feasibility study to start their units. Absence of such a planning can affect entrepreneurs with issues like inappropriate technology, under-estimation of costs, unsuitable location, unqualified or inexpert consultancy service, etc. Hence, it is indispensable for SMEs to launch effective action plans for their sustenance.

Identifying sickness at initial stage- Small and medium enterprises is not an overnight occurrence but it is a gradual process taking from 5 to 7 years Corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce small and medium enterprises. It will not be less than correct to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units.

Financial Assistance -For avoiding small and medium enterprises, firms and industries should arrange adequate credit for running their business efficiently. There are many small and medium sized firms which are incompetent to obtain proper financial support from banks and other funding agencies, they primarily depend more on owned funds and funds borrowed from non-banking sector. However, SEBI has devised guidelines and directives for venture capital and better finance facility is expected for this sector. Moreover, lending schemes offered by priority sector should be made more wide-ranging and general credit with improved limit.

Improving Infrastructure- Firms require many important facilities to ensure smooth. Functioning of its operations such as finance,, water supply, power arrangement, etc. These facilities are extended by small industries corporation. State technical consultancy organisations and State Development Corporation. However, their support system requires more improvement. Evolution of industrial estates has resolved this problem partly, yet more efforts are necessary to establish more industrial estates to accommodate more small units.

Technology Up-gradation -With the advent of technological advancements, firms must attempt. to upgrade their process of production. They must adopt the latest technology for producing goods/ services. Under the following circumstances, government consultancy organisations and laboratories play a crucial role. As small firms are incompetent to spend money on the latest technologies, government should arrange practical and modern methods of production for them. If financially possible, firms should also invest in their research and

development activities. They should always strive for constant innovation for leading the market and sustaining in globalized business environment.

Marketing assistance- Every firm must emphasize on their market, brand and product development. They must strive to persist in the market by paying exceptional significance on quality enhancement programme. Offering products at cheaper rates and transmitting the benefits to consumers would be advantageous in the long-run to raise their marketing performance. Marketing the products of small units by charging a very high price from the customers enables large companies to earn substantial profits. Thus, firms should adopt effective marketing strategies to overcome small and medium enterprises.

Liquidation -In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness. The time has come to substitute the old adage that 'what cannot be cured has to be endured' by 'what cannot be cured should be ended. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labours displaced due to unit closure is prevalent in the society.

Government Intervention- In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small-scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programs to facilitate them to take appropriate action.

Training -A proper environment must be created where an entrepreneur will be educated and will have a proper knowledge, Skill & experience about internal & external environment of business to compete with large Scale industries and multinational companies. Industries must make coordinated efforts in bestowing formal training and education to workers involved in this sector as they are the real profitable asset of the industry. Firms should consider the expenses incurred on training and educational activities as investments for ensuring long-term of the growth business. Expertise and skills essential in the dynamic business environment should be provided by the Small Industries Association. Further, in order to compete with medium and large-scale competitors, small firms should motivate their workers by providing motivation and offering rewards.

Rehabilitation -The process of returning to a healthy or good way of business rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit, etc. However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation program. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.

8.15 Role of Board for Industrial & Financial Reconstruction (BIFR)

The Board for Industrial and Financial Reconstruction (BIFR) is a statutory body set up under the Sick Industrial Companies (Special Provisions) Act, 1985 in India. Its main function is to provide financial and operational restructuring of sick industrial companies and to revive and rehabilitate them. A sick industrial company is defined as a company that has been unable to pay its debts as and when they become due and payable and whose net worth

has become negative. The BIFR is responsible for declaring a company as a sick industrial company and for issuing directions for the management of such a company. It has the power to supersede the board of directors of a sick industrial company and to appoint a new board to manage the affairs of the company.

The BIFR is headquartered in New Delhi and is headed by a Chairman, who is appointed by the Central Government of India. It consists of a panel of experts in the fields of finance, industry, and law, and is assisted by a Secretariat. The BIFR is empowered to pass orders on various matters related to the financial and operational restructuring of sick industrial companies, including the sale or transfer of assets, the merger or amalgamation of companies, the alteration of the memorandum and articles of association of a company, and the closure or dissolution of a company. The BIFR's orders are binding on the sick industrial company and all other parties concerned.

The Board for Industrial and Financial Reconstruction (BIFR) was established under the Sick Industrial Companies (Special Provisions) Act, 1985 in India. The Act was enacted by the Parliament of India with the objective of providing for the rehabilitation and revival of sick industrial companies and for matters connected therewith or incidental thereto. The Act provides for the setting up of the BIFR and empowers it to take various measures to financially and operationally restructure sick industrial companies and to revive and rehabilitate them. The BIFR is a statutory body, which means that it has been established by an act of Parliament and its powers and functions are prescribed by law.

8.16 Reasons for Establishment of BIFR

The Board for Industrial and Financial Reconstruction (BIFR) was established under the Sick Industrial Companies (Special Provisions) Act, 1985 in India with the objective of providing for the rehabilitation and revival of sick industrial companies and for matters connected therewith or incidental thereto. The Act was enacted by the Parliament of India in response to the increasing number of industrial companies facing financial difficulties and unable to pay their debts as and when they became due and payable. The BIFR was set up to provide a mechanism for the financial and operational restructuring of such companies and to revive and rehabilitate them.

The main reasons for the establishment of the BIFR were to:

1. Help sick industrial companies overcome their financial difficulties and become viable and sustainable.
2. Protect the interests of workers and other stakeholders of sick industrial companies.
3. Promote the orderly and healthy development of industry in the country.
4. Contribute to the economic development of the country by revitalizing sick industrial companies and helping them to contribute to the national economy.

8.17 Objectives of Board for Industrial and Financial Reconstruction

The objectives of the Board for Industrial and Financial Reconstruction (BIFR) are:

1. To provide financial and operational restructuring of sick industrial companies and to revive and rehabilitate them.
2. To protect the interests of workers and other stakeholders of sick industrial companies.
3. To promote the orderly and healthy development of industry in the country.
4. To contribute to the economic development of the country by revitalizing sick industrial companies and helping them to contribute to the national economy.

5. To ensure that the assets of sick industrial companies are utilized in the most efficient and optimal manner.
6. To provide a mechanism for the resolution of disputes between the management and the workers of sick industrial companies.
7. To provide guidance and assistance to sick industrial companies in the preparation and implementation of rehabilitation schemes.
8. To coordinate with other agencies and organizations, such as banks and financial institutions, for the rehabilitation of sick industrial companies.
9. To provide information and assistance to the Central Government of India on matters related to the rehabilitation and revival of sick industrial companies.

Duties of Board for Industrial and Financial Reconstruction

The Board for Industrial and Financial Reconstruction (BIFR) is a statutory body set up under the Sick Industrial Companies (Special Provisions) Act, 1985 in India. The main duties of the BIFR are:

1. To declare a company as a sick industrial company and to issue directions for the management of such a company.
2. To supersede the board of directors of a sick industrial company and to appoint a new board to manage the affairs of the company.
3. To provide financial and operational restructuring of sick industrial companies and to revive and rehabilitate them.
4. To pass orders on various matters related to the financial and operational restructuring of sick industrial companies, including the sale or transfer of assets, the merger or amalgamation of companies, the alteration of the memorandum and articles of association of a company, and the closure or dissolution of a company.
5. To monitor the implementation of the orders passed by it and to take necessary action in case of non-compliance.
6. To provide assistance and guidance to sick industrial companies in the preparation and implementation of rehabilitation schemes.
7. To coordinate with other agencies and organizations, such as banks and financial institutions, for the rehabilitation of sick industrial companies.
8. To provide information and assistance to the Central Government of India on matters related to the rehabilitation and revival of sick industrial companies.

8.18 Duties of Board for Industrial and Financial Reconstruction

The Board for Industrial and Financial Reconstruction (BIFR) is a statutory body set up under the Sick Industrial Companies (Special Provisions) Act, 1985 in India. The main duties of the BIFR are:

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4. To pass orders on various matters related to the financial and operational restructuring of sick industrial companies, including the sale or transfer of assets, the merger or amalgamation of companies, the alteration of the memorandum and articles of association of a company, and the closure or dissolution of a company.
5. To monitor the implementation of the orders passed by it and to take necessary action in case of non-compliance.

