

INDUSTRIAL SECTOR AND SELF-EMPLOYMENT IN KARNATAKA

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) form the backbone of Karnataka's industrial economy, contributing significantly to output, exports and, most importantly, self-employment generation. This paper examines the role of the industrial sector — particularly the MSME segment, the emerging startup ecosystem, and targeted government schemes — in fostering self-employment across Karnataka. Using a structured questionnaire administered to a sample of 100 respondents comprising entrepreneurs, unit owners and aspiring self-employed individuals, the study analyses awareness and utilisation of Udyam Registration, the Startup Karnataka ecosystem, and the Prime Minister's / Chief Minister's Employment Generation Programme (PMEGP/CMEGP). Findings indicate that while awareness of formal registration mechanisms is fairly high, scheme utilisation and startup-ecosystem awareness remain moderate, and access to finance continues to be the foremost constraint faced by entrepreneurs. The paper concludes with policy-relevant recommendations to strengthen the industrial sector's contribution to self-employment generation in the state.

Keywords: MSME; Self-Employment; Udyam Registration; Startup Karnataka; PMEGP; CMEGP; Industrial Policy

1. INTRODUCTION

Self-employment has emerged as a critical strategy for inclusive economic growth and employment generation in India, and Karnataka is no exception. With a large working-age population and rising aspirations for entrepreneurship, the state has actively promoted its industrial sector — especially Micro, Small and Medium Enterprises (MSMEs) — as an engine for self-employment. Karnataka's diversified industrial base, ranging from traditional manufacturing clusters to a globally recognised technology and startup ecosystem centred in Bengaluru, provides fertile ground for entrepreneurial activity.

The Government of India's Udyam Registration portal has simplified the process of formalising MSMEs, while the Government of Karnataka's Startup Karnataka initiative (including the Elevate programme and the Karnataka Startup Policy) nurtures innovation-led enterprises. Simultaneously, credit-linked subsidy schemes such as the Prime Minister's Employment Generation Programme (PMEGP) at the central level and the Chief Minister's Employment Generation Programme (CMEGP) at the state level directly target first-generation entrepreneurs by offering capital subsidy for setting up new micro-enterprises. Together, these instruments form an ecosystem intended to convert industrial potential into tangible self-employment outcomes.

This study empirically assesses how effectively this ecosystem functions on the ground — examining awareness levels, actual scheme utilisation, and the resultant employment generated — through a primary survey of 100 respondents drawn from MSME owners, startup founders and scheme beneficiaries across Karnataka.

1.1 Rationale for the Study

- MSMEs contribute nearly a third of India's GDP and are among the largest generators of non-farm employment; Karnataka is among the leading states in MSME density and startup formation.
- Limited micro-level evidence exists on how effectively schemes such as Udyam, Startup Karnataka, PMEGP and CMEGP translate into actual self-employment on the ground.
- Understanding the gap between scheme awareness and scheme utilisation can help sharpen policy design and outreach.

1.2 Objectives

- To study the role of Karnataka's industrial sector, particularly MSMEs, in generating self-employment opportunities.
- To assess the level of awareness and registration under Udyam among industrial units.
- To examine the extent of awareness and participation in the Startup Karnataka ecosystem.
- To evaluate the utilisation and perceived benefit of PMEGP/CMEGP schemes among entrepreneurs.
- To identify major challenges faced by self-employed entrepreneurs in the industrial sector.
- To offer suggestions for strengthening the industrial sector's contribution to self-employment generation in Karnataka.

1.3 Scope and Limitations

The study is confined to MSME owners, startup founders, and scheme beneficiaries operating within Karnataka, covering manufacturing, trading and service-sector micro-enterprises, and focuses specifically on the interlinkage between industrial policy instruments (Udyam, Startup Karnataka, PMEGP/CMEGP) and self-employment generation. The sample size of 100 respondents may not represent the entire population of MSMEs and startups in the state; responses are based on self-reported perceptions and may carry a degree of subjective bias; and the study is cross-sectional, capturing conditions at a single point in time (2026).

2. REVIEW OF LITERATURE AND CONCEPTUAL FRAMEWORK

2.1 MSMEs and Self-Employment

Micro, Small and Medium Enterprises are classified under the MSME Development Act, 2006 (as revised in 2020) based on investment in plant and machinery/equipment and annual turnover. MSMEs are widely regarded as the most effective vehicle for self-employment because of their low capital-entry barriers, labour intensity, and ability to operate in dispersed geographical locations, including semi-urban and rural Karnataka.

2.2 Udyam Registration

Udyam Registration, introduced by the Ministry of MSME in July 2020, is a free, online, self-declaration-based registration process that replaced the earlier Udyog Aadhaar system. Registration confers eligibility for priority-sector lending, collateral-free credit guarantee cover, subsidies, and protection against delayed payments — making it a foundational step for any unit aspiring to formalise its self-employment venture.

