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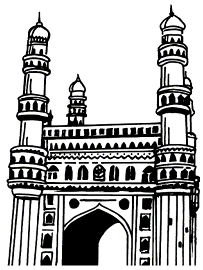

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ENTREPRENEURSHIP DEVELOPMENT

CONTENTS

STUDY MANUAL

SOLVED MODEL PAPERS

SYLLABUS

UNIT - I

ENTREPRENEUR AND ENTREPRENEURSHIP :

Understanding Concept of Entrepreneurship – Evolution of Entrepreneurship – Characteristics of Entrepreneur – Types of Entrepreneurs – Role of Entrepreneurship in Economic development in India – Rural Entrepreneurship, Need and Importance of Rural Entrepreneurship – Problems and Perspectives of Rural Entrepreneurship.

UNIT - II

FACTORS AFFECTING ENTREPRENEURIAL GROWTH :

Economic Environment –Economic, Non-Economic and Psychological factors – Entrepreneurial Motivation – Entrepreneurial Competencies – Entrepreneurship Development Programmes (EDP's) – Need, Objectives, course content and instruction.

UNIT - III

SMALL, MICRO, MEDIUM SCALE ENTERPRISES :

Definition of Small Industry –Characteristics of Small Scale Industry - Objectives – Scope of Small & Micro Industries –Opportunities for entrepreneurial growth in MSMEs – Role of MSMEs in Economic development – MSMEs problems

UNIT - IV

INSTITUTIONAL FINANCE FOR ENTREPRENEURS :

Commercial Banks – Role of Commercial Banksin Building Entrepreneurship – Other Financial Institutions such As IFCI, ICICI, IDBI, SFCs, SIDBI and EXIM bank – Non Banking Financial Institutions – LIC.

UNIT - V

VENTURE CAPITAL FINANCING :

Concept of Venture Capital Financing –Features, Need and Relevance of Venture Capital – Structure and Regulatory framework for Venture Capital Funds – Growth of Venture Capital in India.

Contents

Important Questions

UNIT - I

1. **Explain in brief the Evolution of concept of Entrepreneurship in India.**

Ans :

Refer Unit-I, Q.No. 3

2. **Enumerate the Characteristics of Entrepreneur.**

Ans :

Refer Unit-I, Q.No. 4

3. **Explain in brief classification of Entrepreneurs.**

Ans :

Refer Unit-I, Q.No. 5

4. **Explain the Role of Entrepreneurship in Economic Development of India.**

Ans :

Refer Unit-I, Q.No. 8

5. **Explain the need for Rural Entrepreneurship.**

Ans :

Refer Unit-I, Q.No. 10

6. **Explain the Problems and Perspectives of Rural Entrepreneurship.**

Ans :

Refer Unit-I, Q.No. 12

7. **How can Rural Entrepreneurship be developed Elaborote?**

Ans :

Refer Unit-I, Q.No. 13

UNIT - II

1. **Explain the factors affecting entrepreneurial growth in India.**

Ans :

Refer Unit-II, Q.No. 1

2. **Explain the importance of motivation.**

Ans :

Refer Unit-II, Q.No. 6

3. What do you understand by entrepreneurial competency.

Ans :

Refer Unit-II, Q.No. 10

4. Discuss the need of EDPs.

Ans :

Refer Unit-II, Q.No. 13

5. Discuss the course, contents and curriculum of EDPs.

Ans :

Refer Unit-II, Q.No. 14

6. Explain various suggestions for making EDP more effective.

Ans :

Refer Unit-II, Q.No. 19

UNIT - III

1. Explain the importance of Small Scale Industry.

Ans :

Refer Unit-III, Q.No. 2

2. Enlist the objectives of small-scale industries.

Ans :

Refer Unit-III, Q.No. 3

3. Explain the scope of small and micro industries.

Ans :

Refer Unit-III, Q.No. 4

4. Explain the problems of small scale industires.

Ans :

Refer Unit-III, Q.No. 5

5. Explain the importance of MSME.

Ans :

Refer Unit-III, Q.No.8

6. Write the role of MSMEs in economic development in India.

Ans :

Refer Unit-III, Q.No. 9

7. What are the problems associated with MSME.

Ans :

Refer Unit-III, Q.No. 10

UNIT - IV

1. Explain the characteristics of Commercial Banks.

Ans :

Refer Unit-IV, Q.No. 1

2. Discuss various functions of commercial banks.

Ans :

Refer Unit-IV, Q.No. 2

3. Explain the Modes of Acceptance Deposits of Commercial Banks.

Ans :

Refer Unit-IV, Q.No. 3

4. Explain the various services provided by commercial banks.

Ans :

Refer Unit-IV, Q.No. 4

5. Explain various functions of ICICI.

Ans :

Refer Unit-IV, Q.No. 7

6. Discuss the role of IDBI to support entrepreneurs.

Ans :

Refer Unit-IV, Q.No. 8

7. How do SFCs contribute to the development of small enterprises in the country.

Ans :

Refer Unit-IV, Q.No. 9

8. Briefly explain about SIDBI.

Ans :

Refer Unit-IV, Q.No. 10

9. Define LIC. State the functions and objectives of LIC.

Ans :

Refer Unit-IV, Q.No. 15

UNIT - V

1. Explain the Concept of Venture Capital Financing.

Ans :

Refer Unit-V, Q.No. 1

2. Explain the need and importance for Venture Capital.

Ans :

Refer Unit-V, Q.No. 3

3. Explain different types of venture capital financing.

Ans :

Refer Unit-V, Q.No. 4

4. Describe the Regulatory Framework of Venture Capital.

Ans :

Refer Unit-V, Q.No. 6

5. Discuss the growth of venture capital in India.

Ans :

Refer Unit-V, Q.No. 7

6. Explain the process of venture capital financing.

Ans :

Refer Unit-V, Q.No. 10

7. Explain in brief about first chicago method with its advantages and disadvantages.

Ans :

Refer Unit-V, Q.No. 12

8. Explain the various venture capital firms in India.

Ans :

Refer Unit-V, Q.No. 13

9. Describe the various exit strategies of Venture Capital.

Ans :

Refer Unit-V, Q.No. 14

UNIT I	**Entrepreneur and Entrepreneurship –** Understanding Concept of Entrepreneurship – Evolution of Entrepreneurship – Characteristics of Entrepreneur – Types of Entrepreneurs – Role of Entrepreneurship in Economic development in India – Rural Entrepreneurship, Need and Importance of Rural Entrepreneurship – Problems and Perspectives of Rural Entrepreneurship.

1.1 Understanding Concept of Entrepreneurship

Q1. Explain in briefly the concept of Entrepreneur.

Ans :

Introduction

The word 'entrepreneur' is derived from French word 'Entrependre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments.

Later in 16th century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17th century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities.

Meaning

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

Definitions

Some more important definitions of entrepreneur

i) **According to F.A. Walker :** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

ii) **According to Marx** regarded entrepreneur as social parasite.

iii) **According to Gilbraith :** "An entrepreneur must accept the challenge and should be willing hard to achieve something".

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

v) **According to E.E. Hagen :** "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".

Q2. Explain in brief the concept of Entrepreneurship.

Ans :

Concept of Entrepreneurship

(i) Entrepreneurship can be defined as the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objectives. That points out the risk taking ability coupled with decision making.

(ii) The word 'entrepreneurship' typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16th century, the term was used to denote army leaders. In the 18th century, it was used to denote a dealer who buys and sells goods at uncertain prices.

(iii) Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady.

It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes.

(iv) Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in develoing countries demolishes the contention that entrepreneur is a rare animal and an elusive character. In India the definition of an entrepreneur being the one who undertakes to organize, own and run a business has been accepted in a National Seminar on entrepreneurship organized in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.

(v) Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyses the characteristics of an entrepreneur in terms of caste, family, social status etc.

(vi) Psychologists analyses their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking, decision making, creativity, leadership etc.

(vii) The economists analyze them on the basis of occupational background, access to capital, business and technical experiences.

Definitions

(i) According to Higgins, "Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise".

(ii) According to Joseph A. Schumpeter, "Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of

(a) Introduction of a new product

(b) Use of a new method of production

(c) Opening of a new market

(d) The conquest of new source of supplying raw material

(e) A new form of organisation"

(iii) According to Peter F. Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice".

(iv) According to A. H. Cole, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services".

(v) According to Robert K. Lamb, "Entrepreneurship is that form of social decision making which is performed by economic innovators".

1.2 Evolution of Entrepreneurship

Q3. Explain in brief the Evolution of concept of Entrepreneurship in India.

Ans : **(Imp.)**

I) Growth of Entrepreneurship in Pre-Independence Period

Entrepreneurial growth in India is as old as Rigveda but there was no manufacturing as such before 1850. This manufacturing entrepreneurship was too confined to cottage & small scale industry. But it could not grow further due to various reasons such as lack of political unity, capital, network of custom barriers, existence of multiple systems of currency.

Emergence of entrepreneurial class is as old as our ancient history itself dating back to the pre-vedic period when the Harappan culture flourished in India. However, history of entrepreneurship and emergence of entrepreneurial class in India may be viewed under the following periods :

1. Period 1 : Entrepreneurship in ancient period
2. Period II : Entrepreneurship in pre-independence era i.e. before 1850.
3. Period III : Entrepreneurship between 1850-1947
4. Period IV : Entrepreneurship after 1947 & onwards i.e. post independence period.

1. Period I : Entrepreneurship in Ancient Period

As per the ancient literature, the ancient Indians took up a variety of commercial vocations akin to present day entrepreneurial activities. The arrival of Aryans opened the first phase of entrepreneurship, with their innovative new crafts and occupations, evolving division of labour for the new handicrafts, breeding of cattle, & cultivating land which were nearly non-existing before them.

The ancient literature like Manusmriti gives a more clear picture about the entrepreneurial class of people during pre-vedic period. According to him, vaisyas were the specialized class of people carrying entrepreneurial activities in agriculture, industry & banking sector. During the Gupta & Post-Gupta period, agriculture, crafts and handicrafts comprised the basic sources of occupation for the people.

2. Period II : Entrepreneurship in Pre-independence Era before 1850 AD

During the pre-independence period, agriculture was the main occupation of the people of India. Besides agriculture, the bania, Parsis, Cherriars & Gujaratis etc., specialized in the manufacturing of handicrafts, metal works, stone carving & jewellery designing etc. had dominated the industrial entrepreneurship sector in rural areas.

These communities actually laid the foundation of entrepreneurship by carrying out trade & commerce activities initially & later by establishing manufacturing centers.

British colonialism in India dealt a severe below to the Indian entrepreneurship & industrial revolution in Great Britain reduced India to the status of material supplier for consumer market for the finished products manufacture in Britain.

Due to lack of support from the British Government and its discriminatory policies towards Indian made products, the industrial entrepreneurship suffered a great deal.

3. Period III : Entrepreneurship during 1850-1947

The mid nineteenth century opened up path for rapid industrialization with the introduction of railways in 1853, develop-ment of other infrastructural facilities like roads, ports etc.

The eastern part of the country witnessed entrepreneurship mainly due to Europeans who engaged in export-oriented industries, like jute, textiles, tea, coal etc. whereas in the western part, entrepre-neurship was mostly among the Indians. It is observed that during the last decades of the 18th century, the Parsis along with Marwaris & Gujaritis trading castes, took to entrepreneurial behaviour.

The adoption of the concept of swadeshi & boycott in 1905 to counter the discriminatory policies of the British Government encouraged the Indians to plunge into entrepreneurship.

Jamshedji Tata established his first iron & steel industry with the help of 'swadeshi contribution'. Due to the swadeshi movement which emphasized on manufacturing & using indigenous goods by the Indian's, indigenous entrepreneurship developed in many types of activities such as textiles, soap, matches, oil, tanneries, potteries, banking, insurance etc.

As such, indigenous entrepreneurship grew at a rapid pace with emergence of entrepreneur classes such as Parsis, Marwaris & Gujaratis in the country on the eve of independence of India.

4. Period IV : Entrepreneurship in 1947 & onwards – Post-Independence period

In the post-independence period, the Government identified the need for rapid industrialization with the establishment of heavy & basic industries. The post independence period witnessed the emergence of Marwaris as big investors and industrialists. Before independence, where the Marwaris controlled only 6 companies, after independence, they had 618 directorships which rose to 1/4th of the total in 1951.

The Monopolies Inquiry Commission in 1964 has mentioned in its report that the Marwaris accounted for 10 large industrial houses out of a total of 37 showing the strength of the Marwaris in the growth of entrepreneurship during this period.

The Marwaris community emerged as a giant entrepreneurial class in the post-independence period. The house of Birla, Singhania, Bajaj & others have created their image in the industrial market in the field of industrial development in India.

1.3 Characteristics of Entrepreneur

Q4. Enumerate the Characteristics of Entrepreneur.

Ans : **(Imp.)**

An entrepreneur should possess all such characteristics with the help of which he can perform various responsibilities successfully.

The following characteristics are :

1. Innovator

Schumpeter differentiates between an inventor and innovator. An inventor discovers new methods and new materials and an innovator is the one who utilizes those discoveries and inventions. Not only this, the entrepreneur further exploits the inventions commercially and thus produces newer and better goods which give him profit and satisfaction.

Innovation may occur in the following forms :

(i) The introduction of new goods.

(ii) The introduction of new methods of production.

(iii) The opening of a new market.

(iv) The conquest of a new source of supply of raw-material.

(v) The carrying out of the new form of organization of any industry.

2. Risk-taker

(i) Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated.

(ii) A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved.

(iii) An entrepreneur is a calculated risk-tasker. He enjoys the excitement of a challenge but he does not gamble.

(iv) An entrepreneur avoids low-risk situation because there is a lack of challenge and he avoids high-risk situation because he wants to succeed. He likes achievable challenges.

(v) An entrepreneur likes to take realistic risks because he wants to be successful. He gets greater satisfaction in accomplishing difficult but realistic tasks by applying his own skills.

(vi) Hence, low-risk situation and high-risk situation both are avoided because these do not satisfy the entrepreneur.

3. Organiser

(i) An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority.

(ii) He produces that best results as an organizer. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance.

(iii) He must be able to inspire loyalty and hard work amongst the workers to raise productivity the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance.

(iv) He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency.

(v) In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

4. Creative

(i) Creatively, as field knowledge, seeks to explain how humans, either individually or collectively, reach solutions that are both novel and useful.

(ii) Innovation means the effort to create purposeful ventures.

5. Motivator

(i) McClelland explicitly introduces the need for achievement motivation as a psychological motive and implicitly emphasised the need for achievement as the most directly relevant factor for explaining economic behaviour.

(ii) Achievement motivation is a drive to overcome challenges, to advance and to grow. An entrepreneur is an achievement-oriented person, not 'money hungry'.

(iii) He works for his desire for challenge, accomplishment and service to others

(iv) Achievement concerns refers to the accomplishment of excellent, innovative and risk involving tasks.

(iv) The organizational goal of an entrepreneur can be boosted by inculcating in him the need for achievement.

6. Technical Competent

(i) Success of an entrepreneur depends largely upon his ability to adopt latest technology.

(ii) Technical knowledge implies the ability to devise and use new and better ways of producing and marketing goods and services.

(iii) An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the ability that people can acquire with hard work.

(iv) An entrepreneur who has a high level of administrative ability, mental ability, communication ability, human relations ability and technical knowledge can be more successful than a person with low level of these abilities.

(v) A dynamic entrepreneur must also be interested in changing the pattern of production to suit the requirements.

7. Self-confident

(i) It is necessary for an entrepreneur to be self-confident. He should have faith in himself only then he can trust others.

(ii) In an expanded business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority.

(iii) He can seek cooperation of his staff and inculcate a sense of team work in them.

8. Socially Responsible

(i) The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others.

(ii) On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others.

(iii) He may invent new products and new manufacturing methods. He may innovate new ways of doing things.

9. Optimistic

(i) An entrepreneur should approach his task with a hope of success and optimistic attitude.

(ii) He attempts any task with the hope that he will succeed rather than with a fear of failure. Such a hope of success enhances his confidence and drives him towards success.

10. Equipped with Capability to Drive

(i) Drive is a person's motivation towards a task. It comprises of such personality traits as responsibility, vigour, initiative, persistence and ambition.

(ii) An entrepreneur must exert considerable effort in establishing and managing his business.

(iii) Those entrepreneurs who work hard in planning, organizing, co-ordinating and controlling their business are more likely to have a successful business than the entrepreneur who is lost and haphazard.

11. Blessed with Mental Ability

(i) Mental ability that contributes to the success of an entrepreneur consists of overall intelligence, i.e. IQ, creative thinking ability and analytical thinking ability.

(ii) An entrepreneur must be intelligent, adaptable, creative and he must be able to engage in analysis of various problems and situations in order to deal with them.

12. Human Relations Ability

(i) Personality factors such as emotional stability, personal relations, sociability, consideration and tactfulness are important contributors to entrepreneur's success.

(ii) One of the most important facets of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. This is the ability to practice empathy.

(iii) The entrepreneur must have good relations with his employees, customers etc. He must be aware of the needs and motivations of customers if he is to adequately train his employees to maintain good customer relations.

13. Communication Ability

An entrepreneur must possess the quality of communicating effectively in written and oral communications. Good communication also means that both the sender and the receiver understand and are being understood.

14. Decision-Making

An entrepreneur must be clear and creative when it comes to decision-making. He must believe in himself and should be possessing ability to take decisions effectively. Decisions taken should be based on quantitative facts. Decisions which effect organisaton's future and are likely to be irreversible must be taken with great care.

Here are some tips to become a good decision-maker

- Define the problem.
- Collect information and relevant data.
- Begin with a brain storming session and discuss the problem with each other.
- Never criticize or reject any solution suggested during the brain storming session.
- Encourage group members to come up with potential solutions.
- Reduce the number of alternatives to three or four after discussion.
- Consider each alternative extensively and determine the best to

1.4 Types of Entrepreneurs

Q5. Explain in brief classification of Entrepreneurs.

Ans : **(Imp.)**

Today various types of entrepreneur are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

I) According to Clearance Danhof's Classifications

Danhof classifies Entrepreneur into four types.

1. Innovative Entrepreneur

This category of entrepreneur is characterized by smell of innovativeness. This type of entrepreneur sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations.

Such entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such entrepreneur are very much helpful for their country because they bring about a transformation in life style.

2. Adoptive or Imitative Entrepreneur

Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, he may just adopt the technology and methods innovated by others.

Such types of entrepreneur are particularly suitable for under developed countries for imitating the new combination of production already available in developed countries.

3. Fabian Entrepreneur

Fabian entrepreneurs are characterized by great caution and skepticism, in experimenting any change in their enterprise. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprises.

4. Drone Entrepreneur

The entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

II) According to Arthur H Cole Classification

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur.

(i) **Empirical :** He is an entrepreneur who hardly introduces anything revolutionary and follows the principle of rule of thumb.

(ii) **Rational :** The rational entrepreneur is well informed about the general economic conditions and introduces changes, which look more revolutionary.

(iii) **Cognitive :** Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

III) Classification Based on the Scale of Enterprise

(i) **Small Scale :** These entrepreneurs do not possesses the necessary talents and resources to initiate large scale production and to introduce revolutionary technological charge.

(ii) **Large scale :** They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

IV) Other Classification

Following are some more types of entrepreneurs listed by behavior scientists.

(i) **Solo Operators :** These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

(ii) **Active Partners :** The entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simple 'Partners'.

(iii) **Inventors :** Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

(iv) **Life Timers :** Such entrepreneurs take business as an integral part of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

(v) **Industrial Entrepreneurs :** The entrepreneurs engage in manufacturing and selling products.

(vi) **Service Entrepreneurs :** The entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc., where entrepreneurs provide service to people.

(vii) **Business Entrepreneurs :** They are also called as trading entrepreneurs which buy and sell goods.

(viii) **Agricultural Entrepreneurs :** They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

(ix) **Corporate Entrepreneurs :** Corporate entrepreneurs undertakes their business activities under legally registered company or trust.

(x) **Rural Entrepreneurs :** Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs.

According to Kkhadi and Village Industry Commission (KVIC) village or rural industry means any industry located in rural areas, population of which do not exceed 10,000, which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

(xi) **Women Entrepreneurs :** According to Government of India an women entrepreneur is defined as an enterprise owned and controlled by a woman and having minimum financial interest upto 51% of the capital and giving at least 51% employment to women.

Q6. Explain in brief the functions of Entrepreneurs.

Ans :

An entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods.

The following are the main functions of an Entrepreneur.

1. Idea Generation

The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. Determination of Business Objectives

Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

3. Raising of Funds

All the activities of the business depend upon the finance and hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source.

He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

4. Procurement of Machines and Materials

Another important function of an entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries, he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc. before procuring machineries.

5. Market Research

Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake

Q7. Distinguish between entrepreneur and intrapreneur.

Ans : **(Imp.)**

S.No.	Nature	Entrepreneur	Intrapreneur
1.	Ownership	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	Status	An entrepreneur is independent in his operatons.	The intrapreneur is dependent upon entrepreneur.
3.	Capital formation	Entrepreneur himself forms capital	Intrapreneur does not form capital.
4.	Risk	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.
5.	Operation	An entrepreneur operates from outside	Intrapreneur operates from within the organisation.
6.	Guarantee of investment	Entrepreneur gives guarantee to the investors for their investment	Intrapreneur himself is a manager,so he manages from within. Question of guarantee does not arise.
7.	Management	Entrepreneur manages the enterprise from outside.	Intrapreneur is a professional manager.
8.	Professional qualification	Entrepreneur need not possess professional qualification	Intrapreneur must possess professional qualification.

1.5 Role of Entrepreneurship in Economic Development in India

Q8. Describe the Entrepreneurship in Economic Development of India.

(OR

Explain the Role of Entrepreneurship in Economic Development of India.

Ans : **(Imp.)**

1. Employment opportunities

Entrepreneurs employ labour for managing their business activities and provides employment opportunities to a large number of people. They remove unemployment problem.

2. Balanced Regional Development

Government promotes decentralized development of industries as most of the incentives are granted for establishing industries in backward and rural areas. Thus, the entrepreneurs to avail the benefits establish industries in backward and rural areas They remove regional disparities and bring balanced regional development. They also help to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas.

3. Mobilization of Local Resources

Entrepreneurs help to mobilize and utilize local resources like small savings and talents of relatives and friends, which might otherwise remain idle and unutilized. Thus they help in effective utilization of resources.

4. Optimization of Capital

Entrepreneurs aim to get quick return on investment. They act as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.

5. Promotion of Exports

Entrepreneurs reduce the pressure on the country's balance of payments by exporting their goods they earn valuable foreign exchange through exports.

6. Consumer Demands

Entrepreneurs produce a wide range of products required by consumers. They meet the demand of the consumers without creating a shortage for goods.

7. Social Advantage

Entrepreneurs help in the development of the society by providing employment to people and paves for independent living. They encourage democracy and self-governance. They are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

8. Increase Per Capita Income

Entrepreneurs help to increase the per capita income of the country in various ways and facilitate development of backward areas and weaker sections of the society.

9. Capital formation

A country can attain economic development only when there is more amount of investment and production. Entrepreneurs help in channelizing their savings and savings of the public to productive resources by establishing enterprises. They promote capital formation by channelizing the savings of public to productive resources.

10. Growth of capital market

Entrepreneurs raises money for running their business through shares and debentures. Trading of shares and debentures by the public with the help of financial services sector leads to capital market growth.

11. Growth of infrastructure

The infrastructure development of any country determines the economic development of a country, Entrepreneurs by establishing their enterprises in rural and backward areas influence the government to develop the infrastructure of those areas.

12. Development of Trader

Entrepreneurs play an important role in the promotion of domestic trade and foreign trade. They avail assistance from various financial institutions in the form of cash credit, trade credit, overdraft, short term loans, secured loans and unsecured loans and lead to the development of the trade in the country.

13. Economic Integration

Entrepreneur reduces the concentration of power in a few hands by creating employment opportunities and through equitable distribution of income.

Entrepreneurs promote economic integration in the country by adopting certain economic policies and laws framed by the government. They help in removing the disparity between the rich and the poor by adopting the rules and regulation framed by the government for the effective functioning of business in the country.

14. Inflow of Foreign Capital

Entrepreneurs help to attract funds from individuals and institutions residing in foreign countries for their businesses.

1.6 Rural Entrepreneurship

Q9. Explain the meaning of Rural Entre-preneurship.

(OR)

Discuss the meaning of Rural Entrepreneurship.

Ans :

Definition

Rural industries are generally associated with agriculture.

According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees."

The definition of village industry has been recently modified by the government so as to enlarge its scope.

Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant and machinery is classified as a village industry.

As a result of widening of the scope of village industries, 41 new village industries have been added making a total of 101 as against 70 industries earlier.

All the village industries have been grouped into seven major categories as follows:

i) Mineral - based industry,

ii) Forest - based industry,

iii) Agro - based industry,

iv) Polymer and chemical - based industry,

v) Engineering and non-conventional industry,

vi) Textile industry (including khadi), and

vii) Service industry.

1.6.1 Need and Importance of Rural Entrepreneurship

Q10. Explain the need for Rural Entrepre-neurship.

Ans : **(Imp.)**

The need of Rural Entrepre-neurship is as follows :

1. Rural industries being labour intensive, have high potential in employment generation. Thus, they serve as an antedote to the widespread problems of disguised unemployment or underemployment stalking the rural territory.
2. By providing employment, these industries have also high potential for income generation in the rural areas. These, thus, help in reducing disparities in income between rural and urban areas.
3. These industries encourage dispersal of economic activities in the rural areas and, thus, promote balanced regional development.
4. Development of industries in the rural areas also helps build up village republics.
5. Rural industries also help protect and promote the art and creativity, i.e. the age-old rich heritage of the country.
6. Rural industrialization fosters economic development in rural areas. This curbs rural- urban migration, on the one hand, and also lessens the disproportionate growth in the cities, reduces growth of slums, social tensions, and atmospheric pollution, on the other.
7. Last but no means the least, rural industries being environment friendly lead to development without destruction i.e., the most desideratum of the time.

