INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE & HUMANITIES
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ENTREPRENEURSHIP

NOTES UNIT–6: RESOURCE MOBILIZATION CHAPTER
QUESTION BANK

"Education is the manifestation of the perfection already in man." – Swami Vivekanand

Why does an entrepreneur need to plan the financial resource requirement for running an enterprise?
To minimize losses, it is essential to prepare for the "unexpected" by arranging and protecting the resources. The significance of finance in enterprise is explained like a lubricant to the process of production. It's one of the most important requirement to start an enterprise. Finance is important as it assists in the formation of new businesses, and allows businesses to take advantage of opportunities to grow and expand. Right from the very beginning i.e. conceiving an idea; finance is required to:

a) Promote or establish the business
b) Acquire fixed assets
c) Make market investigations
d) Develop product
e) Keep men and machines at work
f) Encourage management to make progress and create value.
g) Expand, diversify, improve and grow.
h) Be enough to meet unexpected/unplanned business expenses.

'Production', 'Marketing', and Financing', deemed as the most important factors and before doing anything, an entrepreneur should clearly answer the following three questions:

1) How much money is required?
2) Where will money come from?
3) When does the money need to be available?

As regards, the money needed, it can be estimated by developing a statement of various assets required by the enterprise. Integral to total amount needed is to decide about its arrangement or sources.

What are the different sources of finance?
Financial sources could broadly be classified into 2 major categories.

1) Internal sources
2) External sources

These sources carry very different:

- Obligations
- Responsibilities
- Opportunities

Internal sources referred to as owner's own money is also known as 'equity'.
A large portion of money is arranged from the external sources. Nowadays a common growing practice is where the entrepreneur gives up part of his/her ownership in the enterprise and in return receive money to develop business.
Some mushrooming sources available to an entrepreneur to raise finance:

a) Capital markets
b) Angel investors
c) Venture capital
d) Specialized financial institutions

What are Capital markets?
A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs. Here, productive capital is

raised and made available for industrial purposes. Capital Markets play a very vital role of a financial intermediary.

Why are capital markets considered as an important source of raising finance?

Capital markets are the most important source of raising finance for the entrepreneurs as this market can:

a) Mobilize the financial resources on a nation-wide scale.
b) Secure the required foreign capital and know-how to promote economic growth at a faster rate.
c) Ensure the most effective allocation of the mobilized financial resources by directing the same either to such projects which are capable of the highest yield or to the underdeveloped priority areas where there is an urgent need to promote balanced and diversified industrialization.

Define Primary capital market. How does it mobilize finance requirements for entrepreneurs?

Primary market (new issues market) is basically to facilitate transfer of resources from the savers to the entrepreneurs seeking funds for:

a) Setting new enterprises
b) Expanding
c) Diversifying

The 'new issues' may be issued by:

1) New companies – also called initial issues.
2) Old companies – also called further issues.

Initial issues

The entrepreneurs highly bank on this type of "issue" to generate funds. When for the first time, entrepreneur for the purpose of obtaining capital funds decides to issue securities to the public — its first sale is in the primary market. Such ―issues of securities" are even referred as "new money issues".

Methods of flotation of new issues

An entrepreneur can raise the required capital in the primary market by the following methods:

1. Public issue
2. Rights issue
3. Private placement
4. Offer to the employees

How is finance mobilized with the issue of initial public issue? What are the benefits and drawbacks of public issue to an enterprise?

This involves raising of funds directly from the public through the issue of prospectus. An enterprise organizing itself as a public limited company can raise the required funds commonly by preparing a prospectus.

When an entrepreneur offers shares to the public for subscription he/she is required to comply with all the restrictions and formalities pertaining to the initial issues, prospectus drafting and launch.

When an entrepreneur decides to go public and become a public company, he/she tends to be in advantageous positions because of reaping the following benefits:

1) Access to capital: The primary advantage an entrepreneur stands to gain by going public is access to capital. In addition, the capital does not have to be repaid and does not involve an interest charge. The only reward the IPO investors seek is an appreciation of their investment and possibly **dividends**.

