**ENTREPRENUERIAL DEVELOPMENT**

**UNIT – III**

**PROJECT IDENTIFICATION, FORMULATION AND IMPLEMENTATION**

**Project Definition**

When looking at the lifecycle of a project, students will note that the project always start with the owners or customer and always ends with the owner of customer. In between this cycle are the different levels of programs and activities a project goes through until its completion.

Lock (2007) noted that the commencement of any project will depend on the business case presented and it is during this time of the project lifecycle where the foundation for success or failure is established. Any of the following shortcomings during this early period can condemn a project to almost certain failure:

* The project scope (the extent of work required) is not clearly stated and understood.
* The technical requirements are vague.
* Estimates of cost, timescale or beneﬁts are too optimistic.
* Risk assessment is incomplete or ﬂawed.
* The intended project strategy is inappropriate.
* Insufﬁcient regard is paid to cash ﬂows and the provision of funds.
* The interests and concerns of stakeholders are not taken into account.
* Undue regard is paid to the motivation and behaviour of people who will execute the project.
* Insufficient thought is given to how all the managers and workpeople affected by the project will be motivated to adapt to the changes expected of them.
* Approval to proceed with the project is given for political, personal or intuitive reasons without due consideration to the business plan.

**GOVERNMENT - THE REGULATOR**

The Government plays important role in the development of its economy and the welfare of its citizens.

**Participator** – In almost all countries there are commercial activities undertaken by government especially in areas related to transport, infrastructure, defence, health, education and public welfare.

**Facilitator** – Government can operate as facilitator to overseas business (providing a range of concessions, tax holidays, etc.)

**Regulato**r – Regulatory activities are often tied in with government planning activities

As the Regulator, the Government lays the framework for development and resource allocation. In Papua New Guinea, the agency of government such as the national Department of National Planning and the Department of Treasury are responsible for these areas.

They set the planning framework and allocate resources through the National Budget to ensure development takes place. The implementing national departments such as the Department of Works and other departments plan their activities within these framework ensuring developmental projects are implemented.

**Fiscal Policy**

The government uses its fiscal policy to influence economic activities of a country through the medium of a budget. In Papua New Guinea, the government does that through the approval of the National Budget annually by the National Parliament.

**Monetary Policy**

Another policy that the government uses to have some control on inflation, foreign exchange and the regulation and quantity of money is the monetary policy. In most countries, the Monetary Policy is being administered by the Reserve Bank or the Central Bank. In Papua New Guinea, the Bank of Papua New Guinea is the entity that monitors and administers the monetary policy.

Students who want to know more about the Fiscal and Monetary policy are encouraged to read economic text books or other text books.

**Other Regulatory Measures**

Apart from Fiscal and Monetary policies, the government uses other control measures to direct the pattern of resource allocation. Such measures may come in the forms of;

* Industrial licenses
* Export Promotions and Import Controls
* Foreign Exchange and other foreign collaboration
* Control on monopolies and trade measures
* Pricing control and distribution of commodities

**PROJECT IDENTIFICATION**

You may have difficulties in identifying new worthwhile projects because the process involves careful study from many different angles. As students you will learn and study some of the sources that can enable you to identify worthwhile projects.

**Performances of Existing Industries**

Studying the health of a particular industry has to be taken with careful considerations and analysis. I mentioned careful analysis because the health of a particular industry may be happening at a particular period of the industry business life cycle. For example; you may be looking at an industry that may be performing well however, this particular industry may have crossed its saturation stage and moving into the declining stage of its business life cycle. On the other end there may be an industry that is not doing so well financially however, it may yet to reach its potential to grow later in its business life cycle.

**Availability of Raw Materials**

Availability of raw materials may give rise to the idea for planning a project. Let us look at some example. If there are abundant lime stone in a particular location without road infrastructure, then there is this possibility of setting up a factory to process this limestone. However, to get into this particular location there need to be road access. Here you will note the possibility of planning two separate projects. Let us look at another example; if in a particular region, farmers are growing lots of fruits but are having difficulties finding markets for their produces, then there is a possibility for a food processing factory.

**Availability of Skilled Labour**

Some firms and entrepreneurs looked at the availability of skilled labour in a particular market and then they venture into certain projects that can utilize the skilled workforce.

**Import and Export Statistics**

Imports and exports statistics may provide vital information on business areas that firms or investors can tap into.

**Price Trend**

Prices may give an indication about the demand and supply of a particular product or service. Existing gaps following careful analysis may conceive an idea for a possible project.

**Data from Various Sources**

Various publications from governments, banks and other service providers may provide useful information that can indicate possible future venture.

**Research Laboratories**

Research laboratories may identify the need for new products, processes or systems. This can be exploited to come up with new venture.

**Consumption Abroad**

Increase in demand and consumption abroad may indicate the need to build a manufacturing plant or factory abroad.

**Identifying Unfulfilled Psychological Needs**

Consumers’ psychological needs are not met thus allowing investors to come up with a product that may meet these needs.

**Plan Outlays and Government Guidelines**

* Government development policies are useful pointers to investors for investment opportunities.
* Analysis of Economic and Social Trends.
* Trends and changes in any economy may be useful to investors.
* Possibility of Reviving Sick Units
* There is the possibility of reviving a unit within an organization that is dying.

**PROJECT PREPARATION (OR PROJECT FORMULATION)**

After having identified a worthwhile project, there are other factors that need to be considered. The promoter of a particular project has to ensure that the project is viable and they would be getting a good return on their investment.

* Pre-feasibility Study.
* A prefeasibility has the following objectives.
* Functional Studies or Support Studies.
* Feasibility Study.
* Detailed project analysis

**TAX INCENTIVES AND PROJECT INVESTMENT DECISIONS**

Tax has in recent years become an effective weapon in hands of the state to induce and direct investment. Other incentives are done through the following;

* Fiscal Policies
* Monetary policies
* Commercial Policies

**Fiscal Policies**

* Depreciation
* Tax Holidays
* Investment Allowance
* Amortization of expenses

**Monetary Policies**

* Interest Rates concession
* Repayment moratorium
* Risk Capital
* Security margin
* Refinancing facilities

**Commercial Policies**

* Subsidies
* Sales Tax incentives etc.

**ZERO BASED PROJECT FORMULATION**

Entrepreneurs visualize a project from a particular bench mark, example starting from zero in order not to make mistakes.

**Why to Invest in Fixed assets at All?**

Is it necessary? – Should be applicable to all components of the project cost as a whole. Is it necessary or worthwhile to investing in fixed assets? When such questions are asked, project investors can look at other alternatives.

**Consideration of Investment on Components of Project Cost**

Investment in building is a major component of the project cost in many projects. Is it necessary to construct a building or is it cost effective to lease?

**PROJECT OBJECTIVES**

The objectives of any project are as follows;

* To complete the project within the allotted budget or funds
* To complete the project within the schedule time limit.
* To execute the project in such a way that the project meets the quality standards.
* To ensure the project is completed to the satisfaction of the end user

**Social Objectives**

Project objectives are to be kept in the minds of all members of the Project team throughout the period of project implementation and should be the guiding force for the team. If an Health center is the project, who are the end users?

**ESTABLISHING THE PROJECT**

The processes involved in establishing a project are as follows;

* Initiating
* Planning
* Organizing
* Executing
* Directing and Controlling

All processes mentioned are applicable for all types of management activities irrespective of whether the management activity relates to project management or management of routine on-going operations.

**Initiating**

This is the starting phase and it involves identification of projects, generation and development of project ideas, formulating a project proposal, appraisal of the chosen project proposal and getting the organization’s commitment and authorization to commence work on the project.

**Planning**

Planning is the process of deciding in advance about the future course of actions to be taken. In project environment, planning consists of defining all the works required to be carried out so that all the project participants will understand their role in the project team and will able to carry out the work assigned to them.

**Project planning involves the following;**

* Defining the scope of the project in terms of the product/services to be delivered by the project.
* Forecasting and estimating the resources (man, materials, money, machines etc.) required for the project.
* Breaking down the project into manageable activities and arriving at the logical sequences between the different activities. The logical sequences between activities is arrived at starting from the terminal activity and working backwards towards the initial activity.
* Organizational Structure appropriate for the implementation of the project.
* Tentative project completion time.
* Scheduling the activities in such a way that the project is completed within the least possible time
* (CPM/PERT) Details topic 8.
* Detail Cost estimates for all activities.
* Determining the required resources.
* Contingency plans.

**Organizing**

 Organizing is the process of defining and analysing the activities of the enterprise, grouping the activities into distinct areas and establishing the authority-responsibility relationships.

***Arranging financial resources*** – This can be arranged in such a way that financial resources is adequately provided to the project on a timely basis.

***Building Project Organization*** – To facilitate execution of projects, responsibility must be entrusted to a project manager, who will be responsible for coordinating, directing and controlling the implementation of the project.

***Team Building*** – Project personnel can be drafted from within the organisation or it can be entrusted to contractors depending on the nature of the project.

***Tying up material resources, service providers, contractors*** – The choices of resources is done by the Project Manager and relevant authority. These resources are defined in clear terms and documented for circulations to the project executives.

***Dissemination of information*** – Effective communication of information among the members of the project executives and other stakeholders is vital for the successful execution of a project.

**Executing**

Executing is the process of carrying out the project activities as per the plans. Since projects are dynamic in nature, flexibility is essential in execution of projects so that the overall objectives of the projects are achieved.

**Directing and Controlling**

Directing is the process of guiding the subordinates towards achieving the organizational goals. It involves issuing orders, directives, instructions and commands. Controlling is the process of comparing the actual performance of the project with the planned performances.

**Closing**

Project are temporary endeavors, hence they have a beginning and an end. A project comes to an end when the execution is completed and the project objectives are fulfilled.

**ORGANISING HUMAN RESOURCES**

A project can be successfully managed only if the project manager and his members are totally dedicated to the successful completion of the project. Managing a project contains different requirements like project planning, project direction, project execution, project control, project evaluation, project performance reporting etc. The project manager, the personnel of the project office, functional managers and staff must all work together as a team for the successful execution of the projects. The project manager should be a high-caliber person, having the following;

* Ability to evaluate risks and uncertainty
* Possess qualities of honesty and integrity
* Communication skills
* Analytical Skills
* Decision making capability
* Leadership quality
* Good interpersonal skills
* Good motivational skill etc

**Selection of Project Manager**

Selection of project personals is very crucial for the success of a project. The task of identifying the right person for the post of project manager get more difficult in view of the reason that the selection is to be done on the basis of personal characteristics rather than on the basis of job descriptions. Project Managers can be selected from within an organization or from outside. Selecting a project from within an organization has certain advantages;

* Personality and character of the person will be known and it will be easier to decide.
* Leadership qualities, commitment to work, honesty, sincerity and other quality factors are known whereby easier to appoint a person.
* Internal candidates know the rules and policies of the organization and will be able to adapt well to the role of project manager.

**Identification of Staff requirements for the project and their selection;**  
  
Project activities are listed down and personals needed are listed beside these activities. Once activities are made together with personal requirement, then job descriptions are prepared. Recruitment and selections takes place thereafter.

The successful implementation of a project depends upon the efficiency and effectiveness with which the project team members perform the tasks assigned to them.

**Project Office**  
  
Project team is a combination of personnel attached to the project office and field-level employees attached to the project. Some of the responsibilities of personnel for project office are as follows;

* Collate project related data and information for dissemination across project team members.
* Assist the project manager and top management by providing project related information periodically.
* Monitoring the progress of the project and controlling time, cost and performance quality parameters.
* Procurements and awarding of contracts etc
* Creations of proper documentation of work carried out and executed
* To ensure authorization is in place for work etc.

**Selection of Team Members**

Selection can be done within or outside of the organization. Some people within an organization may refuse to work for a project within an organization for the following reasons;

* Person engaged may resist transferring to project site in another location
* Fear that once the project is completed he or she may be without a job
* Refusal to work under dual authority
* May not enjoy the full delegation authority

**Team Building**

A team is a collection of individuals who work towards a common goal. A project team consists of all the individuals who contribute towards the success of the project. Project leaders should have the required skills to build an effective team.

Students need to know that in a team, you are dealing with people with diverse qualification and experiences and project leader should be a person a person with good team-building skills.

**Tips for Building a Successful Team**

* Selecting people with the required skills and talents
* Build and maintain good Relationship
* Cordial Interpersonal Relationship
* Sharing of power and responsibility

**Motivating the Project Team Members**

* Job satisfaction and sense of achievement
* Training for team
* Avenues to learn more
* A good working environment

**De-Motivators**

* Jobs impossible to perform
* Jobs easy to perform
* Job that is routine
* Restriction on freedom to act
* Negative criticism
* Lack of recognition for good work done
* Lack of support and guidance
* Poor physical working condition
* Unsympathetic approach by managers
* Bad pay structure
* Poor and ineffective communication system

**Characteristics of Good Team**

* Atmosphere is pleasing, comfortable and informal
* Members are committed to task
* Members are receptive to each other
* Freedom for expression of views
* Constructive criticism acceptable
* Team leader leads by example
* Difficult situation is managed constructively

**Skills Required of a Project Manager**

* Leadership Skills
* Team Building Skills
* Conflict Resolution Skills
* Technical Skills
* Managerial Skills

**Duties and Responsibilities of Project Manager**

* To plan for all project tasks
* To plan for the allocation of resources for all project activities
* To ensure that the project activities are realistically schedule
* To ensure resources for project activities are readily available
* To motivate and direct
* To monitor project continually
* To identify any deviation between actual and projections
* To maintain effective communication
* To keep watch over any possible changes
* To maintain good liaison with project members of functional departments
* To prepare progressive reports
* To participate in contract negotiation
* To make decision as and when warranted

**ORGANISING SYSTEMS AND PROCEDURES FOR IMPLEMENTATION**  
  
For realizing the objectives of the project, the execution should be done as planned and this can be better achieved if proper system and procedures are devised. Authority and responsibility should be addressed properly;

* Who can modify/change the project objectives?
* Who is responsible for the procurement of project resources?
* Who has the authority to change the project schedule and to change the activity durations?
* Who has the authority to decide upon substitutes of resources when resources are limited?
* Who has the authority to give orders for premature termination of projects?

**Standards and Schedules**  
  
Before the project team members go for the execution of the project activities, necessary standards and schedules are to be prepared and communicated to them. All activities of the project should be well documented. Example of such documents are listed below;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Recipients of Documents | | | | |
|  | General Manager | Works Engineer | Civil Contractor | Product Manager | Legal Manager |
| Engineering  Specification |  |  |  |  |  |
| Project Schedules |  |  |  |  |  |
| Electrical Line Drawing |  |  |  |  |  |
| Process Flow Chart |  |  |  |  |  |

* Engineering Specification
* Project Schedules
* Layouts of plants and machinery
* Process flow charts
* Electrical line diagrams
* Process design
* Safety requirements and procedures
* Statutory requirements
* Detailed drawing structures
* Machinery foundation drawing/specification etc.