6. To provide assistance and guidance to sick industrial companies in the preparation and implementation of rehabilitation schemes.
7. To coordinate with other agencies and organizations, such as banks and financial institutions, for the rehabilitation of sick industrial companies.
8. To provide information and assistance to the Central Government of India on matters related to the rehabilitation and revival of sick industrial companies.

8.19 Achievements of Board for Industrial and Financial Reconstruction

Some of the achievements of the BIFR are:

1. The BIFR has played a significant role in the financial and operational restructuring of sick industrial companies and in their revival and rehabilitation. It has provided a mechanism for the resolution of disputes between the management and the workers of sick industrial companies and has helped to protect the interests of workers and other stakeholders.
2. The BIFR has contributed to the orderly and healthy development of industry in the country and has helped to revitalize sick industrial companies, which have contributed to the national economy.
3. The BIFR has coordinated with other agencies and organizations, such as banks and financial institutions, for the rehabilitation of sick industrial companies and has provided guidance and assistance to such companies in the preparation and implementation of rehabilitation schemes.
4. The BIFR has provided information and assistance to the Central Government of India on matters related to the rehabilitation and revival of sick industrial companies.

8.20 Benefits of Board for Industrial and Financial Reconstruction

The Board for Industrial and Financial Reconstruction (BIFR) provides several benefits to sick industrial companies and to the economy as a whole. Some of the possible benefits of the BIFR are:

1. **Provides financial and operational restructuring:** The BIFR provides financial and operational restructuring of sick industrial companies and takes various measures to revive and rehabilitate them. This helps sick industrial companies overcome their financial difficulties and become viable and sustainable.
2. **Protects the interests of workers and other stakeholders:** The BIFR helps to protect the interests of workers and other stakeholders of sick industrial companies by providing a mechanism for the resolution of disputes between the management and the workers of such companies.
3. **Promotes the orderly and healthy development of industry:** The BIFR promotes the orderly and healthy development of industry in the country by providing a mechanism for the financial and operational restructuring of sick industrial companies and by helping to revitalize such companies.
4. **Contributes to the economic development of the country:** The BIFR helps to revitalize sick industrial companies, which contribute to the national economy and help in the economic development of the country.
5. **Utilizes assets efficiently:** The BIFR ensures that the assets of sick industrial companies are utilized in the most efficient and optimal manner, which helps to maximize their value.
6. **Provides a mechanism for the resolution of disputes:** The BIFR provides a mechanism for the resolution of disputes between the management and the workers of sick industrial companies, which helps to maintain industrial harmony and stability.

7. **Provides guidance and assistance:** The BIFR provides guidance and assistance to sick industrial companies in the preparation and implementation of rehabilitation schemes, which helps such companies to overcome their financial difficulties and become viable and sustainable.
8. **Coordinates with other agencies:** The BIFR coordinates with other agencies and organizations, such as banks and financial institutions, for the rehabilitation of sick industrial companies, which helps such companies to access the necessary resources and support for their revival and rehabilitation.

8.21 Limitations of Board for Industrial and Financial Reconstruction

The BIFR has certain limitations, which are:

1. **Limited jurisdiction:** The BIFR has jurisdiction only over sick industrial companies, which are defined as companies that are unable to pay their debts as and when they become due and payable and whose net worth has become negative. It does not have jurisdiction over healthy companies or over companies that are in financial difficulties but do not meet the definition of a sick industrial company.
2. **Dependence on other agencies:** The BIFR depends on other agencies and organizations, such as banks and financial institutions, for the implementation of its orders and for the rehabilitation of sick industrial companies. The BIFR's effectiveness is therefore limited by the cooperation and support of such agencies.
3. **Limited powers:** The BIFR has limited powers to enforce its orders and to ensure compliance with its directions. It can take action against the management of a sick industrial company for non-compliance with its orders, but it does not have the power to impose penalties or fines.
4. **Limited resources:** The BIFR has limited resources and manpower, which can affect its ability to effectively deal with the large number of sick industrial companies that come under its jurisdiction.
5. **Limited success rate:** The success rate of the BIFR in reviving and rehabilitating sick industrial companies has been limited and many companies declared sick by the BIFR have eventually been closed down or liquidated.

8.22 Summary: Micro, Small, and Medium Enterprises have emerged as an important segment of Indian economy over a period of time. These enterprises have potential solutions to the growing problems in rural and industrial sectors. On the one hand, they are important source of generating employment in rural areas and on the other hand, they are acting as major check on the problem of migration of people from rural to urban areas. Low cost, labour intensive nature, production & manufacturing techniques, and uniqueness of product produced in MSMEs gives these enterprises niche over the other enterprises. Despite of such immense contribution and important role, these enterprises have to face many challenges and problems like lack of credit, problem of labour, out-dated technology, and various marketing and financial constraints. To solve these problems and safeguard MSME sector, Government of India have drafted and implemented many schemes and policies for the welfare of these enterprises and entrepreneurs. Government of India is supporting this sector through various policy measures due to various advantages of these enterprises. Entrepreneurs can get the benefit of the government initiatives to run their entrepreneurial activities successfully. Government is trying to boost this potential sector through various means but it is up to entrepreneurs that how effectively they exploit this opportunity. Entrepreneurs can get assistance from various departments, offices and even from Ministry to set up and successfully manage an enterprise.

8.23 Key Words: MSME, BIFR, Enterprise, sickness, remedies

MSME: Micro, Small and Medium Enterprises

BIFR: Board for Industrial and Financial Reconstruction

8.24 Self-Assessment Questions

1. Define small and medium enterprise also explain its importance in Indian economy
2. What is sickness in small and medium enterprise explain the reasons and preventive measures
3. Explain the role of BIFR in reconstruction of sick units
4. Explain symptoms of sickness in small and medium enterprises with an examples

8.25 Suggested Readings:

- CA Kamal GargBharat Handbook On MSMEs (Micro, Small & Medium Enterprises By Kamal Garg Edition 2020
- Micro, Small & Medium Enterprises (MSMEs) Book by Indian Institute of Banking & Finance.
- JaynalUd-din Ahmed, Micro Small and Medium Enterprises (MSMEs), New Century Publications

Lesson-9

ANCILLARY INDUSTRIES, RURAL INDUSTRIES AND ARTISAN

Objectives of Study

- i) to explain the Ancillary Industries ;
- ii) explain the significance of rural industrialization
- iii) role of rural industries in development
- iv) features and types of rural industries in India
- v) to increase the levels of earnings of artisans;

Structure

- 9.1 Introduction
- 9.2 Meaning of the Ancillary Industry
 - 9.2.1 Complete step-by-step Solution
 - 9.2.2 Complete step-by-step solution
- 9.3 Development of Ancillary Industry in India
- 9.4 Factors Affecting Ancillarisation
 - 9.4.1 Ancillary Revenue
 - 9.4.2 Key Takeaways
 - 9.4.3 Understanding Ancillary Revenue
 - 9.4.4 Ancillary Healthcare Care Services: Meeting the bottom Line
 - 9.4.5 Convenience
 - 9.4.6 Common Strategies for Ancillary Healthcare Care services
 - 9.4.7 Analyze Your Customers' Existing Needs
 - 9.4.8 Consult Legal Experts and Colleagues
- 9.5 Significance of Rural Industrialization
- 9.6 Types of Rural Industries
 - 9.6.1 Traditional Village Industries
 - 9.6.2 Heavy Industry
 - 9.6.3 Medium Group Industries
 - 9.6.4 Light Industries
- 9.7 Challenges of Rural Industrialization
 - 9.7.1 Multiplicity of Technology
 - 9.7.2 Type and nature of employment-
 - 9.7.3 Managerial and Entrepreneurial skills in Rural Entrepreneurs
 - 9.7.4 Access to credit
 - 9.7.5 Marketing infrastructure
- 9.8 Defining the Artisan
- 9.9 The Artisan: A Sustainable Entrepreneur
- 9.10. Challenges Faced by Artisans in Malta: Insights from the Literature
- 9.11 Challenges Faced By Artisans In Malta: Insights From An Exploratory Study
 - 9.11.1. Method
 - 9.11.2. Key Insights
 - 9.11.3. Limitations
- 9.12. Conclusion
- 9.13 Key Words
- 9.14 Self Assessment
- 9.15 Reference

9.1 Introduction

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a vibrant and dynamic sector of the Indian economy. MSMEs play crucial role in providing large employment opportunities at comparatively lower cost than large industries. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the socio-economic development of the country. New Definition of MSMEs

At present, the Micro, Small & Medium Enterprises Development (MSMED) Act 2006 (Section 7) classifies the Micro, Small and Medium Enterprises (MSMEs) on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises. In February 2018, the Union Cabinet had approved changes in the basis of classifying Micro, Small and Medium enterprises from 'investment in plant & machinery/equipment' to 'annual turnover'. The objective of the change is to encourage ease of doing business, collection make the norms of classification growth oriented. Contribution of MSMEs in Indian Economy

As per the 73rd round of National Sample Survey (NSS) 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade and 206.85 lakh in other Services) excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of 2 the Factories Act, 1984, (b) Companies Act, 1956 and (c) Construction activities falling under F Section of National Industrial Classification (NIC) 2008 and provides employment to over 1109.89 lakh persons. The contribution of MSME sector India's Gross Value Added (GVA) and Gross Domestic Product are 31.83 per cent and 28.90 per cent respectively during 2016-17. The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.

