Approaches to Entrepreneurship Development: The Indian Experience

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Abstract

This paper attempts to discuss the approach and strategies of promoting entrepreneurship in India through training and education. It takes a broader view of entrepreneurship development and goes beyond the conventional approach of treating entrepreneurship development as a synonym for startup. The research also encompasses various interventions to promote entrepreneurship that emerge along the life cycles of firms which include pre-startup, startup, survival and growth. Additionally, this paper argues that entrepreneurship can not be promoted in isolation and needs government’s policy support to mature. Therefore, it highlights the policy framework in which entrepreneurship has germinated and grown in India.

Keywords: Fostering Entrepreneurship, New Enterprise Creation Programs, Cost Effectiveness, Marketing Support Policies, Government Strategy

Introduction

Entrepreneurs customarily write about the economic destiny of nations. They change the ways people live; they alter the path of growth and development; they trigger innovations that redraw economic contours and bring revolution. They tread untested paths and create wealth out of their creativity. Economic history is littered with examples of these courageous and outstanding persons who changed the course of history by introducing new processes of economic development and growth. They have been instrumental in bringing about radical socio-economic transformations. That is why entrepreneurship is considered as the engine of economic growth in industrialized western countries. Schumpeter (1934) argued that entrepreneurial manifestations in form of new business ventures have been instrumental in economic transformation of the Western Europe and North America. Countries the world over, have taken rapid strides in their material well-being by promoting entrepreneurship in the society.

It is precisely for these reasons that there is a renewed focus on fostering entrepreneurship. Realizing the importance of entrepreneurship in economic development, various governmental, non-governmental, educational and developmental institutions have started pursuing entrepreneurship development through training interventions. Entrepreneurship development is considered as a very effective and potent tool for wealth creation, employment generation and

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poverty alleviation in India. The GEM Model also considers ‘entrepreneurship education and training as an ‘entrepreneurial framework’ condition that affects levels of entrepreneurial attitude, aspirations and activity, which accordingly affects the level of new enterprise in the economy’ (Bosma, et al., 2008, p. 41).

Literature Review

The GEM Framework

The GEM’s conceptual model postulates that for a potential entrepreneur the business environment, as imbued in Entrepreneurial Framework Conditions (E.F.C.) – finance availability, government policies and programmes, education and training, R&D transfer, commercial, legal infrastructure, internal market openness, access to physical infrastructure, cultural and social norms – have crucial bearing on influencing a potential entrepreneur’s decision for economic activity. “These conditions determine a country’s capacity to encourage start-ups and combined with the skills and motivations of those who wish to go into business for themselves influence the entrepreneurial process. When successfully combined, these conditions would lead to offshoot businesses, which in turn will increase innovations and competition within the market place. The end result is a positive influence on national economic growth (Acs, et al., 2004, p.14). Thus EFCs influence the entrepreneurial process which in turn has a say in overall economic progress.

Insights From GEM on India

The GEM research was undertaken in India for all the years except for the years 1999, 2004 and 2009. However, most of the findings were quite similar to inter-country experience, across the rounds.

Gender orientation and age profile of entrepreneurial activities are in line with GEM findings (as stated above). Most of the start-ups were for self-employment creation. “Very few firms anticipate any growth; the average number of employees expected in five years by start-up is 1.42 and by owner-managed firms is 3.21” (Manimala, et al., 2002, p.13).

There were, however, important differences. In a marked contrast to pattern in developed countries, income and education were inversely related to entrepreneurship. Also over a brief time span, the nature of entrepreneurship (opportunity-based and necessity-based) and TEA showed dramatic shifts. TEA also does not seem to be affected or affect overall growth (lagged by a year).

However, more recent GEM Reports (2007 & 2008, India did not participate subsequently) indicate that as India is emerging as a major economy in the world, the outlook of its potential entrepreneurs is also relatively becoming very optimistic towards business. For example, the estimates of the GEM Report 2007 of perceptions about entrepreneurship among even the non-entrepreneurially active population in the age group of 18-64 years are quite positive. On potential entrepreneurship activity India scores 52% compared to 17% in China, 4% in Russia and 25% in Brazil. The high income countries are way behind. Almost similar relative position of India is seen in the cases of perceived opportunities (70%), perceived capabilities (69%) and 50% on entrepreneurial intentions (Bosma, et al., 2008, p.36).

Similarly, the GEM Report 2008 has worked out entrepreneurial attitude and perception in 43 GEM member countries, by the phase of economic development. India scores quite high on almost all the parameters. The percentage of the respondents agreeing to various indicators is: sees good opportunity for starting a business in the next six (6) months (58%); personally knows a person who has started a business in the past two years (56%); has the required knowledge and skill to start a business (45%); entrepreneurship considered as desirable career
choice (67%) and 81 per cent for media attention for entrepreneurship (Bosma et al., 2009, p.16).

These results indicate that despite the fact that India is among the low and middle income countries and classified as a factor-driven country, its economic and entrepreneurial performance have been far better than most of its peers, as reflected in the growth rate of its economy that has been hovering between 7.5% and 9.7% since 2000. Even during the global economic meltdown, India's economy performed much better than the major world economies and grew at a decent 7% or so. This is just a reflection of India’s entrepreneurial manifestation subsequent to liberalization during the early 1990s.

This also reflects India’s sustained and planned intervention in fostering entrepreneurship through training, teaching and research. A large infrastructure for promoting entrepreneurship has been created by the government, parastatal and also non-government initiatives since the early 1970s. An attempt is made in this paper to provide an overview of various approaches of entrepreneurship development in India.

