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Perspective Paper

Indian Government Interventions in Micro, Small and Medium Enterprise Development: An Enterprise Life Cycle Perspective

Kalai Socrates^a✉, B. V. Gopalakrishna^a

^a*School of Management, N.I.T.K Surathkal India*

Abstract

Development of Micro, Small and Medium Enterprise (MSME) sector is the most apt means of encashing the demographic dividend of India in promoting economic growth, employment generation and inclusive growth. In this endeavour, the Indian government periodically brings out appropriate support measures in the form of policies and programmes. Though many studies have been undertaken by various stakeholders in the past on myriad issues such as credit, marketing, skill development, sickness, export, technology infusion related to MSME sector, the appropriateness and objectives of policies and schemes has not been addressed. This paper attempts to examine the utility of schemes from an enterprise life cycle perspective and to identify any impending interventions needed at any particular stage of an enterprise lifecycle model. It argues that available support measures are insufficient to address the needs of exit stages and also suggests further interventions required for the holistic development of this sector.

Keywords: Enterprise Life Cycle, Exit Stage, Interventions Required, MSME, Stage-wise Support

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✉kalaisocrates@gmail.com:  <https://orcid.org/0000-0002-6988-6044>

Introduction

Micro, Small and Medium Enterprises (MSMEs) are recognised globally as the drivers of economic growth, employment generation, social development and innovation (Ayyagari et al., 2011). MSMEs consist of the majority of enterprises worldwide, accounting for over 95% of the firms. In emerging economies, MSMEs contribute up to 33% of the Gross Domestic Product (GDP) and up to 45% of total employment (Organisation for Economic Co-operation and Development [OECD], 2017). For this reason, countries give top priority to the development of this sector through many different policy initiatives and schemes. These support measures differ across countries due to differences in business contexts, culture and the level of industrialisation. Most of the developing countries give much effort on increasing the number of enterprises and entrepreneurs to fulfill the social obligations of providing employment.

Researchers have considered the enterprise development cycle as synonymous with the lifecycle of living organisms, comprising the stages birth, growth, maturity and exit (Lu & Wang, 2018). Enterprises at different stages will have different characteristics, require very specific inputs to crossover to the next stage and experience different risks. Based on the country's policy direction, the importance and quantum of assistance vary across the stages. This paper examines the interventions by the government of India in support of MSME development from the enterprise lifecycle perspective. This analysis will provide insights not only for India, but for other developing countries as well.

MSMEs in India

India is emerging as one of the fastest-growing economies and is currently the sixth-largest economy in the world (International Monetary Fund, 2018). India can potentially dominate an aging world in terms of human resource potential for another 50 years and will have the largest workforce of 899 million by 2025 (Ministry of Statistics and Programme Implementation, 2017; Office of the Registrar General & Census Commissioner India, 2011). Considering this incomparable demographic advantage, the Indian government is striving hard to strengthen the entrepreneurial ecosystem to stimulate economic and job growth.

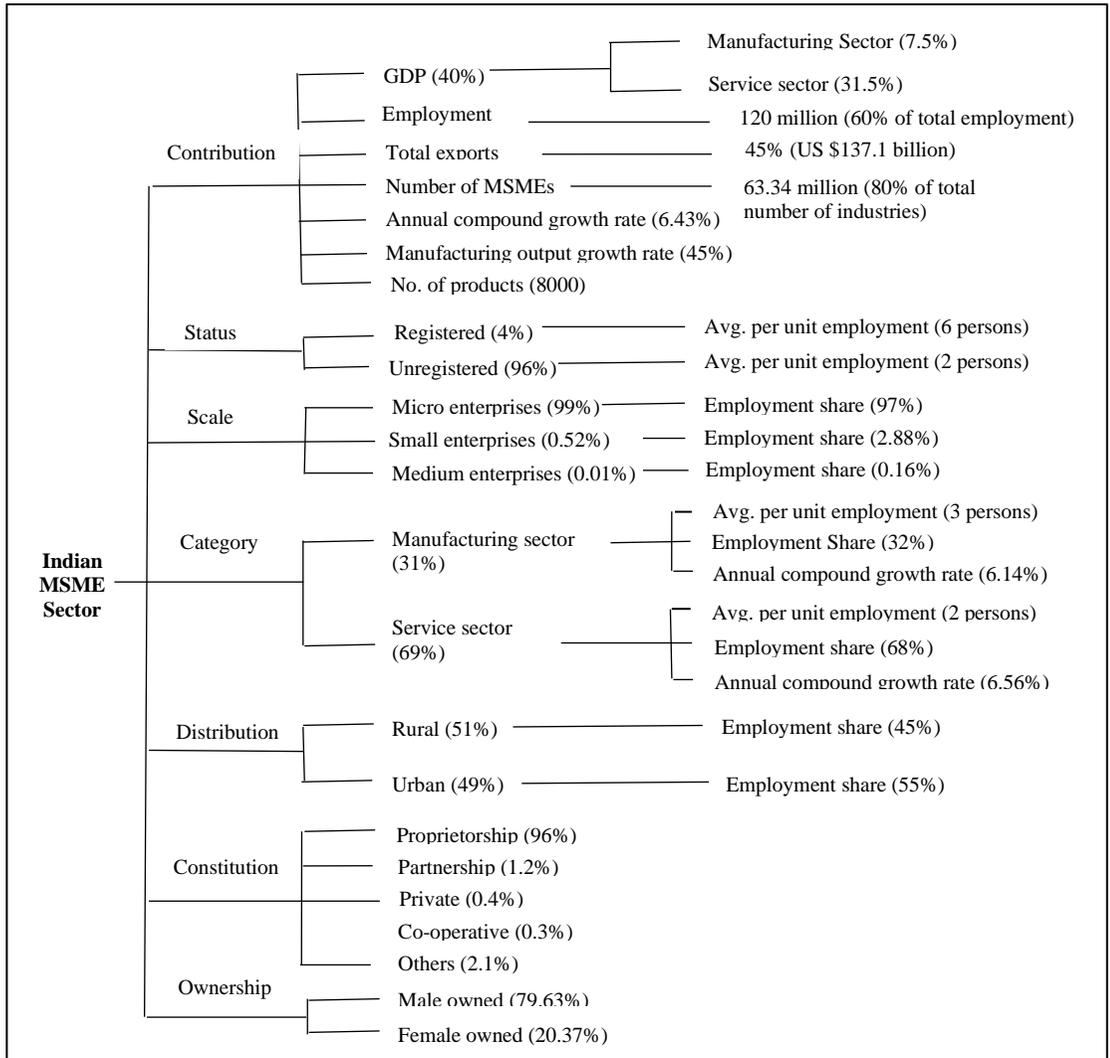
According to the economic survey of India, MSME sector is a better platform for providing large scale employment opportunities and facilitating the industrialisation of rural and backward areas than large industries (Ministry of Finance, 2018). The

significance of MSME sector in India is well demonstrated by its growing contribution of 8% to the country's GDP, around 120 million jobs through 66 million units, 45% to the manufacturing output and 40% to exports earning through 8,000 diverse products and services (Ministry of Micro, Small, and Medium Enterprises [MMSME], 2018). Furthermore, these enterprises are described as nurseries for innovation and entrepreneurship and the gateway to global growth. The reasons stated above explain the growing interest shown by successive governments in establishing and promoting MSMEs through various policies and support measures (Carree & Thurik, 2010; MMSME, 2018).