Q11. Explain the Characteristics of Rural Entrepreneurship.

Ans :

The essential characteristics of rural entrepreneurship are following:

1. Labour Intensive

Rural industries are labour intensive because they give more employment of labour than machines. Rural entrepreneurs are generally labour intensive because they give much stress on human capital.

2. Use of Traditional Skill

Rural entrepreneurs give much emphasis on use of traditional skill during the course of production. They have no capacity to apply modem skill and technology in their industry.

3. Less Capital

Rural entrepreneurs generally invest less capital to produce goods and commodities in their industry. As they have no capacity to afford for much capital investment, they emphasis on less capital investment.

4. Decentralised Production

As rural industries are scattered and operated in a small scale, it encourages decentralised production.

5. Use of Local Raw Materials

Rural entrepreneurs make better use of local raw materials during the course of production. They usually make better and effective use of local raw materials because its transportation cost is less.

1.6.2 Problems and Perspectives of Rural Entrepreneurship

Q12. Explain the Problems and Perspectives of Rural Entrepreneurship.

Ans : **(Imp.)**

Some major problems faced by the rural entrepreneurship are as follows:

1. Financial Problems

i) **Paucity of Funds:** Most of the rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is too time-consuming that its delay often disappoints the rural entrepreneurs.

Lack of finance available to rural entrepreneurs is one of the biggest problems which rural entrepreneur is bearing nowadays especially due to global recession.

ii) **Lack of Infrastructural Facilities:** The growth of rural entrepreneurship is not very healthy in spite of efforts made by government due to lack of proper and adequate infrastructural facilities.

iii) **Risk Element:** Rural entrepreneurship has less risk bearing capacity due to lack of financial resources and external support.

2. Marketing Problems

i) **Competition:** Rural entrepreneurship faces severe competition from large sized organizations and urban entrepreneurs. They incur high cost of production due to high input cost.

Major problems faced by marke-ters are the problem of standardization and competition from large-scale units. They face the problem in fixing the standards and sticking to them. Competition from large scale units also creates difficulty for the survival of new ventures.

ii) **Middlemen:** They exploit rural entrepreneurs. The rural entrepreneurs are heavily dependent on middlemen for marketing of their products who pocket large amount of profit.

Storage facilities and poor means of transport are other marketing problems in rural areas. In most of the villages, farmers store the produce in open space, in bags or earthier vessels, etc.

So these indigenous methods of storage are not capable of protecting the produce from dampness, weevils, etc. The agricultural goods are not standardised and graded.

3. Management Problems

i) **Lack of Knowledge of Information Technology:** Information technology is not very common in rural areas. Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information and ideas.

The intensity of family and personal relationships in rural communities can sometime be helpful but they may also present obstacles to effective business relationships.

ii) **Legal Formalities:** Rural entrepre-neurs find it extremely difficult in complying with various legal formalities in obtaining licenses due to illiteracy and ignorance.

iii) **Procurement of Raw Materials:** It is really a tough task for rural entrepre-neurs. They may end up with poor quality raw materials, may also face the problem of storage and warehousing.

iv) **Lack of Technical Knowledge:** Rural entrepreneurs suffer a severe problem of lack of technical knowledge. Lack of training facilities and extension services create a hurdle for the development of rural entrepreneurship.

v) **Poor Quality of Products:** Another important problem in growth of rural entrepreneurship is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

Q13. How can Rural Entrepreneurship be developed? Elaborote.

Ans : **(Imp.)**

Establishing an industry and, thereby developing entrepreneurship is not one-man ac-tivity. In fact, it involves multi-pronged activities. Though the answer to the question how to develop entrepreneurship lies in the solutions of the problems faced in this regard, yet the following measures are suggested for developing entrepreneurship in the rural areas in the country.

1. Raw material is a must for any industry. However, the non-availability of raw materials accompanied by their prohibitive cost have weakened the viability of these industries. Past experience bears evidence that rural industries with employment potential can not be sustained for long unless a strong raw material-base is created in rural areas itself. There-fore, an urgent policy is called for to strengthen the raw material base in rural areas.

2. Finance is considered as lubricant for setting up and running an industry. Funds, therefore, need to be made available on time at soft terms and conditions to those .who really need it.

3. In order to solve the problem of marketing for rural industries, common production- cum-marketing centres need to be set up and developed with modern infrastructural facilities, particularly, in the areas having good production and growth potential. This would help in promoting export business, on the one hand, and bringing the buyers and sellers is close interaction avoiding middleman in between them, on the other. Legislative measures have to be taken to make the government purchases compulsory from rural industries.

4. One peculiarity of rural entrepreneurs is that most of them join their entrepreneurial career not by choice but by chance. Lack of aptitude and competency on the part of such entrepreneurs makes the units sick. Hence, there is a need to develop entrepreneurial attitude and competencies among the prospective entrepreneurs through the training interventions like Entrepreneurship Development Programmes (EDP), Women Entrepreneurship Development Programmes and TRYSEM.

5. One effective way to inculcate the entrepreneurial acumen and attitude may be imparting entrepreneurial education in the schools, colleges, and universities. That younger minds are more susceptive to be moulded is well evidenced by the popularly known 'Kakinada Experiments' in Andhra Pradesh.

6. Sometimes the real problem in setting up industries is not the non-availability of facilities, but non-awareness of facilities whatever are available. The need is, therefore, to dissiminate information about all what is available to provide to the entrepreneurs to facilitate them in setting up industries.

7. Proper provisions need to be made to impart the institutional training to orient the entrepreneurs in specific products and trades so that the local resources can be harnessed properly.

8. Our accumulated experience bears ample evidences to the fact that the non-govern-mental organisations, popularly known as NGOs, can prove instrumental in developing rural entrepreneurship in the country. The role of NGOs in developing entrepreneurship is, therefore, discussed separately.

Short Questions and Answers

1. Entrepreneur.

Ans :

Some more important definitions of entrepreneur

i) According to F.A. Walker : "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

ii) According to Marx regarded entrepreneur as social parasite.

iii) According to Gilbraith : "An entrepreneur must accept the challenge and should be willing hard to achieve something".

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

2. Entrepreneurship

Ans :

Definitions

(i) According to Higgins, "Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise".

(ii) According to Joseph A. Schumpeter, "Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of

(a) Introduction of a new product

(b) Use of a new method of production

(c) Opening of a new market

(d) The conquest of new source of supplying raw material

(e) A new form of organisation"

3. Innovative Entrepreneur

Ans :

This category of entrepreneur is characterized by smell of innovativeness. This type of entrepreneur sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations.

Such entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such entrepreneur are very much helpful for their country because they bring about a transformation in life style.

4. Imitative Entrepreneur

Ans :

Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, he may just adopt the technology and methods innovated by others.

Such types of entrepreneur are particularly suitable for under developed countries for imitating the new combination of production already available in developed countries.

5. Drone Entrepreneur

Ans :

The entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

6. Distinguish between entrepreneur and intrapreneur.

Ans :

S.No.	Nature	Entrepreneur	Intrapreneur
1.	Ownership	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	Status	An entrepreneur is independent in his operatons.	The intrapreneur is dependent upon entrepreneur.
3.	Capital formation	Entrepreneur himself forms capital	Intrapreneur does not form capital.
4.	Risk	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.

7. Rural Entrepreneurship.

Ans :

Rural industries are generally associated with agriculture.

According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees."

The definition of village industry has been recently modified by the government so as to enlarge its scope.

Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant and machinery is classified as a village industry.

8. Need of Rural Entrepreneurship is as follows

Ans :

i) Rural industries being labour intensive, have high potential in employment generation. Thus, they serve as an antedote to the widespread problems of disguised unemployment or underemployment stalking the rural territory.

ii) By providing employment, these industries have also high potential for income generation in the rural areas. These, thus, help in reducing disparities in income between rural and urban areas.

iii) These industries encourage dispersal of economic activities in the rural areas and, thus, promote balanced regional development.

iv) Development of industries in the rural areas also helps build up village republics.

v) Rural industries also help protect and promote the art and creativity, i.e. the age-old rich heritage of the country.

9. Characteristics of Rural Entrepreneurship.

Ans :

i) Labour Intensive

Rural industries are labour intensive because they give more employment of labour than machines. Rural entrepreneurs are generally labour intensive because they give much stress on human capital.

ii) Use of Traditional Skill

Rural entrepreneurs give much emphasis on use of traditional skill during the course of production. They have no capacity to apply modem skill and technology in their industry.

iii) Less Capital

Rural entrepreneurs generally invest less capital to produce goods and commodities in their industry. As they have no capacity to afford for much capital investment, they emphasis on less capital investment.

10. Innovator

Ans :

Schumpeter differentiates between an inventor and innovator. An inventor discovers new methods and new materials and an innovator is the one who utilizes those discoveries and inventions. Not only this, the entrepreneur further exploits the inventions commercially and thus produces newer and better goods which give him profit and satisfaction.

Innovation may occur in the following forms :

(i) The introduction of new goods.

(ii) The introduction of new methods of production.

(iii) The opening of a new market.

(iv) The conquest of a new source of supply of raw-material.

(v) The carrying out of the new form of organization of any industry.

Choose the Correct Answer

1. Which of these is not a type of entrepreneurship? [d]
   (a) Small business entrepreneurship (b) Scalable entrepreneurship
   (c) Large scale entrepreneurship (d) Intrapreneurship
2. Which of these actions of an entrepreneur will most likely result in creative destruction? [a]
   (a) Developing a new product
   (b) Taking over a competitor's business
   (c) Issuing shares to individuals and institutions
   (d) Lowering prices of your product or service
3. According to Schumpeter, innovative entrepreneurs would: [c]
   (a) Thrive in the market
   (b) Not survive and disappear from the market.
   (c) Get absorbed within larger innovative businesses
   (d) Get absorbed within non-innovative businesses
4. Which of these is not a challenge for the entrepreneur? [d]
   (a) Managing the cash flow of their business
   (b) Recruiting new employees
   (c) Choosing the product or service to sell in the market
   (d) Formulating rules and regulations relating to conducting entrepreneurship in their country
5. Which of these theories involve taking a moderate amount of risk as a function of skill and not chance? [b]
   (a) Need for achievement (b) Need for affiliation
   (c) Need for authority (d) Need for independence
6. Which of these is not a category of external forces that affects a business? [b]
   (a) Competitive forces (b) Technological forces.
   (c) Economic forces (d) Socio-economic forces
7. Which among these is a money manager who is involved in making risk investments from equity capital with the objective of gaining better returns? [d]
   (a) Entrepreneur (b) Businessperson
   (c) Buyer (d) Venture capitalist
8. Andrew Carnegie belonged to this century: [d]
   (a) 16th to 17th Century (b) 20th to 21st Century.
   (c) 17th to 18th Century (d) 19th to 20th Century
9. Which of these is the first activity of a new business? [a]
   (a) Departure point (b) Goal Orientation
   (c) Business skill development (d) None of the above
10. Who should be involved in preparing a firm's business plan? [c]
    (a) Accountant (b) Engineer
    (c) Entrepreneur (d) None of the above

Fill in the Blanks

1. The word 'entrepreneur' is derived from French word 'Entrependre' which means ______.
2. ______ is essentially a creative activity or it is an innovation function.
3. ______ means the condition of not knowing the outcome of an activity or decision.
4. ______ means the effort to create purposeful ventures.
5. ______ entrepreneurs are characterized by great caution and skepticism.
6. The ______ entrepreneur is well informed about the general economic conditions.
7. ______ entrepreneur is well informed, draws upon the advice and services of experts.
8. KVIC stands for ______.
9. Rural industries are generally associated with ______ .
10. Rural industries being ______ intensive, have high potential in employment generation.

Answers

1. Undertaking
2. Entrepreneurship
3. Risk
4. Innovation
5. Fabian
6. Rational
7. Cognitive
8. Kkhadi and Villae Industry Commission
9. Agriculture
10. Labour

One Mark Answers

1. Entrepreneurship

Ans :

"Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true".

2. Economic Theory

Ans :

Economics is the social science that deals most directly with contemporary economic reality. Economists have done little work on entrepreneurship and therefore, have tended to be in minority.

3. Entrepreneur

Ans :

The word 'entrepreneur' is derived from French word 'Entrependre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments.

4. Risk-taker

Ans :

Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated.

5. Organiser

Ans :

An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organizer.

UNIT II	**Factors Affecting Entrepreneurial Growth –** Economic Environment – Economic, Non-Economic and Psychological factors – Entrepreneurial Motivation – Entrepreneurial Competencies – Entrepreneurship Development Programmes (EDP's) – Need, Objectives, course content and instruction.

2.1 Factors Affecting Entrepreneurial Growth

2.1.1 Economic Environment – Economic, Non-Economic and Psychological Factors

Q1. Explain the factors affecting entrepreneurial growth in India.

Ans : **(Imp.)**

Entrepreneurship does not emerge by itself and spontaneously. The emergence and development of entrepreneurship depends upon few available factors known as 'supportive conditions'. These factors are classified into two types. They are,

1. Economic factors and
2. Non-economic factors.

These factors influences both positively and negatively the evolution of entrepreneurship. In a positive way, it creates supportive and friendly environment for the entrepreneurs and negatively it creates the discouraging environment.

The figure below shows the factors affecting entrepreneurial growth.

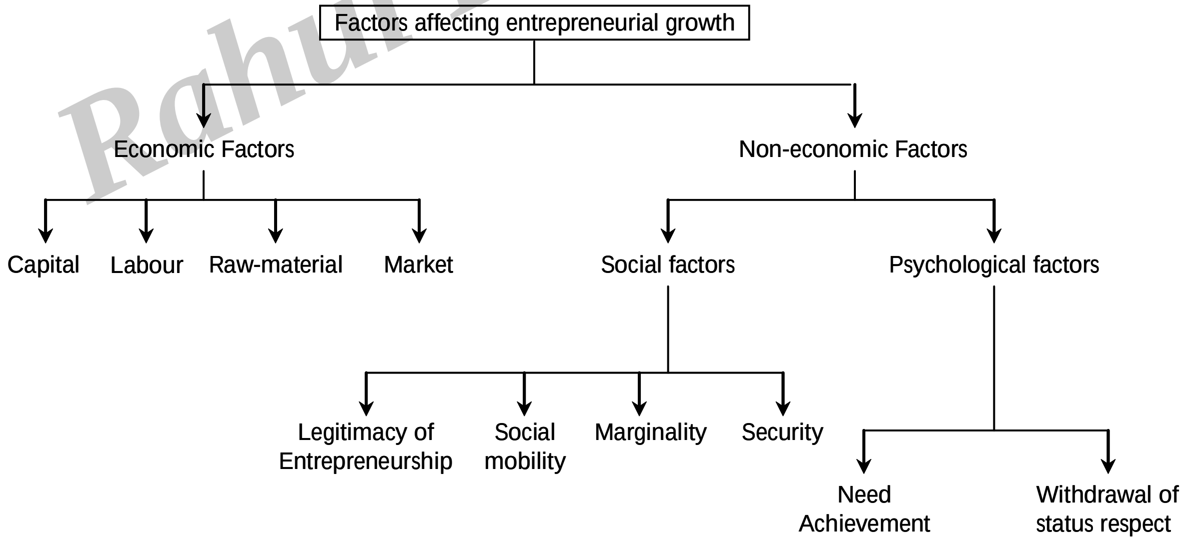


Fig.: Factors Effecting Entrepreneurial Growth

1. **Economic factors**

   For answer refer to Unit-II, Q.No. 2

2. **Non-economic factors**

   For answer refer to Unit-II, Q.No. 3

Q2. What are the economic factors in the growth of entrepreneurship development.

Ans :

Economic Factors

Those factors which promote the economic development of a country are the same factors which are accountable for the emergence of entrepreneurship. The following are few economic factors,

(i) Capital

(ii) Labour

(iii) Raw-materials

(iv) Market.

(i) Capital

Capital is the life-blood of an organization without which the entire activity of an organization comes to a standstill. Capital at hand helps the entrepreneurs to pool together all the factors of production i.e., land from someone, machinery from somebody else and raw materials from yet another person and then produce goods. Thus, capital acts as the lubricant in the process of production.

(ii) Labour

Quality of labour is more important than quantity of labour, which effects the emergence of entrepreneurship greatly. It is observed that cheap labour holds very limited mobility or no mobility at all.

The prospective benefit of low cost labour is neutralized by the dangerous effect of labour immobility. Division of labour by Adam Smith is also being considered as an important element in the economic developments.

(iii) Raw-materials

It is highly impossible to run an organization without availability of the raw materials and one cannot be an entrepreneur without an enterprise.

In other words, there would be no industrial activity without raw materials except in few cases, wherein technological inventions have substituted the shortage of raw materials

(iv) Market

The market size and composition greatly affects the entrepreneurship. Market forms an important element of entrepreneurial function. For example, if the proof of pudding lies in eating, then similarly the proof of production lies in consumption i.e., marketing.

Monopoly in a specific product holds greater influence than a highly competitive market on entrepreneurship. The drawback of the competitive market can be lessened by improving the transportation system of carrying raw-materials and finished goods and also increasing demand for producer goods.

Q3. What are the non-economic factors in the growth of entrepreneurship development.

Ans :

Non-economic factors are classified into social factors and psychological factors. Many sociologists and psychologists argues that eventhough economic factors are essential factors, yet they alone are not enough for the emergence of entrepreneurship.

They advocate that the non-economic factors i.e., social and psychological factors also plays a very crucial role in the emergence of entrepreneurship. Few non-economic factors are as follows,

I) Social Factors

(a) Legitimacy of Entrepreneurship

(i) The non-economic factors lays more emphasis/ importance on the norms and values of a socio-cultural setting for the emergence of entrepreneurship. In professional terms, it is known as 'legitimacy of entrepreneurship', wherein the degree of approving or disapproving the entrepreneurial behaviour effects the emergence and features of entrepreneurship.

(ii) Joseph. A. Schumpeter identified the significance of 'legitimacy of entrepreneurship in an appropriate social climate for entrepreneurship while T.C. Cochran calls it as cultural themes and sanctions.

(b) Social Mobility

(i) The degree of mobility i.e., both social and geographical mobility along with the nature of mobility constitutes the social mobility. The view that "social mobility is important for entrepreneurial emergence" is not unanimous in nature i.e., few believe it while others dont.

(ii) Few believe that the high degree of mobility is essential for entrepreneurship.

(c) Marginality

(i) It has been viewed by few scholars that social marginality promotes entrepreneurship. It is believed that, the individuals or groups of a social system or people of two different social system entrusts the personnel with the responsibility of the entrepreneurial roles.

(ii) These groups can be either religious, cultural, ethnic or migrant minority groups. It is the psychological effect of the social marginality of these groups which makes entrepreneurship attractive.

(d) Security

Eventhough security acts as a great facilitator in promoting entrepreneurship, there is no consensus on the level of security required. Several scholars presents different point of views like while Cole recommends 'minimal' security whereas McClelland suggests 'moderate' security. R.A Peterson and D.G. Benger opines that entrepreneurship can prosper well in turbulent conditions than under equilibrium conditions.

II) Psychological Factors

Psychological factors includes the following,

(a) Need achievement

(b) Withdrawal of status respect

(i) Retreatist

(ii) Ritualist

(iii) Reformist

(iv) Innovator.

(a) Need Achievement

Among the best psychological theories till date, the best known psychological theory is of David McClelland's theory of need achievement. In his theory, he tries to explain that the individual's personality traits which indicates the high need achievement acts as the major determinant of entrepreneurial growth.

Thus, if in case the average level of need achievement in a society is relatively high then greater entrepreneurship develop-ment is expected in that society.

(b) Withdrawal of Status Respect

E.E. Hagen described the withdrawal of status respect of a group to the origin of entrepreneurship. Hagen uses Japan as an example of the non-western society and illustrates how quickly it developed except Russia basically due to two differences.

Firstly, Japan had been free from 'Colonel disruption' and secondly, the repeated endless withdrawal of expected status from significant groups (Samurai) in her society moved them towards to retreatism which resulted in Japan's alienation from the traditional values with increased creativity. This resulted in the technical development of the entrepreneurial roles.

(i) Retreatist

A retreatist is a person who keeps on working in a society but remains different to his work and position.

(ii) Ritualist

A ritualist is the one who follows a defensive behaviour and acts in an acceptable and approved manner in his society, but does not hope for any improvements in his position.

(iii) Reformist

A reformist is the one who provokes a rebellian and tries to create a new society.

(iv) Innovator

An innovator is very creative in nature and mostly becomes an innovator.

Hagen concludes that as soon as the status withdrawal takes place, the order of change in personality formation sets in motion. He opines that the status, withdrawal takes a longer period of time, five generations or even more to take the form of entrepreneurship.

2.2 Entrepreneurial Motivation

Q4. Define motivation. Discuss its nature.

Ans :

Definitions

(i) **According to Mcfarland,** "Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings". Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

(ii) **According to Bernard and Steiner,** "A motive is an inner state that energies, activates or moves and that directs behaviour towards goals".

(iii) **According to D.D. Eisenhower,** "Motivation is getting people to do. What you want them to do, because they want to do it".

(iv) **According to C.B. Memoria,** "A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization"

Nature

Based on above definitions the following points of nature of motivation emerge :

1. Motivation refers to the internal feelings of an individual or individual's motives.
2. These emotions, feelings or desires of a person prompt him to work more.
3. Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.
4. Motivation activates and channelises dormant energies of an individual towards productive action.
5. Motivation is linked to satisfaction. Satisfaction is the felling of contentment a person experiences out of need fulfillment.
6. An individual is motivated in totality and not in parts.

Q5. Explain various types of motivation.

Ans : **(Imp.)**

In order to extract more out of his subordinates a manager will be required to motivate them for performing better. This can be done either by offering them reward for more work or by instilling fear among them in the form of punishment.

Motivation can be of two types and these are :

1. Positive Motivation

Workers are tempted to put in their best for achieving the desired objectives. These temptations rewards or incentives can be in the shape of extra pay, promotion recognition etc. Positive motivation will result in willing cooperation of workers for the attainment of organizational goal.

2. Negative Motivation

Negative motivation creates fear or deterrent amongst workers. Fear forces workers to behave in the way the owner wants them to behave. Workers are coerced to behave in a certain manner, failing which they are threatened with lay offs, demotions, pay cuts etc. Workers work not willingly but out of fear.

Out of the two positive motivation should be preferred as it leads to willing rather than forced cooperation of workers towards the realization of organizational goals.

Q6. Explain the importance of motivation.

Ans : **(Imp.)**

Motivation has become all the more important due to the following reasons.

1. Improved Morale

Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realization of organizational goals. High Morale will result in more interest in work and higher productivity. It will enable the organisation to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

2. Lower labour turnover

Motivated employees will never feel like leaving the organisation and as such the firm will be able to utilize the services of trained, committed and loyal workers for longer period of time.

Organization will be saved from the botheration of making fresh recruitment, selection, training and placement of workers. Lower labour turnover will result in saving of time, effort and money of the organisation. Rate of absenteeism will be reduced and workers will try to promote organizational interest.

3. Improved goodwill

Motivated employees can help the organization in improving its good will or image. A reputed organization is in a position to attract best possible talent from the market. Existing employees won't leave the organization and outsiders will be taken to join.

4. Cordial Industrial Relations

A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organization due to positive motivation.

The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strike or lockout in the organization and motivation will ensure cordial industrial relations.

5. Quality Orientation

A motivated employee is generally more quality oriented. Everyone from bottom to top or top to bottom takes extra care while performing the assigned work. It leads to overall improvement in the working and people start recognizing the organization as a quality conscious organization.

6. Acceptability of Change

An organisation is required to remain in touch with the changing scenario and at the same time take effective steps for making adjustments according to changes. Its survival and future depends upon its ability to cope up with the changes.

Motivated employees rather than opposing changes welcome these. They help the owners in converting these changes into opportunities to be exploited in the best possible manner for the promotion of business interests.

Q7. Explain Maslow's theories of motivation.

Ans :

The advocate of this theory is Abraham Maslow who first of all presented the Need Hierarchy Theory of Motivation in 1943. Maslow developed the theory of motivation on the basis of a chain or sequence of needs.

According to him, a man has countless needs and they can be categorized on the basis of priority. For example, the needs which are more sharply felt should be satisfied first and the less sharply felt needs should be satisfied afterwards.

Similarly, the least felt needs should be thought of last of all. Maslow has divided different human needs on the basis of priority into five parts which are shown in the following diagram:

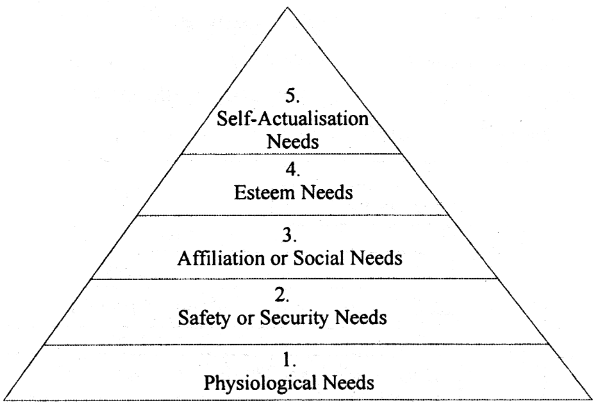


Fig.: Pyramid Representing Maslow's Hierarchy of Need

(i) Physiological Needs

In this category, those needs are included which need to be satisfied to keep a man alive. These needs include food, shelter, clothing and sleep, etc.

(ii) Safety Needs

After physiological needs are satisfied, a man thinks about his safety. Safety needs include physical, economic and psychological needs.

Physical Safety refer to defence against accidents, attacks, diseases and other unexpected problems. Economic Safety means safety of livelihood and arrangement for old age. Psychological Safety means maintaining one's prestige.

(iii) Affiliation or Social Needs

Man is a social animal and wants to live in society honourably. It is, therefore, necessary that he should have friends and relatives with whom he can share his joys and sorrows. Maslow has placed social needs at number three in order of priority.

(iv) Esteem and Status Needs

These needs are called ego needs of man. This means every human being wants to attain a higher status so that his power increases and he gets authority.

