



SWAVALAMBAN

BECHAIN SAPNO KO PANKH.....

Swavalamban Info Series

Volume-IV

Go for
Good
Governance



GOOD GOVERNANCE FOR MICRO AND SMALL ENTERPRISE

Preface

Dear Swavalambi,

Swavalamban Greetings from SIDBI!


With the adoption of Vision 2.0, SIDBI has reoriented its focus on Promotion & Development with theme of Sampark (connect), Samwad (interaction), Suraksha (security) and Sampreshan (disseminate). Vision 2.0 aims at innovative inclusive and impactful engagements to benefit the Micro and Small enterprises (MSEs) both in "setting up" and "stepping up", which will in turn generate more employment and overall economic growth in the country. Further, the Bank launched Mission Swavalamban in 2018 to spread entrepreneurship culture and turn youth from "Job seekers" to "Job creators", restrict rural migration to urban areas and promote sustainable livelihood opportunities with thrust on bottom of pyramid, unserved/underserved pockets/segments and overall MSEs.

Swavalamban Info Series is one such attempt to connect with the present and potential Swavalambis and help them in their voyage of shaping their dream entrepreneurial ventures. It brings the basic as well as advanced knowledge of entrepreneurship to your doorstep as well as keeps you up to date with the latest happenings/schemes/initiatives which you can utilize for your and others' benefit.

We keep evolving with readers' feedback. Kindly send your feedbacks/queries/suggestions to us so that we can improve with each volume. We hope you will enjoy reading the series as much as we enjoy writing it.

Happy Reading!

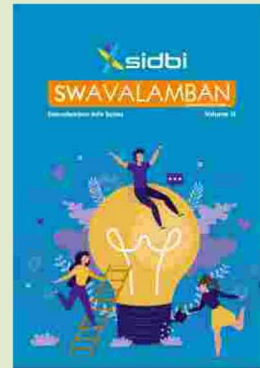
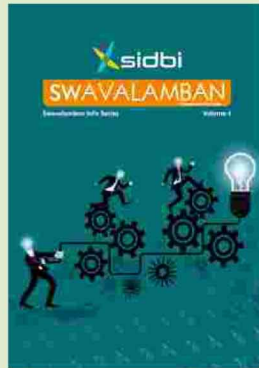
Team Swavalamban, SIDBI



“स्वावलंबी बनें, खुद बढे,
औरों को बढाए”

In our previous volumes...

You may have gone through our previous volumes wherein we discussed about the what, why and how of a Swavalambi. In our second volume, we talked about women micropreneurs. Our third volume gave you a glimpse of the schemes and initiatives available in the country for stepping up of MSEs. To access these volumes, kindly visit:



<https://www.sidbi.in/en/publication-and-reports> OR <https://udyamimitra.in/home/downloads>.

MSEs play a critical role in development of any country. Small businesses worldwide not only create government employment opportunity for the masses but also contribute significantly to the GDP of that country. India is also no exception.

Many MSEs, especially the ones where the business is family run, develop their own internal systems and procedures over a period of time. While this helps in keeping the business cohesive and smooth, it runs a risk of falling out with the general trends accepted by the industry, especially the corporate bodies. With the industry wide acceptance that adopting and adhering to standard practices is crucial for the growth of any business, norms are already in place for the corporate bodies. With no compulsion being placed on the MSEs to follow them, the small enterprises often ignore having a mechanism in place for the same. This often create hurdles for the MSEs when it tries to deal with medium/large enterprises, or even when it tries to scale up its business. Our present issue is to highlight the importance of good governance practices for the MSEs and how they can utilize them for their growth and bringing their enterprises at par with best practices of the industry.

GOOD GOVERNANCE

As per the definition by World Bank, it is defined as a set of mechanisms through which firms operate when ownership is separated from management. An entity receives its funding from a pool of large number of shareholders and hence the effective owners therefore may have no role in the day to day functioning of the company. The governance functions are delegated to a management team. Good Governance is a set of rules, regulations, systems and processes that are formulated to ensure that the management runs the entity to ensure best interests of all its owners, rather than serving their own personal interests.

It basically includes the processes through which the entity's objectives are set and pursued in the context of overall socio-economic, regulatory, market environment of the country. It is a mechanism for inducing transparency, fairness and accountability. Every entity decides its own mode of aligning its organizational / entity objectives to the codes and standards of good governance. The responsibility of finalizing the good governance structure of an entity rests with the board of directors/proprietor/partner.

The form of business dictate, in part, the relationship between the owners of the business and management. The degree of separation may be minimal (e.g., sole proprietorship) or significant (e.g., medium entity). Chances of conflict of interests are thus minimal in case of proprietorships and firms, as people who operate the business are the owners driven by revenue and profit maximization motive. They need to develop sense of "good governance" in their business practices fulfilling obligations to various stakeholders in the ecosystem, viz., government, customers, suppliers, bank, employees etc.

Need for Good Governance

One of the main reasons why good governance is required is for the minimization of 'conflict of interests'. Conflicts can occur when two parties have conflicting view over how an entity should be run. These conflicts can be among the shareholders and upper management (principal-agent problem) and among the shareholders (principal-principal problem).

