

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



Dr. C. Lucia Vanitha<sup>1</sup>, Madhumadhi. G<sup>2</sup>, Dr. P. Ruby Leela<sup>3</sup>

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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 large 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

<sup>1</sup>Assistant Professor, The Research Centre of Commerce, Fatima College (Autonomous), Maryland, Madurai

<sup>2</sup>Assistant Professor, Department of BBA, Sona College of Arts and Science, Salem, Tamilnadu.

<sup>3</sup>Assistant Professor, The Research Centre of Commerce, Fatima College (Autonomous), Maryland, Madurai

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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.<sup>3</sup> 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 turnaround 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.<sup>4</sup>

**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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup> 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.<sup>10</sup> 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:<sup>14</sup> 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.<sup>37</sup>
- Provide employees with continuous learning opportunities to improve their skills for their current and future employment.<sup>38</sup>
- Improve awareness of employees on the importance of ECE, support access of employees to quality childcare, mental stimulation and learning through play.<sup>39</sup>

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.<sup>36</sup> 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).<sup>185</sup> 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.<sup>186</sup> 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

entities can therefore contribute to promotion of trade and competitive supply chains. MSMEs are a source of partnership to implement SDGs. Small businesses address societal needs through market solutions as demonstrated by social enterprises (see Goal 10). MSMEs also play a role in public-private partnerships (PPP) to provide services to address various developmental challenges. They can participate in dialogues with governments and communities to find solutions to development problems as they work closely with communities. They can contribute to society through Corporate Social Responsibility (CSR) practices. MSMEs are a source of data for SDG monitoring and reporting. The former Secretary-General of the United Nations Ban Ki-moon called for a 'data revolution' for the SDGs. This refers to the "integration of new data with traditional data to produce high-quality information that is more detailed, timely and relevant for many purposes and users, especially to foster and monitor sustainable development", which encourages governments to engage with private-sector actors who generate large amounts of data through their work. 187 MSMEs which are present in a range of value chains and employ a large share of the population have potentials for generating data that can assist in monitoring the SDGs. Individual MSMEs have the potential to adopt actions in their business practice to contribute to the goal. They can take a collaborative initiative and seek a local charity that the organisation is close to and have a conversation on how the business can support their work.188 They could also partake in SDG-related partnerships like the UN's Make the Global Goals Local campaign, the SDG reporting initiative and locally-based sustainability initiatives.189 New business models/solutions and opportunities for MSMEs that will help achieve the SDGs. An integrated global economy as envisaged in this goal is associated with the rise of global value chains (GVCs). GVCs and the digital transformation offer new opportunities for MSMEs to integrate into the global economy. Greater flexibility and the capacity to customize and differentiate products can give MSMEs a competitive advantage in global markets, as they are able to respond rapidly to changing market conditions and to test with shorter product life cycles. Some niche international markets are dominated by MSMEs, and innovative small enterprises are often key partners of larger multinationals in developing new products or serving new markets. For example, in Germany, small- and mid-size companies hold between 70 percent and 90 percent of global market share in some specialized manufacturing segments and account for the bulk of the German international trade surplus.190 However, MSME constraints in internationalising include access to information,

skills, technology, finance, trade facilitation, and connectivity. Evidence shows that MSMEs are lagging behind in adopting digital technologies.191 While in most countries, the divide is narrow for simple connectivity and web presence, the gap broadens when considering participation in e-commerce and, especially, more sophisticated applications. In many countries, a large adoption gap is also observed for cloud computing, for instance the renting of computer power from an external provider, which can allow smaller firms to use big data, while overcoming some of the barriers associated with the high fixed costs of ICT investment.192 MSMEs are also disproportionately affected by trade facilitation/administrative costs, business taxes and compliance in export destinations compared to larger firms. Limited access to credit faced by MSMEs and start-ups further exacerbate the disadvantages of MSMEs to integrate in GVCs.193 Responding to these challenges, MSMEs will help achieve the broader vision envisaged in international cooperation on trade and investment under this goal.

## 2. Research Methodology

### Need of the Study

To know the Avenues of financial succor for SMEs & Startups in India with reference to SME clusters in Maharashtra.

### Objective of Study

1. To find how SMEs and start-ups of contribute to the development of our country.
2. To study financial crunch and clusters in financing SMEs & startups and the prominent source of financing and problems faced by them and the enterprises which the entrepreneur are willing to start and activity which they want to peruse.
3. To study the nature of operations and type of organizations and industry.
4. To know the Schemes framed by the Government under the MSME Sector.