(v) Self Actualization Needs

Last of all, a man tries to satisfy himself by attaining self-realisation. This means that a man should be whatever he can be, meaning thereby, that he should actually be an achiever in respect of his capability.

For example, a musician wants to be proficient in music, an artist wants to excel in the field of creating works of art. Similarly, a poet wants to be a specialist in his field.

Assumptions

Following are the assumptions of Maslow's theory:

(i) People's behaviour, being affected by their needs.

(ii) There are many needs of people and their order or priority can be made.

(iii) Motivation ends with the satisfaction of needs. After that the next higher need serves as a motivator.

(iv) People move to next higher need only when the lower level needs are satisfied.

The above analysis shows that an individual has many needs and that their order can be determined.

The moment an individual's one need is satisfied, he gets worried about his next need. After the satisfaction of the second need comes the third and this order continues till all his needs are satisfied. It is, therefore, clear that needs can be motivators. In order to satisfy needs an individual himself wants to work with vigour and full capacity.

Criticisms

If the special study is not undertaken, Maslow's theory of hierarchy of needs will appear to be right. However, many researchers have opposed this theory and given their own criticisms which are as under:

(i) Maslow's hierarchy of needs is not permanent. This changes according to the situation.

(ii) It is not necessary that the needs of only one category be strong at a time and the remaining remain unimportant.

Q8. Explain the main features of Herzberg's two factor theory.

Ans :

This theory has been advocated by Prof. Herzberg on the basis of his research done in collaboration with his colleagues. After interviewing some employees he concluded that motivating factors can be divided into two parts:

(A) Maintenance or Hygiene or Dissatisfiers

Maintenance factors mean those factors whose presence does not motivate the employees to work with greater enthusiasm but their absence does discourage them. These factors are related to the job conditions and they contain the following factors:

(i) Company's Policy and Administration

(ii) Technical Inspection

(iii) Mutual Personal Relation with Inspector

(iv) Mutual Relation with other Team Members

(v) Salary

(vi) Working Conditions

(vii) Personal Life

(viii) Security of Employment

(ix) Status

(x) Environment.

(B) Motivators or Satisfiers

Motivating factors mean those factors which directly inspire the employees to work. These factors are directly related to work and they are also known as job factors. They are as follows:

(i) Achievement

(ii) Recognition

(iii) Advancement

(iv) Job itself

(v) Opportunities for Growth

(vi) Responsibility.

According to Herzberg the employees remain satisfied with the available maintenance factors and do not get motivated by any increase in them. They, however, get dissatisfied by their decrease.

For example, if an employee is taken out of a working group that he likes and is placed in another working group, his enthusiasm will decline, while an additional person of the same type in the same group will not boost his enthusiasm.

On the other hand, motivating factors directly affect the enthusiasm of the employees. It means that any addition in them increases their enthusiasm and any decrease lessens it. For example, an employee of some department who is declared the best worker on the basis of his efficiency will make him work with greater efficiency.

Criticism

Like other theories this theory is also not free from criticism. Scholars have criticised this theory on the basis of the following facts:

(i) The maintenance factors pointed out by Herzberg are not appropriate in all the situations. For example, an increase in pay does not mean an increase in the enthusiasm of the employees.

However, this is applicable only in those countries where a guarantee for average living standard is held out. In other words, where the government assures a general living standard as an essential guarantee, an increase in salary becomes meaningless.

On the other hand, it has been established on the basis of various researches that in the undeveloped countries rise in salary does create enthusiasm among the employees.

(ii) The categorisation of dissatisfiers and satisfiers is not practical.

(iii) This theory has made the relationship between motivation and satisfaction very simple when it is not so.

In short, it can be said that alongwith the satisfiers the dissatisfiers also increase the enthusiasm of the employees.

Q9. Explain McClelland's theory of motivation. Can achievement motives be developed?

Ans :

Another well-known content theory is the learned needs theory developed by McClelland. He contends individuals acquire certain needs from the culture of a society by learning from the events that they experience, particularly in early life. The needs that people may learn are the need for achievement (n Anch) the need for power (n Pow) and the need for affiliation (n Aff). Once learned, these needs may be regarded as personal predispositions that affect the way people perceive work (and other) situations and that influence their pursuit of certain goals.

1. Need of Achievement (n Ach)

McClell and defined (n Ach) as "behavior toward competition with a standard of excellence". He and his associates defined four characteristics of individuals with a high need for achievement.

(i) A strong desire to assume personal responsibility for finding solutions to problems or performing a task,

(ii) A tendency to set moderately difficult achievement goals and to take calculated risks.

(iii) A strong desire for concrete performance feedback on tasks and

(iv) A single-minded preoccupation with task accomplishment.

2. Need for Power (n Pow)

The (n Pow) is defined as the need to control the environment, to influence the behavior of others, and to be responsible for them. McClelland contends that individuals with a high (n Pow) may be characterized by:

(i) A desire to direct and control someone else.

(ii) A concern for maintaining leader follower relations.

3. Need for Affiliation (n Aff)

The need for affiliation is defined as an "attraction to another organism in order to feel reassured from the other that the self is acceptable". Individuals with a high (n Aff) desire to establish and maintain friendly and warm relationships with others. McClelland identified three characteristics of individuals with a high need for affiliation:

(i) A strong desire for approval and reassurance from others.

(ii) A tendency to conform to the wishes and norms of others when pressured by people whose leadership they value, and

(iii) A sincere interest in the feelings of others.

2.3 Entrepreneurial Competencies

Q10. What do you understand by entrepreneurial competency.

Ans : **(Imp.)**

Meaning

(i) In simple terms, a competence is an underlying characteristic of a person which leads to his/her effective or superior performance in an job.

(ii) A job competence is a good combination of one's underlying characteristics such as one's knowledge, skill, motive, etc, which one uses to perform a given job well.

(iii) It is important to mention that the existence of these underlying characteristics may or may not be known to the person concern.

(iv) This implies that the underlying characteristics may be unconscious aspects of the person.

(v) The underlying characteristics possessed by an entrepreneur which result in superior performance are called the 'entrepreneurial competencies' or 'traits'.

Components

Let us first understand its components, i.e., knowledge, skill and motive. These are explained one by one.

1. Knowledge

In simple terms, knowledge means collection and retention of information in ones mind. Knowledge is necessary for performing a task but not sufficient.

Let us explain this with an example. A person having the knowledge of cricket playing could be in a position to describe how to play. But, mere description will not enable the listener to play cricket unless something more than knowledge is there. We see in real life that people possessing mere knowledge have miserably failed while actually performing the task.

What this implies is that one also needs to have skills to translate the knowledge into action/practice.

2. Skill

Skill is the ability to demonstrate a system and sequence of behaviour which results in something observable, something that one can see. A person with planning ability, i.e., skill can properly identify the sequence of action to be performed to win the cricket match.

Remember, while knowledge of playing cricket could be acquired by reading, talking or so on, skill to actually play cricket can be acquired by practice i.e., playing on a number of occasions. This means both knowledge and skill are required to perform a task.

3. Motive

In simple terms, motive is an urge to achieve one's goal what McClelland terms 'Achievement Motivation'.

This continuous concern of goal achievement directs a person to perform better and better. Coming back to the same example of cricket playing, one's urge to become the best player helps him constantly practice playing to look out for ways and means to improving his play.

Thus, in order to perform any task effectively and successfully including establishing and running an industrial unit, a person (entrepreneur) needs to possess a set of knowledge, skill and motive which could be together labelled as 'competencies' or 'traits'.

Q11. Describe the process of developing entrepreneurial competencies.

Ans : **(Imp.)**

The procedure involves four steps. These are:

1. Competency Recognition
2. Self-Assessment
3. Competency Application
4. Feed back

These are discussed one by one.

1. Competency Recognition

Acquisition of a new behaviour begins with understanding and recognition of what a particular behaviour means. In other words, the first step involved in developing a particular competence is first to understand and recognize a particular competence.

2. Self Assessment

Once the particular competence is understood and recognized, the next step towards acquiring a particular behaviour/competence is to see whether one possesses the particular competence or not. If yes, then to see how frequently one exhibits the same in his practical life.

Where one stands with respect to a particular competence or what is the level of one's competence can be ascertained by posing and answering relevant questions to a competence.

3. Competency Application

Having known where one stands with respect to a particular competency, one needs to practice the same on continuous basis in various activities.

In order to make a new behaviour a part of one's personality, the particular behaviour/competency needs to be applied frequently even in the simplest activities that one performs in one's day-to-day life. This is because "practice makes a man perfect".

4. Feedback

After understanding, internalizing and practising a particular behaviour or competence, one needs to make an introspection of the same in order to sharpen and strengthen one's competency.

This is called 'feedback'. In simple terms, feedback means to know the strengths and weaknesses of one's new behaviour. This helps one know how the new behaviour has been rewarding. This enables one to sustain or give up the exhibition of a particular behaviour or competence in his future life.

2.4 Entrepreneurship Development Programmes (EDP's)

2.4.1 Objectives

Q12. Explain the concept and objectives of EDP's.

Ans :

Meaning

EDP stands for Entrepreneurship Development Programme. It has been very correctly quoted that, "An economy is an effect for which entrepreneurship is the cause". An entrepreneur acts as the spark-plug who makes drastic changes in the economic conditions of a country.

It is essential to develop entrepreneurship in both developed as well as developing countries. How can the entrepreneurship be developed? Well, the answer to this is quite simple and logical i.e., EDPs. Government and other supporting agencies have initiated various EDPs.

Objectives

The main objectives of EDP's are as follows

1. To identify and train potential entrepreneurs.
2. To impart necessary knowledge and skill among the participants.
3. To impart basic managerial understanding.
4. To provide post-training assistance.

5. To select the right project and product.
6. To develop and strengthen entrepreneurial quality and motivation.
7. To understand the rules, process, procedure and regulations for setting up the project.
8. To know the sources of help, incentives and subsidies available from the Government to set up the enterprise.
9. To analyse the environmental issues related to the proposed enterprise.
10. The select the right project at the right time and at the right place.
11. To acquire the basic managerial skills to run the enterprise efficiently and profitability.
12. To generate employment and self-employment opportunities in the processing of indigenous raw-materials for local consumption and export.
13. To promote and develop small and medium sized enterprises which would encourage self-employment to growing and potential entrepreneurs.
14. To know the prons and cons of being an entrepreneur.

2.4.2 Need

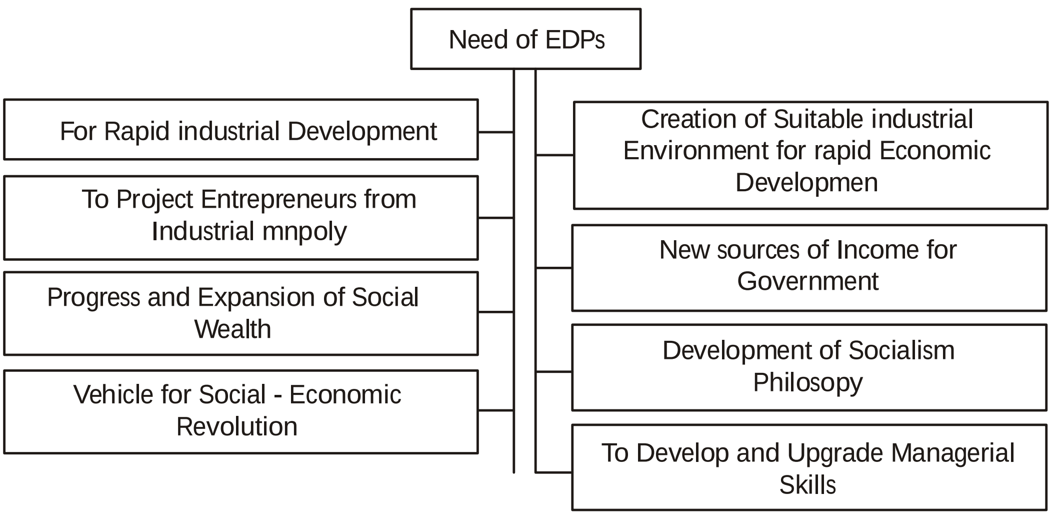
Q13. Explain the need for EDPs.

(OR)

Discuss the need of EDPs.

Ans : **(Imp.)**

Entrepreneurship development has therefore become a matter of great concern in all countries. But the real problem is how to develop entrepreneurship. Entrepreneurship development programmes, or EDPs in short, are deemed to offer the solution to this problem. EDPs are needed to induce achievement motivation and develop entrepreneurial characteristics or competencies among young persons through training with a view to making them successful entrepreneurs. EDP has become extremely important in achieving goals of all round development in the country. With reference to India, the need of EDP can be discussed as below:



1. For Rapid Industrial Development

Entrepreneurs and entrepreneurship is base for industrial and economic development. EDP makes entrepreneurs for creation of entrepreneurship environment. In India, in every five plan year more and more amount is allotted for entrepreneurship development.

After freedom, India has shown rapid industrial and economic development. This is only due to EDP. Because of EDP, nowadays entrepreneurs are on increasing in engineering, chemical, electrical, agricultural, etc., industries, i.e., to say that EDP plays a crucial role for industrial and economic development.

2. Creation of Suitable Industrial Environment for Rapid Economic Development

Before arranging EDP, opportunities available in different zones are identified and accordingly by designing EDP, entrepreneurship environment is created.

For creation of industrial and entrepreneurship environment, various institutions - CED, EDI, IDBI, Exim bank, IFCI, State Finance Corporation. DIC, etc., have given their active contribution. EDI's various courses, innovation centres, entrepreneurship environment, and support system, strategic international programme, various publications, etc., have played an important role in creating homogeneous entrepre- neurship in the state and country. EDPs are arranged in rural, semi-urban, and urban areas.

Hence in every area, entrepre- neurship awareness is spread. Thus, EDP plays dominant role in creating the most suitable industrial environment for rapid economic development.

3. To Protect Entrepreneurs from Industrial Monopoly

Some large industrial units have created monopoly conditions in their zones. Hence, government has been forced to reserve some goods and services for cottage and small-scale industries. By EDP, entrepreneurs can be trained and prepared for such reserve sectors and large-scale sectors cannot enter in such reserve sectors.

Thus, due to such decentra- lization, small-scale entrepreneurs can be protected form industrial monopoly of large-scale industries.

4. New Sources of Income for Government

For management of EDP, State and Central Government have to allot a large amount. But government also gets income of various taxes by medium of venture of new entrepreneurs.

Some export oriented industrial units help government in earning foreign exchange. Thus, EDP indirectly creates a new source of income for govern- ment in the form of tax.

5. Progress and Expansion of Social Wealth

Because of growth of industrialization in rural areas, living standards of rural areas have remarkable changed. Government's special scheme for rural wealth has been reached to actual rural areas by EDP. EDP helps to divert unorganized and hidden youth of various areas towards planned industrialization.

Thus, EDP makes unrecognized and rural area's community aware about various government incentives as well as motivates them to be entrepreneurs for taking benefits of government incentives. This improves social standards and as a result helps in progress and expansion of social wealth upto rural area.

6. Development of Socialism Philosophy

Our economy has influence of both capitalism as well as socialism. In five year plans, role of socialism is very important.

Because of establishment of EDP institutions, philosophy of socialism has been spread at various levels through utilisation of unused local resources, establishment of tiny, cottage, small-and large-scale industries, planned economic develop- ment, etc.

Entrepreneurs have accepted concept of social responsibility. In this way, EDP helps in extending the philosophy of socialism.

7. Vehicle for Social Economic Revolution

EDP is designed by considering various classes of the society. In rural, semi-urban, and urban areas, with a view to direct women towards self-employment and freedom, special EDPs are designed.

Special EDPs are designed for also schedule caste and schedule tribe as well as ex-service man and physically handicaps, i.e., to say that EDPs have played very determining role for bringing poor, exploited, and weaker class of our society into economic development. Therefore EDP is considered a vehicle for bringing social-economic revolution.

8. To Develop and Upgrade Managerial Skills

EDP is designed and implemented to develop entrepreneurial opportunities for potential entrepreneurs as well as to upgrade managerial skills for the existing entrepre- neurs.

2.4.3 Course Content and Instruction

Q14. Discuss the course, contents and curriculum of EDPs.

Ans : **(Imp.)**

The course, content and curriculum of an EDP is chosen according to the objectives of EDPs. The training programme duration usually ranges from one week to six weeks. It includes the following six inputs.

1. Entrepreneurship introduction
2. Enabling the each factor
3. Teaches managerial skills
4. Support system and procedure
5. Basics of project feasibility study
6. Industrial tour.

1. Entrepreneurship Introduction

Firstly, the candidates are made to pass through a session where a brief knowledge about entrepreneurship, factors affecting small enterprise, role of entrepreneurs in fostering economic development, the behaviours of entrepreneurs and various facilities and benefits available for setting up an enterprise is provided, which serves as a source of motivation and inspiration.

2. Enabling the Nach Factor

EDPs aims at increasing the need for achievement or nach factor of all the participants through training. This, is in fact a crucial input of entrepreneurship training. Endeavours are made to inject optimism and self-confidence among the participants towards business.

Once this session is completed the candidate would be in a position to establish her/his own business or enterprise. In order to boost the confidence level and motivation of the candidates, successful entrepreneurs are being invited to share their successful entrepreneurship stories which acts as the source of inspiration to the candidates.

3. Teaches Managerial Skills

Irrespective of the size of the business whether it is large or small every business requires the essential managerial skills. Small entrepre- neurs in their initial stages will not be in a position to hire their own managers to take care of the business.

Hence, it becomes essential to acquire the most important and required managerial skills in order to carry out her/his business smoothly and successfully.

4. **Support System and Procedure**

The candidates must also be made aware of the various financial institutions and agencies lending funds for setting up of small enterprises. This is possible by providing the entrepreneurs the required information of procedures of approaching them, applying and getting support from them.

5. **Basics of Project Feasibility Study**

Under this input, the candidates are provided with the effective guidelines on analysis of feasibility or viability of various projects in different fields such as marketing, technical, financial, human resources and other social areas. Project preparation or feasibility report preparation is also accomplished in this session.

6. **Industrial Tour**

Several industrial tours are organized in this last input wherein the candidates are made familiar with the real life situations in small scale enterprises. These industrial tours help the candidates to gain knowledge about the behavior of an entrepreneur, her/his personality, thinking and most important her/his aspirations.

Thus it can be concluded that the prime object of entrepreneurship training programme is to transform an individual into an entrepreneur by moulding her/him at a very tender age where there exists generation of new ideas and thoughts.

Q15. Describe the various phases of EDP.

(OR)

Explain the different phases involved in EDPs.

(OR)

State the various phases in EDPs.

Ans : **(Imp.)**

The entrepreneurship development programme (EDP) normally runs through three important phases followed by EDP evaluation:

1. Pre-Training Phases
2. Training Phases
3. Post-Training Phases

1. **Pre-Training Phase**

This is a preparatory phase for launching the programme. It is a planning phase where all requisite arrangements are made to deliver a content based and useful EDP. This stage lays the foundation for a strong EDP that can deliver desired results.

It encompasses:

(i) Identification of promising area having good commercial prospects.

(ii) Selection of project faculty/course coordinator who is a visionary and has relevant experience.

(iii) Arrangement of infrastructural facilities for the programme like location, availability of internet, computers, food and lodging arrangements (if participants are expected to be from different cities).

(iv) Conducting industrial survey/environmental scanning for identification of good business opportunities.

(v) Designing the course contents.

(vi) Getting support from various agencies such as DICs, SFCs, SISI etc.

(vii) Advertising and publicity of EDP to reach prospective minds. Promotional campaigns through either with the help of print or electric media, leaflets, posters, etc.

(viii) Selection of participants for the training program.

2. Training Phase

The primary thrust of training programme is to instill motivation, skill or competency amongst the budding entrepreneurs. EDP should aim to provide both theoretical and hands-on practical knowledge to various trainees.

Training phase of EDP includes:

(i) Management

They should be taught basic principles of management and their applications in real life scenarios to realize the benefits and significance of the management functions like planning, organizing, staffing, directing, controlling and coordinating.

The various techniques involved in the management process must be explained. The trainer can use case studies, management games, role-plays and simulations to polish the skills acquired by the trainees.

(ii) Technical Competence

Focus should be laid upon acquiring technical competence suitable to the area selected. Industry experts may be called upon to share their experiences.

It's important for the trainees to understand the basics of technology, rate of technological change in that industry and challenges ahead. A comparative analysis of present state of technology in developed and developing nations may be relevant at this stage.

Entrepreneurs can get ideas best suited to their regional environments. The program may cover as details of technology, plant and machinery, major suppliers, life span, special features of the machinery etc., raw materials and their availability, manufacturing process and human resource requirements.

It's important for the entrepreneurs to understand that they should not park substantial funds in fast changing technology as obsolescence is a big risk. Field trips may also be organized.

iii) Motivation and Stress Management

The entrepreneurial training programs are designed to elevate and sustain the motivation levels of the trainees. Stress management is an important component of EDPs as entrepreneurs have to struggle through different phases before finally getting results.

They should be taught stress management techniques and should also be counseled to hold-on to their beliefs and ideas. The importance of family members need to highlighted here.

Entrepreneurs are strong-willed individuals who may need family support during tough times. Family members are the ones closest to entrepreneurs. Each session in the training programme should aim at strengthening their confidence and expanding their vision.

Motivation level must be raised to a greater extent because only motivated participants will survive through starting and sustaining a new venture.

3. Post Training Phase

Post training support services are rendered to the participants who have successfully completed the entrepreneurship.

This phase may comprise of the following steps:

(i) Assistance in registration of the enterprise.

(ii) Loan procedures and documentation.

(iii) Facilitating infrastructure like land, plant layout, purchase of plant and machinery, power connection etc.

(iv) Securing subsidies and grants and utilizing incentives given by Centre and State government.

(v) Management consultancy and trouble shooting.

(vi) Providing up-to-date information on the industry.

(vii) Meeting with EDP organizers and participants.

Q16. Describe the achievements of EDP.

Ans :

EDP is essential for first generation entrepreneurs because they may not become successful unless a proper training is received. It is a continuous process of motivating the entrepreneur.

The potential entrepreneurs can solve many of their problems provided proper training is given to them.

On the basis of above discussion, it can be concluded that EDP is becoming increasing popular and it can help the country in the following ways:

1. Eliminates poverty and unemployment

The basis problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career.

Several programmes like National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. are in operation in India to help the potential entrepreneurs. All these special schemes intend to eliminate the poverty and solve the problem of unemployment.

2. Balanced regional development

Successful Entrepreneurial development programmes help in foster the industrialization and reduces the concentration of economic power. It is because the small-scale entrepre- neurs can setup their units in remote areas with little financial resources which can help in achieving balanced regional development.

The medium and large enterprises do not help in reducing the disparities in income and wealth of the people. Thus, Entrepreneurial development programmes help in balanced regional development by spreading industrial units in each, and every part of the country.

3. Prevents industrial slums

The urban cities are highly congested and leading to industrial slums. Decentralization of industries is very much required by relocating the industries.

Entrepreneurial development programmes help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infra- structural facilities to set up their own enterprises in all the non-industrialized areas.

This will control the industrial slums and also reduce the pollution, traffic congestion, overcrowding in cities etc.

4. Harnessing locally available resources

Since abundant resources are available locally, proper use of these resources will help to carve out a health base for sound economic and rapid industrialization.

The entrepreneurial development programmes can help in harnessing these resources by training and educating the entrepreneurs.

5. Defuses social tension

Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted to self-employment careers to help the country in defusing social tension and unrest among youth which is possible by entrepreneurial development programmes.

6. Capital formation

The various development banks like ICICI, IDBI, IFCI, SFC, SIDC and SIDBI take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial help to ne entrepreneurs. It is impossible to start a new enterprise without sufficient funds.

Entrepreneurs are the organizers of factors of production who employ their own and borrowered money for setting up of new ventures. This all results in the process of capital formation.

7. Economic independence

Entrepreneurs develop and produce substituted products of imported goods and prevent the overdependence on other countries.

They also enable the country to produce different variety of better quality goods and services at competitive prices of imported goods which help in promoting the economic independence of the country.

8. Improvement in per capita income

Entrepreneurs always explore and exploit the new opportunities which lead to productive use of factors of production for more output, employment and generation of wealth.

The overall increase in productivity and income help in improvement in per capita income. EDPs play a significant role in setting up of more industrial units to generate more employment opportunity and to secure improved per capital income.

9. Facilitating overall development

Entrepreneurs act as agents of proper use of various limited resources such as men, money, material, machines etc. which leads to overall development of an area, an industry.

The successful entrepreneurs set a motivating example for others to adopt entrepreneurship as a career. Thus entrepreneurs create a motivating environment for economic development of a country.

Q17. Explain the role of Government in organizing EDPs.

Ans :

The following specialized EDP organizations have been set up by the Government of India to promote entrepreneurship in the country.

(i) National Institute for Entrepreneurship and small Business Development (NIESBUD): It is an Apex organization for organizing and conducting EDP under the Ministry of Industry, Government of India. It is located at Noida (UP).

(ii) Small Industries Service Institutes (SISIs): It is set up by Government of India. It is having its network of branches in many states in India.

(iii) National Institute for Small Industry Extension and Training (NISIET): NISIET is established in 1960, under Ministry of Small Scale Industries, Government of India. It is located at Yousufguda, Hyderabad.

The Institute strives to achieve its objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

(iv) Entrepreneurship Development Institute of India (EDI): The Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for profit institution, set up in 1983, is sponsored by apex financial institutions, namely the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI) and State Bank of India (SBI).

Q18. Explain the problems of EDP's.

Ans :

Following are the problems of EDP's

1. No Policy at the National Level

Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship.

It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.

2. Problems at the Pre training Phase

Various problems faced in this phase are identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.

3. Over Estimation of Trainees

Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises.

These agencies thus overestimate the aptitude and capabilities of the educated youth. Thus on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

4. Duration of EDPs

An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises.

Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

5. Non Availability of Infrastructural Facilities

No prior planning is done for the conduct of EDPs. EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room suitable guest speakers, boarding and lodging etc.

6. Improper Methodology

The course contents are not standardized and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals. This puts a question mark on the utility of these programmes.