- a) **Principal-Agent Conflict:** Can occur where there is separation between the upper management and shareholders. The owners/shareholders (principal) may desire higher profits, while the upper management or key employee (agent) may have other priorities like better pay, better working conditions, good relations with customers etc. which may not be directly linked to higher profits. This can lead to conflicts and here is when good governance is crucial to align both the interests and prevent the two from getting in loggerheads.
- b) **Principal-Principal Conflict:** Conflicts can also arise when individual shareholders/owners/partners try to influence the professional management to steer the policies in their particular interests rather than the collective interests of all the shareholders. Good Governance here steps in to align the business in the collective interests of all the shareholders. Good Governance is required to instill discipline in managing an entity and thus helpful in enterprise growth cycle.

Good Governance in India

Enterprises in India have traditionally been family owned which means that there were little checks and balances on the way business was handled, family members were the owners as well as held the managerial posts. All the decisions were made by the family and people privy to the family. In case of corporate entities, evolution of equity market meant shifting of ownership from the family to the shareholders. This was followed by Companies Act 1956, which required the board of directors to align key managerial decisions. As per the act, primary committees like Kumar Mangalam Birla Committee in 2000, Narayana Murthy Committee in 2003, Adi Godrej Committee in 2012 and Uday Kotak Committee in 2017 were constituted by SEBI which led to the evolution of present corporate governance norms enshrined in Companies Act 2013, SEBI regulations, listing agreement, etc.

The Principles of Good Governance

The basic principles of Good corporate governance are threefold:



Characteristics of Good Governance

As identified by several committees, the primary characteristics of good governance are as follows:

DISCIPLINE

Conformance to the accepted standards of correct and proper behaviour in the entity

TRANSPARENCY

The ease with which an outsider can meaningfully analyse the entity's actions and performance.

INDEPENDENCE

The way the conflict of interests is avoided.

ACCOUNTABILITY

Addressing the shareholders' right to receive, and if necessary request information related to the entity's assets and its performance.

RESPONSIBILITY

Taking ownership of the lag in performance and the actions of entity, along with adequately applying the improvement mechanism, wherever and whenever required.

FAIRNESS

Acknowledgement of the rights and interests of the various stakeholders of an entity.

SOCIAL RESPONSIBILITY

Commitment to ethical standards along with appreciation of the social, environmental and economic impact of its activities while taking appropriate steps towards the same.

EQUITY

Ensuring that all the stakeholders feel that their rights are being taken care of and that they have equal opportunities.

Good Governance practices: Giving wings to your business For Non-Corporate MSEs

- **Growth and Stability:** A business which is run with a proper governance structure, has clear vision and a sense of purpose. This leads to efficient functioning by all the stakeholders and hence ensures growth and stability of the business.
- **Attracting cheaper credit:** A business with a good governance structure will provide the creditors (those who have extended credit to the entity) with a sense of confidence in the MSE which will help the latter to negotiate better terms for availing cheaper credit from the financial institutions.
- **Attracting loyalty of customers:** Whether the MSE supplies its products to other bigger enterprises, or retail customers, there is always a demand for quality of business. Good governance structure shall lead to creation of brand value and enhancement of trust and thereby loyalty of customers.
- **Scaling Up:** Any business which starts small, needs to keep growing and evolving in order to sustain itself in the dynamic market. Keeping a good governance structure will ensure that it is keeping itself in line with the trends followed by good performance and can seamlessly transition itself into the next growth level in due course of time.
- **Operational Performance:** A good governance structure ensures codification of roles and responsibilities at different levels of the MSE which shall ensure smooth functioning of the business with a sense of ownership and clarity. The regular maintenance of financial reports also means seamless performance of financial and accounting machinery of the MSE.
- **Compliance:** Proper compliance with the rules of governance ultimately leads to seamless compliance with the regulatory norms prevalent in the country and thus eases access to financial and non-financial services/facilities.

For Corporate MSEs

- **Growth and Stability:** Co-operation from all the stakeholders leads to robust growth and stability in the business.
- **Attracting capital:** A business that has a set corporate governance structure in place is perceived as trustworthy and less risky by the investors which leads to easy availability of capital at attractive proposition.
- **Higher value for shareholders:** Higher trust and value of a company means higher loyalty of investors who in turn pay premium for such companies.
- **Confidence of Investors:** The credibility offered by good governance practices leads to placement of confidence among the investors which helps in attracting more long term capital.
- **Operational Performance:** A good governance structure ensures codification of roles and responsibilities at different levels of the company which ensures checking any conflict of interests among the stakeholders. Further, the presence of independent directors leads to improved strategic thinking with no bias or personal motives. The regular maintenance of financial reports also means the smooth performance of financial and accounting machinery of the company.
- **Compliance:** Proper compliance with the rules of corporate governance ultimately leads to adherence with regulatory norms prevalent in the country improves control and scalability.

Good Governance Ecosystem



Good Governance in MSEs: Reluctance and Reasons

Most of the MSEs do not establish any formal governance structure in their organizations. A feeling prevails that good governance is more applicable for the corporates.

There may be several reasons for the reluctance, some of them are:

Lack of Awareness



Most of the entities are not aware of the benefits of the implementation of a good governance structure.

Cost of implementation



It is considered that there will be too many expenditures in implementing a good governance structure in the entities.

Fear of Loss of Control



Most of the entities are family run and managed, or the partners are close friends/relatives who have been at the helm of the business since its inception. Usually in such scenarios, a small group yields all the power and is in control of all the major decisions concerning the business. This group is quite reluctant in doing away with any power control and any steps towards creation of independent bodies are dissuaded.

Fear of loss of information/trade secrets



Being managed by a small group/family, the entities generally believe that establishing such governance structure would lead to disclosure of their business secrets which could help competitors and lead to loss of business for them.