**PROJECT DIRECTION**  
  
Nagarajan (2008) Directing refers to guiding people as to what to do and ensuring that they do their work to the best of their ability. Directing may involve the following;

* Assignment of jobs to individuals
* Explaining procedures and processes
* Giving guidance and correcting errors

The project organizational structure can provide a project manager with official authority and this can lead to clear directions with no confusion as to who should give directions. A project manager by virtue of the formal authority under the project organizational structure is able to direct his team.  
  
To have a project get completed on time, Project Manager should give attention to the following aspects

* Top priority should be given to the completion of critical activities to avoid delays. A delay in one activity may cause delay to other activities
* Project Manager should carefully monitor non-critical activities that these activities do not consume expensive resources
* Monitor the trade-off between performances and costs
* Due to the dynamic nature of projects, project manager should keep watch on warning signals in any changes that are taking place and act upon it promptly.
* Directions should emanate from Project Managers office and not from someone outside the organizational structure.

**PROJECT COORDINATION**  
  
Nagarajan (2008) Coordination is the process by which the efforts of the members of a team are synchronized is such a way that the desired goals are achieved easily. To coordinate means to unite all the activities.

Coordinating activities of a project is highly complex in nature and the success of a project lies in proper coordination.  
  
Students must remember that there are several components of a project and different department or agencies may be working on different activities. If coordination is not done properly there maybe wastages of resources and delays.  
  
The first thing, top management should do for proper coordination of project activities is to appoint the project manager at the earliest, identify the project team early and assign them with clearly defined responsibilities.  
  
Some of the activities that may be coordinated when managing a project are;

* Tying up of men and materials and making resources available at the right point of time
* Tying up of contractors
* Engagement of consultants
* Receipt and storage of materials, equipment and release of materials etc.

For coordination to be effective there need to be a clear communication structure and there should be periodical meetings to sort out problems and other issues.  
  
Coordination also requires good rapport and understanding with his project team.  
  
**Project Control**  
  
Control means verifying that the project progresses as per the plan and if there are any variation it is managed. in managing a project there are three aspects to be controlled;

* The Cost
* The Time
* The quality and technical performance

Students need to remember that control plans should be formulated well in advance and communicated to departments for implementation and corrective measures.  
  
**Control System**  
  
Control systems are designed to monitor three major factors;

* Cost
* Time
* Quality parameters

Project control system need to be reliable and be able to monitor the complexity and nature of the project.

**Requirements of a Good Control System**

* It must be easy to understand by those who are using it
* It must be easy to extract data/information by those who use the system
* It must be able to report any deviation
* It must be designed to meet project control system requirements
* It can be seen and used without difficulties

We will look further into some of the issues mentioned as we progress further into the study of project appraisal and management.

**SOURCES OF BUSINESS IDEA:**

**Introduction:** Coming up with new and feasible business ideas is a crucial initial step to becoming a great entrepreneur. For this reason, there are several multi-billion entrepreneurs across the world with testimonies and proof that they started off with an idea and developed gradually into a thriving business. The real-life scenarios have grown to become the some of the greatest sources of business ideas and opportunities for both young and established entrepreneurs and can work for anyone with the desire to join the entrepreneurship world.

1. **Interests and hobbies:**  A hobby is an activity that you enjoy doing during your leisure-time and is one of the primary sources of business ideas. In fact, most people have founded great successful businesses while pursuing their interests or hobbies. For instance, if you enjoy traveling, playing with computers, music, sports, performing or cooking, you can seamlessly develop it into a business. You can join the tourism, entertainment or hospitality industry by venturing deeper into your favorite activity. These are just a few suggestions since there are lots of leisure activities that can lead you to the world of successful entrepreneurship. Just consider what you are good at, and you are ready to go.

**2. Customer surveys**: The starting point of any new business should be the clients because their needs and wants justify the service or product that you can offer to them. The wants and needs of the customers are, therefore, the sources of business ideas generation and you can ascertain them by carrying out a thorough survey. You can conduct such a survey, whether formally or informally, through questionnaires, interviews or observation as you list the sources of business ideas that work best for you. While carrying out the surveys, you can talk with your friends and family to discover what the potential customers need, yet it is not readily available to them. They may not be contented with the existing service or product and need improvement. In this case, you can step in and talk with the people in the distribution chain including wholesalers, retailers, manufacturers, agents, and distributors. It is essential to prepare the questions in advance that you can use in interviews or put on the questionnaires. Sources: africajumpstart.com Source: UGC The relationship you build with your potential customers during the survey leads you to new sources of business ideas as they freely share their challenges with you. Thus, ensure that you talk to several existing and potential customers to familiarize with them and understand their needs. Be a good listener and observer as you show them that you care by sharing with them the possible solutions. The more information they are willing to give you, the higher your chances of founding a successful business.

**3. Brainstorming and dreams:** Brainstorming is a method of problem-solving and qualifies as one of the seven sources of business ideas since every company focuses on offering solutions to the problems facing the customers. The secret behind brainstorming is to come up with as many ideas and options as possible. This process usually starts with a problem statement or question. For instance, you may ask the question “what are the services or products necessary in the home that are hard to get?” In this way, each design will result in one or more ideas and lead to several opportunities for becoming an entrepreneur. Dreams are also part of the sources of developing business ideas though most people tend to ignore them. However, it pays to consider and follow them up as they can lead to a booming business even if they may seem unintelligible and strange. Do not hesitate to wake up in the middle of the night and jot down the ideas before they disappear at the crack of dawn. While you can get ideas during the deep sleep in the form of dreams, you can also discover the germ of a wonderful business idea as you meditate during the night when you lose sleep. The rules of brainstorming Here are the rules that will help you when brainstorming for different sources of business ideas: Never judge or criticize the ideas and suggestions of others Encourage freewheeling and invite crazy or wild ideas Quantity is paramount where the more the number of ideas, the better Combine and develop the ideas that friends and colleagues give you Never procrastinate

**4. Franchises:** A franchise is a situation where a sole trademark distributor or manufacturer of a product gives exclusive rights to independent retailers for local distribution. This is done in return for the consistency of the retailers to the set operating procedures and payment of royalties. As one of the sources of business ideas for entrepreneurs, franchising can take different forms but the most common and preferred one is where you are offered the image, operating procedures and the name of an established business. Besides buying a franchise, you can also build on and sell its concept at a profit.

5. **Mass media Source:** The mass media; including television, newspapers, Internet, radio, and magazines are a great source of ideas, information, and opportunities. One way to become a successful entrepreneur is taking a careful look at the advertisements and commercials in these media. By reading a magazine or newspaper, you can easily come across a business for sale that interests you. These media can also report on the trending fashion, and pressing customer needs that you can jump on and start a business. If, for example, you find out that there is a high demand for physical fitness and healthy eating practices, you can start a fitness and healthy eating centre. While traditional media including television, radio, and newspapers have been great sources of ideas to run new business, the Internet has emerged as the latest information technology with instant millions of ideas. With just a click of a button on your computer or phone, you can get the best idea that will work perfectly according to your interests and locality. Starting a successful business has never been this easy!

**6. Personal experience and talents:** Most of the ideas and opportunities for successful businesses are a result of the experiences in the place of work. For example, an experienced manager working for a leading restaurant can eventually decide to start a business related to hospitality even before he retires. As a potential entrepreneur, therefore, you can make the most use of your skills and experiences as crucial sources of business ideas generation. They also determine the type of venture that you start as you capitalize on them. If you are gifted or have experience in a specific field, then it is time to analyze just talent or skills. You can start off with the following self-examination questions: What am I passionate about? What talents or skills do I possess? Are people willing to pay me for my skills? What do I need to build on my skills?

**7. Trade fairs and exhibitions**: Trade fairs and exhibitions are among the top sources of developing business ideas. They are usually advertised on the Internet, radio, and newspapers, and by attending such events regularly, you will discover new services and products. You will also meet with manufacturers, sales representatives, distributors, wholesalers, and franchisers who will answer all your questions and inspire you to start a business that will thrive. In fact, some of them may be in need of someone like you to partner with, and this will be an exceptional opportunity to partner with renowned entrepreneurs and franchisers. Sound business ideas from reliable sources of new ideas for business become good investments when implemented. Hence, business visionaries and potential entrepreneurs must brainstorm on the ideas that can lead them to a well-organized and successful business that meets the needs of the clients and promote the economy of the society. Business idea generation, therefore, helps you identify the opportunities, the people or companies to partner with and your competitors. As you compare the different sources of business ideas and the available opportunities, you can easily go for an idea that involves insignificant risks and no possible failure at the starting stage. You also get to know the latest technology that will be appropriate for your communications with clients, suppliers, distributors, and partners. When all is said and done, you get to know how to respond to the ever-changing needs and fashions.

**Types of Financial Analysis**

The most common types of financial analysis are:

1. Vertical
2. Horizontal
3. Leverage
4. Growth
5. Profitability
6. Liquidity
7. Efficiency
8. Cash Flow
9. Rates of Return
10. Valuation
11. Scenario & Sensitivity
12. Variance

**Overview of Cost Estimating**

Cost estimating is the practice of forecasting the cost of completing a project with a defined scope. It is the primary element of project cost management, a knowledge area that involves planning, monitoring, and controlling a project’s monetary costs. (Project cost management has been practiced since the 1950s.) The approximate total project cost, called the cost estimate, is used to authorize a project’s budget and manage its costs.

Professional estimators use defined techniques to create cost estimates that are used to assess the financial feasibility of projects, to budget for project costs, and to monitor project spending. An accurate cost estimate is critical for deciding whether to take on a project, for determining a project’s eventual scope, and for ensuring that projects remain financially feasible and avoid cost overruns.

Cost estimates are typically revised and updated as the project’s scope becomes more precise and as project risks are realized — as the [Project Management Body of Knowledge](https://www.pmi.org/pmbok-guide-standards) (PMBOK) notes, cost estimating is an iterative process. A cost estimate may also be used to prepare a project cost baseline, which is the milestone-based point of comparison for assessing a project’s actual cost performance.

**Key Components of a Cost Estimate**

A cost estimate is a summation of all the costs involved in successfully finishing a project, from inception to completion (project duration). These project costs can be categorized in a number of ways and levels of detail, but the simplest classification divides costs into two main categories: direct costs and indirect costs.

* **Direct costs**are broadly classified as those directly associated with a single area (such as a department or a project). In project management, direct costs are expenses billed exclusively to a specific project. They can include project team wages, the costs of resources to produce physical products, fuel for equipment, and money spent to address any project-specific risks.
* **Indirect costs**, on the other hand, cannot be associated with a specific cost center and are instead incurred by a number of projects simultaneously, sometimes in varying amounts. In project management, quality control, security costs, and utilities are usually classified as indirect costs since they are shared across a number of projects and are not directly billable to any one project.

A cost estimate is more than a simple list of costs, however: it also outlines the assumptions underlying each cost. These assumptions (along with estimates of cost accuracy) are compiled into a report called the basis of estimate, which also details cost exclusions and inclusions. The basis of estimate report allows project stakeholders to interpret project costs and to understand how and where actual costs might differ from approximated costs.

Beyond the broad classifications of direct and indirect costs, project expenses fall into more specific categories. Common types of expenses include:

* **Labor:** The cost of human effort expended towards project objectives.
* **Materials:** The cost of resources needed to create products.
* **Equipment:** The cost of buying and maintaining equipment used in project work.
* **Services:** The cost of external work that a company seeks for any given project (vendors, contractors, etc.).
* **Software:** Non-physical computer resources.
* **Hardware:** Physical computer resources.
* **Facilities:** The cost of renting or using specialized equipment, services, or locations.
* **Contingency costs:** Costs added to the project budget to address specific risks.

**Types of Revenues**

To classify revenues at a high level, there are operating revenues and non-operating revenues.  Operating revenues describe the amount earned from the company’s core business operations. Sales of goods or services are examples of operating revenues. Non-operating revenues refer to the money earned from a business’s side activities. Examples include [interest revenue](https://corporatefinanceinstitute.com/resources/knowledge/finance/capital-gains-yield-cgy/) and [dividend](https://corporatefinanceinstitute.com/resources/knowledge/finance/dividend-vs-share-buyback-repurchase/)revenue.

Many different revenue accounts are used by businesses in various industries. For the majority of companies, the following are a few common revenue accounts:

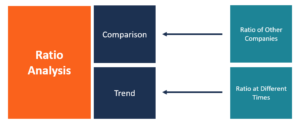
* **Revenue from goods sales or service fees:** This is the core operating revenue account for most businesses, and it is usually given a specific name, such as sales revenue or service revenue.
* **Interest revenue:** This account records the interest earned on investments such as debt securities. This is usually a non-operating revenue.
* **Rent revenue:** This account records the amount earned from renting out buildings or equipment, and is considered non-operating revenue.
* **Dividend revenue:** The amount of dividends earned from holding stocks of other companies. This is also non-operating revenue.

**Examples of Revenue Streams**

Revenue streams categorize the earnings a business generates from certain pricing mechanisms and channels. To describe it simply, a revenue stream can take the form of one of these revenue models:

* **Transaction-based revenue:** Proceeds from sales of goods that are usually one-time customer payments.
* **Service revenue:** Revenues are generated by providing service to customers and are calculated based on time. For example, the number of hours of consulting services provided.
* **Project revenue:** Revenues earned through one-time projects with existing or new customers.
* **Recurring revenue:** Earnings from ongoing payments for continuing services or after-sale services to customers. The recurring revenue model is the model most commonly used by businesses because it is predictable and it assures the company’s source of revenue as ongoing. Possible recurring revenue streams include:
  + Subscription fees (e.g., [Netflix](https://ir.netflix.com/)‘ monthly fees)
  + Renting, leasing, or lending assets
  + Licensing content to third parties
  + Brokerage fees
  + Advertising fees

## What is Ratio Analysis: Ratio analysis refers to the analysis of various pieces of financial information in the [financial statements](https://corporatefinanceinstitute.com/resources/knowledge/accounting/three-financial-statements/) of a business. They are mainly used by external analysts to determine various aspects of a business, such as its profitability, liquidity, and solvency.



 Analysts rely on current and past financial statements to obtain data to evaluate the financial performance of a company. They use the data to determine if a company’s financial health is on an upward or downward trend and to draw comparisons to other competing firms.

### Uses of Ratio Analysis

#### 1. Comparisons

One of the uses of ratio analysis is to compare a company’s financial performance to similar firms in the industry to understand the company’s position in the market. Obtaining financial ratios, such as Price/Earnings, from known competitors and comparing it to the company’s ratios can help management identify market gaps and examine its [competitive advantages](https://corporatefinanceinstitute.com/resources/knowledge/strategy/competitive-advantage/), strengths, and weaknesses. The management can then use the information to formulate decisions that aim to improve the company’s position in the market.

