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BANK FUNDING, LEASE FINANCING AND INSTITUTIONAL SUPPORT AND INCENTIVES TO ENTREPRENEURS

BANK FUNDING

Bank finance can be obtained from commercial banks, regional rural banks and from co-operative banks.

COMMERCIAL BANKS

The scheduled commercial banks in the country comprise the State Bank of India and its associated banks, Nationalised Banks, Private Sector Banks, Regional Rural Banks and Foreign Banks. For a long period, commercial banks did not come forward to extend financial assistance to the new entrepreneurs. The first lead in this regard was taken by the State Bank of India in consultation with the Reserve Bank of India in March 1956 by setting up a pilot scheme for the provision of credit to new ventures. The commercial banks started taking initiation in financing small scale industries in a greater way only after the bank nationalization in July 1969.

The commercial banks play an important role as suppliers of short term or working capital to new industrial units. Commercial Banks extend two types of short term assistance to industry namely, granting loans, advances, cash credit etc., and discounting bills and other commercial papers. The most popular of these has been the assistance provided by commercial banks can be converted into medium term finance through renewal and extension from time to time. Commercial banks also undertake the business of underwriting of capital issues. They also contribute indirectly to industrial finance by contributing substantially to the funds of State Financial Corporations and the State Industrial Development Corporations. Commercial banks normally do not lend long term finance.

Lending by commercial banks to industry is governed by guidelines issued by the Reserve Bank of India. The important guidelines are :

(i) adequate credit support should be extended to meet the genuine essential requirements of production.

(ii) An undue involvement in term lending should be avoided so that resources can be conserved for meeting the demand for short-term credit.

(iii) The newly established as well as existing units are eligible to get loans to meet their working capital requirements.

(iv) There must be periodical review of credit limits to verify the viability of borrowing units and to assess the need based character of their limits.

REGIONAL RURAL BANKS

Regional Rural Banks (RRBs) provide institutional credit to farmers and artisans in rural areas. Initially five regional rural banks were set up on October 2, 1975, two in Uttar Pradesh and one each in Rajasthan, Madhya Pradesh and West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India and the Punjab National Bank, United Commercial Bank and United Bank of India respectively. Each regional rural bank has an authorised capital of ₹ 1 crore and issued and paid up capital of ₹ 25 lakhs. The share capital of RRB is subscribed by the Central Government (50 per cent), the State Government concerned (15 per cent) and the sponsoring Commercial Bank (35 per cent)

The area of RRB is limited to a specified region comprising one or more districts of a state. The sponsoring banks and the Reserve Bank of India provide many subsidies and concessions to RRBs to enable them to function effectively. NABARD has the responsibility to lay down policies for RRBs, to supervise their operations and provide refinance facilities. NABARD undertakes all work relating to the establishment of RRBs, administration of refinance scheme, formulation of policies and monitor their performance about RRBs.

RRBs have an important role to play in the rural economy as they are supposed to act as alternative agencies to provide institutional credit to rural areas. In course of time, they are intended to eliminate money lenders altogether. Since their inception, RRBs have been active participants in programmes designed to provide credit assistance to identified beneficiaries under the new 20 point programme, Integrated Rural Development Programme and other special programmes for scheduled castes and tribes.

Different aspects considered for lending by RRB :

(i) RRBs had followed instructions given by the RBI regarding loan policies and procedures.

(ii) The basic aim of setting up RRBs via., developing the rural economy by providing credit for the development of agriculture, trade, commerce and industry and other productive activities in rural areas was being fulfilled and

(iii) The recovery position of the borrower.

CO-OPERATIVE BANKS

Co-operative Banks combine the advantages of private ownership and public good. Co-operation is considered as an instrument of economic development especially in the rural areas. The merits of co-operation are their non exploitative character, voluntary nature of membership, the principle of one man one vote, decentralised decision making and voluntary curbs on profits. Co-operative banks provide loans to agriculturists and rural artisans at low rates of interest and protect them from the clutches of money lenders. The organisation of co-operative societies in India has a three-tier structure with primary co-operative societies at the village level, Central co-operative societies at the district level and State co-operative banks or apex banks at the state level.

FACTORS DETERMINING BANK FINANCE

There are a number factors which are considered by banks before sanctioning loans and advances. Some of leading factors are mentioned below :

Ownership type

Entrepreneurs choose ownership structures in large part to ensure adequate financing. Hence ownership structures in the firms can influence the ability to gain access to bank finance. For example, a sole proprietorship business is a high risk for lenders as the repayment of the loan depends on one person responsibility. In contrast, other ownership types such as partnerships, listed companies, etc. have their repayment risks spread in several owners/perpetual existence.

