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NURTURING ENTREPRENEURSHIP IN INDIA







NATHAN ASSOCIATES INC.

FICCI CMSME

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Background and Introduction

Entrepreneurship

Entrepreneurship is the application of knowledge, skills as well as the monetizing of a new idea by an individual or group of individuals by establishing a new enterprise or diversifying from a previously existing one for the purpose of attaining wealth, generating employment as well as social good.[1] It has been derived from the French word 'entreprendre' which means 'to undertake'.

Successful entrepreneurship at a small scale not only helps to expand the size of the economic activity but also helps to improve the income distribution by allowing individuals with relatively limited means to participate in growth opportunities. In fact, according to market research, differing levels of entrepreneurship is responsible for around 33to 50 percentdifference in the economic growth across countries.[2]Today, entrepreneurs can choose from a wide array of sectors and opportunities-from manufacturing to technology to healthcare, infrastructure or even education services- and contribute towards economic growth and prosperity.

In an economy such as India, the significance of promoting and increasing entrepreneurial spirit is critical as it helps to solve the country's employment problem.Additionally, it contributes, directly or indirectly, in improving the production and delivery of products and services for industry and services sector such ashealthcare, sanitation, infrastructural development, etc.[3] As these start-ups are small businesses, with small operations, employing few persons, having low capital investment and limited revenues, majority of these start-ups are classified as Micro, Small and Medium Enterprises (MSMEs).[4]

Micro, Small and Medium Enterprises (MSMEs)

MSMEs are key to economic development.They constitute roughly 95 percent of all registered firms across the world, accounting for as high as 99 percent registered firms in Europe. Different countries use different parameters to define an industrial enterprise. For instance, in the United States, an enterprise is characterised as a small and medium enterprise (SME) if it employs fewer than 500 people. In the European Union (EU), enterprises are classified into three categories:

- Micro enterprises - Enterprises having less than 10 persons, and a turnover of British Pound Sterling (GBP) 1.7 million;
- Small enterprises - Enterprises having a headcount of less than 50 people and a turnover of GBP 8.2 million; and

- Medium enterprises: Enterprises having less than 250 employees and a turnover of GBP 35.2 million.

In India, following the enactment of the Micro, Small and Medium Enterprises Development (MSMED 2006) Act, business unitswere classified into Micro, Small and Medium, on the basis of type of sectors – Manufacturing and Service - and the investment made in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services as under[5]:

Table 1: ***Classification of Manufacturing and Service Enterprises into Micro, Small and Medium***

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	INR. 2.5 million (US$ 41,667)	INR. 1 million (US$ 16,667)
Small	INR. 50 million (US$ 833,334)	INR. 20 million (US$ 333,334)
Medium	INR. 100 million (US$ 1,666,667)	INR. 50 million (US$ 833,334)

*Notes:** Investment in Plant and Machinery
**Investment Limit on Equipment
US $1 = INR. 60[6]

The SME sector in India provides employment opportunities to around 69 million people working in 29.8 million MSMEs spread across the country.[7]A large number of these are in the informal sector. They contributed to around 8 percent of India's economic GDP in 2011-12, 45 percent of the country's manufacturing output and around 40 percentofthe country's total exports.[8] The sector registered a growth of 11.5 per cent in 2011-12, higher than the GDP growth of 8 per cent during the same year.

MSME activity is however, largely concentrated in a few states.Majority of these units are very small and only a few are engaged in export activities. For example, seven states (Tamil Nadu, Gujarat, U.P, Kerala, Karnataka, Madhya Pradesh and Maharashtra) account for nearly three-fourth of the registered MSMEsin Indiaand around two-third of employment in the MSME sector. Nearly 95 percent of the units are micro units with average investment in plant and machinery of less than INR 2 lakh and average annual gross value addition per employee of INR 1.88 lakh. This suggests that the level of entrepreneurship in India in fact has a low value-low volume characteristic.

Entrepreneurial Motivation

The past decade or two has seen a rising importance of determining environmental factors / enablers that are essential for an entrepreneur.[9] Entrepreneurship is not merely about the ability to balance risk and returns, but also involves a human component. People differ from one

another, and this variation is also reflected in their willingness and ability to act on certain opportunities. For example, varying perception of risk amongst peopleinfluences their entrepreneurial decisions. Risk-averse people would be more cautious on expending resources in their enterprises unlike risk takers. Socio-economic and culturalaspects play an important role in influencing the personality and general behaviour of people. These characterisitcs (such as caste, culture, gender, level of development, and traditional skills etc.) are believed to be important factors in understanding the entrepreneurial behaviour. However, the research suggests that the nature of these factors and their influence is such that appropriate structural interventions (improvement of infrastrcuture, education, postive discrimination, market access etc) can make all these socio-cultural attributes play a favorable role for growth of entrepreneurship in the Indian society.[10]

Numerous studies have been conducted on the relationship between human motivation and entrepreneurship, indicating a wide array of variables that motivate entrepreneurs and influence the success of their start-ups. A survey was conducted by the National Knowledge Commission (NKC) (2008) in Indiato analyse the various motivating factors that influence a person's decision to become an entrepreneur.[11] According to the results of the study, independence (the drive to do one's own thing) and family background in entrepreneurship were the two major influencing factors (at 21 percent each). Market opportunity (19 percent) and idea driven (18 percent) were the other critical factors in influencing an entrepreneur'sbusiness decisions. The long cherished 'dream' to become an entrepreneur and the potential 'challenge' that entrepreneurship offers were among the least motivating factors, according to those surveyed.

The study also analysed the variations in motivating factors across various parameters such as region, gender, time periods, etc.

With respect to region**,** entrepreneurs from Indian cities such as Pune and Chennai were primarily 'Idea Driven' as these cities are known for their educational institutions; while 'Family Background' was a prime trigger especially in Ahmedabad as Gujarat has always been a traditional business hub.

In the **Gender**parameter, it was found that female entrepreneurs are highly 'Idea Driven' and Self-motivated or 'Independent' (25 percent each).