**2. Trend line**

Companies can also use ratios to see if there is a trend in financial performance. Established companies collect data from the financial statements over a large number of reporting periods. The trend obtained can be used to predict the direction of future financial performance, and also identify any expected financial turbulence that would not be possible to predict using ratios for a single reporting period.

**3. Operational efficiency**

The management of a company can also use financial ratio analysis to determine the degree of efficiency in the management of assets and liabilities. Inefficient use of assets such as motor vehicles, land, and building results in unnecessary expenses that ought to be eliminated. [Financial ratios](https://corporatefinanceinstitute.com/resources/knowledge/finance/financial-ratios/) can also help to determine if the financial resources are over- or under-utilized.

**INVESTMENT PROCESS ANALYSIS**

An investment process is a set of guidelines that govern the behaviour of investors in a way which allows them to remain faithful to the tenets of their investment philosophy, that is the key principles which they hope to facilitate outperformance. An investment process should allow the manager to stay the course in periods of underperformance or other source of self-doubt. It is the process which gives investment managers a better chance of making good decisions consistently though a market cycle. The investment process is a set of inputs that are designed to drive an output – satisfactory investment returns.

Some friends of mine at large asset managers claim that my investment operating system is not a process. The main sources of contention seem to be that a real investment process is easily described, and that it is *repeatable*. Institutional capital allocators also seem to broadly require that an investment process have this quality of repeatability for a strategy to be investable.

**There are several issues with this:**

* While selecting investment opportunities from a screen may have helped the manager to outperform in the past, there is no guarantee it will in the future, especially considering significant business model changes from the industries of history vs. those of the future.
* Repeatability implies capability. Predicating a source of investment edge on something that can be replicated tips the odds *against* you in achieving a satisfactory investment result. The capacity for contrarian thinking is limited by the preponderance of investors using screens as their primary or only idea generation filter.
* Screens miss one of the most compelling sources of mispriced securities: those companies whose reported financials poorly reflect the underlying cash earnings’ power of the business, due to for example high reinvestment rates, inappropriate accounting policies or business model transitions.

While less convinced about the value of stock screens than many in the asset management industry, I do use some basic screens to potentially highlight names that are “cheap and good”, but screens have driven a minority of investment ideas. Most investment ideas are driven by energetic engagement with company filings and transcripts, industry reports, fund manager letters and the authors of these letters in one on one and conference settings, and value investor publications. It is a multi-touch point approach that fosters both independent thinking and intelligent, intellectually generous and appropriately aligned collaboration.

## What Is a Break-Even Analysis?

Break-even analysis entails the calculation and examination of the [margin of safety](https://www.investopedia.com/terms/m/marginofsafety.asp) for an entity based on the revenues collected and associated costs. Analyzing different [price levels](https://www.investopedia.com/terms/p/price_level.asp) relating to various levels of demand a business uses break-even analysis to determine what level of sales are necessary to cover the company's total fixed costs. A demand-side analysis would give a seller significant insight regarding selling capabilities.

* Break-even analysis tells you at what level an investment must reach to recover your initial outlay.
* It is considered a margin of safety measure.
* Break-even analysis is used broadly, from stock and options trading to corporate budgeting for various projects.

**Introduction to Profit Analysis**

In managerial economics, **profit analysis** is a form of cost accounting used for elementary instruction and short run decisions. A profit analysis widens the use of info provided by breakeven analysis. An important part of profit analysis is the point where total revenues and total costs are equal. At this breakeven point, the company does not experience any income or any loss.

**Components of Profit Analysis**

The key components involved in profit analysis include:

* Selling price per unit
* Level or volume of activity
* Total fixed costs
* Per unit variable cost
* Sales mix

**Assumptions in Profit Analysis**

The profit analysis incorporates the following assumptions:

* Unvarying sales price,
* Unvarying variable cost per unit,
* Unvarying total fixed cost,
* Unvarying sales mix,
* Units sold equal units produced.

These are largely linearizing and simplifying assumptions, which are frequently presumed in elementary discussions of costs and profits. In more advanced accounting treatments, costs and revenue are non linear thus making the analysis more complicated.

**Applications of Profit Analysis**

The profit analysis is helpful in simplifying the calculation of breakeven in breakeven analysis. Besides, it is generally helpful in simple calculation of Target Income Sales. Moreover, it also simplifies the process of analyzing short run trade-offs in operational decisions.

**Method adopted for Profit Analysis**

The main method adopted to carry out profit analysis is the profit volume ratio which is calculated by dividing the shareholders contribution by the sales and then multiplying it by 100 as follows:

*Profit Volume Ratio = (Shareholders contribution / Sales) \* 100*

**Limitations of Profit Analysis**

The profit analysis is a short run and [marginal analysis](https://www.readyratios.com/reference/analysis/marginal_analysis.html) which presumes the unit variable costs and the unit revenues to be constant. This is, however, appropriate for small deviations from current production and sales. Besides, the profit analysis also presumes a neat division between variable costs and fixed costs, though in the long run, all costs are variable. Therefore, for longer term profit analysis considering the complete life-cycle of a product it is preferable to carry out activity-based costing or throughout accounting.

## [social cost benefit analysis](https://decisio.nl/wp-content/uploads/2014/12/SCBA-bicycle-bridge-Utrecht1.jpg)Social cost benefit analysis (SCBA)

A social cost benefit analysis is a systematic and cohesive method to survey all the impacts caused by an (urban) development project or other policy measure. It comprises not just the financial effects (investment costs, direct benefits like profits, taxes and fees, et cetera), but all the societal effects, like: pollution, environment, safety, travel times, spatial quality, health, indirect (i.e. labour or real estate) market impacts, legal aspects, et cetera. The main aim of a social cost benefit analysis is to attach a price to as many effects as possible in order to uniformly weigh the above-mentioned heterogeneous effects. As a result, these prices reflect the value a society attaches to the caused effects, enabling the decision maker to form an opinion about the net social welfare effects of a project.

## Compare different project alternatives

A major advantage of a social cost benefit analysis is that it enables investors (mostly public parties) to systematically and cohesively compare different project alternatives. Hence, these alternatives will not just be compared intrinsically, but will also be set against the “null alternative hypothesis”. This hypothesis describes “the most likely” scenario development in case a project will not be executed. Put differently, investments on a smaller scale will be included in the null alternative hypothesis in order to make a realistic comparison in a situation without “huge” investments.

## Calculate direct, indirect and external effects

The social cost benefit analysis calculates the direct (primary), indirect (secondary) and external effects:

* Direct effects are the costs and benefits that can be directly linked to the owners/users of the project properties (e.g., the users and the owner of a building, recreational area, wind energy park, or highway).
* Indirect effects are the costs and benefits that are passed on to the producers and consumers outside the market with which the project is involved (e.g., the owner of a bakery nearby the new building, or a business company located near the newly planned highway, recreational area, indirect tax incomes, etc.).
* External effects are the costs and benefits that cannot be passed on to any existing markets because they relate to issues like the environment (noise, emission of CO2, etc.), safety (traffic, external security) and nature (biodiversity, dehydration, etc.).

# 5 Methods of Project Appraisal – Explained!

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**Some of the methods of project appraisal are as follows:**

### ****1. Economic Analysis:****

Under economic analysis, the project aspects highlighted include requirements for raw material, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits. It is said that a business should have always a volume of profit clearly in view which will govern other economic variables like sales, purchases, expenses and alike.

It will have to be calculated how much sales would be necessary to earn the targeted profit. Undoubtedly, demand for the product will be estimated for anticipating sales volume. Therefore, demand for the product needs to be carefully spelled out as it is, to a great extent, deciding factor of feasibility of the project concern.

In addition to above, the location of the enterprise decided after considering a gamut of points also needs to be mentioned in the project. The Government policies in this regard should be taken into consideration. The Government offers specific incentives and concessions for setting up industries in notified backward areas. Therefore, it has to be ascertained whether the proposed enterprise comes under this category or not and whether the Government has already decided any specific location for this kind of enterprise.

### 2. Financial Analysis:

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods.

**In order to adjudge the financial viability of the project, the following aspects need to be carefully analyzed:**

1. Assessment of the financial requirements both – fixed capital and working capital need to be properly made. You might know that fixed capital normally called ‘fixed assets’ are those tangible and material facilities which purchased once are used again and again. Land and buildings, plants and machinery, and equipment’s are the familiar examples of fixed assets/fixed capital. The requirement for fixed assets/capital will vary from enterprise to enterprise depending upon the type of operation, scale of operation and time when the investment is made. But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer’s fees, electrification and installation charges (which normally come to 10 per cent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration. Similarly, if any expense is to be incurred in remodeling, repair and additions of buildings should also be highlighted in the project report.

2. In accounting, working capital means excess of current assets over current liabilities. Generally, 2: 1 is considered as the optimum current ratio. Current assets refer to those assets which can be converted into cash within a period of one week. Current liabilities refer to those obligations which can be payable within a period of one week. In short, working capital is that amount of funds which is needed in day today’s business operations. In other words, it is like circulating money changing from cash to inventories and from inventories to receivables and again converted into cash.

This circle goes on and on. Thus, working capital serves as a lubricant for any enterprise, be it large or small. Therefore, the requirements of working capital should be clearly provided for. Inadequacy of working capital may not only adversely affect the operation of the enterprise but also bring the enterprise to a grinding halt.

The activity level of an enterprise expressed as capacity utilization, needs to be well spelt out in the business plan or project report. However, the enterprise sometimes fails to achieve the targeted level of capacity due to various business vicissitudes like unforeseen shortage of raw material, unexpected disruption in power supply, inability to penetrate the market mechanism, etc.

Then, a question arises to what extent and enterprise should continue its production to meet all its obligations/liabilities. ‘Break-even analysis’ (BEP) gives an answer to it. In brief, break-even analysis indicates the level of production at which there is neither profit nor loss in the enterprise. This level of production is, accordingly, called ‘break-even level’.

### 3. Market Analysis:

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for his product and where and when his product will be sold. There is a trite saying in this regard: “The manufacturer of an iron nails must know who will buy his iron nails.”

This is because production has no value for the producer unless it is sold. It is said that if the proof of pudding lies in eating, the proof of all production lies in marketing/ consumption. In fact, the potential of the market constitutes the determinant of probable rewards from entrepreneurial career.

Thus, knowing the anticipated market for the product to be produced becomes an important element in every business plan. The various methods used to anticipate the potential market, what is named in ‘Managerial Economics’ as ‘demand forecasting’, range from the naive to sophisticated ones.

**The commonly used methods to estimate the demand for a product are as follows:**

#### 1. Opinion Polling Method:

In this method, the opinions of the ultimate users, i.e. customers of the product are estimated. This may be attempted with the help of either a complete survey of all customers (called, complete enumeration) or by selecting a few consuming units out of the relevant population (called, sample survey).

**Let us discuss these in some details:**

**(a)Complete Enumeration Survey:**

In this survey, all the probable customers of the product are approached and their probable demands for the product are estimated and then summed. Estimating sales under this method is very simple. It is obtained by simply adding the probable demands of all customers. An example should make it clear.

Suppose, there are total N customers of X product and everybody will demand for D numbers of it. Then, the total anticipated demand will be:

N ∑ i=1 DiN

Though the principle merit of this method is that it obtains the first-hand and unbiased information, yet it is beset with some disadvantages also. For example, to approach a large number of customers scattered all over market becomes tedious, costly and cumbersome. Added to this, the consumers themselves may not divulge their purchase plans due to the reasons like their personal as well commercial/business privacies.

**(b)Sample Survey:**

Under this method, only some number of consumers out of their total population is approached and data on their probable demands for the product during the forecast period are collected and summed. The total demand of sample customers is finally blown up to generate the total demand for the product. Let this also be explained with an example.

Imagine, there are 1000 customers of a product spread over the Faridabad market. Out of these, 50 are selected for survey using stratified method. Now, if the estimated demand of these sample customers is Di, i.e., it refers to 1 2 3….50, the total demand for the entire group of customers will be

50 ∑ niDi = n1 D1 +n2D2 + n3 D3…….. n50 D50

Where n, is the number of customers in group i, and n1+n2+ n3….n50 = 1000.

But, if all the 1000 customers of the group are alike, then the selection may be done on a random basis and total demand for the group will be:

(D1 D2 + D3+D4…D5) 1000 /50

No doubt, survey method is less costly and tedious than the complete enumeration method.

**(c)Sales Experience Method:**

Under this method, a sample market is surveyed before the new product is offered for sale. The results of the market surveyed are then projected to the universe in order to anticipate the total demand for the product.

Again, if we select Agra as a sample market, sales in Agra would be influenced by the size of the floating tourist’s population throughout the year. But this feature is not experienced by many other places again like Silchar in Assam.

**(d)Vicarious Method:**

Under the vicarious method, the consumers of the product are not approached directly but indirectly through some dealers who have a feel of their customers. The dealers’ opinions about the customers’ opinion are elicited. Being based on dealers’ opinions, the method is bound to suffer from the bias on the part of the dealers. Then, the results derived are likely to be unrealistic. However, these hang-ups are not avoidable also.

#### 2. Life Cycle Segmentation Analysis:

It is well established that like a man, every product has its own life span. In practice, a product sells slowly in the beginning. Backed by sales promotion strategies over period, its sales pick up. In the due course of time, the peak sale is reached. After that point, the sales begin to decline. After, some time, the product loses its demand and dies. This is natural death of a product. Thus, every product passes through its ‘life cycle’. This is precisely the reason why firms go for new products one after another to keep them alive.

**Based on above, the product life cycle has been divided into the following five stages:**

1. Introduction

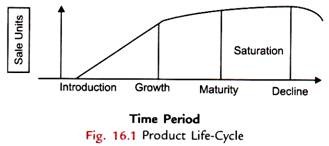
2. Growth

3. Maturity

4. Saturation

5. Decline

**The sales of the product vary from stage to stage and follows S-shaped curve as shown in Figure 16.1:**

**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2014/05/clip_image002132.jpg)**

Considering the above five stages of a product life cycle, the sales at different stages can be anticipated.

### 4. Technical Feasibility:

While making project appraisal, the technical feasibility of the project also needs to be taken into consideration. In the simplest sense, technical feasibility implies to mean the adequacy of the proposed plant and equipment to produce the product within the prescribed norms. As regards know-how, it denotes the availability or otherwise of a fund of knowledge to run the proposed plants and machinery.

It should be ensured whether that know-how is available with the entrepreneur or is to be procured from elsewhere. In the latter case, arrangement made to procure it should be clearly checked up. If project requires any collaboration, then, the terms and conditions of the collaboration should also be spelt out comprehensively and carefully.

