

Start-up India

An analysis of the Indian entrepreneurial landscape

The 'Start up India, Stand-up India' campaign was announced by the honourable Prime Minister on 15th August, 2015 seeking to provide an impetus to the entrepreneurial landscape of India. In India's developmental discourse, Micro, Small and Medium Enterprises (MSMEs) have been considered the engine of entrepreneurship. The finance minister in the budget speech of 2014-15, termed the MSME sector as the *backbone* of our economy. With an estimated 4 crore enterprises employing over 10 crore, accounting for 37% of total industrial production and 35% of total exports, the sector has a crucial role to play in the overall growth of the economy. MSMEs can also help enable the development of a business ecosystem for the promotion and realization of 'Make in India'.

While an entrepreneur friendly policy ecosystem is the need of the hour, there is also a pressing need to make it more inclusive. One of the issues highlighted in the Prime Minister's Independence Day speech was the need to promote entrepreneurship amongst women, Dalits and tribals. This would require greater representation of the groups in the MSME sector. As per the 4th MSME Census (2006-07), only **5.2%** of the total enterprises in unregistered sector are owned by STs. This figure comes down to **2.9%** in the registered sector. The corresponding figures for women owned enterprises are **9.1%** and **13.7%** respectively. Similar trends can be observed in employment.

The right blend of suitable policies, empowering ecosystem, provision of infrastructure, access to finance and incubation can energize the MSME sector and make it a vehicle for economic growth. In this context, the brief provides an overview of the Indian entrepreneurial landscape and the role that the MSME sector plays in promoting self-employment, the barriers to growth of small-scale units and the corresponding steps taken by the government to ease the process of doing business.

Role of MSME Sector

MSMEs play an important role in providing large employment opportunities at comparatively lower capital cost than large industries and help in industrialization of rural & backward areas, thereby, reducing regional imbalances. MSMEs have been defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, in terms of their investment in Plant and Machinery, as under:

Enterprise	For the Manufacturing Sector (investment in plant & machinery)	For the Services Sector (investment in equipments)
Micro Enterprises	Does not exceed Rs. 25 lakh	Does not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 25 lakh but does not exceed Rs. 5 crore	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore	More than Rs. 2 crore but does not exceed Rs. 5 crore



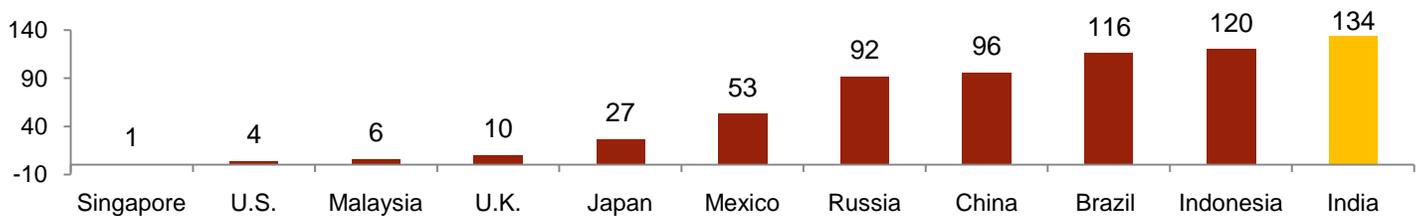
Share of MSME sector in total GDP is 37.54% - 7.04% by the manufacturing sector and 30.50% by the services sector. This translates to a gross value added of Rs. 20.56 lakh crore. (2012-13)



The number of rural units comprises 55.35% of the total size of the MSME sector – 45.2% in the registered sector and 60.2% in the unregistered sector. Tamil Nadu accounts for the highest number of MSMEs in the country (15%).

Challenges

According to the World Bank's 'Doing Business 2014' report, India is ranked 134 out of 189 countries in the overall ease of doing business which takes into account indicators such as, getting credit, getting electricity, paying taxes and trading across borders, amongst others. This places India lower than the other BRICS (Brazil, Russia, India, China and South Africa) members.

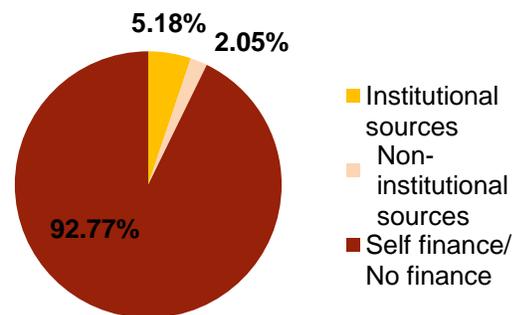


Several factors are creating bottlenecks to the growth of MSMEs in India.

Access to Finance

Availability of finance is a key enabler for economic activity and the growth of entrepreneurship. In the MSME context, finance encompasses equity capital, loans for fixed asset investment and working capital for meeting cash flow gaps. Initiatives that have been taken up to promote availability of finance to MSMEs include credit support mechanisms administered by government institutions and priority sector lending to the MSME sector. As per RBI data, aggregate credit outstanding from scheduled commercial banks to MSMEs has in aggregate increased from 6.81 lakh crore in March 2012 to 10.35 lakh crore in March 2014.

Despite the increase in financing to MSMEs in recent years, there is still a considerable institutional finance gap. The supply of credit to the sector in 2012-13 has been short of the total demand by about **59%**. The Fourth Census on MSMEs points out that only roughly **5%** of total enterprises availed credit from financial institutions.



