Development of small business

MSME ACT 2006

- MICRO
- SMALL
- MEDIUM
- ENTERPRISES

INTRODUCTION

- **MSME**
- In India, MSMEs contribute nearly 8% of the country’s GDP, around 45% of the manufacturing output, and approximately 40% of the country’s exports. It won’t be wrong to refer them as the ‘Backbone of the country.’
- The Government of India has introduced **MSME or Micro, Small, and Medium Enterprises** in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

Classification of enterprises into micro, small and medium enterprises (in Rs)

Kind of enterprise	Act of 2006		Bill of 2018
	Manufacturing	Services	All enterprises
	Investment towards plant & machinery	Investment towards equipment	Annual Turnover
Micro	25 lacs	10 lacs	5 Cr
Small	25 lacs to 5 Cr	10 lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

FEATURES OF MSME

- MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
- MSMEs provide credit limit or funding support to banks.
- They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centers for the same.
- They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
- MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.
- They also offer modern testing facilities and quality certification services.
- Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging.

MAIN OBJECTIVES OF MSME ACT 2006

1.To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too in the mainstream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilisation of country’s untapped resources.
8. To improve the level of living of people in the country.

SERVICES OF MSME

- Advising the Government in policy formulation for the promotion and development of small scale industries.
- Providing techno-economic and managerial consultancy, common facilities and extension services to small scale units.
- Providing facilities for technology upgradation, modernisation, quality improvement and infrastructure.
- Developing Human Resources through training and skill upgradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small Scale Industries.
- Evolving and coordinating Policies and Programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.
- Monitoring of PMRY Scheme.

Role and Importance of Small Scale Industries

- Increases production
- Increases total exports
- Improves the employment rate
- Opens new opportunities
- Advances welfare

Advantages or Merits of Small Scale Industries

- Potential for large employment. **Small Scale Industries** have potential to create employment opportunities on a massive **scale**. ...
- Requirement of less capital. ...
- Contribution to **industrial** output. ...
- Contribution to exports. ...
- Earning foreign exchange. ...
- Equitable distribution. ...
- Use of domestic resources. ...
- Opportunities for entrepreneurship.

Disadvantages of Small Scale Production

- High Cost of Production
- Wastage of By-productS
- Less Use of MachineS
- Lack of Division of Labour
- Difficulty in Getting Loans
- Difficult to Face Economic Crisis
- Costly Raw Materials
- Lack of Standardised Goods

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What is Project Formulation?

- • Taking a first look carefully and critically at the project idea
- • Carefully weighing its various components
- • Analysing with the assistance of specialists or consultants
- • Assessment of the various aspects of an investment proposition
- • It is an important stage in the pre-investment phase

STEPS IN PROJECT FORMULATION

- 1) Review of past project proposals:

A group that is involved in the formulation of project proposal needs to review similar types of project proposal formulated by its own institution or other institutions. This will give an idea about the strengths and weaknesses to the project coordinator while thinking about formulating any project.

- 2) Consulting experts, consultants, and previous project coordinators:

A person or group formulating proposal could consult an expert in the area in which the intended project is going to be formulated and even can appoint a consultant who could be helpful in the preparation of the proposal. It is always better to consult a person who has already completed similar type of projects which are being attempted. The project coordinator formulating project proposal can consult his/her fellow colleagues who have already formulated similar types of project proposals.

- 3) Review past project evaluation reports:

Before formulating a proposal, it is advisable to go through the reports prepared by a similar type of research organizations/institutions. The project evaluation report, besides, providing the components of project activities and strategies, will give details about the methodology, evaluation, and impact assessment strategy

- 4) Interact with the prospective beneficiaries:

The project team can also interact with the prospective beneficiaries to be benefited from the project interventions and assess their need. It would be better if the coordinator could also interact with those who have already received benefits from the similar types of project.

- 5) Check statistical data/ report:

The data regarding a previous similar types of projects from various documents must be collected so that an appropriate project strategy is formulated.

- 6) Hold focus group discussion:

It is always better that the person who prepares a proposal undertakes a focus group discussion with the beneficiaries or the prospective clienteles or the stakeholders.

Stages of Project Formulation

1. Feasibility Analysis
2. Techno-Economic Analysis
3. Project Design and Network Analysis
4. Input Analysis
5. Financial Analysis
6. Cost-Benefit Analysis
7. Pre-Investment Analysis

1. Feasibility Analysis:

- • First stage in project formulation.
- • Examination to see whether to go in for a detailed investment proposal or not.
- • Screening for internal and external constraints.