In case of foreign technical collaboration, one needs to be aware of the legal provisions in force from time to time specifying the list of products for which only such collaboration is allowed under specific terms and conditions. The entrepreneur, therefore, contemplating for foreign collaboration should check these legal provisions with reference to their projects.

**While assessing the technical feasibility of the project, the following inputs covered in the project should also be taken into consideration:**

(i) Availability of land and site.

(ii) Availability of other inputs like water, power, transport, communication facilities.

(iii) Availability of servicing facilities like machine shops, electric repair shop, etc.

(iv) Coping-with anti-pollution law.

(v) Availability of work force as per required skill and arrangements proposed for training-in-plant and outside.

(vi) Availability of required raw material as per quantity and quality.

### 5. Management Competence:

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail.

On the contrary, even a poor project may become a successful one with good managerial ability. Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into consideration.

Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more so in case of small-scale enterprises where the proprietor is all in all, i.e., owner as well as manager. Due to his one-man show, he may be jack of all but master of none.

### MEANING OF PROJECT REPORT:

A Project Report is a written document pertaining to any investment proposal. It contains relevant data, on the basis of which the project has been appraised and found relevant to the entrepreneur. A project Report is prepared by the expert after detailed study & analysis of the various aspects of a project.

### FEATURES OF THE PROJECT REPORT:

It is basically a business plan. It outlines the desired goals. It describes all the necessary inputs to the enterprises. It explains the mode of utilization of the resources. It details the strategies for the execution of the project.

### OBJECTIVES OF PROJECT REPORT:

To identify the requirement of the resources (technical, financial, commercial, managerial and operational) To find out the critical components of the project idea. To obtain the opinions of experts from various fields. To facilitates financial appraisal of the project by financial institutions, banks, insurance companies, etc.

### USES OF PROJECT REPORT:

The information contained in the project report is very useful for:- entrepreneur financial institutions government uses of project report.

### Need for project formulation:

Need for project formulation Selection of appropriate technology Influence of External Economics Dearth of Technically Qualified Personnel Resource mobilization Knowledge about Government Regulations

### ELEMENTS OF PROJECT REPORT:

Description of the entrepreneur Description of the enterprise & brief summary of the project. Inputs for the proposed project Financial Aspects Economic Viability Total income, operative net profit, etc. Profitability analysis. Information regarding technical feasibility, marketing, present demand, etc.

### Significance of a project formulation:

Significance of a project formulation Project formulation is the best passport for obtaining the required assistance from financial institutions. It will also be of great assistance for obtaining necessary Government clearances and in meeting the hurdles of procedure formalities. It will pinpoint the matters for which government sanctions have to be obtained. It will provide an independent assessment of the feasibility of obtaining the sanctions based on the existing government policies.

### Elements of Project Formulation:

Elements of Project Formulation Feasibility analysis Techno-economic analysis Project design and network analysis Input analysis Financial analysis Social cost benefit analysis Project appraisal

### Project selection:

Project selection Economic size Status of industry or scope Raw material availability Cost of production Capital cost Utility requirements Infrastructure facilities needed Profitability government policy

### Preparation of project formulation:

Preparation of project formulation 1.Preliminary study 2.Group discussion 3.Prepare project report 4.Obtain government clearance 5.Submit the application to financial institutions 6.Implement 7.review

### 3. Prepare project report Prepare primary data:

3. Prepare project report Prepare primary data Phase 1 Marketing Demand forecast Estimate of product price Estimate product mix Personnel Identify promoters Decide organization Plan man power requirement Technical Estimate Cost of assets Estimate cost of inputs Prepare flow chart Project Net Work Identify activities Prepare time Estimates Draw network diagram

### Financial projections:

Financial projections Cost of project Means of finance Estimate of working results Balance sheet and cash flow Phase 2

### Economic analysis:

Economic analysis Compute payback period Internal rate of return Compute break oven analysis Sensitivity analysis Debt service Coverage ratio Phase 3

### 4. Obtain government clearance:

Obtain government clearance Industrial license Capital goods Controller of capital issues Foreign collaboration approval MRTP clearance S.G. clearance

### 5. Submit the application to financial institutions:

Submit the application to financial institutions Procure sanction Comply with terms and conditions Create security Obtain funds

### Planning commission guidelines:

Planning commission guidelines General information Preliminary analysis of alternatives Project description Marketing plan Capital requirements and costs Operating requirements and costs Financial analysis Economic analysis.

UNIT - IV

## What Is Project Finance?

Project finance is the funding (financing) of long-term infrastructure, industrial projects, and public services using a non-recourse or limited recourse [financial structure](https://www.investopedia.com/terms/f/financial-structure.asp). The debt and equity used to finance the project are paid back from the cash flow generated by the project.

Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral. Project finance is especially attractive to the private sector because companies can fund major projects [off-balance sheet](https://www.investopedia.com/terms/o/off-balance-sheet-obs.asp).

## Understanding Project Finance

The project finance structure for a build, operate and transfer (BOT) project includes multiple key elements.

Project finance for BOT projects generally includes a [special purpose vehicle](https://www.investopedia.com/terms/s/spv.asp) (SPV). The company’s sole activity is carrying out the project by subcontracting most aspects through construction and operations contracts. Because there is no revenue stream during the construction phase of new-build projects, debt service only occurs during the operations phase.

For this reason, parties take significant risks during the construction phase. The sole revenue stream during this phase is generally under an [off take](https://www.investopedia.com/terms/o/offtake-agreement.asp) agreement or power purchase agreement. Because there is limited or no recourse to the project’s sponsors, company shareholders are typically liable up to the extent of their shareholdings. The project remains off-balance-sheet for the sponsors and for the government.

### Off-Balance Sheet

Project debt is typically held in a sufficient minority subsidiary not consolidated on the balance sheet of the respective shareholders. This reduces the project’s impact on the cost of the shareholders’ existing debt and debt capacity. The shareholders are free to use their debt capacity for other investments.

To some extent, the government may use project financing to keep project debt and liabilities off-balance-sheet so they take up less fiscal space. Fiscal space is the amount of money the government may spend beyond what it is already investing in public services such as health, welfare, and education. The theory is that strong economic growth will bring the government more money through extra tax revenue from more people working and paying more taxes, allowing the government to increase spending on public services.

### Non-Recourse Financing

When defaulting on a loan, recourse financing gives lenders full claim to shareholders’ assets or cash flow. In contrast, project financing provides the project company as a limited-liability SPV. The lenders’ recourse is thus limited primarily or entirely to the project’s assets, including completion and performance guarantees and bonds, in case the project company defaults.

A key issue in non-recourse financing is whether circumstances may arise in which the lenders have recourse to some or all of the shareholders’ assets. A deliberate breach on the part of the shareholders may give the lender recourse to assets.

Applicable law may restrict the extent to which shareholder liability may be limited. For example, liability for personal injury or death is typically not subject to elimination. Non-recourse debt is characterized by high [capital expenditures](https://www.investopedia.com/terms/c/capitalexpenditure.asp), long loan periods and uncertain revenue streams. Underwriting these loans requires financial modeling skills and a sound knowledge of the underlying technical domain.

To preempt deficiency balances, loan-to-value (LTV) ratios are usually limited to 60% in non-recourse loans. Lenders impose higher credit standards on borrowers to minimize the chance of default. Non-recourse loans, on account of their greater risk, carry higher interest rates than recourse loans.

### Recourse Versus Non-Recourse Loans

If two people are looking to purchase large assets, such as a home, and one receives a recourse loan and the other a non-recourse loan, the actions the financial institution can take against each borrower are different.

In both cases, the homes may be used as collateral, meaning they can be seized should either borrower default. To recoup costs when the borrowers default, the financial institutions can attempt to sell the homes and use the sale price to pay down the associated debt. If the properties sell for less than the amount owed, the financial institution can pursue only the debtor with the recourse loan. The debtor with the non-recourse loan cannot be pursued for any additional payment beyond the seizure of the asset.

**Sources of finance.** Project finance may come from a variety of sources. The main sources include equity, debt and government grants. Financing from these alternative sources have important implications on project's overall cost, cash flow, ultimate liability and claims to project incomes and assets.

**Equity**refers to capital invested by sponsor(s) of the PPP project and others.

**Debt** refers to borrowed capital from banks and other financial institutions. It has fixed maturity and a fixed rate of interest is paid on the principal.

**Equity** is provided by project sponsors, government, third party private investors, and internally generated cash. Equity providers require a rate of return target, which is higher than the interest rate of debt financing. This is to compensate the higher risks taken by equity investors as they have junior claim to income and assets of the project.

Lenders of debt capital have senior claim on income and assets of the project. Generally, debt finance makes up the major share of investment needs (usually about 70 to 90 per cent) in PPP projects. The **common forms of debt** are:

* Commercial loan
* Bridge finance
* Bonds and other debt instruments (for borrowing from the capital market)
* Subordinate loans

**Commercial loans** are funds lent by commercial banks and other financial institutions and are usually the main source of debt financing. Bridge financing is a short-term financing arrangement (e.g., for the construction period or for an initial period) which is generally used until a long-term financing arrangement can be implemented. Bonds are long-term interest bearing debt instruments purchased either through the capital markets or through private placement (which means direct sale to the purchaser, generally an institutional investor - see below). **Subordinate loans** are similar to commercial loans but they are secondary or subordinate to commercial loans in their claim on income and assets of the project.

The other sources of project finance include **grants** from various sources, supplier's credit, etc. Government grants can be made available to make PPP projects commercially viable, to reduce the financial risks of private investors, and to achieve socially desirable objectives such as to induce economic growth in lagging or disadvantaged areas. Many governments have established formal mechanisms for the award of grants to PPP projects. Where grants are available, depending on government policy they may cover 10 to 40 per cent of the total project investment.

# Institutional Finance: Advantages and Limitations of Institutional Finance

Institutional finance means finance raised from financial institutions other than commercial banks. These financial institutions act as an intermediary or link between savers and investors. They provide finance and financial services in areas which are outside the purview of traditional commercial banking.

**The term institutional finance generally consists of the following:**

(i) Finance raised from Public Financial Institutions (PFIs).

(ii) Finance raised from Non-Banking Finance Companies (NBFCs).

(iii) Finance provided by Investment Trusts and Mutual Funds (ITMF).

**The main advantages of institutional finance are as follows:**

(i) Both risk as well as loan capital are available. Public financial institutions provide underwriting facilities also.

(ii) New companies which may find it difficult to raise finance from the public can get it from these institutions. Assistance is available when recourse to normal sources is impracticable or unprofitable. Modernization and expansion plans can be financed without much strain on the financial structure of the company.

(iii) As these institutions carry out a thorough investigation before granting assistance to a concern, relationship with them helps to increase the credit-worthiness of a company.

(iv) Loans and guarantees in foreign currency and deferred payment facilities are available for the import of required machinery and equipment.

(v) The rate of interest and repayment procedures are convenient and economical. Facilities for repayment in easy installments are made available to the deserving concerns.

(vi) Along with finance, a company can obtain expert advice and guidance for the successful planning and administration of projects.

**However, institutional financing may involve the following limitations:**

(i) The concern requiring finance from public financial institutions has to submit itself to a thorough investigation that involves a number of formalities and documents.

(ii) Many deserving concerns may fail to get assistance for want of security and other conditions laid down by these institutions.

(iii) Sometimes, these institutions place restrictions on the autonomy of management. They lay down a convertibility clause in loan agreements. In some cases, they insist on the appointment of their nominees to the Board of Directors of the borrowing company.

# ROLE OF International Finance Corporation (IFC)

The [International Finance Corporation](http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/home) (IFC), a member of the World Bank Group (WBG), is the **largest global development institution focused exclusively on the private sector.** IFC helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

### Private sector development (PSD) policy and strategy

**The basis for IFC’s strategy is threefold:**(i) the broad recognition of the role of the private sector as a critical driver of economic growth, and creator of the majority of jobs, in developing countries; (ii) IFC’s unique offering to the private sector operating in those countries including through its global knowledge and reach, combination of Investment Services (IS), Advisory Services (AS) and the IFC Asset Management Company (AMC), role as part of the WBG, and combination of both development and financial goals; and (iii) the opportunity for the WBG to be transformational through collaborative approaches that support, leverage, and complement private sector activity.

The WBG goals are to eradicate extreme poverty and pursue shared prosperity, taking into account the need to promote environmentally sustainable development.**In support of this, IFC’s five Strategic Focus Areas constitute the framework for prioritizing its activities across IS, AS and AMC:**

* Strengthening the focus on frontier markets – IDA countries, Fragile and Conflict Situations (FCS), and frontier regions in non-IDA countries;
* Addressing climate change, and ensuring environmental and social sustainability;
* Addressing constraints to private-sector growth in infrastructure, including water; health, education, and the food supply chain;
* Developing local financial markets through institution-building, the use of innovative financial products and mobilization, focusing on micro, small and medium enterprises (MSMEs); and
* Building and maintaining long-term client relationships with firms in developing countries, using the full range of IFC’s products and services, and assisting their cross-border growth.

**IFC also continues to place a strong emphasis on gender as a cross-cutting theme.** Following the 2013 World Development Report (WDR) on Jobs and the IFC Jobs Study, IFC is also putting a special emphasis on jobs, which the majority of poor people consider their most likely pathway out of poverty.

While IFC will continue strategy implementation in all five Strategic Focus Areas, it **will put more focus on certain geographies, sectors and themes in the near to medium term**. These are:

* FCS and other challenging IDA countries;
* South Asia, with the intent to increase this region’s share of IFC’s own-account commitments, as well as IFC’s Advisory Services program (increased focus in addition to Sub- Saharan Africa (SSA) and the Middle East and North Africa, which continue to be priority regions);
* Agribusiness and the food supply chain, and infrastructure, especially in SSA; and
* Climate change, with the intent to grow annual long-term and short-term finance commitment volumes.

**Key resources include:**

* [IFC Annual Report](http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/annual+report)
* [Two Goals: End Extreme Poverty, Boost Shared Prosperity (2013)](http://viewer.zmags.com/publication/ed87d66e#/ed87d66e/1)
* [Handshake, quarterly journal on Public-Private Partnerships](https://pppknowledgelab.org/handshake)
* [A Rough Guide to Investment Climate Reform in Conflict-Affected Countries (2009)](https://cdn.enterprise-development.org/wp-content/uploads/Rough-Guide-to-Investment-Climate-Reform-in-Conflict-Affected-Countries.pdf)
* [Better Work](https://betterwork.org/) (partnership with the ILO)
* [World Bank PSD Blog](http://blogs.worldbank.org/psd/)

# Role for Industrial Development Bank of India (IDBI): Functions and Developmental Activities

**Industrial Development Bank of India (IDBI): Functions and Developmental Activities of IDBI!**

Industrial Development Bank of India (IDBI) established under Industrial Development Bank of India Act, 1964, is the principal financial institution for providing credit and other facilities for developing industries and assisting development institutions.