7. Mode of Selection

There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organizations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.

8. Non Availability of Competent Faculty

Firstly there is problem of non availability of competent teachers and even when they are available, they are not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.

9. Poor Response of Financial Institutions

Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans.

Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered.Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

Q19. Explain various suggestions for making EDP more effective.

Ans : **(Imp.)**

1. Stern Action against Bogus and Forged EDP's Institutions

Government should take a stern action, both civil and criminal, against bogus and forged EDP institutions irrespective of their political affiliations. The persons running these institutions should be publicly hanged.

2. Emphasis on Training Programme

The training programme of entrepreneurs should varied and comprehensive. It should be more practical and less theoretical. The curriculum should be framed by a team of experts. As far as possible, the programme of training the entrepreneurs should be full time one.

The selection strategy should be such in which only those candidates should be selected for training who are likely to be successful in setting up and successfully running their own enterprise in the shortest time with minimum resources at the initial stages.

Various variables like caste, family background, age, education, size and type of family, willingness to take risk, personal efficacy, aspiration etc. should be considered while selecting the entrepreneur.

3. Support of Financial Institutions

Financial institutions should provide adequate and timely credit and technical assistance, specially to small and medium sized enterprises at reasonable terms and conditions. It will go a long way in inculcating and sustaining entrepreneurial spirit in the new emerging class of entrepreneurs.

4. Emphasis on Research Development

Institutions providing EDP's should lay emphasis on research and development. The indigenous and obsolte techniques should be replaced by ultramodern techniques. If needed, we should not hesitate in taking assistance from foreign experts. Foreign collaboration should also be taken as and when needed.

5. Training in Motivation Development

Motivation development programme creates self-confidence and selfawareness among the participants. Without achieving motivation training, EDP become incomplete. Under motivation development training, entrepreneurs learn to strive for excellence, to take calculated risk, to use feedback for improvement etc.

6. Development of Industrial Culture

All possible efforts should be made effectively and seriously for the development of an industrial culture. It should be realised that the central core of entrepreneurship is the motive force since an appropriate, entrepreneurship implies positive action and initiative.

Motivated individuals with a combination of abilities and attributes can pursue their goal with enthusiasm. One can easily give examples of men like J.N. Tata who established their enterprises against heavy odds in the country under British rule. Without motivation, an individual cannot become a successful entrepreneur even though he may have access to finance.

7. Management Education

There is need to develop management education and industrial training. In modern times, management education is being viewed as an effective supplement to the development of entrepreneurship since entrepreneurial decisions have to be effectively supported by managerial decisions.

Quite often, the entrepreneur functions a manager especially in small-scale industries where the entrepreneur is his own technician and manager. This fact justifies the route of formal education and necessitates the establishment of business schools and management institutes in the country, where relevant courses may be introduced.

Happily, some such institutions have come up but they should further be strengthened and developed into first-class institutions comparable with their counterparts in developed countries.

8. Development of Backwardness

The development of backward regions/areas constitute a new challenge. Programmes for their development be drawn up and should be effectively implemented. Such programmes await new entrepreneurs whose technical expertise and managerial competence would bring about the desired development and fulfil social needs.

9. Searching of Talent

Adequate measures are a must for mobilizing and fostering entrepreneurial talent in the country. In this context, it should be realised that entrepreneurs are not the gift of a particular class.

For instance, in Japan, innovators came from the underprivileged classes as the affluent classes had hardly any incentive to innovate. "Innovating entrepreneurs have frequently come from those classes of people normally barred from advancement to status-bearing positions."

Short Question and Answers

1. Factors affecting entrepreneurial growth

Ans :

Entrepreneurship does not emerge by itself and spontaneously. The emergence and development of entrepreneurship depends upon few available factors known as 'supportive conditions'. These factors are classified into two types. They are,

(i) Economic factors and

(ii) Non-economic factors.

2. Define motivation.

Ans :

(i) According to Mcfarland, "Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings". Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

(ii) According to Bernard and Steiner, "A motive is an inner state that energies, activates or moves and that directs behaviour towards goals".

(iii) According to D.D. Eisenhower, "Motivation is getting people to do. What you want them to do, because they want to do it".

(iv) According to C.B. Memoria, "A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization"

3. Nature of motivation

Ans :

(i) Motivation refers to the internal feelings of an individual or individual's motives.

(ii) These emotions, feelings or desires of a person prompt him to work more.

(iii) Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.

(iv) Motivation activates and channelises dormant energies of an individual towards productive action.

4. Negative Motivation

Ans :

Negative motivation creates fear or deterrent amongst workers. Fear forces workers to behave in the way the owner wants them to behave. Workers are coerced to behave in a certain manner, failing which they are threatened with lay offs, demotions, pay cuts etc. Workers work not willingly but out of fear.

5. Assumptions of Maslow's Theory

Ans :

(i) People's behaviour, being affected by their needs.

(ii) There are many needs of people and their order or priority can be made.

(iii) Motivation ends with the satisfaction of needs. After that the next higher need serves as a motivator.

(iv) People move to next higher need only when the lower level needs are satisfied.

6. Entrepreneurial competency

Ans :

Meaning

(i) In simple terms, a competence is an underlying characteristic of a person which leads to his/her effective or superior performance in an job.

(ii) A job competence is a good combination of one's underlying characteristics such as one's knowledge, skill, motive, etc, which one uses to perform a given job well.

(iii) It is important to mention that the existence of these underlying characteristics may or may not be known to the person concern.

(iv) This implies that the underlying characteristics may be unconscious aspects of the person.

7. EDP's.

Ans :

EDP stands for Entrepreneurship Development Programme. It has been very correctly quoted that, "An economy is an effect for which entrepreneurship is the cause". An entrepreneur acts as the spark-plug who makes drastic changes in the economic conditions of a country.

It is essential to develop entrepreneurship in both developed as well as developing countries. How can the entrepreneurship be developed? Well, the answer to this is quite simple and logical i.e., EDPs. Government and other supporting agencies have initiated various EDPs.

8. Objectives of EDP's

Ans :

(i) To identify and train potential entrepreneurs.

(ii) To impart necessary knowledge and skill among the participants.

(iii) To impart basic managerial understanding.

(iv) To provide post-training assistance.

(v) To select the right project and product.

(vi) To develop and strengthen entrepreneurial quality and motivation.

(vii) To understand the rules, process, procedure and regulations for setting up the project.

(viii) To know the sources of help, incentives and subsidies available from the Government to set up the enterprise.

(ix) To analyse the environmental issues related to the proposed enterprise.

(x) The select the right project at the right time and at the right place.

9. Course, contents and curriculum of EDPs.

Ans :

The course, content and curriculum of an EDP is chosen according to the objectives of EDPs. The training programme duration usually ranges from one week to six weeks. It includes the following six inputs.

(i) Entrepreneurship introduction

(ii) Enabling the each factor

(iii) Teaches managerial skills

(iv) Support system and procedure

(v) Basics of project feasibility study

(vi) Industrial tour.

10. Need for EDPs.

Ans :

(i) For Rapid Industrial Development

(ii) Creation of Suitable Industrial Environment for Rapid Economic Development

(iii) To Protect Entrepreneurs from Industrial Monopoly

(iv) New Sources of Income for Government

(v) Progress and Expansion of Social Wealth

(vi) Development of Socialism Philosophy

Choose the Correct Answers

1. Innovation can best be defined as ______. [d]
   (a) the generation of new ideas
   (b) the evolution of new ideas
   (c) the opposite of creativity
   (d) the successful exploitation of new ideas

2. Which of these statements best describes the context for entrepreneurship? [c]
   (a) Entrepreneurship takes place in small businesses
   (b) Entrepreneurship takes place in large businesses
   (c) Entrepreneurship takes place in a wide variety of contexts
   (d) Entrepreneurship does not take place in social enterprises

3. Entrepreneurs are motivated by ______. [d]
   (a) money (b) personal values
   (c) pull influences (d) All the above

4. Which of the following statements is false? [d]
   (a) Market segmentation is a useful process for small businesses to undertake
   (b) Selling is essentially a matching process
   (c) A benefit is the value of a product feature to a customer
   (d) It is a good idea for small businesses to compete solely on price

5. A self employed person who is always trying to make his/her business better by taking risks and trying new ideas is an ______. [b]
   (a) Business Man (b) Entrepreneur
   (c) Employer (d) None of the above

6. What are the qualities of successful entrepreneurs? [d]
   (a) Fulfill customer needs (b) Use Local Materials & lower price of product
   (c) Help Society (d) All of the above

7. Business is a type of economic activity that involves the constant and regular production and distribution of ______ and ______ to meet human needs. [b]
   (a) Purchase, Sells (b) Goods, Services
   (c) Service, Payment (d) Service, Money

8. When a person begins a business, he or she may encounter several challenges and failures. Even while taking a significant risk, an entrepreneur must think _______. [a]

   (a) Positively (b) Negatively

   (c) Both (a) and (b) (d) None of the above

9. There may be losses at times but even then an entrepreneur should stay__________ and continue to work hard towards their goal. [a]

   (a) Positively (b) Negatively

   (c) Both (a) and (b) (d) None of the above

10. The ability to handle take risks is a _______. [c]

   (a) Quality of Entrepreneur (b) Role of Entrepreneur

   (c) Characteristics of Entrepreneurship (d) None of the above

11. EDPs course contents contains _______. [d]

   (a) General introduction to entrepreneurs (b) Motivation training

   (c) Managerial skills (d) All the above

Fill in the blanks

1. The emergence and development of entrepreneurship depends upon few available factors known as ________.
2. Non-economic factors are classified into social factors and ________.
3. ________ is the life-blood of an organization without which the entire activity of an organization.
4. ________ is getting people to do. What you want them to do, because they want to do it.
5. ________ is a social animal and wants to live in society honourably.
6. ________ factors mean those factors whose presence does not motivate the employees to work with greater enthusiasm but their absence does discourage them.
7. ________ factors mean those factors which directly inspire the employees to work.
8. ________ is an underlying characteristic of a person which leads to his/her effective or superior performance in an job.
9. ________ is the ability to demonstrate a system and sequence of behaviour which results in something observable, something that one can see.
10. ________ means collection and retention of information in ones mind.

ANSWERS

1. Supportive conditions
2. Psychological factors
3. Capital
4. Motivation
5. Man
6. Maintenance
7. Motivating
8. Competence
9. Skill
10. Knowledge

One Mark Answers

1. Positive Motivation

Ans :

Workers are tempted to put in their best for achieving the desired objectives. These temptations rewards or incentives can be in the shape of extra pay, promotion recognition etc. Positive motivation will result in willing cooperation of workers for the attainment of organizational goal.

2. Pyramid Representing Maslow's Hierarchy of Need.

Ans :

(i) Physiological Needs

(ii) Safety Needs

(iii) Affiliation or Social Needs

(iv) Esteem and Status Needs

(v) Self Actualization Needs

3. EDP's.

Ans :

EDP stands for Entrepreneurship Development Programme. It has been very correctly quoted that, "An economy is an effect for which entrepreneurship is the cause". An entrepreneur acts as the spark-plug who makes drastic changes in the economic conditions of a country.

4. Phases in EDPs.

Ans :

The entrepreneurship development pro-gramme (EDP) normally runs through three important phases followed by EDP evaluation:

1. Pre-Training Phases
2. Training Phases
3. Post-Training Phases

5. Problems of EDP's.

Ans :

Following are the problems of EDP's

(i) No Policy at the National Level

(ii) Problems at the Pre training Phase

(iii) Over Estimation of Trainees

(iv) Duration of EDPs

(v) Non Availability of Infrastructural Facilities

UNIT III	**Small, Micro, Medium Scale Enterprises –** Definition of Small Industry –Characteristics of Small Scale Industry - Objectives – Scope of Small & Micro Industries –Opportunities for entrepreneurial growth in MSMEs – Role of MSMEs in Economic development – MSMEs problems

3.1 Definition of Small Industry

3.1.1 Characteristics of Small Scale Industry

Q1. Define Small Scale Industries. State the characteristics of Small Scale Industry.

Ans : **(Imp.)**

Meaning

(i) Small scale industries are referred to as those industries in which the process of manufacturing, production and servicing are done on a small scale.

(ii) The investment on such industries is one time and these investments are mostly done on plant and machinery, the total investment on such industries do not exceed 1 crore.

(iii) In small scale industries, the manufacturing of goods and rendering of services are done with the help of smaller machines and very limited manpower.

(iv) Small scale industries or SSIs are known as the lifeline of an economy, which is very important for a country like India. Being a labor intensive industry, it is very helpful in creating employment opportunities for the population of the country.

(v) They are also a crucial part of an economy from a financial standpoint, as they help in stabilising the per capita income of the country.

Earlier industries that manufactured goods and provided services on a small scale or micro-scale basis were granted Small Scale Industries (SSI) registration by the Ministry of Small Scale Industries. However, after the government passed the MSME (Micro, Small and Medium Enterprises) Act in 2006, the small and micro-scale industries came under the MSME Act.

On 9 May 2007, subsequent to the amendment of the Government of India (Allocation of Business) Rules, 1961, the Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises. Thus, the SSIs are included under the Ministry of MSME

Definitions

SSIs do not have specific and standardized definition. Based on different criteria different definition have been proposed for SSIs. Some of them are.

(i) The Fiscal Commission, 1950, for the first time defined a SSI as the one basically operating with the hired labour ranging from 10 to 50 for promotion and development of SSIs.

(ii) Government of India has started up central small-scale industries organization and small-scale industries board in 1954-55.

(iii) The SSI board at its first meeting on January, 5th and 6th, 1955, defined SSI as a unit employing less than 50 employees, if using power and less than 100 employees without the use of power and capital limit not exceeding ` 5 lakhs.

Year	Investment Criterion		Employment Criterion
	SSI Unit	Ancillary Unit	
Till 1958	Capital limit was upto ` 5 lakhs	Capital limit was upto ` 5 lakhs.	Employee up to 50 in case of using power and upto 100 without using power.
1959	Fixed asset value upto ` 5 lakhs	Similar to that of SSI unit.	Employees upto 50 in case of using power and upto 100 without using power.
1960	Fixed asset value upto ` 5 lakhs	Fixed asset value upto ` 5 lakhs	Employment criterion dropped.
1966	` 7.5 lakhs	` 10 lakhs	Dropped
1975	` 10 lakhs	` 15 lakhs	Dropped
1980	` 20 lakhs	` 25 lakhs	Dropped
1985	` 35 lakhs	` 45 lakhs	Dropped
1991	` 60 lakhs	` 75 lakhs	Dropped

Table: Definition of Small Scale Industry

Note

1. Since, 1966 investment limit was applicable only to plant and machinery.
2. The export units are those who export atleast 30% of the annual production. The ceiling of investment shall be ` 75 lakhs for it.

On the basis of recommendations made by Abid Hussain Committee on small-scale industries, the Government of India in March 1997, raised the investment ceiling to ` 3 crores for small-scale industries and ` 50 lakhs for tiny units.

Characteristics of small scale industry

"Small-scale industry is beautiful" because of the following characteristics.

1. One-man Show

Small-scale units are mostly managed and controlled by a single-person. If a small-scale unit is managed by either a partnership or a joint stock company its activites are mainly performed by a director or a partner (partnership firm). The other partners act as sleeping partners or directors, who basically provide funds to the industry. Thus, the functions of a small-scale industry are carried out by a single person.

2. Owner Acts as a Manager

The owner of the business herself/himself acts as a manager. Therefore, she/he manages the business in a personalized manner. The owner holds the first hand information with him, which helps her/him in making effective business decisions.

3. Lower Gestation Period

Small-scale industries have lower gestation period i.e., the period after which the return on investment starts.

4. Confined Scope of Operation

Small-scale industries usually operate in local regional areas and they meet the demand of these local and regional people. Thus, the scope is very limited.

5. Use of Indigenous Resources

Small-scale industries make use of indigenous resources i.e., natural resources, so they can start their industry where the natural resources are easily available.

6. Labour Intensive

Small-scale industries are labour intensive in nature they require less capital for their establishment when compared to largescale industries. They carry out their functions with very meagre capital.

7. Balanced Regional Development

Small-scale industries make use of local resources, which is resulting in decentralizing and dispersing of small- scale industries to the rural areas, thereby promoting balanced regional development.

8. Highly Flexible

Small-scale industries are highly flexible in nature as they are highly reactive and receptive to socio-economic conditions. They are capable of introducing new products, new technique or methods, new raw-materials and new markets, new forms of organization depending on the diversified requirements of the market.

Thus, it can be concluded that the small-scale industries holds a unique role to play in the industrial development of the country.

Q2. Explain the importance of Small Scale Industry.

Ans :

1. Small Scale Industries Provides Employment

- SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
- SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
- SSI accounts for employment of people in rural sector and unorganized sector.
- It provides employment to skilled and unskilled people in India.
- The employment capital ratio is high for the SSI.

2. SSI Facilitates Women Growth

- It provides employment opportunities to women in India.
- It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

3. SSI Brings Balanced Regional Development

- SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.
- It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.
- It promotes urban and rural growth in India.

- It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas. It plays an important role by initiating the government to build the infrastructural facilities in rural areas.
- It helps in improving the standard of living of people residing in suburban and rural areas in India.
- The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.

4. SSI Helps in Mobilization of Local Resources

- It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.
- It paves way for promoting traditional family skills and handicrafts. There is a great demand for handicraft goods in foreign countries.
- It helps to improve the growth of local entrepreneurs and self-employed professionals in small towns and villages in India.

5. SSI Paves for Optimization of Capital

- SSI requires less capital per unit of output. It provides quick return on investment due to shorter gestation period. The pay-back period is quite short in small scale industries.
- SSI functions as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.
- It encourages the people living in rural areas and small towns to mobilize savings and channelize them into industrial activities.

6. SSI Promotes Exports

- SSI does not require sophisticated machinery. Hence, it is not necessary to import the machines from abroad. On the other hand, there is a great demand for goods produced by small scale sector. Thus it reduces the pressure on the country's balance of payments.
- SSI earns valuable foreign exchange through exports from India.

7. SSI Complements Large Scale Industries

- SSI plays a complementary role to large scale sector and supports the large scale industries.
- SSI provides parts, components, accessories to large scale industries and meets the requirements of large scale industries through setting up units near the large scale units.
- It serves as ancillaries to large Scale units.

8. SSI Meets Consumer Demands

- SSI produces wide range of products required by consumers in India.
- SSI meets the demand of the consumers without creating a shortage for goods. Hence, it serves as an anti-inflationary force by providing goods of daily use.

9. SSI Ensures Social Advantage

- SSI helps in the development of the society by reducing concentration of income and wealth in few hands.
- SSI provides employment to people and pave for independent living.

- SSI helps the people living in rural and backward sector to participate in the process of development.
- It encourages democracy and self-governance.

10. Develops Entrepreneurship

- It helps to develop a class of entrepreneurs in the society. It helps the job seekers to turn out as job givers.
- It promotes self-employment and spirit of self-reliance in the society.
- Development of small scale industries helps to increase the per capita income of India in various ways.
- It facilitates development of backward areas and weaker sections of the society.
- Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

3.1.2 Objectives

Q3. Enlist the objectives of small-scale industries.

Ans :

The main objectives of small-scale industries are :

1. To provide large-scale employment opportunities with low investment.
2. To remove the problem of unemployment from our country.
3. To promote dispersion of industries from urban areas to rural areas covering all the towns, villages and backward areas.
4. To ensure effective utilization of latent resources.
5. To foster the national development by developing the economically poor regions.
6. To enhance the standard of living of the people.
7. To assure the equal distribution of national income.
8. To promote balanced regional development in the country.

3.1.3 Scope of Small & Micro Industries

Q4. Explain the scope of small and micro industries.

Ans : **(Imp.)**

(i) The scope for small-scale industries is quite vast covering a wide range of activities requiring less sophisticated technology. Among them, the important ones are: Manufacturing activities Servicing/repairing activities Retailing activities Financial activities Wholesale business Construction activities

(ii) Infrastructural activities like transportation, communication and other public utilities. In order to strengthen the scope for small industry development in the country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country.

(iii) The reservation policy was initiated in 1967 when only 47 items were reserved for exclusive manufacture in the small-scale sector. By 1983, the reserve list included 836 items for exclusive production in the small-scale sector. Recently, the Abid Hussain Committee dereserved 12 items and thus, there are still 824 items reserved for exclusive production in small sector.

(iv) The main objective of the reservation policy has been to insulate the small sector from unequal competition of large industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms.

(v) The important industries reserved for exclusive development in the small sector are:

(vi) Food and Allied Industrie, Textile Product, Leather and Leather Products, including Footwear, Rubber Product, Plastic Product, Chemical and Chemical Product, Natural Essential Oil, Organic Chemicals and Chemical Products, Glass and Ceramic, Mechanical Engineering Transport Equipment, Metal Cabinets of all Type, Pressure Stove, Electrical Appliances, Electronic Equipments and Components, Boats and Truck Body Buildings, Auto Parts Components, Ancillary and Garrage Equipment, Bicycle Parts, Trycycles and Perambulators, Miscellaneous Transport Equipments, Mathematical and Survey Instruments, Sports Goods, Stationery items, Clocks and watches, etc.

Q5. Explain the problems of small scale industires.

Ans : **(Imp.)**

Following are the problems of small scale industires :

1. Finance

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organization and no organization can function proper ? in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nov are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalization, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

2. Raw Material

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect t e functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

3. Idle Capacity

There is under utilization of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilization are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

4. Technology

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

5. Marketing

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

6. Infrastructure

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

7. Under Utilization of Capacity

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under utilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

8. Project Planning

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete docu-ments which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

9. Skilled Manpower

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

10. Managerial

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

3.2 Opportunities for Entrepreneurial Growth in MSMEs

Q6. Define MSME. State its features of MSME.

Ans : **(Imp.)**

As per MSME Act-2006, The MSMEs are classified into two categories;

1. Manufacturing Enterprises

The enterprises engaged in the manufacture or production of goods (as per Development and Regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

2. Service Enterprises

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

In the month of February 2018, the Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved a change in the definition of the MSMEs. Now MSMEs will be defined on the basis of ‘annual turnover’ instead of investment in plant & machinery/equipment.

Definition of MSME in 2018

Manufacturing Sector	
Enterprises	
Micro Enterprises	Annual turnover is less than Rs.5 cr.
Small Enterprises	Annual turnover is between Rs. 5 Cr to Rs. 75 cr.
Medium Enterprises	Annual turnover is between Rs. 75 Cr to Rs. 250 cr.
Service Sector Enterprises	
Micro Enterprises	Annual turnover is less than Rs. 5 cr.
Small Enterprises	Annual turnover is between Rs. 5 Cr to Rs. 75 cr.
Medium Enterprises	Annual turnover is between Rs. 75 Cr to Rs. 250 cr.

New Definition of MSME in 2020

Existing and Revised Definition of MSMEs			
Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	**Micro**	**Small**	**Medium**
Mfg. Enterprises	Investment < Rs. 25 Lack	Investment < Rs. 5 Crore.	Investment < Rs. 10 Crore
Services Enterprise	Investment < Rs. 10 Lakhs	Investment < Rs. 2 Crore.	Investment > Rs. 5 Crore
Revised MSME Classification			
Composite Criteria : Investment and Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing & Services	Investment < Rs. 1 Crore. and Turnover > Rs. 5 Crore.	Investment < Rs. 10 Crore Turnover < Rs. 50 Crore.	Investment > Rs. 20 Crore and Turnover < Rs. 100 Crore.

Features

Following are some of the essential features of MSMEs –

1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
2. MSMEs provide credit limit or funding support to banks.
3. They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.
4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.

6. They also offer modern testing facilities and quality certification services.

7. Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

Q7. State the objectives of MSME.

Ans :

Following are the objectives of MSME.

1. To create permanent employment opportunities to public at large at relatively small costs
2. To meet a major part of the increased demand for consumer goods
3. To ensure more equitable distribution of national income to society at large scale
4. To ensure regional development
5. To create a adaptability in order to adjust the changing environment
6. To ensure flexibility for innovations
7, To enhance financial advancements.
8. To arrange for regular earning source
9. To combine small business with rural economy
10. To accomplish self sufficiency by elimination of obstructions.

Q8. Explain the importance of MSME.

Ans :

Across the globe, MSMEs are accepted as a means of economic growth and for promoting equitable development. They are known to generate the highest rate of growth in the economy. MSMEs have driven India to new heights through requirements of low investment, flexible operations, and the capacity to develop appropriate native technology.

1. MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.

2. With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.

3. MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy.

4. Contributing around 45% of overall Indian exports

5. MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.

6. MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.

7. MSMEs promote innovation by providing an opportunity to budding entrepreneurs to help them build creative products hey and thereby boost competition in business and fuel the growth.

3.2.1 Role of MSMEs in Economic Development

Q9. Discuss the role of MSME in economic development.

(OR)

Write the role of MSMEs in economic development in India.

Ans : **(Imp.)**

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 realising 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 channelled 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. Infact, the low cost of production which small industries enjoy is their competitive strength.

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

3.2.2 MSMEs Problems

Q10. What are the problems associated with MSME.

Ans : **(Imp.)**

The potential of MSME is often not realized fully, because of several problems related to size and operations.

MSMEs are at a 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:

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 organizations. These organizations 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.

(v) 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 utilization

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.

(vii) 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.

Q11. Explain the future prospects of MSMEs.

Ans :

The future prospects of MSMEs

1. Employment generation

There are large opportunities in the field of manufacturing and service rendering of MSME's. In the fie ld of retail and manufacturing sector, MSMEs are generating different and ample amount of employment.

2. Focus on customer satisfaction

Primarily, MSMEs manufacturing goods focus on test and preferences, liking and disliking of the consumer. But now a day they produce goods according to the needs or expectations of the customers. So the MSMEs can be more customer satisfaction oriented.

3. Minimization of regional imbalance

The MSMEs will utilize the manpower of rural areas so such areas of the nation can equally developed through the running of MSME units in rural areas. So this is helpful to minimize or remove the regional imbalance.