2.Techno-Economic Analysis:

- Screens the idea to-Estimate of potential of the demand for goods/services.
- Choice of optimal technology.
- This analysis gives the project a platform for preparation of detailed project design.

3. Project Design and Network Analysis:

- It is the heart of the project entity.
- It defines the sequence of events of the project.
- Time is allocated for each activity.
- It is presented in a form of a network drawing.
- It helps to identify project inputs, finance needed and cost-benefit profile of the project

4. Input Analysis:

- Its assesses the input requirements during the construction and operation of the project.
- It defines the inputs required for each activity.
- Inputs include materials, human resources.
- It evaluates the feasibility of the project from the point of view of the availability of necessary resources.
- This aids in assessing the project cost.

5. Financial Analysis:

- It involves estimating the project costs, operating cost and fund requirements.
- It helps in comparing various project proposals on a common scale.
- Analytical tools used are discounted cash flow, cost-volume-profit relationship and ratio analysis.
- Investment decisions involve commitment of resources in future, with a long time horizon.
- It needs caution and foresight in developing financial forecasts.

6. Cost- Benefit Analysis:

- The overall worth of a project is considered.
- The project design forms the basis of evaluation.
- It considers costs that all entities have to bear and the benefit connected to it.

7. Pre-investment Analysis:

- The results obtained in previous stages are consolidated to arrive at clear conclusions.
- Helps the project-sponsoring body, the project-implementing body and the external consulting agencies to accept/reject the proposal.

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Project Report

- It is a concise copy of detailed analysis done for the project.
- An entrepreneur/expert prepares the report before the investment in project is done.
- The report assesses the demand for proposed product/service, works out cost of investment and profitability on this investment.
- It acts as an instrument to convince investors to invest in the project

A project report gives information on the following:

- Economic aspects – present market, scope for growth, justification for investment.
- Technical aspects – technology, machinery, equipment needed.
- Financial aspects – Total investment needed, entrepreneur's contribution, cost of capital and return on capital.
- Production aspects – Product details, justification for the choice of product, export worthiness.
- Managerial aspects – Qualifications, experience of people needed for managerial posts.

Contents of a project report

- Objectives and scope of the report.
- Product characteristics (product design, specifications, quality standards, uses and applications).
- Market position and trends (current capacity for production, potential demand, export prospects, trends in import-export, price structure etc).
- Raw materials (types, quality, sources, price).
- Manufacturing (process, production schedule, technique used.

- Plant and machinery (types, infrastructure support, cost).
- Land and building (Requirement, building construction schedule, choice of location, cost).
- Financial implications (Capital structure, fixed and working capital investment, project cost, profitability).
- Marketing channels (Trade practices, marketing and advertising strategy).
- Personnel (Requirement of staff, skilled-unskilled labour, salary and wage payment, qualifications, experience)

- The project report is submitted to financial institutions for grant of land and other financial concessions.
- Organisations like Small Industries Service Institute (SISI)and Small Industries Development Organisation (SIDO) help entrepreneurs to prepare project report.
- The financial institutions ascertain from the report, whether the project can generate enough funds to repay the borrowings in stipulated time frame

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types of business organizations

- There are three main types of business organizations: **sole proprietorship**, **partnership** and joint stock **corporation**.
- A **sole proprietorship** is a business owned by one person. ...
- A **partnership** is a business owned by two or more people.
- Joint stock company

factors affecting the choice of a suitable or ideal form of business organisation

- 1. Nature of Business
- 2. Scale of Operations
- 3. Capital Requirements
- 4. Degree of Control
- 5. Extent of Risk and Liability
- 6. Division of Profit
- 7. Stability of Business
- 8. Talent Needs
- 9. Government Control
- 10. Area of Operations

- 11. Duration of Business
- 12. Cost and Ease in Setting Up the Organisation
- 13. Liability
- 14. Continuity
- 15. Management Ability
- 16. Relative Management and Control Rights of Owners and Managers
- 17. Decision-Making Opportunities
- 18. Flexibility of Operation
- 19. Maintenance of Secrecy
- 20. Impact of Taxation.

sole proprietorship

- A **sole proprietorship**, also known as the **sole trader**, individual entrepreneurship or **proprietorship**, is a type of enterprise that is owned and run by one person and in which there is no legal distinction between the **owner** and the business entity.

