

# INSTITUTIONS SUPPORTING ENTREPRENEUR

MODULE 3

## Small industries Financing in developing countries.

Small scale industries are usually owned by an entrepreneur alone or a small group of entrepreneurs and hence financing is a matter of concern. Thus they usually adopt the various measures to overcome the insufficiency of funds.

- ❖ Rent a building
- ❖ Purchase of second hand machinery
- ❖ Keep inventory level low
- ❖ Seek cash sales
- ❖ Hire a machinery
- ❖ Substitute equipment



# Need of small industry financial

- ▶ Cash flow challenges
- ▶ Capital investments
- ▶ Lengthy product development cycles



## Sources of finance

- ▶ Amount of funds depends upon business.
- ▶ Manufacture requires more funds
- ▶ Period of funds depends upon business as well. Capital investments need more longer period as compared to working capital.

# Sources and period of fina

Type of finance	Period of finance
Short term	Less than a year
Medium term	One to five years
Long term	More than five years

## Short term sources ...

Short term needs for day-to-day full business is obtained from

- ▶ Indigenous Banks
- ▶ Installment credit
- ▶ Advances
- ▶ Accrued expenses and deferred
- ▶ Accounts payable/creditors
- ▶ Trade credit
- ▶ Bills discounting
- ▶ Factoring

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▶ Commercial banks



## Medium term sources

- ▶ Special financial institutions
- ▶ Commercial banks
- ▶ Public deposits
- ▶ Investment companies
- ▶ Hire purchase
- ▶ Lease financing
- ▶ Internal sources
- ▶ Loans from government

## Long term sources

- ▶ Equity shares
- ▶ Preference shares
- ▶ Debentures
- ▶ Retained earnings
- ▶ Loans from fin institutions
- ▶ Commercial banks
- ▶ Venture capital
- ▶ Institutional financing

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# Institutions supporting Entre

## CENTRAL LEVEL

- ▶ - SISI
- ▶ - SIDO
- ▶ - NABARD
- ▶ - IIE

## STATE LEVEL

- ▶ - DIC
- ▶ - TCO
- ▶ - SFS
- ▶ - KVIC

## FINANCIAL INSTITUTIONS

- ▶ Commercial banks
- ▶ SIDBI
- ▶ IDBI
- ▶ SIDCO

# NABARD

- ▶ A Development bank providing and re other facilities for agriculture, SSIs, c industries, handicrafts and other activities rural development.
- ▶ Functions of NABARD:
- ▶ Refinancing IRDP projects
- ▶ Refinancing projects for development of in rural areas
- ▶ Provides grants to agencies engage production centre for women
- ▶ Establishes linkages between SHGs and cr
- ▶ Refinances projects under National water program and National mission of watershed



- ▶ Monitores and does evaluation implemented by various banks
- ▶ Vikas volunteer vahini program – org club in tribal areas which is involved tribals on asset utilisation, technology
- ▶ External aid projects –formulation and implementation of external aided projects bank, OPEC etc. including monitoring
- ▶ Inspection and supervision of co-op banks
- ▶ HRD – provides training to staff of credit its centres like BIRD and RTC
- ▶ Support to develop PACs as MSCs
- ▶ Project on core banking solutions in co



# Small Industries Development

- ▶ SIDO is a sub-ordinate office of Ministry of Industries & ARI.
- ▶ It is an apex body and nodal organ for formulating, coordinating and implementing policies & programs for promotion and development of SSI.
- ▶ Development commissioner is the head of SIDO.

## Main functions of SIDO

- Co-ordination
- Industrial development
- Extension
- ❑ The SIDO functions through 2 Small Industries Service Institute Extension Centres, 3 Product-Process Development Centre Production Centres.



## SMALL SCALE INDUSTRIES BOARD

- ▶ It is also known as Central Small Industries Board.
- ▶ It is an apex advisory body constituted to render advice to the Govt on all matters pertaining to development of small scale industries.
- ▶ The SSIB comprises of 50 members including representatives from State Industry Ministry, some members from Parliament, Secretaries of various Ministries, Govt of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.



# Functions of SISIs:

- ▶ Economic Consultancy/Information/ED
- ▶ Trade & market information.
- ▶ Project profiles.
- ▶ State industrial potential survey.
- ▶ District industrial potential surveys.
- ▶ Modernisation and in-plant studies.
- ▶ Workshop facilities.
- ▶ Training in various trade/activities.