Till 1976, IDBI was a subsidiary bank of RBI. In 1976 it was separated from RBI and the ownership was transferred to Government of India. IDBI is the tenth largest bank in the world in terms of development. The National Stock Exchange (NSE), the National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the Institutions which has been built by IDBI.

### Organisation and Management:

IDBI consist of a Board of Directors, consisting of a chairman and Managing Director appointed by the Government of India, a Deputy Governor of the RBI nominated by that bank and 20 other Directors are nominated by the Central Government.

The board had constituted an Executive Committee consisting of 10 Directors, including the Chairman and Managing Director. The executive committee is empowered to sanction financial assistance.

The Head office of IDBI is located in Mumbai. The bank has five regional offices, one each in Kolkata, Guwahati, New Delhi, Chennai and Mumbai. Besides the bank have 21 branch offices.

### Functions of IDBI:

**The main functions of IDBI are discussed below:**

(i) To provide financial assistance to industrial enterprises.

(ii) To promote institutions engaged in industrial development.

(iii) To provide technical and administrative assistance for promotion management or expansion of industry.

(iv) To undertake market and investment research and surveys in connection with development of industry.

### IDBI Assistance:

**The IDBI provides financial assistance either directly or through some specified financial institutions:**

#### (i) Direct Assistance:

The IDBI grants loans and advances to industrial concerns. There is no restriction on the upper or lower limits for assistance to any concern itself. The bank guarantees loans raised by industrial concerns in the open market from the State Co-operative Banks, the Scheduled Banks, the Industrial Finance Corporation of India (IFCI) and other ‘notified’ financial institutions.

#### (ii) Indirect Assistance:

The IDBI can refinance term loans to industrial concerns repayable within 3 to 25 years given by the IFCI, the State Financial Corporation and some other financial institutions and to SIDCs (State Industrial Development Corporations), Commercial banks and Co­operative banks which extend term loans not exceeding 10 years to industrial concerns. IDBI subscribes to the shares and bonds of the financial institutions and thereby provide supplementary resources.

### Developmental Activities of IDBI:

#### (1) Promotional Activities:

In fulfillment of its developmental role, the bank continues to perform a wide range of promotional activities relating to developmental programmes for new entrepreneurs, consultancy services for small and medium enterprises and programmes designed for accredited voluntary agencies for the economic upliftment of the underprivileged.

These include entrepreneurship development, self-employment and wage employment in the industrial sector for the weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs’ Parks, Energy Conservation, Common Quality Testing Centers for small industries.

#### (2) Technical Consultancy Organisations:

With a view to making available at a reasonable cost, consultancy and advisory services to entrepreneurs, particularly to new and small entrepreneurs, IDBI, in collaboration with other All-India Financial Institutions, has set up a network of Technical Consultancy Organisations (TCOs) covering the entire country. TCOs offer diversified services to small and medium enterprises in the selection, formulation and appraisal of projects, their implementation and review.

#### (3) Entrepreneurship Development Institute:

Realizing that entrepreneurship development is the key to industrial development; IDBI played a prime role in setting up of the Entrepreneurship Development Institute of India for fostering entrepreneurship in the country. It has also established similar institutes in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh. IDBI also extends financial support to various organisations in conducting studies or surveys of relevance to industrial development.

## What is LIC?

The Life Insurance Corporation was incorporated and started on 19th January 1956. This was done by a merger of 16 insurance company and 75 provident societies on that day. The LIC Act was passed by the Parliament on 18th June 1956, which then came into effect from 1st July 1956.

Life Insurance Corporation has started its journey as a corporate firm from 1st September 1956. Its all working is governed by the LIC Act.

One of the core functions of LIC is an investment. It is an investment institution. Its main function is to gather money from the people and invest it into the different securities and financial markets in India and abroad.

As a rule, LIC is required to invest at least 75% of the funds in Central and State Government securities. Thus LIC is the largest investment institution in India as on date.

It gathers the funds from the people by issuing insurance policies and invest that funds into financial markets in India. It also provides term loan and bonds to gather money from the market.

Not only that, the LIC has become the world’s largest insurance company in terms of a number of policies issued. As of 2019, the total coverage of policies including individual, group and other social schemes has crossed 13 crores.

## Objectives of LIC of India

* Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
* Maximize the mobilization of people’s savings by making insurance-linked savings adequately attractive.
* Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
* Conduct business with utmost economy and with the full realization that the money belongs to the policyholders.
* Act as trustees of the insured public in their individual and collective capacities.
* Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
* Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.
* Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

## Functions of LIC

* **The main function of LIC is to collect the savings of the people through a life insurance policy and invest that money in various financial markets.**
* **One of the main functions of LIC is to invest fund into government securities so as to protect the capital of the people who have given their money to LIC.**
* **LIC has to issue an insurance policy at affordable rates to people.**
* **LIC provides direct loans to industries at lower interest rates. The rate of interest is as low as 12% for the entire tenure.**
* **It is one of the major stakeholders in many of the blue-chip companies in the Indian stock market.**
* **It also provides refinancing activities through SFCs in different states and cities.**
* **It also invests in the various corporates via bonds and securities, thus supports corporate funding in an indirect way.**
* **It also gives loan to the various national projects which are important for economic growth.**
* **It provides financial supports to socially-oriented projects like electrification, sewage, and water channelizing, etc**
* **It also gives a housing loan at reasonable rates.**
* **It is the main channel between savings and investment for the people in India.**

#### Activities of ICICI:

**The activities of ICICI are discussed below:**

#### 1. Project Finance:

The project finance is provided to industries for the cost of establishment, modernization or expansion of manufacturing and processing activities in the form of rupee and foreign loans, underwriting, subscription to shares and debentures and guarantees to supply of equipment and foreign donors.

The rupee loan is given for the purchase of equipment and machinery, construction and preliminary expenses. The foreign currency loans are provided for the purchase of imported capital equipment.

#### 2. Leasing:

The leasing operations of the ICICI commenced in 1983. Leasing assistance is given for computerization, modernization/replacement, equipment of energy conservation, export orientation, pollution control etc.

#### 3. Project Advisory Services:

The Project advisory services are provided to the Central and State Governments and public sector and private sector companies. Advice to the governments is provided on policy reforms and on value chain analysis and to private sector companies on strategic management.

#### 4. Facilities for Non-resident Indians:

The information regarding on facilities and incentives given by the Government of India to the non-resident Indians for judicious investing in India are offered.

#### 5. Provision of Foreign Currency Loans:

The ICICI has a provision of foreign currency loans and advances to enable Indian Industrial concerns to secure essential capital goods from foreign countries.

#### 6. Other Institutions Promoted:

(a) ICICI promoted the Housing Development Finance Corporation (HDFC) to provide long-term finance to individuals in middle and lower income groups, co-operations, etc., for the construction and purchase on ownership basis of residential houses all over the country.

(b) Credit Rating Information Services of India Ltd. (CRISIL) set up by ICICI in association with Unit Trust of India (UTI) to provide credit rating services to the corporate sector.

(c) Technology Development and Information Company of India Ltd. (TDICI), promoted by ICICI, to finance the transfer and Up gradation of technology and provide technology information.

(d) Programme for the Advancement of Commercial Technology (PACT) set up with a grant of US $10 million provided by USAID (United States Aid) to assist market-oriented R&D activity, jointly undertaken by Indian and US companies, ICICI has been entrusted with the administration and management of PACT.

***Functions Of SFC:***

      The main functions of S.F.C. are as follows:

1. It grants loan and advances to industrial concerns that are repayable within the maximum period of 20 years.
2. It subscribes the shares and debentures of industrial concerns.
3. It underwrites the shares and debentures of the industrial concerns.
4. It guarantees loans raised by the industrial concerns repayable within 20 years.
5. Guarantees deferred payments for purchase of capital goods with India.
6. It acts as an agent of the State and central Government.

According to section 2(C) of the SFC Act 1951 as amended in 1961, the SFC can assist an industrial concern that is engaged in any of the following activities:

1. Manufacture, preservation or processing of goods
2. Hotel Industries
3. Road Transport
4. Generation or distribution of electricity or any other form of power
5. Development of any area of land as industrial estate.
6. Fishing or providing facilities for fishing or manufacture of fish products.
7. Providing special or technical knowledge or other services for the promotion of industrial growth.

      SFC provides foreign exchange loans under World Bank schemes.

      The SFC occupies an important place as an institution for industrial development in the country. The major beneficiaries of the SFC are assistances are the following industries:

1. Food Processing
2. Textile Chemical and Chemical Products
3. Metal Production
4. Cement.

**ROLE OF SIPCOT**

SIPCOT has rendered fruitful services to the state by identifying, developing, maintaining industrial areas in backward and most backward talukas of the State, which had potential to grow. Establish, develop, maintain and manage industrial complexes, parks and growth centres at various places across the State of Tamil Nadu. SIPCOT's role in assisting the industrialization in the State is not only quantitative but also qualitative.

Instead of just accelerating the pace of industrial growth in already developed and densely populated areas, SIPCOT, as a nodal agency, strives to ensure that disbursal of financial incentives result in spurt of industrial growth in backward and hitherto under developed areas.

**COMMERCIAL BANK**

## What Is a Commercial Bank?

A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like [certificates of deposit](https://www.investopedia.com/terms/c/certificateofdeposit.asp) (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as [opposed to an investment bank](https://www.investopedia.com/ask/answers/061615/whats-difference-between-investment-banks-and-commercial-banks.asp).

Commercial [banks](https://www.investopedia.com/articles/investing/122315/worlds-top-10-banks-jpm-wfc.asp) make money by providing loans and earning interest income from those loans. The types of loans a commercial bank can issue vary and may include mortgages, auto loans, business loans, and personal loans. A commercial bank may specialize in just one or a few types of loans.

Customer deposits, such as checking accounts, savings accounts, money market accounts, and CDs, provide banks with the capital to make loans. Customers who deposit money into these accounts effectively lend money to the bank and are paid interest. However, the [interest rate](https://www.investopedia.com/terms/i/interestrate.asp) paid by the bank on money they borrow is less than the rate charged on money they lend.

**UNIT- V**

**steps in setting up a small unit in India?**

**Meaning:**The potential entrepreneur would become an entrepreneur only when he owns an enterprise. The business enterprise to be set up can be a manufacturing venture, a trading firm or a service establishment. The manufacturing venture includes the steps required for setting up a trading firm or a service establishment also. The steps in setting up a small unit are as follows:

**1.      Decision to be Self-employed:**

This is the most crucial decision a person has to take shunning wage employment and opting for self-employment or entrepreneurship. He should know the advantages and risks of entrepreneurship.

**2.      Analyzing strengths, weaknesses:**

The potential entrepreneur has to analyse his strength, weaknesses, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of business would be the most suitable. The strengths and weaknesses will vary from person to person.

**3.      Availability of own money:**

No business can be created, with zero capital. The ‘Own Money’ concept means the funds available with an .entrepreneur from his own source or family or friends. The size of the unit depends on the availability of ‘Own Money’ in short-term and long-term.

**4.      Scanning of**[**business environment**](https://www.bms.co.in/business-environment/)**:**

It is always essential on the part of an entrepreneur to study and understand the prevailing business environment in which they operate particularly the industrial policy, economic policy, licensing policy, legal environment, technological environment and above all the markets. In order to ensure success of his enterprise, the entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative frame work, procedures, policies, rules and regulations and other formalities implemented by the government.

**5.      Training:**

The person should undergo training for developing skills for entrepreneurship and developing technical, conceptual and managerial skills. Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies, which he can compensate through training. He can attend the Entrepreneurial Development Programmes (EDP) conducted by institutes like DIC, SISI, TC0s, SBI etc.

This institutes are providing tailor-made Entrepreneurship Development Programmes (EDP) and skill upgradation training programmes for the benefit of the new entrepreneur, existing entrepreneurs and for the employees of the small scale industries.

**6. Product Selection:**

The next step and the most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a tew of them. Closely examine with the help of opportunity analysis each one of them and zero in on to a the final product or products.

**7. Market Survey:**

It is always convenient to manufacture an item but difficult to sell. So it is prudent or rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production and ensure that the product chosen is in sufficient demand and is preferably in the growth phase of a product life cycle.

Market survey means systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market, pricing, distribution policy etc. The principle is to produce what actually people demand. The entrepreneur can contact for this the concerned authorities.

**8.      Selection of form of ownership/organisation:**

A firm can be constituted as proprietorship, partnership, limited company (public or private) or co-operative society. This will depend upon the type, purpose and size of entrepreneur’s business. One may also decide on the form of ownership, on the basis of resources in hand or from the point of view of investment.

**9.      Location:**

The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.

Decision about the location of unit is very important. Location determines the success or failure of the enterprise. Location is selected after considering such factors such as nearness to market, sources of material and labour, modern infrastructural facilities etc.

**10.    Technology:**

To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one should be identified. This will also be useful to determine the type of machinery and equipment to be installed. Many institutions of government like DIC, TCO etc. research laboratories, R & D. divisions of big industries and certain consultancy agencies provide the manufacturing know-how.

**11.    Machinery and equipment:**

Having chosen the technology, the machinery and equipment required for manufacturing, the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.

**12.    Preparation of Project Report (Business Plan):**

After deciding the form of ownership, location, technology for manufacturing, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the [technical feasibility](https://www.bms.co.in/technical-feasibility/) of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the project report. The project report should indicate the vision of the promoter and short term and long term aspects of the project implementation.

**13.    Project appraisal:**

Project appraisal means the assessment of a project. It is a technique for ex-ante analysis of a scheme or project while preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the stand point of economic, financial, technical, market, social and managerial aspects to arrive at the most socially-feasible enterprise. To avail the finance from the banks and financial institutions, a comprehensive appraisal of projects carrying techno-[economic feasibility](https://www.bms.co.in/economic-feasibility/) aspects should be undertaken by the entrepreneur.

Thus a project which is selected should be technically feasible and economically viable and then only it will be bankable. For this the following appraisals can be performed at the preliminary level.

(a)     Economic appraisal

(b)     Financial appraisal

(c)     Technical appraisal

(d)     Management appraisal

(e)     Organisational appraisal

(f)      Operational appraisal

(g)     Market appraisal

**14.    Finance:**

Finance is the life-blood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain money or finance. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which provide financial assistance on concessional rates. Under PMRY and REGP schemes, financial assistance and subsidies are being provided to the persons who want to set up their own enterprise, which obviates the need for margin money.

**15.    Provisional Registration:**

It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the entrepreneur to avail various government facilities, assistance and incentives schemes including financial assistance from NSIC, SFCs, KVIC.