Entrepreneur can use the capital raised for a variety of purposes including:

(1) Growth and expansion,
(2) Retiring existing debt,
(3) Corporate marketing and development
(4) Acquisition capital.

An entrepreneur's financing alternatives stands greatly increased.

2) Other advantages

- **Mergers and acquisitions:** Public stock of a company can be used for businesses to grow through acquisitions.
- **Higher valuations:** Public companies are typically valued more than private companies.
- **Benchmark trading price:** The trading price of a public company's stock serves as a benchmark of the offer price of other securities.

- **Capital formation:** Raising capital later is typically easier because of the extra liquidity for the investors.
- **Incentives:** Stock options and stock incentives can be very helpful in attracting employees.
- **Reduced business requirements:** While an underwritten initial public offering requires significant earnings, the lack of earnings does not keep a private company from going public.
- **Less dilution:** There is less dilution of ownership control compared to an IPO.
- **Liquidity:** A public company provides liquidity for management, minority shareholders, and investors.
- **Prestige:** Added prestige and visibility with customers, suppliers, as well as the financial community.

Drawbacks

While there are benefits to going public, it also means additional obligations and reporting requirements such as:

- Increasing accountability to public shareholders
- Need to maintain dividend and profit growth trends
- Becoming more vulnerable to an unwelcome takeover
- Need to observe and adhere strictly to the rules and regulations by governing bodies
- Increasing costs in complying with higher level of reporting requirements
- Relinquishing some control of the company following the public offering
- Suffering a loss of privacy as a result of media interest

What are Rights issue?

Rights issue is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis i.e. giving them a right to a certain number of shares in proportion to the shares they are holding.

Normally, through a circular, rights issues are proposed to the existing shareholders and in case they are not willing to subscribe, they can renounce the same in favour of another person. This method of issuing securities is considered to be inexpensive as it does not require any brokers, agents, underwriters, prospectus or enlistment, etc.

Define Private placement of funds.

Private placement means the direct sale by a company of its securities to a limited number of sophisticated investors. Entrepreneurs, herein, raise funds by selling the issues mainly to the institutional investors like:

- Unit Trust of India
- Life Insurance Corporation of India
- General Insurance Corporation of India
- Army Group Insurance
- State Level Financial Corporations, etc.

Entrepreneurs both from public limited and private limited sector, bank heavily upon raising funds through the issue of varied financial instruments under this segment as at times they do not wish to disclose information to the open market.

What are 'Stock options'?

Stock options or offering shares to the employees has gained much popularity in many countries of the world. This method enables employees to become shareholders and share the profits of the company leading to:

a) Higher efficiency
b) Low labour turnover
c) Better industrial locations
d) Low floatation cost
e) Wider/higher generation of funds.

Define Secondary market.

Capital markets aid in the mobilization of individual savings to make them readily available to those who need them in:

- Industry
- Trade
- Finance
- Government

Any transaction in shares or debentures subsequent to its primary offering is called "Secondary Transaction". Thus, the secondary capital market, which is also known as old securities market or stock exchange deals with buying and selling of old securities.

The secondary market enhances the marketability of securities and thereby provides liquidity to investments. From the investor's point of view, this market imparts liquidity to the long-term securities held by them by providing an auction market for these securities. It operates through the medium of stock exchanges which regulate the trading activities in this market and ensures a measure of safety and fair dealings to the investors.

Define Stock exchange.

A stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities." Securities Contracts (Regulation) Act, 1956

What are the main Features of stock exchange?

1) **Association of persons:** A stock exchange is an association of persons or body of individuals which may be registered or unregistered.
2) **Recognition from central government**: Stock exchange is an organized market. It requires recognition from the Central Government.
3) **Market for securities**: Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.
4) **Deals in second hand securities**: It deals with shares, debenture, bonds and such securities already issued by the companies. In short it deals with existing or second hand securities and hence it is called secondary market.
5) **Regulates trade in securities**: Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.
6) **Allow dealings only in listed securities**: In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.
7) **Transactions effected only through members**: All the transactions in securities at the stock exchange are effected only through its authorized brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors have to buy or sell the securities at the stock exchange through the authorized brokers only.
8) **Working as per rules**: Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as **SEBI Guidelines**. No deviation from the rules and guidelines is allowed in any case.
9) **Specific location**: Stock exchange is a particular market place where authorized brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The prices of different securities traded are shown on electronic boards. After the working hours market is closed. All the working of stock exchange is conducted and controlled through computers and electronic system.
10) **Financial barometers**: Stock exchanges are the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the index of stock exchange.