# The National Institute For Entrepreneurship and Small Business Development

- ▶ NIESBUD was established in 1983 by the Ministry of Industry, Government of India.
- ▶ The activities of the institute include:
  - ▶ 1. Evolving effective training strategies and methodology
  - ▶ 2. Standardizing model for training various groups
  - ▶ 3. Formulating scientific selection process
  - ▶ 4. Developing training aids manual
  - ▶ 5. Facilitating and supporting edp for central unit



# Activities of NIESBUD:

- ▶ Assisting/supporting EDPs
- ▶ Training for trainers/promoters
  - Evolving standardized material and research
  - Creation and capacity building of EDP Institutions
  - Small business focus
  - National /international forum for exchange
  - Developing entrepreneurial culture
  - National entrepreneurship development board
  - Services to affiliate members
  - Sustaining entrepreneurship.



- Schemes for medical profession
- schemes for tourism related activities
- Schemes for hotel and restaurant projects
  - ▶ Schemes for infrastructure development
  - ▶ Equity type assistance schemes
  - ▶ Scheme for women entrepreneur
  - ▶ Special scheme for assistance to Ex-Service
  - ▶ Scheme for specialized marketing agencies
  - ▶ Schemes for ancillary sub-contracting units
  - ▶ Schemes for development of industrial areas

# INDIAN INSTITUTE OF ENTREPRENEURSHIP (IIE)

- ▶ Set up by the ministry of industry in Gawhati in 1993 to provide training and consultancy in SME sector
- ▶ Objectives:
  - to promote and develop entrepreneurs
  - to conduct research and provide consultancy for entrepreneurs
  - to coordinate and collaborate with other institutions in providing consultancy
  - to promote consultancy and monitoring service to MSMEs
  - to promote greater use of IT in activities of IIE
  - to comply with statutory requirements



# Functions of IIE

- ▶ Designing and organising training activities for different target groups and undertaking projects relevant to entrepreneurship
- ▶ Improving efficiency, effectiveness and impact of change agents and development projects
- ▶ Provide consultancy service to prospective and existing entrepreneurs
- ▶ Increasing the outreach of the institute through collaboration and effectiveness through



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# Financial institutions

# Small Industries Development Bank India (SIDBI)

SIDBI was established in April 2 1990 as a subsidiary of IDBI for:

- ▶ Promotion, Financing, Development of small scale sector.
- ▶ Co- coordinating the functions of other banks in similar activities.
- ▶ Aims at empowering MSME in economic growth, employment generation and balanced development.

# Objectives of SIDBI

Main purpose was to ensure support in terms of

- ▶ Initiating steps for technological upgradation and modernisation units
- ▶ Expanding channels for marketing products
- ▶ Promotion of employment in semi-urban areas to check migration to urban areas



# Functions of SIDBI

Provides assistance to SSI through existing banking and institutions like state fin corps, state industrial development commercial banks, co-operatives, RRBs.

Functions:

Refinances loans given by existing fin institutions to SSIs

Discounts and rediscounts bills arising out of sale and purchase of machinery by SSIs

Extends seed capital/soft loan assistance under National Mahila Udyam Nidhi, Mahila Vikas Nidhi and seed capital

Direct assistance and refinances loans to SSIs for export

Provides leasing, factoring services to SSI units

Extends financial support to state small industries corporations providing scarce RM and marketing of products of SSIs

Extends financial support to National small industries corporations providing leasing, hire purchase and marketing help to

## SIDBI schemes . . .

Scheme of Refinance Assistance

1. Schemes for setting up SSI units

2. composite loan scheme

3. scheme for SC/ST and physically handicapped

4. schemes for acquisition of:

- In house quality control facilities
- Diesel generating sets and pollution control
- computers
- For import substitution
- For manufacturing and installation of energy

5. Equipment refinance scheme

6. Scheme for small road transport operation

7. Scheme for professionals

8. Scheme for Marketing activities



# Small Industries Development Corporations (SIDCO)

- ▶ State owned companies in different states of India for the promotion of small scale industries like
- ▶ Kerala small industries development corporation Ltd
- ▶ Small industries development corporation Jammu and Kashmir
- ▶ Tamilnadu small industries development corporation limited (TANSIDCO)



# Industrial development bank

Objectives Of IDBI was to promote the growth of industries in India, established in July 1964.