The Evolution and Expansion of EDP Movement in India

The seed of entrepreneurship development training was sown with the Kakinada experiment carried out by Prof. David C. McClelland during the mid 1960s. McClelland postulated that (i) the need for high achievement (n-ach) was an essential ingredient for the emergence of entrepreneurs; and, (ii) that it could be developed. He tested hypothesis in a few training programs in Kakinada, Hyderabad, and Bombay in India and Barcelona in Spain. The results indicated that it was possible to develop even the poor, illiterate, disadvantaged, and other non-business communities into entrepreneurs and help them set up and operate their own enterprises with appropriate training and counselling interventions. However, the intervention by McClelland was confined to only achievement motivation training.

Following the success of the Kakinada experiment, a more comprehensive approach (that is still in vogue in India) was evolved by Gujarat Industrial Investment Corporation (GIIC) and other state agencies in Gujarat, in the late 60s. A 3-month training approach known as Entrepreneurship Development programme (EDP) that laid emphasis on (i) setting up a small venture; (ii) managing it; and (iii) making profits out of it, was evolved in Gujarat, during 1969-70. Though the initial programs were oriented towards business knowledge and skills, behavioral inputs (especially, Achievement Motivation Training – AMT) were also made a regular feature of the training package. The programme was meant for new and selected entrepreneurs who had latent entrepreneurial potential.

Entrepreneurship Development Programs (EDPs) which began as an experiment by Gujarat State Industrial Corporation started gaining momentum at the national level in the early seventies. About the same time, the Hyderabad-based Small Industry Extension and Training (SIET), which now has been renamed as National Institute of Micro, Small and Medium Enterprises (NIMSME), initiated EDPs in the state of Jammu and Kashmir; and Micro, Small and Medium Enterprise Development Organization (MSMEDO) started to conduct EDPs for unemployed engineers through its Micro, Small and Medium Enterprise Development Institutes (MSME-DIs). The Industrial Development Bank of India (IDBI) also evinced interest in the approach and circulated a paper on the achievements and potential of the Gujarat experience among various state governments. Subsequently IDBI encouraged Technical Consultancy Organizations (TCOs) – a creation of all Indian financial institutions – to launch EDPs in their respective states, by providing funding support. Encouraging results as well as need to spread the programme to all the districts of Gujarat led to creation of the Centres for Entrepreneurship Development (CED) in Ahmedabad in 1979. It was the first specialized institute of its kind in the country, exclusively devoted to the task of entrepreneurship development.
Encouraged and impressed by the success of CED, all India financial institutions, viz., Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI) and State Bank of India (SBI) with active support of the Government of Gujarat, sponsored a national resource organization, viz., Entrepreneurship Development Institute of India (EDI-I) in 1983. It was entrusted with the task of spreading and institutionalizing ED activities in the country. Later, the Government of India set-up the National Institute of Entrepreneurship and Small Business Development (NIESBUD) in Delhi and the Institute of Entrepreneurship (IE) at Guwahati in the North-Eastern part of the country to expand its geographical coverage. Subsequently, some of the state governments, with the support of all Indian financial institutions also took initiative in establishing state-level Institutes of Entrepreneurship Development (IEDs), like IED Lucknow, IED Bhubaneswar (Orissa), IED Patna (Bihar); Jammu & Kashmir EDI, Sri Nagar, or state centres such as Maharashtra Centre for Entrepreneurship Development, Aurangabad (Maharashtra), Madhya Pradesh Centre for Entrepreneurship Development, Bhopal, Centre for Entrepreneurship Development of Karnataka, Dharwad (Karnataka) in order to take the ED activities down to grass-roots level.

At present, close to 686 parastatal organizations and over 1000 educational institutions and NGOs are engaged in conducting entrepreneurship development programmes in the country. Most of these organizations are established, sponsored and/or financially supported (directly or indirectly) by the central/state governments, financial institutions and public sector banks.

All India financial institutions, viz. IDBI, IFCI, ICICI, besides SBI and the governments at the Centre (through its Department of Science and Technology) as well as the state level, and some commercial banks have been funding, supporting and organizing entrepreneurship development programmes especially since 1978 in a big way. Presently, close to 10,000 EDPs of various kinds are being conducted in India, covering about 250,000 potential entrepreneurs from various target groups like general, women, science and technology, educated unemployed, micro entrepreneurs, existing entrepreneurs, etc., every year.

Approaches to Fostering Entrepreneurship in India

Ordinarily, a very narrow view is taken when one talks about entrepreneurship development. It is mostly confined to start-ups or new enterprise creation. We, in India, view it as a continuum that starts with creation of awareness about entrepreneurship among children and youth so that they start at least thinking in terms of entrepreneurship as a viable and lucrative career option. Next comes the creation of new enterprises. In our view, entrepreneurship development does not stop here. It goes far beyond to address the needs of existing entrepreneurs who might have started their ‘no alternative enterprises’ that Global Entrepreneurship Monitor (GEM) defines ‘necessity-based enterprises’. Such entrepreneurs need significant support to upgrade themselves just to survive. And, even those who have gone through the survival stage might face growth crisis. Their needs also must be addressed. In effect, what I am arguing is that entrepreneurship development programme (EDP) interventions remain in vogue alongside the life cycle of firms in various forms and formats to respond to the needs at various stages. Therefore, for the purpose of this paper, entrepreneurship development is defined in a broad sense, encompassing key interventions that are needed at various phases in the life of an entrepreneur. This also implies that the approaches to entrepreneurship development will vary according to the objectives for which the programmes are undertaken.