Explain the functions performed by a stock exchange.

Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. It is important functions are:

a) **Continuous and ready market for securities:** Stock exchange provides a central market for purchase and sale of securities. It provides ready and continuous outlet for buying and selling of securities. Buyers and sellers strongly believe that they would be able to buy and sell securities as and when they want.
b) **Facilitates evaluation of securities:** Stock exchange is useful for the evaluation of industrial securities. It publishes price quotation of the shares of the companies that have been listed with them after thorough analysis of demand and supply position. This enables investors to know the true worth of their holdings at any time.
c) **Checks on brokers:** Stock exchanges control the activities of brokers and protect the investors from being deceived. Now, if any broker is found indulging in malpractices as overcharging or giving wrong information, his/her licence may be cancelled.
d) **Provides safety and security in dealings:** Activities of the stock exchange are controlled by the provisions of the Securities Control (Regulation) Act and all this creates confidence in the minds of investors. As transactions are conducted as per well-defined rules and regulations, fraudulent practices stands checked effectively ensuring safety, security and justice in dealings.
e) **Regulates company management:** Listed companies have to comply with rules and regulations of concerned stock exchange and work under the vigilance of stock exchange authorities.
f) **Intensifying capital formation:** Stock exchange accelerates the process of capital formation through creating the habit of saving, investing and risk taking among the investing class by converting their savings into profitable, safe investments.
g) **Facilitates raising of new capital:** Because of stock exchange, for either development, organisation or expansion, the need for more capital by the existing companies is easily met out.
h) **Facilitates public borrowing:** Stock exchange serves as a platform for marketing government securities. It enables government to raise public debt easily and quickly.
i) **Facilitates healthy speculation:** Healthy speculation, keeps the exchange active. Normal speculation is not dangerous but provides more business to the exchange. However, excessive speculation is undesirable as it is dangerous to investors & the growth of corporate sector.
j) **Serves as economic barometer:** Stock exchange indicates the state of health of companies and the national economy. It acts as a barometer of the economic situation/conditions and is thus referred as pulse of economy or economic mirror.
k) **Facilitates bank lending:** Banks easily know the prices of quoted securities. They offer loans to customers against corporate securities. This gives convenience to the owners of securities.

Explain the Importance of a stock exchange to different stakeholders.

Stock exchange indicates about the good or bad health of an economy. It is an investment intermediary which facilities economic and industrial development of a country. For the smooth and orderly functioning of corporate sector in a free market economy, stock exchange are indispensable, because of the different roles played by them for different groups. These groups are **investors, entrepreneurs and societies. The importance of stock exchange for these groups is as follows:**

From the viewpoint of investors	From the viewpoint of entrepreneurs /companies	From the viewpoint of society
Dissemination of useful information: Stock exchange publishes useful information regarding price lists, quotations, etc., of securities through newspapers and journals. The interested persons buy and sell their securities on the basis of information provided by the stock exchanges.	**Recognition:** The market values of companies' shares are published in important dailies. This enhances the reputation of good companies/entrepreneurs.	**Rapid capital formation:** People get tempted to invest in securities when they study the trend of necessary prices of shares of good companies. This habit leads to investment of savings in corporate and government securities. The income from these securities may further be invested in buying more securities. This flow of funds