## FUNCTIONS OF IDBI:

Direct financial assistance to industrial concerns in the form of subscribing/underwriting stocks bonds and debentures

Indirect financial assistance to SMEs through other financial institutions like state ind dev corps, coop banks RRBs, commercial banks. Also refinance, buying shares/bonds or rediscounting of bills.

Development assistance in the form of development assistance to industries who have high investment or low expected return. Govt and assistance requires approval of govt

Promotional function like market research, techno-economic and administrative advice for better management.

# Industrial Finance corporation

- ▶ IFCI was the first developmental finance corporation set up in

## FUNCTIONS:

- ▶ In order to provide long term credit to medium and large indus
- ▶ Provides loans in rupee and foreign currencies
- ▶ subscribes to stocks, debentures, underwrites them
- ▶ Provides loans only to public limited companies/cooperatives
- ▶ Merchant banking, syndication of loans rehabilitation program

## ACTIVITIES:

- ▶ Self-loan assistance- soft loans to small and medium enterprises house R&D
- ▶ Entrepreneur development- provides financial support to Entr conducted by other agencies
- ▶ Industrial development in backward areas by concessional fin
- ▶ Subsidised consultancy for promoting ancillary industries, doir control etc
- ▶ Management development – sponsored management deve development banking centre to develop managerial manpo commercial banks and industrial concerns.



# National small industries corp Ltd

NSIC,an ISO 9001:2000 certified comp establishment in 1995 has been working mission of promoting ,aiding and foster growth of small scale industries and in small scale services business enterprise country.



Various support and services offered by

- ▶ Managing globalization
- ▶ A few focused sectors
- ▶ Up gradation of these identified sectors

Product design

Application of new technologies

Quality control

Packaging

Marketing

Links to global markets



Common programs with the stakeholders identified sectors. The components of these are:

- Identification of new markets
  1. Buyer seller meets
  2. Quality assurance and rating
  3. Offering integrated support through:
  4. Technology up gradation
  5. Marketing support
  6. Financial support
  7. International partnership





- ▶ Focus on specific sectors:
- ▶ Agro and food processing
- ▶ Auto components
- ▶ Bio technology
- ▶ Glass and ceramics dimensional stone
- ▶ Information technology communication
- ▶ Knit wear and garments
- ▶ Leather and leather products
- ▶ Light engineering
- ▶ Low cost building material
- ▶ Pharmaceutical and chemicals



## DISTRICT INDUSTRIES CENTRE

- ▶ Govt of Karnataka established DIC in the old Mysore princely state to drive industrialization.
- ▶ The organisational structure of DIC consists of a General Manager, 4 Functional Managers and Project Managers to provide technical assistance in the area relevant to needs of districts.
- ▶ Management of the DIC's is done by the State Govts.

## Functions of DIC:

- To conduct industrial potential service keeping in view resources in terms of material & human skill, infrastructure, product, etc. to prepare techno-economic surveys & then to provide investment advice to Entrepreneurs.
- To prepare an action plan to effectively implement the plan.
- To guide entrepreneurs in matters relating to selection of appropriate machinery and equipment, sources of funds, procedure for procuring imported machinery, if needed, requirements for raw materials, etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To assist the entrepreneurs in marketing their products, possibilities of ancillarisation & export promotion of their products.
- To undertake product development work appropriate to the needs of entrepreneurs.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administrative programs.



# Single Window

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# New Industrial Policy, 1991

- ▶ July 24, 1991 P V Narasimha Rao introduced NIP,
- ▶ Main objectives were:
  - ▶ - Liberalisation of industry
  - ▶ - Introduce globalization
  - ▶ - Enhance privatization



# Salient features of NIP

- ▶ Abolition of industrial licensing
- ▶ Diminishing role of public sector
- ▶ Incentives and concession for foreign investment
- ▶ Drastic amendments to MRTP
- ▶ Removal of compulsory convertibility clause

# Implications of NIP

- ▶ Growth of new economy companies
- ▶ Economy bailed out
- ▶ New breed of entrepreneurs
- ▶ FDI and new technologies
- ▶ Greater competitive strength
- ▶ Healthy competition
- ▶ Sustained economic growth





# Limitations of NIP

- ▶ Industrial policy resolution 1956 was terminated
- ▶ Indian industries faced threat from multinational companies
- ▶ Scope for frauds/scams due to less regulation
- ▶ MNCs could rule the market with their technology and money power
- ▶ May lead to social and economic inequality
- ▶ MNCs could exploit small scale industries at their advantage.



▶ **THANK YOU**