4. Development of Export

In the international market, there will be a large demand of Indian product like wooden items, other handmade articles etc. So MSMEs have the potential to improve the export of India.

5. Attraction of Foreign Investment

The Indian MSMEs are the growing sectors and their growth rate and return on investment is satisfactory. This sector can attract foreign investment in India, so their growth rate increasing drastically.

Short Question and Answers

1. Define Small Scale Industries.

Ans :

(i) Small scale industries are referred to as those industries in which the process of manufacturing, production and servicing are done on a small scale.

(ii) The investment on such industries is one time and these investments are mostly done on plant and machinery, the total investment on such industries do not exceed 1 crore.

(iii) In small scale industries, the manufacturing of goods and rendering of services are done with the help of smaller machines and very limited manpower.

2. Objectives of small-scale industries.

Ans :

1. To provide large-scale employment opportunities with low investment.
2. To remove the problem of unemployment from our country.
3. To promote dispersion of industries from urban areas to rural areas covering all the towns, villages and backward areas.
4. To ensure effective utilization of latent resources.
5. To foster the national development by developing the economically poor regions.

3. Define MSME.

Ans :

As per MSME Act-2006, The MSMEs are classified into two categories;

1. Manufacturing Enterprises

The enterprises engaged in the manufacture or production of goods (as per Development and Regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

2. Service Enterprises

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In the month of February 2018, the Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved a change in the definition of the MSMEs. Now MSMEs will be defined on the basis of 'annual turnover' instead of investment in plant & machinery/equipment.

4. Features of MSMEs

Ans :

1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
2. MSMEs provide credit limit or funding support to banks.
3. They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.
4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.

5. The objectives of MSME.

Ans :

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4. To ensure regional development
5. To create a adaptability in order to adjust the changing environment
6. To ensure flexibility for innovations
7, To enhance financial advancements.

6. Importance of MSME.

Ans :

1. MSMEs employ around 120 million persons, becoming the second-largest employment generating sector after agriculture.
2. With approximately 45 lac units throughout the country, it contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.
3. MSME ministry targets to increase its contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy.
4. Contributing around 45% of overall Indian exports
5. MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.
6. MSMEs in tier-2 and tier-3 cities help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.

7. Prospects of MSMEs

Ans :

1. Employment generation

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5. Attraction of Foreign Investment

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8. Scope of small and micro industries.

Ans :

(i) The scope for small-scale industries is quite vast covering a wide range of activities requiring less sophisticated technology. Among them, the important ones are: Manu-facturing activities Servicing/ repairing activities Retailing activities Financial activities Whole-sale business Construction activities

(ii) Infrastructural activities like transportation, communication and other public utilities. In order to strengthen the scope for small industry development in the country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country.

(iii) The reservation policy was initiated in 1967 when only 47 items were reserved for exclusive manufacture in the small-scale sector. By 1983, the reserve list included 836 items for exclusive production in the small-scale sector. Recently, the Abid Hussain Committee dereserved 12 items and thus, there are still 824 items reserved for exclusive production in small sector.

(iv) The main objective of the reservation policy has been to insulate the small sector from unequal competition of large industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms.

9. Characteristics of small scale industry

Ans :

"Small-scale industry is beautiful" because of the following characteristics.

1. One-man Show

Small-scale units are mostly managed and controlled by a single-person. If a small-scale unit is managed by either a partnership or a joint stock company its activites are mainly performed by a director or a partner (partnership firm). The other partners act as sleeping partners or directors, who basically provide funds to the industry. Thus, the functions of a small-scale industry are carried out by a single person.

2. Owner Acts as a Manager

The owner of the business herself/himself acts as a manager. Therefore, she/he manages the business in a personalized manner. The owner holds the first hand information with him, which helps her/ him in making effective business decisions.

3. Lower Gestation Period

Small-scale industries have lower gestation period i.e., the period after which the return on investment starts.

4. Confined Scope of Operation

Small-scale industries usually operate in local regional areas and they meet the demand of these local and regional people. Thus, the scope is very limited.

5. Use of Indigenous Resources

Small-scale industries make use of indigenous resources i.e., natural resources, so they can start their industry where the natural resources are easily available.

Choose the Correct Answers

1. The National Board for Micro, Small and Medium Enterprises meets once everymonths in a year. [a]
   (a) 6 (b) 2.3
   (c) 3.2 (d) 4.9
2. What is the limit of the Annual turnover for small enterprises? [a]
   (a) 5 crores to 75 crores rupees (b) less than 5 crore rupees
   (c) Between 75 to 150 crores rupees (d) Between 150 to 200 crores rupees
3. Which one of the following is the prescribed investment limit for medium enterprises in the manufacturing sector as per the Micro, Small and Medium Enterprises Development Act. 2006? [c]
   (a) More than Rs 10 lakhs and less than Rs 2 crores
   (b) More than Rs 2 crores and less than Rs 5 crores
   (c) More than Rs 5 crores and less than Rs 10 crores
   (d) More than Rs 10 crores
4. Which of the following is a micro-finance programme? [b]
   (a) local village bank (b) Self help group
   (c) Purvanchal Bank (d) Utkal Gramin Bank
5. In India, businesses with investment up to Rs. 1 Crore and turnover up to Rs. 5 Crore are known as: [c]
   (a) Tiny Enterprise (b) Small Enterprise
   (c) Micro Enterprise (d) Medium Enterprise
6. Owner's capital is also known as ________. [d]
   (a) Internal source (b) External source
   (c) Source of income (d) Equity
7. NSIC stands for ________. [a]
   (a) National Small Industries Corporation
   (b) National Small India Corporation
   (c) National Source Industrial Cooperation
   (d) New Science Institute of Chennai
8. Finance is regarded as ________ of the business. [a]
   (a) 'Life blood' (b) 'Life source'
   (c) 'Lifeline' (d) All of the above
9. In over-capitalization actual earnings are less than the expected ones [a]
   (a) True (b) False
   (c) Always (d) Never
10. ________ form of ownership structure is based on the philosophy of self-help and mutual help. [c]
    (a) Partnership (b) Company
    (c) Cooperative societies (d) Joint venture

Fill in the blanks

1. ______ units are mostly managed and controlled by a single-person.
2. Small-scale industries have lower ______ period.
3. Small-scale industries are labour intensive in nature they require less ______ for their establishment when compared to large-scale industries.
4. Small-scale industries are highly ______ in nature.
5. ______ is one of the most important problem confronting small scale industries
6. ______ aspects adversely affect the functioning of small scale units.
7. ______ inadequacies pose another serious problem for small scale units.
8. ______ in India enjoy a distinct position in view of their contribution to the socio-economic development of the country.
9. ______ industries are referred to as those industries in which the process of manufacturing.
10. The scope for small-scale industries is quite vast covering a wide range of activities requiring less sophisticated ______ .

ANSWERS

1. Small-scale
2. Gestation
3. Capital
4. Flexible
5. Finance
6. Infrastructure
7. Managerial
8. MSME
9. Small scale
10. Technology

One Mark Answers

1. Small Scale industry

Ans :

The definition of small-scale industry (SSI) varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government policy and administrative set up of the particular country.

2. MSME

Ans :

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.

3. Characteristics of small scale industry.

Ans :

(i) A small scale unit is generally a one-man show. Even the small units which rim by a partnership firm or company, the activities are mainly carried out by one of the partners or directors. In practice, the others are simply as sleeping partners or directors who mainly assist in providing funds.

(ii) In case of small-scale industries, the owner himself/herself is a manager also. Thus, these units are managed in a personalized fashion. The owner has first hand knowledge of what is actually going on in the business. He takes effective participation in all matters of business decision taking.

4. Objectives of small-scale industries.

Ans :

(i) To remove the problem of unemployment from our country.

(ii) To promote dispersion of industries from urban areas to rural areas covering all the towns, villages and backward areas.

(iii) To ensure effective utilization of latent resources.

5. Project Planning

Ans :

Project planning is a discipline addressing how to complete a project in a certain timeframe, usually with defined stages and designated resources.

UNIT IV	**Institutional Finance for Entrepreneurs –** Commercial Banks – Role of Commercial Banksin Building Entrepreneurship – Other Financial Institutions such As IFCI, ICICI, IDBI, SFCs, SIDBI and EXIM bank – Non Banking Financial Institutions – LIC.

4.1 COMMERCIAL BANKS

Q1. What is Commercial Bank.

(OR)

Explain the characteristics of Commercial Banks.

Ans : **(Imp.)**

Introduction

Commercial banks are the oldest, biggest and fastest growing financial intermediaries in India. They are also the most important depositories of public saving and the most important disbursers of finance.

Commercial banks are the simple business or commercial concerns which provide various types of financial services to customers in return for payments in one form or another such as interest, discounts, fees, commission, and so on.

Their objective is to make profits. Banks have to concentrate on balancing profitability with liquidity. The need for maintenance of liquidity is much greater because of the nature of their liabilities with the banks. Banks deal in other people's money, a substantial part of which is repayable on demand. This is reflected in the management and control of reserves of commercial banks.

Characteristics

Banks are both manufactures of money and purveyors of money. So banks play an important role in the economy.. Their features can be set out under the following heads :

1. **Mobilization of Savings**

   Economic development depends oh the available savings and investment in the economy. By mobilization of deposits, banks collect savings from the public which in turn are lent for investment when they purvey credit to various sectors of the economy.

2. **Facilitate Commerce and Trade**

   Finance is important for trade and commerce and banks provide funds for facilitating these activities in the economy.

3. **Balanced Regional Development**

   In tune with the policy of the government to have more balanced development of the economy, the banks do promote lending and investment in those regions or parts of the country which are less developed and thus banks promote social objectives.

4. **Provision of Finance to Backward Communities and Neglected Segments of Society**

   This is another important contribution of commercial and co-operative banks in India. They provide loans at concessional rates to scheduled castes/scheduled tribes and weaker sections of the society, as per the guidelines of the government.

5. **Development of Agriculture and other Priority Sectors in the Economy**

   The banks give special treatment in their lending operations to some priority sectors in the economy, such as agriculture, small-scale industries (SSIs), retail trade, small borrowers, self-employed persons, etc., so as to facilitate their growth and provide productive employment in the economy. Exports are also a priority sector which banks help in various ways.

Q2. Explain the Functions of Commercial Banks.

(OR)

Discuss various functions of commercial banks.

Ans : **(Imp.)**

The functions of commercial banks are divided into two categories :

(i) Primary functions, and

(ii) Secondary functions

(i) Primary Functions

The primary functions of a commercial bank include :

(a) Accepting deposits; and

(b) Granting loans and advances

(a) Accepting Deposits

The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest.

Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

(b) Granting of Loans and Advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The difference between the rate of interest allowed on deposits and the rate charged on the Loans is the main source of a bank's income.

(i) Loans

A loan is granted for a specific time period. Generally, commercial banks grant short-term loans. But term loans, that is, loan for more than a year, may also be granted.

The borrower may withdraw the entire amount in lump sum or in installments. However, interest is charged on the full amount of loan. Loans are generally granted against the security of certain assets. A loan may be repaid either in lumpsum or in installments.

(ii) Advances

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day to day requirements of business.

The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Modes of Short-term Financial Assistance

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

(a) Cash Credit

Cash credit is an arrangement whereby the bank allows the borrower to draw amounts upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per agreed terms and conditions with the customers.

(b) Overdraft

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit is allowed either on the security of assets, or on personal security, or both.

(c) Discounting of Bills

Banks provide short-term finance by discounting bills that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

(ii) Secondary Functions

Besides the primary functions of accepting deposits and lending money, banks perform a number of other functions which are called secondary functions.

These are as follows :

(a) Issuing letters of credit, traveller's cheques, circular notes etc.

(b) Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers;

(c) Providing customers with facilities of foreign exchange.

(d) Transferring money from one place to another; and from one branch to another branch of the bank.

(e) Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.

(f) Collecting and supplying business information.

(g) Issuing demand drafts and pay orders; and,

(h) Providing reports on the credit worthiness of customers.

Q3. Explain the Modes of Acceptance Deposits of Commercial Banks.

Ans : **(Imp.)**

Banks receive money from the public by way of deposits. The following types of deposits are usually received by banks :

1. Current deposit
2. Saving deposit
3. Fixed deposit
4. Recurring deposit
5. Miscellaneous deposits

1. Current Deposit

It is also called 'demand deposit', current deposit can be withdrawn by the depositor at any time by cheques. Businessmen generally open current accounts with banks. Current accounts do not carry any interest as the amount deposited in these accounts is repayable on demand without any restriction.

The Reserve bank of India prohibits payment of interest on current accounts or on deposits upto 14 Days or less except where prior sanction has been obtained. Banks usually charge a small amount known as incidental charges on current deposit accounts depending on the number of transaction.

2. Savings Deposit/Savings Bank Accounts

Savings deposit account is meant for individuals who wish to deposit small amounts out of their current income. It helps in safe guarding their future and also earning interest on the savings. A saving account can be opened with or without cheque book facility.

There are restrictions on the withdrawals from this account. Savings account holders are also allowed to deposit cheques, drafts, dividend warrants, etc. drawn in their favour for collection by the bank. To open a savings account, it is necessary for the depositor to be introduced by a person having a current or savings account with the same bank.

3. Fixed Deposit

The term 'Fixed deposit' means deposit repayable after the expiry of a specified period. Since it is repayable only after a fixed period of time, which is to be determined at the time of opening of the account, it is also known as time deposit. Fixed deposits are most useful for a commercial bank. Since they are repayable only after a fixed period, the bank may invest these funds more profitably by lending at higher rates of interest and for relatively longer periods.

The rate of interest on fixed deposits depends upon the period of deposits. The longer the period, the higher is the rate of interest offered. The rate of interest to be allowed on fixed deposits is governed by rules laid down by the Reserve Bank of India.

4. Recurring Deposits

Recurring Deposits are gaining wide popularity these days. Under this type of deposit, the depositor is required to deposit a fixed amount of money every month for a specific period of time.

Each installment may vary from Rs. 5/- to Rs. 500/- or more per month and the period of account may vary from 12 months to 10 years. After the completion of the specified period, the customer gets back all his deposits along with the cumulative interest accrued on the deposits.

5. Miscellaneous Deposits

Banks have introduced several deposit schemes to attract deposits from different types of people, like Home Construction deposit scheme, Sickness Benefit deposit scheme, Children Gift plan, Old age pension scheme, Mini deposit scheme, etc.

Q4. Explain the various services provided by commercial banks.

Ans : **(Imp.)**

The primary activities of commercial banks include acceptance of deposits from the public and lending money to businessmen and other members of society. Besides these two main activities, commercial banks also render a number of ancillary services. These services supplement the main activities of the banks. They are essentially non-banking in nature and broadly fall under two categories :

(i) Agency services, and

(ii) General utility services.

(i) Agency Services

Agency services are those services which are rendered by commercial banks as agents of their customers. They include :

(a) Collection and payment of cheques and bills on behalf of the customers.

(b) Collection of dividends, interest and rent, etc. on behalf of customers, if so instructed by them.

(c) Purchase and sale of shares and securities on behalf of customers.

(d) Payment of rent, interest, insurance premium, subscriptions etc. on behalf of customers, if so instructed.

(e) Acting as a trustee or executor.

(f) Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

(ii) General Utility Services

General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include :

(a) Issuing letters of credit and travellers' cheques.

(b) Underwriting of shares, debentures, etc.

(c) Safe-keeping of valuables in safe deposit locker;

(d) Underwriting loans floated by government and public bodies.

(e) Supplying trade information and statistical data useful to customers.

(f) Acting as a referee regarding the financial status of customers.

(g) Undertaking foreign exchange business.

4.1.1 Role of Commercial Banks in Building Entrepreneurship

Q5. Explain the role of Commercial Banks in building Entrepreneurship.

Ans : **(Imp.)**

The role of a commercial bank in a developing country is discussed as under.

1. Mobilizing Saving for Capital Formation

The commercial banks help in mobilising savings through network of b ranch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors.

They also mobilise idle savings of the few rich. By mobilising savings, the banks channelize them into productive investments. Thus they help in the capital formation of a developing country.

2. Financing Industry

The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans.

Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry.

3. Financing Trade

The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal.

They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

4. Financing Agriculture

The commercial banks help the large agricultural sector in developing countries in a number of ways.

They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

5. Financing Consumer Activities

People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods.

The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

6. Financing Employment Generating Activities

The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person's studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business.

Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entre-preneurial activities in developing countries.

7. Help in Monetary Policy

The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements of a developing economy.

Thus the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

4.2 Other Financial Institutions

4.2.1 IFCI

Q6. Briefly explain about IFCI.

Ans :

Introduction

The Industrial Finance Corporation of India (IFCI) was set up in July 1948 by the Government of India under the IFCI Act. Before ICICI was established in 1956, followed by IDBI in 1964, IFCI was the sole institution that implemented the industrial policies initiated by the Government. It has had a significant role to play in modernizing the Indian industry, promoting exports, substituting imports, controlling the level of pollution, conserving energy and generating commercially feasible viable and market-friendly projects.

The following are some of the sectors that have enjoyed direct benefits from IFCI:

(a) Infrastructure (telecom services, power generation) and the intermediate and capital goods industry (miscellaneous chemicals, synthetic plastics, synthetic fibres)

(b) Basic industry (cement basic chemicals, fertilizers, iron and steel)

(c) Service industry (hospitals, hotels)

(d) Agro-based industry (sugar, paper, textiles)

Financial Assistance

The IFCI extends financial assistance to the industrial sector through direct subscription/ underwriting to debentures/shares and guarantees, by means of rupee and foreign currency loans, and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies. The financial resources of the IFCI comprise the following three components: (i) Share Capital, (ii) Bonds and Debentures, and (iii) Other Borrowings.

The IDBI, scheduled banks, insurance companies, investment trusts and the co-operative banks are the shareholders of the IFCI. Apart from paid up capital and reserves, the major sources of IFCI are issue of bonds and debentures, borrowings from the Government, the RBI, Industrial Development Bank of India and foreign loans.

Schemes

Some of the popular schemes of the IFCI are as follows:

(a) Interest subsidy scheme for women entrepreneurs

(b) Consultancy fee subsidy schemes for the provision of marketing assistance to SSIs

(c) Encouraging the modernization of tiny, small-scale ancillary units; and

(d) Controlling pollution in the small and medium scale industries.

The IFCI has shown its growing concern in the development of backward districts. Cumulatively, financial assistance of ` 462 billion has been sanctioned by IFCI to 5707 concerns and ` 444 billion disbursed since its establishment. A central role has been played by IFCI in dispersing industries on a regional basis.

Some 2172 units situated in backward regions have received roughly 47 per cent of IFCI's assistance, and been aided in catalyzing investments with a value of more than ` 1,206 billion. Women entrepreneurs and self-employed youth too have received assistance from IFCI under the Interest Differential Fund (IDF) and Benevolent Reserve Fund (BRF) schemes.

Functions

The following are the functions performed by IFCI for the development of industries:

(a) Providing assistance for institutional infrastructure development.

(b) Conducting merchant banking operations from its Head Office in New Delhi and a bureau in Mumbai

(c) Helping in improving the productivity of various factors of production for the socio-economic growth of the country.

(d) Providing technical and administration assistance.

(e) Providing guidance in project evaluation, identification formulation, implementation operation etc.

(f) Undertaking research and survey for the sake of industrial development.

(g) Advancing loans for various purposes such as underwriting of shares, guaranteeing of deferred payments for machinery.

4.2.2 ICICI

Q7. Explain various functions of ICICI.

Ans : **(Imp.)**

Introduction

The ICICI was set up in January 1955 under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector. Its issued capital has been subscribed by Indian banks, insurance companies and individuals and corporations of the United States, the British Eastern Exchange Bank and other companies and general public in India.

Functions

ICICI performs the following functions:

i) It provides assistance through direct subscriptions/underwriting to debentures/ shares and guarantees as well as by means of offering rupee and foreign currency loans.

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

iii) It guarantees loans from other private investment sources.

iv) It conducts techno-economic surveys for backward areas.

v) It provides credit facilities to indigenous manufacturers.

vi) It provides merchant banking services.

The ICICI has set up ICICI Asset Management Company Limited, and has been operating ICICI Mutual Fund since 1993. It also set up two subsidiaries, ICICI Investors Services Ltd., and ICICI Banking Corporation Limited in 1994.

The Second Industrial Credit Project for India provides ICICI a second loan of $10 million to replenish its foreign exchange resources. ICICI was created to assist in the development of private industry in India, to encourage local and foreign private capital participation in its financing, and to assist in the expansion of the Indian capital market.

4.2.3 IDBI

Q8. Discuss the role of IDBI to support entrepreneurs.

Ans : **(Imp.)**

(i) Prior to 1964, there was no apex organization to coordinate the functions of various financial institutions. Then, V.V. Bhatt pointed out that the country needed a central development banking institution for providing 'dynamic leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialization.

(ii) It was to fulfill this objective that the Government decided to Entrepreneurs establish the Industrial Development Bank of India (IDBI).

(iii) The IDBI was established on 1 July 1964 under an Act of Parliament as the primary financial institution in the country. Initially, it was set up as a fully owned subsidiary of RBI.

(iv) In February 1976, it was made into an autonomous institution and its ownership passed from RBI to the Government of India.

(v) IDBI provides assistance to SSIs through its scheme of refinance and, to a limited extent, through its bills rediscounting scheme. As it is not feasible for the IDBI to reach a large number of small-scale industries scattered all over the country, the flow of its assistance to this vast number has been indirect in the form of refinancing of loans granted by the banks and the State Financial Corporations (SFCs).

(vi) The IDBI has shown particular interest in the development of small scale industries. Of particular mention is the setting up of the Small Industries Development Fund (SIDF) in May 1986 to facilitate the development and extension of smallscale industries. In 1988, the IDBI also launched the National Equity Fund Scheme (NEFS) for providing support in the nature of equity to tiny and small-scale industries engaged in manufacturing, with a cost not exceeding 5 lakh.

(vii) The scheme is administered by the IDBI through nationalized banks. The IDBI has also introduced the 'single window assistance scheme' for grant of term-loans and working capital assistance to new tiny and small scale enterprises. Last, the IDBI has also set up a Voluntary Executive Corporation Cell (VECC) to utilize the services of experienced professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

(viii) During 1987-88, the IDBI sanctioned assistance worth 1,511 crore to small-scale industries out of total sanction of 4, 580.60 crore. It means about one-third of total industrial assistance was given to the small-scale sector alone.

(ix) In order to make the IDBI's coordinating role more effective, the Narasimham Committee has suggested that the IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other institutions like SFCs and SIDBI, etc.

(x) The direct lending function should be entrusted to a separate finance company, especially set up for this purpose. IDBI being a financial institution is involved in funding viable projects in different sectors. It has exposure to the textile sector, which is the largest after the steel sector.

IDBI provides the following assistance for the development of industries:

(a) Direct assistance to industrial concerns in the form of underwriting of shares debentures.

(b) Soft loans for modernization, renovation and replacement of existing industry.

(c) Rediscount bills arising out of sale of indigenous machinery on deferred payment.

(d) Financing export-oriented industries.

4.2.4 SFCs

Q9. How do SFCs contribute to the development of small enterprises in the country.

Ans : **(Imp.)**

Introduction

IFCI was established to cater to the financial needs of industrial concerns in large scale corporate and co-operative sectors. Small and medium sized enterprises were outside the purview of IFCI. To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions.

Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

Objectives

The objectives of state financial corporations are as under :

1. Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business.

   Under SFCs Act, "industrial concern" means any concern engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.

2. Provide long and medium-term loan repayable ordinarily within a period not exceeding 20 years.

3. Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.

4. Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed Rs. 3 crore.

5. To lay special emphasis on the development of backward areas and small scale industries.

Functions

The functions of SFCs include :

1. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.

2. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
3. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
4. Underwriting of the issue of stock, shares, bonds or debentures by industrial concerns.
5. Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.
6. Act as agent of the Central government, State government, IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.
7. Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
8. Planning and assisting in the promotion and development of industries.

4.2.5 SIDBI

Q10. Explain various dimensions of SIDBI.

(OR)

Briefly explain about SIDBI.

Ans : **(Imp.)**

Meaning

(i) The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long standing demand from the small-scale sector as an apex-level national institution for promotion, financing and development of industries in the small -scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small-scale industries in the country.

(ii) As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing bills rediscounting and equity support to the small-scale sector.

(iii) Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy, trade policy and monetary and credit policies have been in various stages of liberalization. Decontrol, deregulation and delicensing have given enormous scope for private initiative and market forces to come to play.

(iv) New relationships within and between different sectors in the economy are being evolved; the small-scale sector has been an important constituent of such a liberalization in the country.

(v) Government of India formulated a set of new policies aimed at harnessing the potential of the small-scale sector in August 1991 a year and half after the establishment of SIDBI.

(vi) The prescriptions of the policy focused at removal of impediments affecting growth of small-scale sector together with consolidation of the strengths, in the context of the emerging economic order.

(vii) SIDBI has been refining its strategies and business policies in alignment with the policy changes which have been taking place at the national level.

SIDBI's financial assistance to small scale sector have three major dimensions

(i) Indirect assistance to primary lending institutions (PLIs)

(ii) Direct assistance to small units

(iii) Development and Support Services

(i) Indirect assistance to primary lending institutions (PLIs)

SIDBI's schemes of indirect envisage credit to SSIs through a large network of 913 PLIs spread across the country with a branch network of over 65000. The assistance is provided by way of refinance, bills rediscounting and resource support in the form of short term loans / line of credit in lieu of refinance, etc.

Refinance

- The main objective of SIDBI's refinance schemes being enhancement of flow of credit to the SSI sector and augmenting the resources of PLIs, the Bank provides refinance to PLIs against the term loans granted by them for.
- Setting up of new SSI projects and for expansion, technology upgradation, modernisation, quality promotion, diversi- fication by existing units and rehabilitation of sick SSI units.
- Small road transport operators, qualified professionals for self employment, small hospitals and nursing homes, cyber cafes, marketing industrial infrastructure and to promote hotels and ourism - related activities.
- SIDBI extends. Financial support Short - Term Loans) to scheduled banks in respect of their outstanding portfolio relating to SSI sector against which no financial support has been availed of from other institutions.