		leads to rapid capital formation.
Ready market: Persons desirous of converting their shares into cash may easily do so through a member of stock exchange.	**Wide market:** The securities of some companies are listed in some stock exchanges. The market for the securities of such companies is considerably widened. Thus, larger amounts of capital may be raised from different types of investors.	**Economic development***:* Through easy funds mobilizing, the boosted production fetches more capital, enhancing economic development.
Investors' interests protected: Stock exchanges formulate rules and regulations so that members may not exploit the investors.	**Higher share values:** People have a tendency to buy shares that have some premium value. Demand of such shares increases. This leads to further increase in the price of such shares	**National projects:** As stock exchange promotes, the capital formation rate the projects which brings National Prosperity can be easily undertaken.
Genuine guidance about the securities listed: The investors can safely depend upon the information provided by the stock exchanges.		
Barriers of distance removed: Stock exchange removes the barriers of distance with regard to securities listed there. Without stock exchange the securities of a Delhi company may have a limited market in Delhi only.		
Knowledge of profit or loss on investments*:* The investors can estimate the profit or loss on the total amount of investments in securities, by comparing the original amount invested and the price of securities on a particular day.		

How is the Organisation and management of stock exchanges done in India?

The organisation, management, membership and functioning of stock exchanges in India are governed by the provisions of The Securities Contracts (Regulation) Act, 1956. This Act permits only recognized stock exchanges to function under the rules, regulations and by-laws approved by the Central Government. The governing body is responsible for policy formulation and proper functioning of the exchange, having wide range of powers like:

1) Elect the office bearers and set up committees.
2) Admit and expel members
3) Manage the properties and finance of the exchange
4) Interpret rules, regulations and by-laws

5) Adjudicate disputes
6) Conduct the affairs of the exchange.

What is the role of Securities and exchange board of India (SEBI) in the stock markets in India?

The **Securities and Exchange Board of India** (frequently abbreviated **SEBI**) is the regulator for the securities market in India. It was established on 12 April 1992 through the SEBI Act, 1992.

SEBI was officially established by The Government of India in the year 1988 and given legal powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament. SEBI has it's Headquarter at the business district of Bandra Kurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively.

In April, 1998 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

SEBI's establishment

SEBI was established as a supervising and regulatory body to control certain malpractices and to promote the securities markets in India. SEBI is managed by its members, which consists of following:

a) Chairman who is nominated by Union Government of India.
b) Two members, i.e. Officers from Union Finance Ministry.
c) One member from The Reserve Bank of India.
d) The remaining 5 members are nominated by Union Government of India, out of them at least 3 shall be whole-time members.

It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeal process to create accountability.

Powers

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

1. To approve by-laws of stock exchanges, SEBI
2. To enquire the stock exchange to amend their by-laws.
3. Inspect the books of accounts and call for periodical returns from recognized stock exchanges.
4. Inspect the books of accounts of financial intermediaries.
5. Compel certain companies to list their shares in one or more stocks exchanges.
6. Levy fees and other charges on the intermediaries for performing its functions.
7. Grant license to any person for the purpose of dealing in certain areas.
8. Delegate powers exercisable by it.
9. Prosecute and judge directly the violation of certain provisions of the Companies Act.
10. Power to impose monetary penalties.

Who are Angel investors?

Business angel or informal investor or an angel investor, is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

Features of angel investors

The job of an angel investor is invaluable. They fill the gap in start-up or early stage financing between "friends and family", by providing seed funding and formal venture capital. Angel investments is a common second round of financing for high-growth start-ups or early stage companies.

1) Most angel investors are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standards.
2) As angel investors bear extremely high risk and are usually subject to be excluded from future investment rounds they expect a very high return on investment.
3) Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.
4) Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments.
5) They have a good interest to be well informed of current developments in a particular business, mentoring another generation of entrepreneurs by making use of their vast experience.

Define Venture capital. What are its features?

Venture capital is a type of private equity capital provided as seed funding to early-stage, high potential, high risk, growth up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas. Thus, venture capital is an equity based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business or the irreversible right to acquire.

Venture capital is a way in which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and obtain long-term capital gains.

Venture capital finance has the following features:

1) It is basically equity finance in relatively new companies.
2) It is long-term investment in growth-oriented small or medium firms.
3) Venture capitalists not only provide capital but also business skills to investee firms.
4) It involves high risk-return spectrum.
5) It is a subset of private equity.
6) The venture capital institutions have a continuous involvement in the business after making the investment.
7) Such institutions disinvest the holdings either to the promoters or in the market.

When to seek venture capital finance?

Entrepreneurs can typically seek venture capital to assist at any of the following four stages in the company's development.