**16.    Technical know-how:**

In some cases, technical know-how may be arranged for setting up enterprises. This can be arranged through TC0s, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre and Industry etc. Facilities are also available to SSI for making variety of technical know-how arrangements including turn-key jobs.

**17.    Power and Water Connection:**

The sites where the enterprise will be located, should either have adequate power connections or this should be arranged. The entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise, as it can materially affect the installation cost. There are two categories of power, namely, the Low Tension (LT) and High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. If the connected load is between 75 HP and 130 HP, the consumer has the option to avail either LT supply or HT supply. Most of the SSI units fall under the LT category.

HT power supply may mean additional investment in transformer and sub-station. Most states, need a No Objection Certificate from the concerned Pollution Control Authorities, before the power connection. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.

**18.    Installation of machinery:**

Having completed the above formalities, the next step is to procure machinery and begin its installation as per the plant layout.

**19.    Insurance:**

It is necessary to have adequate insurance for the fixed assets at this stage and later on for the current assets as well.

**20.    Recruitment of manpower:**

Once machines are installed, the need for manpower arises to run them. So, the quantum and type of manpower (skilled, semi-skilled, unskilled, administrative etc.) is to be decided. The sources of getting desired labour are also important. This follows the recruitment, training and placement.

**21.    Procurement of raw materials:**

Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. The entrepreneur has to identify the cheap and assured sources of supply of raw materials for running his own enterprise. Government agencies can assist in case the raw materials are scarce or imported.

**22.    Production:**

The unit established should have an organisational set-up. To operate optimally, the organisation should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages : (i) Trial production (ii) Commercial Production. Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of losses in the eventuality of mistakes in project conception. Commercial production should be commenced only after the successfully launching the product at the test marketing stage.

**23.    Marketing:**

Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity etc. have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely: (i) Test stage (ii) Commercial marketing stage.

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small Industries Marketing Corporation.

**24.    Quality Assurance:**

Before marketing, the product quality certification from BIS (Bureau of Indian Standard) / AGMARK / HALLMARK etc. should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. After all, quality ensures long-term success.

**25.    Permanent Registration:**

After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.

**26.    Market Research:**

Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, upgradation and growth. Market becomes the waterloo for most SSI entrepreneurs as they ignore this vital function. Initial success should not lure the entrepreneur into a sense of complacency.

**27.    Monitoring:**

Periodical monitoring and evaluation not only of markets but also production, quality and profitability helps in knowing where the firm stands in comparison to performance envisaged in the business plan. It also identifies direction of future growth.

**Problems of entrepreneurs**

## 1.  Cash flow management

**The challenge:** Cash flow is essential to small business survival, yet many entrepreneurs struggle to pay the bills (let alone themselves) while they’re waiting for checks to arrive. Part of the problem stems from delayed invoicing, which is common in the entrepreneurial world. You perform a job, send an invoice, then get paid (hopefully) 30 days later. In the meantime, you have to pay everything from your employees or contractors to your mortgage to your grocery bill. Waiting to get paid can make it difficult to get by — and when a customer doesn’t pay, you can risk everything.

**The solution:**  [Proper budgeting](https://sbrc.deluxe.com/sbrc/financial/create-small-business-budget) and planning are critical to maintaining cash flow, but even these won’t always save you from stressing over bills. One way to [improve cash flow](https://sbrc.deluxe.com/sbrc/financial/5-ways-improve-small-business-cash-flow) is to require a down payment for your products and services. Your down payment should cover all expenses associated with a given project or sale as well as some profit for you. By requiring a down payment, you can at least rest assured you won’t be left paying others’ bills; by padding the down payment with some profit, you can pay your own.

Another strategy for improving cash flow is to require [faster invoice payments](https://academy.getjobber.com/resources/articles/how-to-write-an-invoice/). Invoice clients within 15 days, which is half the typical invoice period. This means if a customer is late with a payment, you have two weeks to address it and get paid before the next month’s bills are due. In addition, more and more companies are requiring immediate payment upon project completion — and in our digital age when customers can pay invoices right from their mobile phones, it’s not a stretch to request immediate payment.

You can also address cash flow management from the other side of the equation by asking your own vendors to invoice you at 45, 60 or even 90 days to allow ample time for your payments to arrive and checks to clear. If you can establish a good relationship with vendors and are a good customer, they’ll be willing to work with you once you explain your strategy.

And if you’re looking for an easier way to pay bills and save money, [consider sending checks via email](https://www.deluxe.com/echecks).

## 2.  Hiring employees

**The challenge:** Do you know who dreads job interviews the most? It’s not prospective candidates — it’s entrepreneurs. The hiring process can take several days of your time: reviewing resumes, sitting through interviews, sifting through so many unqualified candidates to find the diamonds in the rough. Then, you only hope you can offer an attractive package to get the best people on board and retain them.

**The solution:** Be exclusive. Far too many help wanted ads are incredibly vague in terms of what qualifications candidates must have, what the job duties are, what days and hours will be worked, and what wages and benefits will be paid. You can save yourself a ton of time by pre-qualifying candidates through exclusive help wanted ads that are ultra-specific in what it takes to be hired at your firm, as well as what the day-to-day work entails. Approach your employee hunt the same way you would approach a customer-centric marketing campaign: through excellent targeting.

Once you have a pool of prospects, arrange for a “walking interview” in which you take candidates on a tour of their working environments. Ask questions relevant to the job and to candidates’ experiences, expectations, dedication, and long-term goals. Don’t act like an overlord determining which minion gets to live another day; rather, behave as though you’re seeking a partner to help you operate and grow your business.

Take the time to seek real references: not the neighbor lady your candidates grew up with, but people who can honestly attest to their work ethic and potential. Once you’ve picked a candidate and before you’ve made a job offer, ask them specifically what it will take to keep them employed with you for the long haul. Tell them to be honest with their expectations. Provided they do a good job for you, you’ll know what kind of rewards they’re seeking, and you can make adjustments accordingly: Do they want more vacation? The opportunity for advancement? More pay? Freedom from micromanagement?

This isn’t to say you have to bend backwards for your employees; however, it stands to reason that if you make expectations clear for both parties you can lay the foundation for a long-term, mutually-rewarding client-boss relationship.

## 3.  Time management

**The challenge:** Time management might be the biggest problem faced by entrepreneurs, who wear many (and all) hats. If you only had more time, you could accomplish so much more!.

**The solution:** Make time. Like money, it doesn’t grow on trees, of course, so you have to be smart about how you’re spending it. Here’s how:

* Create goal lists: You should have a list of lifetime goals, broken down into annual goals, broken down into monthly goals, then broken down into weekly goals. Your weekly goals, then will be broken down into specific tasks by day. In this manner, what is on your task list in any given day is all you need to do to stay on track with your lifetime goals
* If any tasks do not mesh with your goals, eliminate them
* If any tasks do not absolutely have to be completed by you, [delegate them](https://sbrc.deluxe.com/sbrc/starting-a-business/5-time-consuming-tasks-you-can-afford-to-outsource)
* Consistently ask yourself: “Is what I’m doing right now the absolute best use of my time?”

## 4.  Delegating tasks

**The challenge:**You know you need to delegate or outsource tasks, but it seems every time you do something gets messed up and you have to redo it anyway.

**The solution:**  Find good employees (see above) and good outsourced contract help, for starters. You might have to pay a little more for it, but the savings in time (and the resulting earning potential) more than make up for it.

Next, be ultra-specific as to what you want done. It will take a little more time at first, but write down detailed steps listing exactly what you want your help to do. Don’t make assumptions, and don’t assume your help will be able to think for themselves (they can, but they will complete the job verbatim because that’s what they’re trained to do). So, don’t say “list stats in a spreadsheet” when you can say “alphabetically list XYZ in the right spreadsheet column, then list statistic A in the next column.” It might seem like overkill, but take the time to be specific once, and your help will get it right every time thereafter.

## 5.  Choosing what to sell

**The challenge:** You know you could make a mint if you just knew what products and services to sell. You’re just unsure how to pick a niche.

**The solution:** Admit that you’re weak in identifying prosperous niches, and delegate the task to someone who is strong in this area. You don’t have to hire a huge, expensive marketing firm; rather, recruit a freelance researcher who has experience in whatever type of field you’re considering entering (retail e-commerce, service industry, publishing, etc.). Have them conduct market research and create a report with suggested niches, backed by potential profit margins and a complete SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

This isn’t to say you should have someone else decide for you; however, if you’re not good at identifying niches it’s a good idea to have someone who is make suggestions. You can then analyze the suggestions for yourself to determine if you agree. Taking this step now can save you a lot of time, money and hassles later — and it can save your entire business and livelihood.

## 6.  Marketing strategy

**The challenge:**  You don’t know the best way to market your products and services: print, online, mobile, advertising, etc. You want to maximize your return on investment with efficient, targeted marketing that gets results.

**The solution:** Again, if you’re not adept at [creating marketing plans](https://sbrc.deluxe.com/sbrc/marketing/the-simple-way-to-a-successful-marketing-strategy) and placing ads, it’s a good idea to outsource your marketing strategy to someone who is. At this point, all you need is a core marketing plan: what marketing activities will you undertake to motivate purchases? Give your planner a budget and tell them to craft a plan that efficiently uses that budget to produce profits.

This is not the time for experimentation. You can do that later, on your own or with the advice of your marketing strategist, after you’ve established a baseline that works.

## 7.  Capital

**The challenge:** You want to start or grow your business, but you have little capital to do it with.

**The solution:** There are many [ways to earn funding](https://sbrc.deluxe.com/sbrc/financial/financing-finesse-consider-funding-small-business), from traditional bank loans to family and friends to Kickstarter campaigns. You can choose these routes, certainly, but I prefer the self-fueled growth model in which you fund your own business endeavors.

Instead of trying to launch a multi-million dollar corporation overnight, focus on your initial core customers. Continually work to find new customers, of course, but consistently strive to be remarkable to those customers you already serve. Word-of-mouth will spread, and more customers will come looking for you. As they do, develop systems and business processes that allow you to delegate tasks without sacrificing quality. Your business will grow slow and steady, and you’ll be able to solve problems while they’re small.

Think about where you want to be five years from now. Can you get there without help, even if you have to delay growth a bit while you’re doing it? This is the best strategy to adopt for small business entrepreneurs. If you do feel you need funding, however, be sure to consult an attorney to make sure you’re not giving up too much of your business to get it.

## 8.  Strapped budget

**The challenge:** Even though cash flow is fine, it seems you never have enough in your budget to market your company to its full potential.

**The solution:** Unless you’re one of the Fortune 500 (and even if you are), every entrepreneur struggles with their budget. The key is to prioritize your marketing efforts with efficiency in mind — spend your money where it works — and reserve the rest for operating expenses and experimenting with other marketing methods.

Keep a close eye on your money, too: chances are, there are areas you can skim to free up more funds. Unless an expense is absolutely critical to your business and/or represents an investment with an expected return, cut it. In fact, do this exercise: See how lean you can run your business. You don’t have to actually do it, but cut everything you can and see if you still feel you can run your business (save for what you have to delegate and market with). Somewhere in between your leanest figure and your current budget is a sweet spot that will allow you to be just as effective and leave funds leftover to fuel growth.

## 9.  Business growth

**The challenge:** We’re assuming you are growing, not that you can’t grow, and you’ve come to the point at which you can’t take on any more work in your current structure.

**The solution:** Create new processes that focus on task delegation. Many entrepreneurs, used to wearing all the hats, find themselves in this position once they’ve achieved a modicum of success. Because you’re doing everything, your growth halts to a stop when it hits a self-imposed ceiling. The only way to break through is to delegate tasks to others to take yourself out of the production end, and segue into management and, finally, pure ownership.

## 10. Self-doubt

**The challenge:** An entrepreneur’s life is not enviable, at least in the beginning. It’s extremely easy to get discouraged when something goes wrong or when you’re not growing as fast as you’d like. Self-doubt creeps in, and you feel like giving up.

**The solution:** Being able to overcome self-doubt is a necessary trait for entrepreneurs. Having a good support system will help: family and friends who know your goals and support your plight, as well as an advisory board of other entrepreneurs who can objectively opine as to the direction of your business.

One of the best ways to deal with self-doubt is to work on your goals and tasks lists. When you’re down and lack motivation, look at your lists and know that the tasks you do today are contributing to your lifetime goals. By doing them, you’re one step closer, and you can rest assured that you are, indeed, on the path to business success.

Entrepreneurs face many challenges, and volumes have been written about how to overcome them. Perseverance and intelligence are your allies; use them to your advantage to keep working toward your goals. Understand that you’re not the first to struggle. Because of that, there are many resources available to help you get through your darkest days as an entrepreneur, so you can reap the immeasurable rewards that come with building your own successful business.

# Sickness in Small Scale Industries

### 1. INADEQUACY OF WORKING CAPITAL

Some units turn out sick due to inadequacy of [working capital](https://mymbaguide.com/concepts-working-capital-importance-factors-sources-management/). There may exists delay in sanction of working capital by financial institutions. Industrial units find it difficult to meet out day to day operations due to the time gap between sanction of term loan and working capital needs. Shortage of Working Capital is one of the main reasons for sickness.

### 2. NON-AVAILABILITY OF CREDIT

Sickness in SSI sector may be attributed to non-availability of credit. Delay in getting loans may result in stoppage of work or lead to production loss. Low production may lead to reduced sales which in turn may lead to financial loss.

### 3. POOR AND OBSOLETE TECHNOLOGY

Some industrial units use technology which is outdated. Out dated technology may affect the quantity and quality of production. This results in production loss and reduces [demand for the goods](https://mymbaguide.com/demand-forecasting-meaning-types-objectives-approach/).

### 4. NON AVAILABILITY OF RAW MATERIAL

Some units may require raw material which are scarcely available. Sometimes, the raw material required by the unit may not be available in abundance. Hence, this affects the production and the sales of the goods. If the raw material is not abundantly available, then the industrial units have to spend a large amount of money to buy them. This may result in financial loss.

### 5. MARKETING PROBLEMS

Sometimes, the industrial units may not know as to how to create demand for the products. Lack of marketing knowledge may result in less demand for the goods. Similarly, there may be less demand for the goods produced by the SSI due to competition or change in the taste of the buyers.

For example, lot of units producing dyes and ceramics have been found sick in Gujarat and Tirupur.

### 6. ERRATIC POWER SUPPLY

Shortage in power supply affects the industries. This results in delay in production of goods and leads to financial losses.

### 7. LABOUR PROBLEMS

The relationship between the employer and the employees may not be cordial. Some of the labour problems such as strike, lay off, lock out may lead to industrial sickness.

### 8. POOR MANAGEMENT

The entrepreneur must be a good planner, organizer and a manager. If the Industrial Unit promoters lack [managerial skills](https://accountlearning.com/top-10-characteristics-quality-managers/), then it may lead to several problems.