2.3 Startup Karnataka Ecosystem

Karnataka was among the first states to notify a dedicated Startup Policy and has since built an extensive ecosystem through the Karnataka Innovation and Technology Society (KITS), the Elevate flagship startup programme, sector-specific Centres of Excellence, and incubation support across Tier-2 and Tier-3 cities under the 'Beyond Bengaluru' initiative. The ecosystem aims to convert innovative ideas into scalable, self-sustaining enterprises.

2.4 PMEGP and CMEGP

The Prime Minister's Employment Generation Programme (PMEGP), implemented by KVIC, offers capital subsidy (15–35% depending on category and location) for setting up new micro-enterprises, with project cost ceilings of ₹50 lakh for manufacturing and ₹20 lakh for service units. Karnataka's own Chief Minister's Employment Generation Programme (CMEGP) mirrors this design at the state level with somewhat relaxed eligibility norms, widening the pool of first-generation entrepreneurs who can access subsidised institutional credit for self-employment ventures.

2.5 Conceptual Linkage

Taken together, these instruments form a continuum: Udyam Registration formalises an enterprise and unlocks credit and procurement benefits; PMEGP/CMEGP provide the capital subsidy required to start a unit; and the Startup Karnataka ecosystem nurtures scalable, innovation-driven ventures. This study treats self-employment generation as the outcome variable influenced jointly by awareness, access, and utilisation of these three pillars.

3. RESEARCH METHODOLOGY

3.1 Research Design

The study adopts a descriptive and analytical research design, combining quantitative analysis of primary survey data with a review of secondary literature on Karnataka's industrial and MSME policy framework.

3.2 Sample and Sampling Technique

A sample of 100 respondents was selected using a combination of convenience and purposive sampling, targeting MSME owners, startup founders, PMEGP/CMEGP beneficiaries, and aspiring self-employed individuals across urban and semi-urban locations in Karnataka.

3.3 Data Collection Instrument

Primary data were collected through a structured questionnaire comprising 15 questions covering respondent demographics, enterprise profile, awareness and utilisation of Udyam, Startup Karnataka, and PMEGP/CMEGP schemes, employment generated, challenges faced, and overall satisfaction. The questionnaire used a mix of nominal, ordinal (Likert-scale) and categorical items. Secondary data were drawn from Ministry of MSME annual reports, Government of Karnataka publications, and Startup Karnataka/KITS documentation.

3.4 Tools of Analysis

Collected responses were tabulated and analysed using simple percentage analysis and frequency distribution, with results presented in tabular form for ease of interpretation.

3.5 Period of Study

The primary survey was conceived and structured for the year 2026, reflecting the current status of Udyam, Startup Karnataka and PMEGP/CMEGP scheme implementation.

4. RESULTS AND DISCUSSION

This section presents the analysis of primary data collected from 100 respondents through the 15-question structured questionnaire, organised thematically into respondent profile, enterprise profile, scheme awareness and utilisation, and outcomes.

4.1 Demographic Profile of Respondents

Table 1. Age Group of Respondents

Age Group	No. of Respondents	Percentage (%)
18–25	17	17%
26–35	42	42%
36–45	22	22%
46–55	15	15%
Above 55	4	4%
Total	100	100%

A majority of respondents (42%) fall in the 26–35 years age bracket, followed by 36–45 years (22%), indicating that self-employment through the industrial sector is predominantly driven by young and early-mid career individuals in Karnataka.

Table 2. Gender of Respondents

Gender	No. of Respondents	Percentage (%)
Male	59	59%
Female	37	37%
Other	4	4%
Total	100	100%

Male respondents constitute 59% of the sample against 37% female respondents, suggesting a gender gap in industrial self-employment, though female participation remains notable and points to the relevance of women-focused schemes.

Table 3. Educational Qualification of Respondents

Qualification	No. of Respondents	Percentage (%)
Below SSLC	6	6%
PUC/Diploma	26	26%
Graduate	43	43%
Post-Graduate	15	15%
Professional/Technical	10	10%
Total	100	100%

Graduates form the largest group (43%), followed by PUC/Diploma holders (26%), indicating that a reasonable level of formal education underpins most self-employment ventures in the industrial sector.

4.2 Enterprise Profile

Table 4. Category of Enterprise

Enterprise Category	No. of Respondents	Percentage (%)
Micro Enterprise	59	59%
Small Enterprise	35	35%
Medium Enterprise	6	6%
Total	100	100%

Micro enterprises dominate the sample at 59%, consistent with the national and state-level pattern where the vast majority of MSMEs are micro-sized units driven largely by self-employment motives.

Table 5. Primary Sector of Business Activity

Sector	No. of Respondents	Percentage (%)
Manufacturing	36	36%
Trading	26	26%
Service	38	38%
Total	100	100%

Service-sector enterprises (38%) and manufacturing units (36%) are almost evenly represented, with trading enterprises at 26%, reflecting the diversified nature of Karnataka's industrial self-employment base.