Firm age

As firms sources of finance change over time, firm age can be stated as another important determinant of access to bank finance. For instance, a firm may start as a family-owned business and use internal financing sources, such as personal savings and family finance. Subsequently, it might grow to obtain funds from its suppliers. When it has a well established legal identity, business track record and accounting systems, it may be able to obtain loans from banks. Being in the business for many years suggests that the firm is competitive in general and more transparent so that the information required by the lenders to evaluate and process applications is readily available. Moreover, new firms are not likely to meet the collateral requirements of the banks since they have not accumulated sufficient assets. Insufficient assets combined with the absence of information on financial records makes it difficult for lenders to assess lending proposals submitted by new firms.

Industry sector

Industry sector can be identified as a possible factor in the provision of bank loans to SMEs. A possible reason might be that lending banks may favour industry sectors that are growing. Likewise, some industry sectors have a much lower demand for loans than others, simply because they do not need loans. For example, the industries in the manufacturing sector require relatively large investments in assets such as land, factory building, plant and machinery, vehicles, while most of the service organisations and retail sector organisations need fewer investments in fixed assets. A further reason why industry sector plays a role in lending is due to tangible assets across industry sectors. Some industry sectors such as manufacturing have a greater concentration of tangible assets, but some other sectors such as computer services are primarily composed of intangible assets.

Location of the firm

The location of the firm is another factor in accessing bank finance. Banks located closer to borrowing firms enjoyed significantly lower transportation and monitoring costs, hence their credit access is more. Due to this, firms in rural areas may end up paying high interest on bank loans or may have to adhere to restricted covenants such as collateral and other conditions. Additionally, the bank branch managers assigned in rural bank branches may have limited delegation of authority as their credit granting limit is lower than banks in urban areas. As a result, there may be high amount of loan rejections or delays in approving loans requested by rural firms, as the applications are processed, approved or turned down by officials in the head office, who have no personal knowledge of customers or projects based in rural locations. Finally, property value and marketability differ substantially between rural and urban locations. Consequently, banks may be reluctant to lend to firms located in rural areas, as the assets offered as collateral by these firms may have less market value, and might be difficult to realise in case of default.

Availability audited financial statements

Imperfect information of the borrowers is a great limitation for banks to grant loans. Banks often require audited financial statements before granting credit to mitigate this issue Audited financial statements improve borrower's credibility and therefore reduce risk for lenders. In India only some firms are legally bound to comply with the auditing norms, therefore only such firms are eligible to get quick availability of finance from banks.

Asset tangibility

Usually, banks require a tangible fixed asset as security (collateral) for the loan and banks typically lend to a firm based on the value of fixed assets offered as security. However, small firms have fewer collateral assets than large firms. This may partly relate to the stage of growth of the firm. In the earlier stages of the firm, it may have lower retained profits which may hinder it from purchasing fixed assets. Another reason for small firms to have a smaller proportion of fixed assets is the capital constraints they face. Because of the need to raise large amounts of capital, it is difficult for them to acquire a large number of fixed assets. The above reasoning implies that firms with tangible assets have relatively easier access to bank finance and lower costs of financing.

Sales growth

The growth rate of sales can be considered as another factor affecting access to bank finance because growth over a period of time is likely to give a better indication of financing needs than sales of a single year. In general, firms with increasing sales and sales turnover ratios are expected to have less credit constraints.

Experience of owner-managers

Entrepreneur experience is also viewed as an asset with regard to resource allocation decisions, including accessing financing facilities from banks. Lenders emphasize the importance of experience of the owner/manager at the time of lending assessment and they may look favorably to loan applicants with more experience in the business compared to an inexperienced applicant who carries a great risk to the bank.

KEY FINANCIAL INDICATORS FOR GETTING FINANCE

The number and exact type of financial indicators used to assess the creditworthiness of the firm differs from one bank to another, but a representative set of indicators includes :

(a) level and structure indicators : turnover, working capital requirements, equity, return of the year (profit or loss), net cash, liquidity, solvency;

(b) indicators of profitability and return;

(c) Indicators of risk.

1. LEVEL AND STRUCTURE INDICATORS

Turnover represents the total sales of a company, both from production activities and selling activities. This indicator allows us to assess the results of the business activity in a very exact way, and it is only composed of elements that take the form of cash flows.

Working Capital Requirement (WCR) can be defined as "that capital that the company should own in order to finance stock and time lag between paying suppliers and other operating liabilities and collection of accounts receivable". The working capital characterizes the balance/unbalance condition of a financial company at a particular moment.

$$WC = \text{permanent capital} - \text{fixed assets}$$

Or

$$WC = \text{Current Assets} - \text{Current Liabilities}$$

If an effective financial management is performed, the permanent resources must ensure the full funding of the ongoing activity needs, and the surplus represents the positive working capital "In some cases in additional working capital the net working requirement is used for finding the finance requirement.

$$WCR = (\text{Inventories} + \text{Receivables}) - \text{short term operating liabilities}$$

Evolution of working capital requirement is influenced by several factors such as :

(a) type of activity,

(b) duration of operating cycle,

(c) the production costs,

(d) operating liabilities.