### 9. INADEQUATE ATTENTION TO R&D

Industries have to allocate a part of money in research and development to survive and compete with competitors. Failure to focus on the above may lead to industrial sickness

### 10. DIVERSION OF RESOURCES

If the employer utilizes the funds obtained for the business for any personal purposes, then diversion of funds will lead to industrial sickness. The funds used for personal purposes cannot be regenerated and hence it may result in delay in payment of loans or financial crisis for the borrower of the loan.

### 11. GLOBALIZATION

Small scale industrial units may find it very difficult to compete with [large scale industries](https://accountlearning.com/advantages-or-merits-of-large-scale-production/) and foreign competitors. Inability of the units to face growing competition due to liberalization and globalization may lead to industrial sickness.

### 12. DISPUTE AMONG PARTNERS

There may arise dispute between the partners or family members running the unit. This results in stoppage of work and leads to industrial sickness.

### 13. OVERAMBITIOUS PROJECTS

The project may not be technically feasible, such an overambitious project is one of the reasons for industrial sickness.

## REMEDIAL MEASURES TO OVERCOME SICKNESS

Some of the remedial measures to curb and overcome sickness in industrial undertakings are as follows:

### 1. IDENTIFYING SICKNESS AT INITIAL STAGE

Sickness in Small Scale Industries are not a sudden phenomenon but it is a gradual process taking 5 to 7 years eroding the health of a unit beyond cure. Therefore, the identification and detection of the sickness at incipient stage is the first and foremost measure to detect and reduce industrial sickness. Sickness must be identified at initial stage.

### 2. FINANCIAL ASSISTANCE

Lending agencies need to relax their lengthy process and other norms for extending credit to the SSIs. To combat the incidence of sickness financial institutions should grant credit without delay to SSI sector.

A number of initiatives can be undertaken to overcome credit problems such as:.

1. Increasing Working capital limit.
2. Enhancing the powers of bank managers of specialized bank branches in offering credit to SSI.
3. Strengthening the mechanism for discounting bills.
4. Reduced rate of interest.

These measures would improve the flow of credit and keep a check on the incidence of sickness.

### 3. IMPROVING INFRASTRUCTURE

Infrastructure facilities can be improved by setting up [industrial estates](https://mymbaguide.com/industrial-estates-meaning-objectives-merits-types-role/). Common testing centres etc., infrastructural problems can be solved by improving the roadways, waterways, establishing telecommunication systems.

### 4. TECHNOLOGY UP-GRADATION

Funds may be provided by the financial institutions for adoption of advanced technology. Similarly, some sort of training may be provided for use of the latest technology to overcome technological problems. Technological up-gradation can help to overcome technological obsolescence.

### 5. MARKETING ASSISTANCE

Marketing assistance may be provided to [entrepreneurs](https://mymbaguide.com/4-important-classification-entrepreneurs/) for marketing the goods produced by them. Government must help to market the goods. Government and Non Government Organizations (N.G.Os) can come forward for marketing the goods produced by the SSI sector. The problem of poor marketing of the products can be solved by coordinated efforts of entrepreneurs and promotional agencies.

### 6. LIQUIDATION

It is better to wind up the business when there is no possibility to revive the unit.

### 7. GOVERNMENT INTERVENTIONS

Interventions must be made by the government to prevent sickness. Periodic review of financial statements can help to identify and prevent sickness at initial stage.

### 8. TRAINING

A proper environment must be created where an entrepreneur will be educated and will have a proper knowledge, skill and experience about internal and external environment of business to compete with large-scale industries and multinational companies.

### 9. REHABILITATION

Potentially viable sick units should be dealt well for the purpose of rehabilitation. Rehabilitation is a remedy considered for industrial units, which have already become sick and for the units that are on the verge of collapse.

Under the provisions of SICA, 1985, the Government of India has established Board for Industrial and Financial Reconstruction (BIFR) in January 1987 for determining the preventive, ameliorative, remedial and other measures which are required to be taken in respect of sick industrial company and for expeditious enforcement of rehabilitation schemes.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit here in refers to a Sick Industrial Company). It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

The measures taken by BIFR are

1. Legal
2. Financial restructuring
3. Managerial

#### REHABILITATION PROGRAMMES

Taking into consideration the many sick micro, small and medium (MSM) industries, the MSM policy has provided a separate package for rehabilitation of such industries in India.

The policy proposes to set up a rehabilitation fund for sick industries, which will be managed by the Industries Commissioner and the Director of Industries and Commerce. Funds will be infused into the committee based on the recommendation of a State-Level Rehabilitation Committee (SLRC).

The rehabilitation fund, among other things, will be used for meeting 75 percent of the cost of the cause that made the industry unviable, and to sanction an interest subsidy of 4 per cent for two years on rehabilitation/bridge loans up to Rs.15 lakh to the sick MSM industries.

The rehabilitation measures would ensure that most units under lockout would be able to open at an early date and appealed to MSM units to avail of the facilities the government was providing them.

The rehabilitation programme involves the following depending upon the nature of sickness.

1. Change of Management
2. Development of a suitable management information system
3. Settlement with the creditors for payment of their dues in a phased manner, taking into account the expected cash generation as per viability study.
4. Determination of the sources of additional funds needed to refinance.
5. Modernization of plant and equipment or expansion of an existing programme or even diversification of the products being manufactured.
6. Concession or relief or assistance allowed by the state level corporation, financial institutions and Central Government.

## What is Incentive?

The term “incentive’, generally means **encouraging productivity**. It is a motivational force, which encourages an entrepreneur to take a right decision and act upon it. The objective of providing incentives is to **motivate an entrepreneur** to set up a new venture in the larger interest of the nation and the society.

**Incentives to Entrepreneurs – Meaning, Advantages**

Broadly, incentives include concessions, subsidies and bounties. Incentives may be financial or non-financial. Non financial incentives push an entrepreneur towards decision and action. Entrepreneurs in India are offered a number of incentives. These incentives normally aim at reducing some of the problems faced by small scale industrialists.

**Subsidy**: Subsidy is a financial assistance or a sum of money provided by a government, to an industry for public welfare or interest. It is any financial aid, grant, or contribution.

“Subsidy” means a **single lump sum of money** that is given by a Government to an entrepreneur to cover the cost.

**Bounty**: The term “bounty” denotes a **bonus or financial aid** given to an industry to help it to compete with other units established in country or in a foreign market.

### Examples of Incentives

Industrial estates, industrial complexes, availability of power, concessional finance, capital investment subsidy, transport subsidy, are few examples of incentives to solve constraints faced by entrepreneurs in small scale sector.

## Advantages of providing Incentives to Entrepreneurs

Following are the advantages of providing incentives to entrepreneurs.

### 1. Decentralization of economic power

Incentives encourages prospective entrepreneurs to take up industrial ventures and results in [decentralization](https://accountlearning.com/centralization-or-decentralization-which-works-better/) of economic power in few hands.

### 2. Balanced regional development

Incentives are given to entrepreneurs establishing industries in backward areas. Hence, it results in the dispersal of industries over India’s geographical area and contributes to regional balanced development.

### 3. Transformation of Technology

Incentives help in the transformation of traditional technology into modern technology. Traditional technology is characterized by low skill; low productivity and low wages, whereas modern technology is subsequently characterized by improved skills, high productivity, raising wages and a higher standard of living.

### 4. Overcomes Difficulties

The package of incentives and concessions are given to entrepreneurs for setting up units both in backward as well as developed districts. But generally it is given for setting up units in backward area. It is provided to offset the disadvantages prevailing in such places.

### 5. Generates Industrialization

Industrial policy uses incentives both to correct the market imperfections and to accelerate the process of industrialization in the country. Regional balances can also lead to effective utilization of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

### 6. Encourages Entrepreneurship

The new entrants in the field face many obstacles on account of inadequate infrastructures. The new entrepreneur is supported by the government agencies through various incentives. Being a new entrant, an entrepreneur may lack marketing and [entrepreneurial skills](https://accountlearning.com/important-qualities-entrepreneur/). An entrepreneur requires support from government agencies to compete with competitors. The subsidies and concessions motivate the entrepreneur both financially and non financially and promotes entrepreneurship in the country by removing economic constraints.

### 7. Helps to Overcome Competition

Incentives help the entrepreneur to survive and compete with the competitors. Some of the incentives are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period.

1. To distinguish between the two kinds of performance measurement and their importance/relevance to entrepreneurs • To explain the principal financial statements needed for any entrepreneurial venture – the balance sheet, income statement and cash- flow statement • To outline the process of preparing an operating budget • To discuss the nature of cash flow and to explain how to draw up such a document • To explain how capital budgeting can be used in the decision-making process • To illustrate how to use break-even analysis • To describe ratio analysis and illustrate the use of some of the important measures and their meanings • To understand the importance of triple bottom line accounting • To appreciate the diversity of environmental accounting
2. But first • Why measure performance? • How can the success of an entrepreneurial venture be measured? ?
3. Measuring your performance • One constant preoccupation for the entrepreneur is measuring of economic performance • Increasingly, stakeholders and the public are expecting entrepreneurs to show that they are not merely delivering economic value, but also following socially and environmentally responsible paths.
4. We measure six kinds of resources • Tangible resources – Financial – Physical – Environmental • Intangible resources – Organisational – Relational – Human
5. Measuring financial performance • Financial statement quantifies: – marketing – distribution – manufacturing – management. • It is built on a foundation of assumptions. • It is composed of: • Balance sheet • Income statement • Operating and cash-flow budgets • Pro-forma statements
6. Balance sheet • The balance sheet is divided into : – financial resources owned by the firm – claims against these resources
7. Current Assets both ‘Plus’ and ‘Minus’
8. Current liabilities Why the balance sheet always balances • Assets = Liabilities + Owners’ equity • If something happens that increases or decreases one side of the balance sheet, it is offset by something on the other side.
9. Understanding the balance sheet
10. Income statement P&L • The income statement AKA ‘profit and loss statement’ or ‘P&L’ shows the change that has occurred in a firm’s position as a result of its operations over a specific period. • Compared to balance sheet, which reflects the company’s position at a particular point in time.
11. Understanding the income statement (P&L)
12. Balance and P&L • What different things can the Balance Sheet and the Income Statement (also known as Profit & Loss) tell you about a business? • Which category is most important to you? Which line do you first look at? ?
13. Cash-flow statement • Shows the effects of operating, investing and financing activities on its cash balance. – How much cash did the firm generate from operations? – How did the firm finance fixed-capital expenditures? – How much new debt did the firm add?
14. Preparing financial budgets Sales forecast using linear regression estimating the expected value of sales versus ad expenditures.
15. Pro forma statements • The final step is the preparation of pro forma statements -- projections of a firm’s future financial statements. • Pro forma comes from Latin meaning ‘according to form’. • After preparing the pro forma balance sheet, the entrepreneur should verify the accuracy of their work with the application of the traditional accounting equation: • Assets = Liabilities + Shareholders’ equity • If the equation is not in balance, the work should be rechecked. This is the pro forma P&L from the Cocoa Samoa Ltd business plan at the end of the book
16. Capital budgeting • Entrepreneurs must make investment decisions. • Three techniques of capital budgeting.
17. Break-even analysis • Break-even analysis estimates expected product profitability. • How many units must be sold to break even? • What contribution does a product make to the margin?
18. Financial ratio analysis • Ratios are generally considered to be for owners, managers or creditors. • Vertical analysis – Look ‘up and down’ a single statement to see strengths and weaknesses • Horizontal analysis – Look at financial statements and ratios over time
19. Performance tools for sustainable entrepreneurs • Life cycle assessment (LCA) – Track costs from idea product death • Design for the environment (DFE) – ‘Wastes’ are ‘designed out’ • Factor X – Doubling output while halving impact • EMS ISO 14000 and clean production – Managing environmental affairs through continuous improvement • Environmental impact assessment (EIS) – Assess positive and negative impacts of a project on the natural environment • Material flow analysis (MFA) – Strategies to improve the material flow systems • ME T (materials, energy and toxicity) Matrix – Impacts of a product over its life cycle
20. Triple bottom line • Sustainable development performance looks at three areas: people (social), planet (environment) and profits (economic).
21. Footprint analysis • You can calculate your carbon footprint. • Expressing all business activities in CO2 equivalent emissions • Service businesses: taxis, transport, flights and outsourcing. • Manufacturing businesses: aluminium, cement, iron and steel, pulp and paper, refrigeration, semiconductors, wood products Environmental impact of aviation: A C-141 Starlifter leaves contrails over Antarctica. Calculation tools Greenhouse Gas Protocol Carbon Reduction Institute
22. Calculating food or product miles Those food miles take a toll on the environment, through greenhouse gas emissions from road, air and sea freight. Food miles is a term which refers to the distance food is transported from the time of its production until it reaches the consumer.
23. Social impact analysis • Companies can quantify social impact of a product or service. – [SROI] = [Net present value of benefits] / [Net present value of investment]
24. Key concepts (close your books) 1. What are the three basic financial statements? 2. What kind of ‘picture’ of performance does each statement provide? 3. How can organisations use the concept of triple bottom line to improve their sustainability? ?
25. Key concepts • Basic financial statements: – Balance sheet – Reports the financial position at a specific time – Income statement – Shows change in the firm’s financial position over a specified period – Cash-flow statement – Provides information about cash receipts and cash payments during a specific period.
26. Key concepts • Discuss Triple Bottom Line: –People (social) –Planet (environment) –Profits (economic)

## ****Woman Entrepreneurs in India: Need, Scope, Functions, Qualities and Role Woman Entrepreneurs in India – Definitions of Women Entrepreneurs****

Women Entrepreneurs may be defined as the women or a group of women who initiate, organize and operate a business enterprise. A woman entrepreneur is therefore a confident, creative and innovative woman desiring economic independence individually and simultaneously creating employment opportunities for others.

The Best Project No – 2 (2004) published by the European Commission defines a female entrepreneur as a ‘woman who has created a business in which she has a majority shareholding and who takes an active interest in the decision-making, risk-taking and day-today management.

With the spread of education and awareness, women entrepreneurs have shifted from the extended kitchen activities, i.e., 3Ps to the higher level of activities, i.e., 3Es. viz., Engineering, Electronics and Energy. Although the number of such units is not large, but it can be noted that women are putting up units to manufacture solar-cookers (Gujarat), small foundries (Maharashtra), T.V. Capacitors (Odisha) and electronic ancillaries (Kerala).

It seems worthwhile to make a mention, of course in brief, of some of the successful and accomplished women entrepreneurs in the country. Smt. Sumati Morarji of Shipping Corporation, Smt. Yamutai Kirloskar of Mahila Udyog Limited, Smt. Neena Malhotra in exports and Smt.