These factors are subject to change in each and every developing nation, for example in a few countries, short-term motives are more important than long-term motives.Further, in developed countries, the reasons for becoming an entrepreneur can be entirely different. For instance, in Canada and the US the motive behind being self-employed entrepreneurs is the desire "to be

independent" or "to be their own boss."Behind all these decisions however, there is an underlying objective of balancing returns with risks.

The Fourth Census on MSME in India indicates that in terms of the number of enterprises, 10 industry groups including Food Products and Beverages; Wearing Apparel; Textiles; Furniture; etc. constitute roughly 74 percent (three-fourth) of the entire MSME sector. Government policies and conducive environment also plays a motivational role in influencing entrepreneurs' decisions to set up their start-ups in these industries. According to a Survey of Entrepreneurs conducted by the Legatum Institute; in China, 37 percent of the respondents felt that the government had undertaken satisfactory measures to help nurture start-ups; while in India, only 18 percent felt the same. Furthermore 63 percent of the Indian respondents felt that corruption was hurting their business chances as compared to 53 percent of the respondents in China.[12] Thus China is said to be a more entrepreneurial country than India.

Financing Start-ups in India

Having entrepreneurial attributes is a necessary condition but not a sufficient condition to translate the entrepreneurial talent to establish an enteprrise. Promotion of entrepreneurship requires infusion of capital through various sources such as angel investors, venture capitalists, as well as banks and other financial institutions.[13]Access to early-stage finance, particularly seed capital, is one of the key factors that determine the decision to become an entrepreneur as well as the nature of the enterprise.

The data from the Fourth Census of MSME indicates that of the total number of 15.93 lakh registered units nearly 95 percent are single proprietary micro units with average original investment of less than INR 2 lakh in plant and machinery. Apparently, even though there are large number of entrepreneurs, the capabilities to invest adequate funds to provide sustainability of operations and organic growth to the enterprise are limited. As our analysis in the following sections suggests, investment of this scale could be insufficient to generate surpluses for organic growth. A study conducted by the National Knowledge Commission (NKC) in India on Early-Stage Finance, indicated that majority (63 percent) of the start-ups were self-financed at the early/start-up stage; while banks and angel investors, venture capitalists and other formal sources of finance constituted a mere 37 percent. With respect to finance obtained from banks, 80 percent of the entrepreneurs, who were in their early-stages, found it difficult or average to obtain capital from banks. The reason for this difficulty can be attributed to the risk-averse nature of banks.

Government Policies and Initiatives

Recognizing the need to promote entrepreneurship, particularly start-up companies, the government, in the Union Budget 2013-14 and Union Budget 2014-15, made significant announcements for the MSME sector. Box 1 and Box 2 below provide the salient features of the Union Budgets with respect to the MSME Sector.

Box 1: ***Salient features of the Union Budget 2013-14 with respect to the MSME Sector***

The Union Budget 2013-14

- Each category of the sector to continue enjoying the non-tax benefits and preferences upto three years after graduating to a higher category;
- Permitted the listing of start-ups on the SME Exchange without having to make an Initial Public Offering (IPO);
- Enhanced the refinancing capability of the Small Industries Development Bank of India (SIDBI) from INR 5,000 crore to INR 10,000 crore per year.

Box 2: ***Announcements made for the MSME Sector in the Union Budget 2014-15***

The Union Budget 2014-15

- A fund of INR 10,000 crore to attract private capital in the MSME sector via equity, quasi-equity, soft loans and risk capital for start-ups.
- A committee with representatives from the Reserve Bank of India (RBI), Finance Ministry and Ministry of MSME.
- Technology Development Fund, with a corpus of INR 100 crore has been announced in the Budget to support MSME to develop the Defence sector.
- Technology Centre Network to promote innovation, entrepreneurship and agro-industry with a proposed corpus fund of INR 200 crore.
- Plans to revise the definition of MSMEs to include changed parameters.[14]
- Announcement of an entrepreneur friendly legal bankruptcy framework.
- Focus on SME Development in the North-East Regions and the state of Jammu and Kashmir

The government has taken several new initiatives to improve competitiveness and reduce risk in the MSME sector. These include the following:

New Bankruptcy Law for MSME Startups in India

In order to facilitate easy exits by the MSME sector, the Union Budget 2014-15 states that an entrepreneur friendly legal bankruptcy framework would be formulated soon. An inter-ministerial committee, set up in 2013, for Accelerating Manufacturing in the MSME Sector recommended redesigning and simplification of bankruptcy laws and procedures in India so that otherwise viable companies find it easier to close and restart businesses if necessary.[15]

The Committee also suggested that Title 11 of the United States (US) Bankruptcy Code could be a useful framework to frame such laws in India. The Bankruptcy Code was enacted in 1978 under Article 1, Section 8 of the United States Constitution. Title 11 comprises of several chapters, which pertain to different areas of bankruptcy.[16] For example, Chapter 7 pertains to liquidation under the code; Chapter 9 pertains to the reorganisation of municipalities; while Chapters 11, 12, and 13 relate to more complex issues relating to re-organisation of the enterprise; and Chapter 15, Title 11 deals with cross-border insolvency, that is, foreign companies with US debt. A law on the similar lines would provide an opportunity to a failed entrepreneur to exit without there being a stigma to be failing in one's business. A well defined bankruptcy laws and repealing of existing Provincial Insolvency Act, 1920 will encourage the start-ups to exit businesses they are not being successful, unlock the unprodcutive capital and look at more promising avenues. However, the matter may not be as simple as that.

An in-house informal survey conducted by Nathan Economic Consulting India ("Nathan India") with a sample size of 17 entrepreneurs, revealed that majority favoured a sound bankruptcy law in India. When asked if they felt that a sound bankruptcy rule, similar to the one adopted in the United States, would benefit them and their enterprises, 8 out of the 17 entrepreneurs (47 percent) responded that they felt that it would be beneficial, while 41 percent felt that it would not make their exit easy. Thus the opinion is divided across entrepreneurs and it is not evident whether the adoption of such a policy would work in an economy like India and whether it would truly benefit MSME start-ups looking to exit from the segment. The issues need to be debated in detail before the bankruptcy framewrok is introdcued.