Improper Accounting



The entities often do not have any defined structures in place and accounting is managed by unqualified staff/family members or owners, who do not have the necessary expertise in making financial reports and are unaware of the accounting standards. The accounting is often finalized to suit the best interests of the family/owners and such entities fear tax liabilities/legalities

Adoption of Good Governance: Benefits

Several committees have analysed the problems faced externally by the MSEs and there have been attempts to mitigate them. However, implementation of good governance is akin to the entities looking at their issues internally, devising adequate structure in place in order to address them and prevent the occurrence of any future problems. Some gains from the establishment of an effective governance structure for the entities can be summed up as:

a) **A well-defined Business – Easy availability of cheap credit**

Under corporate governance (CG) framework, companies maintain documents of mission and vision like Memorandum of Association (MoA), Articles of Association (AoA) which provide clarity to the purpose of the company and its scope. Further, Key Result Areas (KRAs) for senior management and framework for the functioning of the board are maintained. This ensures well defined set of rules for the company and hence, leads to growth of the business.

In a similar manner, the entities can set up clear vision documents which will help them in setting an idea about their goals and expectations charts for the growth path, would instill confidence among the employees as well as outsiders. Further, this would help the creditors understand their working in a better manner and pave way for easy and cheap credit to the entities.

b) **Transparency in operations**

Often, due to concentration of decision making power among a few individuals/owners, there is no accountability. Insiders are often tempted to divert funds for their own personal gains leading to siphoning off of organization's capital. This hampers growth of the business and often leads to financially sick enterprises.

Establishing independent committees and separation of management from ownership in entities would ensure that no decisions – financial or otherwise, are made out of vested interests. This would lead to betterment of financial health of the enterprise as well as its smooth and effective functioning.

c) **Risk Management**

In large corporates, there are specialized teams which work towards risk mitigation by keeping themselves updated with the latest happenings in the industry and planning for any forthcoming threats. This works as an insurance for the company and helps it in absorbing any shocks in the business and ensure profit making even in times of disruptions. The entities often due to lack of such systems in place, suffer huge losses during such turbulent times and even collapse. Maintaining efficient structure and expert staff for managing any shock such as policy changes, cheap imports, global disruptions, etc. would ensure that the entity stands tall in the event of any shock.

d) **Value Creation**

Companies under Governance structure hold regular board meetings which assess any need of skilling or re-skilling its staff in accordance with the demands of the business. This practice in non-corporate small businesses will ensure their long term sustainability as well as financial viability.

e) **Forward Planning**

Regular meetings of the boards shall also ensure that the entity's long term strategy is discussed and re-oriented, if required.

f) **Reputation**

An entity with a good governance structure in place is less likely to suffer from reputational damage that can be caused due to failure of governance. Good governance system can also be a key selling point for the entity in front of external investors, creditors, public, etc.

How to ensure GOOD GOVERNANCE

Good Governance can be established by the enterprises in phases by separating ownership from professional management duties and specifying clear roles and responsibilities for business owners, partners and other stakeholders.

During growth, induct professionals who would add value to the governance system

Ensure timely compliance of applicable rules and regulations.

Put in place an experienced person on financial management system.

Introduce standard operating practices internally and Code of Business Conduct.

Develop management's administrative and technical abilities.

Organization charts to demarcate the roles and responsibilities.

Regular trainings, skilling, re-skilling and up-skilling of the staff.

Independent internal audit mechanism to ensure scrutiny of processes.

Introduce succession plan and rules for conflict of interest.

Presently, most of the MSEs are non-corporates. However, for growth, they need to adopt governance framework which shall be helpful to them in the long run.

Good Governance: What does it entail?

The key attributes of good governance are as follows :-

- a) Business Planning and Budgeting
- b) Risk Management
- c) Internal Controls
- d) Standard Operating Procedures (SOP)

A) **Business Planning and Budgeting**

A business plan is a set of business goals, the reasons why they are believed attainable or the arguments supporting the business plan and the action plan for reaching the goals. The business plan content and format are determined by the goals of an entity. It may help the organization in assessing and zeroing in the best route out of the available alternatives.

A budget is a business plan converted into financial form. The following points may be kept mind while preparing for the plan:

- a) Construct a model of how business may perform financially if certain strategies and plans are followed.
- b) May be compiled annually or half yearly depending upon the business requirements.

Different kinds of budgets



Prepare an extensive budget comprising of:



B) Risk Management

Risk management is a crucial part of effective governance structure which includes:



Any entity may follow the risk management strategy to achieve the business objectives which includes the following steps:

IDENTIFICATION: Identify the possible threats to the entity which may include: increase in competition, shortage of raw material, change in government policies etc.

ASSESSMENT: Once identified, their potential severity may be assessed along with their probability of occurrence.

TREATMENT: Some techniques to manage risks:

- a) Avoidance of elimination of risk
- b) Reduction or mitigation of risk.
- c) Sharing/outsourcing/insuring against the risk
- d) Retention or budgeting for the risk.

IMPLEMENTATION: Once risks have been segregated, implement the plans.

REVIEW & EVALUATE: The entity must review and evaluate its risks periodically to assess whether the treatments were correct or need to be modified.

C) Internal Controls

It is a process for assuring an entity's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

It is a mean by which an entity's resources are directed, monitored, and measured. It plays a key role in detecting and preventing fraud and protecting the entity's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).

The management of an entity has the responsibility of ensuring that a proper system of internal controls is in place and that its implementation is being effected properly.

Components of internal control system

Control Environment

- Basis of other elements of the system
- Includes moral values, ethical and managerial skills, honesty of employees, etc.