Industries are places that manufacture goods or articles for the consumption of the masses. Industries generate employment for the society. Industries contribute to the economic development of a nation. Rural industries are non-farm activities that depend on rural resources, and are primarily meant for employment generation through effective utilization of locally available resources, human power and technologies that are native or home-grown. These are by nature small-scale. These are usually based in villages. Hence, they are popularly addressed as: small-scale industries / village industries / rural industries. Since employment generation is one of the essential objectives of rural industries, they usually work with the philosophy of production by masses-as opposed to mainstream industries where goods are mass produced. It aims at reducing unemployment levels, and enhancing the individual and household incomes. Since the scale of activities is small, the financial requirement is also usually small. According to T M Dak, the concept of "rural industries" itself lacks uniform and accepted definition, is used interchangeably with such terms as, "artisan industries" etc.

The Planning Commission first used the term "rural industries" when it recommended a rural industries projects programme in the year 1962. In a report on Village and Small industries sector, the Planning Commission (1988) defined rural industries in the following lines, "The term 'rural industries' connotes such types of industries as khadi, Village industries, handloom, handicraft, sericulture, coir and tiny and service industries situated in rural areas".

Thus, rural industrialization includes economic activities outside agriculture, carried out in villages and varying in size from households to small factories. Some examples of these

activities are cottage, tiny, village and small-scale manufacturing and processing industries; and services of various kinds. Household industries have declined over time, whereas small scale, non-household industries have expanded. Cottage enterprises – based on part-time family labour – are relatively less efficient than small-scale, fulltime and specialised rural industries.

The term rural used as prefix to industrialization is to indicate a need for clear conditionality and connectivity between industrialization processes and a distinct section of society. Industrialization is a process of producing goods and services using certain specific inputs, technologies and manufacturing procedures. Rural industry, in the traditional sense, is construed as the economic activity characterised with features like ease of entry, reliance on indigenous sources, small scale operation, adopted technology and skills acquired outside the formal schooling system. However, this segment suffers from technological obsolescence, low productivity, inefficiency, inconsistent quality, drudgery and dependence upon nature's clemency. Arrival of new technologies as a fall out of globalization and scaling up production calls for innovation or improvisation in technologies used in rural industries as well.

In effect time has come for us to think of 'Rural Industrialization' as an endeavour requiring innovation, distinct from state sponsored small scale industrialization to serve both rural and semi-rural areas. The concept of Rural Industrialization encompasses facilitating avenues of employment in non-farm activities on a widely dispersed basis nearer to the place of living of the poor. It is also felt that a shift in income distribution in favour of the poor would require increased production of articles of mass consumption and wage goods, which can be produced through Village Industries (VI) or Small Scale Industries (SSI). Application of technology and being able to draw the attention of the potential consumers has become imperative for products from rural industries as well. According to Chuta and Sethuraman, rural industrialisation is an employment oriented development strategy necessarily implying greater emphasis on small scale activities. These not only offered greater employment and income opportunities for the rural poor in particular but also facilitate their participation in development.

Human creations which are moulded through the creative process of the artisan are often superficially valued solely on the basis of their aesthetic and functional features. However, delving deeper into the world of artisans, one may be surprised by the powerful and practical contributions that they could make to the holistic values of sustainable development. This paper aims to show that it is possible and beneficial for artisans to incorporate all three (environmental, social and economic) elements of sustainability into their practice, and that in so doing, they would become sustainable entrepreneurs who could contribute to the fourth element of sustainability: a sustainable culture. This paper presses home the point that artisans could and should be sustainable entrepreneurs, thus making a contribution to the literatures on crafts and on sustainable entrepreneurship.

A second aim of this paper is to identify some of the threats and challenges faced by artisans in Malta, given the small island state context in which they operate, coupled with the particular difficulties inherent to the genuine crafts sector. A third and final aim of this paper is to suggest measures which would encourage artisans to engage in sustainable practices and which would safeguard their existence and prosperity in the face of their ever-increasing vulnerability. After defining the artisan and reviewing the literature on sustainability and sustainable entrepreneurship, this paper provides an overview of some of the ways

in which artisans could incorporate the environmental, social and economic elements of sustainability into their practice in order to become sustainable entrepreneurs. It is against such a background that the threats faced by artisans in Malta are highlighted. The focus of this paper is on artisans who are engaged in commercial activity and are therefore deemed to be subject to the same general conditions as other SMEs operating in a small island state. The literature review sheds light on these conditions, even though it has to be stated that the sector-specific challenges to which artisans are susceptible have not yet been adequately documented in the literature. This paper attempts to identify these challenges by means of an informal exploratory study conducted among artisans at Ta' Qali Crafts Village in Malta. As this paper forms part of a larger research project currently being conducted among artisans in Malta, an outline of the future research steps is provided, followed by practical recommendations for the survival and sustainability of the genuine artisan enterprise.

9.2 Meaning of the Ancillary Industry

An industrial unit which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediaries, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 percent of its production or services, as the case may be, to one or more other industrial takings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase, does not exceed Rs 75 lacs.

The term "ancillary industries" refers to those types of businesses that provide support to both primary and secondary industries. This sector is responsible for the production of various spare parts, sub-assemblies, and the like. Every heavy industry is reliant on the machines in order for their work to advance, and every heavy industry is in constant need of help from the ancillary industries. The presence of auxiliary units frees up a significant amount of time for heavy industries to devote to the development of new features for their goods rather than to the production of smaller units. An ancillary use is a facility or activity that is subordinate to the permitted principal use of a Site. This means that the ancillary use serves the purposes of the principal use but is on a smaller scale and in a smaller amount. For instance, cafes and business services are two examples.

Ancillary processes are ones that have less of a direct impact on the effluent quality as well as the economic consequences than primary and secondary treatment processes as well as solids handling systems. Ancillary care delivery services include many hospital-based and freestanding skilled and long-term care nursing facilities, hospice and palliative care services, home health, dialysis and social work services both those that are part of the health system and those that are independent or community based. This should not be interpreted to mean that these processes are not important.

9.2.1 Complete step-by-step Solution

An industry is considered to be in the auxiliary sector if its total fixed investment in plants and machines does not exceed one crore of Indian rupees. Parts, machinery, sub-assemblies, gears, intercedes, and other types of machinery are all examples of the products that can be manufactured by the ancillary sector. These types of businesses are sometimes referred to as tertiary or service industries. The automotive accessory sector is one of the most significant subsectors in India's broader manufacturing sector

The Automotive Components and Accessories industry in India is mostly focused on the Indian market and does not play a significant role on a worldwide scale. When we consider the advances it is capable of making, this, however, tips the scale in its favour and puts it in a favourable position. The automobile industry is extremely important to an industry that supplies parts and services for automobiles. Fortunately, the Indian automobile industry is the fourth largest in the world. At the moment, India is the fifth-largest manufacturer of cars in the world and the seventh-largest manufacturer of commercial vehicles in 2019

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9.3 Development of Ancillary Industry in India

The programme of ancillarisation includes motivation of public and private sector units to offload production of components, parts, sub- assemblies, tools, intermediates, services etc to ancillary units. The programme of ancillary development has specific advantages for both for large as well as small industries and also for the total economy of the country. The large scale units have the advantages in the form of savings in investments, inventories, employment of labour, etc. and getting the items of the desired specifications, while the small scale units have the advantage of getting assured market for their products, availability of technical

assistance and improved technology from the parent units. This programme also helps in overall economy of the country.