### Data Collection

Both primary and secondary data will be used for this study. Methods of data collection:

1. Primary data is collected through survey technique Questionnaire.
2. Secondary data is collected from Journals, Internet, Magazines Company's.
3. Record Data analysis: Once the data are collected, the information will be coded and appropriate data analytic techniques will be used to obtain meaningful information from the collected data. It involves editing, coding and tabulating the collected data.

**Sample size** –50 Experts

**Sampling technique** -In this study, probability/random sampling technique is adopted.

**Sampling Method** -Simple random sampling is used.

**Simple random sampling:** In this method, every element in the population has a known and equal chance of being selected as a sample. This sampling is best suited when the generalizability of the findings to the whole population is the main objective of the study.

### Review of Literature

#### **Kristin Hallberg, (2000)**

Governments in both industrialized and developing countries provide a wide variety of programs to assist small- and medium-scale enterprises (SMEs). Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less than satisfactory.

#### **Krishna Kumar (2003)**

He views that In India foreign collaborations have generally been to have the technological transfer which involves high cost. It is important to understand the MSME's single handed cannot afford this cost, however if a group of MSME's of similar nature of work come together the burden of the foreign collaborations can be shared effectively.

#### **Sickness and Rehabilitation of MSMEs in India (2005)**

The author feels that the SMEs will fail in a sector for a variety of reasons. Global competitiveness has strained India's already weak infrastructure, which severely hinders the production of small scale industries. There are a multitude of reasons for failure, however, not all of them related to competition. Lack of knowledge, available capital, qualified workers or even motivation on the part of the owner are all viable reasons for business failure. Whatever the reason for failure, the business must have some sort of recourse to 'declare' its sickness. In India, what constitutes this mechanism is relatively unclear, and despite current progress, has left much inefficiency.

#### **Y.Srinivas (2005)**

MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing. With the

opening up of the Indian economy, it has become necessary to consider measures for smoothening the flow of credit to this sector. Small and Medium Enterprises (SMEs) play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing.

#### **Govt easing hurdles for SMEs: Anand Sharma(2012)**

It's not very often that small and medium companies get their due in the broader economic spectrum. Acknowledging their contribution to the Indian economy, industry and commerce minister Anand Sharma says the government is working on to ensure that SMEs are given their pride of place and the government has taken measures like cutting down on red tape and invoking a provision for the first time to remove multiple-level approvals required.

#### **Mehul Kapadia (2013)**

Every bit of capital investment is crucial for an SME. Seasonal peaks are one of the greatest reasons for companies under-provisioning or over-provisioning. This can later result in a heavy loss and idle resources. All businesses undergo a transition at various points. Whether you run a full-fledged enterprise, a medium-sized business venture or even a smaller, relatively newer business, updating business IT processes is a critical step in your enterprise life cycle. In fact, some businesses even have to undergo multiple transformation phases. Large enterprises have the capability and the resources to execute such transformations smoothly, but SMEs face a significant challenge in doing so, given their limited resources and capital.

#### **Courting SMEs (2014)**

For a change, the investment banker is having a drink with the small businessman. Usually driven by hints of big ticket deals, several i-bankers today are sensing opportunity in small and medium enterprises, better known as SMEs. High-street banks as well as boutique finance firms are exploring opportunity in this space. For instance the private bank, Indusland has recently launched a separate wing to look into investment banking possibilities in the SME segment. Besides, there are boutique players like Keynote with a focus on small cap firms. Others like Edelweiss Capital, Yes Bank and Ernst & Young are getting active in the segment.

### Lending to SMEs proving to be attractive entrepreneurial opportunity for startups (2015)

For millions of small businesses in India, hunting for credit has always been a challenge. They represent the 'missing middle' - un-catered to by financial lenders that would rather reach for the top of the pyramid or the bottom. But the middle is large. India has about 57.7 million small business units, many of them small proprietorships. A host of startups are now stepping in, providing debt financing and working capital loans to these enterprises. Venture and private equity, too, are pouring capital into this ecosystem in the making.

### Gujarat Chamber of Commerce & Industry (2016)

To support 'Make In India' campaign, the Gujarat Chamber of Commerce & Industry (GCCI) will take help of PSUs to revive the closed small and medium enterprises (SMEs) in the state. "Under 'Make in India', government insists to develop ancillaries of defence and other sectors at home rather than importing them. If units, which were shut down for some reasons can be revived, they can contribute to the programme.