Shahanaj Hussain in beauty clinic cosmetics stand as beacon to women entrepreneurs, for example. Further, since the inception of the National Awards to Small Entrepreneurs instituted in 1983, 10 women entrepreneurs have received special recognition awards. They attributed their success to their untiring hard work, perseverance, tenaciousness, determination, confidence in them and most importantly, their compelling urge of wanting to do something positive in their lives.

Added to these was a man behind every successful woman. Women entrepreneurs have several qualities like perseverance, hard work, patience, optimism, intelligence, etc. From pharma to designing, women entrepreneurs are spread across sectors.

### ****Woman Entrepreneur in India – Concept of a Woman Entrepreneur****

The role of women at the work place has undergone a dramatic change in the last 50 years, just as the view of entrepreneurships over the centuries. Just five decades ago, there were only a few women who owned and operated their own businesses. The Second World War brought many more women into the workforce, but such accepted social values as the male being the head of the house and women being dependent and staying indoors did not create an environment conducive for women to work unless there was a necessity.

Of late, women have tried to shed this traditional mould. Also, there have been significant social, political, and economic changes that have created opportunities for women as well as given them greater acceptance and recognition in the corporate world. A woman entrepreneur includes a woman or a group of women who initiate, organize, and operate a business enterprise.

Slowly they are making their mark as business women and giving their male counterparts a run for their money. Women entrepreneurs have been on the Indian business scene for quite some time now and have achieved remarkable success. However, their number in relation to the overall number of small scale enterprises is still very small. Worldwide too, the trend is not very much different.

**The Indian Scenario:**

The situation is rather alarming in India. Statistics have revealed that almost all the non- working women (including the ones in the unorganized sector), who comprise the majority of womenfolk in the country, are in a state of complete dependence. With a view to improve the present situation, a number of steps were taken at the national level to address various issues pertaining to them.

**Development Initiatives:**

As far back as 1954, recognizing the presence of women as a distinct group with special needs, the State—at the Union and State levels—introduced a number of programmes that were basically social welfare and health schemes targeted at motherhood, family care, child welfare, etc.

The approach towards women was welfare-oriented where they were seen as the objects of state benevolence rather than participants in the development process. In the 1970s, there was a shift in the approach of the schemes from welfare to development. In 1974, the Committee on Status of Women in India recommended that only active participation of women would ensure their integration into mainstream economy.

As a result, a number of development programmes aimed at improving the lot of women and girls children as an important human resource were introduced. These included education and social development schemes for the girl child at primary level and adult education for women. The plan document then also envisaged giving joint titles to both the spouses in all legal activities such as – transfer of assets, distribution of land/house sites, etc.

The results of such schemes are bearing fruit now and we have seen a perceptible and meaningful improvement in the living standard of women even though a monumental task remains to be achieved in this field.

### ****Woman Entrepreneurs in India –****Need

1. More and better access to finance/credit is mentioned very frequently. Give a woman 1000 rupees and she can start a business. Give her another 1000 rupees and she will be able to feed not only for her family, but for her employees as well.

2. Access to business support and information, including better integration of business services.

3. Access and vigilance on the latest information science and technology to match the basic characteristics of entrepreneurs and the fundamental character of the Indian woman is necessary to show that a lot of potential among Indian women for their entrepreneurial skills. This potential can be considered as suspended and for use in manufacturing and services for the development of the nation.

4. The challenges and opportunities for women in the digital age are growing, as job seekers turn to job creation. They are growing as a designer, interior designers, exporters, publishing, clothing and always looking for new modes of economic participation. They have better access to local and foreign markets.

5. Day care centres and nurseries for children and also for the elderly;

6. Even as women are receiving education, they face the prospect of unemployment. In this background, self-employment is regarded as a cure to generate income .The Planning commission as well as the Indian government recognizes the need for women to be part of the mainstream of economic development. Women entrepreneurship is seen as an effective strategy to solve the problems of rural and urban poverty.

7. Positive image-building and change in mentality amongst women, whereby women see themselves as capable achievers and build up confidence.

8. Self-motivation is the keyword – For establishing successful businesses learn to take risk and change their attitude towards business society by taking up social responsibilities. Understand the government business policies and get monetary help from public and private institutions.

9. Breaking through traditional patterns and structures that inhibit women’s advancement.

10. Develop confidence – Women in India lack self-assurance in their potency and proficiency. However, over the last few years the outlook of Indian women is changing and they are fast emerging as potential entrepreneurs.

11. Role modeling of women in non-traditional business sectors to break through traditional views on men’s and women’s sectors.

12. Understanding of Business Administration – Women should be highly educated and trained in their area of knowledge so that they can attain expertise and understanding of all the major operational aspects of business administration. This will assist a woman to take balanced decisions beneficial for expanding her business network. For example, someone may have a tailoring shop but doesn’t know how to sell its services to the military. So it is necessary to help them out in filling out the tenders, getting their organization registered, etc. It’s a form of marketing support.

13. Women companies are fast-growing economies in almost all countries. The latent entrepreneurial potential of women have changed little by little by the growing awareness of the role and status of economic society. Skills, knowledge and adaptability of the economy led to a major reason for women in business.

14. To give them more involvement and participation in legislation and decision-making processes.

15. Women entrepreneurs in India are handicapped in the matter of organizing and running businesses on account of their generally low levels of skills and for want of support system. The transition from homemaker to sophisticated business woman is not that easy. But the trend is changing. Women across India are showing an interest to be economically independent. Women are coming forth to the business arena with ideas to start small and medium enterprises. They are willing to be inspired by role models- the experience of other women in the business arena.

16. Removing of any legislation which impedes women’s free engagement.

17. The role of women entrepreneurs is especially relevant in the situation of large scale unemployment that the country faces. The modern large scale industry cannot absorb much of labour as it is capital intensive. The small scale industry plays an important role, absorbing around 80 per cent of the employment.

18. Awareness-raising at the governmental as well as private level to truly and really create entrepreneurial opportunities and not just programs that stay on paper.

19. While women entrepreneurs have demonstrated their potential, the fact remains that they are capable of contributing much more than what they already are. In order to harness their potential and for their continued growth and development, it is necessary to formulate appropriate strategies for stimulating, supporting and sustaining their efforts in this direction. Such a strategy needs to be in congruence with field realities and should especially take cognizance of the problems women entrepreneurs face within the current system.

### ****Woman Entrepreneurs in India –****Importance

In modern days, women entrepreneurs are playing a very important role in business, trade or industry. Their entry into business is of recent origin. Women have already shown their vital role in other spheres like politics, administration, medical and engineering, technical and technological, social and educational services. This is true in advanced countries and now in recent years, they have been entering into these fields in our country. Their entry into business is a recent phenomenon in India.

It is an extension of kitchen activities. In certain businesses, women entrepreneurs are doing exceedingly well and even they have exceeded their male counterparts. Women are successful not only in law, science, medical, aeronautics and space exploration and even in police and military services, but now they are showing their might even in business and industry. They have proved that they are no less them men in the efficiency, hardwork, or intelligence, provided they are given proper scope.

The role or importance of women entrepreneurs may be ascertained from the study of the functions they perform.

**These functions are as under:**

a) Exploring the prospects of starting new enterprises.

b) Undertaking risks and handling economic uncertainties.

c) Introducing innovations.

d) Co-ordinating administration and control.

e) Routine supervision.

It may be observed that these functions are not always of equal importance. For example, risk-taking and innovation functions are of utmost importance for establishing, diversifying and running the business successfully co-ordination and supervision functions become important in improving the efficiency and attaining the goodwill for the business as well as in assuring the smooth balanced operation of the enterprise.

In the case of women enterprises, usually the same lady performs all these functions and some times, she may also take the assistance of other female staff members. In most of the cases, a woman is the owner of the business enterprise.

**Generally, the following three types of business are suitable to the women entrepreneurs:**

a) Manufacturing a product for direct sale in the market.

b) Manufacturing a product or a part of the product to meet the short term or long-term order of a large industrial company, and

c) Operating purely as a sub-contractor of raw materials supplied by the customers.

Generally, the last two types industry or business are known as ancillaries. The women entrepreneurs prefer to deal in consumer goods which have always a demand in the market. They prefer to deal in intermediate goods which are used in the production of other products and mostly they are manufactured to the orders of large companies.

### ****Woman Entrepreneurs in India – 4 Main Entrepreneurial Traits**** of Women Entrepreneurs

**Following are main entrepreneurial traits of women entrepreneurs:**

**(i) Imagination:**

It refers to the imaginative approach or original ideas with competitive market. Well planned approach is needed to examine the existing situation and to identify the entrepreneurial opportunities. It further implies that women entrepreneurs have association with knowledgeable people and contracting the right organisations offering support and services.

**(ii) Attribute to Work Hard:**

Enterprising women have further ability to work hard. The imaginative ideas have to come to a fair play. Hard work is needed to build up an enterprise.

**(iii) Persistence:**

Women entrepreneurs must have an intention to fulfil their dreams. They have to make a dream translated into an enterprise. Studies show that successful women have worked hard. They persisted in getting loan from financial institutions and other inputs. They have persisted in adverse circumstances and in adversity.

**(iv) Ability and Desire to Take Risk:**

The desire refers to the willingness to take risk and ability to the proficiency in planning, making forecast, estimates and calculations. Profits are the reward of risk. Enterprising women take risk but the risk is well calculated. It offers challenges where chances of survival and failure are on equal footing.

### ****Woman Entrepreneurs in India –****Scope of Opportunities for Women Entrepreneurs

The modern world women has been able to overcome the hurdle of society’s perception of considering them to the confined to the four walls of the house or viewing them as weak entrepreneurs caught up in limited business area such as papad making, pickle preparation food items, paintings, handicrafts, etc.

They have been able for show a remarkable shift from these small entrepreneurs at ventures to modern technology-based business ventures such as-

i. Computer services and information dissemination

ii. Trading in computer stationary

iii. Computer maintenance

iv. Computer maintenance

v. Travel and tourism

vi. Quality testing, quality control laboratories

vii. Sub-assemblies of electronic products

viii. Nutrition clubs in schools and offices

ix. Poster and indoor plant library

x. Recreation centers for old people

xi. Culture centers

xii. Screen printing, photograph and video shooting

xiii. Stuffed soft toys, wooden toys

xiv. Mini laundry, community eating centers

xv. Community kitchens

xvi. Distributing and trading of house hold provision as well as saris, dress materials, etc.

xvii. Job contracts for packaging of goods

xviii. Photocopying, typing centers

xix. Beauty parlors

xx. Communications centers like STD booths, cyber cafes, etc.

### ****Woman Entrepreneurs in India –****Factors Influencing Women Entrepreneurship:

1. Family culture and traditions – Family culture and traditions influence entrepreneurship. Women entrepreneur will remain entrepreneur if its family tradition is so or if she belongs to a pioneer entrepreneur.

2. Geographical factors and social factors – The society the state and the area to which she belongs also influence the entrepreneurship. If she is a Punjabi or Gujrati belonging to their respective state, will become entrepreneurs.

3. Caste system – The caste system also influences as a women who is Sindhi may start a business at an early stage as in their caste or communities it is a trend.

Government aids and policies – Government can never increase entrepreneurship, it always helps an entrepreneur. A capable person only can become entrepreneur even if she gets aids or adopts policies to start a venture.

4. Government can help poor class people with reservations. Government help can be of significance if entrepreneur takes its help for logical conclusions. But for this, caliber of an entrepreneur is also seen.

5. Inherent capabilities and efficiency – Capabilities to withstand the competition with males requires guts and dare to become an entrepreneur. Females require same capabilities as that of males. They get benefit of being females only when the service has to be rendered to women only like in hospitals etc. Capabilities influence the entrepreneurship but efficiency is also required as if the person has capability to become an entrepreneur but if she is not efficient to run the venture she cannot become a better entrepreneurship.

**i. Push Factors:**

a. Death of bread winner

b. Permanent inadequacy in income of the family

c. Sudden fall in family income

**ii. Pull Factors:**

a. Need and perception of Women’s Liberation, Equity etc.

b. To gain recognition, importance and social status.

c. To get economic independence

d. To utilize their free time or education

e. Women’s desire to evaluate their talent

**There are four motivating factors which influence a woman entrepreneur:**

**1. Recognition:**

A woman entrepreneur is motivated by recognition in respect of admiration, regard, esteem and celebrity. It is communication tools that reinforces and rewards the most important outcomes entrepreneurs create for the business.

**2. Influence:**

It is the capacity or power of a person to be a compelling force on or produce effects on the actions, behavior, opinions, etc., of others.

**3. Internal:**

It is the main factor which motivates businesswomen. It is the internal factors which are very much important for the motivation. It includes creativity, respect, and happiness of other people.

**4. Profit:**

It is not the true motivation which influences an entrepreneur. Welfare of the employees, payment of tax to the government, is indirectly improving the living conditions of the entrepreneur. Thus the real motivation for Apple to create and sell popular products like ipod, iPhone and ipad is probably not money, but the interest.

### ****Woman Entrepreneurs in India –****Emergence

This is a dynamic world and it is changing at a greater speed. Changes have accrued in all spheres of human activity including in their profession and vocation. Liberalisation has further accelerated the pace of changes. The results of change are tangible and apparent.

It has contributed to the emergence of various classes of entrepreneurs including women whose entry was insignificant and difficult once upon a time. This is a boon for sustained economic development and social progress. Due to social transformation, spread of higher education, pro-women legislations, spurting awareness, urbanisation, family support etc., have contributed to the emergence of women entrepreneurs in large numbers.

In former days, for various reasons, the entry of women into business field was almost restricted. For women there were 3Ks- Kitchen, Kids and Knitting then came 3ps – powder, papad and pickles. Now the scenario is completely changed. She came out of the four walls of house owing to social transformation. Now the previous 3Ks and 3Ps are completely replaced by 4Ps, they are Electricity, Electronic, Energy and Engineering. Women had undergone a long way and are becoming increasingly visible and successful in all spheres of economic activities. This is true in case of Indian women also.

Women are not only involved in business activities for their survival. They want to satisfy their inner urge of creativity and skill. For this purpose they have been formulating strategies and building a base. Their numbers in education, politics, self-employment, profession etc., are increasing at a greater speed also. Women education is the reason for social transformation. This will be seen from the entry of women into areas traditionally dominate by men.

During these years women are taking more professional education to cope up with market need and are flourishing in various areas. Important among them are – fashion designing, interior decoration, exporting, publishing, garment manufacturing, beauty parlors, basket weaving, consultancies, content writing, event planning, resume writing etc.

It is perhaps for these reasons; the government, NGOs, researchers and international agencies have started showing interest in the issues related to entrepreneurship among women. This is true in India also. Indian women are fast becoming entrepreneurs and taking up varied economic activities.

Women entrepreneurs explore the prospects of starting a new venture. They willing to assume risk, introduce innovations, coordinate administration and control business by their skill and knowledge. Many women succeeded in their missions and emerged as successful entrepreneurs.