1) Early stage financing

a) **Seed capital finance:** It refers to the capital required by an entrepreneur for conducting research at pre-commercialization stage. During this stage, the entrepreneur has to convince the investor (VC) why his idea/product is worthwhile. The investor will investigate into the technical and the economic feasibility of the idea. As the risk element at this stage is very high, investor (VC) may deny assisting if he does not see any potential in the idea. Entrepreneur's ability, technological skills and competencies are required to match with the market opportunities so as to successfully convince about product/idea's feasibility to the venture capitalist.

b) **Start-up finance:** If the idea/product/process is qualified for further investigation and/or investment, the process will go to the second stage; this is also called the start-up stage. A business plan is presented by the entrepreneur to the VC firm. A management team is being formed to run a feasible production line to produce the product. The VC firm monitors the feasibility of the product and the capability of the management-team from the board of directors.

c) **Second-round financing:** At this stage, we presume that the idea has been transformed into a product and is being produced and sold. The entrepreneur, at this stage, needs assistance from the Venture Capitalist for expansion, modernization, diversification so that the economies of scale and stability could be attained.

2) Last stage financing /bridge /pre-public stage

In general, this is the last stage of the venture capital financing process. The main goal of this stage is for the venture to go public so that investors can exit the venture with a profit commensurate with the risk they have taken. At this stage, the venture achieves a certain amount of market share. This gives the venture some opportunities for example:

- Merger with other companies
- Keeping new competitors away from the market
- Eliminate competitors
- Development capital

The entrepreneur must examine the product's market position and, if possible, reposition it to attract new Market segmentation. He/she should introduce the follow-up product/services to attract new client and markets, for only that is the way to create interest for VC firms seeks to get their assistance further.

List the name of some venture capital institutions in India

At present, many Venture Capital Companies / funds have been set up in India, in both the public and the private sectors, for example,

a) Industrial Development Bank of India's Venture Capital Fund
b) Technology Development and Information Company of India Ltd. (TDICI)
c) Risk Capital and Technology Finance Corporation Ltd.
d) Gujarat Venture Finance Ltd. (GVFL)
e) Andhra Pradesh Industrial Development Corporation (APIDC) Venture Capital Fund.
f) National Venture Fund for Software and IT Industry.
g) The Canbank Venture Capital Fund
h) The Credit Capital Venture Fund Ltd, etc.

Explain the role of specialised financial institutions in the provision of financial resources to entrepreneurs.

To meet out the growing needs of the industries and entrepreneurs, heavy inflow of finance is required. The development of any country depends largely on the industrial development, which in turn depends upon availability of **finance.** Certain sections of the industry face greater difficulties than others in procuring long-term finance. These include

(a) Small and medium sized concerns,
(b) New concerns set up by new entrepreneurial group,
(c) Specific industries, which required funds for modernization,
(d) Enterprises involved in innovation and new technological developments,
(e) Enterprises requiring extra-ordinarily large amounts of finance with a long gestation period,
(f) Ventures in backward regions. SFIs were established to meet the long-term financial requirement of such enterprises on economic and social ground.

Specialized Financial Institutions in India are not only committed to financial services but are also devoted towards playing a role of a promotional "mentor" & technical advisor to a wide range of the upcoming and existing entrepreneurs. Thus, these Specialized Financial Institutions (SFIs) make an important source of medium and long-term financing amongst all the financial institutions in India, to the industry.

State the need for and importance of Specialised Financial Institutions (SFIS) in the provision of finance.

As SFIs provide developmental finance, that is, finance for investment in fixed assets, they are also known as 'development banks' or 'development financial institutions'. Establishing of SFIs facilitated:

a) Provision of sufficient long-term funds in the desired sectors in accordance with planned priorities to the industrial units and entrepreneurs.
b) New and small entrepreneurs in setting up industry.
c) Development of (i) small scale industry and (ii) projects in backward areas
d) Provision of technical and managerial advice to the entrepreneurs, facilitating thus, in identification, evaluation and execution of new investment enterprises.
e) Underwriting of and direct subscription to the issue of shares and debentures in the capital market of the upcoming ventures.
f) Establishment of enterprises which require extra-ordinarily large amount of finance for their projects with a long-gestation period.

