

## Government Policies for the Growth of Entrepreneurship through MSMEs in India

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### Abstract:

*The Micro, Small and Medium Enterprise (MSMEs) continue to be a vibrant sector of the Indian economy. After agriculture, the MSMEs sector provides the maximum opportunities for both self-employment and jobs in the country. The small enterprises sector in India holds great potential for further expansion and growth in the future. In particular, the article concentrates on the growth of entrepreneurship within the MSMEs and government policies for developing entrepreneurship in India. Additionally, it also considers the contribution of MSMEs towards country's employment generation. The global market has changed considerably as also the activities of Micro, Small and medium enterprises.*

**Key words:** Entrepreneurship, MSME, Government policy, Employment generation.

### Introduction

The planned economic system has been adopted in India since 1<sup>st</sup> April, 1951 and completed 10 five year plans with some

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annual plans. Now India is in 12<sup>th</sup> five years plan that has begun from 1st April, 2012. Undoubtedly, lots of achievements have been made in various sectors in Indian economy through revolutions in agriculture, industry and service sector in these planning periods. However, India still remained as developing country and it is facing problems like unemployment, under employment, low per capita income, low capital formation, rising trade deficit and considerable percentage of population below poverty line, etc. The present markets are in nervous, and for various valid reasons. The rupee has hit 52 weeks low of Rs.46.90 and macroeconomic indicators of the economy are drooping. Industrial production is on a downward spiral. Its impact is going to be more severe on MSMEs, and may affect with huge financing gap and consistent decline in global demand for their products. Micro, Small and Medium Enterprises constitute the backbone of the Indian economy. The 311.5 lakhs MSMEs in India contribute roughly 10% to the GDP, employ more than 732.17 lakhs people and contribute almost 45% of the total manufacturing output and 40% of the total exports. India is a country having a large population and abundant mineral resources. However, capital availability is relatively scarce. In this context, MSMEs are uniquely suited to the Indian economic scenario as (a) their capital intensity is low (b) they are principally labor intensive with high employment potential. Around 80s, China and India were almost equal in economic development and now the growth rate of the economy of China is far ahead than that of India.

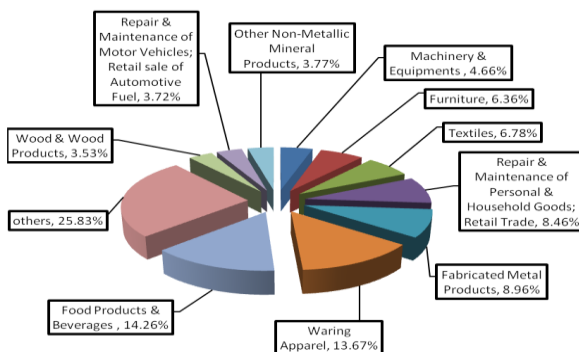
## **Literature Review**

Micro, Small- and medium-sized enterprises are a vibrant and growing sector in most economies round the world. Audretsch *et al.* (2006) explains that creating supportive environments for entrepreneurship and MSME development has become a top policy priority in almost every country around the world. Lester

*et al.* (2007) claims that There is broad agreement on the merits of devising policies to enhance the contribution of MSMEs to global trading, since it is widely recognized that MSMEs are under-represented in the global economy.

MSMEs typically contribute some 50 per cent of GDP in the developed economies and some 60 per cent of total employment, yet MSMEs contribute only around 30 per cent of exports and even less in terms of flows of international investment. The multi pronged objectives of increased industrial output, generation of employment, dispersal of industrial activities across regions and development of entrepreneurship has been successfully met through the propagation of MSMEs (Banerjee, 2005). The labor to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The main objectives Government scheme are development of indigenous entrepreneurship from all walks of life for developing new micro and small enterprises, enlarging the entrepreneurial base and encouraging self-employment in rural as well as urban areas, by providing training to first generation entrepreneurs and assisting them in setting up of enterprises. (MSME, Government of India 2009-10)

**Graph 1: Products of MSMEs**



Data Source: (Annual Report Ministry of MSMEs, 2011-12)

MSME contribute significantly to the economic growth by being inclusive, employment friendly and promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. This sector manufactures more than 6,000 products, ranging from traditional to high-tech items. It is estimated that in terms of value, MSME sector accounts for about 45 percent of the manufacturing output and 40 per cent of the total exports of the country. As per the 4th Census of the MSME Sector, there were 28.5 million enterprises producing output valued at 8,80,805 crore and providing employment to 65.9 million persons during 2008-09. The sector contributes 8 per cent to the country's GDP. Initiatives taken for the development of MSME sector include the implementation of MSMED Act, 2006, reservation of 21 items for exclusive manufacture in micro and small enterprise sector, dereservation of certain items for providing opportunities to MSME for technological upgrade, promotion of exports and achieving economies of scale and providing competitive edge to these units under the National Manufacturing Competitiveness Program (NMCP). (NABARD Annual Report, 2011-12). The present study is based on the secondary data. Most of the secondary data were collected from the website of the MSMEs, RBI, and NABARD, books, journals and newspapers. The collected data were analyzed by using statistical tools like percentage, growth rate and common size statements.

