

MSMEs as Catalysts for Self-Reliance, Employment Generation, and Inclusive Growth in Bihar: Challenges and Policy Perspectives

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Abstract

This paper examines the potential for building self-reliance among Micro, Small, and Medium Enterprises (MSMEs) in Bihar, drawing on the national vision of Atmanirbhar Bharat. Grounded in five interconnected pillars Economy, Infrastructure, System, Demography, and Demand this framework seeks to address diverse sectors and communities across the country.

The COVID-19 pandemic precipitated a large scale return of migrant workers to Bihar, placing considerable pressure on the state's economic and administrative systems. In response, the Bihar government has undertaken skill mapping of returning migrants and is formulating district level employment plans to channel these workers into productive MSME-based livelihoods. Simultaneously, the state is leveraging its Industrial Investment Promotion Policy to attract investment and enterprise.

At the national level, centrally sponsored programmes such as the Production Linked Incentive (PLI) scheme and the Startup India Seed Fund Scheme have emerged as critical instruments for MSME empowerment. The paper also presents empirical data on Bihar's MSME growth trajectory, employment trends, and investment patterns, drawing on Udyam Portal registrations and BIADA records.

Keywords: Biada, Udyam, Start-up, Atmanirbhar, Covid-19, MSME

Introduction

The philosophy of self-reliance or Atmanirbhar Bharat rests on five foundational pillars: Economy, Infrastructure, System, Demography, and Demand. Together, these pillars provide a panoramic framework for addressing the aspirations of India's diverse sectors and social groups. The intellectual roots of this vision can be traced to the late nineteenth century, when economists and social thinkers such as R. C. Dutt, Dadabhai Naoroji, and M. G. Ranade began drawing attention to the exploitative character of colonial economic arrangements, thereby laying the conceptual groundwork for what would later be called 'economic swadeshi.'

The Swadeshi movement in Bengal, galvanised by the announcement of the Partition of Bengal in 1905, marked a decisive moment in this intellectual and entrepreneurial awakening. The Tagore family, Satish Chandra Mukherjee's Dawn Society, and numerous civic organisations channelled nationalist energy into practical initiatives: Swadeshi melas, indigenous goods shops, and the rehabilitation of traditional crafts. Financial institutions such as the Bengal National Bank were founded, and a wave of insurance ventures took shape in Calcutta. The movement spread beyond Bengal in Bombay, chemist Tribhuvandas Kalyandas Gajjar and businessman B. D. Amin co-founded Alembic, Western India's first chemical company (1907), while in Madras, nationalist leader V. O. Chidambaram Pillai launched his Swadeshi Steam Navigation Company from Tuticorin (1906) to contest colonial monopolies in maritime trade.

Mahatma Gandhi extended and deepened this tradition through his vision of village-level self-sufficiency. For Gandhi, true national independence was inseparable from local economic independence. Villages, he argued, should be capable of providing for their own needs in food, clothing, and shelter, and should revive their artisanal and craft traditions. He was not opposed to industry per se, but to industrialism as a system that subordinates human welfare to the imperatives of profit and mechanised production. His principles self-discipline, participatory governance, local economic development, revival of crafts, and restrained consumption remain pertinent today as societies wrestle with the twin challenges of ecological crisis and economic inequality.

Gandhi's vision of self-sufficient village communities encompassed the following principles:

- Self-control and moral development
- Participatory governance
- Local economic development
- Revival of traditional crafts and industries
- Limited consumption
- Rejection of machine-driven industrialism

These principles, updated for contemporary conditions, continue to animate India's MSME policy, particularly in less industrialised states such as Bihar.

Objectives of the Study

1. To examine the role of MSMEs in promoting self-reliance and economic development in Bihar.
2. To analyse the contribution of MSMEs towards employment generation and livelihood creation in the state.
3. To assess the role of MSMEs in utilising the skills of returning migrant workers after the COVID-19 pandemic.

Literature Review

The concept of self-reliance in India has deep historical roots, from the Swadeshi movement to Mahatma Gandhi's vision of village-centric economic independence (Kumar & Sahay, 2020). This vision has been rearticulated through the Atmanirbhar Bharat Abhiyan, resting on five pillars: Economy, Infrastructure, System, Demography, and Demand. Scholars emphasize the centrality of MSMEs in achieving these goals. Joshi, Panigrahi, and Pitke (2020) argue that systematic strengthening of MSMEs in access to finance, skilled workforce, and market competitiveness is essential. Lamba and Jain (2021) note that MSMEs contribute approximately 45% of India's exports and 40% of the workforce, with revised definitions and a Rs. 50,000 crore Fund of Funds being significant policy steps.