The strategy for ancillary development was originally outlined with the objective of:

- Development of employment opportunities coupled with growth of entrepreneurship in different fields and different parts of the country.
- Increase in productivity of the small scale units.
- Growth of a low cost economy through reduction in costs brought by appropriate technology followed by ancillary units.
- Development of a single or multi discipline expertise in different fields to bring about economies of scale.

9.4 Factors Affecting Ancillarisation

Recently there has been a growing trend towards ancillarisation due to the series of rapid developments that have been taken place in the industrial structure in the country.

- The size of operations of industrial units has increased enormously; with the result that they are compelled to sub- contract some of the items of production to ancillaries.
- It was more convenient for large scale manufactures to get the ancillary units to produce certain items for them. With the growing complexity of management, the large scale manufacturer can now concentrate on the problems of organization, marketing etc, rather than concentrating on availability of raw materials etc.
- Large scale manufacturers can economize on transport costs, storage space, etc, by contracting rather than by producing the same components themselves.
- It is economic to have some items manufactured by ancillary units because the cost of these items is higher when they are fabricated by large scale manufacturers.
- By outsourcing, large scale manufacturer is able to insulate him against fluctuations in the prices of raw materials over a period of time by entering into contracts for the supply of these items.
- All these facts underscore the point that the development of ancillaries and their growing popularity have been well supported by economic and management considerations.

9.4.1 Ancillary Revenue

Ancillary revenue is the money generated by a company's goods or services that are distinct from or enhance the company's primary service or product lines. Ancillary income is the revenue that is created by a corporation that is not from the products and services that are considered to be its primary offerings. An ice cream company that decides to sell ice cream scoops is an example of ancillary revenue, as is a printing company that decides to sell printer ink. Both of these businesses are examples of businesses that could benefit from additional revenue streams. Ancillary revenue is essential for businesses because it enables them to build a more diverse portfolio of revenue streams.

9.4.2 Key Takeaways

Ancillary revenue is the money generated by a company's goods or services that are distinct from or enhance the company's primary service or product lines. Ancillary income is the revenue that is created by a corporation that is not from the products and services that are considered to be its primary offerings. It is vital for businesses to generate ancillary revenue since it enables them to diversify the sources of their total revenue.

9.4.3 Understanding Ancillary Revenue

Ancillary revenue is typically generated by businesses by the introduction of new products and services or by the modification of existing products in order to expand into new markets. As a consequence of this, businesses have the ability to create new opportunities for growth in addition to the ancillary revenue. The vast majority of businesses have some kind of ancillary revenue. These profits can come from a wide variety of sources, such as advertising space on aeroplanes or car washes at gas stations. In certain circumstances, a source of revenue that was first considered auxiliary can eventually become the primary source of revenue.

For instance, the sale of snacks and beverages at petrol stations, which initially constituted tertiary product offers that generated tertiary revenue, However, when the price of gasoline began to drop, the percentage of overall revenue that was contributed by products sold at the convenience stores of gas stations, such as snacks and beverages, began to rise. The revenue generated from the sale of food and beverages at gas stations eventually overtook the revenue generated from the sale of gasoline.

The usage of auxiliary income is something that is actively pursued in other sectors. The interest rates that are paid on loans and other forms of credit have historically been the primary source of revenue for the banking industry. Even though loan products still account for the vast bulk of industry revenue, banks now make money from other services and products, such as wealth management, wire transfers, and equipment leasing.

Apple is a great example of a company that is strategically growing its ancillary income so that it comprises a greater share of the company's total revenue. Other companies could follow Apple's lead and implement a similar strategy. As can be seen in the table that is located above, revenue for both the Mac and the iPad was down in 2019 compared to 2018. However, any revenue decreases that may have occurred as a result of lower sales of Macs and iPads were more than compensated for by the surge in revenue generated by the company's ancillary products and services.

Businesses that create supplementary revenue are better able to withstand times of declining sales in their main products, which ultimately contributes to the generation of consistent earnings growth over the long run.

9.4.4 Ancillary Healthcare Care Services: Meeting The bottom Line

Which of the several supplementary services that are available to you will be the most beneficial to you in terms of financial savings? This question centres mostly on the patients that a certain practise is attending to at any given time. The establishment of ancillary care facilities within already-established medical offices can be a costly endeavour, depending on the services that are intended to be provided by those facilities. Some services, such as educating people about food and nutrition, have low initial startup costs, while others, such as laboratory testing, require expensive equipment and sometimes even construction costs. Not to mention the expenditures associated with hiring staff, obtaining accreditation, paying additional rent, and paying legal fees.

9.4.5 Convenience

When a patient is sent to an auxiliary care provider for medical treatment, the primary care provider for that patient misses out on possible revenue. Patients are often annoyed by having to make several excursions to the clinic. Because of this, laboratory tests and

electrocardiogram services are two of the most popular types of supplementary services. Your office will become a one-stop shop for patients if you provide these, which will also bring in a continuous stream of cash.

9.4.6 Common Strategies for Ancillary Healthcare Care services

When implementing new care options, one of the most common challenges that medical professionals face is navigating the legal repercussions associated with ancillary services. This challenge is in addition to the financial burden. Collaborating with those who already possess experience in the sector might assist you in avoiding these kinds of challenges.

9.4.7 Analyze Your Customers' Existing Needs

The provision of ancillary care services is more of a practical matter than a personal endeavour. As a result, they should be beneficial to your already established consumer base while also attracting new clients. Having access to an electronic medical record can be of tremendous use in determining which kind of care you recommend most frequently to other patients. Having a clear understanding of these is a great place to begin. During meetings with patients, it is helpful to ask them if they would be interested in these health services, and it is also helpful to send out surveys in order to gather information about what patients want. It also gives potential ventures the appearance of serious consideration.

9.4.8 Consult Legal Experts and Colleagues

It is highly recommended that you consult with legal professionals at an early stage of the procedure. Complying with the terms of rental agreements, managed care agreements, and medical liability plans are all absolutely necessary steps in the process of providing auxiliary care because these factors all play unanticipated roles. The majority of medical practitioners opt to enter into business relationships with various suppliers rather than purchase costly long-lasting medical equipment.

Commencing from the mid-1950s, one of the best strategies that India has been adopting for employment generation, especially in rural areas is rural industrialization. There are several concepts, models, and experiments that are successful in rural industrialization and in mass employment generation in several parts of the country. They are also known as non-agricultural sub-sector.

9.5 Significance of Rural Industrialization

In most developing countries including India the rural labour force has been growing rapidly but employment opportunities have been dwindling. As the land available for expansion of agriculture becomes increasingly scarce, opportunities for non-farm employment must expand, if worsening rural poverty is to be checked.

Given the expected growth and composition of large-scale urban industries, they are unlikely to be able to absorb the rising tide of workers migrating from the countryside to the cities. We must slow down the process of the urban spread, with its high social and environmental costs, such as congestion, pollution, skyrocketing land costs etc. Therefore, diversion of manpower becomes imperative from agriculture sector to industry and service sectors. Since employment in the service sector, particularly in rural areas is limited, the development of industrial sector, especially in rural segment is essential.

The rural industrialization is considered as a vehicle for the generation of productive employment and income for the generation of productive employment and income for the rural poor. The significance of rural industrialization can be attributed due to following factors:

- i) They can slow down urban migration and thereby ease the problems of urbanization.
- ii) They lead to improvement in environment by reducing the concentration of industrial units in big cities.
- iii) They can increase rural income and generate nonfarm employment to the farmers.
- iv) They can reduce both skilled and unskilled unemployment.
- v) They can promote balanced industrialization by avoiding excessive industrial concentration.
- vi) They are based on the local needs and can better meet the local consumption needs.

Thus the decentralization of industries to rural areas is one of the best possible development strategies for thickly populated country like India.

9.6 Types of Rural Industries

On the basis of scale and primary function, there are four groups of industries which can be expanded or developed in the rural areas in Eighth plan:

9.6.1 Traditional Village Industries: It comprises of Khadi, leather tanning, wood work, artisan industries, cotton cloth, both handloom and power loom and fabrics, handicrafts, coir, sericulture and wool development, etc.

9.6.2 Heavy Industry: There is a growing demand and scope as shown in the latest Survey of Rural Consumer Expenditure on the item of heavy industries. These include: (a) fertilizer plants which will use bio-mass (b) pesticides using biological inputs, (c) Mini-steel plants, (d) ancillary engineering that can meet the demand of medium and large farms-like ploughs, threshers etc.