Name the different types of Specialised Financial Institutions at the National and State levels.

Entrepreneurs have access to any of the following SFIs to choose from, according to their needs and requirements:

A) At national level/all India development banks

(i) Industrial Development Bank of India (IDBI)
(ii) Small Industries Development Bank of India (SIDBI)
(iii) Industrial Finance Corporation of India (IFCI)
(iv) Industrial Credit and Investment Corporation of India (ICICI)
(v) National Bank for Agriculture and Rural Development (NABARD)
(vi) Industrial Investment Bank of India Ltd. (IIBI)

B) At state level

(i) State Financial Corporation (SFCs)
(ii) Tourism Finance Corporation of India (TFCI)

(iii)State Industrial Development Corporations (SIDC)

Explain the objectives and functions of Industrial Development Bank of India (IDBI) as the top national level financial institution.

The Industrial Development Bank of India was set up in July 1964 as a wholly owned subsidiary of the Reserve Bank of India. The purpose was to enable the new enterprise institution to benefit from the financial support and experience of RBI. Government's shareholding in IDBI stands at 72.14%.

Objectives

The main objective of IDBI is to serve as the apex institution for term finance for industry in India. Its objectives include:

1) Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.
2) Supplementing the resources of other financial institutions and thereby widening the scope of their assistance.
3) Planning, promotion and development of key industries and diversifications of industrial growth.
4) Devising and enforcing a system of industrial growth that conforms to national priorities.

Functions

The IDBI has been established to perform the following functions –

1) To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 years
2) To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable in 15 years
3) To grant loans and advances to IFCI, SFCs, other institutions, scheduled banks, state cooperative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.
4) To discount or rediscount bills of industrial concerns.
5) To underwrite or to subscribe to shares or debentures of industrial concerns.
6) To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.
7) To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.
8) To grant loans to any industrial concern.
9) To guarantee deferred payment due from any industrial concern.
10) To guarantee loans raised by industrial concerns in the market or from institutions.
11) To provide consultancy and merchant banking services in or outside India.
12) To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.
13) Planning, promoting and developing industries to fill up gaps in the industrial structure in India.
14) To act as trustee for the holders of debentures or other securities.

Small scale sector industries have a special role to play in the economy. How does Small Industries Development Bank of India (SIDBI) serve in the provision of financial resource to the small scale industries?

SIDBI was established in April 1990, as a wholly owned subsidiary of IDBI, under the Small Industries Development Bank of India Act, 1990. SIDBI is the principal financial institution for promotion, financing and development of small-scale industries in India.

Objectives

SIDBI's objectives are:

1) Initiate steps for technological upgradation, and/or modernization of existing units.
2) Expand channels for marketing of SSI sector products in India and abroad.
3) Promote employment – oriented industries.

Functions

The financial assistance of SIDBI to the small scale sector is channelised through the following two routes:

i) Indirect assistance
1) ii) Direct assistance

SIDBI has taken over the responsibility of administering following two funds which were previously administered by IDBI i.e.

a) Small Industries Development Fund

b) ii) Small Industries Development Assistance Fund

1) SIDBI's financial assistance to SSS is primarily channelised through the existing credit delivery system consisting of commercial banks, co-operative banks, RRBs and SFCs.
2) Refinance loans and advances extended by the primary lending institutions to small scale industrial units, along with providing them even resource support.
3) Discounts and rediscounts bills arising from sale of machinery to or its manufacture by industrial units in the small-scale sector.
4) All forms of business organisation are eligible for refinance assistance for:
    a) Setting up of new venture
    b) Expansion
    c) Modernisation
    d) Diversification of existing units for all activities
5) Extends seed capital/loan assistance under the National Equity Fund Mahila Udyan Nidhi and Mahila Vikas Nidhi and seed capital scheme through specified lending agencies.
6) Grants direct assistance as well as refinance loans extended by Primary Lending Institutions for financing export of products manufactured by industrial concerns in the Small Scale Sector.
7) Provide Venture Capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage.
8) Leasing and factoring to small-scale units are also provided for by SIDBI.