Irrespective of the economic status, every country provides a distinct definition of this sector for bringing out various policies and support measures. India also defines the MSME sector based on investment in plant and machinery leaving aside costs of land and building. The government of India is currently contemplating a change in the definition of the MSME sector based on turnover per annum in order to ensure ease of doing business. Indian MSME sector is highly heterogeneous in terms of size of enterprises, ownership pattern, area of operation, type of industry, products and services offered, turnover and technology adoption, and the stage of development. The characteristics of the Indian MSME sector are shown in Figure 1. The heterogeneous nature of MSMEs makes it difficult for policymakers to customise policies to suit every enterprise. Recognising the importance of MSMEs, the Indian government is expediting the development of the growth stage of MSMEs by enabling conditions through policy initiatives, schemes, incentives and subsidies for pre-entry, entry and post-entry growth. The government also plays its roles ranging from a motivator to a moderator, protector to facilitator, purchaser to enabler and promoter to supporter with the sole intention of creating quality enterprises. Based on the various policy initiatives, a wide range of schemes and programmes (MMSME, 2015b) have been introduced by the Ministry of MSME and its related organisations to address various aspects of enterprise development.

The enterprise development cycle is synonymous with the lifecycle of living organisms such as birth, growth, maturity and exit. In this process, every stage of the enterprise development cycle requires very specific inputs to crossover to the next stage. It is pertinent to examine which schemes fit into each stage of an enterprise's development cycle and how they are relevant in fulfilling the requirements of the firm in a particular stage. Also, this analysis is incomplete if it fails to identify further assistance that is required to address specific issues in an enterprise cycle.

Figure 1: Characteristics of the Indian MSME Sector



Source: Ministry of Finance, 2018; Ministry of Micro, Small, and Medium Enterprises, 2018

Related Work

This section reviews the literature on the relationship between governments and the MSME sector in terms of the act, policy initiatives, macroeconomic policies and government interventions.

Many countries have enacted a specific law to support the overall growth of the MSME sector. For example, the USA established the Small Business Act in 1953

(Shi & Li, 2006), the European Union, the Small Business Act in 2008 (European Commission, 2008), and India, the Micro, Small, and Medium Enterprises Development Act in 2006. The focus of USAs SME policy is on competition and innovation, while the SME policy of EU focuses on job creation and competitiveness and the MSME policy of India is envisioned to ensure a healthy, vibrant and competitive MSME sector. India's MSME Development Act 2006 aims at developing and fostering competitiveness in Micro, Small and Medium Enterprises (Micro, Small, and Medium Enterprises Development Act, 2006). Researchers have used qualitative and quantitative data to evaluate the policies using the Storey's six-stage analytical framework (Storey, 2017; Houghton & Fell, 2012). Niska and Vesala (2013) opine that society, policy implementers, and the SME owners must act together for the growth of the SME sector. Researchers have found that the SME policy of developed countries is of competitive and nurturing nature with improved legal, financial, and regulatory frameworks (Dennis, 2011; Ketkar & Acs, 2013). Three theories, such as Institutional theory, Population ecology and Corporatism are commonly used by researchers to investigate the relationship between government and the SME sector emphasizing the importance of institutional factors on the business sector (North, 1994).

SME support measures vary geographically depending on the country's economic, political, and social environments (Dodescu, 2011). Government interventions of most of the countries generally concentrate on the key growth factors of SMEs including human resource development, access to credit, access to markets, access to technology, ease of doing business, innovation and networking (Lundstrom & Stevenson, 2006; Jahanshahi et al., 2011). In any country, business environmental conditions such as interest rates, tax system, inflation rates, competition, innovative environment, etc. can influence the entrepreneurial process (Sobel et al., 2007). Many studies show that access to credit is one of the most crucial challenges faced by SMEs (Beck et al., 2008; European Commission, 2008) and different countries are providing series of supporting measures to address this problem via formal and informal financial instruments (World Economic Forum, 2010; Beck et al., 2008). Much research shows that countries are increasing their R&D expenditure in order to provide adequate assistance in terms of financial incentives, knowledge sharing to improve innovation activities of the SME sector (Mason & Brown, 2013; Purcarea et al., 2013). Many countries are trying to improve the ease of doing business by reducing the administrative burdens in starting or growing their businesses (Hoffmann, 2007; Dennis, 2011). The majority of governments have provided

business support services through various advisory agencies to improve competitiveness of SMEs (Hashim, 2007). Some scholars argue that most of the SMEs are unaware of such services (Yusoff et al., 2010).

Abid Hussain Committee suggested various institutional arrangements, policies and programmes for meeting long-term and short-term requirements of the small-scale industries (Hussain, 1997). A spurt of research on Indian MSMEs has taken place in the recent past on various issues such as government intervention on credit facility (Singh & Wasdani, 2016; Ayyagari et al., 2016; Das, 2015), market opportunities (Thukral et al., 2008; Sharma, 2012), skill development (Ghosh & Rajaram, 2015), cluster development (Das et al., 2007), rural and agro-enterprises (Banerjee, 2011; Aayog, 2017), economic reforms (Chakraborty & Nunnenkamp, 2008), start-ups (Sunita & Srija, 2016), innovation (Abhyankar, 2014), the impact of globalisation (Das, 2007), sickness (Goyal et al., 2012; Rastogi & Yadava, 2013), competitiveness (Mulimani et al., 2012) and technology up-gradation (Bhavani, 2011; Lahiri, 2012), etc.

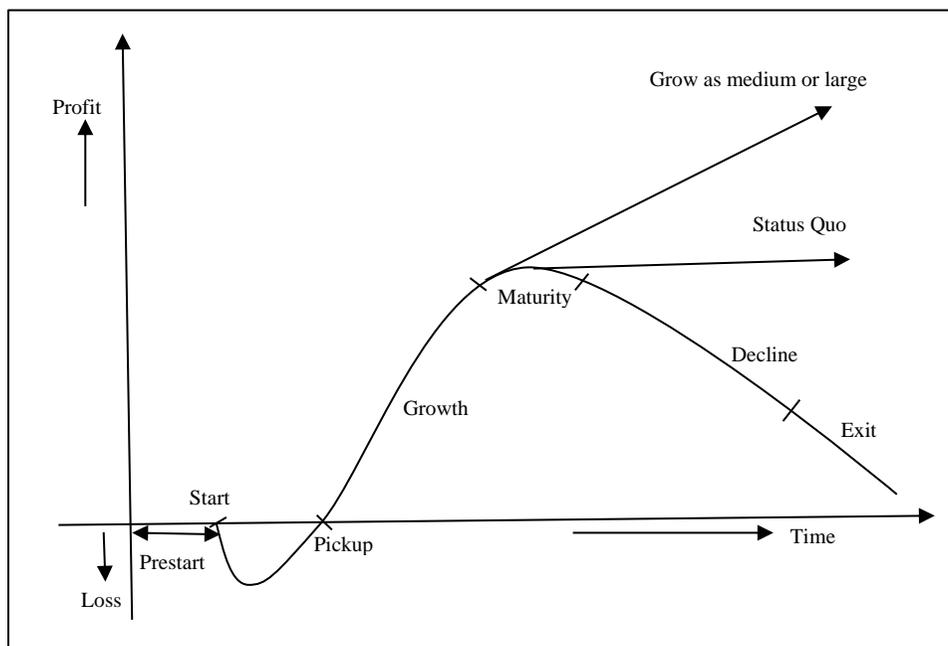
The above review also reveals a few gaps that have not gained much attention from the academia and policymakers. Firstly, there is a lack of study in analysing the Indian government interventions in the MSME sector. Secondly, the extant research only addresses the particular issue concerned with MSME Sector development. But, every MSME will pass through different stages of their life-cycle such as birth, growth, maturity and decline and every stage requires very specific inputs to crossover to the next stage. Current literature has not given sufficient attention to whether the support measures can meet the needs of SMEs covering the entire lifecycle, and it also lacks an understanding of the perspective of further interventions required for the growth of this sector. Hence, this paper aims to provide a perspective of linking different schemes of the Government of India to each life cycle stage of MSMEs to understand the relevance and effectiveness of them. Also, this paper identifies the need for further interventions in the decline and exit stages of Indian MSMEs in addition to the existing support measures for their holistic development.