Rediscounting

- In order in help the machinery manufactures in the SSI sector and to maximize their sales by offering deferred payment credit to the prospective purchaser users, the Bank operates a Bills discounting Scheme where bills arising out of sale/purchase of machinery discounted by scheduled commercial banks are re-discounted by SIDBI Facilities and the Schemetre also extended to cover purchases of machinery by Small- Scale Industries.

(ii) Direct Assistance to Small Units

The object behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying gaps in the existing credit delivery mechanism for Small Scale Industries Direct assistance is provided under several tailor made schemes through SIDBI's 41 Regional /Branch Offices spread across the country.

Assistance is provided directly for

- Setting up of new SSI units, small hotels, hospitals / nursing homes
- Technology upgradation and moderni- sation, expansion, diversification
- Quality upgradation / acquiring of ISO 9000 series certification
- Development of markets for SSI products
- Development of infrastructure for SSI sector
- Pre-Shipment and Post-Shipment Credit & Export Bill Finance
- Discounting of bills of manufacturer- seller in SSI sector, selling either equipments or components
- Factoring services.

SIDBI Offers

- Financial assistance to SSI units under Technology Development and Moderni- sation Fund (TDMF) Scheme.
- Financial assistance to SSI units in the textile and cotton ginning and pressing sectors for taking up technology upgradation and modernisation under Technology Upgra- dation Funds Scheme (TUFS)

- Financial assistance to tanneries for taking up modernisation under the Tannery Moderni sation Schme (TMS)
- Twelve per cent capital subsidy on loans advanced to SSI units engaged in select product sub-sectors for technology upgra- dation by scheduled commercial banks, SFCs and NSIC under Credit Linked Capital Subsidy Scheme.
- Short-term loans to Stated Electricity Boards to facilitate their purchases from SSIs and effect payment in time. Discounting of invoices of SSIs supplying their products to large purchaser companies in the public private sector
- Interest subsidy in respect of certain hotel projects under one, two and three star and heritage category where loans are sanctioned after approval of projects from the Department of Tourism.
- Support to obtain credit rating from accredited rating agencies.

SIDBI's Foreign Currency Assistance Includes

- Foreign currency loans to import equipment by existing export-oriented SSI units and new units having refinite plans for entering export markets
- Foreign currency loans to execute confirmed export orders by way of pre-shipment, credit/letter of credit and post-shipment credit facilities.
- Pre-shipment and Post-shipment Credit in Rupees terms to exporting SSIs for greater flexibility
- Export bills financing in foreign currency.

SIDBI's Venture Capital Includes

- Assistance to small-scale entrepreneurs using innovative indigenous technology and expertise
- Contribution to corpus of other venture funds
- Promotion of State level venture capital funds and a National Venture Fund for Software and IT Industry dedicated to small-scale units in Software/IT industry
- SIDBI has entered into a Memorandum of Understanding with Small Enterprise Assistance Funds of united States of America.

Lines of Credit are Established by SIDBI in favour of

- State Financial Corporations
- State Industrial Development Corpo-rations
- State Small Industries Development Corporations (for supplying raw material and extending marketing support to SSI units)
- Factoring Companies (to factor receivables of SSIs)
- National Small Industries Corporation Ltd.

(iii) Development and Support Services

- The bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny indu- stries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas :
- Enterprise Promotion with emphasis on Rural Industrialisation
- Human Resouree Development to suit the SSI sector needs
- Technology Upgradation
- Quality and Environment Management
- Marketing Promotion, and
- Information Dissemination.

4.2.6 EXIM Bank

Q11. Explain the concept of EXIM Bank.

(OR)

Wht are the functions of EXIM.

Ans : **(Imp.)**

Introduction

The Export-Import Bank of India, commonly known as the EXIM bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers to promote India's foreign trade It also provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

Functions

The important functions of the EXIM Bank are as follows:

1. Financing of exports and import of goods and services both of India and of outside India.
2. Providing finance for joint ventures in foreign countries.
3. Undertaking merchant banking functions of companies engaged in foreign trade
4. Providing technical and administrative assistance to the parties engaged in export and import business.
5. Offering buyers' credit and lines of credit to the foreign governments and banks.
6. Providing advance information and business advisory services to Indian exporter; in respect of multilaterally funded projects overseas.

During the year 1994-95, the EXIM Bank introduced the 'Clusters of Excellence' programme for upgradation of quality standards and obtaining ISO 9000 certification in various parts of the country.

The Bank also entered into framework co-operation agreement with European Bank for Reconstruction and Development (EBRD) for acquiring advance information on EBRD funded projects in order to enter into co-financing proposals with 3 RD in Eastern Europe and CIS.

With a view to promote exports, EXIM Bank has introduced three schemes. These are:

(i) Production Equipment Finance Programme.

(ii) Export Marketing Finance.

(iii) Export Vendor Development Finance.

During 1994-95, total assistance sanctioned and disbursed by the Bank amounted to Rs. 2903 crore and Rs. 1556 crore respectively. In terms of region-wise assistance, West Asia formed the major portion (49.2%) of EXIM Bank's sanctions during 1994-95. This was followed by South East Asia/Far East and Pacific (38.3%), Sub-Saharan Africa (5.9%) and south Asia (3.6%).

Expansion/diversification programmes claimed the maximum share (54.3%) of EXIM rank's sanctions in 1994-95, followed by new projects (33.2%) and modernisation/ acquisition of equipment (12.5%).

4.3 Non Banking Financial Institutions

Q12. Define Non-banking Financial Institutions (NBFI). State its types.

Ans : **(Imp.)**

Meaning

A Non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Examples of these include insurance firms, pawn shops, cashiers check issuers, check cashing locations, currency exchanges, and micro loan organizations. Alan Greenspan has identified the role of NBFIs in strengthening an economy, as they provide "multiple alternatives to transform an economy's savings into capital investment [which] act as backup facilities should the primary form of intermediation fail."

Types

The NBFC's can be classified into the following eight categories,

1. **Hire-purchase Finance Company**

These companies are engaged in the business of hire-purchase financing or hire-purchase transactions.

2. **Investment Company**

This company is concerned with mobilising money from the people and channeling them in securities of companies. It also engages in trading such securities of earn profits.

3. **Leasing Company**

To is type of NBFC is concerned with undertaking leasing or financing of equipment leasing.

4. **Loan Company**

It renders financial support by way of loans or advances or otherwise for any activity other than its own.

5. **Mutual Benefit Financial Company**

This is a company notified under Section 620 A of the Companies Act.

6. **Housing Finance Company**

It is concerned with the financing of the acquisition or construction of houses or development of plots or land. These companies are supervised by the National Housing Bank.

7. **Miscellaneous Non-banking Company**

This type of company is engaged in the activities of managing, promoting, of new companies.

8. **Residuary Non-banking Company**

In this category, all finance companies are included which receive deposits, under any scheme or arrangement by whatever name called, in lump sum or in installments by way of contributions or subscriptions.

Q13. Explain the Objectives of NBFI.

Ans :

The following are the objectives of NBFI are :

1. **Promote Savings**

NBFIs encourage people to save more. They collect household and corporate savings. These offer lucrative saving schemes, provide higher rate of interest. These have developed savings habits in middle income group also, who were earlier inclined to spend rather than save.

2. **Helpful in Investment of Savings**

Economic development depends on the rate of capital formation and the capital formation depends on the investment of savings. Such savings can be invested in agriculture, industries, infrastructure etc. The NBFIs mobilize the savings and convert these savings in productive investments.

3. **Availability of Credit**

NBFIs meet the credit requirements for economic development. It provides credit to various sectors of economy. Thus, NBFIs promote economic development by providing credit facilities to various productive sectors of the economy.

4. **Helpful in Promoting Exports**

Export-import-bank (EXIM Bank) has been playing a very significant role in promoting exports and meeting the credit needs of exporters. It provides export credit and help in export documentation. It also provides bank guarantee to exporters while importing capital goods and raw materials.

5. **Helpful in Entrepreneurial Development**

Entrepreneurs hesitate to invest in new ventures due to lack of funds. NBFIs provide easy loans to entrepreneurs to set up new business units and expand the existing units. NBFIs also help in public issue of shares and debentures of companies. These also act as underwriter i.e., give guarantee to the issuing company that in case the public does not subscribe the whole issue, then they will purchase these shares or debentures.

6. Promote Agriculture Development

National Bank for Agriculture and Rural Development (NABARD) is the apex bank for agricultural and rural credit. It refinances agricultural credit. It has helped to reduce dependence of farmers on mahajans and sahukars and thus promoted agriculture development,

7. Promote Industrial Development

NBFIs provide credit to industrial sector. NBFIs also provide necessary foreign exchange to the industries for importing capital goods and raw material. So NBFIs promote industrial development.

8. Helpful in Pushing-up the Demand

People have low income and low standard of living in underdeveloped countries. Their demand for consumer goods is also low. NBFIs provide loans to these customers to enable them to buy consumer durables. As a result, demand for consumer durables goes up and so also their production. New industries spring up which leads to more income, output and employment. Standard of living of the people improves. In this way, NBFIs by providing consumer credit help to increase aggregate demand and supply and thereby accelerate rate of economic growth.

9. Promote Employment

NBFIs promote industrial development by providing loans to business units. Setting up of more industries promotes employment.

Thus, financial institutions play a crucial role in growth and development of nation by offering a well-organized credit market catering to financial needs of various sectors of the economy.

Q14. Explain briefly about structure of NBFI.

Ans :

The Non-banking institutions are classified into,

1. Non-banking finance companies
2. Development finance companies.

1. Non-Banking Finance Companies

The non-banking finance companies includes. Development Finance Institutions (DFIs), Non-Banking Finance Companies (NBFCs), and Housing Finance Corporations (HFCs).

2. Development Finance Companies

The Development Finance Companies are further classified as,

(i) All-India Financial Institutions

All-India Financial Institutions includes Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Industrial Investment Bank of India (UBI), Small Industries Development Bank of India (SIDBI), Infrastructure Development Finance Company (IDFC), National Bank for Agriculture and Rural Development, EXIM Bank and National Housing Bank (NHB).

(ii) State Level Institutions

The State Level Institutions includes State Financial Corporation's (SFCs) and State Industrial Development Corporations (SIDCs).

(iii) Other Institutions

Other institutions includes Export Credit Guarantee Corporation of India (ECGC), Deposit Insurance and Credit Guarantee Corporation (DICGC) etc.

4.3.1 LIC

Q15. Define LIC. State the functions and objectives of LIC.

Ans :

Meaning

LIC stands for Life Insurance Corporation of India. It started its operations as a corporate firm in September 1956 after the Life Insurance of India Act was passed by India's Parliament in June 1956.

The LIC Act came into effect from July 1956. It helped in the nationalization of the private insurance industry in India. LIC of India was formed by merging 154 life insurance companies, 16 foreign companies and 75 provident companies. It is one of the largest financial institutions in India. It has an asset value of over 2,529,390 crores. The headquarters of LIC is in Mumbai, Maharashtra.

The main slogan of LIC is- "Yogakshemam-Vahamyaham" meaning "Your welfare is our responsibility". The chairman of Life Insurance of India is Mr M.R Kumar.

Functions

The major functions of LIC are as follows:-

- Collect people's savings in exchange for an insurance policy and promote savings in the country.
- Protect the capital of the people by investing funds into government securities.
- Issue insurance policies at affordable rates
- Provide various loans like direct loans to industries, housing loans, loans to various national projects at reasonable interest rates.

Objectives

- LIC aims to spread awareness about the importance of life insurance among people living in rural areas and people who are a part of socially and economically backward classes.
- It aims to meet several life insurance needs of the community people who are subjected to change with the changing social and economic environment.
- It aims to conduct business economically while taking into consideration that the money belongs to the policyholders.
- It aims to maximize the mobility of people's savings through attractive insurance-linked savings.
- It aims in providing utmost job satisfaction to all the agents and employees of the corporation and promotes building a co-operative work environment to deliver efficient service with courtesy to its insured public.
- It aims to deploy the funds to the best advantage of the investors and the community as well.

Q16. What are the Basic Policies of the Life Insurance Corporation of India?

Ans :

The basic policies in Life Insurance Corporation of India (LIC) are term insurance, cash value insurance, straight life insurance, and limited payment life insurance. The details of each of these policies are given below:

(i) Term insurance

This insurance is like an insurance protection contract, similar to auto insurance, home insurance, or health insurance.

Therefore, it ensures the individual against any risk of financial loss in case of death and does not include any savings plan. In this insurance policy, the owner buys a fixed amount of coverage and pays an annual premium based on their age.

The policy is for a fixed period of time and thus the coverage stops if it is not renewed. These policies are available for five years, ten years or fifteen years where the amount of premium to be paid remains constant.

The life insurance can also be purchased with a condition of 65 years of age, that is, the insured does not become 65 years of age and in this case, the amount of premium to be paid increases annually.

There is decreasing term life insurance also available wherein the coverage of the insurance decreases with time so that the annual premium to be paid remains constant. Term insurances provide maximum coverage to the premium spent.

(ii) Cash value insurance

In this kind of policy, the amount of actual insurance decreases over time and the savings component of the policy increases over time.

This type of insurance is funded by the premium payments done by the insured along with the earnings of the saving element in the policy.

These insurance policies are of two types: straight life policy and a limited payment policy that provides coverage to the insured throughout life.

(i) Straight life insurance

The insurance is throughout life. In this type of insurance, the amount of protection decreases as the savings amount increases, though the total coverage of the policy that includes the protection and savings elements remains the same.

The premium in these policies is higher than the term insurance which is based on the age of the individual when he or she buys insurance. The premium for this policy remains constant. The face value of insurance refers to the amount which is paid when the insured person dies.

(ii) Limited payment life insurance

In this type of policy the insured person pays the total amount of policy in a limited number of years, that is, usually 20 to 30 years or by the age of 65. After the completion of the term, the policy remains active for the whole life of the insured if he or she has not withdrawn the amount at any point in time.

The amount of premium to be paid every year in this policy is obviously higher than the straight life policy.

Short Questions and Answers

1. Commercial Bank.

Ans :

Commercial banks are the oldest, biggest and fastest growing financial intermediaries in India. They are also the most important depositories of public saving and the most important disbursers of finance.

Commercial banks are the simple business or commercial concerns which provide various types of financial services to customers in return for payments in one form or another such as interest, discounts, fees, commission, and so on.

2. Primary functions of a commercial bank

Ans :

(a) Accepting deposits; and

(b) Granting loans and advances

(a) Accepting Deposits

The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest.

Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

(b) Granting of Loans and Advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment.

3. Current Deposit

Ans :

It is also called 'demand deposit', current deposit can be withdrawn by the depositor at any time by cheques. Businessmen generally open current accounts with banks. Current accounts do not carry any interest as the amount deposited in these accounts is repayable on demand without any restriction.

The Reserve bank of India prohibits payment of interest on current accounts or on deposits upto 14 Days or less except where prior sanction has been obtained. Banks usually charge a small amount known as incidental charges on current deposit accounts depending on the number of transaction.

4. Fixed Deposit

Ans :

The term 'Fixed deposit' means deposit repayable after the expiry of a specified period. Since it is repayable only after a fixed period of time, which is to be determined at the time of opening of the account, it is also known as time deposit. Fixed deposits are most useful for a commercial bank. Since they are repayable only after a fixed period, the bank may invest these funds more profitably by lending at higher rates of interest and for relatively longer periods.

The rate of interest on fixed deposits depends upon the period of deposits. The longer the period, the higher is the rate of interest offered. The rate of interest to be allowed on fixed deposits is governed by rules laid down by the Reserve Bank of India.

5. General Utility Services

Ans :

General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include :

(a) Issuing letters of credit and travellers' cheques.

(b) Underwriting of shares, debentures, etc.

(c) Safe-keeping of valuables in safe deposit locker;

(d) Underwriting loans floated by government and public bodies.

(e) Supplying trade information and statistical data useful to customers.

(f) Acting as a referee regarding the financial status of customers.

(g) Undertaking foreign exchange business.

6. Agency Services

Ans :

Agency services are those services which are rendered by commercial banks as agents of their customers. They include :

(a) Collection and payment of cheques and bills on behalf of the customers.

(b) Collection of dividends, interest and rent, etc. on behalf of customers, if so instructed by them.

(c) Purchase and sale of shares and securities on behalf of customers.

(d) Payment of rent, interest, insurance premium, subscriptions etc. on behalf of customers, if so instructed.

(e) Acting as a trustee or executor.

7. Benefits of IFCI.

Ans :

(a) Infrastructure (telecom services, power generation) and the intermediate and capital goods industry (miscellaneous chemicals, synthetic plastics, synthetic fibres)

(b) Basic industry (cement basic chemicals, fertilizers, iron and steel)

(c) Service industry (hospitals, hotels)

(d) Agro-based industry (sugar, paper, textiles)

8. Functions of ICICI.

Ans :

ICICI performs the following functions:

i) It provides assistance through direct subscriptions/underwriting to debentures/shares and guarantees as well as by means of offering rupee and foreign currency loans.

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

iii) It guarantees loans from other private investment sources.

iv) It conducts techno-economic surveys for backward areas.

v) It provides credit facilities to indigenous manufacturers.

vi) It provides merchant banking services.

9. Functions of SFCs

Ans :

i) Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.

ii) Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.

iii) Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.

iv) Underwriting of the issue of stock, shares, bonds or debentures by industrial concerns.

v) Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.

10. Define Non-banking Financial Institutions.

Ans :

A Non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Examples of these include insurance firms, pawn shops, cashiers check issuers, check cashing locations, currency exchanges, and micro loan organizations. Alan Greenspan has identified the role of NBFIs in strengthening an economy, as they provide "multiple alternatives to transform an economy's savings into capital investment [which] act as backup facilities should the primary form of intermediation fail."

Choose the Correct Answers

1. To provide financial assistance to entrepreneurs the government has set up a number of ______. [d]
   (a) Financial advisors (b) Financial intermediaries
   (c) Industrial estates (d) Financial institutions

2. State Industrial corporations engage in the development of ______. [a]
   (a) Industrial estates (b) Institutional estates
   (c) Individual investors (d) Agricultural entrepreneurs

3. ______ is the first development bank of the country. [d]
   (a) ICICI (b) IDBI
   (c) SFC (d) IFCI

4. IFCI stands for______. [a]
   (a) Industrial finance corporation of India
   (b) Institutional finance corporation of India
   (c) Industrial funding corporation of India
   (d) Indian finance corporation and institution

5. IFCI has been converted into a ______. [a]
   (a) Joint-stock company (b) Co-operative society
   (c) partnership firm (d) Sole proprietorship

6. SIDBI was set up as a subsidiary of ______. [a]
   (a) IDBI (b) IFCI
   (c) ICICI (d) SFC

7. Which of the following is a function of SIDBI? [d]
   (a) Extension of seed capital
   (b) Discounting of bills
   (c) Providing factoring services
   (d) All of the above

8. SFC is prohibited from granting financial assistance to any company whose aggregate paid-up capital exceed ______. [a]
   (a) 1 crore (b) 1.5 crores
   (c) 2 crores (d) 2.5 crores

9. Large investment is made in fixed assets, the project will be termed as ______. [a]
   - (a) Capital Intensive
   - (b) Labour Intensive
   - (c) Product Intensive
   - (d) Market Intensive

10. ______ is a form of financing especially for funding high technology, high risk and perceived high reward projects. [d]
    - (a) Fixed capital
    - (b) Current capital
    - (c) Seed capital
    - (d) Venture capital

Fill in the Blanks

1. ______ are the oldest, biggest and fastest growing financial intermediaries in India.
2. The most important activity of a commercial bank is to mobilize ______ from the public.
3. An ______ is a credit facility provided by the bank to its customers.
4. ______ credit is an arrangement whereby the bank allows the borrower to draw amounts upto a specified limit.
5. ______ services are those services which are rendered by commercial banks as agents of their customers.
6. ______ utility services are those services which are rendered by commercial banks not only to the customers but also to the general public.
7. IFCI stands for ______.
8. The ICICI was set up in January ______.
9. SIDBI stands for ______.
10. NBFI stands for ______.

ANSWERS

1. Commercial banks
2. Deposits
3. Advance
4. Cash
5. Agency
6. General
7. Industrial Finance Corporation of India
8. 1955
9. Small Industries Development Bank of India.
10. Non-bank financial institution

One Mark Answers

1. Agency Services.

Ans :

(a) Collection and payment of cheques and bills on behalf of the customers.

(b) Collection of dividends, interest and rent, etc. on behalf of customers, if so instructed by them.

(c) Purchase and sale of shares and securities on behalf of customers.

2. General Utility Services.

Ans :

(i) Issuing letters of credit and travellers' cheques.

(ii) Underwriting of shares, debentures, etc.

(iii) Safe-keeping of valuables in safe deposit locker;

(iv) Underwriting loans floated by government and public bodies.

3. IFCI.

Ans :

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long -term credit to industrial concerns in India.

4. ICICI.

Ans :

The Industrial Credit and Investment Corporation of India were registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

5. NBFI.

Ans :

A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.

UNIT V	**Venture Capital Financing -** Concept of Venture Capital Financing – Features, Need and Relevance of Venture Capital – Structure and Regulatory framework for Venture Capital Funds – Growth of Venture Capital in India.

5.1 Concept of Venture Capital Financing

Q1. Explain the Concept of Venture Capital Financing.

Ans : **(Imp.)**

Introduction

(i) 'Venture Capital' is an important source of finance for those small and medium- sized firms, which have very few avenues for raising funds.

(ii) Although such a business firm may possess a huge potential for earning large profits in the future and establish itself into a larger enterprise. But the common investors are generally unwilling to invest their funds in them due to risk involved in these types of investments.

(iii) In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. In a way, venture capital is a commitment of capital, or shareholdings, for the formation and setting-up of small scale enterprises at the early stages of their lifecycle.

Concept

- The term venture capital comprises of two words, namely, 'venture' and 'capital'. The term venture literally means a course or proceeding, the outcome of which is uncertain but which is uncertain but which is attended by the risk of danger of 'loss'. On the other hand, the term capital refers to the resources to start the enterprise. However, the term venture capital can be understood in two ways.
- According to narrow sense, the capital which is available for financing the new business ventures is called venture capital. Generally, it involves lending finance to the growing companies.
- In the broad sense, venture capital is the investment of long-term equity finance where the venture capitalist earns his returns primarily in the form of capital gain. It is under the assumption that the entrepreneur and thee venture capital would act as partners. It is a commitment of capital for the formation and setting up of small scale enterprises specializing in new ideas or new technologies.
- Venture capital does not deal in financing the enterprise which is engaged intrading, broking, investment or financial services and agency or liaison work. It is generally considered as a high risk capital.
- Venture capital is not an injection of funds into new firm but also an input of the skills need to set up thee firm, design its marketing strategy, organize and then manage it.
- A venture capitalist (also known as a VC) is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments.

- A venture capital fund refers to a pooled investment vehicle (often an LP or LLC) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.
- Venture capital is also associated with job creation, the knowledge economy and used as a proxy measure of innovation within an economic sector or geography.
- The term Venture Capital fund is usually used to denote Mutual funds or Institutional investors. They provide equity finance or risk capital to little known, unregistered, highly risky, young and small private business, specially in technology oriented and knowledge intensive business.
- Venture Capital termed as long-term funds in equity or semi- equity from to finance hi-tech investment in novel technology based projects with display potential for significant growth and financial return."

5.1.1 Features

Q2. Explain the features of venture capital.

Ans :

Following are the features of venture capital:

1. **For New Entrant**

   Venture Capital investment is generally made in new enterprises that use new technology to produce new products, in expectation of high gains or sometimes, spectacular returns.

2. **Continuous Involvement**

   Venture capitalists continuously involve themselves with the client's investments, either by providing loans or managerial skills or any other support.

3. **Mode of Investment**

   Venture capital is basically an equity financing method, the investment being made in relatively new companies when it is too early to go to the capital market to raise funds. In addition, financing also takes the form of loan finance/ convertible debt to ensure a running yield on the portfolio of the venture capitalists.

4. **Long-term Capital**

   The basic objective of a venture capitalist is to make a capital gain on equity investment at the time of exit, and regular return on debt financing. It is a long-term investment in growth- oriented small/medium firms. It is a long-term capital that is an injected to enable the business to grow at a rapid pace, mostly from the start-up stage.

5. **Hands-On Approach**

   Venture capital institution take active part in providing value – added services such as providing business skills, etc., to investee firms. Thy do not interfere in the management of the firms nor do they acquire a majority / controlling interest in the investee firms. The rationale for the extension of hands- on management is that venture capital investments tend to be highly non- liquid.

6. **High risk- return Ventures**

   Venture capitalists finance high risk-return ventures. Some of the ventures yield very high return in order to compensate for the heavy risks related to the ventures. Venture capitalists usually make hug capital gains at the time of exit.

7. **Source of Finance**

   Venture capitalists usually finance small and medium- sized firms during the early stages of their development, until they are established and are able to raise finance from the conventional industrial finance market. Many of these firms are new, high technology-oriented companies.

8. **Liquidity**

   Liquidity of venture capital investment depends on the success or otherwise of the new venture or product. Accordingly, there will be higher liquidity where the new ventures are highly successful.

5.1.2 Need and Relevance of Venture Capital

Q3. Explain the need and importance for Venture Capital.

Ans : **(Imp.)**

Need

For start-ups or growing companies, as well as those facing a major change, financing is one of the key business issues. In order to ensure sufficient resources for the operations, the management must be able to satisfy the following financing needs:

- financing of product development
- financing of market penetration
- financing of investments
- working capital financing to secure operative continuity
- maintaining liquidity to be able to cover daily payments

During their start-up, growth and expansion stages, companies are often faced with inadequate cash inflow situations. They require time to turn their cumulative cash flow from negative to positive. A long product development stage and slow market penetration prolong the negative cash flow period. The company can have a negative cash flow for years, a situation that is typical in high-tech companies.

Rapid growth also places great demands on a company's financial arrangements. The existing capacity often becomes insufficient, making it imperative for the company to attract additional investments in business premises and production capacity. A greater contribution to marketing is needed and the need for working capital grows considerably.