9.6.3 Medium Group Industries: (a) Mini-cement plant which can use molasses or coal as energy and can meet the rural construction works, (b) minor paper plant, etc.

9.6.4 Light Industries : (a) Animal feed and fodder industries, (b) the growing building and construction programme to meet the house demand of rural area, industries producing building materials like hinges, screens, doors and windows frames and roofing materials, (c) improved agricultural implements and machinery using the steel and iron produced in the rural areas.

9.7 Challenges of Rural Industrialization

Some of the challenges of rural industrialization are as follows:

9.7.1 Multiplicity of Technology- The dualism in technology is posing a great challenge to rural industrialization. For example, on the first hand we have hands spinning and on the other hand, there is presence of power spinning, handloom and powerloom. This diversity is found in many rural industries such as food processing, construction, leather goods, carpentry, blacksmith, paper making, food preservation and processing. Therefore, reservation of certain areas exclusively for SSIs (Small scale Industries) is required and some protection mechanism issues such as quality standards, production capacities, price subsidy and so on- may be taken into consideration.

9.7.2 Type and nature of employment- The nature of employment requirement varies from one type of rural industries to that of the other. They include self-employment, wage-employment, wage-cum self-employment etc. Therefore, while establishing rural industries, the pattern of employment has to be taken into consideration. According to a study conducted by Algappan shows that employment pattern in rural industries located in Keerapalayam panchayat concluded that wage cum self-employment pattern of wage payment proved to be effective

9.7.3 Managerial and Entrepreneurial skills in Rural Entrepreneurs- There is a general lack of managerial and entrepreneurial skill in the rural industries. The entrepreneurial acumen among the decentralized industrialization unit is lacking because of lack of technical manpower at the grassroots. The village artisans and entrepreneurs need to be enlightened on various skills of management.

9.7.4 Access to credit- Access to institutional credit is always a problem for small entrepreneurs. Most of the rural industries are starved of financial resources. With the globalization there is a shift in credit system towards the urban entrepreneur and real estate market keeping the rural entrepreneurs in credit crunch.

9.7.5 Marketing infrastructure- Marketing of the products produced by the rural entrepreneurs is a big problem. As long as rural products do not enter the normal supply chain, their products cannot enjoy a good market. Therefore, rural industrialization would be a total fiasco sans sound rural marketing infrastructure. Chelloppan has urged the government to patronize the products produced by self-help mechanism and this would serve as a headache balm to give an eternal relief to rural enterprises.

9.8 Defining the Artisan

A common approach in defining the artisan is to refer to the crafts that artisans produce and to the processes involved in their production. The artisan is in fact often called a craftsman, while the practice in which artisans are engaged is termed craftsmanship. This paper adopts a similar approach, defining artisans by virtue of the processes in which they engage and the crafts that they produce.

Metcalf's views of crafts are in line with the definition provided in the final report of an international symposium on crafts and the international market held by the United Nations Educational, Scientific and Cultural Organisation (UNESCO) in collaboration with the International Trade Centre (ITC) in 1997. This report defines crafts as those tangible products which artisans mould entirely with their own hands, or partially with the help of tools or machinery, "as long as the direct manual contribution of the artisan remains the most substantial component of the finished product" (UNESCO/ITC, 1997, p. 6). This report further specifies that the values emerging from the unique characteristics of the particular crafts result "from their distinctive features, which can be utilitarian, aesthetic, artistic, creative, culturally attached, decorative, functional, traditional, religiously and socially symbolic and significant" (ibid.). Although some authors (e.g., Cox & Bebbington, n/d) view crafts as being produced in limited amounts, the UNESCO/ITC report does not place any quantity restrictions in their classification of crafts. It does, however, list the use of raw materials from sustainable sources as part of their definition.

9.9 The Artisan: A Sustainable Entrepreneur

The above discussion leads to one of this paper's central questions: How can artisans incorporate all three elements of sustainability (environmental, social, and economic) into their practice in order to make the transition towards becoming sustainable entrepreneurs who could contribute to the fourth element of sustainability: a sustainable culture? At this point, one should note that while it is clear that all these elements need to be present to some extent in order to be considered as a sustainable entrepreneur, the specific actions which must be taken and the degree to which they must be incorporated in an enterprise are subjective and debatable. The suggestions provided below are therefore guidelines which, if followed, would lead artisans towards becoming sustainable entrepreneurs. The greater the extent to which these suggestions are embedded within the artisans' personal values and business practices, the more they may be said to have made the transition towards sustainable entrepreneurship.

First of all, in order for artisans to be considered as sustainable entrepreneurs, they need to engage in practices that are environmentally-friendly. At a very basic level, this would include measures such as the reuse of materials, the reduction and recycling of waste and the use of alternative energy sources. Furthermore, as argued by Cox and Bebbington (n/d), one should consider what raw materials are used to produce the craft, where these materials originate, how they are transported to the artisan's workshop and how they are processed during production. Sustainable craftsmanship would aim to minimize its environmental impact by making use of natural raw materials which are not treated chemically and which do not need to be transported over long distances. Cox and Bebbington suggest that a way of reducing one's carbon footprint is to work from home so as to reduce the environmental impact of commuting to other destinations.

Even if it is not always possible for artisans to follow Cox and Bebbington's suggestions, a case can still be made for the relative environmental sustainability of craftsmanship. When one recalls that crafts are, by definition, made primarily by hand, it is easy to see that the environmental impact of craft production is negligible when compared to that of the millions of mass-produced items that are churned out by factories in locations like Asia where preservation of the natural environment may not be at the top of the priorities list.

Secondly, sustainable entrepreneurship requires artisans to make some contribution to the social dimension of sustainability. On an individual level, craft production may be argued to provide artisans with employment and self-actualization opportunities. Recalling Metcalf's notions of "craft-as-skilful-labour" which "implies learning and expertise applied to work", and "craft-as-a-class-of-objects" which must be produced primarily by hand, one may appreciate that craft production is a personally-involving and fulfilling endeavour that allows artisans to put their skills and knowledge to good use and to enjoy the fruits of their labour in the form of their final hand-made product. On a community level, it may be argued that craft production involves the development and preservation of a set of localized skills and knowledge which are cherished and passed on through generations. The greater the extent to which a society is equipped with its own pool of skills and knowledge, the better able it is to sustain itself, and the less it needs to depend upon external

sources for its survival. Craft production may therefore pave the way to a more resilient and sustainable society.

As explained above, culture has recently been argued to be a fourth element of sustainability. According to Cox and Bebbington (n/d), the connection between craft and sustainable development is probably the strongest at a cultural level as it increases cultural identity in both traditional and modern practices. As artisans develop their own unique techniques and “tricks” for producing their particular craft, they contribute towards the development of their local culture. This is in line with the UNESCO/ITC report (1997) which defines crafts as being “culturally attached”. It is clear from the above discussion that it is indeed possible for artisans to incorporate all elements of sustainability into their practice and in the process become key players in the transition towards sustainable entrepreneurship. It is also clear that there is much to be gained in environmental, social, economic and cultural terms if artisans were to be encouraged to engage in sustainable practices as suggested above. However as noted by Cox and Bebbington (n/d), the logic of industrialism, with its heavy machinery and mass-production lines aimed at the maximisation of profit, constitutes a serious threat to the survival of the artisan. There is nowadays a “general tendency of technology and capitalism to replace the more genuine and authentic forms of hand made production”, such that it is seldom economically viable for artisans to persist in their craft production.

9.10. Challenges Faced by Artisans in Malta: Insights from the Literature

As indicated in the introduction, the focus of this paper is on profit-oriented artisans, rather than on those artisans who are engaged in craft production as a hobby or for other non-financial gains, as it is the former who may meet the criteria of sustainable entrepreneurship within an economic dimension, as explained above. It may safely be assumed that all of these artisans would fall into the Small and Medium Enterprise (SME) category which comprises 99% of all businesses in Malta. They may therefore be argued to be subject to the same general conditions as other SMEs operating in Malta.

Malta is a small island state with a total land area of 316 square kilometers and a population of just over 400,000. It is located 93 kilometers south of Sicily in the heart of the Mediterranean Sea. This acts as a natural barrier that isolates Malta from the rest of the world and gives rise to the remoteness and insularity that are typical of many small island states. As a result, travel and transportation costs to and from Malta are higher, making it more difficult for Malta to form part of major centres of trade and commerce.