Life Cycle of an Enterprise and Government Policies in India

Every new enterprise including MSMEs goes through different stages such as start, growth, maturity and decline. The time taken for an enterprise to move from one stage to another is not the same and varies widely from enterprise to enterprise and from entrepreneur to entrepreneur. Various researchers posit the enterprise cycle

differently based on their area of study and there are no well-defined stages in an enterprise life cycle. The standard enterprise life cycle begins with start-up or market entry and ends with the decline stage as considered by many research scholars (Lu & Wang, 2018; Shane & Venkataraman, 2000). However, such considerations have myopically missed out on the importance of the pre-start-up and exit stages. The pre-start-up stage is essential to strengthen the preparedness of a potential entrepreneur before launching of an enterprise. The pre-start-up stage facilitates the entrepreneur to acquire inputs from feasibility study, market research, investor details, legal obligations, government policy and support measures to conclude starting the enterprise. Hence the inclusion of the pre-start-up stage of the life cycle is extremely rational. The majority of Indian MSMEs are proprietary concerns and the decision of the entrepreneur to retire from their entrepreneurial career for various reasons and intentions leads to closure of an enterprise. Hence, this paper considers the exit stage as the end of the life cycle of an enterprise in addition to decline stage (DeTienne et al., 2008 Samuels et al., 2008). In this paper, we propose a new enterprise life cycle model consisting of six stages: pre-start, start and pick up, growth, maturity, decline and exit as shown in Figure 2. The proper availability of support schemes at each of these stages is essential for the holistic development of the MSME sector.

Figure 2: A Typical Life Cycle of an Enterprise



Source: Lu & Wang, 2018

Classification of MSME Schemes by Life Cycle Stage

In this section, the support measures available for the MSME sector are classified based on the proposed enterprise life cycle model.

Pre-Start-up Stage

This stage is the first and most important innings of an entrepreneurial journey and the enterprise has to exercise strategy cautiously as this phase can make or break the enterprise. During this pre-start period, the following support services are required for anyone interested in starting an enterprise, primarily for a first-generation entrepreneur:

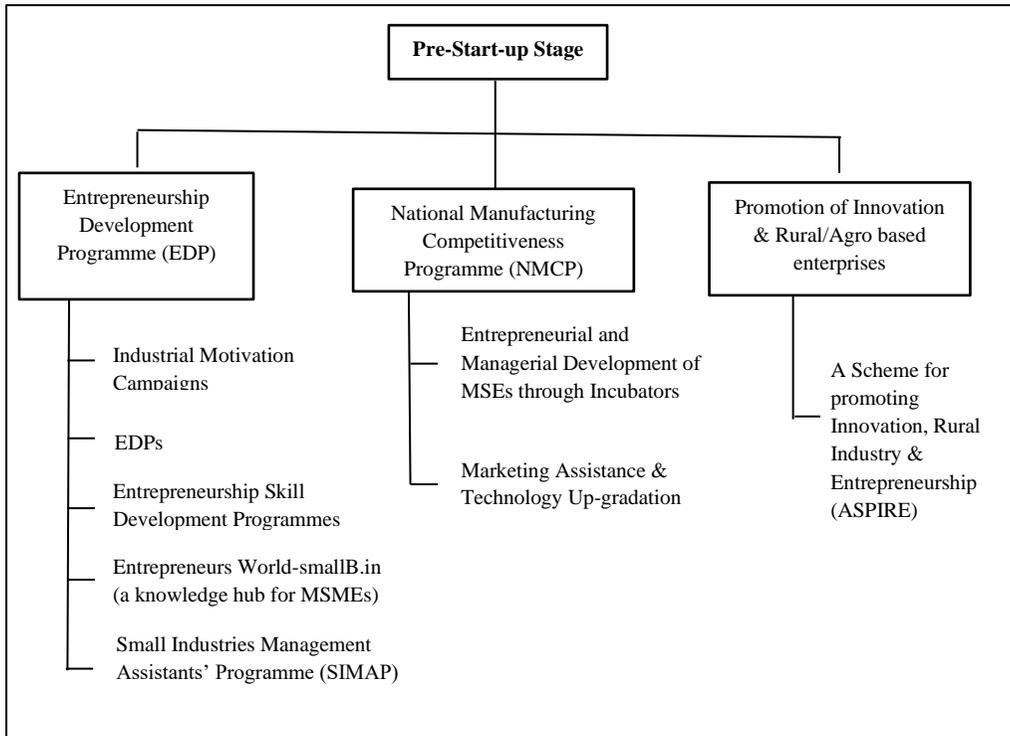
- The availability of information related to finance, market, technology, raw material, machinery, infrastructure, socio-economic data, government policies and support, statutory obligations, and so on, which are necessary to decide on product identification or investment.
- Entrepreneurship training and skill development to enable them to be mentally prepared and entice confidence to take the plunge into entrepreneurship.
- Motivational campaigns to remove the apprehension and encourage the hesitant populace to opt for self-employment rather than going for wage employment.

To address all these requirements, the government of India has set up Micro, Small & Medium Enterprises Development Organization (MSME-DO) with a vast network of Micro, Small and Medium Enterprises Development Institutes (MSME-DI), and Technical Centers (TC) across the country. MSME-DIs, District Industry Centers (DIC) and financial institutions such as Small Industrial Development Bank of India (SIDBI), National Small Industries Corporation (NSIC) Limited are playing a pivotal role in organising, dissemination of information through counseling, Entrepreneurship Development Programmes (EDP) and motivational campaigns regularly across the country.

Industrial exhibitions and trade fairs are regularly organised by MSME-DIs for providing marketing information for MSMEs as well as an opportunity for the prospective entrepreneurs to easily choose their projects. To convert innovative ideas into technology-oriented enterprises, the National Manufacturing Competitiveness Programme (NMCP) supports in setting up incubation centers at engineering and management institutions. A Scheme for Promoting Innovation, Rural Industry and

Entrepreneurship (ASPIRE) by NSIC Ltd provides the necessary skill-set to start enterprises in the rural area and hand-holding for a critical period to ensure sustainability. These are the few notable government initiatives introduced at the pre-start-up stage for the development of entrepreneurship (see Figure 3).