Though there could be ‘n’ number of ways to classify the approaches, such as, on the basis of specific target groups, type of EDI institutions, region/area (like backward/developed, rural/urban) etc., for the sake of brevity, this paper follows the INTERMAN (Awasthi, 1991) classification of the programmes which is based on the stages of intervention and objectives to
be achieved therein. There could be three major stages of training intervention for promoting entrepreneurship viz. pre-start-up stage; start-up stage; and survival and growth stage. Accordingly, all the EDPs could be classified into the following three categories:
(i) Entrepreneurship Orientation and Awareness Programs
(ii) New Enterprise Creation Programs
(iii) Existing Entrepreneurs’ Program for Small Business Survival and Growth.

(i) Entrepreneurship Orientation and Awareness Programs

Entrepreneurship Orientation and Awareness Programs are organised at the first stage of inculcating entrepreneurship and are targeted to the pre-start-ups who may or may not start a business and are not actively engaged in launching their ventures. This segment consists of almost every body except the existing entrepreneurs. Their needs, by and large, are to identify a business, to understand the process of business launch, to acquire self-confidence and motivation, etc. which could help them launch their ventures in future or at least consider entrepreneurship as an alternative career path.

At this juncture, it may be mentioned that there is a very subtle difference between orientation and awareness programs. Entrepreneurship Orientation Programmes (EOPs) mostly focus on general information about entrepreneurship so that the students may start thinking in terms of taking up entrepreneurship as a career.

Entrepreneurship Awareness Programs (EAPs) normally refer to short-term courses conducted for arousing interest in entrepreneurship as a career among participants who, in most of the cases, come from outside the education system but are willing to do something which may lead them to become their own masters, rather than serving somebody else.

(ii) New Enterprise Creation (NEC) Programs

An NEC program is defined as a comprehensive training package evolved to develop competencies in trainees/participants, which would lead to self-employment of the promoter, setting up of an enterprise creating further employment. The program aims at developing knowledge, skills and attitudes, etc. in a potential entrepreneur to make him/her an actual owner-manager of an enterprise.

It is offered on a regular basis and includes an adequate planned post-training follow-up support. Single major objective of the NEC-EDPs could be stated as “creating” well-rounded entrepreneurs (preferably first generation) to take up the challenges of entrepreneurship. This implies that the foremost-expected outcome of NEC program will be that the trainees enter into their own businesses within the shortest possible period after completion of the training, or, in other words, creation of new enterprise takes the front seat, as against “awareness” or “orientation”.

The assumptions are that:
(i) there is abundant latent entrepreneurial potential in society;
(ii) there are ample economic opportunities in the environment that could be exploited easily;
(iii) people would like to improve their lot and improve their economic status;
(iv) it is possible to identify latent entrepreneurial potential among the poor;
(v) once identified, they could be groomed as competent and well-rounded entrepreneurs through a well-crafted capacity building strategy that includes developing their entrepreneurial competencies and matching them with viable and lucrative business opportunities;
(vi) anybody and every body can not be groomed as entrepreneur. It requires a certain minimum level of developable latent entrepreneurial potential; and,
(vii) there are a large number of existing (mostly forced) micro entrepreneurs who need their capabilities to be augmented, so that they could improve their business practices and make their enterprises profitable.
The Input Structure

The input structure for NEC emanates from a conceptual Focus-Need-Inputs framework as follows:

Table 1. Operational Framework for NECs

<table>
<thead>
<tr>
<th>FOCUS</th>
<th>OBJECTIVES (Need)</th>
<th>TRAINING INPUTS</th>
</tr>
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<tbody>
<tr>
<td>Entrepreneur Enterprise Establishment</td>
<td>Reinforcement of Entrepreneurial Behavior Facilitation of Decision-making Process to Set up New Venture</td>
<td>Motivational and Behavioral Inputs Business Opportunity Guidance, Information, Project Planning Inputs and Technical Inputs</td>
</tr>
<tr>
<td>Enterprise Management</td>
<td>Successful and Profitable Operation of an Enterprise</td>
<td>Managerial Inputs</td>
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In order to develop and reinforce entrepreneurial traits, facilitate the decision making, to set-up new venture, help the trainees to take appropriate steps for firming up and implementing business idea, and enable them to manage their units successfully, following a broad category of inputs are normally imparted in the NEC-EDPs, notwithstanding the variations from approach to approach.

(i) Information related inputs (procedures, rules and regulations etc. required for launching a venture).
(ii) Business opportunity guidance: to make trainees aware of opportunity structure in the environment and develop skill for opportunity search.
(iii) Formulation of a Preliminary Business Plan and Market Survey: to help the participants make a prima facie assessment of the viability of a measure of confidence in the same.
(iv) Behavioral Inputs: to develop their motivational and entrepreneurial traits such as need to achieve, risk taking, initiative etc.
(v) Business Plan Preparation: to enable the trainees to finalise their business plan for submitting it to the funding agencies for financial help.
(vi) Technical Orientation and Skill Development: to provide the trainees an opportunity to get exposed to the actual functioning of the small enterprises.
(vii) Managerial Inputs: to sensitize the participants to the complex nature of interdependencies among various management function and facilitate the development of working knowledge pertaining to certain key management functions.
(viii) Marketing Skills: to enable the trainees to adopt an appropriate approach to marketing activities.
(ix) Legal System-related Inputs: to make them aware of the rules and regulations involved in running a small industrial undertaking, e.g., factory act, labor laws, other statutory requirements, etc.