Risk Assessment

- Assessment of internal and external risks.
- Determination of risk control means by the management.

Control activities

- Decided by the management to prevent risk associated with every objective.
- Includes all the measures that have to be followed by all the employees

Information and communication

- Collection of relevant information for taking decision and reporting in proper time.
- Employees to realize what is expected of them and how their responsibilities are related to activities of others.

Monitoring

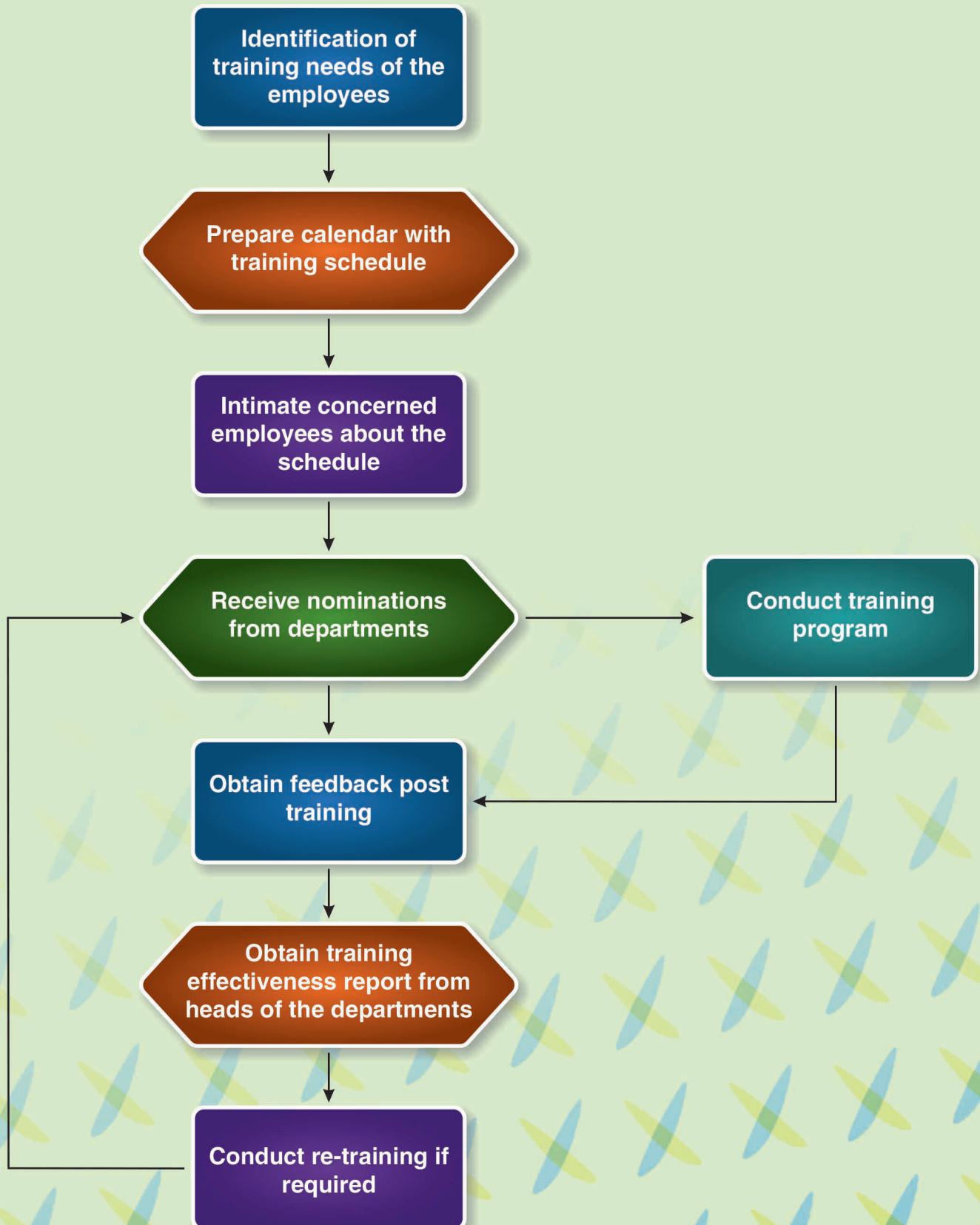
- Monitoring of effectiveness of the internal control process by the management so that necessary changes may be brought if any problem arises.

D) Standard Operating Procedures (SOP)

A series of systematic instructions complied by the entity to help its workers/employees carry out complex tasks with effectiveness, uniformity, quality while reducing miscommunication and failure to comply with the entity's goals and strategies.

The entity must set up an SOP which must be encoded in manuals for the employees' easy reference.

Example of SOP for conducting training of employees in the enterprise



In addition to these methodologies, an entity can ensure the setting up of an effective governance framework through :

i) Setting authority and responsibility relationships

The entity should maintain an organization chart clearly describing the roles and responsibilities expected from each of the individuals to ensure proper and timely execution of work. Further, it is important that along with the responsibility, proper authority must also be provided to the person to which the responsibility is delegated.

ii) Compliance

The management must ensure that the entity is complying with the legal, regulatory, financial laws and regulations of the country.

iii) Management of Human Resource

Proper mechanism for recruitment, orientation, induction training, etc. must be set up to ensure the employees possess the skill required for the job and are oriented and trained as per the vision of the entity. Further, needs must be identified at regular intervals that whether any updation in the skills is required and accordingly re-skilling/up-skilling of the employees must be carried out. Proper mechanism for appraisal, feedbacks and exit interviews should be in place to keep the employees satisfied and motivated.

iv) Management Information System (MIS)

A Management Information System or MIS is used by businesses to gather, compile and analyze information. While the type of information used can vary from one business to another and even between departments, the role of management information systems is almost always the same: to improve operations, strategies and decision-making.