Figure 3. Schemes Available for Pre-Start-Up Stage



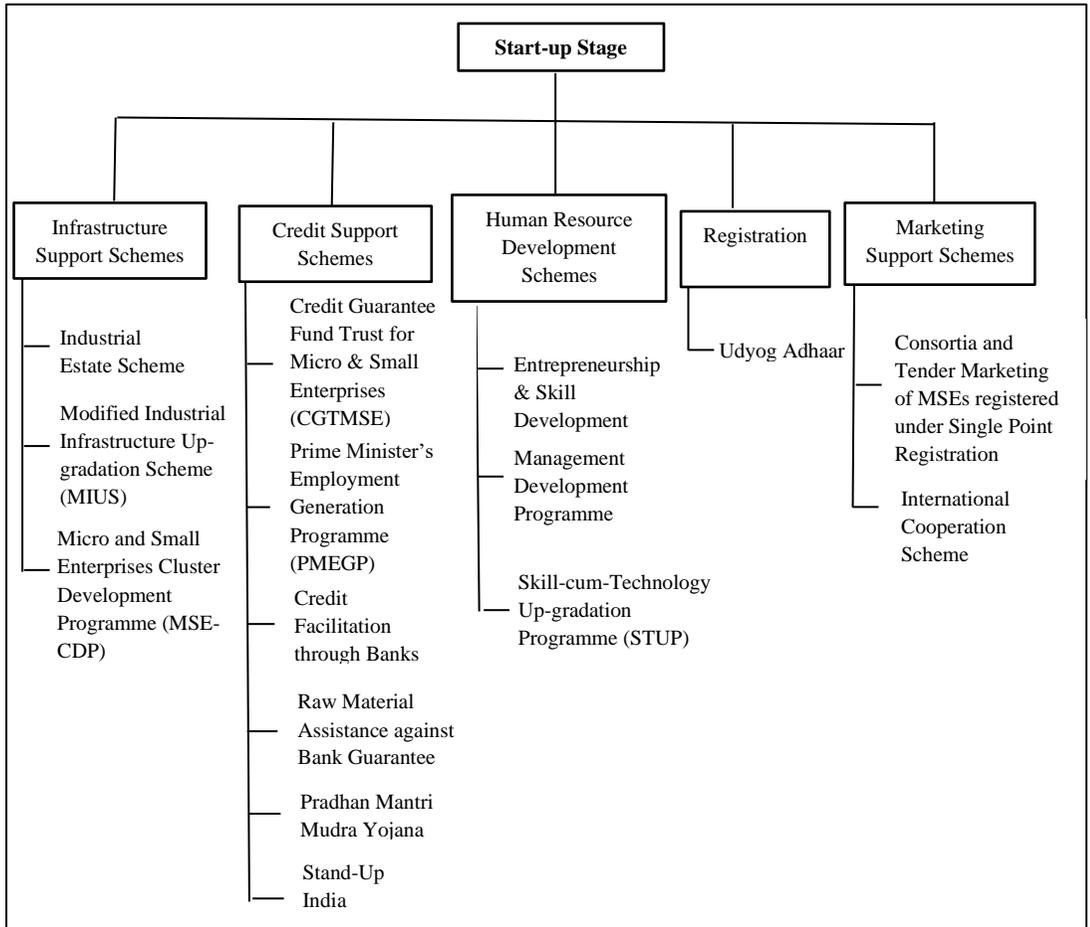
Source: MMSME, 2015b

Start-up Stage

In the process of creation of an enterprise, start-up or market entry is a very crucial stage in the entire lifecycle (Ministry of Commerce and Industry, 2018; InnoVen Capital India, 2018; Sunita & Srija, 2016). Any errors made at this stage will negatively impact the enterprise at later stages and this is one of the reasons for many start-ups not reaching their fifth birthday. The time taken to start a business and the cost for starting are the two main factors as well as obstacles that determine the start-up activity. The prime requirements to facilitate the market entry (start-up) of an enterprise are premises to start its operation (infrastructure support), money to meet the expenses (credit support), human resources to carry out various activities (human resource development), registration and marketing support. The adequate

interventions available at start-up stage of an enterprise are given in Figure 4 and are explained below:

Figure 4. Schemes Available for Start-Up Stage



Source: MMSME, 2015b; Sunita & Srima, 2016

Infrastructure Support

The availability of premises to start an enterprise at a reasonable cost with the minimum initial capital is essential (MMSME, 2018). State governments, Industrial Development Corporation (IDC) and Industrial Area Development Authority (IADA) provide this infrastructure support in the form of industrial estates. State governments are financially supported in infrastructure development of existing or new industrial estates through the Micro and Small Enterprises Cluster Development Programme of the Ministry of MSME (MMSME, 2015b; Das et al., 2007).

Credit Support

Adequate, affordable and timely availability of finance is equally important not only for starting a business but also for expansion and long-term survival. The MSMEs' caliber to develop, grow and sustain in business is decided solely by their ability to access and manage capital. According to the Asian Development Bank survey-2009 of SMEs in 13 countries, availing of credit is the most difficult for start-ups and development of firms which sums up the importance of enabling access to finance by the policymakers. The notable interventions of the government of India are the creation of State Financial Corporations (SFC), nationalisation of banks and the establishment of an exclusive bank for MSMEs known as Small Industries Development Bank of India (SIDBI) (All India Association of Industries [AIAI], 2016; MMSME, 2015b).

There are two types of interventions in providing credit facility to beneficiaries (Grant Thornton , 2013; Export-Import Bank of India, 2012):

1. Extending credit cum grant from the government with a training component, aimed at educated youth from rural and urban areas of first-generation entrepreneurs and
2. Providing credit, without any grant from the government on easy terms and conditions set by the government under priority lending.

The following are the schemes of credit facility with government grant and training introduced for start-ups (AIAI , 2016; Reserve Bank of India [RBI], 2017).

- Prime Ministers Employment Generation Programme (PMEGP) provides credit cum differential subsidy to establish micro-enterprises in rural and urban areas. This scheme benefits both urban and rural youth, traditional artisans and other marginalised groups of the society.
- The Credit Guarantee Fund Trust for MSEs (CGTMSE) scheme enables availing of credit up to Rs. 20 million from banks without collateral or third-party guarantee. It strengthens the undisputed financial support to the MSME sector.
- Pradhan Mantri Mudra Yojana (PMMY) to Fund the Unfunded scheme takes care of aspirations of downtrodden individuals. The intervention has been designed in such a way that the beneficiary can avail the loan for a non-farm sector income generation activity as per the level of the business in three phases from Rs. 50,000/- to Rs. 1 million from scheduled commercial banks, regional rural banks including non-banking finance companies.

- Stand-up India scheme supports women and other marginalised groups of the society by providing a composite loan of above Rs. 1 million up to a maximum of Rs. 10 million depending upon the requirements of the venture to start a green-field enterprise of manufacturing, services or the trading sector. The scheme envisages every branch of all commercial banks in the country to provide financial assistance to two members from marginalised groups of the society every year without fail.

Human Resource Development

Ministry of MSME is implementing a comprehensive range of common facilities, entrepreneurship development, and skill up-gradation programmes through its network of MSME-DIs and Technology Centres (TCs) across the country (Ministry of Skill Development and Entrepreneurship, 2015; National Innovation Council, 2013; MMSME, 2015b) to upgrade knowledge and fine-tune skills of trainees in their chosen field. MSME- TCs provide high-end skill training to the youth. Also, there are 11,964 Industrial Training Institutes (ITI) under the Ministry of Skill development and entrepreneurship producing 1.63 million skilled workers annually to cater to the requirements of enterprises.

Registration

Once an enterprise is picking up and giving returns, it is the responsibility of the promoter to obtain Udyog Aadhaar Memorandum (UAM) number to avail government benefits. As part of ease of doing business initiatives of the government, the one-page registration procedure is made hassle-free and one can do it sitting in their office online without any fee.

Marketing Support

It provides an opportunity in domestic and international trade fairs for getting exposure. Single point registration helps to participate in government purchases.

Growth Stage

The factors that ensure the survival of start-ups are the time taken to supply the goods to the market and) the cost involved. After the commencement of operation of the enterprise, supplying the goods to the market at the earliest will help for revenue generation at a lower cost, which enables the enterprise to attain the breakeven. Generally it takes three to four years for an enterprise to reach the breakeven point and be considered as sustainable, which indicates the entry to growth stage. As a sign

of enterprises in the growth stage, profit improves slowly and steadily due to an increase in recurring revenues by enticing new customers. Ultimately, an increase in the market share of an MSME indicates the growth trend. An increase in market share is the result of competitive price and quality (Goel, 2015) and maintaining quality and offering products at a competitive price are very challenging for any MSMEs in this turbulent environment.