Features

- One Man Ownership: In **proprietorship**, only one man is the owner of the enterprise.
- No Separate Business Entity:
- No Separation between Ownership and Management: ...
- Unlimited Liability: ...
- All Profits or Losses to the **Proprietor**: ...
- Less Formalities

Advantages of Sole Proprietorship:

Some of the popular advantages of a sole proprietorship are.

- **Quick decision making**– A sole proprietor has the freedom to make any decision. Therefore, the decision would be prompt as they don’t have to take the permission of others.
- **Confidentiality of information-** Being only the owner of the business, it allows him/her to keep all the business information to be private and confidential.
- **Direct incentive-** A sole proprietor directly has the right to have all the profit or benefits of a company.
- **Sense of accomplishment-** He/she can have the personal satisfaction associated with working without any guidance or alone.
- **Ease of formation and closure- A single** proprietor can enter the business with minimum legal formalities.

Disadvantages of Sole Proprietorship:

- Limitation of Management Skills: ...
- Limitation of Capital: ...
- Unlimited Liability: ...
- Lack of Continuity: ...
- Weak Bargaining Position: ...
- Limited Scope for Expansion: ...
- Risk of Wrong Decisions: ...
- No Large-Scale Economies:

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Partnership

A business that has two or more owners who agree to share profits and are liable for any debts or losses.

A **partnership** is an arrangement where parties, known as business partners, agree to cooperate to advance their mutual interests. The partners in a partnership may be individuals, businesses, interest-based organizations, schools, governments or combinations.

Features and Characteristics of Partnership Firm:

- Two or More Persons: ...
- Agreement: ...
- Lawful Business: ...
- Registration: ...
- Profit Sharing: ...
- Agency Relationship: ...
- Unlimited Liability: ...
- Not a Separate Legal Entity:

The following are some of the major advantages of a partnership firm:

- Easy to Start. Partnership firms are one of the easiest to start. ...
- **Decision Making**. ...
- Raising of Funds. ...
- Sense of Ownership. ...
- Unlimited Liability. ...
- Number of Members. ...
- Lack of a Central Figure. ...
- **Trust** of the General Public.

The disadvantages of partnership are:

- Limited capital.
- Unlimited liability.
- Difficult to transfer share.
- Uncertain existence.
- Lack of public faith.
- Problems of dispute.
- Lack of prompt decision.
- Disk of implied authority.
-

Types of Partners ·

- 1] Active Partner/Managing Partner ·
- 2] Dormant/Sleeping Partner ·
- 3] Nominal Partner ·
- 4] Partner by Estoppel ·
- 5] Partner in Profits Only ·
- 6] Minor ...

Soletrader vs partnership

Sole trading concern	Partnership firm
1. Low capital	1.high capital
2. One man management	2. two or more partners
3.quick and prompt decisions	3. Delay in decisions
4. business secrets can be maintained	4. difficulty in maintaining business secrets
5. risk and losses are to be born by a single person	5. there is reduction of risk and losses because they are shared with proportion of capitals by partners
6.no chances of conflict	6. Higher chances of conflict
7. lack of managerial ability	7. harmonization of managerial ability
8.chances of wrong decisions	8. Specialization in decision-making

Joint Stock Company

A Joint Stock Company is a voluntary association of persons to carry on the business. It is an association of persons who contribute money which is called capital for some common purpose.

The important characteristics of a Joint Stock Company are as follows:

- Incorporated association: ...
- Minimum Number of Members: ...
- Artificial legal person: ...
- Distinct legal entity: ...
- Perpetual succession: ...
- Common Seals: ...
- Transferability of shares: ...
- **Limited** liability:

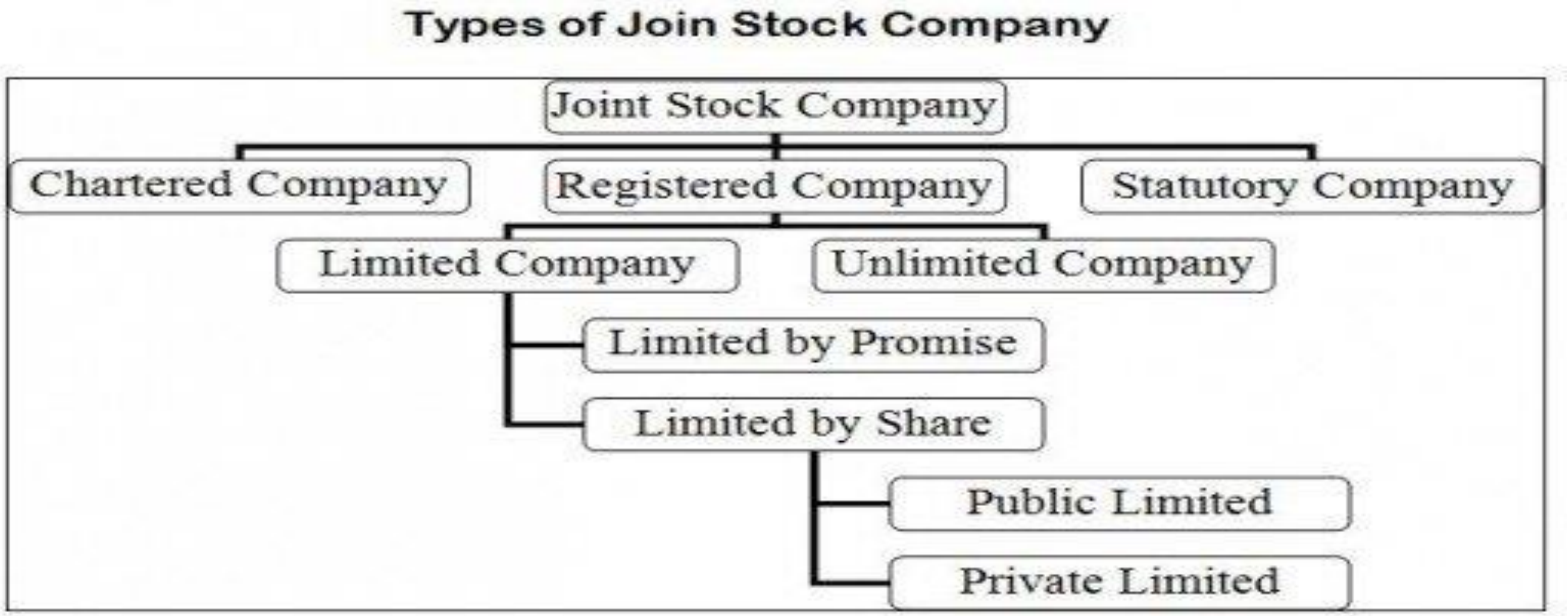
Advantages of Joint Stock Company:

- (1) Huge **Financial** Resources:
- (2) Efficient Management:
- (3) **Limited Liability**:
- (4) Transferability of Share:
- (5) Diffusion of Risk:
- (6) Stability:
- (7) Public Confidence:
- (8) Scope for Expansion:

Disadvantages of Joint Stock Company:

- Difficulty in Formation: Reckless Speculation Encouraged: This form of organisation encourages reckless speculation in shares at **stock** exchanges. ...
- Fraudulent Management: ...
- Delay in Decision-Making: ...
- Monopolistic Powers: ...
- Excessive Regulation by Law: ...
- Conflict of Interests: ...
- Lack of Secrecy:

Types of company



Difference between company and partnership

Sr. No	***Basis of Difference***	***Partnership Firm***	***Joint Stock Company***
1.	Meaning	Two or More persons come together for some business activity & agree to share profit & loss is called partnership firm	It is Voluntary association of individuals for profit having capital divided into transferable shares, the ownership which is the condition of membership
2.	Membership	Partnership firm owned by two or more and maximum 10 in banking and 20 in other firms	In private limited company minimum of numbers of members are 2 and maximum numbers are 50. In public limited company minimum numbers are 7 and no maximum number limit
3.	Formation	Formation is simple and less costly. only a partnership deed is required. Registration is optional [except in Maharashtra]	Formation involves many complicated legal formalities. Therefore it is costly legal formalities. Therefore it is tremendously time-consuming
4.	Liability	Liability of partners are unlimited.	Liability of every shareholder is limited to the extent of the unpaid amount on shares held by him
5.	Act	Partnership is controlled under partnership Act, 1932	Joint stock company is controlled under the Indian companies Act, 1956

Public company vs private company

BASIS FOR COMPARISON	PUBLIC COMPANY	PRIVATE COMPANY
Meaning	A public company is a company which is owned and traded publicly	A private company is a company which is owned and traded privately.
Minimum members	7	2
Maximum members	Unlimited	200
Minimum Directors	3	2
Suffix	Limited	Private Limited
Start of business	After receiving certificate of incorporation and certificate of commencement of business.	After receiving certificate of incorporation.
Statutory Meeting	Compulsory	Optional
Issue of prospectus / Statement in lieu of prospectus	Obligatory	Not required
Public subscription	Allowed	Not allowed
Quorum at AGM	5 members must present in person.	2 members must present in person.
Transfer of shares	Free	Restricted