Empirical studies confirm MSMEs' employment potential. Bekele and Worku (2008) found that small enterprises reduce poverty, though long-term survival depends on social capital. Yadav (2012) highlighted credit constraints as a major impediment. Roopa and Chaya (2023), through regression analysis on the automotive MSME sector, reported that production-linked incentives (PLI) explain 73.6% of investment decisions and that sectoral growth influences employment creation by 63.9%. Their multiple response analysis identified lack of innovation (89.6%) and technical changes (89.6%) as critical barriers.

The COVID-19 pandemic and reverse migration added new dimensions. Kumar (2020) documented that Bihar received over 1.5 million returning migrant workers, prompting the state government to map skill sets and develop district-level employment plans. Trivedi (2021) discussed PLI as a revival tool, while the Startup India Seed Fund Scheme supports early-stage enterprises. Ranjan (2020) highlighted NABVENTURES and SIDBI funds in bridging the rural-urban startup divide. The Kurukshetra journal (Nov 2020) reported that SVEP established over 1.01 lakh enterprises (75% women-owned) and RSETIs trained over 35 lakh candidates.

In Bihar's context, four high priority sectors food processing, leather, textiles, and IT/ITES offer significant employment potential (Krishnamurthy & Jain, 2020). Lower overhead costs and UDAN scheme airports are enabling factors. However, challenges remain: infrastructure deficits, limited technology adoption, and fragmented market linkages constrain MSME growth in less industrialised states (Panda, 2018; Mishra, 2015). This study builds upon these findings by examining how Bihar's MSMEs can harness returning migrants' skills, generate employment, and contribute to the Atmanirbhar Bharat mission.

Bihar's MSME Strategy for Employment Generation

The nation-wide lockdown imposed in response to the COVID-19 pandemic caused the displacement of hundreds of thousands of migrant workers, many of whom returned to Bihar. Official data indicate that the state received over 1.5 million returnees through quarantine centres, with further arrivals anticipated as transport links were restored. The

return of this workforce, while straining government capacity, also created a unique opportunity: a large pool of skilled workers, many with experience in manufacturing, construction, and services, was suddenly available within the state.

The Bihar government has responded through a two pronged approach. First, it has undertaken systematic skill-mapping of all incoming migrants to establish a clear picture of available human capital and match it against the demands of local industries. Second, it is preparing comprehensive district-level employment plans that incorporate both wage employment and self employment pathways, drawing on mechanisms such as the State Rural Livelihood Mission and allied development programmes. To attract private investment, the state is offering concessions and incentives under its updated Industrial Investment Promotion Policy.

As part of the 2016 policy to develop local and sustained industries, the state of Bihar identified four high priority sectors with potential for significant gainful employment:

- Food Processing
- Leather
- Textile
- Information Technology, Information Technology Enabled Services, and Electronics System Design and Manufacturing

Beyond policy design, the government is facilitating access to seed capital for returning workers through schemes such as Pradhan Mantri Mudra Yojana, and is working to improve transportation and logistics connectivity so that entrepreneurs can link their products to urban consumer markets. Infrastructure initiatives include the operationalisation of airports at Darbhanga and Purnea under the UDAN regional connectivity scheme, which is expected to open up new market and supply chain possibilities for businesses in northern Bihar.

A further structural advantage for Bihar is its relatively low cost of living and overhead costs compared to larger industrial states. This cost differential can help offset the initial capital burden for new entrepreneurs, making the state an attractive destination for industries looking to expand or relocate.

MSMEs as the New Engine of Growth and Employment in Bihar

The MSME sector occupies a central place in Bihar's socio economic development. Each enterprise, regardless of its scale, contributes not only to its own sustainability but also generates employment for others, thereby extending economic opportunity across communities. According to the Annual Report of the Ministry of MSME for 2020-21, Bihar ranked sixth nationally in terms of the number of MSME units, with 34.46 lakh enterprises accounting for approximately five per cent of India's total MSME base of 6.33 crore units.

To realise the full employment potential of the manufacturing sector in Bihar, the National Manufacturing Policy (NMP) highlights several priority areas. Specifically, these include:

1. Promoting labour-intensive industries to maximise job creation for Bihar's workforce.
2. Upgrading educational and training institutions through the establishment of innovation laboratories and vocationally relevant programmes.
3. Raising labour productivity in manufacturing through the adoption of best practices and efficient production methods.
4. Ensuring timely and adequate credit flow to support enterprise growth and expansion.
5. Improving market access for Bihar's manufactured goods in both domestic and international markets.