Managing Finance to Improve Governance

One of the most crucial requirements for the success of any business, financial management needs to be understood and implemented by the management. Poor financial management is one of the leading causes of business failures. The following areas must be taken care of by the entity as regards to Financial Management:

A) Financial Requirement

- a. Identify financial requirement based on present and future plans.
- b. Calculate regular fund requirement based on working capital needs.
- c. Look into aspects like capital expenditure required, industry operating cycle, industry working capital cycle, etc.
- d. Identify optimum capital structure, with right proportion of debt and equity which would enable it to maintain lowest cost of capital.

B) Minimize cost of capital

- a. By reducing/diversifying risks.
- b. By maintaining optimum debt-equity ratio. (Debt-equity ratio or DER is a financial ratio indicating the relative proportion of equity and debt used to finance the entity's assets and operation)

C) Maintaining Fund Flow and Cash Flow Analysis

- a. To keep track of fund requirements.
- b. To analyze flow of funds from various operating, financial and investing activities.
- c. To finalize budgeting and develop the business plans and strategies.

D) Available sources of funds

- a. Identify the sources of funds for the business.
- b. Diversify the sources and keep options in hand.
- c. Keep headroom for contingency fund requirements.

Working Capital Management

1. To ensure that the entity operates efficiently by monitoring and using its current assets and liabilities in the best way possible.
2. Aspects of working capital management:
 - a. Current Assets: The assets which can be easily convertible to cash within one-year. Current assets are important to meet the day- to-day operations for a business. Managing current assets is the primary objective for effective working capital management. Examples include: Cash and cash equivalents, bank balances, receivables, etc.
 - b. Current Liabilities: The liabilities which are due to be paid within a year. Examples include: creditors payable, debt payable within a year, advances received against sales, etc.
3. Components of Working Capital Management:
 - a. Accounts Receivable: Revenues due – what customers and debtors owe to the entity for past sales. The entity needs to collect its accounts receivables on time to ensure the funds are used in its own debts and costs.
 - b. Accounts Payable: Amount that the entity must pay in a short term. If urgent, the payments must be delayed only for a reasonable time to ensure good credit ratings while sustaining good relationships with suppliers and creditors.
 - c. Inventory: Inventory is a entity's primary asset that it converts into sales revenues. How quickly the entity converts its inventory to sales indicates its profitability. Low inventory means that the entity risks losing sales, however, excessively high inventory levels could be a sign of wasteful use of working capital.

Accounting

The following must be ensured for proper accounting management in the entity:



Proper Recording of Transactions

Updation of Fixed Assets Register

Maintaining Stock Register

Physical verification of fixed assets and stocks

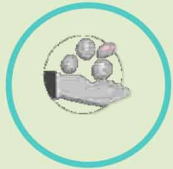
Ageing and monitoring of fixed assets

Identification of obsolescence of stock

Governance Benefits Decoded

Easy Access to Credit: Psb Loans In 59 Minutes

Where Borrowers & Lenders can Connect for -



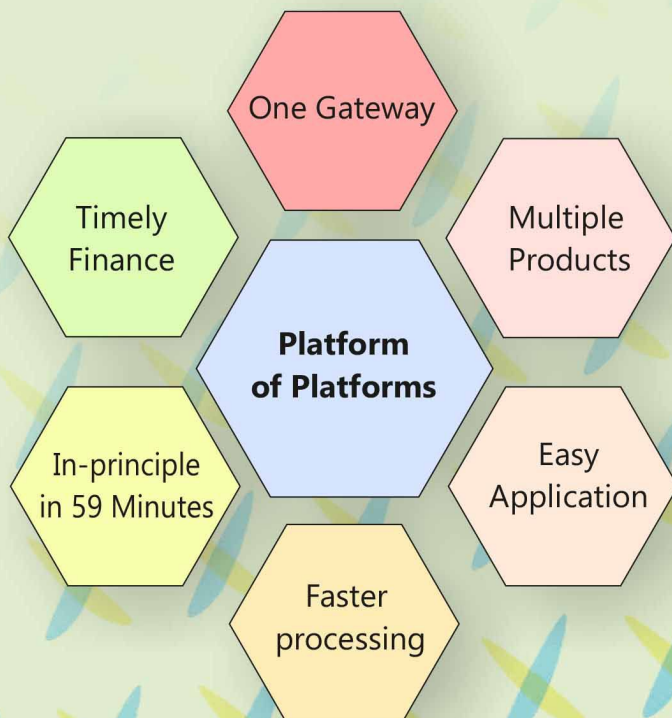
BORROWER

To Receive Adequate & Timely Finance



LENDER

Authenticated Data
Substantial Reduction of Time and Costs



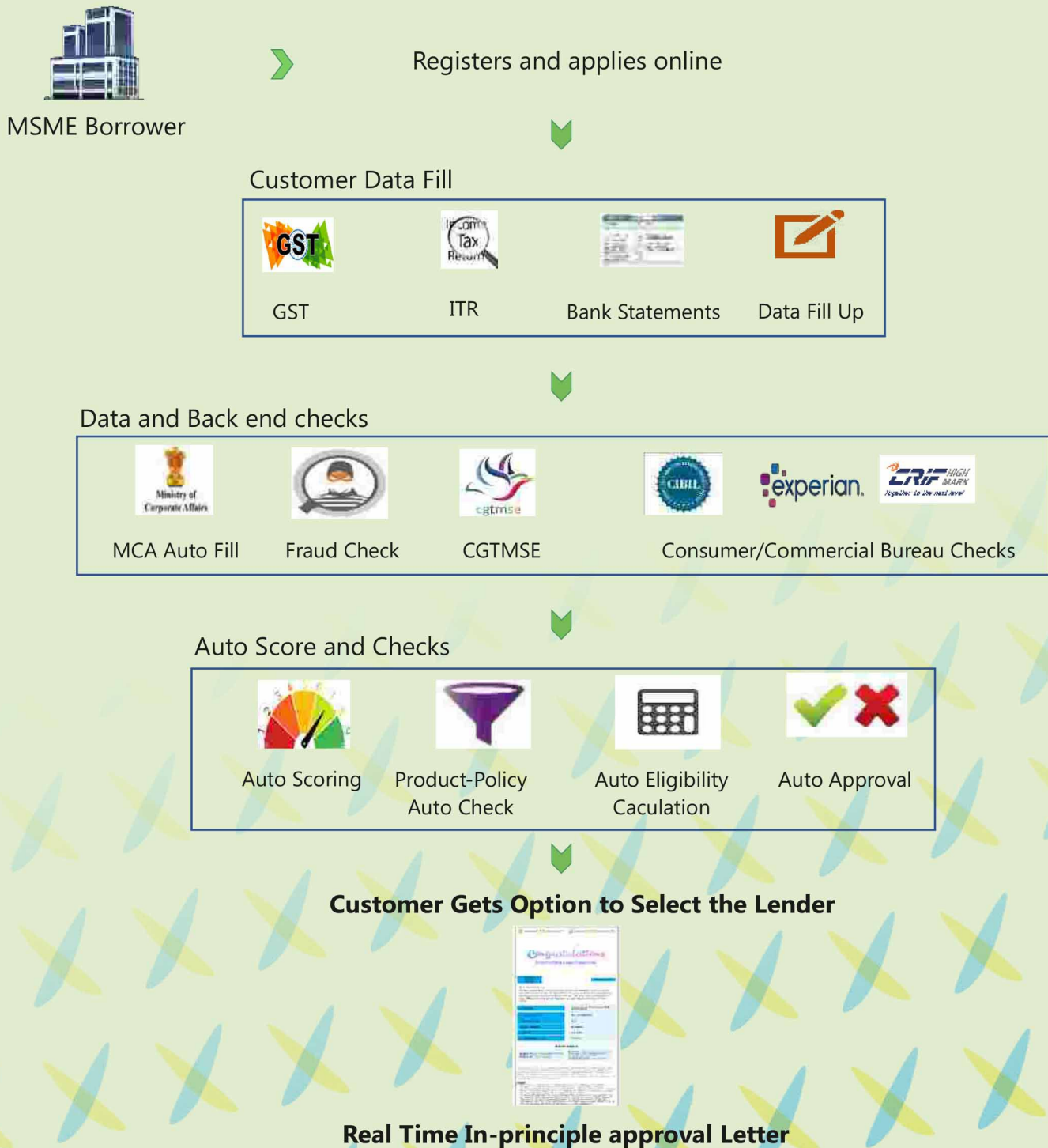
- SIDBI conceptualized creation of this Fintech platform to leverage lending from PSBs.
- The algorithm developed uses existing data points created through the increasing use of GST, Income Tax Return (ITR) and Bank Statements.
- The portal eliminates the requirement of an individual MSME owner to visit multiple bank branches at different locations.
- The portal enables Banks to get access to MSME customers with the required vintage who qualify with their credit parameters.
- This common portal allows MSMEs to submit information through a digital journey and obtain In-principle approval from Banks for their credit requirements.

Live example of Governance and benefits emanating

- TAT reduced from months to days and hour is in sight.
- MSMEs feel empowered as they can choose best fit lender in line with their expectations.
- Those not getting in-principle quickly know what needs to be done to improve bankability.
- Shortly the banks and enterprises shall start getting alerts on cash flow changes, performance missing projections, etc.
- Equips MSMEs to manage risks as also evolve to be responsive to ecosystem.
- Banks respond proactively to filtered business leads as reflected from conversion of in-principle sanction to disbursement.

“PSB Loans in 59 Minutes” Portal has already facilitated In-principle approval to 90,000+ MSMEs which are in the formal channel and better governed”

If you are (i) registered with GST, (ii) regularly filling your Income Tax Return (ITR), (iii) maintaining your Bank Account satisfactorily, then you are considered to be “Better Governed” and may get benefit of fast track credit delivery by applying through this digital platform viz. PSB Loans in 59 Minutes. The process flow for applying for the loan through the portal is summarized below:



This is followed by KYC, Visit, etc. by bank for expeditious sanction and disbursement.
Takeaway: Better governed entities get faster access to financial and non-financial services.

Improving Governance through Goods and Services Tax (GST)

Registration and compliance of GST provision helps in monitoring proper accounting records and internal control in the organization. It also improves the chances of availing credit facilities in better terms.

GST being a tax on supply, every supplier in the State or Union Territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds prescribed amount of threshold exemption limit is liable to pay GST.

The threshold limit of aggregate turnover for exemption from registration and payment of GST for suppliers of services is ₹20 Lakh (₹10 Lakh for States of Manipur, Mizoram, Nagaland and Tripura). The threshold limit of aggregate turnover for exemption from registration and payment of GST for suppliers of goods is ₹40 Lakh (₹20 Lakh in the States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura and Uttarakhand) w.e.f. 01.04.2019.