Many authors consider small island states to be “doomed by the accident of geography”. Their small size, remoteness, isolation and lack of natural resources increase their exposure to uncontrollable external forces and gives rise to economic vulnerability. Malta’s natural resources are limited to limestone deposits and salt, creating a heavy reliance on import for raw materials in most industries. A limited domestic market makes Malta’s economy dependent on an export market for local products. The absence of natural resources often forces small states to rely heavily on their human resources to generate wealth.

Furthermore, the Open Systems approach posits that organisations (including SMEs) are open systems made up of interrelated components and enclosed by boundaries of varying degrees of permeability. They are “inhabitants of a larger system encompassing the environments in which they operate and on which they depend for resources” (Baum & Rowley, 2002, p. 6). Such higher level systems or super systems include the economic system of the country, together with various social, cultural and demographic factors, all of which “provide constraints and opportunities” for their subsystems. In this view, the SMEs of artisans may be considered to be highly permeable open systems which in turn exist within a larger open system. They are thus open to a double dose of vulnerability: as highly permeable open systems they are exposed to forces in the Maltese context, which is in turn highly susceptible to shocks in its own external environment.

A recent study conducted among entrepreneurs in Malta found that creativity and innovation are among the key success factors which enable local entrepreneurs to overcome the challenges posed by Malta’s small island state context. It would be interesting to explore whether these findings hold true for the crafts sector. This will be further discussed below.

One may note that the very challenges posed by Malta’s small island state context could be seen to be facilitators for craftsmanship as sustainable entrepreneurship. For example, the expense associated with the importation of raw materials could be used as an impetus for local artisans to make use of locally sourced natural resources, which although are limited, could be moulded by creative artisans into innovative crafts. Furthermore, the limited domestic market and the expense associated with exporting from an island need not be a disincentive. Instead artisans, whose crafts are produced by hand and often in limited numbers, could aim at developing the local market. This would be greatly enhanced by a promotional campaign for local crafts as shall be recommended in Section 10.2 below

9.11 Challenges Faced By Artisans In Malta: Insights From An Exploratory Study

Besides the general conditions faced by SMEs in Malta, artisans are also argued to be susceptible to sector-specific challenges which have not yet been adequately documented in the literature. An informal exploratory study was conducted in July 2011 among artisans at Ta’ Qali Crafts Village in Malta to shed some light on the matter

9.11.1. Method

Informal interviews consisting of open-ended questions were conducted with six respondents who are engaged in the crafting and/or selling of filigree, Maltese lace, plaster models and wrought iron works. The questions elicited information on the current economic satisfaction of the artisans, on the difficulties that they face, on their experiences with local agencies such as the Malta Crafts Council (MCC) and on the role of innovation in their practice.

All respondents were informed that this study had been approved by the University of Malta Research Ethics Committee, and assured that their rights to anonymity, confidentiality and non-participation would be respected at all times. Where appropriate, the nature of the craft produced by the respondents is revealed in the

section below in relation to a particular finding. However, when reporting on findings which could have negative repercussions for one or more of the artisans (e.g., when complaints are made about the local authorities), no details are provided about the sort of craft produced by that respondent in order to ensure the artisans' anonymity. All respondents are assumed to have participated in this study voluntarily and with full informed consent, and to have provided factual and sincere answers to the questions asked.

9.11.2. Key Insights

A predominant theme which emerged from the interviews with the artisans in this exploratory study is concerned with unfair competition from foreign markets. Three respondents complained that since the EU liberalised the market, copycat items including the filigree Maltese Cross are being mass-produced in Asia, imported to Malta and then sold as Maltese crafts at a significantly lower price.

To add insult to injury, one artisan admitted to selling both genuine local crafts and imported products from the same shop with no labels that would enable a customer to distinguish the genuine Maltese products from the imported items. Consequently, uninformed customers would likely purchase the cheaper product to the detriment of the artisan whose sales of genuine Maltese crafts are dwindling.

9.11.3. Limitations

As outlined above, these insights were obtained from six informal interviews in an exploratory study conducted as part of a larger ongoing research project among artisans in Malta. The aim of these interviews was simply to test the waters and to obtain some early indications to guide the development of the rest of this research project. Neither can the findings of this exploratory study be generalised to other artisans in Malta, nor can firm conclusions be drawn from them at this stage.

For example, although three of the artisans interviewed reported the introduction of innovative designs, processes and machinery, one cannot yet deduce that artisans in Malta are innovative. Furthermore, although previous research has found that innovation is among the key success factors of SMEs in Malta, and although two artisans in the present study reported that their innovative practices have led to benefits such as an increase in sales, one cannot yet conclude that all artisans will benefit from innovation is applicable to the crafts sector. However limited in its scope and findings this qualitative survey may seem to be, it highlights the sector-specific challenges which the Maltese artisan has to face in a highly liberalised and open globalised market. The point that is being stressed is that further research, based on these insights, is needed in order to provide more valid and reliable data. The findings of this exploratory study are indicative of fertile ground for future research and they augur well for the upcoming steps in this research project.

9.12. Conclusion

Ancillary industries are those that produce the many parts and components that are utilized by primary industries in the process of assembling their final goods. An illustration of an accessory industry would be one that produces autos, railway engines, tractors, and other

such products. Ancillary products are coverage choices that a customer can choose in addition to the primary insurance that they have purchased from you. Most of the time, the primary plan that you've assisted the client in obtaining is health insurance. A couple of the most prevalent types of supplementary products that are sold in addition to health insurance are dental and life insurance

One of the central problems impinging significantly on rural development is the shrinking employment opportunities in rural areas. Seasonal unemployment, partial unemployment, artisans who are at the margins because the technology they use has become obsolete is common in Indian villages. Finding jobs to match the skills of the people is one enormous task for any government. Agriculture is widely found to be non-remunerative. This has accelerated migration to urban areas in a big way, worsening the situation of urban poverty.

A recent challenge to development in rural areas is distress departure from agriculture. The paradox is that commercial exploitation of resources in rural areas is systematically done by corporate interests. The dearth of access to information, knowledge and technology make rural people to stand away and watch their resources such as land, sand, soil, water, vegetation, herbs, trees etc. being exploited by profiteering interests. The unlettered or semi-literate rural people wind up their business in villages, and get set to depart to urban centres in search of employment in the cities.

9.13 Key Words

Non-farm : Pursuits other than agriculture / occupations one pursues outside agriculture.

Technology : New machines, equipment, and ways of doing things that are based on modern knowledge about science.

Subsidy : Money that is paid by a government or organisation to make prices lower, reduce the cost of producing goods etc.

9.14 Self Assessment Questions

What about Ancillary Industries ?

Explain brief Rural Industries

Discussion the Artisans ?

9.15 Reference

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Lesson-10

ROLE OF SIDO, SSIDC, SISI, DIC PROSPECTS FOR SMALL SCALE INDUSTRIES

10.0 Objectives:

To introduce the functions and activities of small-scale industries.

Discuss the functions of SIDO

Present the activities and focused consultancy areas of SISI

Discuss the functions of SSIDC.

Present the activities and loan schemes of DIC.

Structure

10.1 Introduction

10.2 Definition

10.2.1 Ancillary Industries

10.2.2 Tiny Units

10.2.3 Small-Scale Service Establishments

10.2.4 Household Industries

10.3 Characteristics of Small-Scale Industries

10.3.1 Ownership

10.3.2 Management and control

10.3.3 Area of operation

10.3.4 Technology

10.3.5 Gestation period

10.3.6 Flexibility

10.3.7 Resources

10.3.8 Dispersal of units

10.4 Small Industries Development Organization (SIDO)

10.4.1 Coordination activities of SIDO

10.4.2 Industrial development activities of SIDO

10.4.3 Management activities of SIDO

10.4.4. The main functions of SIDO are

10.4.5 The fundamental functions performed by the SIDO in every one of its three classes of functions are

10.4.7 Functions Relating to Extension

10.4.8 Benefits

10.4.9 Latest news

10.5 Small Industries Service Institutes (SISI)

10.5.1 Functions of SISI

10.5.2 The main functions of SISIs include

10.6 State Small Industries Development Corporations (SSIDC)

10.7 District Industries Centers (DIC)

10.7.1 DIC (District Industries Centers)

10.7.2 Organizational Set Up

10.7.3 Functions of DIC

10.8 Conclusion

10.9 Key Words

10.10. Self Assessment Questions

10.10 Reference

10.1 Introduction

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition.