To bridge the deficit in operative financing, the company has a choice of available measures:

- ensure that liquidity planning has been appropriate
- make the clients pay their invoices on time by offering, for example, discounts for rapid payments
- intensify the collection of sales receivables
- delay the payments to suppliers within their terms of payment
- maximize the sales margins
- cut indirect costs

In case these measures are not sufficient, the company has only two alternatives:

- acquire equity capital (through venture capital investors, for example), or
- borrow capital

Importance

The following are the importance of venture capital financing.

1. **Promotes Entrepreneurs**

   Just as a scientist brings out his laboratory findings to reality and makes it commercially successful, similarly, an entrepreneur converts his technical know-how to a commercially viable project with the assistance of venture capital institutions.

2. **Promotes products**

   New products with modern technology become commercially feasible mainly due to the financial assistance of venture capital institutions.

3. **Encourages customers**

   The financial institutions provide venture capital to their customers not as a mere financial assistance but more as a package deal which includes assistance in management, marketing, technical and others.

   Example: Hot mail dot com. It was a project invented by an young Indian graduate from Bangalore, by name Sabir Bhatia. This project was developed by him due to the financial assistance provided by the venture capital firms in Silicon Valley, U.S.A. His project was later on purchased by Microsoft company, U.S.A. The Chairman of the company, Mr. Bill Gates offered 400 Million US Dollars in hot cash.

4. Brings out latent talent

While funding entrepreneurs, the venture capital institutions give more thrust to potential talent of the borrower which helps in the growth of the borrowing concern.

5. Promotes exports

The Venture capital institution encourages export oriented units because of which there is more foreign exchange earnings of the country.

6. As Catalyst

A venture capital institution acts as more as a catalyst in improving the financial and managerial talents of the borrowing concern. The borrowing concerns will be more keen to become self dependent and will take necessary measures to repay the loan.

7. Creates more employment opportunities

By promoting entrepreneurship, venture capital institutions are encouraging self employment and this will motivate more educated unemployed to take up new ventures which have not been attempted so far.

8. Brings financial viability

Through their assistance, the venture capital institutions not only improve the borrowing concern but create a situation whereby they can raise their own capital through the capital market. In the process they strengthen the capital market also.

9. Helps technological growth

Modern technology will be put to use in the country when financial institutions encourage business ventures with new technology.

10. Helps sick companies

Many sick companies are able to turn around after getting proper nursing from the venture capital institutions.

11. Helps development of Backward areas: By promoting industries in backward areas, venture capital institutions are responsible for the development of the backward regions and human resources.

12. Helps growth of economy: By promoting new entrepreneurs and by reviving sick units, a fillip is given to the economic growth. There will be increase in the production of consumer goods which improves the standard of living of the people.

Q4. Explain different types of venture capital financing.

Ans : **(Imp.)**

Following are the different types of venture capital financing :

1. Seed Financing

During the developments stage of a venture's lifecycle, the primary source of funds is in the form of seed financing to determine whether the idea can be converted into a viable business opportunity.

The primary source of funds at the development stage is the entrepreneur's own assets. As a supplement to this limited source, most new ventures will also resort to financial bootstrapping, i.e., creative methods, including barter, to minimize the cash needed to fund the venture.

Money from personal bank accounts and proceeds from selling other investments are likely sources of seed financing. It is quite common for founders to sell personal assets (e.g., an automobile or a home) or secure a loan by pledging these assets as collateral.

Although it can be risky, entrepreneurs often use personal credit cards to help finance their business, Family members and friends also provide an important secondary source of seed financing; they may make loans to the entrepreneur or purchase an equity position in the business. (It is often said that family and friends invest in the entrepreneur rather than in a product or service).

Such financing is usually relatively inexpensive, at least compared with more formal venture investing. While there are a few professional and business angel investors that engage in seed-stage investing, they are not a typical source of financing at this stage.

2. Start-Up Financing

Start- up financing coincides with the start-up stage of the venture's lifecycle; this is financing that takes the venture from having established a viable business opportunity to the point of initial production and sales.

Start-up financing is usually targeted at firms that have assembled a solid management team, developed a business model and plan and are beginning to generate revenues.

Depending on the demands placed on the entrepreneur's personal capital during the seed stag, the entrepreneur's remaining assets, if any, may serve as a source of start-up financing, family and friends may continue to provide financing during start-up.

However, the start-up venture should begin to think about the advantages of approaching other, more formal, venture investors.

Although sales or revenues begin during the start-up stage, the use of financial capital is generally much larger than the inflow of cash.

Thus, most start-up stag ventures need external equity financing. This source of equity capital is referred to as venture capital, which is early stage financial capital often involving substantial risk total loss.

The flip side of this risk of total loss is the potential for extraordinarily high returns when an entrepreneurial venture is extremely successful. Venture capital investors will require the venture, if it has not yet done so, to organize formally in order to limit the risk assumed by venture investors to the amount invested.

Two primary sources of formal external venture capital for start-up stage ventures are:

(i) **Business Angels:** Business angles are wealthy individuals, operating as informal or private investors, who provide venture financing for small businesses.

    They may invest individually or in joint efforts with others. While business angels may be considered informal investors, they are not uniformed investors.

    Many business angels are self-made entrepreneur multi- millionaires, generally well educated, who have substantial business and financial experience. Business angels typically invest in technologies, products and services in which they have a personal interest and previous experience.

(ii) **Venture capitalists (VCs):** They are individuals who join in formal, organized venture capital firms to raise and distribute venture capital firms typically invest the capital they raise in several different ventures, in an effort to reduce the risk of total loss of their invested capital.

3. First Round Financing

The survival stage in a venture's lifecycle is critical to whether the venture will succeed and create value or be closed and liquidated. First round financing is external equity financing typically provided by venture investors during the venture's survival stage to cover the cash shortfalls when expenses and investments exceed revenues. While some revenues begin during the start-up stage, the race for market share generally results in a cash deficit, Financing is needed to cover the marketing expenditures and organizational investments required to bring the firm to full operation in the venture's commercial market.

Depending on the nature of the business, the need for first-round financing may actually occur near the end of the start-up stage.

Survival – stage ventures seek financing from a variety or external sources, For example, both suppliers and customers become important potential sources of financing.

(i) **Trade Credit:** Financing provided by suppliers in the form of delayed payments due on purchases made by the venture.

(ii) **Small Business Administration (SBA):** It was established by the federal government to provide financial assistance to small businesses.

(iii) **Government Assistance Programs:** Financial support, such as low- interest rate loans and tax incentives provided by State and Local Governments to help small businesses.

(iv) **Commercial Banks:** Financial intermediaries that take deposits and make business and personal loans.

4. Second Round Financing

The major sources of financing during the rapid growth stage come from business operations, suppliers and customers, commercial banks and financing intermediated by investment bankers. Most ventures upon reaching the rapid revenue growth stage, find that operating flows, while helpful, remain inadequate to finance the desired rate of growth stage, find that operating flows, while helpful, remain inadequate to finance the desired rate of growth. Rapid growth in revenues typically involves a prerequisite rapid growth in inventories and accounts receivable, which requires significant external funding. Because inventory expenses are usually paid to collecting on the sales related to those inventories, most firms commit sizable resources to investing in "working capital."

Q5. Explain advantages and disadvantages of venture capital financing.

Ans :

Advantages

The advantages of securing a venture capital are that:

1. Even in the situation when entrepreneur having a good project idea but no previous entrepreneurial track record to leverage the firm, handles customers and bankers, venture capital can help the entrepreneurs in successful launch of their projects.
2. Rapid growth of technology across the globe has led to the growth of technology in India but indigenous technology has been slack due to unwillingness of the people to take entrepreneurial risks.
3. Venture capital has gained importance as it solves the sickness of a company.
4. As the venture capitalists are ready to lend their expertise and standing to the entrepreneur, the local groups and multinational companies can easily enter into joint ventures.
5. Venture capitalists are also helpful to a large number of smaller units under which they are able to upgrade their technology to meet the demands of the major industrial units.
6. Venture capitalists are also playing a significant role in tapping the potentiality of service sector. Thus, venture capital is booming to exploit the potential of Indian economy.

Disadvantages

The disadvantages of venture capital are as follows:

1. Securing a deal with a VC can be a long and complex process.
2. Person will be required to draw up a detailed business plan, including financial projections for which the entrepreneur may need professional help. Support from his local business link may be available for this.
3. If he gets through the deal negotiation stage, he will have to pay legal and accounting fees whether or not he becomes successful in securing funds.
4. Since the venture capitalist is taking the risk, the management control may get out of the entrepreneur.
5. He will also be forced to partner the benefits, such as the profit he got from the business, with the venture capitalist.

5.2 Structure and Regulatory Framework for Venture Capital Funds

Q6. Describe the Regulatory Framework of Venture Capital.

Ans : **(Imp.)**

The venture capital funds and venture capital companies in India were regulated by the Guidelines issued by the Controller of Capital Issues, Government of India, in 1988. In 1995, Securities and Exchange Board of India Act was amended which empowered SEBI to register and regulate the Venture Capital Funds in India.

Subsequently, in December, 1996 SEBI issued its regulations in this regard. These regulation replaced the Government Guidelines issued earlier.

The SEBI guidelines, as amended in 2000, are as follows:

1. Definitions

A Venture Capital Fund has been defined to mean a fund established in the form of a trust or a company including a body corporate and registered with SEBI which –

(i) Has a dedicated pool of capital, raised in the specified manner, and

(ii) invests in venture capital undertakings in accordance with these regulations.

A Venture Capital Fund may be set up either as a trust or as a company. The purpose of raising funds should be to invest in Venture Capital Undertakings in the specified manner.

A Venture Capital Undertaking means a domestic company:

(i) Whose shares are not listed on a recognised stock exchange in India, and

(ii) Which is engaged in the business for providing services, production or manufacture of articles or things and does not include such activities or sectors which have been included in the negative list by the Board.

The negative list of activities includes real estate, non-banking financial services, gold financing, activities not permitted under Government's Industrial Policy and any other activity specified by the Board.

2. Registration of Venture Capital Funds

A venture capital fund may be set up either by a company or by a trust. SEBI is empowered to grant a certification of registration to the fund on an application made to it. The applicant company or trust must fulfil the following conditions:

(i) The memorandum of association of the company must specify, as its main objective, the carrying of the activity of a venture capital fund.

(ii) It is prohibited by its memorandum of association and Articles of Association from making an invitation to the public to subscribe to its securities.

(iii) Its director, or principal officer or employee is not involved in any litigation connected with the securities market.

(iv) Its director, principal officer or employee has not been at any time convicted of an offence involving moral turpitude or any economic offence.

(v) The applicant is a fit and proper person.

In case an application has been made by a Trust, the instrument of Trust must be in Venture Capital the form of a Deed and the same must have been duly registered under the Indian Registration Act, 1908. It must also comply with the above-mentioned conditions (ii) to (v).

On receipt of the Certificate of Registration, it shall be binding on the venture capital fund to abide by the provisions of SEBI Act and these Regulations. Venture Capital Fund shall not carry on any other activity than that of a Venture Capital Fund.

3. Resources for Venture Capital Fund

A Venture Capital Fund may raise moneys from any investor – India, foreign or non Resident Indian – by way of issue of units, povided the minimum amount accepted from an investor is Rs. 5 lakh.

This restriction does not apply to the employees, principal officer or directors of the venture capital fund, or non-Resident Indians or persons or institutions of Indian Origin. It is essential that the venture capital fund shall not issue any document or advertisement inviting offers from the public for subscription to its securities/units.

Moreover, each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors to contribute at least Rs. 5 crore before the start of its operations.

4. Investment Restrictions

While making investments, the venture capital fund shall be subject to the following conditions:

(a) A Venture Capital Fund shall disclose the investment strategy at the time of application for registration.

(b) A Venture Capital Fund shall not invest more than 25% of its corpus in one venture capital undertaking.

(c) It shall not invest in the associated companies.

(d) It shall make investment in the venture capital undertakings as follows:

(i) at least 75% of the investible funds shall be invested in unlisted equity shares or equity-linked instruments (i.e., instruments convertible into equity shares or share warrants, preference shares, debentures compulsorily convertible into equity),

(ii) not more than 25% of the investible funds may be invested by way of

- subscription to initial public offer of a venture capital undertaking whose shares are proposed to be listed, subject to a lock in period of one year.
- debt or debt instruments of a venture capital undertaking in which the venture capital fund has already made investment by way of equity.

5. Prohibition on Listing

The securities or units issued by a venture capital fund shall not be entitled to be listed on any recognised stock exchange till the expiry of 3 years from the date of issuance of such securities or units.

6. Private Placement of Securities/Units

A venture capital fund may receive moneys for investment in the venture capital undertakings only through private placement of its securities/units. For this purpose the venture capital fund/company shall issue a placement memorandum which shall contain details of the terms subject to which moneys are proposed to be raised.

Alternatively, it shall enter into contribution or subscription agreement with the investors, which shall specify the terms and conditions for raising money. The venture capital fund shall also file with SEBI a copy of the above memorandum/agreement together with a report on money actually collected from the investors.

7. **Winding up of Venture Capital Fund Scheme**

A Scheme of a Venture Capital Fund set up as a Trust shall be wound up, in any of the following circumstances, namely:

(i) when the period of the scheme, if any is over or

(ii) if the trustees are of the opinion that the winding up shall be in the interest of the investors, or

(iii) 75% of the investors in the scheme pass a resolution for the winding up, or

(iv) SEBI so directs in the interest of investors.

A Venture Capital Company shall be wound up in accordance with the provisions of the Companies Act.

8. **Powers of the Securities and Exchange Board of India**

SEBI has the following powers:

(a) to appoint inspecting/investigating officers to undertake inspection/ investigation of the books of accounts, records and documents of Venture Capital Fund.

(b) to suspend the certificate granted to a Venture Capital Fund if it contravenes any provisions of the SEBI Act or these guidelines or fails or defaults in submitting any information as required by SEBI or submits false/misleading information, etc.

(c) to cancel the certificate in the following cases:

(i) Venture capital fund is guilty of fraud or has been convicted of an offence involving moral turpitude.

(ii) Venture capital fund has been guilty of repeated defaults mentioned in (b) above.

(iii) Venture capital fund contravenes any of the provisions of the Act or the Regulations.

5.3 Growth of Venture Capital in India

Q7. Discuss the growth of venture capital in India.

Ans : **(Imp.)**

The pre-liberalization and post-liberalization are the two stages for the growth of industry in India. In 1991, the first liberalization process was started. In the early 1998, the requirement of venture capital was felt due continuous economic reforms. In the same year.

Technical Development and Information Corporation of India (TDICI) now known as Industrial Credit and Investment Corporation of India (ICICT) was set up along with Gujarat Venture Finance Limited (GVFL) which were promoted by financial institutions. The various sources of these funds are financial institutions, foreign institutional investors or person funds and high net worth individuals.

Thus, various efforts were made for raising funds from the public and fund new ventures. The venture capitalists cannot change the economic conditions till now.

There is various number of funds working in India which give financial assistance to start the business. Basically, all are not venture funds as there are many which only act as point of connection between the funds and start-up venture. They are known as the private equity. The private equity players had occupied the Venture capital market in India.

The Indian industry now can withstand the global competition by the help of venture capital which will provide financial assistance to various other entrepreneurs so that they can also enter the market.

The various organisations which act as the foundation of venture industry in India are as follows:

1. Risk Capital and Technology Finance Corporation Limited

The Risk Capital Technology Finance Corporation Ltd. (RCTFC) having authorized capital of 25 crore and a paid-up capital of 250 crore was started in January 1988 on the restructuring of the Risk Capital Foundation.

It was sponsored by IFCI in 1975 for meeting the risk capital requirements of the first generation entrepreneurs. It helps in giving risk capital and venture capital assistance and also provides conventional loans and interest-free conditional loans on a profit and risk sharing basis with the project promoters.

2. IDBI Venture Capital Fund

The Government of India formulated Research and Development Act 1986 which charged and collected tax of 5% on the payment done for import of technology. The fund is collected to give financial help to the industries which worked on an imported technology for increasing the domestic scope.

The venture capital fund was built by long-term fiscal policy of the Government with an initial capital of 10 crore for giving the equity capital for building plants. The scheme was started the later half of 1987 and according to this scheme, the equity fund was disbursed without interest and voting rights.

The minimum and maximum project help was in between Rs.5-2.5 crore. The contribution for venture below Rs.50 lac is 10% and for above 50 lac is 15%. It gives financial help to the ventures which are working in the fields like chemicals, computer software, electronics, biotechnology energy, food products and medical equipment's.

3. Technology Development and Information Company of India Limited (TDICI)

The Technology Development and Information Company of India Limited (TDICI) was made in July 1988 which was the first venture finance company of India. TDICI was promoted by ICICI and UTI according to the Companies Act, 1986.

It started its working from August 1988 after taking up the venture capital operations of ICICI. The initial authorized capital was 220 crore which was increased to 740-50 crore.

TDICI provided equity conditional loans, convertible loans and modern technology information service to the small and medium industries which are owned by technocrat entrepreneurs.

4. Indus Venture Capital Fund

Indus Venture Capital Fund with a capital of 2 crore is the private company formed by several Indian and foreign companies to provide venture capital funds to the firm present in India.

Indus Venture Management manages the investment of fund by a separate company. It provides) help to both equity capital and management support to the entrepreneurs. The International Finance. Company has recently invested $1.58 million for helping the establishment of privately managing venture capital funds.

5. Small Industrial Development Bank of India (SIDBI)

SIDBI had established a venture capital fund in July 1993 for helping small sector entrepreneurs. In future, the fund would improve according to the requirements.

6. Gujarat Venture Finance Limited

Gujarat Venture Finance Limited (GVFL) whose total size of the funds is 24 crore, was formed in July 1990 to give financial assistance to the venture. It was promoted by GIIC, IDBI, the World Bank, commercial banks, SFCS and private corporate bodies.

The maximum and minimum range of finance is between 2 and 2.5 crore. It helps by giving venture financial assistance in the form of equity and quasi-equity instruments and also provides management support to the entrepreneurs. The GVFL finance biotechnology, surgical instruments, conservation of energy and food processing industries.

7. Credit Capital Venture Fund

Credit Capital Venture Fund was set-up in April 1989 and was the first privately managed venture capital. The subscribed capital range from 76.5 crore to 10 crore by the help of public subscription.

8. Andhra Pradesh Industrial Development Corporation (APIDC)

APIDC Venture Capital Limited was formed on 29th August 1989 with contribution of APIDC which had an authorized capital of 2 million. The basic aim was to increase the technology-based ventures introduced by first generation technocrat entrepreneurs and venture which has the high rate of risk in the State of Andhra Pradesh.

9. 20th Century Venture Capital Fund

The 20th century venture capital fund was formed by the contribution of 20th Century Finance Ltd with capital of 20 crore. It helps the sick industries and first generation entrepreneurs.

10. State Bank, Canara Bank, and Grindlays Bank Venture Capital Funds

The SBI capital market (SBI cap) was made by the merchant banking subsidiary of SBI. It helps the new and unknown companies by investing in their equity share. The Canara Bank financial service was formed by the Canara Bank. Grindlays bank is providing the venture capital funds to the high risk projects.

Q8. What are the dimensions of venture capital?

Ans :

Venture capital in India is available in four forms:

1. Equity Participation

The venture capital finances up to 49% of the equity capital and the ownership remains with the entrepreneur.

2. Conventional Loan

Under this, a lower fixed rate of interest is charged to the unit till its commercial operation. After normal rate of interest is paid, loan is to be repaid as per the agreement.

3. Conditional Loan

A conditional loan is repayable in the form of royalty ranging between 2 and 15% after the venture is able to generate sales and no interest is paid on such loans.

4. Income Notes

The income note combines the features of conventional and conditional loans in a way that the entrepreneur has to pay both interest and royalty on sales at low rates.

Q9. Explain the guidelines of venture capital financing operating in India.

Ans :

The Government of India has issued the following guidelines for various venture capital operating in the country.

1. The financial institutions, Stat Bank of India, scheduled banks and foreign banks are eligible to establish venture capital companies or funds subject to the approval as may be required from the Reserve Bank of India.

2. The venture capital funds have a minimum size of Rs. 10 crore and a debt equity ratio of 1:1:5. If they desire to raise funds from the public, promoters will be required to contribute minimum of 40% of the capital.

3. The guidelines also provide for NRI investment up to 74% on a non-reportable basis.

4. The venture capital funds should be independent of the parent organization.

5. The venture capital funds will be managed by professionals and can be set-up as joint ventures even with non-institutional promoters.

6. The venture capital funds will not be allowed to undertake activities such as trading, broking and money market operations but they will be allowed to invest in leasing to the extent of 15% of the total funds deployed. The investment on revival of sick units will be treated as a part of venture capital activity.

7. A person holding a position of being a full time chairman, chief executive, or managing director of a company will not be allowed to hold the same position simultaneously in the venture capital fund/ company.

8. The venture capital assistance should be extended to the promoters who are new, and are professionally or technically qualified with inadequate resources.

Q10. Explain the process of venture capital financing.

Ans : **(Imp.)**

Obtaining capital for a project through this rout is very difficult. It involves many steps, which a prospective entrepreneur has to adopt when he approaches an investor. They are:

1. Making a Deal (Deal Origination)

A continuous flow of deals is essential for the venture capital business. Deals may originate in various ways. Referral system is an important source of deals. Deals may be referred to the VCs through their parent organizations, trade partners, industry associations, friends, etc. The venture capital industry in India has become quit proactive in its approach to generating the dal flow by encouraging individuals to come up with their business plans.

VCFs carry out initial screening of all projects on the basis of some broad criteria. For example the screening process may limit projects to areas in which the venture capitalist is familiar in terms of technology, or Product, or market scope. The size of investment, geographical location and stage of financing could also be used as the broad screening criteria.

2. Evaluation or Due Diligence

Once a proposal has passed through initial screening, it is subjected to a detailed evaluation or due diligence process. Most ventures are new and the entrepreneurs may lack operating experience.

Hence a sophisticated, formal evaluation is neither possible nor desirable. The Vcs thus rely on a subjective but comprehensive evaluation. VCFs evaluate the quality of the entrepreneur before appraising the characteristics of the product, market or technology. Most venture capitalists ask for a business plan to make an assessment of the possible risk and expected return on the venture.

3. Investment Valuation

The investment valuation process is aimed at ascertaining an acceptable price for the deal. The valuation process goes through the following steps.

(i) Projections on future revenue and profitability.

(ii) Expected market capitalization.

(iii) Deciding on the ownership stake based on the return expected on the proposed investment.

(iv) The pricing thus calculated is rationalized after taking into consideration various economic scenarios, demand and supply of capital, founders/ management team's track record, innovation/unique Selling Propositions (USPs), the product/ Service size of the potential market, etc.

4. Deal Structuring

Once the venture has been evaluated as viable, the venture capitalist and the investment company negotiate the terms of the deal, i.e., the amount, form and price of the investment. This process is termed as dal structuring.

The agreement also includes the protective covenants and earn-out arrangements. Covenants include the venture capitalists' right to control the invest company and to change its management if needed, buy back arrangements, acquisition, making Initial Public Offerings (IPOs), etc. Earn- out arrangements specify the entrepreneur's equity share and the objectives to be achieved.

Venture capitalists generally negotiate deals to ensure protection of their interests. They would like a deal to provide for a return commensurate with the risk, influence over the firm through board membership, minimizing taxes, assuring investment liquidity and the right to replace management in case of consistent poor managerial performance.

5. Post-Investment Activities and Exit

Once the deal has been structured and agreement finalized, the venture capitalist generally assumes the role of a partner and collaborator. He also involves in shaping of the direction of the venture.

This may be done via a formal representation on the board of director, or informal influence in improving the quality of marketing, finance and other managerial functions.

The degree of the venture capitalists involvement depends on his policy. It may not, however, be desirable for a venture capitalist to get involved in the day-to-day operation of the venture. If a financial or managerial crisis occurs, the venture capitalist may intervene and even install a new management team.

Venture capitalists typically aim at making medium- to long- term capital gains. They generally want to cash-out their gains in five to ten years after the initial investment. They play a positive role in directing the company towards particular exit routes. A venture capitalist can exit in four ways.

i) **Initial Public Offerings (IPOs):** When the company is making good profits and the market condition is conductive, the venture capitalists offer their shareholding to the public, the advantage of this exit rout is that the shares can be priced at premium in time with the market trend and will bring them good fortune.

However, there are some disadvantages like high cost of issue, lower demand, etc.

ii) **Acquisition by Another Company:** Another strategy is to sell their holdings to another company who are interested to expand their business in this line.

The advantage of this strategy is that they can negotiate the deal and results into transfer of controlling interest, the existing promoters may play defensive strategies for fear of loss of control.

Sometimes the negative reputation of the acquiring company may bring down the business of the acquired company also.

iii) **Repurchase of the Venture Capitalist's Share by the Investee Company:** If the promoters have enough cash at their disposal, thy can buy- back the shares from the venture capitalists so that they can retain their control over the company.

However, if the company is enjoying good reputation in the market, the venture capitalists may demand a hefty amount as compensation for their exit.

iv) **Purchase of VCs Share by a Third Party:** Venture capitalists can sell their holdings through private placements to one or more third parties.

Here also there is a chance of loss of control to the existing promoters, who may play some defensive strategies. However, compared to the public offer, this will be a cheaper route for exit.

Q11. Describe various methods of Venture Capital Financing.

(OR)

Explain methods of evaluation of projects by Venture Capital Financing.

Ans : **(Imp.)**

There are basically three methods adopted by venture capital institutions (VCI) while financing projects. These are:

1. Conventional venture capitalist evaluation method.
2. The First Chicago method.
3. The revenue multiplier method.

1. Conventional venture capitalist evaluation method.

In this method, VCIs give importance to two aspects, which are

- the time of starting the investment and
- the time of quitting the investment.

The institution will judge the borrowing concern in the following manner:

(i) Annual revenue of the borrowing concern over a period of 7 years and whether these revenues are on the upward trend.