Several flagship programmes have been actively deployed in Bihar to operationalise these objectives. The Prime Minister's Employment Generation Programme (PMEGP) supports new ventures through margin money grants. The Pradhan Mantri MUDRA Yojana (PMMY) provides refinance to micro finance institutions for lending to micro enterprises. The Scheme of Fund for Regeneration of Traditional Industries (SFURTI) organises artisans into clusters to improve their competitiveness. Additionally, Khadi and Village Industries (KVI) and Coir Industries, administered through the Khadi and Village Industries Commission (KVIC) and Coir Board respectively, are significant sources of employment and enterprise development in the state.

Table 1: Central Schemes Facilitating Self-Employment and Entrepreneurship

Name of Scheme	Eligibility	Nature of Assistance
Deen Dayal Antyodaya Yojana (DAY-NRLM) — including Aajeevika Grameen Express Yojana and Startup Village Entrepreneurship Programme	Rural BPL families; 50% SC/ST beneficiaries; 15% minorities; 3% PwDs; women-headed households; trafficking survivors; single women	NRLM supports public sector banks in establishing RSETIs to train unemployed rural youth for self-employment through hands-on learning and mentoring. At least one member from each identified poor household, preferably a woman, is enrolled in SHG networks.
Pradhan Mantri Mudra Yojana	Refinance to micro-finance units, CBs, RRBs, NBFCs, etc.	Bank loans from Rs. 50,000 to Rs. 10 lakh
Standup India	Greenfield enterprises of women, SC/ST entrepreneurs	Bank loans from Rs. 10 lakh to Rs. 1 crore
PMEGP	Individuals aged 18+, cooperative societies, SHGs, trusts. Loans only for new projects not previously subsidised by government.	Rs. 25 lakhs for manufacturing units; Rs. 10 lakhs for service units. EDP training compulsory (10 working days for projects above Rs. 5 lakhs; 6 days for projects up to Rs. 5 lakhs). Projects up to Rs. 10 lakhs free from collateral security.
ASPIRE	Setting up business incubators for youth to develop entrepreneurial skills and establish their own enterprises	Livelihood Business Incubators: 100% grant of plant & machinery cost (up to Rs. 100 lakh); PPP mode: 50% grant or Rs. 50 lakh, whichever is less. Technology Business Incubators: 50% of plant & machinery cost or Rs. 30 lakh, whichever is less.
SFURTI	To organise traditional industries and artisans into clusters for competitiveness and long-term sustainability	Heritage cluster (1,000–2,500 artisans): Rs. 8 crore; Major cluster (500–1,000 artisans): Rs. 3 crore; Mini cluster (up to 500 artisans): Rs. 1.5 crore
Coir Udyami Yojana (SFURTI for Coir Industry)	Same as SFURTI	Maximum admissible project cost: Rs. 10 lakhs plus working capital, not exceeding 25% of project cost.

Source: Ministry of MSME, Government of India

These schemes collectively reinforce both employment creation and the development of a self-sustaining enterprise economy in Bihar. By enabling individuals from disadvantaged backgrounds to set up and operate their own ventures, they contribute to broadening the economic base and reducing dependence on outmigration as a livelihood strategy.

Reviving MSMEs in India: National Policy Landscape

The MSME sector is a cornerstone of the Indian economy. It contributes 31 per cent of the country's GDP, of which 6.1 per cent originates from the manufacturing sub-sector, with the remainder coming from trade and services. MSMEs account for roughly 35 per cent of total manufacturing output and drive around 48 per cent of India's exports. There are approximately 33,000 registered MSME exporters operating across the country.

In aggregate, India has approximately 6.34 crore MSME units, which together employ a workforce of 11.75 crore persons constituting roughly 40 per cent of the national workforce. Despite their scale and reach, only about 14 per cent of MSMEs have access to formal finance, and non-performing assets (NPAs) in the sector range from 8 to 11 per cent, indicating persistent structural vulnerabilities.

Two central schemes have been particularly significant in reviving the MSME sector:

Production-Linked Incentive (PLI) Scheme

The PLI scheme was designed to build India's domestic manufacturing capacity, create employment for the country's youth, and attract both domestic and foreign investment. By incentivising incremental production over a base year, the scheme rewards scale and efficiency. The anticipated minimum additional output attributable to PLI initiatives is projected to exceed USD 500 billion within five years of implementation.

In the Union Budget 2021-22, the Finance Minister earmarked Rs. 1.97 lakh crore for PLI schemes across 13 key industries. The initial cohort covering electronic and technology products, pharmaceutical drugs, and telecom and networking products was approved in March 2020. Seven further schemes were subsequently introduced, encompassing food processing, speciality steel, automobiles and auto components, solar photovoltaic modules, white goods (including air conditioners and LEDs), advanced chemistry cell batteries, and technical textiles including the man-made fibre (MMF) segment.