Voluntary Registration: Persons having aggregate turnover below specified threshold limit may voluntarily get themselves registered.

Aggregate Turnover: The term aggregate turnover means the aggregate value of all taxable supplies, (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis) exempt supplies, exports of goods or services or both and inter-State supplies, of persons having the same Permanent Account Number, to be computed on all India basis excluding taxes levied under GST Acts. Aggregate turnover includes supplies made by the person on behalf of his principals, but excludes the value of job-worked goods if he is a job worker.

GST Registration: Persons not liable for registration: Certain categories of persons are not liable for registration i.e. (i) any person engaged in the business of supplying only non-taxable goods or services under GST Acts, (ii) agriculturist, to the extent of supply of produce out of cultivation of

and, and (iii) persons only engaged in making taxable supplies of goods or services or both, the total tax on which is liable to be paid on reverse charge basis by the recipient of such goods. Special registration provisions for MSME Sector As a trade facilitation measure based on turnover, following small and medium enterprises are not required to obtain GST registration:

(i) Persons involved in Intra-State taxable supply of goods, if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. ₹40 Lakh (₹20 Lakh in case of certain States, as listed above).

(ii) Persons involved in Intra-State taxable supply of SERVICES, if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. ₹20 Lakh (₹10 Lakh in case of certain States, as listed above).

(iii) Persons involved in Inter-State taxable supply of SERVICES only (not goods), if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. ₹20 Lakh (₹10 Lakh in case of certain States, as listed above).

Compulsory registration: GST Acts also provides for compulsory registration of certain suppliers even if their aggregate turnover is below the threshold limit. Some of these suppliers are;

(i) Persons making inter-State taxable supply of goods.

(ii) Casual taxable persons making taxable supply.

(iii) Persons who are required to pay tax under reverse charge.

(iv) Persons making taxable supply on behalf of another taxable person whether as an agent or otherwise; etc. MSMEs need to be mindful of these provisions.

Special registration provisions for MSME Sector

As a trade facilitation measure based on turnover, following small and medium enterprises are not required to obtain GST registration:

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- (iii) Persons involved in Inter-State taxable supply of SERVICES only (not goods), if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. ₹20 Lakh (₹10 Lakh in case of certain States, as listed above).

Source: http://cbic.gov.in/resources//htdocs-cbec/gst/GST_MSMEs_Booklet_01072019.pdf;

Finally, let's discuss some Dos' and Don'ts for Entrepreneurs

Do's for Entrepreneur

- Know the business cycle,
- Know your market.
- Know industrial policy of your state/centre
- The technology, the quality certification
- Open a Current Account in Bank which is near to your business premises. That will help you in saving time and getting faster transaction done.
- Make the necessary registration which are required for running business, GST Number Registration, Udyog Aadhar Registration etc.
- Maintain Proper records of financial transaction, Bills, GST Payment, GST Returns, PF Returns, etc.
- Payment to Raw Material Supplier be done on Due Dates, as per credit terms.
- Payment of Statutory dues, Electricity, Telephone etc. to be made on or before due dates
- Pay all your Loan Installments, Credit Card Dues etc. on or before due date. This will help in making good credit repayment record with the lenders.
- Keep all commercial record of business
- Explore possibilities of delegating micro/small management issues and concentrate on core business.
- It is important to file returns viz. GST Returns, income tax return, pay advance tax timely as also preparation of Statutory Documents Profit and Loss Account, Balance sheet etc.
- Try to get Purchase order copy even if you are working on Job Work basis for your records
- Encourage the employment and retention of women at staff and decision making level to

ensure diversity and inclusion. Research shows that diverse enterprises are much more profitable as compared to others.

- Keep Track of Operating Expenditure (related to business operations) and Budget Plan for Capital expenditure (in regard to expenses on land, building, plant and machinery) etc.
- Relationships are key to business. Be positive and maintain good relations irrespective of winning or losing a contract or order.
- Have good relations with the Industrial Association and same line business which will help you to get familiar with to latest development and trends in market place.
- Participate in conferences and seminars concerning the line of activities chosen.
- Understand the impact of your business on the environment and be environmentally responsible
- Keep liquid working capital provision to meet expenses beyond 3 months if there is delay in payment from customer.
- Keep track of receivable and payable, including ageing of both.

Don'ts for Entrepreneur

- Minimise cash transactions
- Don't get into vicious cycle by booking losses. You may avoid tax once but your growth prospects will get stalled forever. Paying tax on income is good, rather than showing loss in business to avoid tax
- Try leveraging cheap/pay and use workspaces, use research and experiment facilities etc.
- Don't delay the salary of the workmen, staff in your entity. Salary on time will help you to get good workmen in industry.
- Do not make wrong commitments for getting work orders which you will not be able to fulfill.

Self-Assessment for Excellence (SAFE) - A toolkit on Governance

SAFE - A simple toolkit to assess the level of governance in your entity. Through your good governance score and by gauging over what you have already ensured in your business and what you need to, we are positive that it can help you identify the gaps in your governance mechanism and the steps necessary thereof.