Equity

Represents all the sources of funding of the company. In the context of credit granting decisions the net equity is the most important, which is determined by subtracting the stock value, the expenditures and other uncertain assets from the total equity.

Profit or loss of the year expresses the performance of the activity of the company. The first condition imposed by the bank to its customers is to have accounting profit.

Net cash (NC) is an indicator of the short-term financial balance. Its level can be determined as the difference between ;

$NC = \text{cash} - \text{current financial liabilities};$

$NC = \text{cash assets} - \text{cash liabilities};$

$NC = \text{working capital} - \text{working capital requirements}$

A positive level indicates a good financial management of the company, while a negative level may indicate the existence of short-term financial unbalance; permanent resources are insufficient to cover working capital needs.

Liquidity

Characterizes the ability of accompany to meet its payment obligations on a short-term by using liquid funds at its disposal. Liquidity is expressed by several rates :

Current ratio = Current Assets / Current Liabilities

Current ratio expresses the capacity of current assets to cover current liabilities of the company :

In practice, the level of this rate should vary between 1.9 to 2.

Immediate liquidity (Quick Ratio) characterizes the capacity of high and average liquidity assets to meet current liabilities of the entity :

Quick Ratio = Quick Assets / Current Liabilities

This rate is an important test for measuring the company's ability to meet short term obligations, its level should vary between .9 to 1.

Effective liquidity (absolute liquidity ratio) reflects the ability of companies to repay outstanding debt from its own available cash

Absolute Liquidity Ratio = (Cash+ Marketable Securities)/ Current labiates

SOLVENCY

Solvency indicators show the relation of debts to equity, or financial "leverage". They are important in measuring the financial risk of a business.

Debt to Equity Ratio

is a common indicator used for all types of businesses. The ratio indicates the capacity of a business to repay or "cover" its debt obligations from its equity. For businesses whose activity has a higher risk, the relation of debt to equity should be lower. It is always necessary that the debt be lower than the equity and to recognize that in case of liquidation of a business, the re-sale value of the assets is almost always low.

In general it is better to have a low ratio. Never-the-less it is necessary to recognize that even though debt (credit) increases the level of risk, it also increases the profit and the return to equity when the business generates a profit.

Debt to Equity Ratio = Total Debt / Equity

Debt and Equity to Asset Ratio

Indicates the same relationship as the debt to equity ratio but is expressed in another form, which is preferred by some persons. As the ratio increases, the financial risk decreases.

Debt and equity to Asset Ratio = Debt and Equity / Assets

2. INDICATORS OF PROFITABILITY OR RETURN

Profitability indicators measure the capacity of the business to generate profit. They measure the general effectiveness and sustainability of the operations.

1. Return on Investment (ROI)

Indicates the profitability and effectiveness of the business or activity as measured in comparison to the investment or total assets of the business. It is often important to know the **Return on Equity** (ROE), which uses a similar calculation but substitutes Equity for Investment in the formula. For microenterprise programs, Return on Investment is preferred since activities with very limited owner equity can experience wide variations in the indicators.

Return on Investment = Net Income (or profit) / Total Assets

2. Profit Margin

Profit Margin is used to show the margin of net income or profit generated on sales over a specific period of time. In case of production activities, it is the net income in relation to the net sales income from the production. For retail or wholesale activities, the profit margin can also be seen as the "mark-up" charge above actual costs.

Profit Margin = Net Income (or profit) / Net Sales

3. Profitability

Indicates the capacity of the business to generate profit in relation to costs. It is a simplified concept of the return to a project without taking into account the present value of the income and expense flows. It also does not take into account the differences in risk between business activities nor the velocity or rotation on investment, but it is very easy to use and calculate and suffices for most small projects.

Profitability = 1- Total Income / Total Costs

3. INDICATORS OF RISK

The indicators to measure risk are needed in order to know what effects that changes in price and production would have on a project.

Breakeven Point (Fixed Expenses)

It is the level of periodic sales that a business must have in order to "breakeven" or at least cover all costs. It estimated the minimum level of production needed to cover the fixed costs. In order to calculate the breakeven it is necessary to know the fixed costs (fixed personnel costs, rent, etc.) and/or know the variable costs (materials, direct production expenses, etc.)

Breakeven Point : Fixed Expenses / (Sales Price / Unit – Variable Expenses / Unit)

Fixed Asset to Loan Ratio

The relationship of the fixed assets of the business or group to the loan size indicates the security of loan recovery in case of default. It is recommended that the value of the fixed assets to be purchased with the loan be included in the analysis.