Impact and Effectiveness of NECs

The major objective of NECs is to develop capabilities of the people so that they are able to start their enterprises, however so small they could be. The other objectives, as mentioned earlier, are to diversify the base of entrepreneurial supply by promoting the first generation entrepreneurs, to develop well-rounded and competent entrepreneurs, to achieve balanced regional development, and so on. Therefore, any evaluation of the quality and effectiveness of such program has to be tested on these parameters, the start-up being the most important. Moreover, starting a business is only the beginning. It should be operated successfully too and should experience the first 1,000 days to be treated as sustainable. However, more businesses also start and operate successfully by those who have never received any training. Then, how
does one assess the contribution of entrepreneurship training? The only way to assess the impact of training will obviously will be to assess the comparative performance of a homogenous group of entrepreneurs who have undergone the training and those who have not. In my view, it will be too simplistic to assess the effectiveness of NEC program on the basis of mere perception of the trained and non-trained persons, the way it has been done in the GEM Special Report, 2008, entitled ‘A Global Perspective on Entrepreneurship Education and Training’ (Martinez et al., 2009).

We strongly believe that the trained persons must perform significantly better in terms of profitability and growth in output, investment, sales and profitability than the non-trained persons, given the homogeneity of their background. Perceptions are perceptions and will always remain indicative of and vulnerable to methodological challenges. The quality or effectiveness must be proved quantitatively.

The author, while evaluating Entrepreneurship Development Programmes (EDP) in India did evolve a methodology to objectively assess the impact on training by comparing the trained entrepreneurs with the non-trained. Both of the groups were controlled for product, location, initial investments and time of the start up. Once one is able to control these factors, the comparison becomes reasonable (Awasti and Sebastian, 1996). The results squarely proved the superiority of training. The NEC/ EDP trained persons performed far superior than the non-trained ones (see, Box 1)

<table>
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<tr>
<th>Box 1 Performance of EDP Trained v/s Non-Trained Entrepreneurs</th>
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<tr>
<td>* The EDP trained entrepreneurs got significantly higher (156%) return on equity compared to the non-trained group whose RoI was 66%;</td>
</tr>
<tr>
<td>* The capital productivity (capital to output ratio) in the target groups was significantly higher (0.69) compared to the control group (1.47);</td>
</tr>
<tr>
<td>* The annual average growth in investment in the case of trained entrepreneurs (43.54%) was significantly higher than the control group;</td>
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<tr>
<td>* The average annual growth in sales (57.84%) was significantly higher compared to the control group (35.04%); and</td>
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<tr>
<td>* Even the growth in the profits of the trained entrepreneurs was significantly higher (57.84%) than the control groups (35.04%), indicating a more efficient management of resources by the trained entrepreneurs.</td>
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</table>

Source: Based on Awasti and Sebastian. (1996). pp. 61-64

The contribution of NECs should also get reflected in the type of trainees one is able to address – whether they are from masses or from classes in terms of their background. An indication of the contribution of NEC training program in terms of addressing the commoners is evident form a national level evaluation study conducted during the last decade (Hirway and Unni, 1996). The study covered 275 trainees and 13 organizations besides a few officials of the support system like bankers, spread across the country. The key findings of the study are:

a) “...about 63% of the ventures were of the first generation entrepreneurs. It is indeed noteworthy”

b) “...about 38% of the trainees had less than Rs. 10,000 [annual] family income, and 30% of the trainees had a family income between Rs. 10,000 to Rs. 20,000. That is 68% of families had less than Rs. 20,000 annual income.”

c) “...about 18% of the trainees were illiterate while 42% of the trainees were educated up to 7th standard. About 23% were educated up to 10th, ....”
d) “About half of the ventures used only family labor…….Of the rest, about half of the ventures hired only one person and one third of the ventures hired two persons each.”
e) “The main reason for the low rates [of start-up that is around 51%] is the non-availability of the bank credit….”

Besides this, another study covering 682 trainees also indicated similar trends. The profile of the trainees showed that a little over 62 percent of trainees were below 25 years of age; about 34 percent had education up to middle level); the share of female trainees was 37.4 percent; almost 42 percent of the trainees came from farming and artisan families and about 17 percent were unemployed (Gujral & Kumar, 2005).

**Cost Effectiveness**

The key component in the cost of such development program is the training/counseling manpower. The standard cost of conducting one MEDP (part-time, non-residential, mixed group) for a group of selected 30 participants for a period of 3 months will add up to approximately US$2,500. Therefore, the training cost of per potential entrepreneur/trainee, assuming a total of 30 trainees for a three-month (part-time) program will come up to be approximately US$ 83 (in Indian conditions).

**Expanse of the Program**

Promotion of new entrepreneurs through NECs has become an integral part of the industrial development policy in India. EDI has so far conducted close to 700 NEC programs, training 17,284 potential entrepreneurs of which 9506 have set up their enterprises. Thus, the start-up rate works out to about 55 per cent.

**(iii) Existing Entrepreneurs’ Program for Small Business Survival and Growth**

The start-up, survival and growth form three stages of enterprise building. Responding to the business opportunities offered by the environment, some entrepreneurs plunge into a business without the necessary/adequate preparations. Consequently, they face 'teething troubles' during the first two or three years of launching the venture. Most of the ventures fail during this critical stage. Such entrepreneurs need to be assisted to cross the 'survival stage' successfully. The entrepreneurs, who manage to sail through the survival stage smoothly, reach a stage where the business operations get stabilised. A large number of businesses stagnate at this stage. With appropriate interventions, they could be equipped to manage planned growth of their businesses. We share two program developed by EDI, that have achieved significant success in India and other parts of the world, especially in Yemen, Sudan, Mozambique and Lao PDR. Brief profile of the two interventions is presented in what follows.

**Performance Improvement Program (PIP)**

Performance Improvement Program focuses on streamlining business processes to manage an enterprise effectively. It is an integrated 50-hour training package covering certain core and need-based inputs on functional areas of management. It aims at facilitating an understanding of the inter-dependencies of various functional areas of management, equipping entrepreneurs with decision-making skills and facilitating reinforcement of personal entrepreneurial characteristics that will contribute to superior performance leading to overall improved productivity of firms.