Entrepreneurial Memorandum (EM)

As per the Micro, Small, Medium Enterprises Development (MSMED) Act, 2006, an entrepreneur intending to set up a micro, small or medium enterprise has to file an entrepreneurial memorandum (EM) with the District Industries Centre (DIC) of the concerned district. The filing of the EM has been categorised into two parts. Part I or EM-I is initially filed by the entrepreneur

when he is setting up the proposed MSME. Part II or EM-II is filed by the entrepreneur once the start-up or small business starts its operation or has already become fully functional and hascommenced rendering and providing services. The EM-II filings indicate the number of fully operational/functional start-ups existent in the state. This mandated filing of the EM forms by entrepreneurs would serve as a database to assess the improvements in the number of start-ups registered and fully operational across all states in India.

National Manufacturing Policy, 2011

On the 4th of November, 2011, the Government of India announced the new National Manufacturing Policy with the objective of increasing the manufacturing sector's contribution to GDP to 25 percent and creating 100 million employment opportunities within a decade. With respect to start-ups the policy proposes a Rollover relief from long term Capital Gains Tax to individuals in case of re-investment or stake in the equity of a new manufacturing start-up. The move would enable entrepreneurs to sell unprodcutive assets (such as ancestral properties) in order to raise equity.[17]

Central Government Schemes

Prime Minister's Employment Generation Programme (PMEGP)

On the 31st of March, 2008 the Government of India approved of the merging of two schemes, namely the Prime Minister's Rojgar Yojana (PMRY) and the Rural Employment Generation Programme (REGP), into a new credit linked subsidy programme called the Prime Minister's Employment Generation Programme (PMEGP). The PMEGP scheme, a credit linked subsidy programme was launched on 15th August, 2008.[18] Implemented by the Khadi and Village Industries Commission (KVIC) – a statutory organisation under the control of the Ministry of MSME – the programme aims at generating employment opportunities through the setting up of micro enterprises in rural and urban areas, and ensuring high and continuous credit flow to the micro sector.[19]

Another objective of the programme is to provide support and financial assistance to projects being undertaken in each and every State/Union Territory (UT). Government subsidies are provided to the beneficiaries undertaking projects in the manufacturing and service sector, also known as Margin Money Subsidy. The rate of subsidy varies from 25 percent to 35 percent and the maximum project cost permitted in the manufacturing and service sectors is INR 25 lakh and INR 10 lakh respectively.

Credit Guarantee Scheme for Micro and Small Enterprises (MSEs)

The Credit Guarantee Scheme for MSEs was officially launched on the 30th of August, 2000 by the Credit Guarantee Trust Fund for MSEs (CGTMSE) to reduce financing risk and to strengthen the credit flow and credit delivery system to the MSE sector. The Trust is being financed by the Government of India and the Small Industries Development Bank of India (SIDBI). As of 31st March, 2010 the corpus had reached INR 1906.55 crores. Under the scheme, 75 percent of the sanctioned amount of the credit facility is covered, with the cover extending to 80 percent in cases of micro enterprises for loans upto INR 5 lakh; women operated MSEs; and loans sanctioned to the North-East Region. The guarantee cover is applicable for the entire tenure of the term loan/composite credit. The scheme has been successful in ensuring increasing credit flow to the sector as there has been a remarkable improvement in the same from INR 6 crore in 2000-01 to INR 6875 crore in 2009-10.[20]

India Inclusive Innovation Fund

The Government launched an Indian Inclusive Innovation Fund in January 2014. The INR 500 crore fund operates on the principle that innovative enterprises can profitably and competitively deliver goods and services that would enhance the quality of life at the Bottom of the Pyramid. The purpose of the fund is to pool capital and seed fund from various sources and support investment at various stages of an enterprise's development cycle.[21] It aims at expanding the corpus to INR 5000 crores over the next two years. The Fund would be operational for nine years, extendable by two years and will focus on healthcare, energy, education, technology, etc. as an enabler.

State Government Initiatives

Startup Village

Launched in Kochi, Kerala in April, 2012, the Startup Village is India's first technology business incubator funded jointly by the public and private sector. Promoted by the Department of Science and Technology, Government of India, Technopark Trivandrum and MobME Wireless, the scheme aims at launching 1,000 technology start-ups over the next 10 years by creating an entrepreneurial ecosystem, providing a platform for youngsters to innovate cutting-edge technology. Within 2 years since its inception, the scheme has received 3,175 applications from start-ups, of which 679 were provided support in terms of funding, mentoring, etc. Of the 679 start-ups that were provided support, 249 were student start-ups and 57 were Regular Incubatees.

Startup Oasis

In June, 2013, the Rajasthan State Industrial Development and Investment Corporation Ltd. (RICCO) signed a pact with Indian Institute of Management (IIM) Ahmedabad's Centre for Innovation, Incubation and Entrepreneurship (CIIE) to promote entrepreneurship by setting up a Jaipur based incubation centre, known as the 'Startup Oasis'.[22] The aim of this incubation centre is to create an ecosystem in the state of Rajasthan which would inspire, and support students and aspiring entrepreneurs in their start-ups. The Oasis has already been provided with the state-of-the-art plug and play facility along with high frequency bandwidth.

However, despite the recent rise in the number of MSME promotional and developmental schemes there is a need to expand in order to reach remote areas in the North Eastern States. Furthermore there must be an increase in the number of start-ups that are provided mentoring and financial support, since even the Startup Village scheme only has a conversion rate of 21 percent.

Data Analysis

In this section, Nathan India has undertaken qualitative and quantitative analysis on data collected from the Fourth Census on MSME in India and the PMEGP. The purpose of this analysis is to understand how different organisations based on their size, ownership, access to technical knowhow and source of energy perform in terms of employment intensity and generation of surplus. We also conducted a statistical analysis to study the impact of the employment generated under the PMEGP scheme on State GDP; the relationship between employment generated under the programme and employment in the organised sector. Furthermore, a survey was conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) on behalf of Nathan India, with entrepreneurs who have started small businesses in the past three years in order to understand the impact of the measures taken by the government to develop SMEs.