Fixed Asset to Loan Ratio : Fixed Assets / Loan

LEASE FINANCING

In addition to debt and equity financing, leasing has emerged as a third important source of intermediate and long term financing of cooperate enterprises during the recent few decades. It is widely used in western countries to finance investments. Prior to 1950, leasing was primarily concerned with real estate that is land and buildings. But today almost all type of fixed assets can be leased. In India leasing is a recent development and equipment leasing was introduced by first leasing company of India limited in 1973 only. Since then, a number of medium to large sized company, financial institutions like ICICI, IRCI, SICOM and GIC have also entered the field of leasing.

MEANING

Leasing is an arrangement that provides a firm with the use and control over assists without buying and owning the same. It is a form of rending assists. Lease is a contract between the owner of assets [lesser] and the user of the assets called the lessee, whereby the lesser is the right use the assets to the lessee over and agreed period of time for a consideration called the lease rental. The lease contract is regulated by the terms and condition of the agreement. The lessee pays the lease rent periodically to the lesser as regular fixed payments over a period of time. The rentals may be payable at the beginning or end of a month, quarter, half-year or year ,the lease rentals can also be agreed both in terms of amount and timing as per the profits and cash flow position of the lessee. At the expiry of the lease period, the assists reverts back to the lesser who is the legal owner of the asset. However, in long term lease contracts, the lessee is generally given an option to buy or renew the lease.

In the words of Miller, M.H and CW.UPTRON. "Leasing separates ownership and use as two economic activities, and facilitates asset use without ownership". Thus,

(A) Lease financing is a device of financing/money lending. It is a tool of financing the cost of an asset. It is an agreement in which particular equipment needed by the lessee is purchased by the lesser (financier) from a manufacturer selected by the lessee. The lessee can make use of the asset on payment of the fixed rentals over a period of time determined in advance.

(B) Leasing is process by which the firm can obtain the use of certain fixed asset for which it must make a number of contractual, periodic, tax-deductible payment.

(C) Leasing is an alternative to purchase of an asset in order to acquire the services of that asset. By leasing the asset by lessee essentially acquires its use value from the lesser, who actually purchases and owns the asset

ESSENTIAL ELEMENTS OF LEASING

1. Number of parties to contact

There are always two parties to a contract of lease financing :

(a) The owner or the lesser

(b) The user of the lessee.

2. Asset

The subject matter of a lease financing contract may be an asset, property equipment Example plant and machinery, land and building etc.

3. Consideration

The right to use an asset is given to a lessee for a consideration called the lease rental. Lease rent is determine by the lesser making into consideration the capital invested in the asset, depreciation, interest on capital, repairs etc.

4. Lease period

A contract of leasing is usually undertaken for a fixed period (number of years). It may sometimes spread over the entire economic/useful life of the asset. At the expiry of the lease period, the asset reverts back to the lesser who is the legal owner of the asset.

5. Use versus ownership

During the term of lease, ownership of the asset remains with lesser whereas the position of the asset lies in the lessee. He is allowed to use the asset during the tenure of this agreement.

6. Termination of contract

The lease contract comes to an end after the expiry of lease period. After termination :

1. The contract may be renewed from another definite period
2. The lessee may by the asset;
3. The asset reverts to the lesser who can further lease to the third party.

FEATURES OF A LEASE CONTRACT/AGREEMENT

1. The lesser agrees to purchase an asset for leasing to the lessee who in turn agrees to take the asset on lease.

2. The lessee is given possession of the leased asset subject to the condition of the payment of lease rent and compliance with other terms and conditions.

3. The lessee agrees to insure and maintain the asset during the tenure of the lease.

4. The title to the asset remains with lesser.

5. The lessee agrees as not to make any changes or effect improvements or dispose equipments or do anything which may jeopardize the lessons interest in equipment.

6. As the user of the equipment, the lessee indemnifies the lesser against any claims made by third parties arising out of the less or's rights of action in the event of a default by the lessee during the lease period.

7. At the end of the lease period, the agreement provides either :
- for the renewal of the asset
- return of the asset to the lesser
- sale of the asset to lessee by the lesser.

TYPES OF LEASING

There are two basics kinds of leases :

1. Operating or service lease
2. Financial lease.

OPERATING OR SERVICE LEASE

An operating lease is usually characterized by the following features :

- It is a short-term lease on a period to period basics. The lease period in such a contract is less than the useful life of asset.
- The lease is usually cancellable at short-notice by the lessee.
- As the period of an operating lease is less than the useful life of the asset, it does not necessarily amortize the original cost of the asset. The lesser has to make further leases or sell the asset to recover his cost of investments and expected rate of return.
- The lessee usually has the option of renewing the lease after the expiry of lease period.
- The lesser is generally responsible for maintenance, insurance and taxes of the asset. He may also provide other service to the lessee.

- As it is a short-term cancellable lease, it implies higher risk to the lesser but higher lease rentals to the lessee.

Operating or service leasing is common to be equipments which require expert technical staff for maintenance and are exposed to technological developments. *Example* computer, vehicles, data processing equipments, communication systems, etc.