The program is targeted at those entrepreneurs who have been in business for a couple of years or so and who did not have the benefit of formal training in small enterprise management prior to launching their ventures. By and large, such enterprises are found to be operating at or
just above the break-even level and are yet to be stabilised. (See, Annexure II for input structure and duration of PIP). EDI has so far conducted 128 PIPs, training 5,697 SME owners. The impact of PIPs on the overall performance of MSMEs has been found to be significant in terms of improvement in their quality; productivity and profitability (see Box 2).

Box 2
Augmenting Profitability through Enterprise Upgradation Training

An evaluation study of PIPs in India indicates that the programme substantially helps trainees improve their overall entrepreneurial competencies and business practices leading to higher productivity and profitability. The study found that within two years of completion of the training, 87 per cent of the participating entrepreneurs improved their quality, 80% either expanded or diversified their businesses, 74% reported better management of working capital, 71% improved their production process and productivity each, 55% reduced wastage and cut down their costs and increased their profitability, 51% reduced their inventories significantly, 45% installed new machinery, 39% developed new products and 26% reduced energy consumption

Source: (Kota, Murali, & Tirmizi. (1993). pp18-23)

Growth Programs (GP)

Having stabilised their businesses, entrepreneurs envisage the issue of growth. The growth could also be 'accidental' - in response to certain changes in the market forces. However, to achieve sustainable growth, it is necessary to adopt a planned approach to growth as it is likely to be more sustainable than "natural" or "accidental" growth. The "Growth Programs" have been developed by EDI to help entrepreneurs pursue a planned and sustainable approach to growth.

The training-cum-counselling intervention targeted at well-established entrepreneurs is spread over the three phases. The first phase involves class-room inputs on growth strategies. This is followed by the second phase focussing on one-on-one interaction between the entrepreneur and an EDI-trained Business Counsellor to facilitate formulation of firm specific growth plans. Subsequently, in the third phase, the entrepreneurs go through a second round of class-room inputs covering soft-skills and enterprise management. The programme has been adopted from the UK’s Durham University Business School training model for facilitating enterprise growth. The Institute has so far conducted 23 Growth Programmes covering 504 entrepreneurs.

Small Industries Management Assistants’ Program (SIMAP)

Rather than spending time on day-to-day management of the enterprise, an entrepreneur on the growth path needs to reallocate his time to business strategy formulation, environment scanning, opportunity mapping and the like. To start with, this calls for delegating the routine functions. Considering the inherent problems in recruiting and retaining 'Professional Managers', the entrepreneur needs to identify and groom someone to whom he can delegate his functions. Keeping in view the time-consuming process involved in grooming an employee to assist the entrepreneur in day-to-day management, Small Industries Management Assistants Program (SIMAP) was designed by EDI to develop a second line of leadership to ease off the burden of entrepreneurs.

SIMAP is a 14-week Training Programme for young university graduates to equip them with skills to assist an entrepreneur in day-to-day management of a growing enterprise. The program, designed and pilot-tested by EDI is now implemented all over India by several ED institutions and management schools.
An independent evaluation of such programmes (Kota & Tirmizi, 1994) indicates that the dual objectives of providing trained manpower support to SMEs and, in the process, opening up employment opportunities for the educated youth have been fulfilled. The study also indicated that after hiring these professionally trained managers, 83% of entrepreneurs are able to devote more time on planning for growth; 54% are able to develop new businesses, 43% of entrepreneurs have more time for discharging their social commitments and devote more time to family; 30% have more time to deal directly with customers; and, 26% of entrepreneurs are able to devote more time on developing and motivating workers.

Gaining Entrepreneurial Competitiveness through Clusters

Both developed and developing countries have often witnessed congregated emergence of small and medium enterprises, engaged in producing some homogeneous or related products at a point in time. These spatial concentrations give rise to various kinds of economic and non-economic inter-firm linkages. Such a form of industrial organization is also known as, ‘industrial cluster’ or ‘industrial district’. Experiences of a large number of clusters in developed countries indicate that owing to inter-firm linkages in various areas of business, all the SMEs in the clusters experience economies of scale and scope leading to efficiency and international competitiveness.

Clusters are defined as sectoral and geographical concentration of micro, small & medium enterprises with interconnected production system leading to firm/unit level specialization and developing local suppliers of material inputs and human resources. Availability of local market/intermediaries for the creation of the cluster is also a general characteristic of a cluster.

The Ministry of Micro, Small and Medium Enterprises, Government of India, has laid special emphasis on development of clusters. In August 2003, the Small Industry Cluster Development Programme (SICDP) was launched by the Ministry to give special attention to cluster development. It was made broad-based by adopting holistic pattern of development of the cluster encompassing marketing, exports, skill development, setting up of common facility centre, etc., including technology upgradation of the enterprises.

After widening the scope of the scheme, there was a sudden jump in the performance of scheme during 2003-04. For a systematic implementation of the plan, a cadre of Cluster Development Executives (CDEs) has been trained and developed at Entrepreneurship Development Institute of India through imparting a specialized training in the methodology of cluster development programme. EDI has so far trained about 600 CDEs. Close to 500 clusters are currently being developed by various organizations and ministries across the country.

