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A STUDY ON STARTUP AND ITS IMPACT ON MSME LOAN IN INDIA



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Abstract

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. Recognizing the significant contribution of this sector in economic growth and also in employment generation in our country, Government of India has taken good number of initiatives to develop the sector such as erstwhile definition of 'Small Scale Industries' was enlarged by increasing investment ceiling in plants & machineries from Rupees One crore and trading activities have taken in the ambit of MSMEs by enactment of Micro, Small & Medium Enterprises Development (MSMED) Act from 2nd October 2006. MSME sector is the second largest employment provider in our country and it is good vehicle to achieve inclusive and distributed growth.

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

Startup India is a flagship initiative of the Government of India, intended to build a strong eco- system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.

The Prime Minister of India, Shri Narendra Modi had this year in his Independence Day speech announced the "Start-up India" initiative. This initiative aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups. The objective is that India must become a nation of job creators instead of being a nation of job seekers. The Prime Minister of India will formally launch the initiative on **January 16, 2016** from VigyanBhawan, New Delhi. The event will be attended by a vast number of young Indian entrepreneurs (over 2000) who have embarked on the journey of entrepreneurship through Start-ups. Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. Clusters arise because they increase the productivity with which companies can compete. The development and upgrading of clusters is an important agenda for governments, companies, and other institutions. Cluster development initiatives are an important new direction in economic policy, building on earlier efforts in macroeconomic stabilization, privatization, market opening, and reducing the costs of doing business.

Govt. of India, Ministry of MSME has announced the scheme for Micro and Small enterprises for enhancing their productivity and competitiveness as well as capacity building. The name of scheme is Micro and Small Enterprises- Cluster Development Programme - MSE-CDP.

This study has undertaken to ascertain various issues relating to SME finance from banks taking the published statistics and primary data into account, to examine the reasons why banks shy away from lending to the sector and what are possible remedies to enhance accessibility of SMEs to bank finance.

Keywords: SME's, Start-up India, SME clusters in Maharashtra, SME Finance

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1. Introduction

According to the World Bank, Micro, Small and Medium Enterprises (MSMEs) are defined as follows – micro enterprises: 1–9 employees; small: 10–49 employees; and medium: 50–249 employees.³ However, the local definition of MSMEs vary from country to country, and is based not only on number of employees, but also by inclusion of other variables such as turnover and assets.

MSMEs play an important role in the wider ecosystem of firms. Start-ups and young firms, which

are generally small or micro firms, are the primary source of net job creation in many countries and are the driving force of innovation and sustainability in the private sector.

There are about 365–445 million MSMEs in emerging markets: 25–30 million are formal SMEs, 55–70 million are formal micro, and 285–345 million are informal enterprises.⁴

The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

MANUFACTURING SECTOR

Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

SERVICE SECTOR

Enterprises	Investment in equipment's
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Analysis - Role of MSMEs in fulfilling the SDGs
End poverty in all its forms everywhere

The main focus of the goal is to eradicate and reduce poverty based on national definitions. Goal 1 has seven targets, including ensuring access to social protection, access to economic resources/assets, improving climate and disaster resilience of the poor, mobilising resources and strengthening national and international policies to address poverty.

MSMEs create employment that lift people out of poverty. The latest global estimate suggests that 11 percent of the world's population, or 783 million people, lived below the extreme poverty threshold in 2013.⁵ Most of the poor in developing countries are not employed or do not earn enough to lift themselves out of poverty. Job creation in the private sector has proven to be a main driver in the fight against poverty. Over the past 30 years, the private sector has contributed to a sharp decline in the share of the population in the developing world living below the poverty line from 52 percent to 22