### **Government Schemes for MSMEs**

There are various schemes run by the Indian Government to boost the MSME's in the country to help them become more innovative, efficient and competitive. The enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was a landmark initiative taken by the Government of India to enable the MSMEs' competitive strength, address

the issues and challenges and reap the benefits of the global market. MSME policy initiatives at the national and state level are aimed at strengthening the role of MSMEs at the base as well as at the higher level.

The Government formulated an exclusive policy for MSME sector to encourage agro-based industries is a recent example of the changes taking place at the ground level. Some of the salient features of this policy include formation of multi-storied and flatted industrial estates for micro industries, liberal floor space index in plotted development of 1.5 to 1.75 for industrial sheds and 2.5 for multi-storied industrial units, 50% rebate on stamp duty and registration charges for micro and small enterprises in industrial estates and industrially backward areas.

The Ministry of Micro, Small and Medium Enterprises (MSME) is implementing the promotional schemes for the development of MSMEs. The schemes and programs generally focus on capacity building in states and regions; nevertheless, there are a few schemes and programs, which are individual beneficiary-oriented. Some of the schemes are by The Ministry of Micro, Small and Medium Enterprises (MSME) is as below.

**Table 1 Government policies for MSME sector in India after 2006.**

Policy	Purpose
Establish Small Enterprises Financial Centers (SEFC)	For strategically alliance between branches of banks and SIDBI located in 388 clusters identified by Ministry of SSI
The National Commission for Enterprises in the Unorganized Sector	For the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis
National Manufacturing Competitiveness Council (NMCC) was set up	For energies and sustains the growth of the manufacturing industry
Credit Linked Capital Subsidy Scheme	For Technological Up gradation
Facilitation of technology transfer through the Technology Bureau	For Small Enterprises (TBSE)

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<p>A third policy package</p>	<p>For the promotion MSME was announced which comprises the proposal/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success</p>
<p>Subsidy Schemes</p>	<p>The government has introduced various schemes that provide financial subsidy to the eligible enterprises. These subsidy schemes are specifically for certain industrial sectors, while some of them like CLCSS are available for a wide range of industries.</p>
<p>Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS)</p>	<p>The Scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products. The Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) will continue to act as the Nodal Agencies for the implementation of this scheme.</p>
<p>Quality Upgradation/Environment management for small scale sector through incentive for ISO 9000 /ISO 14001 /HACCP Certifications</p>	<p>In order to enhance the competitive strength of the small scale sector, the Government introduced an incentive scheme for their technological upgradation / quality improvement and environment management. The scheme provides incentive to those small scale/ ancillary undertaking who have acquired ISO 9000/ISO 14001/HACCP certifications.</p>
<p>Market Development Assistance Scheme for Micro, Small &amp; Medium Enterprises.</p>	<p>The scheme offers funding for participation by manufacturing Small &amp; Micro Enterprises in International Trade Fairs/ Exhibitions under MSME India stall; sector specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation; initiating/ contesting anti-dumping cases by MSME Associations and reimbursement of 75%</p>

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	of one time registration fee (w.e.f. 1st January 2002); and 75% of annual fees (recurring) (w.e.f. 1st June 2007).
Financial Assistance on Bar Code	<p>The basic objective of financial assistance is to enhance the marketing competitiveness of Micro &amp; Small Enterprises (MSEs) by way of:</p> <ul style="list-style-type: none"> <li>• Providing 75% of one-time registration fee and annual recurring fee (for first three years) paid by MSEs to GS1 India.</li> <li>• Popularizing the adoption of bar codes on large scale amongst MSEs, and</li> <li>• Motivating and encouraging MSEs for use of bar codes through conducting seminars on Bar Code, etc.</li> </ul>
Subsidy Schemes of NSIC	<p>Performance and Credit Rating Marketing Assistance Raw Material Assistance</p>

While there are no specific reservations for women, in the latter, there are some concessions/incentives available under these programs for the benefit of women entrepreneurs. In respect of entrepreneurship/skill development training programs, under the National Awards for Entrepreneurial Development (Quality Products) and Trade Related Entrepreneurship Assistance and Development (TREAD) Program for women, the necessary guidelines have been issued and specific reservation provided for women. Similarly, under two employment generation programs being implemented by the Ministry like Rural Employment Generation Program (REGP) and Prime Minister's Rozgar Yojana (PMRY), some concessions have been provided for women beneficiaries. Besides, the Coir Board is implementing the Mahila Coir Yojana, which is a women oriented self-employment program.