Fourth All-India Census of MSME

From the data gathered in Table 2.1 given below, it can be seen that Employment Intensity (average number of employees per unit) and Productivity (gross value addition per employee) are higher in Small units compared to Micro units. Micro enterprises provide employment to 6.5 million persons and the average surplus after meeting all input costs (but exlcuding labour costs) by the micro units is around INR 1.88 lakh per annum per employee. In contrast the average employment in Small enterprises is over 30 persons per unit and they generate nearly two and half times higher surplus (INR 4.55 lakh per employee).[23]This suggest that not only the productivity in micro units is significantly lower than small industry units but Small industry units also generate nearly 7 times more employment. Though it is a matter of further investigation, it appears that small surplus generated in the micro units is often at the margin of sustainability and not sufficient for organic growth or expansion. Even a short-term external shock can easily lead to the failure and closure of the unit. The government policies at present are scale neutral and employment oriented. The above-mentioned preliminary analysis indicates that productivity and sustainability aspects also need to be factored in design of the programmes to promote entrepreneurship.

Table 2.1: *Employment Intensity and Labour Productivity on the basis of Enterprise Size*

Employment Slab	No of Units (000)		Employment (000)		Gross Value Added (G.V.A.) (in INR Lakh)		Employment Intensity[24]		Productivity[25]	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Micro	687.42	797.34	2736.44	3797.74	3913	8379	4.0	4.8	1.43	2.21
Small	19.26	57.27	807.82	1535.21	3210	7462	41.9	26.8	3.97	4.86
Medium	0.72	1.96	137.75	294.52	1074	2381	191.3	150.3	7.80	8.08

Table 2.2 compares the performance of MSME units based on ownership. It is seen that partnership firms are more productive and have a greater value addition than proprietary firms in the MSME Sector. In terms of employment intensity too, partnership firms are four times higher than proprietary firms. This is due to the fact that compared to the single proprietary firms, partnership firms are more likely to pool in their resources as well as risks to achieve higher value addition and create more employment. There is therefore a need to incentivise the proprietary firms to adopt strcutures that are more conducive to pooling of risk and equity. Recent budget proposals, are expected to meet these expectations

Table 2.2 *Employment Intensity and Labour Productivity on the basis of Ownership*

Employment Slab	No of Units (000)		Employment (000)		Gross Value Added (G.V.A.) (in INR Lakh)		Employment Intensity		Labour Productivity	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Proprietary	653.61	755.15	2465.14	3510.21	3560	7381	3.8	4.6	1.44	2.10
Partnership	19.96	42.77	358.14	708.13	1073	2951	17.9	16.6	3.00	4.17
Private Companies	13.34	30.07	531.97	936.74	2311	5046	39.9	31.2	4.34	5.39
Public Companies	3.07	5.32	148.1	259.01	895	1856	48.2	48.7	6.04	7.17
Co-operatives	2.69	2.03	79.53	61.82	173	403	29.6	30.5	2.18	6.52
Others	14.73	21.23	99.13	151.57	186	584	6.7	7.1	1.88	3.85

Table 2.3 compares the performance of MSMEs based on technical know how and collaborations. We note that collaborations with larger and technically sound companies, both from overseas and within India have a positive impact on labour productivity, employment intensity and also result in higher value addition compared to the firms having no outside knowhow. In fact, the the units that acquire technology and technical knowhow are seen to generate over 70 percent higher value and provide two times more employment compared to units without outside technical knowhow. There is a need to factor in this aspect in designing the subsidy schemes applicable to MSME sector.

Table 2.3: *Employment Intensity and Labour Productivity on the basis of Technical Knowhow*

Employment Slab	No of Units (000)		Employment (000)		Gross Value Added (G.V.A.)(in INR Lakh)		Employment Intensity		Labour Productivity	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Abroad	11.92	15.8	119.82	219.69	394	1050	10.1	13.9	3.3	4.8
Domestic Collaboration	30.07	38.51	257.77	411.17	980	2193	8.6	10.7	3.8	5.3
Domestic R&D Institute	38.69	62.51	339.25	697.53	968	2643	8.8	11.2	2.9	3.8
None	626.73	739.75	2965.17	4299.03	5856	12335	4.7	5.8	2.0	2.9

Table 2.4 compares the performance and employment intensity based on fuel use. Nearly 25 percent of the registered MSME units operate without any energy sources. Prodcutivity and employment intensity of these units is extremely low. In comparison units using electricity or fossil fuels for provide higher employment and create higher value. What is perhaps noteworthy is that units using Non-Conventional Energy Sources (NCES) create higher surplus per employee because after the initial capital cost of setting the NCES systems, the fuel costs are zero. Governments need to look at this phenomenon more closely to encourage MSMEs to use NCES systems that provide more reliable and almost free energy. Use of NCES systems would also help the units not using power to mechanise their systems without additional recurring costs. Besides, use of NCES would help to reduce risks of loss of production due to power shortages and high electricity costs.

Table 2.5: *Labour Productivity on the basis of Fuel Use*

Employment Slab	No of Units (000)		Employment (000)		Gross Value Added (G.V.A.) (in INR Lakh)		Labour Productivity	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
No Power	220.89	158.34	540.22	414.36	477	515	0.9	1.2
Coal	17.45	7.35	226.39	82.05	129	116	0.6	1.4
Oil	37.98	15.17	147.37	72	395	266	2.7	3.7
LPG/CNG	3.33	3.31	16.72	29.87	19	166	1.1	5.6
Electricity	395.27	653.7	2559.52	4930.28	6856	16892	2.7	3.4
NCES	1.54	1.37	5.71	7.57	97	19	17.0	2.5
Traditional Energy	16.47	6.94	115.71	41.7	1.05	1.18	0.9	2.8
Others	14.49	10.39	70.38	49.65	1.2	1.3	1.7	2.6

Prime Minister's Employment Generation Programme

In this sub-section, we analyse the performance of the PMEGP scheme in terms of the employment generated, the number of projects assisted and whether targets were achieved or not with respect to margin money subsidies.