percent.⁶ MSMEs contribute significantly to the employment creation process of the private sector. In emerging markets, 4 out of 5 new positions in the formal sector were created by MSMEs, which is about 90 percent of total employment.⁷ Informal enterprises engage poor and marginalized populations. In lower income economies, a large share of MSMEs are informal enterprises and serve as a source of livelihood for the base of the pyramid population, consisting of 4 billion people that earn less than US \$3000 a year.⁸ It is estimated that more than 70 percent of the workforce in developing countries operates in the informal economy either through self-employment or from work in enterprises that are not legally registered businesses.⁹ Given the flexibility of the informal economy, it provides opportunities for the poor, including women and youth, to earn money. According to the International Labour Organization (ILO), the majority of those employed in the informal economy lack social protection, rights at work and decent working conditions.¹⁰ Informal enterprises offer an avenue for interventions to formalize MSMEs and to provide access to social protection for those that they employ. Given the scale of informal employment, particularly in developing economies, support in formalizing MSMEs would be a step to achieving

Small businesses help alleviate poverty through micro-franchising

Micro-franchising uses elements of traditional franchising and targets small businesses. It is broadly defined as small businesses that can easily be replicated by following proven marketing and operational concepts. The study 'Poverty Alleviation as a Business' documented micro-franchising examples where profitable supply chains have been created through small businesses delivering useful products or services that are directly alleviating poverty. Some of these examples are:¹⁴ Village Farm and Forestry programme. A female entrepreneur in Bangladesh runs a village farm and forestry programme as a social insurance scheme. She runs one of the 2500 private nurseries that deliver almost 100 million tree saplings every year. Trees have become a profitable crop for 650,000 families; they serve as an asset as they can be sold at any point. The tree can be chopped in case of an emergency (e.g. a child's sickness). The treadle pump. Over 1 million pumps have been sold to small and marginal farmers. On half an acre, they can grow more vegetables or other crops and make an average additional income of \$ 100 per year. Around 10,000 micro-enterprises supply, sell and install the pumps in Bangladesh, India and Nepal. Micro-concrete roofing tiles. Over 2,000 workshops operate in more than 35 countries; they

produce 150,000 roofs per year. The technology is supported by an international network. The cost-effective building materials can have a big scope for small enterprises and contribute to closing the housing gap.

- Create programmes (e.g., apprentice, career education, internships, work-based learning programmes, etc.) that give students earlier access to the corporate environment.³⁷
- Provide employees with continuous learning opportunities to improve their skills for their current and future employment.³⁸
- Improve awareness of employees on the importance of ECE, support access of employees to quality childcare, mental stimulation and learning through play.³⁹

MSMEs as complementary formal education providers. In many developing countries, public schools alone are insufficient to ensure the inclusiveness of education services needed to reach the targets included in SDG 4. In many countries, MSMEs conducting business in the education sector could provide complementary education services, expanding the access to educational services to the general public.³⁶ For example, in a recent study conducted by the Center for Education Innovations tracks, the growth of low-cost private schools had more than doubled in India since 1993, while in Kenya, low cost private school enrolment has tripled since 1997, which has contributed to expanding access to educational services. MSMEs could contribute to achieving SDG 4 by expanding inclusive access to education services and improving skills of youth and women for obtaining decent jobs. Individual MSMEs have the potential to adopt actions in their business practice to contribute to the goal. Strengthen the means of implementation and revitalize the global partnership for sustainable development MSMEs account for a large share of added value in international trade when indirect linkages are taken into account. Overall, MSMEs tend to be under-represented in international trade. Across OECD and non-OECD Members, few MSMEs export directly and for those that do, exports typically represent a lower share of trade turnover (relative to larger firms).¹⁸⁵ However, when considering MSMEs' indirect contribution to exports, as suppliers to larger domestic firms or multinational companies that export, MSMEs in OECD countries can represent more than half of total exports in value added terms.¹⁸⁶ The quality and responsiveness of MSMEs that supply goods and services to multinational companies that export play a key role in the competitiveness of entire supply chains, at both local and global levels. Harnessing this interdependency between MSMEs and larger businesses and coordination between the