### Sme - A Sector of Higher Growth

SME is known for its contribution in all round growth of an economy such as employment generation is continuously increasing, exports and production also showing increasing path for this sector. While at micro level, feedback was obtained from entrepreneurs on their average growth rate in turnover and profit during last three years.

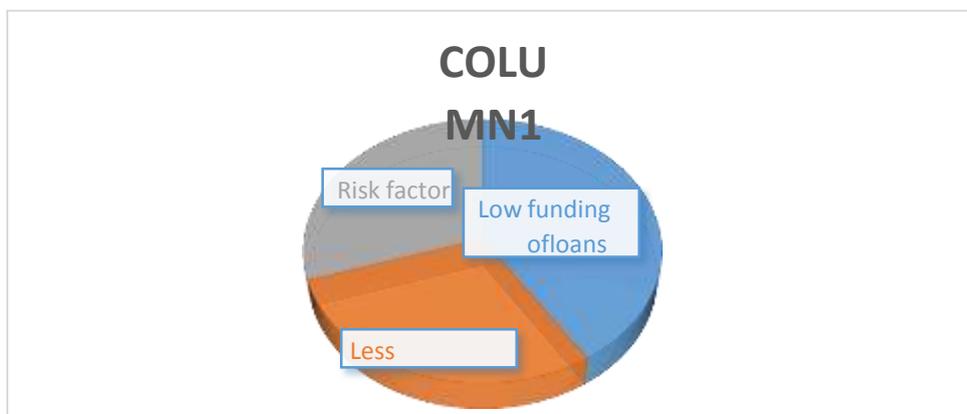
### Profitability of SME Firms

1. Profit being sole motive of any business organization, select parameters has taken into sample which has direct bearings on the profitability. These factors are also important

for bankers while considering loan applications of the beneficiaries. Responses collected from entrepreneurs are of qualitative in nature to get impressions of the respondents on selected parameters of profitability under four categories such as increase, decrease, unchanged and not applicable

2. Almost all factors of cost such as raw material, labour & staff cost, interest expenses and other operating expenses have increased during last 3 years in majority of SME firms and sales has also improved in 81% firms except in cases of 16% & 3% wherein it was constant and decreased respectively
3. It witnessed that SMEs have flexibility and creativity to quickly adopt the other viable business proposition. Whilst from banker's view-point, the diversification in business to be closely monitored through handholding operations, else there are possibilities of increase in the number of occasions of funds diversion.
4. Analysis also reveals that SMEs are less impacted from global melt down during the last 3 years 2013-16 because the sales had increased in 81% firms despite world faced the recession. Indian economy overcame from the recessionary phase at the earliest without many problems because SMEs dominated economy normally registers sustainable growth.
5. As regards interest expenses hike observed by 82 respondents' in sample, it is impact of increased rate of interest scenario globally which is suggested to be subsidized for SMEs by introducing interest subvention provisions for all SMEs covered under MSMED Act 2006 so that capacity of this sector could be built to have leverage on global competitive advantages.

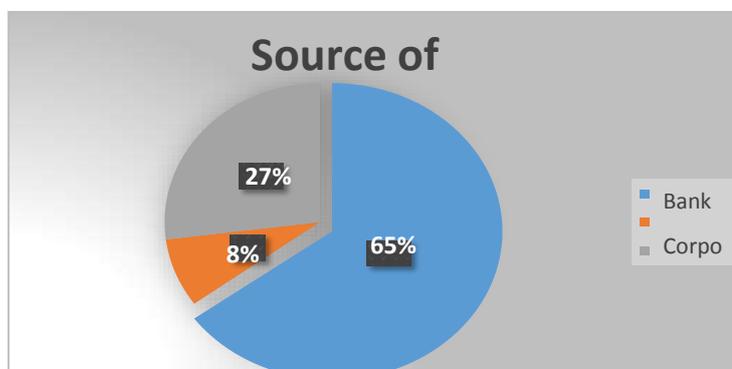
### Financial Crunch and Clusters in Financing sme's and Startups