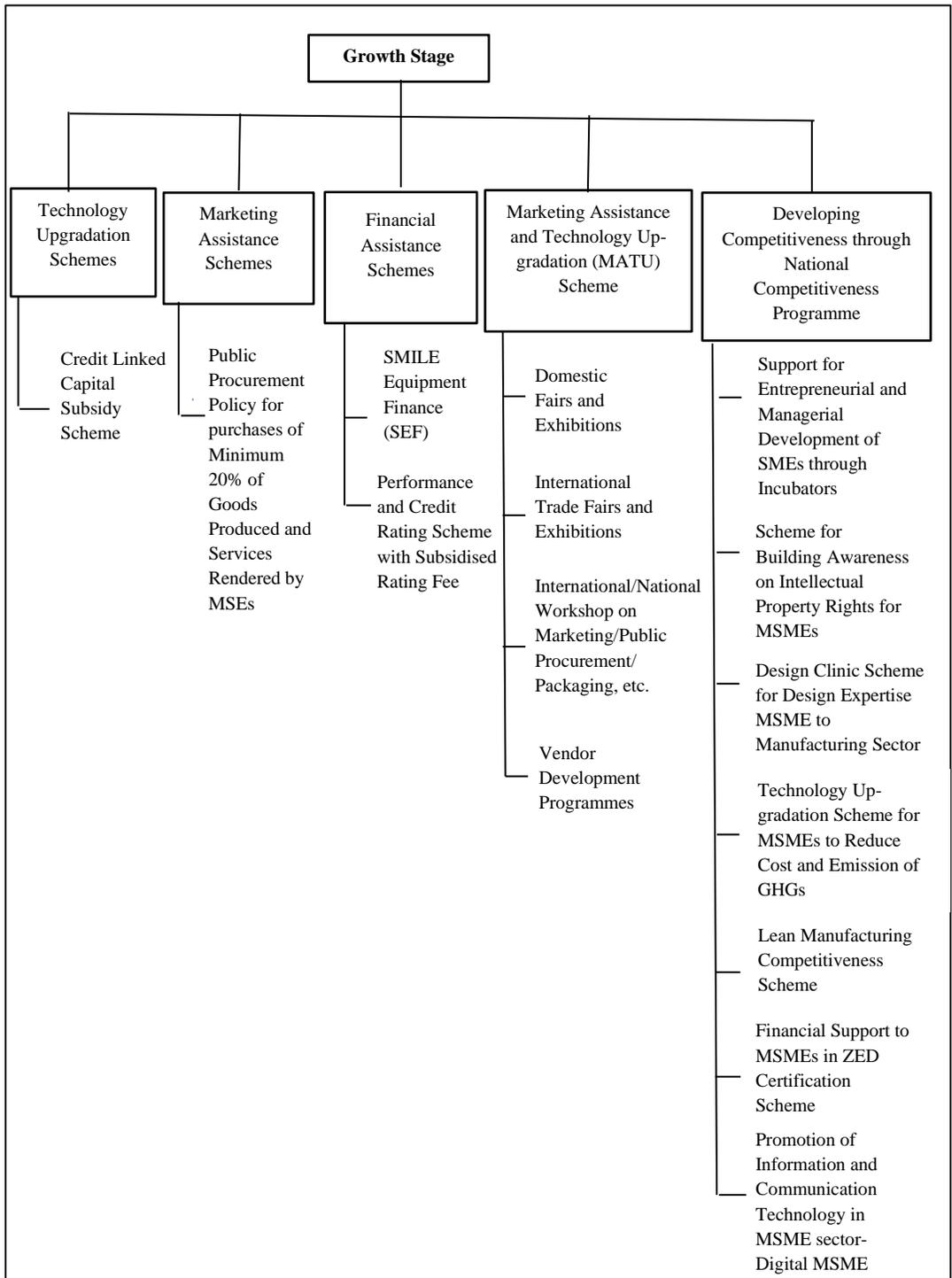
The specific challenges faced by MSMEs at the growth stage are different from market entry. There is an increasing pressure on MSMEs to reduce costs to survive the domestic as well as international competition (Mukherjee, 2018). Incorporating modern technology and change of process or methods are essential to achieve higher productivity. Practicing modern management techniques such as lean manufacturing will help to overcome the competition. Employing skilled human resources will improve the product quality. Having appropriate market information of customers, suppliers and competitors is vital to increase the market share. Procuring raw material at factory price will reduce production costs substantially. Intellectual Property Rights tools such as patents and trademark play a crucial role at the time of competitive market conditions (Pachouri & Sharma., 2016). Digitalisation will increase the exposure of any MSME worldwide to track suppliers and customers on one side and also support the firm to manage inventory, human resources, safety, and finance. To incorporate all the above facilities, an adequate flow of credit is essential. To facilitate the MSMEs to achieve the above, the government has formulated necessary schemes which are explained below (see Figure 5).

Schemes to Enhance Competitiveness

The competitiveness of MSMEs is defined based on their ability to compete for resources and revenues as indicated by market shares, growth and profit (MMSME, 2015b; Das et al., 2007). The government interventions in this regard are given below:

- Credit Linked Capital Subsidy Scheme (CLCSS) aims to remove the paucity of capital for the incorporation of technology and quality methods by providing a 15 % upfront capital subsidy on institutional finance up to Rs.10 million in selected subsectors/products approved under the scheme.
- National Manufacturing Competitiveness Programme (NMCP) scheme enables MSME in the manufacturing sector to overcome the challenges posed due to liberalisation and global competition through the following components:

Figure 5. Schemes Available for Growth Stage



Source: MMSME Schemes, 2015b; Goel, 2015

Lean manufacturing techniques. These greatly help MSME in the manufacturing sector to be a leader in the market and retain customers. The government supports clusters of such interested MSMEs through public-private partnership mode with financial assistance.

Technology upgradation scheme under NMCP. This helps in achieving energy efficiency and product certification. This facilitates subsidy to MSMEs for employing energy-efficient technologies in their production process and also in acquiring product certification conforming to national and international standards to enhance product value and remain globally competitive.

Design clinic scheme. Design is an essential component not only for new products and technology but also for improving cost, and usability of existing products. This scheme attempts to bring design experts and professionals close to potential manufacturing MSMEs.

Scheme for promotion of information and communication technology (ICT) in MSME sector. Business process standardisation, reducing delivery time and cost, inventory management will enormously increase the productivity of the MSME sector. It helps to explore information technology-enabled services to enhance productivity.

Scheme for building awareness on intellectual property rights for MSMEs. Protection of Intellectual Property Rights is an important aspect for MSMEs under the changed global scenario for getting the maximum advantage. Patent registration enables the protection of their ideas and business strategies and to acquire national and international patents. The government is assisting MSMEs financially as a measure of encouragement under this scheme.

Schemes to Enhance Market Reach of MSMEs:

Financial Support to MSMEs in Zero Defect and Zero Effect (ZED) certification scheme assesses the maturity level of MSMEs in the manufacturing sector in the country to attain zero defect in product manufacturing and zero effect on environment (MMSME, 2015b). By adopting the ZED certification model, MSME can reduce the level of wastage to achieve higher productivity. This will aid in expanding their market as Industrial Opportunity Partners (IOPs), vendors to Central Public Sector undertakings (CPSUs) and defense establishments. This would enable MSMEs to be ready-made vendors to large enterprises as well as contribute to their manufacturing process without much retraining of human capital. Financial assistance is provided as an encouragement to MSMEs to avail ZED assessment certification.

Schemes for Marketing Assistance and Technology Up-gradation (MATU)

Marketing is a crucial part of the growth and survival of MSMEs. Most of the MSMEs concentrate on marketing their products only in their local area and hesitate to move beyond boundaries (Engineering Export Promotion Council (EEPC) of India, 2018). The government interventions in this regard are given below:

- *Domestic and international trade fairs.* To expand their reach, the government is supporting them financially to explore new markets in the domestic and international arena through these activities. The government is the biggest consumer of products and services.
- *Vendor development programmes.* These are tailored to bring both the MSMEs and various departments including Central Public Sector Undertakings (CPSUs) to a common platform to facilitate the buyer-seller meet for developing market avenues and also, to forge a link between MSMEs and large enterprises to inculcate an attitude of 'quality' in MSMEs.
- *Public procurement policy for MSMEs.* This ensures market avenues for MSMEs in the country. The central government as a whole is the largest buyer and this policy mandates all the central government wings to compulsorily purchase a minimum of 20% of their annual purchase from MSMEs with a sub-target of 4% from enterprises owned by marginalised sections in the society to ascertain marketing opportunities. A total of 358 items have been reserved for exclusive purchase from MSMEs by government agencies. Also, MSMEs registered under Udyog Aadhar Memorandum are exempted from payment of earnest money deposit and application fee for tender.