Internal Management

SR.No.	Questions	Response	Marks for Yes (0 for No)
1.	Have you set your personal and business goals and keep revisiting it for assessment?	<input type="checkbox"/> Yes <input type="checkbox"/> No	3
2.	Is there a proper succession plan in place?	<input type="checkbox"/> Yes <input type="checkbox"/> No	4
3.	Have you ensured clear division of roles and responsibilities among the staff members?	<input type="checkbox"/> Yes <input type="checkbox"/> No	3
4.	Is the financial budget properly maintained ?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
5.	Are the necessary quality and regulatory certifications regularly renewed?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
6.	Do you regularly assess / update and or renew statutory approvals?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
7.	Have you employed skilled employees for handling critical departments like accounts, HR etc.	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
8.	Have you ensured that all the statutory dues like GST are cleared on time?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
9.	Do you ensure timely disposal of obsolete stock?	<input type="checkbox"/> Yes <input type="checkbox"/> No	4
10.	Does your entity have proper Standard Operating Procedure (S.O.P.) and Code of Business Conduct in place?	<input type="checkbox"/> Yes <input type="checkbox"/> No	3
11.	Do you regularly undertake or get done audit of your business (financial, environmental) mechanism	<input type="checkbox"/> Yes <input type="checkbox"/> No	4
12.	Do you care for your own money as well as borrowed money?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
13.	Do you have Business Continuity Plan in place?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
14.	Are risk Assessment and risk management system important for you?	<input type="checkbox"/> Yes <input type="checkbox"/> No	3

Eco-system responsiveness

SR.No.	Questions	Response	Marks for Yes (0 for No)
1.	Do you ensure training, skilling, re-skilling and up skilling of staff whenever necessary?	<input type="checkbox"/> Yes <input type="checkbox"/> No	4
2.	Is the welfare for employees like– EPFO, pension plans, accidental insurance etc. taken care of?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
3.	Have you ensured safe and enabling working conditions for employees along with suitable infrastructure for their infant/young kids?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
4.	Do you keep track of developments in your field as also emerging opportunities?	<input type="checkbox"/> Yes <input type="checkbox"/> No	5
5.	Do you often do digital transactions?	<input type="checkbox"/> Yes <input type="checkbox"/> No	4
6.	Do you also care about the planet and people apart from profit?	<input type="checkbox"/> Yes <input type="checkbox"/> No	3
7.	Do you track the well being/growth of suppliers, families of staff etc.	<input type="checkbox"/> Yes <input type="checkbox"/> No	5

Result

< 15: - Your governance mechanism needs a major overhaul. Kindly read the info series for tips on how to improve governance in the business. You can also take inspiration from the successful business on how they ensured good governance in their entities.

15 –35: Your governance system is satisfactory, but needs improvement. You can invite experts from different areas or businesses known for good governance and can take feedbacks on how to better the governance in your entity.

35 and above: You have a fairly effective governance system in place. However, with a little self-estimation, you can always find ways to improve it and elevate your position in the market.

Best Governance practices in India

As per the report on Indian Corporate Governance Scorecard released in 2018 and developed jointly by the BSE, IFC and Institutional Investor Advisory Services (IIAS), HDFC Bank Ltd., Infosys Ltd. and Wipro Ltd. have the best governance practices in the country. The report ranked companies on best practice requirements covered by the high-level SEBI committee headed by Shri Uday Kotak, which had suggested a major overhaul of corporate governance norms for listed entities.

While all the external factors are not within the control of an MSE, it can surely refine its working structure by looking internally and finding scope of improvement. Finding out what works for your organization through careful deliberation with the stakeholders and at the same time, learning from good practices followed by the best in the industry and then applying a suitable governance structure can work wonders for the efficiency of an organization. There are several websites where you can learn more about good governance practices and related information, some of which are listed below:

<http://www.mca.gov.in/>

<https://iica.nic.in/>

<https://www.cii.in/>

<https://www.icaai.org/>

https://www.ifc.org/wps/wcm/connect/8f451d64-3274-4b72-a6fc-75770ce69e5e/CG_Scores_S%26P_BSE_100_Companies_Handbook.pdf?MOD=AJPERES&CVID=mfgA1oU

<https://www.oecd.org/daf/ca/corporategovernanceprinciples/39490732.pdf>

Change is the Only Constant

We hope that through this volume, we have been able to provide you insights about the importance of good governance and the ways in which it can be implemented. It is important to change with the changing times and adopt the good industry practices to stay ahead in the race. We will be bringing more information about topics that will help you in making your Swavalamban voyage a smooth sail. Do share with us any other topics you would like to see in the next edition.

Useful Links

1. More information about SIDBI is available at <https://www.udyamimitra.in/>
2. More information on bankability kit
<https://udyamitra.in/Content/MSEbankabilitykit2.pdf>
3. Visit <https://www.udyamimitra.in/FAQs> to get answers to your inquisitive queries
4. Prospective entrepreneurs may register themselves on
<https://site.udyamimitra.in/Login/Register>
5. You can register as both buyer or seller on Government e Marketplace (GeM) website at <https://gem.gov.in/>
- 6(a). To learn more about Mudra Loans (Upto Rs. 10 Lakh), visit mudra.org.in/FAQ.
- 6(b). SC/ST and women entrepreneurs can borrow loans between Rs. 10 lakh and Rs. 1 Crore to start a manufacturing, trading or service unit under Stand Up India. Details are available at <https://www.standupmitra.in/>
7. Women Entrepreneurs visit <https://niti.gov.in/women-entrepreneurship-platform-web>
8. For mentorship support please write to us at pnd_ndo@sidbi.in

Disclaimer

This series has been brought out for aspirant/existing Swavalambis. These are not necessarily the views of Small Industries Development Bank of India (SIDBI) or a complete treatment of the subject.

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