### Source of Finance:

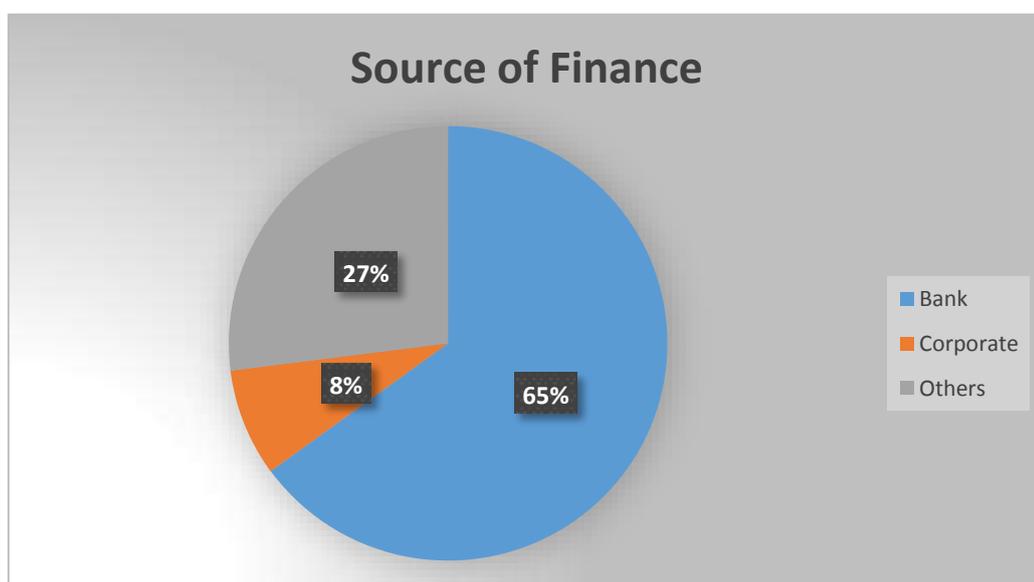
As per our research, we found that the SMEs mainly depend for finance on banks and othersources still are not been utilized.

**Problems faced by SME**



Problems faced by the SMEs mainly are non-availability of finance and non-availability of skilledlabour.

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**Frequency Distribution of Loan Repayment Distribution**

Factors	Frequency	Percentages(%)	Cummulative (%)
Up to 1 year	49	72	72
Up to 2 years	19	28	100
Up to 3years	0	0	100
Above 3 years	0	0	100

This shows the frequency distribution of loan repayment duration by the respondents usually received from the financial institution by which

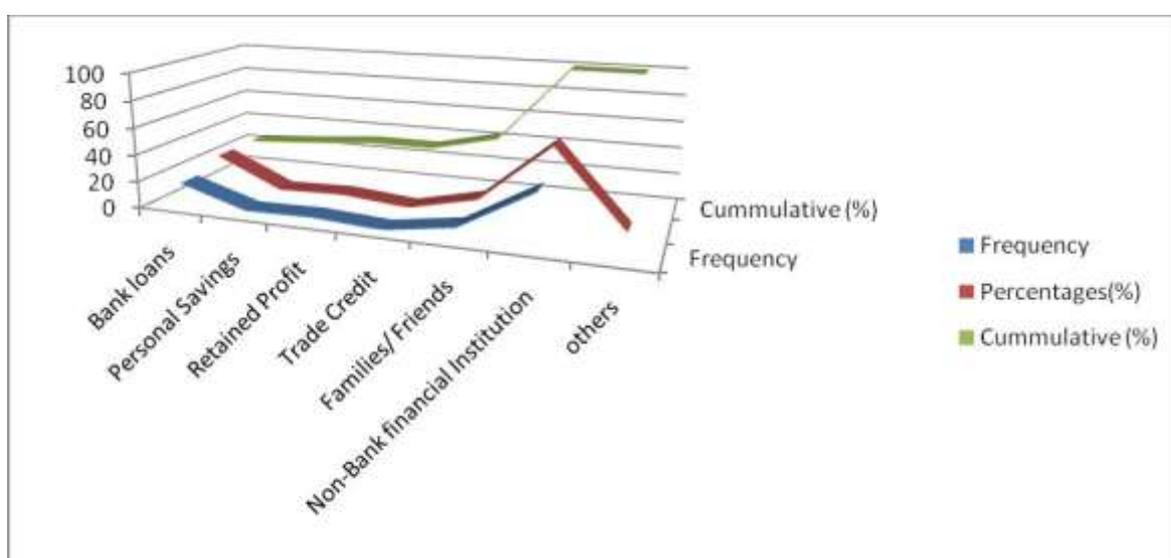
time they should have repaid the loan amount. From the above record, 72% are given a repayment period of up to one year, whilst 28% or 19 of the

total respondents of 68 indicated a repayment period of up to one year. The findings enumerated above corroborate the opinion about the difficulty that SMEs in Ghana faced when it comes to accessing credit (bank loan) to run their businesses. But one interesting twist in these findings is the

issue of poor management of account receivables of these SMEs. However, we believe that with proper management of SMEs receivables, they should have enough cash to boost their working capital to run their operations and also meet their financial obligations.