Schemes for Raw Material Assistance

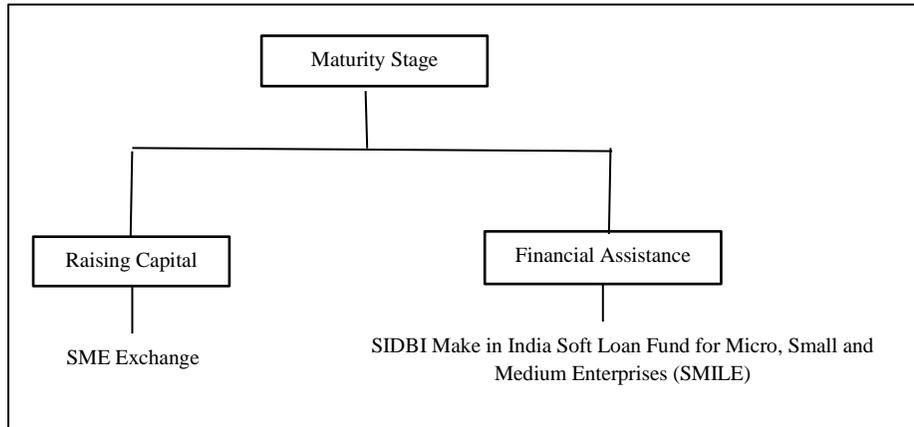
Procuring raw materials directly from manufacturers is an impediment since they do not supply the small quantities needed by MSMEs. This escalates the production cost of MSMEs and leads to less competitiveness compared to large enterprises (MMSME, 2015b). National Small Industries Corporation Limited, a constituent of the Ministry of MSME arranges raw material as per the specific requirements of MSMEs in time at the manufacturers' rate.

Maturity Stage

Very few percentages of MSMEs reach this stage and it is a proud moment for an entrepreneur. When an enterprise grows in terms of its operation, number of employees, revenue generation, profit-making and wealth creation, the requirement

of capital also increases for expansion or diversification and takeover of a firm owned by the competitor. These are the signals of an MSME reaching the maturity stage. Schemes available for this stage are given in Figure 6.

Figure 6: Schemes Available for Maturity Stage



Source: MMSME, 2015b

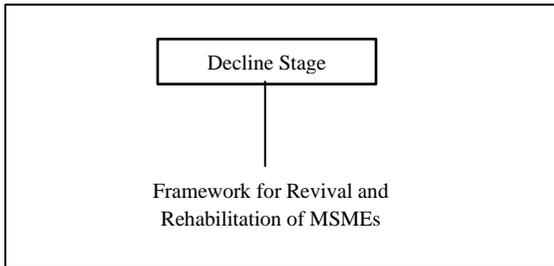
SMEs normally raise their capital from financial institutions and the credit they receive may be inadequate and obtained at high cost. They are deprived of raising equity capital and also inaccessible for angel investing and venture capital. To overcome this concern, a dedicated SME exchange is established for MSMEs by the Securities and Exchange Board of India (SEBI) with the aim of the government to help the sector in accessing capital markets conveniently, quickly and at a lower cost for expansion and wealth creation. In addition to tax benefits, getting the tag of a listed company adds value (TransUnion CIBIL Limited & Small Industries Development Bank of India, 2018). Thus, the SME exchange facilitates access to equity from venture capitalists. This will provide a way for an easy exit route at a later stage and also enhances the management capabilities, financial health, and corporate governance, all of which enable the enterprises to gradually switch over to the main stock exchange.

Decline Stage

Every year quite a large number of MSMEs come to this level due to myriad of issues. Insufficient credit, poor management, misuse of working capital, improper accounting, replacement of the product itself, obsolete product, competition from unknown sources are few reasons that lead to a decline in sales, decreased profit and abrupt losses. As a result, the MSME may fall out of favour with customers and

accumulate high debt, leading to bankers behaving indifferently, suppliers declining credit facility, cash flow difficulties and ultimately leading to decline. Under these circumstances not only the enterprise is in peril, but also the bank which financed the enterprise faces the problem of Non-Performing Asset (NPA). The provision available for this stage is given in Figure 7.

Figure 7: Provision Available for Decline Stage



Source: The Insolvency and Bankruptcy Code, 2016; RBI, 2019

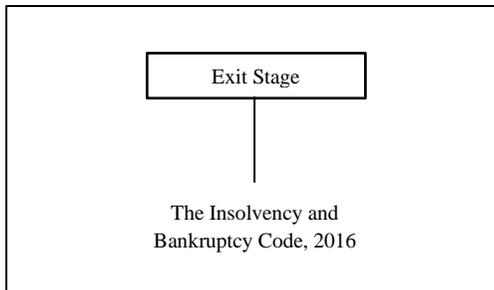
Framework for Revival and Rehabilitation of MSMEs is the legal endowment conferred under the provisions of section 9 of the MSME Development Act, 2006 (MMSME, 2015a). The government has notified this provision to balance the interest of bankers and a large number of MSMEs. This is mainly beneficial to the MSME account which is stressful or incipient towards failure. This framework enables the banker to identify such stressful accounts and also the insipient account holder can voluntarily approach the banker for a remedy. The purpose of this exercise is in two fronts: one is to reach for a timely and practicable solution to preserve the fiscal worthiness of the original assets of the firm as well as the bankers' credit and secondly allow the firm to continue with its operation without break. Under this Corrective Action Plan (CAP), the firm is permitted to get both secured and unsecured loans for its activities. The committee formed under CAP may consider for (i) rectification – normalise the account so that the account does not get into the category of Non-Performing Asset (NPA); (ii) restructuring – one-time restructuring the account if the borrower is not a willful defaulter; and (iii) recovery – once the first two options are not feasible, the process of recovery will be initiated. Thus, the entrepreneur whose account is under stress will get one last chance to set right the problem and can revive the operation.

Exit Stage

An enterprise's life cycle is incomplete without an exit stage. Closing down the enterprise is a normal occurrence in an entrepreneurial journey due to business

success or failure (Ministry of Finance, 2016). In case of exit, there must be a formal way out for closing down their businesses and thereby providing an opportunity to decide the alternative course of action to utilise the resources meaningfully. There is a provision available for MSMEs to exit due to unavoidable circumstances which is shown in Figure 8.

Figure 8: Provision Available for Exit Stage



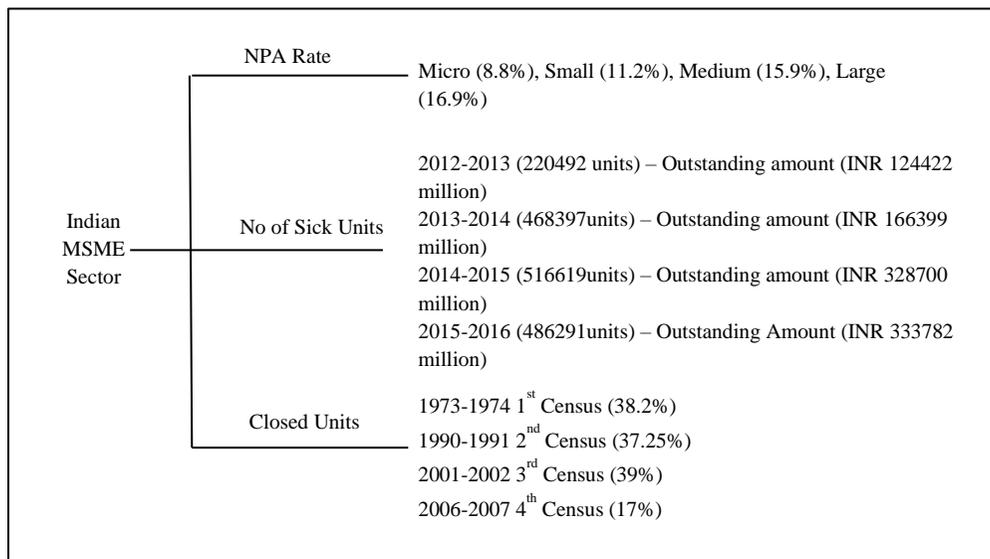
Source: The Insolvency and Bankruptcy Code, 2016; RBI, 2019