As is evident from the data in the table given below, the programme has been relatively successful. With respect to the number of projects assisted, roughly 80 percent of the target has been met; while in terms of employment generated, 75 percent of the target set has been met. In addition to this, 99.4 percent of the margin money released towards MSME start-ups across the country has been utilised.

Table 3.1: *Targets and Achievement of the Prime Minister's Employment Generation Programme*

Year	Targets			Achievement		
	Margin Money Released (in INR. Lakh)	*Number of Projects*	*Employment Generated*	*Margin Money Utilised (in INR. Lakh)*	*Number of Projects*	*Employment Generated*
2008-09	74,000	61,227	617,000	35,623	19,166	205,000
2009-10	55,970	46,640	466,000	76,244	40,918	425,000
2010-11	83,600	59,714	597,000	89,118	49,064	481,000
2011-12	80,000	57,143	571,000	105,784	55,135	496,000
2012-13	123,800	53,826	431,000	108,066	57,884	428,000
Total	**417,370**	**278,550**	**2,682,000**	**414,835**	**222,167**	**2,035,000**

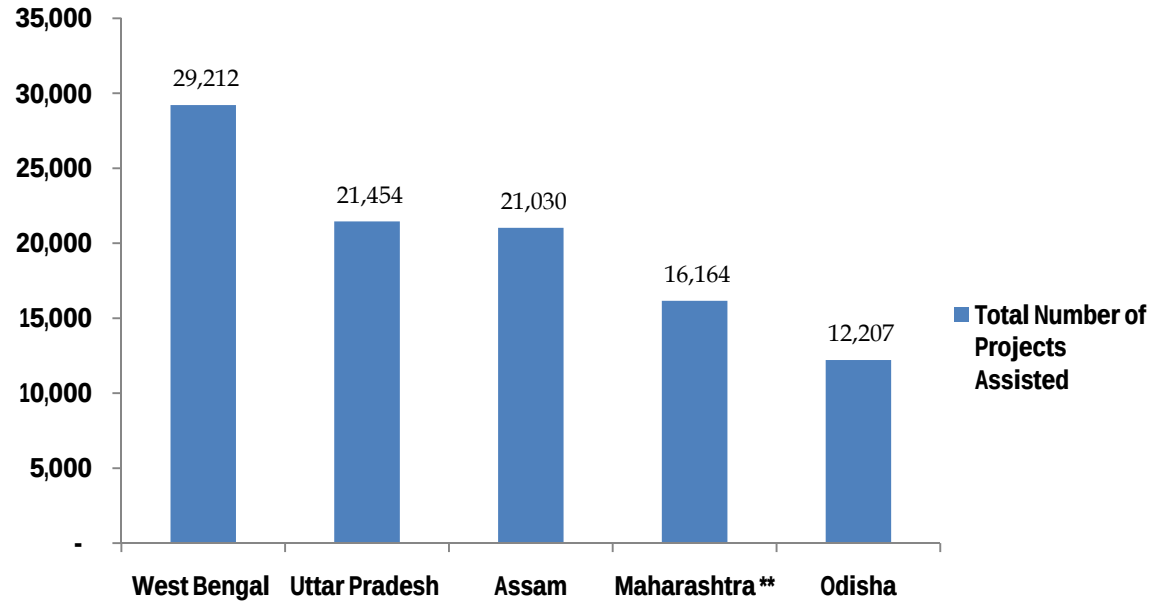
SOURCE:Press Information Bureau. (14 July 2014). *Continuation of Prime Minister's Employment Generation Programme (PMEGP) during XIIth Plan.*

Although there is not enough data to examine the issue of sustainability of investments made under the scheme, we note that average investment per unit is of the order of INR 5.33 lakh and average employment created is 9 employees per unit. In the light of observations made in the previous section, it is highly debatable that investment levels are optimal and would be adequate to generate large enough surpluses to provide a reasonably remunerative income to sustain 9 employees. A comprehensive review of the scheme needs to be taken before continuing the scheme.

Implementation of the scheme, however, does suggest that implementation of PMGEP has been relatively more effective in States having a lower MSME base. The figure below (Figure 1.1) illustrates the number of projects assisted for the top five states under the programme. Nearly 26 percent of the projects have been supported in West Bengal, Assam and Orissa which otherwise have a share of only 5.3 percent in all MSMEs in the country. The geogrpahical spread and

dispersal of units to areas which were hittherto not so conducive for entrepreneurship is a welcome development and should be supported.

Figure 1.1: *Top Five States that received maximum assistance in the projects undertaken*