Explain how Industrial Finance Corporation of India (IFCI) provides financial resources to enterprises.

IFCI was established as a statutory corporation on 1st July 1948 by a special Act passed in the Parliament, IFCI Act, 1948. It was converted into a public limited company on July 1, 1993. Its main objects is to provide medium and long term credit to eligible industrial enterprises in corporate sectors of the economy, particularly to those industries to which banking facilities are not available.

Objectives

The primary role of IFCI is to provide 'direct financial assistance' on medium and long term basis to industrial projects in the corporate and co-operative sectors. The objectives of the corporation are stated below.

a) To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution.
b) The period of credit can be as long as 25 years and should not exceed that period;
c) To grant credit to a single concern up to a maximum amount of rupees one crore. This limit can be exceeded with the permission of the government under certain circumstances;
d) Guarantee loans and deferred payments;
e) Underwrite and directly subscribe to shares and debentures issued by companies;
f) Assist in setting up new projects as well as modernization of existing industrial concerns in medium and large scale sector;
g) Assist project under co-operatives and in backward areas.

Functions

The main functions of I.F.C.I. are as under:

a) Granting loans and advances for the establishment, expansion, diversification and modernization of industries in corporate and co-operative sectors.
b) Guaranteeing loans raised by industrial concerns in the capital market, both in rupees and foreign currencies.
c) Subscribing or underwriting the issue of shares and debentures by industries. Such investment can be held up to 7 years.
d) Guaranteeing credit purchase of capital goods, imported as well as purchased within the country.
e) Providing assistance, under the soft loans scheme, to selected industries such as cement, cotton textiles, jute, engineering goods, etc.
f) Providing technical, legal, marketing and administrative assistance to any industrial concern for the promotion, management and expansion of the industrial concern.
g) Providing equipment (imported or indigenous) to the existing industrial concerns on lease under its 'equipment leasing scheme'.

h) Procuring and reselling equipment to eligible exiting industrial concerns in corporate or co-operative sectors.
i) Rendering merchant banking services to industrial concerns.

What are objectives and functions of Industrial Credit and Investment Corporation of India (ICICI)?
Industrial Credit and Investment Corporation of India was established as a joint stock company in the private sector in 1955. Its share capital was contributed by banks, insurance companies and foreign institutions including the World Bank. Its major shareholders now are Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation and its subsidiaries. They together hold approximately 50% of the paid up shares capital of ICICI.
Objectives
The ICICI has been established to achieve the following objectives:
a) To assist in the formation, expansion and modernization of industrial units in the private sector;
b) To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units;
c) To furnish technical and managerial aid so as to increase production and expand employment opportunities.

Functions
1) It provides medium and long-term loans in Indian and foreign currency for importing capital equipment and technical services. Loans sanctioned generally go towards purchase of fixed assets like land, building and machinery;
2) It subscribes to new issues of shares, generally by underwriting them or directly subscribing the same;
3) It guarantees loans raised from private sources including deferred payment;
4) It provides technical and managerial assistance to industrial units, along with consultancy services for new projects;
5) It provides assets on lease to industrial concerns. In other words, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent.
6) It provides merchant banking services.
7) Rs. 5 lakhs is the minimum amount sanctioned by it to a single concern and normally it does not go beyond the maximum limit of Rupees one crore.

National Bank for Agriculture and Rural Development (NABARD) is the only specialised financial institution that provides financial assistance for rural development. Discuss the functioning of NABARD.
On 15th December, 1981, National Bank for Agriculture and Rural Development (NABARD) Bill was passed in the Parliament, which started functioning on 1st July, 1982. NABARD was established according to the preamble to the Act, "for providing credit for the promotion of:
- Agriculture,
- Small-scale Industries
- Cottage and Village Industries
- Handicrafts and other rural crafts, and
- Other economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas...."

Objectives
1) The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the promotion of activities in rural areas.
2) To provide direct lending to any institution as may be approved by the Central Government.