Access to Infrastructure

Limited access to infrastructure increases operational costs for MSMEs and makes their businesses uncompetitive. It can damage the value chain processes like production, consumption and distribution of the product. The RBI report on Rehabilitation of Sick MSMEs states that **29%** of MSMEs consider lack of infrastructure as a key constraint. Some of the basic infrastructural requirements include suitable work space, uninterrupted power, sufficient water supply, sustainable waste management, proper connectivity and efficient communication channels. However due to scattered growth of MSME units and lack of adequate resources, they are unable to meet these needs.

There is a pressing need to focus on *cluster development* to provide basic infrastructure to MSME units and utilize the advantages of economies of scale, something which individual and scattered units cannot enjoy. While India has more than 7000 MSME clusters and several schemes for cluster based development, lack of *knowledge and experience sharing* along with ineffective *monitoring and evaluation*, have continued to be major bottlenecks. In this context, the **Virtual Cluster** initiative of MSME ministry is a welcome move as it will allow different clusters of MSMEs to connect on a common platform and share information. The intervention aims to cover over 2000 Industrial Clusters.

Access to Markets

In order to ensure holistic growth of MSMEs there is need to provide adequate market access to these enterprises. If *Make in India* has to succeed, MSMEs have to play a major role in it. While government policy on procurement from MSMEs is in place, it has not been functioning optimally. According to **Public Procurement Policy for MSMEs, 2012** all central ministries, departments and PSUs have to ensure 20% procurement from the sector, and within this 4% has to be procured from SC/ST enterprises. While, it was *not mandatory* for ministries, departments and PSUs to meet the targets in the first 3 years, it has been so from April 2015 onwards. In 2013-14, public procurement from MSMEs stood at Rs 12,4470 core, which was 15.3% of total PSU procurement in the year. This amount, though less than 20%, was still better than the procurement from SC/ ST enterprises, which at Rs 419 crore, stood at **0.51%** of the total procurement, far lesser than the target of 4%.

Ensuring adequate public procurement in itself is not enough to provide sufficient access to markets to MSMEs. The challenge will require holistic efforts centred around increasing ease of doing business and promotion of the sector in general. Ecosystems to allow the sector to flourish will have to be created. This would require the correct blend of public policy, efficient functioning of markets and greater awareness amongst stakeholders.

Governance and Regulatory Environment

While the challenges around promoting entrepreneurship in India remain, recent initiatives taken by the government are welcome. To support the 'Start-up India, Stand-up India' campaign, the government has launched certain schemes to ease the ideation and funding stages of setting up a business. These are listed below:

- **Atal Mission for Innovation**

The Atal Innovation Mission (AIM) is being set up under NITI. AIM will be an Innovation Promotion Platform involving academics, entrepreneurs, and researchers drawing upon national and international experiences to foster a culture of innovation, R&D in India. A sum of Rs. 150 crore has been earmarked for this purpose. The proposed objectives of AIM are:

- ✓ To study and suggest best and novel practices to be adopted by different stakeholders in the innovations chain
- ✓ To provide policy inputs to NITI Aayog and various other government departments

- ✓ To develop new programmes and policies for fostering innovation in different sectors of the economy
- ✓ To create awareness and provide knowledge inputs in creating innovation challenges and funding mechanism to the government

- **Self Employment and Talent Utilization (SETU)**

The Government has established a mechanism to be known as SETU under NITI Aayog. SETU will be a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-employment activities, particularly in technology-driven areas. An amount of Rs.1000 crore is being set up initially in NITI Aayog for SETU.

An Expert Committee has been constituted for working out the details of AIM and SETU to achieve the stated objectives.

- **India Aspiration Fund (IAF)**

IAF is managed by Small Industries development Bank of India (SIDBI) which is India's Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprises (MSME) sector. The Fund is expected to create employment by catalyzing investment in start-ups and MSMEs. LIC has also agreed to be a partner and co investor in the India Aspiration Fund.

SIDBI also launched the Make in India Loan for Small Enterprises (SMILE) Scheme of Rs. 10,000 crore. SMILE will offer quasi-equity and term based short term loans to Indian SMEs which will have less stringent rules and regulations.

- **Micro Units Development and Refinance Agency (MUDRA) Bank**

MUDRA Bank will be responsible for regulating and refinancing all Micro-finance Institutions (MFI) which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities. The Bank would partner with state level/regional level co-ordinators to provide finance to Last Mile Financer (companies, trusts, societies and associations etc. which provide informal finance to small/micro business enterprises). A sum of Rs 20,000 crores would be allocated to the MUDRA Bank from the money available from shortfalls of Priority Sector Lending for creating a Refinance Fund to provide refinance to the Last Mile Financers. Another Rs 3,000 crore would be provided to the MUDRA Bank from the budget to create a Credit Guarantee corpus for guaranteeing loans being provided to the micro enterprises. The MUDRA Bank would primarily be responsible for:

- ✓ Laying down policy guidelines for micro/small enterprise financing business
- ✓ Registration and regulation of MFI entities
- ✓ Accreditation /rating of MFI entities
- ✓ Laying down responsible financing practices to ward off indebtedness and ensure proper client protection principles and methods of recovery
- ✓ Development of standardized set of covenants governing last mile lending to micro/small enterprises
- ✓ Promoting right technology solutions for the last mile
- ✓ Formulating and running a Credit Guarantee scheme for providing guarantees to the loans which are being extended to micro enterprises
- ✓ Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri MUDRA Yojana