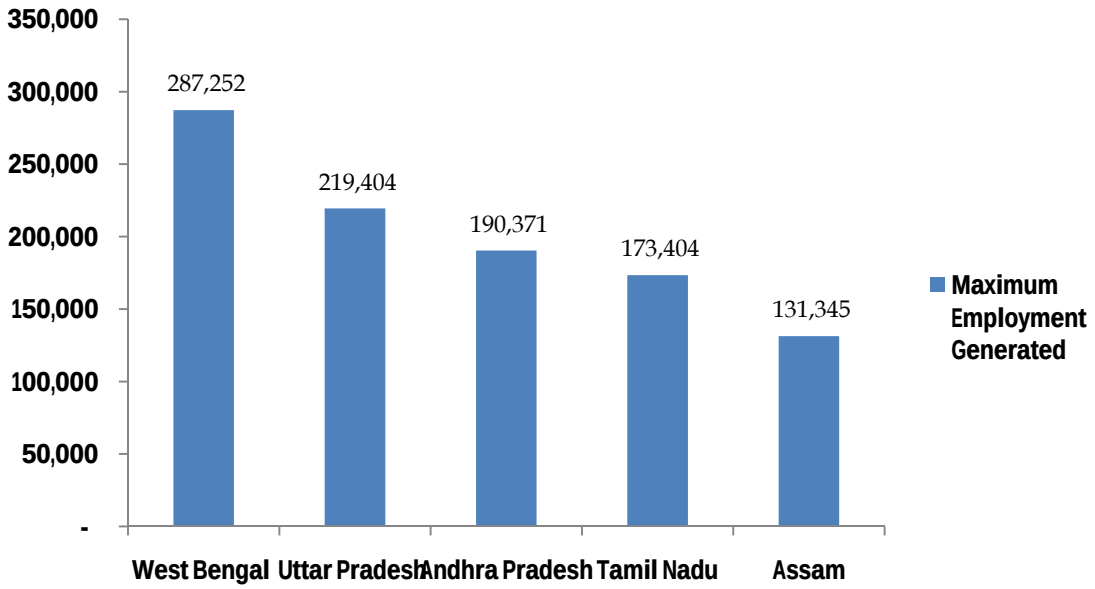


NOTE: ** Maharashtra Includes Data for Dadar and Nagar Haveli

SOURCE: Lok Sabha Unstarred Questions

The ranking of states based on the number of employment opportunities generated under the PMEGP scheme gives us an indication as to which states have been contributing more towards achieving the programme's targets. The graph below (Figure 1.2) represent the top five states that have generated the maximum employment opportunities under this initiative. The state that has generated maximum employment under the PMEGP since its inception is West Bengal, with 2.87 lakh people employed in the MSME sector. This is due to the fact that the state has received maximum assistance from the government under the PMEGP scheme; utilising all of the INR 333 crores worth of margin money subsidy over the five year period. Uttar Pradesh (2.19 lakh), Andhra Pradesh (1.90 lakh), Tamil Nadu (1.73 lakh), and Assam (1.31 lakh) form the rest of the top five states that have generated maximum employment.

Figure 1.2: *Top Five States that have generated maximum employment*



*SOURCE:*Lok Sabha Unstarred Questions

To study the relationship between employment generated under the PMEGP scheme and the total employment in the organised sector, we ran a correlation analysis[26]between the two variables. According to the table below (Table 3.2), employment generated under the programme is significantly correlated to the total employment in the organised sector (61.5 percent). This could mean that a high number of start-ups are providing ancillary services to the organised sector.

Table 3.2: *Results of the Correlation Analysis*

Pearson's Correlation Coefficients, N=90 Prob > Irl under H0: Rho=0		
Variables	**Correlation**	
	Employment	**PMEGP_Employment**
Employment	1.0000	0.61474 <.0001
PMEGP_Employment	0.61474 <.0001	1.0000
Number of Observations	90	

Table 3.3 below describes the variables and presents the regression equations[27]used in the regression analysis. To assess the impact of the employment generated under the PMEGP scheme on State GDP, the State GDP was considered the dependent variable; while the independent variable was the employment generated in each of the States/Union Territories (UTs) under the PMEGP scheme. The results of the regression analysis indicate that there exists a

statistically significant positive impact of employment generated under the PMEGP on State GDP. According to the results obtained, 10 percent increase in employment under PMGEP leads to a 1.5 percent increase in the State GDP.The R-square of 99 percent suggests that the independent variable – employment – explains around 99 percent variation in the dependent variable – GDP. [28]

1. The Impact of employment generated under the PMEGP on State GDP

LogGDP = f(Log(Employment))

Table 3.3: ***Results of the Regression Analysis***

Independent Variable	Estimates
Intercept	11.35
logEmployment	0.15
Number of Observations	155
R – Square	98.7%
F - Value	312.19

Survey

A survey was conducted by approaching owners of start-ups and entrepreneurs with small businesses ("respondents") with operations having begun only three years back, across various industries in India.

The survey, conducted by FICCI, on behalf of Nathan India, involved a sample size of 81, of which 36 entrepreneurs responded to the questions asked; a response rate of 44 percent. The respondents were asked two questions. The first was whether they were satisfied with the measures being taken by the government to help revive Sick MSME Units. The figure below (Figure 3.1) shows that majority of the respondents (73 percent) are unsatisfied with the measures adopted, while a mere 27 percent were satisfied. This indicates a gap in the measures undertaken by the government to revive sick MSME units.

The second question we asked them was whether they are satisfied with the provision, made in the Union Budget 2013-14, pertaining to making non-tax benefits available to MSMEs for three years after they graduate to a higher level. From figure 3.2 below, we can see that opinion is somewhat divided as only (58 percent) feel that the provisions would benefit them in the future.

Figure 3.1: *Are they satisfied with the measures currently being undertaken to revive sick MSME Units?*

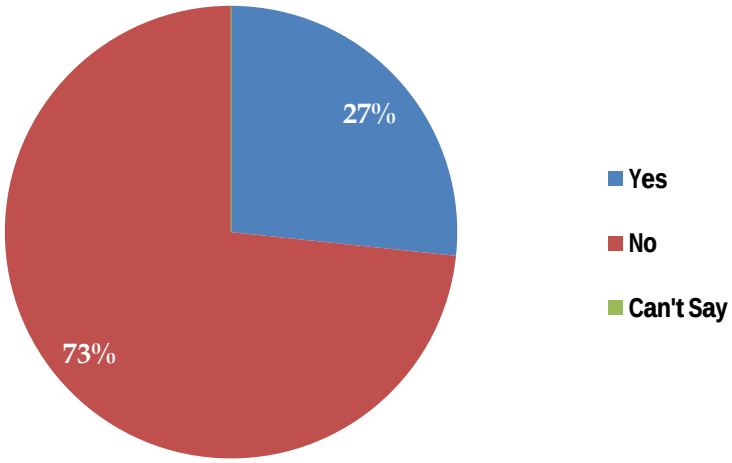
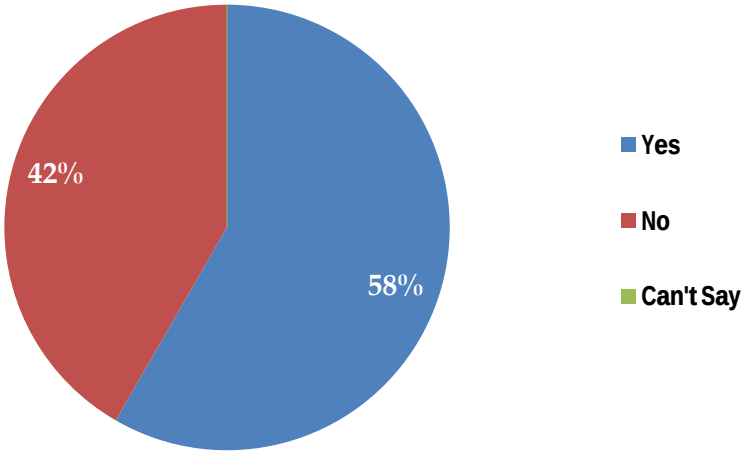