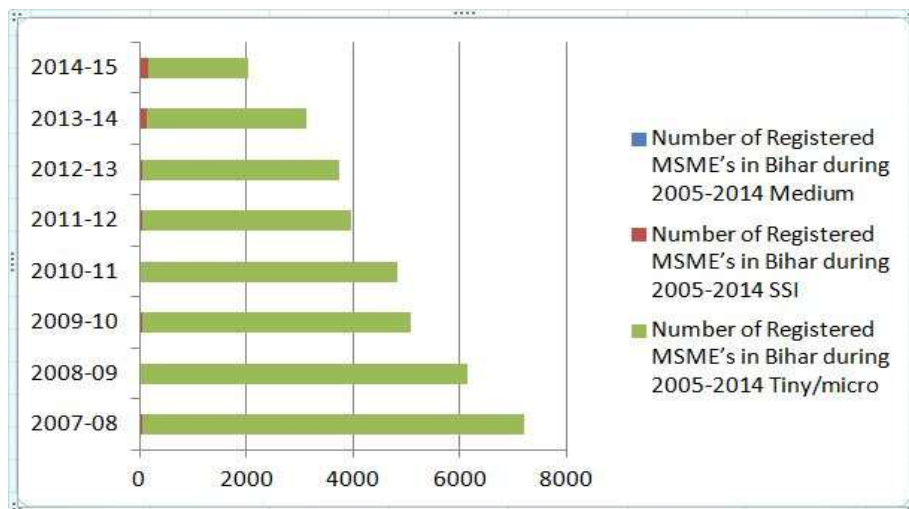
Startup India Seed Fund Scheme

The Startup India Seed Fund Scheme plays a crucial role in supporting companies at various stages of development, including proof of concept, prototype development, product testing, market entry, and commercialization. Approved incubators across India serve as the channels for distributing the Seed Fund. Grants, totaling up to Rs 20 lakhs, are allocated to facilitate the validation of Proof of Concept, prototype development, or product testing. Moreover, there is an opportunity for investment of up to Rs 50 lakhs for activities like market entry, commercialization, or scaling up, which can take the form of convertible debentures, loans, or debt-linked securities.

MSMEs are given the opportunity to enhance their skills through the Skill India program, offering practical training across a spectrum of essential skills. The commitment of Central Ministries/Departments/PSUs to meet annual procurement targets from the MSME sector ensures that at least 25% of their total annual purchases are from MSME-produced or -rendered products or services. In the fiscal year 2020-21, the Government of India procured products valued at around Rs 1.25 lakh crores, with approximately Rs 40,000 crores originating from the MSE sector.

Under the International Cooperation scheme, MSME units receive 100% reimbursement of space rent, capped at Rs 3 lakhs. Furthermore, businesses, including MSMEs, have access to collateral free loans as part of the Atmanirbhar Bharat Abhiyaan.

Growth Trajectory and Economic Impact of MSMEs in Bihar



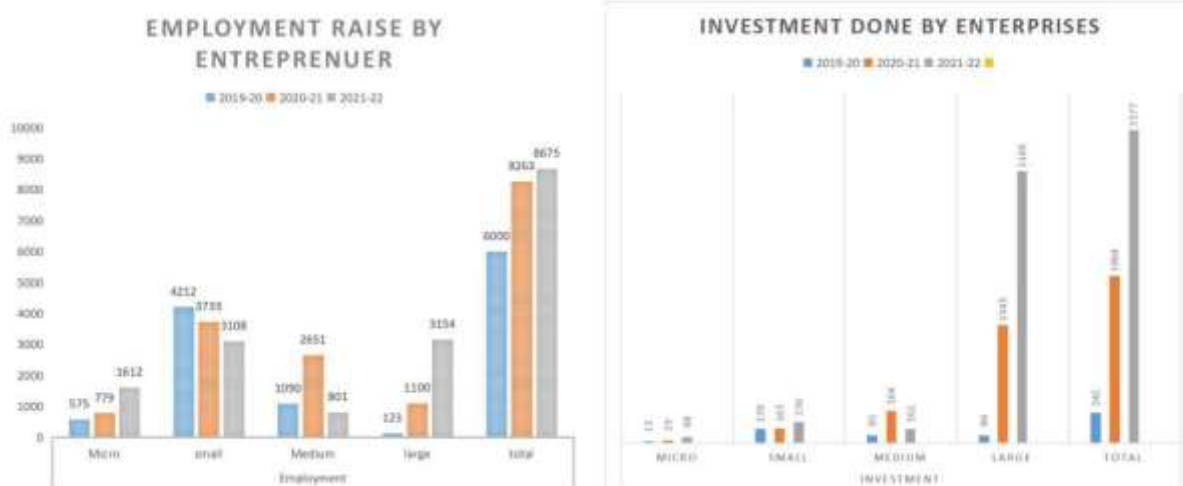
Source- Bar Chart of registered MSME, Economic Survey of Bihar from (2007-2015) data, Finance Department, Government of Bihar, Patna