Operating lessons usually limit their activities to specialized field and engage themselves in the purchase of large number of similar types of machines or equipment. They are able to offer attractive terms to their consumers because of the economics of scale enjoyed by them in the form of purchase, discounts, saving in maintenance costs.

FINANCIAL LEASE

A lease is classified as financial lease if it ensures the lesser for amortization of the entire cost of investments plus the expected return on capital outlay during the term of the lease. Such a lease is usually is for a long period and non-cancellable. As a source of funds, the financial lease is an alternative similar to debt-financing. Most of the leases in India are financial leases that are commonly used for leasing land, building, machinery and fixed equipments etc.

A financial lease is characterized by the following features :

1. The present value of the total lease rentals payable during the period of the lease exceeds or is equal to substantially the whole of the fair value of the leased asset. It implies that within the lease period, the lessor recovers his investment in the asset along with the acceptable rate of return.

2. As compared to operating lease, financial lease is for a longer period of time.

3. It is usually non-cancellable by the lessee prior to its expiration date.

4. The lessee is generally responsible for the maintenance, insurance and service of the asset. However, the terms of lease arrangement, in some cases, may require the lessor to maintain and service the asset. Such an arrangement is called 'maintenance or gross lease'. But usually in an operating lease, it is the lessee who has to pay for maintenance and service cost and such a lease is known as 'net lease'.

5. A financial lease usually provides the lessee an option of renewing the lease of further period at a nominal rent.

FORMS OF FINANCIAL LEASE

The following are the important forms of financial lease arrangement :

1. Sale and leaseback

A sale and leaseback arrangement involves the sale of an asset already own by a firm (vendor) and leasing of the same asset back to the vendor from the buyer. This form of lease arrangement enables a firm to receive cash from the sale of asset and also retain the economic use of the asset in consideration of periodic lease payment. A sale and leaseback arrangement generally preferred by the firms facing shortage of working capital funds. The lessors engaged in sale and leaseback include insurance companies, leasing companies, pension funds, private finance companies and financial institutions.

2. Direct leasing

In contrast with sale and leaseback, under direct leasing a firm acquires the use of an asset that it does not already own. A direct lease may be arrangement either from the manufacturer supplier directly or through the leasing company. In the first case, the manufacturer/supplier himself act as the lessor while in the second case lessee firm arranges the purchases of the assent for the leasing company (lessor) from the manufacturer or the supplier also enters into an agreement with the lessor for the lease of the asset.

3. Leveraged lease

A leveraged lease is an arrangement under which the lessor borrows funds, for purchasing the asset, from a third party called lender which is usually a bank or a finance company. The loan is usually secured by the mortgage of the asset and the lease rentals to be received from the lessee. The loan is paid backout of the lease rentals, may be directly by the lessee by paying only the excess amounts to lessor. The lessor acts as the owner as well as the borrower and the lender is usually a bank, insurance company, financial institution or a private financing company.

4. Straight lease and modified lease

Straight lease require the lessee firm to pay lease rentals over the expected service life of the asset and does not provide for any modification to the terms and condition of the basic lease.

Modified lease, on the other hand, provides several option to lessee during the lease period. For example, the option of terminating the lease may be provided by either purchasing the asset or returning the same.

6. **Primary and secondary lease (Front-ended and back-ended lease)**

Under primary and secondary lease, the lease rentals are charged in such a manner that the lesser recovers the cost of the asset and acceptable profit during the initial period of the lease and then a secondary lease is provided at nominal rentals. In simpler words, the rentals charged in the primary period are much more than that of the secondary period. This form of lease arrangement is also known as Front-ended and back-ended lease.

OTHER TYPES OF LEASES

1. **Floating rental rate lease contacts**

Frequent changes in the interest rates in the last few years has led to this types of lease contract. Under this type of lease, lease rentals are reduced or increased according to the borrowing rates by the lessor. This type of lease contracts permit the lessee to understand the risk and enjoy the benefits of interest rate variation.

2. **Domestic lease and international lease**

When the lessor, lessee and the equipment supplier involved in the lease are resident in the same country, the lease transaction is said to be domestic lease.

When the parties to the lease contracts are residing in different countries it is known as international lease. It is of two types :

(a) ***Import Lease*** : In this type of lease, both the lessor and lessee are residing in the same country but the equipment supplier belongs to different country. The lessor first imports the equipment and leases it to the lessee.

(b) ***Cross Border Lease*** : When a lessor-lease and equipment to the lessee who is not falling in the jurisdiction of the lessor's country when the lease is known as cross border lease, the domicile of the supplier is immaterial.

3. **Sale-Aid Leasing**

Under this type of leasing a manufacture directly extends facility of leasing either by one of his own subsidiaries or through a third party. The leasing enables the manufacturer to have direct liaison in the customer ensure regal updating or replacement of equipments and improves sales position. The lessee is also at great advantage because the asset on a monthly payment bases spread out for a very long period. He gets the asset installed and operational without incurring capital expenditure.