There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labour.

Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments.

10.2 Definition:

The official definitions of a small scale unit are as follows:

(i) Small-Scale Industries

These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

10.2.1 Ancillary Industries

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

- (a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or
- (b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

10.2.2 Tiny Units

These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located in towns with population less than 50,000.

10.2.3 Small-Scale Service Establishments

These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

10.2.4 Household Industries

These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

10.3 Characteristics of Small-Scale Industries

10.3.1 Ownership

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

10.3.2 Management and control

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is activity involved in all the decisions concerning business.

10.3.3 Area of operation

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

10.3.4 Technology

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.

10.3.5 Gestation period

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

10.3.6 Flexibility

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

10.3.7 Resources

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

10.3.8 Dispersal of units

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

The list of various State and Central Government agencies supporting small-scale industries is given in previous chapter. Their activities and functions are discussed in the following sections.

Small scale Industries (SSI) are those businesses where the assembling, creation and delivering of administrations have done on a small or small size. These industries make a one-time interest in apparatus, plant, and hardware, however it doesn't surpass Rs.10 crore and yearly turnover doesn't surpass Rs.50 crore.

Basically the small scale industries for the most part included those businesses which production, produce and render administrations with the assistance of small machines and less labor. These endeavors should fall under the rules, set by the Government of India.

SSI registration has the registration given by the Ministry of MSME. A business ought to get SSI registration to have qualified for various plans, sponsorships and different impetuses given by the Government to such SSI's. SSI registration can be acquired online as well.

10.4 Small Industries Development Organization (SIDO)

Small Industries Development Organization (SIDO) is a subordinate office of the Department of SSI and Auxiliary and Rural Industry (ARI). It's anything but a summit body and nodal office for defining, planning and checking the approaches and projects for advancement and improvement of limited scope ventures.

Development Commissioner is the top of the SIDO. He is helped by different directors and consultants in advancing and executing different projects of preparing and the executives, consultancy, mechanical examination, opportunities for advancement of various sorts of **small scale industries**, modern homes, and so forth.

- It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmers for the promotion and development of small-scale industries.
- Small Industries Development Organization (SIDO) is a subordinate office of the Department of SSI and ARI.
- Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmers of training and management consultancy, the industrial investigation, possibilities for the development of different types of small-scale industries, development of industrial estates, etc.
- These functions are performed through a national network of institutions and associated agencies.
- All small-scale industries except those falling within the specialized boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centers of SISI and 7 centers related to production and process development. The activities of SIDO are divided into three categories as follows:

10.4.1 Coordination activities of SIDO

- (1) To coordinate various programmes and policies of various state governments pertaining to small industries.
- (2) To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.
- (3) Implement and coordinate in the development of industrial estates.

10.4.2 Industrial development activities of SIDO

- (1) Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.
- (2) To give essential support and guidance for the development of ancillary units.
- (3) To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.
- (4) To recommend the central government for reserving certain items to produce at SSI level only.

10.4.3 Management activities of SIDO

- (1) To provide training, development and consultancy services to SSI to develop their competitive strength.
- (2) To provide marketing assistance to various SSI units.
- (3) To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.
- (4) To help them get updated in various information related to the small-scale industries activities.

10.4.4. The main functions of SIDO are

Co-ordination

Industrial development

Extension

These functions have performed through a public organization of establishments and related offices made for explicit functions. As of now, the SIDO functions through 27 workplaces, 31 Small Industries Service Institutes (SISI), 37 Extension Centers, 3 Product-cum – Process Development Centers, and 4 Production Centers.

All small scale businesses aside from those falling inside the specific sheets and organizations like Khadi and Village Industries (KVI), Coir Boards, Central Silk Board, and so forth, fall under the domain of the SIDO.

10.4.5 The fundamental functions performed by the SIDO in every one of its three classes of functions are

- a. To advance a public approach for the improvement of **small scale industries**,
- b. To co-ordinate the arrangements and projects of different State Governments,
- c. To keep an appropriate contact with the connected Central Ministries, Planning Commission, State Governments, Financial Institutions and so forth, and
- d. To co-ordinate the projects for the advancement of mechanical bequests.

10.4.6 Functions Relating to Industrial Development

- a. To hold things for creation by **small scale businesses**,
- b. To gather information on shopper things imported and afterward, empower the setting of modern units to create these things by giving facilitated help,
- c. To deliver needed help for the improvement of subordinate units, and
- d. To urge **small scale industries** to effectively take part in Government Stores Purchase Program by giving them important direction, market guidance, and help.

10.4.7 Functions Relating to Extension

- a. To make arrangement to specialized administrations for working on specialized interaction, creation arranging, choosing proper hardware, and planning processing plant spread out and **design**,
- b. To give consultancy and preparing administrations to reinforce the cutthroat functions of small scale industries.
- c. To deliver advertising help to limited scope businesses to adequately sell their items, and
- d. To give help with monetary examination and data to small scale industries.

10.4.8 Benefits

SIDO helps in giving specialized and administrative inputs, making project reports and preparing business people of limited scope ventures. It's anything but a nearby contact with monetary and preparing organizations, Government and different offices for the advancement and improvement of small mechanical units. It attempts business advancement wherein the preparation and administrative capacities have created.

10.4.9 Latest news

The Small Industries Development Bank of India (SIDBI) and the Global Alliance for Mass Entrepreneurship (GAME) have gone into a MoU to help the MSMEs address their difficulties that had complemented during the pandemic, alongside the longstanding limit holes in the area.

The wide subjects covered under the MoU incorporate extending credit access, expanding formalization, building serious bunches, and working on the legitimate structure for simplicity of working together.

This long-standing experience joined with the power of GAME's 80+diverse accomplice coalition should facilitate the admittance to credit and a scope of new help administrations for MSMEs everywhere scale," GAME Co-organizer Mekin Maheshwari said.

Some of centre spaces of the association will increase Udyam Registration as a special ID for a MSME to get to plans across the whole MSME universe, utilizing SIDBI's monetary plans to additionally formalize endeavours, among others.

"We trust the force of the Alliance can have utilization for country building endeavors, for example, formalizing MSMEs, and generously further developing admittance to credit& non-monetary administrations," SIDBI Chairman and Managing Director, Siva Subramanian Raman, said.

10.5 Small Industries Service Institutes (SISI)

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective. The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs both existing and prospective. The activities of SISIs are coordinated by the Industrial management Training Division of the DCSSI's office. There are 28 SISIs and 30 Branch SISIs set up in State capital and other places all over the country.

SISI (Small Industries Service Institute): Small Industries Service Institute is a national Level organization established by the Central government. At the state level, ISI functions under the Director assisted by Deputy Directors.

10.5.1 Functions of SISI

i) Technical Information: SISI provides information about the supply and the availability of raw materials. It gives technical information about the machines and equipment. Technical know-how about the process of production, quality testing and standardization of products, modernization and preparing product design are other services provided by SISI.

ii) Workshop: SISI has a well- equipped workshop which provides services to entrepreneurs at reasonable rates. Jobs related with machine shops, heat treatment, hardness testing are carried out in these workshops. The main motive of the workshop facility is to improve the quality of the products.

iii) Technical Training: SISI provides technical training to the workers employed in the various industrial unite as well as thee entrepreneurs in order to improve standards of quality and labor. In the extension centers of SISI, training is provided for machine shop practice, milling, heat treatment, blueprint reading, etc.

iv)Economic Investigation Division: SISI collects and compiles statistical information regarding various aspects concerned with the establishment and development of small industries. Important aspects are demand and supply scenarios for different products, investment, raw material etc. This division prepares review reports on the items reserved for the small industry. The study of sick industries is also undertaken by this division. In such studies, SISI tries to identify the causes of the sickness of the smooth working of these units.

v) Export Promotion: SISI plays a significant role in the efforts regarding export promotion. A special arrangement is made to provide information about exporting the products. On behalf of the small entrepreneurs, SISI participants in international exhibitions and promotes the products in the foreign markets.

vi) Modernization: SISI guides the entrepreneurs in the quality up gradation, modernization and improvement of productivity.

vii) Development of the Market: SISI acts as a link between the tiny and the small industries and thee medium and the large-scale industries. It provides information about the products and the services of the small entrepreneurs to the requirements of the large industries. Thus, it bridges the small industries with the large industries and tries to develop the market. Many of the products manufactured by the small industries are purchased by the large industries.

viii) Library: SISI has a huge collection of books, journals, magazines, newspaper clippings etc. It provides valuable services to small entrepreneurs through its well equipped library. It has a collection of hundreds of project reports. Entrepreneurs can these readymade project reports at reasonable rates.

ix) Exhibition: A permanent exhibition is arranged by SISI in its office premises. SISI exhibits products manufactured by small entrepreneurs. The exhibition is free of cost. Thus, SISI provides multifarious services to the small entrepreneurs.