The Insolvency and Bankruptcy Code (IBC) of 2016 is to provide enterprises an exit due to business failure (IBC, 2016; RBI, 2019). Since the overwhelming majority of the MSMEs are proprietorship or partnership firms, there is a necessity for a suitable legal system to address insolvency. The existing IBC offers a solution for insolvency of firms, ownership of firms and individuals. Delegated rules in this regard are currently under discussion for individuals. The outcome of IBC provision for individuals can lift creditor's confidence since the creditors will be assured of the recovery of defaulted loans. This will surge the flow of credit to MSME in the Indian economy and also lessen the credit gap. Having an efficient, speedy insolvency system in place will compliment MSMEs and facilitate for a quick transfer of their productive assets to more efficient activities elsewhere. More importantly, better implementation of these provisions will reduce the cost of credit to MSMEs and financing become more affordable and timelier available. Incorporating these provisions to the present IBC code will resolve many pending non-performing assets for better utilisation and in turn will remove the fear of failure among the prospective entrepreneurs.

It can be observed from the above analysis that the maximum number of interventions is clustered around start-up and growth stages and not sufficient interventions are available for the remaining stages of the enterprise cycle. It is evident from the all India censuses of MSMEs of registered enterprises as given in

Figure 9, an average of 34 % of units were found closed and paradoxically the reasons for closing could not be ascertained (MMSME, 2011). These closures are expected to have a significant impact on the Indian economy. These exits might encourage entrepreneurial recycling and revitalisation activities thereby improving the competitiveness of the industry. In India, the fear of failure associated with social stigma is negatively impacting the decision of an individual to become an entrepreneur. Considering the above facts and reasons, there is a vital need for having an easy insolvency and smooth exit policies in India.

Figure 9: Closure Statistics of the Indian MSME Sector



Source: MMSME, 2011; RBI, 2019

Indian Initiatives in the Context of Global Practices

The practices followed in other countries in comparison with practices in India are discussed below from the perspective of the enterprise lifecycle.

Pre-Start-up Stage

Countries focus on developing policy initiatives to entice more people to become entrepreneurs and to increase the number of new enterprises. Most of the countries have established at least one nodal agency responsible for policy formulation, coordination and monitoring of the progress, and inculcating an entrepreneurial culture among youth. For example, Small Business Administration in the United States of America, SME corporation in Malaysia, SME academy of Turkey, etc. are

the designated apex agencies responsible for providing information on government schemes and grants, current policy and regulations, various government agencies, enterprise formation, sources of funding, market information, etc. In India, the MSME development organisation provides all necessary information and hand-holding support in promoting a harmonious enterprise culture across the country. In addition, countries have also established incubation centers and mentoring support to promote tech-start-ups. For example, Commercialising Emerging Technologies (COMET) program of Australia, iLab91 of Harvard, Entrepreneurial Universities in Singapore and Entrepreneurial and Managerial Development of MSMEs through Incubators scheme of India aim at promoting innovation right from early-stage technopreneurs. Business Incubation (BI) centers existing at technical institutions in India have attracted more number of students to convert their innovative ideas into viable commercial products (Abhyankar, 2014). This mind-to-market concept has largely contributed in placing India to be one of the top five start-up nations in the world (NASSCOM, 2018). In addition, many youngsters from diverse backgrounds are brought into prominence. This academic-based BI with the mentoring network can be considered as the best model for promoting start-ups and to increase the survival rate of various startups at the early stage.

Start-up Stage

Access to finance is the biggest need for an early stage of an enterprise (International Finance Corporation, 2017). Considering the financial needs at the start-up stage, countries enable both traditional bank financing and non-traditional financing sources for MSMEs. In this direction, China has encouraged more privately owned credit guarantee companies in addition to government agencies and the Australian government jointly invests with private equity investors to support start-ups. SME Corporation in Malaysia ensures the effective utilisation of financial resources of different agencies and Colombia manages the 'Empreder fund' to seed financing the SMEs. In India, access to equity through venture capital and angel investing practices is in the nascent stage for start-ups. This makes the government to shoulder the responsibility of arranging initial funding through public and private banks under the priority lending programme (International Finance Corporation, 2010; 2017). The Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme supports collateral free credit for the entrepreneurs. In many developed countries, promoting venture capitalists and private equity investors is common practice even for the start-up stage. However, in many developing countries, the existing MSMEs are family businesses or ownership entities; therefore, the

possibilities of raising venture capital or private equity investment are remote. Considering this ground reality, the practice followed in collateral free funding under CGTMSE is an alternate option particularly for first-generation entrepreneurs.

Growth Stage

Currently, most of the countries are focusing on creating a supportive environment to transform the subsistence enterprises into sustainable growth-oriented enterprises. Governments have increasingly paid attention to provide a wide range of support measures including technical and managerial assistance, human resource development, financial assistance, market support, etc. to make them more competitive both locally and globally. In this direction, many countries have developed policies supporting growth-oriented enterprises (Lilischkis, 2011), for example, Vigo programme of Finland, High tech startup programme of Ireland, Growth accelerator programme of Netherlands, SPRING programme of Singapore, Accelerace programme of Denmark, Inno-Biz of South Korea, etc. High growth coaching programmes of various countries such as the UK, USA, South Korea, etc., enable their SMEs to become global champions by providing support with technology, financing, networking, and international marketing support.

Economies such as Ireland, Malaysia, Japan, Mexico, Philippines, South Africa and Singapore showcase the importance of creating a linkage between the large industries and SMEs in modernising local SMEs (Foghani et al., 2017). Italy, the pioneer in cluster development, has successfully demonstrated the benefit of cluster approach by the concept of competition by cooperation. China's successful cluster development is based on the principle of socialisation, specialisation and market orientation. The mastering growth program of the Netherlands facilitates the entrepreneur to learn from each other by sharing experiences to achieve high growth. Brazil improves the technological capabilities of export-oriented SMEs to increase exports. Cluster Development Programme of India supports MSEs to develop infrastructure, testing facilities, raw materials and technology up-gradation among the cluster members. In addition, Public procurement policy and Government e-Marketplace (GeM) assures MSEs to market their products and services to government departments.

Though developed and developing countries including India have followed a cluster approach to inject technology improvement at the growth stage, lack of mutual trust and cooperation among the cluster members hamper the cluster development. Alternatively, programmes such as the SME Competitiveness Rating for

Enhancement (SCORE) of SME Corporation Malaysia is considered as the best model (Foghani et al., 2017). Based on the performance and capabilities of SMEs, the diagnostic tool 'SCORE' is used in Malaysia to rate and enhance the competitiveness. Thus the identified SMEs are converted into global champions instead of focusing on each and every SME in the cluster.

Maturity Stage

At this stage, capital is a crucial ingredient for the expansion and export activities of SMEs. In this regard, countries have designed innovative methods for credit availability to firms. For example, Colombia successfully manages its fiscal instruments by linking angel investors and capital funds. The Nacional Financiera (NAFIN) model of Mexico offers contract financing to the creditors to buy raw materials. The Corvinus international investment program of Hungary provides equity capital for high growth innovative SMEs to expand internationally. Unlike other countries, business associations started the financial facilitator programme in Singapore for supporting the credit requirements of SMEs (International Finance Corporation, 2017). In India, MSMEs can access to SME exchange like any other corporates for raising capital to reduce the cost of credit. SIDBI's Make in India Soft Loan Fund for MSMEs (SMILE) also fund the eligible small and medium enterprises for expansion. Moreover, the government has relaxed the foreign direct investment norms for investments in MSMEs. The best option for SMEs to raise capital for expansion is through venture capital and private equity investments. The Australian Model encourages more private venture capital to fund SMEs having expansion potential.