4. **Foreign to foreign lease**

Under this type of leasing three parties are involved :

1. The manufacturer (who is in one country)

2. Lessor (who is in another country) and

3. The lessee who is the beneficial user in the third country.

For example, China is the manufacturing country and it exports machinery to India based leasing company which further leases it to Australian based firm.

REVOLUTION OF INDIAN LEASING INDUSTRY

In India, leasing is a recent development and equipment was introduced by first leasing company of India limited in 1973 only. Till 1980, this company remain the only company in the country which provided equipment leasing services. Then, 20th century finance cooperation was set up. By 1981, Shetty investment and finance, motor and general finance, Sundaram finance, and Jayabharat credit and investments etc. joined the leasing finance. Some of these companies started leasing as a tax break as these were already involved in the higher purchase commercial vehicles.

The leasing industry, in India, entered the third stage in the growth phase in 1982 when several financial institutions and commercial banks also started leasing activity. ICICI entered the leasing industry in 1983. Thereafter leasing become very popular and many medium to large sized companies, financial institutions like IRCI, SICOM an GIC also entered the field of leasing. International finance cooperation also announced its decision to open for leasing joined ventures in India during this period. The number of leasing companies in India surged from just 2 in 1980 to 339 in just 6 years by the end of 31st March 1986.

One of the important phase in the development of India leasing was the Dhahothri committee recommendations based on which the Reserve bank of India framed guidelines for commercial banks funding o leasing companies. Banks were also allowed to undertake leasing activities in 1994. However, the growth of leasing industry in India has remained slow. The post liberalization era has been witnessing the slow but sure increase in foreign investment into Indian leasing industry.

INSTITUTIONAL SUPPORT AND INCENTIVES TO ENTREPRENEURS

Various resources and facilities are required for starting a business or industrial unit. Finance is an important resource for starting and running a business enterprise as it facilitates the entrepreneur to procure land, labour, material, machine and so on.

Hence, finance is considered as 'life blood' for economy, in general and industries in particular. For any industry to prosper, finance becomes a vital input. As the equity base of SSI units is thin and weak, they have a greater dependence on various sources of money market to get a share of supply of finance, which is essential for their survival and growth. The inadequate supply of credit remains a serious problem facing the small scale sector. Unless the problem is tackled effectively, this sector which proved its role in the areas of production, employment and export, will continue to face adversities and finally perish. Recognizing the fact, various Central and State Government institutions have come forward to help small entrepreneurs in this regard by providing various kinds of support and facilities. Availability of these support helps to make the economic environment more helpful to business or industry. The various institutional support and facilities to small entrepreneurs are explained in the following sections.

DEPARTMENT OF INDUSTRIES AND COMMERCE (DIC)

The Department of Industries and Commerce (DIC) is established as a Government owned department under the Ministry of Industry and Commerce. Department of Industry and Commerce is established with the mission to create and sustain self employment opportunities and support Small, Tiny, Cottage and Handicraft Industries to provide employment to avoid migration from rural to urban and to have growth in all parts of the state uniformly.

Department of Industry and Commerce is responsible for promoting sponsoring, registering, financing and advising MSME (Micro Small Medium Enterprises) industries in the state. The role of Department of Industry and Commerce is to act as a facilitator for industrial promotion and sustainability of MSME and traditional industrial sector in the state. It promotes industries and commerce in the state by providing many incentives and concessions to various entrepreneurs in the development of industries. Department of Industry and Commerce acts as a catalyst for the overall development of the industrial sector through effective discharge of developmental and facilitation roles in the states.

DISTRICT INDUSTRIES CENTRES (DIC)

The District Industries Centre (DIC) was started on May 8, 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC are envisaged as a single window interacting agency with the entrepreneur at the district level. DIC provides their various services and support to small entrepreneurs through their single roof and it act as an implementing arm of various schemes and programmes of

Central and State Governments. The main role DICs are promotional and developmental. To attain this, they have to perform the following functions :

(1) To conduct industrial potential surveys.

(2) To prepare action plan to effectively implement the schemes identified.

(3) To guide entrepreneurs in matters relating to selection of appropriate machinery, requirements of raw materials, sources of supply, source of funds etc.

(4) To conduct artisan training programmes.

(5) To assist the entrepreneurs in marketing their products.

(6) To appraise the worthiness of various projects received from the entrepreneurs.

SMALL INDUSTRIES DEVELOPMENT CORPORATION (SIDCO)

Small Industries Development Corporation Limited (SIDCO) is state owned companies or agencies in the states of India which were established under the policy of Government of India for the promotion of small scale industries. SIDCO is a promotional agency for small scale industries with objects of providing infrastructural facilities, distribution of raw materials, marketing of SSI products and several activities for the promotion and development of small scale.

Activities

The following are the major activities performed by SIDCO :

(1) It undertakes construction of industrial sheds and development of infrastructure.