The Government Strategy for Promoting Entrepreneurship in India

Following the guidelines provided in the Industrial Policy Resolution 1956, planners increasingly laid emphasis on promotion of small industries. Since 1956, the government has strived to promote this sector through various promotional policies consisting of various incentives such as provision of concessional finance, infrastructural facilities, creation of support institutions and technical and managerial guidance and protective measures such as reserving 675 products exclusively for the Micro, Small and Medium Enterprises (MSME). The government makes its purchases from the MSME on the price preferential terms to provide the sector with marketing support, besides purchasing 358 items exclusively from small-scale industries. The government has created a wide network of institutions that supports emergence and growth of micro and small enterprises in the country. As a result, small enterprise sector in India has attained very impressive growth. About 50 years ago, it comprised 0.42 million enterprises, Rs. 72 billion worth output, employed 3.97 million people and exported Rs. 3.9 billion worth goods and services. Corresponding figures for the year
2008-09 were 28.5 million enterprises; Rs. 8808.05 billion worth production; 65.93 million workers and about Rs. 2216.97 billion worth exports. During the last five years beginning 2003, the MSMEs have been consistently growing at a rate of over 11.5 per cent per annum, in terms of output (GoI, 2010, Table 2.1, pp. 13-14).

**Government Policy Initiatives**

(i) Fiscal Incentives

Government policies have aimed at stimulating the development of all the segments of small enterprises and enable them to withstand competition-oriented large-scale domestic and international corporations. The government offers the following incentives to small enterprises:

a) Tax Incentives/Concessions: Government allows 20 per cent deduction from profits/gains for 10 years under Income Tax Act to the factories set up in backward and rural areas.

b) Incentive for Exports: 5-year tax holiday is allowed to the units set up in free trade zones and software technology parks; to 100 per cent export-oriented units from income tax and duty drawback facility for the total imported articles, components and raw materials, etc. whenever it is exported.

c) Transport Subsidy: 75-90 per cent transport subsidy is available to the hilly regions of the country to mitigate the locational disadvantages that they suffer from.

d) Credit Linked Capital Subsidy Scheme for Technology Upgradation: Under the scheme, 12 per cent back-ended subsidy is admissible to Small Enterprises on the loans advanced by commercial banks for technology upgradation.

(ii) Protection Policy

To strengthen the Small Enterprises and protect them from entering into competition with large industries, a policy of reservation of products for exclusivity in the MSME sector was initiated in 1967 with 47 items. Currently, the list stands at 675 products that are reserved for small-scale industry sector. Similarly, under the Government Store Purchase Program, the Government purchases items of its requirements from small industries. The scheme is operated in two ways. First, the government has reserved 358 items to be purchased exclusively from small-scale units; and, second, the government gives 15 per cent price preference to small industries against the quotations from large industries while procuring the items, which are not reserved, for small-scale units.

(iii) Infrastructural Facilities

Industrial Estates: Realizing that small entrepreneurs may not be able to create the necessary infrastructures, the Government initiated the Industrial Estate program in 1955. Under the program, the Government provides infrastructural facilities such as electricity, water, roads, communication, plots and sheds, banks, canteens, watch and ward, etc. to entrepreneurs. They could either buy the plots/sheds or go for leasing. More than 800 industrial estates are operating in the country.

Export Processing Zones: The Government has set up 8 export processing zones that are designated to produce for exporting. The units operating in these EPZs are given several incentives such as relaxation in labor laws, foreign direct investment, taxation laws, etc. All the infrastructural facilities are made available to entrepreneurs in the EPZs.

Industrial Parks: The new focus on export markets and cluster development has led the government to set up product specific Industrial Parks or Technology Parks, such as Electronic Hardware Technology Parks set up in 1986 or more recently, setting up of a number of
Software Technology Parks. In such parks, product/sector specific infrastructure is provided to the units.

Integrated Infrastructure Development Centers (IIDCs): It aims at upgrading and augmenting infrastructure facilities in rural and backward areas with an emphasis on linkages between agriculture and industry. Overall, 50 such, centers are to be created. Each Center is envisaged to host 450-500 units. At least 50 per cent of the plots will be allotted to small enterprises in IIDCs.

(iv) Technology Upgradation and Modernization Policies

Besides development of clusters, the Government has launched a scheme for technology upgradation and management program called UPTECH. The program addresses the modernization and technological needs of the clusters of small industries. Besides, Small Industries Bank of India set up the Technology Bureau for Small Enterprises in 1995, to help MSME attain international competitiveness through transfer of latest available technologies. The Department of Science and Technology, Government of India, is also actively promoting technology-based enterprises and making technologies available to MSME on favourable terms. The government has also started a scheme under which the Small Industry Associations are given a one-time grant of Rs. 5 million or 50 per cent of the cost for setting up testing facilities.

(v) Marketing Support Policies

Marketing is one of the major problems that small entrepreneurs face. The Government has come up with several strategies to address this issue. For example, the National Small Industries Corporation (NSIC) set up by the Government registers small industries under a single point registration scheme and helps secure orders for the supply of various items on preferential terms from the government departments.

Sub-Contracting Exchanges: There are 28 sub-contracting exchanges that operate through Small Industries Service Institutes. These exchanges enlist Small Enterprises and identify items for ancillarization from various public sector undertakings as well as large-scale industries.

Quality Certification: The Bureau of Indian Standards has been developing standards for various products and registers Small Enterprises for adopting those quality standards. SIDO has also set up 4 Regional Testing Centres that provide testing facilities to Small Enterprises. The Government also encourages MSME units to acquire ISO 9000 Series quality certification for which it offers 75 per cent of the cost (subject to a maximum of Rs. 75,000) of certification.

Marketing Development Assistance: The Ministry of Commerce, Government of India, reimburses 60 per cent of the expenditures incurred by MSME delegations visiting foreign countries for 4 business promotion.