Decline Stage

Revival and rehabilitation scheme practiced in India provides an opportunity for one time restructuring the accounts of MSMEs which are sensing failures and is helping bankers to retain their equity as a performing asset. This corrective action plan helps the firm to get both secured and unsecured loans to overcome the problem and allows them to continue their operations. This practice can be emulated in other developing countries to reduce the failure rate of MSMEs and also to protect the bankers' capital.

Exit Stage

Developing a business landscape with policies that encourage exits is one of the biggest incentives for encouraging entrepreneurship. A suitable exit facility will help

both performing and non-performing SMEs to exit from the market. Underperforming SMEs may prefer to exit to come out from their liability, whereas performing SMEs may likely to harvest their past investment. In countries where an insolvency and bankruptcy code is practiced, the cost of credit is less and bankers are willing to finance with ease since they are assured of their equity. Suitable reforms amended to insolvency legislation in Brazil resulted in an average reduction of 7.8 % from 16.8 % in the cost of credit. Retention of employees after the exit of owners is another important issue to be addressed. Keeping this in mind, revised restructuring laws in the United Kingdom mandated that new owners have to retain all employees of enterprises of bankruptcy cases. There is a need for suitable reforms in the IBC (2016) in India to include individuals as most of the MSMEs are proprietorship.

Though the above policies and programmes adopted by different countries at each stage of an enterprise life cycle are wide-ranging in terms of their objectives, it is neither easy to copy them all nor advisable to do so since every country's potential is unique and different from each other. However, it is always possible to adopt few appropriate practices according to the prevailing local eco-system of a country while planning a policy change for MSME development.

Suggestions for Holistic Development of the MSME Sector

India has some inherent advantages that have implications for the MSME sector, such as an increase in the young educated population, large domestic demand, increased penetration of mobile and social networks, untapped markets in under-served rural areas, and an increase in the female population with entrepreneurial potential. These are emerging trends that shape the future of entrepreneurship in India. Hence, the challenge before the government is to provide a supportive ecosystem not only to increase the number of new entrepreneurs and start-ups but also to induce the right people to become entrepreneurs and increase the quality of existing enterprises. Considering the above trends and the practices of other countries, this section highlights some of the issues to consider when designing future interventions for the holistic development of the MSME sector.

Improving Information Availability

Timely access to relevant information is of key importance for an enterprise's successful emergence, growth and survival. Entrepreneurs, both potential and existing, will be looking for information related to the government schemes, scope for new projects, incubation support, cluster information, infrastructure availability,

potential investors, market opportunities, machinery and raw material suppliers, legal procedures and availability of skilled workforce. Financiers require information related to suitable credit seekers and government schemes through which they can fund for new or existing projects. Industry associations can act as a two-way media for information sourcing and dissemination. The details of enterprises can assist job seekers to approach the right enterprise. Hence, an 'online MSME information portal' that provides comprehensive information to the ecosystem actors is one of the primary requirements for the sustainable growth of this sector.

Promoting the Culture of Entrepreneurship

The entrepreneurial culture has not yet reached its peak, mainly due to reasons such as the consideration of entrepreneurship as taboo by many parents, fear of failure, a pro-employment educational system, lack of mentors and lack of recognition. To promote a culture of entrepreneurship, the government has presently taken certain positive steps such as promoting entrepreneurship education in educational institutions, and introducing product design competitions, incubation centers, best entrepreneur awards, etc. In this direction, the government should also encourage the creation of an entrepreneurial network involving successful role models, industry associations, and social leaders to develop a pro-entrepreneurship culture.

Skill Development for MSMEs

One of the important reasons for the low entrepreneurship ratio in the nations is due to inadequate skill sets of youth. Imparting technical skills along with life skills and business skills through skills training and youth development programs will promote youth entrepreneurship in the country. Improvement in identifying the right candidates and providing mentoring support will definitely change the enterprise ecosystem. In addition, the government has to identify the skills needed by MSMEs to better match labor supply and demand.

Formalisation of MSMEs

Formalisation of informal MSMEs in developing economies will enable them to avail the government support facilities, participate in global trade, enhance their competitiveness, add new facilities and employ more workers. Reforms towards an easier and affordable registration process will improve the formalisation of firms. For example, Udyog Aadhaar registration and Goods and Service Tax (GST) registration have made a positive impact on the formalisation process in India.

Improving Access to Finance

Access to adequate and timely finance has been a perennial issue for MSMEs across countries. Existing government schemes support only limited beneficiaries and the financial support is also inadequate. Since banks insist on collateral security to sanction loans, many first-generation entrepreneurs are not able to access credit facilities. Hence, credit guarantee schemes have to be strengthened to sanction collateral free credit for the entrepreneurs and private equity and venture capital funds need to be promoted in order to ease the pressure of commercial banks. Incentives for regular payment of installments will encourage the habit of in-time settlement of loan by the borrower and also spreading financial literacy will help in responsible utilisation of the availed credit.

Promoting High-Growth Enterprises

Existing policies and schemes are towards supporting subsistence enterprises and the self-employed category. Empirical findings are supporting the importance of high-growth MSMEs for large scale employment in developed economies. There is huge potential for developing high-growth enterprises predominantly in high-tech sectors and in other sectors including garments, food, healthcare, biotechnology and machinery manufacturing. Technical institutions and research labs have a larger role to play in transforming the start-ups into high-growth enterprises by providing their support in product development, innovation and testing capabilities. The conservative approach of banks has to change in funding the start-up companies and alternative funding sources need to be enabled for expansion activities. Large public and private enterprises can be involved in improving the skillsets needed for high-growth enterprises. The government has to facilitate the potential high-growth enterprises to become national and global champions.

Promotion of Women Entrepreneurs

Existing interventions targeting women entrepreneurs appear to be less effective in many economies, as a result only 14% of the enterprises in India are run by women entrepreneurs, out of which more than 90% are micro-enterprises and mostly self-financed. Except in a few countries, the lack of gender balance, equal opportunities, familial support, resources, mentors, inadequate funding, and market support are common reasons observed in Asia for leaving behind a large percentage of women in entrepreneurial activity. In addition, they also face social barriers and discrimination. Thus, encouraging and facilitating women entrepreneurs in any country not only mitigates a social problem, but also provides an impetus for economic acceleration.

Information assimilation and outreach activity will help the women entrepreneurs to market their products or services.

Promotion of Enterprises in Rural Areas

Rural entrepreneurship is the solution to reduce poverty in rural areas. The existing support measures have enabled enterprise development in certain pockets of the country's geography which has resulted in depriving the development of rural enterprises and the potential of rural youth. Owing to a changing consumption pattern as well as the potential size of the market, rural pockets provide a large and attractive investment opportunity for private companies. Other than traditional rural products, opportunities exist to explore service-based enterprises such as tourism for pilgrimage and wellness. Governments should go for appraisal of rural entrepreneurship development schemes and programmes to uplift rural areas. Promoters' clubs can be established in villages to groom and digitally support the youth as ambassadors to market the products and services from that area.

Conclusion

This paper discussed the various policy initiatives and schemes for the growth of MSME sector in India. The relevance and suitability of the available schemes were analysed in relation to different stages of an enterprise lifecycle and it was identified that the existing support measures are primarily focusing on creation and growth of enterprises and that further interventions are required at revival and exit stages. Indian initiatives were also compared to policies and programmes adopted by other countries, which highlighted the need for further interventions for the holistic development of the MSME sector in India. This knowledge will be useful for policymakers to develop suitable schemes to reinforce the sustainability of this sector. Further, even though the focus of this paper was India, this work can be also be extended to comprehensively analyse and improve support measures available for MSMEs in other developing countries.

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The authors declared no potential conflict of interest with respect to the research, authorship, and publication of this article.

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