It depicts the trend in the registration of MSME units in Bihar between 2007-08 and 2014-15. The data indicate that the number of registered MSMEs was highest during 2007-08, with nearly 7,000 units registered, primarily in the micro and tiny enterprise category. Thereafter, a gradual decline in registrations can be observed over the period. By 2014-15, the number of newly registered MSME units had fallen considerably.

The dominance of micro and tiny enterprises throughout the period highlights the entrepreneurial structure of Bihar, where small-scale businesses constitute the backbone of industrial activity. Despite fluctuations in registrations, the continued presence of a large number of micro enterprises demonstrates the sector's importance in promoting local employment, self-employment, and regional economic development. The trend also suggests the need for improved access to finance, infrastructure, technology, and market linkages to sustain MSME growth in the state.

State-wise Employment in MSMEs Registered on Udyam Portal (Last 5 Years)

Detail of investment and employment by type of enterprises in last three years by BIADA are shown below as-



Source: Bar Chart of Trends of Employment and Investment raised by enterprises (BIADA)

survey of Bihar (2019-22), Government of Bihar, Patna

It illustrates the number of persons employed in MSMEs registered on the Udyam Portal in Bihar during the period 2017-18 to 2021-22. Employment generation increased significantly from 183,887 persons in 2017-18 to 567,241 persons in 2021-22. This represents an increase of approximately 383,354 jobs over five years.

The substantial rise in employment reflects the growing contribution of MSMEs to Bihar's economy and highlights the effectiveness of various policy initiatives undertaken by the Central and State Governments. Schemes such as the Pradhan Mantri Mudra Yojana (PMMY), Startup India, Skill India, and Atmanirbhar Bharat initiatives have encouraged entrepreneurship and business expansion. The findings demonstrate that MSMEs have emerged as a major source of employment generation and economic inclusion in Bihar, particularly for youth, returning migrant workers, and rural populations.

The Bihar Industrial Area Development Authority (BIADA) data further reveal that while micro enterprises dominate in number, large enterprises have recorded the highest investment volumes. Total enterprise allotments stood at 91 in 2019-20, declined to 71 in 2020-21, and subsequently recovered to 97 in 2021-22, suggesting post-pandemic revival of industrial activity.

Over the same period, the contribution of the industrial sector to Bihar's Gross State Value Added (GSVA) has shown a declining trend, from 20.3 per cent in 2015-16 to 19.4 per cent in 2020-21, underscoring the need for more targeted policy interventions to accelerate industrialisation in the state.

Conclusion

The pursuit of MSME led self-reliance in Bihar is not merely a state level economic objective it is an integral thread within India's broader Atmanirbhar Bharat vision. The historical traditions of the Swadeshi movement and Gandhian self-sufficiency provide a philosophical grounding for contemporary industrial policy, reminding us that economic independence begins at the level of local enterprise and community livelihood.

Bihar's strategic response to the disruptions caused by the COVID-19 pandemic exemplifies a forward-looking approach to development. Rather than treating the mass return of migrant workers purely as a crisis, the state has sought to convert it into a development opportunity through systematic skill-mapping, targeted employment planning, and investment promotion. The prioritisation of food processing, leather, textiles, and IT/ITES as growth sectors reflects a realistic assessment of Bihar's comparative advantages.

At the national level, the PLI scheme and the Startup India Seed Fund Scheme have proven to be effective instruments for mobilising investment, stimulating production, and supporting early-stage enterprises. When combined with Skill India programmes and public procurement mandates, these initiatives create comprehensive enabling environment for MSME expansion.

Limited access to formal credit, inadequate infrastructure, low technology adoption, and weak market linkages continue to constrain MSME growth in Bihar and similar states. Addressing these structural bottlenecks will be essential for translating policy ambition into sustained economic outcomes. MSMEs have demonstrated their capacity to serve as engines of employment and growth; with consistent policy support and improved institutional frameworks, they can drive Bihar's transition to a more industrialised and self-reliant.

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