Figure 3.2 *Are they satisfied with the provisions made in the 2013-14 Budget pertaining to making non-tax benefits available to MSMEs three years after they graduate to a higher level?*



International Best Practices

MSMEs have been playing an important role across nations. However, some countries have taken several pro-active measures to make the sector more vibrant affecting the over all economy.

Singapore

Singapore provides one of the best examples for governments to undertake initiatives towards developing entrepreneurship and small businesses. The Singaporean government has managed to convert the country into a hub for the global world through a careful management of human capital, which. The SME sector in the country, which accounts for over half of total enterprise value, employs nearly 70 percent of the workforce.[29] Enterprises in Singapore are classified as SMEs if their annual sales turnover is less than Singaporean Dollar (S$) 100 million and their employment size is less than 200 workers.[30]

One of the key initiatives undertaken by the Ministry of Trade and Industry (MTI), through one of its agencies – SPRING Singapore, is the Technology Enterprise Commercialisation Scheme (TECHS). The scheme is a competitive grant provided to develop innovative start-ups by providing them with the necessary resources in order to generate and commercialise their innovative R&D concepts. Another such scheme is the Young Entrepreneurs Schemes for Start-ups (YES! Start-ups) through which start-ups are provided a grant of upto S$ 50,000 to help cover business development expenses including manpower and operating expenses, software, acquisition of Intellectual Property Rights (IPR), etc. The Incubator Development Programme (IDP) was launched for the purpose of raising the success rate of innovative start-ups through the establishment of incubators and venture accelerators that not only provide them with finance, but also technical guidance, mentorship, infrastructure and access to markets.[31]

Taiwan

SMEs in Taiwan do not have a specific definition; rather it varies across different industries in the economy. For instance, in the manufacturing, construction and mining industries, enterprises are termed as SMEs if their paid-in capital is New Taiwan Dollar (NT$) 80 million or less and have less than 200 employees.[32] SME innovation and new business start-ups are being encouraged through the establishment of incubator centres on university campuses by the Government of Taiwan. Another successful start-up initiative undertaken towards developing entrepreneurs in the country is the Young Entrepreneur Financing Loans, launched by the Ministry of Economic Affairs (MOEA) in August 2012.[33] Under this initiative, young entrepreneurs aged between 26 and 45 are eligible to apply for start-up loans known as 'Young

Entrepreneur Financing Loans' at preferential interest rates when their start-ups begin their operations. Through this they are able to benefit from the provision of direct credit guarantees up to the 90 percent – 95 percent range by the SME Credit Guarantee Fund.

China

In China, the definition of an SME is quite complex as specific criteria apply to specific industries/sectors.[34] But the sector in China has, over the past decade, played a significant role in the economy. One of the earliest policies or reform measures undertaken in the economy was the Law of SME Promotion, which was launched on the 1st of January, 2003. This law laid the foundation for public support for SMEs in the economy. The purpose of this law is to protect the investments of the SMEs along with their equity investors, ensure fair competition and trade by protecting the legal rights of the SMEs, and identify the priority sectors for the development of SMEs. In 2006, the SME Growth Project was launched with the objective of cultivating the social service system of SMEs; promoting SME policies and regulations; to resolve financial difficulties; and enhance the overall supervision; etc.

By 2007, 99.7 percent of the total number of companies was either small (1.7 percent) or medium (98 percent) enterprises. SMEs also accounted for 60 percent of total earnings and 82 percent of the total employment. In April, 2014, the Ministry of Industry and Information Technology, SME Division, announced a Notice on Special Actions to Assist Small and Micro Enterprise aimed at promoting the implementation of SME policies.[35]

The cross country comparison provided in the table below (Table 4) gives us a better understanding of the contribution made to each economy by their respective MSME sector. It also indicates the areas in which our country is lacking. For instance, in terms of contribution towards GDP, the MSME sector in India contributes a measly 17 percent as compared to the other competitive nations such as China (60 percent) and even Taiwan (85 percent).

It is thus recommended that the Indian government take measures/reforms/initiatives similar to that adopted by the governments of the below mentioned countries where entrepreneurship and SME start-ups have been successfully encouraged and promoted.

Table 4:*Cross Country Comparison on the basis of SME sector contribution to the economy*

Parameters	India	Singapore	China	Taiwan
Contribution Towards GDP (in %)	17	50	60	85
Employment (as % of Total Employment)	40	70	75	76
Exports (as % of Total Exports)	40	-	68	17
Key Government Initiatives	Micro, Small and Medium Enterprises Development Act, 2006 (MSMED); Prime Minister Employment Generation Programme (PMEGP)	Workfare Training Support Scheme (WTS); Continuing Education and Training (CET)	Law of SME Promotion; SME Growth Project; Notice on Special Actions to Assist Small and Micro Enterprise	Young Entrepreneurs Financing Loans; Establishment of incubators on university campuses