(v) Rajiv Gandhi Udyami Mitra Yojana (RGUMY)

The objective of Rajiv Gandhi Udyami Mitra Yojana i.e. Rajiv Gandhi Friends of Entrepreneurs Scheme (RGUMY) is to provide handholding support and assistance to the potential first generation entrepreneurs, through the selected lead agencies i.e. ‘Friends of Entrepreneurs’, in the establishment and management of a new enterprise, completion of various formalities required for setting up and running of the enterprise and in dealing with various procedural and legal hurdles. Under this Scheme, these provide guidance and assistance to the potential entrepreneurs registered with them, in preparation of a project report, arranging finance, selection of technology, marketing tie-ups with buyers, installation
of plant and machinery as well as obtaining various approvals, clearances and No Objection Certificate, etc.

(vi) Performance and Credit Rating Scheme

This Scheme was launched in the year 2005. Under the Scheme, seven renowned, accredited rating agencies have been empanelled to carry out the rating. MSMEs are free to choose any one of them as per their convenience. The rating under the scheme serves as a trusted third party opinion on the capabilities and creditworthiness of the micro and small enterprises. An independent rating by an accredited rating agency has a good acceptance from the Banks/Financial Institutions, Customers/Buyers and Vendors. Under this scheme, rating fee payable by the micro and small enterprises is subsidized for the first year only subject to a maximum of 75% of the Fee or Rs. 40,000, whichever is lower.

(vii) Provision of Credit

Flow of Credit to Small Enterprises: In order to ensure that timely and adequate credit is available to small enterprises, the Reserve Bank of India has issued instructions to commercial banks that out of the funds normally available to MSME sector, 40 per cent be given to units with an investment of up to Rs. 0.5 million in plants and machinery; 20 per cent to the units with investment between Rs. 0.5 million and 2.5 million and the balance could be given to other small units.

National Equity Fund: Most of the young, first generation entrepreneurs find it difficult to raise promoter’s equity required by banks and financial institutions, on their own. Therefore, to meet the gap in the prescribed minimum promoters’ contribution and/or in equity, the Government has launched a National Equity Scheme under which soft loans at 5 per cent service charges are made available to the extent of 25 per cent of the project cost subject to a maximum of Rs. one million.

Micro Credit to Micro Enterprises: Realizing that poor and micro entrepreneurs have no access to credit, the Government has been promoting micro credit schemes through self-help groups (SHGs). Small Industries Development Bank of India (SIDBI) set up SIDBI Foundation for Micro Credit in 1999, with an initial corpus of Rs. one billion. It provides loans to NGOs and other micro finance institutions lending to SHGs.

Dedicated Venture Capital Fund for Small Industries: SIDBI set up Venture Capital Fund of Rs. 100 million in 1992-93 to cater to the needs of innovative MSME ventures in software/IT industry. The corpus of the Fund had been increased to Rs. 1 billion by March 1999. By now, there are 12 government sponsored venture capital funds in different states.

Institutional Network for Supporting Entrepreneurship

In order to implement its policies and meet various requirements of the entrepreneurs like finance, technology, infrastructure, etc. the Government has evolved a network of institutions at central, state and local levels. According to the requirement of specific functional areas, the institutions created at each of the said levels for industrial promotion have been discussed below:

(i) Policy Related

The Government of India has created the Office of the Development Commissioner (Micro, Small and Medium Enterprises) – DC (MSME), as an apex body for formulating, co-coordinating and monitoring the policies and program for promotion and development of small-scale industries. The Office of the DC (MSME) provides a comprehensive range of facilities and services including consultancy in techno-economic and managerial aspects,
training, common facility services, testing facilities and marketing assistance, etc., to small scale units. It provides services through a network of 30 Micro, Small and Medium Enterprises Development Institutes (MSME-DI) at the State level, and 31 branches at the regional level. The state governments, in order to formulate their policies, have created Directorate of Industries. At the district level, the state governments have set up District Industries Centres (DICs) to implement the policies at the district level. Besides co-coordinating and monitoring the efforts of industrial development in districts, the DICs also facilitate small entrepreneurs through consultancy, counselling, guidance and training support.

(ii) Infrastructure Related

At the state level, Industrial Development Corporations are responsible for creation of infrastructure in terms of setting up industrial estate. They also offer assistance to small-scale industries in respect of term loans, subscription to equity and promotional services.

(iii) Machinery and Raw Materials & Marketing Related

National Small Industries Corporation (NSIC) has been created at the national level which supplies the appropriate technology and/or machinery and equipment required by entrepreneurs on a hire-purchase basis. It also helps in marketing the products manufactured by the MSME units. At the state level, this function is performed by the State Small Industries Corporations (SICs). At the grassroots level, the DICs also partly undertake the task of providing marketing and technical assistance to the small entrepreneurs. Supply of scarce raw materials is also regulated by the DICs at the district level. Another major institution created for meeting the various needs of rural industries is Khadi and Village Industries Commission.

(iv) Export Related

For exports, the Government has set up Export Promotion Councils (EPCs). Small Enterprises can access export-related services from the Council. Some of the Councils obtain bulk purchase orders from foreign buyers and distribute these among member units for supply to the Council for onward supply. Several of them are product specificity such as Apparel Export Promotion Council, Chemicals and Allied Products Promotion Council, etc.

(v) Technical and Management Related

In order to provide technical and managerial support to small industries, the national development banks, in collaboration with the various state governments, have established Technical Consultancy Organisations (TCOs) in almost each major state in India. The TCOs help small and medium scale entrepreneurs by extending technical consultancy services for market survey, feasibility studies, business plan preparation, etc. They also conduct training programmes for developing managerial and entrepreneurial competencies in the existing and potential entrepreneurs. At the grassroots level, DICs perform these functions.

(vi) Financial Related

Small Industries Development Bank of India (SIDBI): SIDBI is an apex bank that has, since 2 April 1990, provided direct/indirect financial assistance under different schemes to meet the credit needs of the MSME sector and to coordinate the functions of other institutions in similar activities.