10.5.2 The main functions of SISIs include

- (i) To serve as interface between Central and State Governments.
- (ii) To render technical support services.
- (iii) To conduct Entrepreneurship Development Programmes.
- (iv) To initiate promotional programmes.

The SISIs also render assistance in the following areas:

- (i) Economic Consultancy/Information/EDP Consultancy.
- (ii) Trade and market information.
- (iii) Project profiles.
- (iv) State industrial potential survey.
- (v) District industrial potential surveys.
- (vi) Modernization and implant studies.
- (vii) Workshop facilities.
- (viii) Training in various trade/activities.

Specialized Institutions: In addition to the above agencies, the following specialised agencies have been set up by the Central Government:

(i) Central Institute of Tool Design, Hyderabad: It was set up in 1968 to provide training to technical personnel of small scale units in the design and manufacture of tools, jigs, fixtures, dies and moulds. Its other functions are as under:

- (a) Providing consultancy and advisory services including assistance in the design and developments of tools;
- (b) Recommending measures to standardize tools, and tooling elements, components of jigs, fixtures, dies, etc.; and
- (c) Offering tool room facility and production of dies, jigs, fixtures, gauges, etc. on a limited basis.

(ii) Central Institute of Hand Tools, Jalandhar: It was set up to provide improved technology, raw materials, design and testing for hand tools industry.

(iii) Central Tool Room Training Centers: These are located at New Delhi, Kolkata, Bengaluru and Ludhiana. These provide tool room services in design, manufacture and training.

10.6 State Small Industries Development Corporations (SSIDC)

The State Small Industries Development Corporations (SSIDC) were set up in various states under the companies' act 1956, as state government undertakings to cater to the primary developmental needs of the small tiny and village industries in the state/ union territories under their jurisdiction. Incorporation under the companies act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.

These State Government undertakings take care of the growth and development needs of village industries, tiny industries and small industries. Different states give focus and importance to different industries based on the raw- material and skill availability in their states.

The important functions performed by the SSIDCs include

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.

- To provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned provide management assistance to production units.

10.7 District Industries Centers (DIC)

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

10.7.1 DIC (District Industries Centers): Governments- both central and state, have in the past taken a number of measures for the development of small and village industries, but the actual achievements have been far below the expectations. Also the focus of attention for industrial development was mainly on large cities and State capitals to the neglect of district areas. In addition, multiplicity of institutions involved in small industries development and complicated systems and procedures made the job of promoting the industrial units an uphill task for small entrepreneurs. Hence, it was felt necessary to establish a development agency, which could provide all services and facilities to village and small industries under one roof. Accordingly, the DICs were established in May 1978 in order to cater to the needs of small units.

Each district has a DIC at its headquarters, the main responsibility of DID is to act as the chief coordinator or multifunctional agency in respect of various Government departments and other agencies. The prospective small entrepreneur would get all assistance from DIC for setting up and running an industry in rural areas. Up to 1991 about 422 DICs have been set up throughout the country. These DICs have assisted more than 1.5 lakh units generating employment for more than 10.3 lakh persons. The metropolitan cities of Delhi, Bombay, Calcutta and Madras have been kept outside the purview of the DIC.

10.7.2 Organizational Set Up

Each DIC has one General Manager in the rank of Joint Director of Industries as the land and seven manager each looking after a separate functional area as follows:

- i) Manager (Economic Investigation)
- ii) Manager (Machinery and equipment)
- iii) Manager (Research, Extension and Equipment)
- iv) Manager (Raw Materials) v) Manager (Credit)

- vi) Manager (Marketing)
- vii) Manager (KVIC and RAP)

The General Manager has to provide an effective leadership and coordination. Hence, the success of the centre largely depends upon the functioning of General Manager and his team of managers and other personnel.

10.7.3 Functions of DIC

i) Identification of Entrepreneurs: DIC develops new entrepreneurs by conducting entrepreneurial motivation programmes throughout the district especially in panchayat Union Headquarters and small towns.

ii) Selection of Projects: DIC offers technical advice to new entrepreneurs for the selection of projects suitable to them.

iii) Provisional registration under SSI: After the selection of projects, entrepreneurs are issued with provisional Registration which is essential for obtaining assistance from the financial institutions.

iv) Purchase of Fixed Assets: DIC sponsors the loan applications to TIIIC, SIDCO and banks for the purchase of land and buildings and sanctions margin money under Rural Industries Project Loan Scheme payable to other financial agencies for the purchase of plant and machinery.

v) Clearances from Various Departments: It takes the initiatives to get clearances from various departments and takes up measures to get speedy power connection.

vi) Assistance to Raw Material Supplies: It makes necessary recommendations to the concerned raw materials suppliers and issues the required certificates for the import of raw materials and machinery wherever necessary.

vii) Assistance to Village Artisans and Handicrafts: DIC arrange for the financial assistance with the lead bank or nationalized banks of the respective areas.

viii) Interest- Free sales Tax Loan: SSI units set up in rural areas can get IFST (interest free sales tax) Loan up to a maximum limit of 8% of the total fixed assets from SIDCO> BUT the sanction order from the same is being issued by DIC. The DIC also recommends the SSI units to NSIC for registration for Government Purchase Programme.

ix) Subsidy Schemes: DIC gives training to rural entrepreneurs and also assists other units giving training to small entrepreneurs.

District Industries Centres are supposed to provide pre-investment and post investment assistance to entrepreneurs under one roof. These centres have done commendable work in the promotion of small industries, development of entrepreneurship and generation of self-employment. But much is still desired to be done to make the DIC really one-window

service. Steps should be taken to strengthen and suitably restructure the district industries centres for playing a leading role in district level industrial development.

10.8 Conclusion

The policies and schemes of Government assistance for the development of medium, small, micro and rural industries insist on the utilization of local resources and raw materials and locally available manpower. These are translated into action through various agencies, departments, corporations, etc., all coming under the purview of the industries department. All these are primarily concerned with the promotion of small and rural industries.

India business scene is set up to fill in various regions because of a few factors like worldwide exchange, government upgrade, and a by and large solid non-industrial nation. With a youthful populace that is ascending to authority and innovation driving development and advancement, there are a few business openings in numerous areas that we will investigate today.

As you know that the assembling business has shown generally excellent development in the course of recent years. It is normal that the assembling business is necessary to develop at a comparative speed. In the event that you need to tap the capability of developing assembling industry, you should begin fabricating business. Assembling is a cycle of creating merchandise or item and selling it on the lookout.

You can plan to begin fabricating business for enormous scope or at a medium scale. Be that as it may, you need to put away a great deal of cash when you start huge scope or medium scale business. You additionally need to take most extreme consideration while choosing an item else you may wind up making misfortunes. According to me, you should begin a business at a more limited size or from home and extend it's anything but a later stage.

All manufacturing business require fulfillment of company registration and other legitimate conventions. Beginning an assembling business is an awesome thought. Nonetheless, it requires committed endeavors, fastidious arranging, and capital to be effective. Try to cover every single point prior to beginning assembling business.

10.9 Key Words

- 1) Development of the Market
- 2) Export Promotion
- 3) Economic Investigation Division
- 5) Industrial development activities of SIDO

10.10 Self Assessment Questions

- 1) What about small scale industries ?
- 2) Discussion the functions of SIDO ?
- 3) What are the functions performed by Small Industries Development Corporation (SIDC) to boost the growth and performance of small industrial units in India?
- 4) Explain the function of SISI in the small scale industry ?
- 5) Write short notes on: (i) Small Industries Service Institutes (SISIs) ?
- 6) What are District Industries Centers (DICs)? Explain their functions and role in development of new enterprises.

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