## Position of Entrepreneurship as a Driving Force behind MSMEs in India

Total population of India has reached to 121 crores. It comprises 62.37 crores males and 58.65 crores females. Promotion of entrepreneurship among MSMEs is widely handled through a combination of public and public-private sector organizations in country. Entrepreneurship development within MSMEs has been made part of development Action Plan at the national level in India. The main areas where increased levels of entrepreneurial activity can contribute significantly to specific policy outcomes are

- Creating opportunities – Job creation, careers, and new product/services.
- Economic growth, productivity improvement, and innovation
- Poverty alleviation and social opportunities.
- Creating new Customers and open up new markets.(Afarshar Jahnshahi Asghar, 2011)

## Contribution of MSMEs in Employment Generation in India

The present MSMEs play a vital role in the balanced industrial development of the country as MSMEs generate employment and add value to the products and services while encouraging entrepreneurship (Karnataka, 2010).

**Table 2: Total Number Persons Employed through MSMEs in India**

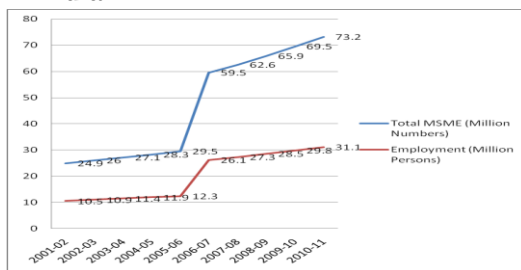
Sl. No	Year	Total Number of Working MSMEs		Persons Employment	
		(Lakh)	Growth Rate	(Lakh)	Growth Rate
1	2006-07	261.12	111.57*	595.66	101.98*
2	2007-08	272.79	4.47	626.34	5.15
3	2008-09	285.16	4.53	659.35	5.27
4	2009-10	298.08	4.53	695.38	5.46
5	2010-11	311.52	4.51	732.17	5.29

Data Source: (Annual Report Ministry of MSMEs, 2011-12)



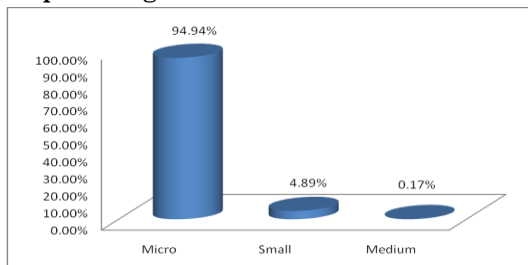
Table 2 clearly shows the total number of MSMEs that have emerged during the year of 2006-11. This indicates that the entrepreneurial attitude is the key driving force behind starting up a business. And the number of persons employed through MSMEs has gradually increased from 595.66 lakh in 2006-07 to 732.17 lakh in 2010-11. This indicates that Government has followed a supportive policy towards MSME, aimed at facilitating their growth and enhancing their competitiveness. It can be deciphered for the graph 2 that the number of MSMEs has been increased steadily in India from 105 crores in 2001-02 to 311.52 crores in 2010-11. This could be possible due to the conducive policy environment during the liberalization era. There was a significant rises in the number of MSMEs between 2005-06 and 2006-07, because the data for the period up to 2005-06 is only for Small Scale Industries (SSI).

**Graph 2: Total number of MSMEs and Employment generation by MSME sector in India**



Data Source: (Annual Report Ministry of MSMEs, 2011-12)

**Graph 3: Registered MSMEs in India 2010-11**



Data Source: (Annual Report Ministry of MSMEs, 2011-12)

From the above graph it is evident that the micro enterprises have approximately three quarters (69%) of the total number of employment generation in India. The sector is characterized by low investment requirement, operational flexibility and location wise mobility. After that the small enterprises have 24% of the employment generation. The small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Being generally less capital intensive, micro and small enterprises Suit the Indian economic environment with scarce financial resources and large population base. Finally, medium enterprises have only 7% of the total number of employment generation in India.

## **Conclusion**

"Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of growth in several developed and developing economies of the world. In India also, they have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. However, the most important contribution of this sector is towards employment generation. The experience of recent years shows that while employment in agriculture sector has been declining, large industries are also experiencing jobless growth. In such a situation, the main responsibility for job creation rests with unorganized sector including manufacturing enterprises and the service sector. The MSME sector contributes significantly to the manufacturing output, employment and exports of the country.

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