**Distribution of SMEs Major Sources of Funding**

Source	Frequency	Percentages(%)	Cummulative (%)
Bank loans	17	25	25
Personal Savings	2	3	28
Retained Profit	3	4	32
Trade Credit	0	0	32
Families/ Friends	8	12	44
Non-Bank financial Institution	38	56	100
others		0	100



Among the various sources in Table VI, which is also presented in the graph, 56% out of the total respondents ranked their major sources of funding from the Non-Bank Financial Institutions followed by 25% getting their financing from bank loans. The third ranked sources of funding for SMEs operation are from families and friend with 12% and the fourth being retained profit with 3%. Personal savings was ranked the fifth with trade credit not resorted to as a source. This goes to show that the SMEs operating in Ghana are skewed more towards the external source of funding, which is not also easy to access thereby inhibiting their growth. From the above the only internal source of funding is just from their personal savings none of the other internally generated options of funding are being exploited. These internal sources include operational and investment profits, sales of assets, extended payment terms, reduction in

working capital and proper management of accounts receivable, which are less expensive and also reliable. The kind of banks operating in the country have limited interest in funding the SMEs sector most especially those seeking funds as start up capital for their businesses because of the risk associated with new businesses where it is known that 8 out of 10 new businesses fail within the first three years (Mason, M.K, 2011). The limited interest of banks to finance start up businesses is also supported by the data in table (IX)

### Findings

We have covered some of the SMEs and Start-ups in our study/research. The purpose of Findings is to provide a concise, clear summary regarding the topic given to us. Below mentioned are the findings observed during the course of our research.

- Emergence of various SMEs and Start-ups in the

Indian market have created environment both at the National & state level for entrepreneurs to start the various enterprises. They depict the importance of the various manufacturing & service sector at different levels.

- Regarding the Maharashtra region, the existence of the various SME cluster has been observed with reference to financial crunches faced by the various SMEs.
- Our finding is that the young entrepreneurs want to do business through service sector due to available growth in the service sector with the help of Government of India's Start-up –make in India initiative.
- With the proper selection of the available resources young entrepreneurs will do business by operating cyber café, Xerox, fax & STD centers and also restaurants & coffee shops with the help of Prime Minister Employment Generation Programme by using labour intensive technology.
- As per the data analysis of the secondary data, there exist various SME clusters which are found to be facing similar financial crunch due to less awareness and low funding of loans.
- Our finding is that the SMEs are very vital for development of any economy because it helps in generation of employment and reshaping productive sectors but they suffer problems due to non-availability of finance & non availability of skilled labour at affordable cost.

### Suggestion

After the detailed study of the research, we can form some of the suggestions to provide the proper and required financial help to SME clusters and Start-up enterprises:

Government of India along with the State Governments should take initiative and conduct various programs to make people aware about the various Schemes provided by the Governments to SMEs and SME cluster.

As the SMEs are a major player in the development of the economy of the country, Banks and other sources should provide the finance at cost effective manner according to the need of the various sectors of SME cluster.

As Startup scheme is a fully online facility, so government of India should provide internet facilities to all the remote areas of the Nation so that entrepreneurs get their innovation implemented through their own places.

### 3. Conclusion

The survey had fourteen questions. The report has been closed questions. Number of respondents were 38 out of 50. Overwhelmingly the responses have shown a positive attitude to the questions asked.

Although SMEs is a higher growth sector alongwith providing employment opportunities but it lacks in obtaining finance from the Government Departments, Banking Sectors, Financial institutions etc. and also financial planning, limited knowledge, lack of skill labour, Ineffective marketing Credit policy, not adoptability of new technology, continuous modernization. Startup scheme is a great initiative by our honorable prime minister for all the young entrepreneurs who have innovative ideas but lacks platform which provide them to start their business. Now under this scheme they will get Tax exemptions for three years and concessions on capital gains tax. A single point of contact for interactions with the government. Many New Innovation Center, Research Center and Institutes will be established and also in case of Exit – 90 days for a startup to close down its business and many other benefits SMEs clusters plays a vital role in total production output in selected products of India for example, the Auto Components cluster of Aurangabad. However, the majority of Indian clusters, especially in the handicrafts sector, are very small with no more than hundred workers, so specialised that no other place in the world matches their skills and the quality of their output. But only few clusters are globally competitive.

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