National Bank for Agriculture and Rural Development (NABARD): NABARD provides short-term refinance for various types of production/marketing/procurement activities and
sanctions credit limits to scheduled commercial banks. It is an apex bank catering to the credit
requirements not only of the farm sector but also of the non-farm sector in rural areas.

Other Commercial Banks: Apart from offering loans, commercial banks contribute to the
process of entrepreneurship development in more than one way as follows:
a) Some of them conduct NEC programs on their own or finance such programmes conducted
by other institutions.
b) Most banks have set up ‘entrepreneurship guidance cell’ or other such mechanisms for
facilitating potential entrepreneurs
c) A few banks have set up their own institutions to promote entrepreneurship in rural areas,
popularly known as Rural Development and Self-Employment Training Institute
(RUDSETI)

(vi) Other Government Ministries and Departments Supporting Entrepreneurship Development

There are a variety of state-sponsored institutions and autonomous ones that support
promotion of MSME sector, Ministry of Micro, Small and Medium Enterprises (MoMSME)
being the driving force. The key ones are:
a) Ministry of Food Processing Industries (MoFPI)
b) National Manufacturing Competitiveness Council (NMCC)
c) National Science and Technology Entrepreneurship Development Board (NSTEDB) of the
Department of Science and Technology (DST)

(vii) Private Sector Agencies Engaged in Entrepreneurship Development

While the State-sponsored institutions are actively engaged in promoting MSME sector, a
few private sector organisations, particularly business associations and chambers of commerce
and organisations promoting women entrepreneurship, are also quite active in India. The
prominent entities among them are:
a) Confederation of Indian Industries (CII)
b) Federation of Indian Chambers of Commerce and Industry (FICCI)
c) Federation of Association of Small Industries of India (FASII)
d) Federation of Indian Micro and Small and Medium Enterprises (FISME)
e) Associated Chamber of Commerce and Industry (ASSOCHAM)
f) All India Manufacturers’ Organization (ALMO)
g) World Association for Small and Medium Enterprises (WASME)
h) Asian Centre for Entrepreneurial Initiatives (ACENT)
i) Association of Women Entrepreneurs of Karnataka (AWAKE)
j) Consortium of Women Entrepreneurs of India (CWEI)
k) Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP)

Conclusion

Entrepreneurship education in India is rather in a nascent stage. Entrepreneurship
Development Institute (EDI) is the only Institute in the country that has a full 2-year Post
Graduate Programme in Entrepreneurship which started in 1998. Additionally, realizing that
most of the students of vocational education stream find it difficult to get a job in industry,
EDI developed a comprehensive curriculum and the textbooks for the 11th and 12th standards in
the years 2004 and 2005 respectively. The entrepreneurship course has been made an integral
part of vocational education in Gujarat. It also offers a Diploma in Entrepreneurship through
distance learning mode known as Open Learning Programme in Entrepreneurship (OLPE).
Currently, it has close to 2000 registered learners. EDI is in the process of converting this programme into an on-line distance education programme. The diploma is recognised by the Government of India.

EDI, with the support of the National Science and Technology Entrepreneurship Development Board (NSTEDB) of the Department of Science and Technology (DST), has also been active in promoting entrepreneurship in education sector. The NSTEDB has been supporting engineering colleges and universities in setting up Innovation and Entrepreneurship Development Centers (IEDCs), Science and Technology Entrepreneurship Parks (STEPs) and Technology Business Incubators (TBIs). EDI with its network organisations has been conducting a series of Faculty Development Programmes (FDPs) for university and college teachers to train them in ‘How to teach Entrepreneurship’. So far, EDI and its network have trained close to 2000 teachers with the support of NSTEDB. The Ministry of MSME, Government of India, has also a scheme of setting up Entrepreneurship and Business Development Centers in universities, but this scheme has yet to pick up. While only about 100 EDCs are operational in the country, informal entrepreneurship education is being imparted to about 1500 colleges and universities across the country.

In India, STEPs and TBIs are primarily sponsored by the Government of India through NSTEDB, the Ministry of Micro, Small and Medium Enterprises and the Ministry of Food Processing. However, NSTEDB is the major player in the field and has so far set up 48 incubators in various engineering colleges, research institutes and centres of excellence. It provides a non-physical infrastructure grant of up to US$ 1.25 million to an organisation to set up R&D facilities, meet operational costs and academic interaction and visits, business plan competition, extension lectures, etc. The Business Incubation, though started late in India, has been growing very fast. It is too early to evaluate the success of incubators as the effort is in a nascent stage. However, based on information informally known, close to 350 tenants have moved into the incubators and about 50 companies have successfully been incubated so far.

References


## Annex I

**Role of Government, Semi-Government, Private and Non-Government Sector In Fostering Entrepreneurship**

<table>
<thead>
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<th>Sr. No.</th>
<th>The Needs</th>
<th>Central Governments</th>
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<th>Semi Govt.</th>
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<th>NGOs</th>
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<td>2.</td>
<td>Technology/Quality</td>
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<td>Setting up of TCOs, Technology Parks;</td>
<td>Incubators run by Educational Institutions like IITs, IIMs.</td>
<td>Pvt. and Cooperative Industrial Estates; Private Incubators</td>
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<td>3.</td>
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<td>5.</td>
<td>Entrepreneurial Training and HRD</td>
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<td>6.</td>
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<td>Capital Subsidy; Excise Rebates and Tax Holidays; Preferential Purchase Policy; Cluster Development</td>
<td>Capital Subsidy; State Sales Tax Concession Benefits; State Excise Concessions; Cluster Development</td>
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<td>7.</td>
<td>Policy Support/Protection</td>
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