(2) It implements sick unit's rehabilitation programmes jointly with IRBI.

(3) It provides technical consultancy service to SSIs.

(4) It supplies scarce and imported raw materials for the benefits of SSIs.

(5) It allots sheds/industrial plots in industrial estates.

(6) It provides assistance to SSIs for the selection and procurement of machinery and other assets.

(7) It provides marketing assistance to SSI units for marketing of their products.

(8) It provides infrastructural facilities for the development of SSI units.

(9) It provides software and hardware solutions to Central and State Government departments, local self government bodies, and public sector undertakings, autonomous institutions and SSI units.

(10) It provides technical assistance to SSI units for their innovation and modernization.

(11) It provides soft loan/seed capital assistance to SSIs.

(12) Participation in the equity capital in selective venture projects.

NATIONAL SMALL INDUSTRIES CORPORATION LTD. (NSIC)

The National Small Industries Corporation Ltd (NIC), an enterprise under the Union Ministry of Industries, was set up in 1995. The main objective of NSIC continues to remain at the forefront of industrial development. The major services provided by NSIC continues to remain at the forefront of industrial development. The major services provided by NSIC for the development of SSI units are the following :

(1) To provide machinery on hire purchase scheme to small scale industries.

(2) To provide equipment leasing facility.

(3) To help in development and upgradation of technology and implementation of modernisation programmes of small scale industries.

(4) To help in export marketing of the product of small scale industries.

(5) To distribute basic raw material among small scale industries through raw material depots.

(6) To provide financial assistance raw material purchase of small scale industries.

(7) To provide financial assistance to exports of small scale industries products.

(8) To provide publicity to small scale industries products.

(9) To provide scarce materials on priority basis.

(10) To impart training in various industrial trades.

(11) To undertake the construction of industrial estates.

(12) To set up small scale industries in other developing countries on turnkey basis.

(13) To ensure fair margin to producers of goods.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

In order to ensure the larger flow of financial and non-financial assistance to the small scale sector, the Government of India set up the Small Industries Development Bank of India (SIDBI) under a special Act of the Parliament in October 1989 as a wholly owned subsidiary of the IDBI. The bank commenced its operation from April 2, 1990 with its head office in Lucknow. Itis the principle institution for promotion, financing and development of industries in the small scale sector. It also coordinates the functions of institutions engaged in similar activities. For this purpose SIDBI has taken over the responsibility of administrating Small Scale Industries Development Fund and National Equity from IDBI. Since its inception, SIDBI has been assisting the entire spectrum of SSI sector including the tiny, village and cottage industries through suitable schemes to meet the various requirements such as setting up of new projects, expansion, diversification, modernisation, rehabilitation of existing units.

Functions of SIDBI

SIDBI provides assistance to the SSIs in the country through the existing banking and other financial institutions such as State Financial Corporations, State Industrial Development Corporation, Commercial banks, Co-operative banks and RRBs etc. The major functions of SIDBI are as follows :

(1) It refinances loans and advances provided by the existing lending institutions to small scale units.

(2) It discounts and rediscounts bills arising from sale of machinery to and manufactured by small scale industrial units.

(3) It provides seed capital/soft loan assistance under National Equity Fund, Mahila Udayam Nidhi and Mahila Vikas Nidhi and seed capital schemes.

(4) It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small scale units.

(5) It provides services like factoring, leasing etc. to small units.

(6) It extends financial support to State Small Industries Corporations for providing scarce raw materials to and marketing the products of the small scale units.

(7) It provides financial support to National Small Industries Corporation for providing leasing, hire purchase and marketing help to the small scale industries.

(8) It provides assistance for technology upgradation and modernization of existing units.

(9) Promotion of employment-oriented industries, especially in semi-urban areas to create more employment opportunities and thereby checking migration to urban areas.

(10) It expanding the channels for marketing the products of small scale sector.

Channels of Assistance

SIDBI's assistance to small scale sector channelized through three major dimensions :

(1) ***Indirect Assistance*** : The indirect assistance of SIDBI to small scale industries is channelized through a large network of primary lending institutions (PLIs) spread across the country. These primary lending institutions are State Financial Corporations, State Industrial Development Corporations, Commercial Banks and Regional Rural Banks. Assistance is provided by way of refinance, bills, rediscounting and resource support in the form of short tame loans or line of credits and so on.

(2) ***Direct Assistance*** : The major objectives of SIDBIs direct assistance is to supplement the efforts of PLIs by identifying the gap in the existing credit delivery mechanism for small scale industries to achieve this objective SIDBI provide direct assistance in number of manner.

(3) ***Development and Support Services*** : SIDBI extends development and support service in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the year the initiatives of SIDBI under promotional and developmental activities have crystallised into following areas.

(a) Enterprise promotion with emphasise on rural industrialisation.

(b) Human resource developments to suit SSI sector needs.

(c) Technology upgradation.