Recommendations

A very exploratory status report discussed above highlights that MSME sector in India has made significant progress but has not been able to achieve the expected potential. Although the socio-cultural factors play a role in the individual's decisions to set up an enterprise, there is no evidence to suggest that skewed spread and concentration of MSMEs in a few States is on account of absence of entrepreneurship in less represented areas. The evidence from the Fourth Census suggests that risks in MSME sector, particularly in the Micro units (which account for nearly 95% of the sector) are disproportionately higher than the expected returns. These risks pertain to difficulties in access to capital, low productivity due to extremely small scale of operations, absence of modern knowhow, non-mechanised processes and a policy framework that gives higher prirotiy to employment generation rather than to size and scale of operations. Absence of mechanism to encourage pooling of risks and resources is also missing. Government policy has for long focussed on employment generation ability of MSME units and have tended compensate for the low productivity and lack of competitiveness of the sector by providing subsidies in an open-ended manner. The awareness is, however, growing that effectiveness of the government programmes needs to improve. Some of the important ideas that need to be acted upon to encourage entrepreneurship are as follows:

- Availability of finance continues to be a big challenge in the MSME sector. Recent Budget proposals for setting up of a Start-up Fund and setting up of a Committee to suggest a framework for infusion of higher private equity in the MSME sector is welcome. The framework should enable an environment wherein private equity participants (who fund the MSME projects without proportionate management control) view the individual projects in a competitive manner rather than a supply driven "first come first serve" initiative. Certain incentive would be needed to create a fair playing field across different industries and geogprahical areas (for example projects in urban area may have a natural advantage of getting selected because of better infrastructure). However, the premium or discount on the enterprise value should not be an administrative exercise but should be based on the principles of risk assessment. This will ensure that only the best projects get the funding at the cheapest rate.
- Government schemes and subsidies should be subject to a minimum size of investment. This will encourage start-ups to come out of mind set of limiting their project costs to the maximum eligible amount and will be an incentive to scale up their business and reach out for technical collaborations and modern technology.

- The proposed entrepreneurship friendly Bankruptcy Law will facilitate easy exit for loss-making units and unlocking of unproductive assets. The policy should be developed by undertaking consultations with the stakeholders in a time bound manner.
- Partnership firms perform better than proprietary units in terms of value addition and productivity. The government should incentivise proprietary firms to restructure as thiswould help them to bring in new capital as well as manage risks more efficiently. A Limited Liability Partnership (LLP) structure combines the limited liability benefits of a company with the flexibility of a partnership and is most appropriate form for the MSME sector. Incorporation of micro units as corporate entities will also help to mainstream the micro units in the formal sector.
- Given the continuing power shortages and high recurring energy costs and also to encourage mechanisation in the small and micro units (and thereby increase their productivity), government effort should be to promote use of non-conventional energy sources. Coordination with Ministry of New And Renewable Energy which already runs a subsidy scheme would help the sector to reduce recurring fuel costs and generate larger value in the MSME sector.
- Nathan's analysis shows that employment generated under the PMEGP scheme has a positive impact on State Domestic Product. It is thus recommended that the PMEGP should be evaluated for sustainability and impact before it is scaled up.
- This mandated filing of the EM forms by entrepreneurs could serve as a data base and would be a useful information source for the research community. Regular updation of information is necessary if it is to serve as a useful policy tool.

Endnotes

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About Us

Nathan Economic Consulting India Private Limited

Nathan Economic Consulting India Private Limited (□Nathan India□)is a wholly owned subsidiary of U.S.-based Nathan Associates Inc. (□Nathan Associates□). Opening its doors in 2008, Nathan India has benefited from the 67 years of experience of its parent company, Nathan Associates, which has experience in 139 countries across the globe. For both Indian and overseas clients, we provide analytical services that rely heavily on the use of data to guide both economic and social impact assessments. Currently, with two fully staffed offices in New Delhi and Chennai, Nathan India has a pool of expert Economists, Statisticians, Industry and Policy Experts skilled with a scientific approach to carry out in-depth sector and industry analysis, using econometric and statistical tools.

Our core competencies include Designing surveys to assemble information on demographic, behavioural, economic, and social parameters; Research and Analysis to understand the socioeconomic impact of social programmes and government policies and regulations; Assessing the competitive framework of industries and markets for law firms and private clients; and Using economic theory and quantitative techniques to model and estimate the impact of various interventions□regulatory, marketing, and legislative.

Federation of Indian Chambers of Commerce and Industry □ Confederation of MSMEs

Established in December 2013, the Federation of Indian Chambers of Commerce and Industry (FICCI) - Confederation of MSMEs (CMSME) is an affiliated body to FICCI. FICCI-CMSME is a dedicated body to provide a one stop organization to work closely to promote MSMEs, Startups & entrepreneurship. The mission is to Empower MSMEs. FICCI-CMSME, as a pan India body, endeavours to play an active role as an aggregator for developing MSME capabilities in various aspects of their business.

FICCI-CMSME plays an active role in generating holistic grid to connect MSMEs with mentors, incubators and accelerators and assist MSME□s through capacity building programs and services.Some of the services that are available for members of FICCI CMSME as on today include Providing access to FICCIs Credit Facilitation Centre; Providing training programmes to improve quality and standards; Establishing .com (dot com) websites for their members to create an effective brand; and Providing MSME members with a 10 percent cash-back service on their monthly ad-spend in digital spaces like Google/Facebook.



NATHAN
ASSOCIATES INC.

New Delhi

1604,
Ambadeep Building,
14 Kasturba Gandhi Marg,
New Delhi 110001
T +91 11 46921047

Chennai

No. 45 TTK Road, G-C, Ground
Floor, George Ponnaiya Bldg.
Chennai 600 018
T +91-44-4293-7700
F +91-44-4293-7777

Washington DC

2101 Wilson Blvd.,
St 1200 Arlington,
VA 22201
T +1 703-516-7700
F +1 703-351-6162

Southern California

3 Park Plaza,
St 1980 Irvine,
California 92614
T +1 949-474-4930
F +1 949-474-4944

United Kingdom

Kirkaldy House,
99 Southwark St.
London SE1 0JF, UK
T +44 (0)20 7902 7788
F +44 (0)20 7785 9237

www.nathaninc.com