(ii) The borrowing concerns' expected earnings (after deducting tax liability) at the initial stage and also at the time of quitting the borrowing concern will be taken into consideration.

(iii) Market evaluation of the borrowing concern on the basis of P/E ratio (P = price of the security and E= earnings of the security). The evaluation of this ratio is the lesser the ratio, better will be the condition of the borrowing company.

(iv) Finding out the net present value (NPV) of the borrowing concern, based on suitable discount factor.

(v) The borrowing concern must have net worth equivalent to the borrowing amount.

Example: If the value of enterprise is Rs. 10 crores, and the borrower wants Rs. 4 crores, then he must have a net worth of 40 percent of the total value.

The above method may not be practically feasible as most of the borrowing firms will not be in a position to provide regular stream of income and in the case of firms incurring losses, this method cannot be worked out.

2. The First Chicago Method

This method is different from the previous conventional method of evaluation, as it gives some discount to the starting point and the exit point. There is more consideration given for the earnings during the entire period. This scheme has the following aspects.

(i) Three alternative positions are taken which are

- Success
- Sideways survival
- failure.

A probability rating is given to the three positions.

(ii) Through the discounted cash flow, the discounted present value is assessed by giving a high discount rate to accommodate the risk factor.

(iii) The discounted value is multiplied by probability ratings which will provide expected present value.

(v) If the expected present value is Rs. 10 lakhs, and the fund required is Rs. 5 lakhs, then the borrowing concern must have a minimum net worth of 50%

3. Revenue Multiplier Method

In this method, the value of the borrowing concern is based on an estimated value. The estimated value is calculated on the basis of

(i) Present value of the borrowing concern

(ii) Annual revenue

(iii) Expected rate of growth of revenue per year

(iv) Expected holding period (number of years for the repayment)

(v) Profit margin after tax

(vi) Expected P/E ratio at the time of quitting the borrowing concern.

This method will be useful for such concerns which have started earning and where in the course of years their revenue will be increasing. But this system is based on more data which may not be available, especially in underdeveloped countries.

Q12. Explain in brief about first chicago method with its advantages and disadvantages.

Ans : **(Imp.)**

Meaning

(i) The First Chicago method of valuation is another approach that is commonly used by appraisers. Under this methodology, a small number of discrete scenarios are valued using a discount rate that reflects the cost of capital for the venture.

(ii) The objective is to select and weight the scenarios in a manner that provides unbiased estimates of expected cash flows and is of those cash flows.

(iii) The venture capital group of First Chicago Corporation developed the First Chicago method. Scherlis and Sahlman (1987) describe it as a methodology developed to address valuation biases inherent in the Venture Capital method.

(iv) Valuation using this methodology is made in the context of an outside individual investing in the venture as part of a well-diversified portfolio.

(v) Thus, the investor could be a public corporation investing on behalf of it stockholders, a venture capital fund investing on behalf of its limited partners, or even a business angel who is committing a small fraction of their wealth to the venture.

A typical First Chicago method approach:

1. Select a terminal year for the valuation.
2. Estimate the cash flows during the explicit value period based on a small number of discrete scenarios. Normally, the valuation is based on a "optimistic scenario" for the venture, a "most likely scenario" and a "pessimistic scenario".
3. Compute the continuing value of the venture by applying a multiplier to the financial projection.

   The multiplier for the optimistic scenario should reflect the expected capitalization for a company that has achieved the level of success reflected in the scenario. The multiplier for the most likely scenario may be different from the optimistic scenario.
4. Compute the expected cash flows of the venture by discounting the expected cash flows, including the expected continuing value at their opportunity cost of capital.
5. Based on the present value, compute the fraction of ownership the investor should require in exchange for contributed capital.

Advantages

Advantages of the First Chicago method include:

- Use of discrete scenarios is a simple and easy to apply method of determining both the risk and expected return of a venture.
- The intent is to value expected cash flows.
- The technique reduces the uncertainty associated with a single fair market value determination by allowing for several scenarios representing differing levels of success of the company.
- Because information about total risk is derived, the method provides a basis for valuing complex financial claims.

Disadvantages

Disadvantages of the First Chicago method include:

- Use of discrete scenarios discards information about the risk of the venture that could be useful, especially for valuing complex claims.
- No guidance is provided about how to determine the discount rate(s) to be used in the valuation.

Q13. Explain the various venture capital firms in India.

Ans : **(Imp.)**

Following are the various venture capital firms in India :

1. Accel Partners

Accel Partners is one of the oldest venture capital firms in India with more than three decades in the startup ecosystem. Headquartered in California, this VC firm has backed hundreds of companies and focuses primarily on internet technology companies.

The investment bracket at Accel Partners ranges from $500K to $50 Million depending on the nature of the company.

(i) **Domain of Investment:** Infrastructure, Mobile & Software, Internet and Consumer Services

(ii) **Startups Funded:** Myntra, BookMy Show, BabyOYE, Freshdesk, Flipkart etc.

2. Sequoia Capital

Sequoia Capital India is an affiliation of Sequoia Capital that is based in California. This VC firm specialises in startup funding at the early, seed and also in the growth stage with fixed investment structure for each of these stages.

(i) **Investment Domain:** Healthcare, Consumer Internet, Financial Sector and Technology

(ii) **Startups Funded:** JustDial, Zomato, Practo, Groupon etc.

3. Nexus Venture Partners

Nexus Venture Partners is another name in the list of top venture capital firms in India to look out for. They primarily invest in small businesses and startup in their early stages that standout in innovation and differentiability. Nexus Venture Partners can invest from $500,000 to $10 million.

(i) **Investment Domain:** Data Security, Mobile, Infrastructure, Bio Data Analytics, Agribusiness, Consumer and Business Services

(ii) **Startups Funded:** Craftsvilla, Snapdeal, Shopclues, etc.

4. Kalaari Capital

Kalaari Capital is a trusted venture capital firm in India founded in 2006. They primarily invest in technology-based startups and small businesses in their early and seed stage. Kalaari Capital not only provides an adequate fund to startups, but they also have a reliable advisory board to assist young entrepreneurs with effective business solutions.

(i) **Domain of Investment:** Internet, ECommerce, Curated Web

(ii) **Startups Funded:** Snapdeal, Scoop Whoop, Myntra, Urban Ladder, Instamojo etc.

5. Blume Ventures

Blume Ventures, established in 2011, is one of the top venture capital firms in India that is referred to as the 'Founder's VC'. With over a decade's experience in startup funding, here they also offer complete support and mentoring to such upcoming entrepreneurs.

Blume Ventures has funded over 60 different startups with potential ideas and helped them to establish themselves in the competitive market.

(i) **Investment Domain:** Mobile Applications, Internet & Software Sectors, Telecommunication Equipments, Research and Development

(ii) **Startups Funded:** Cashify, Healthify Me, TaxiForSure, Belong etc.

6. Chiratae Ventures

Chiratae Ventures (previously known as IDG Ventures India) is a name that resonates well with the venture capital space in India.

They have an experience of more than 15 years in startup funding with a portfolio of over 200 companies in various sectors like Mobile, Engineering, Media &Technolgy and Health-Tech to name a few. IDG Ventures investment bracket falls between $1 million to $10 million.

(i) **Investment Focus:** Mobile, Software Products, Engineering-Medical Devices, Technology-based Consumer Services

(ii) **Startups Funded:** FirstCry, Yatra, Lenskart, Myntra, Zivame etc.

7. Venture East

Venture East is investing from 1997 and is the longest-serving VC firm in India. The fund managers are looking after $325 million plus investments in companies in the IT sector and scientifically based startups.

Venture East has invested in more than 70 startups and the number is expected to only increase in the coming future.

(i) **Investment Focus:** Financial Services, Digital Healthcare, Consumer-driven & Retail, Pharma& Life Sciences

(ii) **Startups Funded:** eYANTRA, Portea, GoliVadaPao, etc.

8. Saif Partners

SAIF Partners has been investing since 2001 and is one of the most successful VC firms in India.

The fund managers manage 400 Crores USD worth of assets. With headquarters in China and India, SAIF invests in startups across their journey, from seed capital to high ticketed growth capital.

(i) **Sector Focus:** Financial Services, Digital Healthcare, Consumer Internet, Logistics, SaaS etc.

(ii) **Startups Funded:** Acko, Aye, BookMyShow, Chaayos, ClearTax, Meesho etc.

9. Matrix Partners

Matrix Partners is a US-based venture capital firm that invests in seed and early-stage startups. The firm has the philosophy of being “Founders First” i.e. not only they invest capital in high-growth potential companies but also helps them in important domains like hiring, strategic partnerships etc.

(i) **Sector Focus:** Entertainment and Media, Consumer Internet, SaaS, E-commerce etc.

(ii) **Startups Funded:** Limeroad, Housejoy, FIITJEE, Ola, mSwipe etc.

10 3one4 Capital

3one4 Capital is a promising venture capital firm started by the son-duo of the renowned investor Mohandas Pai. With more than 50 investments, 3one4 not only invests capital in new-age technologically driven companies but also helps founders in their key business problems.

(i) **Sector Focus:** Media & Content, Health, Education, Fintech, Consumer Internet etc.

(ii) **Startups Funded:** Faircent, Licious, i2e1, Tripoto, YourStory etc.

Q14. Explain the Exit mechanism in Venture Capital.

(OR)

Describe the various exit strategies of Venture Capital.

Ans : **(Imp.)**

Following are the various exit strategies of Venture Capital :

The venture capital company/fund after financing a venture capital undertaking nurtures it to make it a successful proposition, but it does not intent to retain its investment therein forever. As the venture capital undertaking starts its commercial operations and reaches the profit-earning stage, the venture capitalist endeavours to disinvest its investments in the company at the earliest.

The primary aim of the venture capitalist happens to realize appreciation in the value of the shares held by him and thereafter to finance another venture capital undertaking. This is called the exit route. There are several alternatives before venture capitalist to exit from an investee company, as stated below:

(i) Initial Public Offering

When the shares of the investee company are listed on the stock exchange(s) and are quoted at a premium, the venture capitalist offers his holdings for public sale through public issue.

(ii) Buy back of Shares by the Promoters

In terms of the agreement entered into with the investee company, promoters of the company are given the first opportunity to buy back the shares held by the venture capitalist, at the prevailing market price. In case they refuse to do so, other alternatives are resorted to by the venture capitalist.

(iii) Sale of Enterprise to another Company

Venture capitalist can recover his investments in the investee company by selling the holdings to outsider who is interested in buying the entire enterprise from the entrepreneur.

(iv) Sale to New Venture Capitalist

A venture capitalist can sell his equity holdings in the enterprise to a new venture capital company, who might be interested in buying the ownership portion of the venture capital. Such sale may be distress sale by the venture capitalist to realise the investments and exit from the enterprise. Alternatively, such sale may be for inducting a willing venture capitalist who wishes to take the existing liability in the company to provide second round of funding.

(v) Self-liquidating Process

In case of debt financing by the venture capitalist, the process is self-liquidating in nature, as the principal amount, along with interest is realised in instalments over a specified period of time.

(vi) Liquidation of the Investee Company

If the investee company does not become profitable and successful and incurs losses, the venture capitalist resorts to recover his investment by negotiation or settlement with the entrepreneur. Failing which the recovery is resorted to by means of winding up of the enterprise through the court.

Short Questions and Answers

1. Venture Capital Financing.

Ans :

Introduction

(i) 'Venture Capital' is an important source of finance for those small and medium- sized firms, which have very few avenues for raising funds.

(ii) Although such a business firm may possess a huge potential for earning large profits in the future and establish itself into a larger enterprise. But the common investors are generally unwilling to invest their funds in them due to risk involved in these types of investments.

(iii) In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. In a way, venture capital is a commitment of capital, or shareholdings, for the formation and setting-up of small scale enterprises at the early stages of their lifecycle.

Concept

- The term venture capital comprises of two words, namely, 'venture' and 'capital'. The term venture literally means a course or proceeding, the outcome of which is uncertain but which is uncertain but which is attended by the risk of danger of 'loss'. On the other hand, the term capital refers to the resources to start the enterprise. However, the term venture capital can be understood in two ways.

- According to narrow sense, the capital which is available for financing the new business ventures is called venture capital. Generally, it involves lending finance to the growing companies.

2. Features of venture capital.

Ans :

(i) For New Entrant

Venture Capital investment is generally made in new enterprises that use new technology to produce new products, in expectation of high gains or sometimes, spectacular returns.

(ii) Continuous Involvement

Venture capitalists continuously involve themselves with the client's investments, either by providing loans or managerial skills or any other support.

(ii) Mode of Investment

Venture capital is basically an equity financing method, the investment being made in relatively new companies when it is too early to go to the capital market to raise funds. In addition, financing also takes the form of loan finance/ convertible debt to ensure a running yield on the portfolio of the venture capitalists.

(iv) Long-term Capital

The basic objective of a venture capitalist is to make a capital gain on equity investment at the time of exit, and regular return on debt financing. It is a long-term investment in growth- oriented small/medium firms. It is a long-term capital that is an injected to enable the business to grow at a rapid pace, mostly from the start-up stage.

3. The importance of venture capital financing.

Ans :

(i) Promotes Entrepreneurs

Just as a scientist brings out his laboratory findings to reality and makes it commercially successful, similarly, an entrepreneur converts his technical know-how to a commercially viable project with the assistance of venture capital institutions.

(ii) Promotes products

New products with modern technology become commercially feasible mainly due to the financial assistance of venture capital institutions.

(iii) Encourages customers

The financial institutions provide venture capital to their customers not as a mere financial assistance but more as a package deal which includes assistance in management, marketing, technical and others.

4. Start-Up Financing.

Ans :

Start- up financing coincides with the start-up stage of the venture's lifecycle; this is financing that takes the venture from having established a viable business opportunity to the point of initial production and sales.

Start-up financing is usually targeted at firms that have assembled a solid management team, developed a business model and plan and are beginning to generate revenues.

Depending on the demands placed on the entrepreneur's personal capital during the seed stag, the entrepreneur's remaining assets, if any, may serve as a source of start-up financing, family and friends may continue to provide financing during start-up.

5. Advantages of VCF.

Ans :

1. Even in the situation when entrepreneur having a good project idea but no previous entrepreneurial track record to leverage the firm, handles customers and bankers, venture capital can help the entrepreneurs in successful launch of their projects.
2. Rapid growth of technology across the globe has led to the growth of technology in India but indigenous technology has been slack due to unwillingness of the people to take entrepreneurial risks.
3. Venture capital has gained importance as it solves the sickness of a company.
4. As the venture capitalists are ready to lend their expertise and standing to the entrepreneur, the local groups and multinational companies can easily enter into joint ventures.

6. Disadvantages of venture capital.

Ans :

1. Securing a deal with a VC can be a long and complex process.
2. Person will be required to draw up a detailed business plan, including financial projections for which the entrepreneur may need professional help. Support from his local business link may be available for this.
3. If he gets through the deal negotiation stage, he will have to pay legal and accounting fees whether or not he becomes successful in securing funds.
4. Since the venture capitalist is taking the risk, the management control may get out of the entrepreneur.

7. Dimensions of venture capital.

Ans :

(i) Equity Participation

The venture capital finances up to 49% of the equity capital and the ownership remains with the entrepreneur.

(ii) Conventional Loan

Under this, a lower fixed rate of interest is charged to the unit till its commercial operation. After normal rate of interest is paid, loan is to be repaid as per the agreement.

(iii) Conditional Loan

A conditional loan is repayable in the form of royalty ranging between 2 and 15% after the venture is able to generate sales and no interest is paid on such loans.

(iv) Income Notes

The income note combines the features of conventional and conditional loans in a way that the entrepreneur has to pay both interest and royalty on sales at low rates.

8. Initial Public Offerings.

Ans :

When the company is making good profits and the market condition is conductive, the venture capitalists offer their shareholding to the public, the advantage of this exit rout is that the shares can be priced at premium in time with the market trend and will bring them good fortune.

However, there are some disadvantages like high cost of issue, lower demand, etc.

9. First Chicago Method.

Ans :

This method is different from the previous conventional method of evaluation, as it gives some discount to the starting point and the exit point. There is more consideration given for the earnings during the entire period. This scheme has the following aspects.

(i) Three alternative positions are taken which are

- Success
- Sideways survival
- failure.

A probability rating is given to the three positions.

(ii) Through the discounted cash flow, the discounted present value is assessed by giving a high discount rate to accommodate the risk factor.

(iii) The discounted value is multiplied by probability ratings which will provide expected present value.

(v) If the expected present value is Rs. 10 lakhs, and the fund required is Rs. 5 lakhs, then the borrowing concern must have a minimum net worth of 50%

10. Revenue Multiplier Method.

Ans :

In this method, the value of the borrowing concern is based on an estimated value. The estimated value is calculated on the basis of

(i) Present value of the borrowing concern

(ii) Annual revenue

(iii) Expected rate of growth of revenue per year

(iv) Expected holding period (number of years for the repayment)

(v) Profit margin after tax

(vi) Expected P/E ratio at the time of quitting the borrowing concern.

Choose the Correct Answers

1. A ________ is a specialized firm that finances young, start-up companies. [a]

   (a) Venture capital firm (b) Finance company

   (c) small-business finance company (d) capital-creation company

2. Venture capital firms are usually organized as ________. [b]

   (a) Closed-end mutual funds (b) Limited partnerships

   (c) Corporations (d) Nonprofit businesses

3. Which of the following is not a characteristic feature of venture capital firms [a]

   (a) Funding just one or a small number of firms

   (b) Holding equity in the firms that are funded

   (c) Having a long-term investment horizon

   (d) Providing advice and assistance to the firms that are funded

4. Which of the following is a characteristic feature of venture capital firms? [a]

   (a) Developing a portfolio of companies

   (b) Holding debt in the firms that are funded

   (c) Allowing firms to use the funds as they see fit

   (d) Having a short-term investment horizon

5. The largest industry group receiving venture capital funding is ________. [d]

   (a) Computer software (b) Medical / health

   (c) Computer hardware (d) None of the above

6. The source of venture capital funding has ________. [a]

   (a) Shifted from wealthy individuals to pension funds and corporations

   (b) Shifted from pension funds and corporations to wealthy individuals

   (c) Decreased since 1990

   (d) None of the above

7. A typical venture capital firm has a ________ number of investors who each contribute a ________ amount of money to the fund. [b]

   (a) Large; Small (b) Small; Large

   (c) Large; Large (d) Small; Small

8. Venture capital besides providing finance also provides. [d]

   (a) Technical (b) Marketing

   (c) Planning and managing (d) All

9. Buyouts is one of the step of ________. [b]

   (a) Early stage (b) Later stage

   (c) Seed capital (d) Turnarounds

10. There are ________ evaluation processes [d]

   (a) Six (b) Four

   (c) Two (d) Three

Fill in the Blanks

1. The capital which is available for financing the new business ventures is called ________.
2. The term Venture Capital fund is usually used to denote ________ or Institutional investors.
3. The Venture capital institution encourages ________ oriented units because of which there is more foreign exchange earnings of the country.
4. ________ financing is usually targeted at firms that have assembled a solid management team, developed a business model and plan and are beginning to generate revenues.
5. ________ angles are wealthy individuals, operating as informal or private investors, who provide venture financing for small businesses.
6. TDICI stands for ________.
7. TDICI was promoted by ________ and ________ according to the Companies Act, 1986.
8. RCTC was set up in the year ________
9. Grindlays bank acts as ________ for "India Investment Fund Limited floated in 1987".
10. Stages of financing are divided into ________ and ________ stage.

ANSWERS

1. Venture capital
2. Mutual funds
3. Export
4. Start-up
5. Business
6. Technical Development and Information Corporation of India
7. ICICI, UTI
8. 1988
9. Advisory body
10. Early and later

One Mark Answers

1. Venture Capital.

Ans ;

A venture capital company is defined as "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise."

2. Need for Venture Capital.

Ans ;

- financing of product development
- financing of market penetration
- financing of investments
- working capital financing to secure operative continuity
- maintaining liquidity to be able to cover daily payments

3. First chicago method.

Ans :

The First Chicago method of valuation is another approach that is commonly used by appraisers. Under this methodology, a small number of discrete scenarios are valued using a discount rate that reflects the cost of capital for the venture.

4. Venture Capital Firms in India.

Ans ;

(i) Accel Partners

(ii) Sequoia Capital

(iii) Nexus Venture Partners

5. TDICI.

Ans ;

TDICI's first venture capital fund of Rs. 20 crores was subscribed equally by ICICI and UTI under the new Venture Capital Unit Scheme I of UTI.

FACULTY OF MANAGEMENT

BBA V - Semester (CBCS) Examination

Model Paper - I

ENTREPRENEURSHIP DEVELOPMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

ANSWERS

Note : Answer any five of the following questions.

1.	Entrepreneur	**(Unit-I, SQA-1)**
2.	Innovative Entrepreneur	**(Unit-I, SQA-3)**
3.	Define motivation.	**(Unit-II, SQA-2)**
4.	Entrepreneurial competency	**(Unit-II, SQA-6)**
5.	Define Small Scale Industries.	**(Unit-III, SQA-1)**
6.	Primary functions of a commercial bank	**(Unit-IV, SQA-2)**
7.	Current Deposit	**(Unit-IV, SQA-3)**
8.	Disadvantages of venture capital.	**(Unit-V, SQA-6)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer all the questions using the internal choice.

9. (a) Explain in brief the Evolution of concept of Entrepreneurship in India. **(Unit-I, Q.No. 3)**

OR

(b) Explain the Role of Entrepreneurship in Economic Development of India. **(Unit-I, Q.No. 8)**

10. (a) What do you understand by entrepreneurial competency. **(Unit-II, Q.No. 10)**

OR

(b) Explain the factors affecting entrepreneurial growth in India. **(Unit-II, Q.No. 1)**

11. (a) Explain the scope of small and micro industries. **(Unit-III, Q.No. 4)**

OR

(b) Explain the importance of MSME. **(Unit-III, Q.No. 8)**

12. (a) Explin vrious dimensions of SIDBI. **(Unit-IV, Q.No. 10)**

OR

(b) How do SFCs contribute to the development of small enterprises in the country. **(Unit-IV, Q.No. 9)**

13. (a) Explain the Concept of Venture Capital Financing. **(Unit-V, Q.No. 1)**

OR

(b) Discuss the growth of venture capital in India. **(Unit-V, Q.No. 7)**

FACULTY OF MANAGEMENT

BBA V - Semester (CBCS) Examination

Model Paper - II

ENTREPRENEURSHIP DEVELOPMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

ANSWERS

Note : Answer any five of the following questions.

1.	Entrepreneurship	**(Unit-I, SQA-2)**
2.	Distinguish between entrepreneur and intrapreneur.	**(Unit-I, SQA-6)**
3.	Assumptions of Maslow's Theory	**(Unit-II, SQA-5)**
4.	Define motivation.	**(Unit-II, SQA-2)**
5.	Importance of MSME.	**(Unit-III, SQA-6)**
6.	Agency Services	**(Unit-IV, SQA-6)**
7.	Functions of SFCs	**(Unit-IV, SQA-9)**
8.	Venture Capital Financing.	**(Unit-V, SQA-1)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer all the questions using the internal choice.

9. (a) Enumerate the Characteristics of Entrepreneur. **(Unit-I, Q.No. 4)**

OR

(b) Explain the need for Rural Entrepre-neurship. **(Unit-I, Q.No. 10)**

10. (a) Explain the concept and objectives of EDP's. **(Unit-II, Q.No. 12)**

OR

(b) Explain the different phases involved in EDPs. **(Unit-II, Q.No. 15)**

11. (a) Explain the problems of small scale industires. **(Unit-III, Q.No. 5)**

OR

(b) Define Small Scale Industries. State the characteristics of Small Scale Industry. **(Unit-III, Q.No. 1)**

12. (a) Explain the Functions of Commercial Banks. **(Unit-IV, Q.No. 2)**

OR

(b) Define Non-banking Financial Institutions (NBFI). State its types. **(Unit-IV, Q.No. 12)**

13. (a) Explain the need and importance for Venture Capital. **(Unit-V, Q.No. 3)**

OR

(b) Explain methods of evaluation of projects by Venture Capital Financing. **(Unit-V, Q.No. 11)**

FACULTY OF MANAGEMENT

BBA V - Semester (CBCS) Examination

Model Paper - III

ENTREPRENEURSHIP DEVELOPMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer Type]

ANSWERS

Note : Answer any five of the following questions.

1.	Characteristics of Rural Entrepreneurship.	**(Unit-I, SQA-9)**
2.	Drone Entrepreneur	**(Unit-I, SQA-5)**
3.	EDP's.	**(Unit-II, SQA-7)**
4.	Nature of motivation	**(Unit-II, SQA-3)**
5.	Scope of small and micro industries.	**(Unit-III, SQA-8)**
6.	Fixed Deposit	**(Unit-IV, SQA-4)**
7.	Define Non-banking Financial Institutions.	**(Unit-IV, SQA-10)**
8.	Dimensions of venture capital.	**(Unit-V, SQA-7)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer Type]

Note : Answer all the questions using the internal choice.

9. (a) Explain in brief classification of Entrepreneurs. **(Unit-I, Q.No. 5)**

OR

(b) Explain the Problems and Perspectives of Rural Entrepreneurship. **(Unit-I, Q.No. 12)**

10. (a) Define motivation. Explain its nature and types. **(Unit-II, Q.No. 4, 5)**

OR

(b) Discuss the course, contents and curriculum of EDPs. **(Unit-II, Q.No. 14)**

11. (a) Write the role of MSMEs in economic development in India. **(Unit-III, Q.No. 9)**

OR

(b) Explain the scope and objectives of SST. **(Unit-III, Q.No. 4, 3)**

12. (a) Explain various functions of ICICI. **(Unit-IV, Q.No. 7)**

OR

(b) Define LIC. State the functions and objectives of LIC. **(Unit-IV, Q.No. 15)**

13. (a) Describe the Regulatory Framework of Venture Capital. **(Unit-V, Q.No. 6)**

OR

(b) Describe the various exit strategies of Venture Capital. **(Unit-V, Q.No. 14)**