(d) Quality and environment management.

(e) Marketing and promotion.

(f) Information dissemination.

SMALL INDUSTRIES SERVICE INSTITUTES (SISIs)

The Small Industries Service Institute (SISIs) was established in 1956. SISIs are set up to provide consultancy and training to small entrepreneurs both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training Division of the Development Commissioner Small Scale Industries (DCSSIs) office.

Functions of SISIs

The following are the major functions of SISIs :

(1) It provides technical consultancy service to the prospective small industries.

(2) It conducts entrepreneur development programme.

(3) It provides technical support service to small entrepreneurs.

(4) It provides common facility services like supply of design and drawings, provision of workshop facilities etc. to SSI units.

(5) It provides testing facility to SSI units for testing the quality of their products through the testing laboratories and workshops of SISIs.

(6) It offers export promotion services and marketing assistance to small industries.

(7) It undertakes market survey of specific products of small enterprises.

(8) It also conducts economic surveys of particular area to ascertain their industrial potential.

THE NATIONAL SCIENCE AND TECHNOLOGY ENTREPRENEURSHIP DEVELOPMENT BOARD (NSTEDB)

The National Science and Technology Entrepreneurship Development Board (NSTEDB) was established in 1982, by the Government of India under the sponsorship of Department of Science and Technology. NSTEDB is an institutional mechanism to help, promote knowledge driven and technology intensive project or enterprises. The Board, with representations from socio-economic and scientific ministries/departments, aims to convert 'job seekers' into 'job generators' through Science and Technology (S&T) inventions.

Objectives

The major objectives of NSTEDB are the followings :

(1) To promote and develop entrepreneurship through S&T manpower as well as self-employment by utilizing S&T infrastructure and by using S&T methods.

(2) To facilitate and conduct various informational services relating to promotion of entrepreneurship.

(3) To act as a policy advisory body with regard to entrepreneurship.

(4) To provide training programmes for the promotion of entrepreneurship.

(5) To provide support system to network agencies, academic institutions and R&D organisations to foster entrepreneurship and self employment using S&T with special focus on backward areas.

NATIONAL ENTREPRENEURSHIP DEVELOPMENT BOARD (NEDB)

National Entrepreneurship Development Board (NEDB) is established with the objective of providing various forms of assistance for the promotion of entrepreneurship through the encouragement of self employment in small scale industries and small business.

Functions of NEDB

The strategy of NEDB is to provide various forms of assistance to promote entrepreneurship by encouraging self employment. The following are functions performed by NEDB to accomplish its strategies :

(1) To identify and remove barriers for potential entrepreneurs including study on entrepreneurship development.

(2) To focus on existing entrepreneurs in micro, tiny and small sector and identify and remove constraints to survivals, growth and continuously improve performance.

(3) To facilitate the consolidation, growth and diversification of existing entrepreneurial venture in all possible ways.

(4) To support skill upgradation and renewal of learning processes among practicing entrepreneurs and managers of micro, tiny, small and medium enterprises.

(5) To support agencies in the area of entrepreneurship about the current requirement of growth.

(6) To act as catalyst to institutionalise entrepreneurship development by supporting and strengthening state level institutions for entrepreneurship development.

(7) Setting up of incubators by entrepreneurship development institutions and other organisations devoted to the promotion of entrepreneurship development.

NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 by the Ministry of Industries, Govt of India. It is and apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. NIESBUD was registered as society under Government of India Societies Act and started functioning from 6th July 1983. The main objective of NIESBUD is to organise, conduct and coordinate training programmes for entrepreneurship development in collaboration with various institutes and organisations. The policy and guidance to the institute is provided by its governing council whose chairman is the Minister of MSME.

Objectives

The following are the objectives of NIESBUD :

(1) To provide help and support to affiliate institutions/organisations in carrying out training and other entrepreneurship development related activities.

(2) To provide vital information and support to trainers, promoters and entrepreneurship development.

(3) To serve as an apex national level resource institute for accelerating the process of entrepreneurship.

(4) To train trainers, promoters and consultants in various areas of entrepreneurship development.

(5) To offer consultancy in national as well as international level for promoting entrepreneurship development and small business development.

(6) To provide national or international forums for interaction and exchange of experience which are helpful for policy formulation and modification of policies for entrepreneurship and small business development.

(7) To share experience and expertise in entrepreneurship and small business development across national frontiers.

TECHNICAL CONSULTANCY ORGANISATION (TCOs)

It was established in different parts of the country to provide consultancy services to small and medium enterprise at reasonable costs. Functions and activities of TCOs include :

(a) Industrial potential surveys.

(b) Preparation of profits and feasibility studies.

(c) Evaluation of project.

(d) Conduct of EDPs.

(e) Assisting in the modernization, technical upgradation and rehabilitation programmes etc.

(f) Undertaking market research and surveys for specific products.

(h) Offering merchant banking services.