Functions
The primary functions of NABARD can be classified under three heads –
I. Credit Functions
NABARD provides different types of refinance to eligible institutions. They assist entrepreneurs through:
a) Short-term credit to State Cooperative Banks, Regional Rural Banks and Other financial institutions approved by RBI for the following purposes:
    a. Financing seasonal agricultural operations,

b. Marketing of crops,
c. Pisciculture activities
d. Production/procurement and marketing of cooperative weavers and rural artisans societies and individually,
e. Production and marketing activities of industrial cooperatives.

b) Medium-term credit to State Cooperative Banks, State Land Development Banks, Regional Rural Banks and other approved financial institutions by RBI for converting short-term loans to medium-term for approved agricultural purposes.
c) Long-term credit to State Land Development Banks, Regional Rural Banks, Commercial Banks, State Cooperative Banks and other approved financial institutions.
d) Refinance to cottage/village/small-scale industries located in rural areas.

Developmental Functions

a) NABARD coordinates the operations of rural credit institutions
b) It develops expertise to deal with agricultural and rural problems so as to assist in rural development efforts.
c) It acts as an agent to the Government and RBI in the transaction of business in relevant areas and provides facilities for training, research and dissemination of information in rural banking and development.
d) Contributes to the share capital of eligible institutions.
e) Provides direct loans to centrally approved cases.

III. Regulatory Functions

1) NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.
2) To open a new branch, a recommendation of NABARD is imperative by RRBs or Cooperative Banks to seek permission from RBI.
3) RRBs and Cooperative Banks, along with RBI, are required to file returns and documents with NABARD.

What is the role played by State Financial Corporations (SFCs) in helping enterprise secure financial assistance?

To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions. Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

Objectives

The objectives of state financial corporations are as under:

1) Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint Hindu family business, engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.
2) Provide long and medium-term loan repayment ordinarily within a period not exceeding 20 years.
3) Grant financial assistance to any single industrial concern under corporate or co-operative sector with an aggregate upper limit of rupees Sixty lakhs. In any other case (partnership, sole proprietorship or joint Hindu family) the upper limit is rupees Thirty lakhs.
4) Provide Financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed Rs. 3 crore.
5) To lay special emphasis on the development of backward areas and small scale industries.

Functions

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

3) Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
4) Underwriting of the issue of stock, bonds or debentures by industrial concerns.
5) Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.
6) Act as agent of the Capital government, State government, IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.
7) Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.
8) Planning and assisting in the promotion and development of industries.

What is the role played by Tourism Finance Corporation of India (TFCI) in securing specialised finance?

The Tourism Finance Corporation of India (TFCI) was born as a result of the Government of India's decision, in 1987, to promote a separate all-India financial institution for providing financial assistance to tourism-related activities/projects. It was incorporated as a public limited company under the Companies Act, 1956 on 27 January, 1989 and became operational with effect from 1 February, 1989. It is a specialized all-India development financial institution to cater to the needs to the needs of the tourism industry.

Functions

a) TFCI provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services such as hotels, restaurants, holiday resorts, amusement parks, entertainment centres, education and sports, rope ways, cultural centres, convention halls, transport, travel and tour operating agencies, air services, tourism emporia and sports facilities.
b) It also provides advisory and merchant banking services in this field.
c) The projects with a capital cost of Rs.1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.
d) TFCI has sanctioned assistance to 2003 projects aggregating to Rs. 5.2 billion during the last five years, resulting in more than 12,217 hotel rooms and direct employment to 22,938 people.

What is the role played by State Industrial Development Corporation (SIDCs) in financial development?

Incorporated under the Companies Act 1956 SIDCs were setup in different states as wholly owned companies for promoting industrial development in their respective states.

The main functions of SIDCs are as follows:

- Providing term finance to all small, medium, and large industrial enterprises set up in the state,
- Underwriting and directly subscribing to shares, and debentures of industrial enterprises being set up in the state,
- Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state;
- Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector
- Implementing IDBI's scheme of seed capital in the state

Finance can be procured, just like any other resource, against a cost. Procurement of finance involves risk and formalities to comply with. Entrepreneurs need a careful attitude, to sensibly make a choice of sources to generate funds. No one source can be deemed to be the best source. Thus, it is always advisable to select a combination of sources so that both cost and risk can be kept at lowest.

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