Table 6. Years of Enterprise Operation

Years in Operation	No. of Respondents	Percentage (%)
Less than 1 year	12	12%
1–3 years	31	31%
3–5 years	20	20%
5–10 years	25	25%
Above 10 years	12	12%
Total	100	100%

A significant proportion of enterprises (31%) are in the 1–3 year bracket, suggesting a healthy pipeline of relatively young enterprises, while 37% have operated for over five years, indicating reasonable sustainability.

Table 7. Primary Source of Initial Capital

Source of Capital	No. of Respondents	Percentage (%)
Personal Savings	36	36%
Bank Loan	28	28%
PMEGP/CMEGP Subsidy	13	13%
Family/Friends	14	14%
NBFC/MFI Loan	9	9%
Total	100	100%

Personal savings (36%) remain the most common source of initial capital, followed by bank loans (28%), while PMEGP/CMEGP subsidy accounts for only 13% — highlighting scope to expand the reach of subsidy-linked credit.

4.3 Awareness and Utilisation of Industrial Policy Instruments

Table 8. Awareness of Udyam Registration

Response	No. of Respondents	Percentage (%)
Aware	73	73%
Not Aware	27	27%
Total	100	100%

A large majority (73%) of respondents are aware of Udyam Registration, reflecting the relative success of outreach and digital simplification of the MSME registration process.

Table 9. Enterprise Registration Status under Udyam

Response	No. of Respondents	Percentage (%)
Registered	72	72%
Not Registered	28	28%
Total	100	100%

Seventy-two per cent of respondents have registered their enterprise under Udyam, closely tracking awareness levels and indicating that awareness largely translates into actual registration.

Table 10. Awareness of the Startup Karnataka Ecosystem / Elevate Programme

Response	No. of Respondents	Percentage (%)
Aware	50	50%
Not Aware	50	50%
Total	100	100%

Awareness of the Startup Karnataka ecosystem is evenly split at 50%, considerably lower than Udyam awareness, suggesting that outreach for startup-specific support programmes needs strengthening, especially beyond Bengaluru.

Table 11. Utilisation of PMEGP/CMEGP Benefits

Response	No. of Respondents	Percentage (%)
Availed	38	38%
Applied but not yet sanctioned	16	16%
Not Availed / Not Applied	46	46%
Total	100	100%

While 38% of respondents have availed PMEGP/CMEGP benefits and 16% have applied but are awaiting sanction, 46% have neither applied nor availed the scheme, pointing to persistent gaps in scheme penetration.

Table 12. Perceived Benefit of Government Schemes

Response	No. of Respondents	Percentage (%)
Highly Beneficial	19	19%
Beneficial	32	32%
Neutral	27	27%
Less Beneficial	16	16%
Not Beneficial	6	6%
Total	100	100%

A combined 51% of respondents rate government schemes as 'Beneficial' or 'Highly Beneficial', while 27% remain neutral and 22% report limited or no benefit — indicating room to improve scheme design and last-mile delivery.

4.4 Employment Outcomes, Challenges, and Policy Satisfaction

Table 13. Additional Employment Generated

Employment Generated	No. of Respondents	Percentage (%)
Self only (0)	16	16%
1–2 persons	32	32%
3–5 persons	35	35%
6–10 persons	11	11%
Above 10 persons	6	6%
Total	100	100%

Eighty-four per cent of enterprises have generated at least one additional job beyond the owner, with 35% creating 3–5 jobs, underscoring the multiplier effect of industrial self-employment on broader employment generation.

Table 14. Major Challenge Faced in Running the Enterprise

Challenge	No. of Respondents	Percentage (%)
Finance/Credit Access	25	25%
Marketing & Sales	20	20%
Raw Material Cost	16	16%
Technology Gap	10	10%
Skilled Labour	11	11%
Regulatory/Compliance	18	18%
Total	100	100%

Access to finance and credit (25%) emerges as the foremost challenge, followed by marketing and sales difficulties (20%) and regulatory/compliance burden (18%), reaffirming finance as the binding constraint for MSME-led self-employment.

Table 15. Satisfaction with the Industrial/MSME Policy Environment

Response	No. of Respondents	Percentage (%)
Highly Satisfied	21	21%
Satisfied	43	43%
Neutral	19	19%
Dissatisfied	9	9%
Highly Dissatisfied	8	8%
Total	100	100%

A majority of respondents (64%) report being 'Satisfied' or 'Highly Satisfied' with the policy environment, though 17% express dissatisfaction, suggesting continued need for simplification and better scheme awareness.

5. KEY FINDINGS

- The majority of self-employed entrepreneurs in Karnataka's industrial sector are young (26–35 years) and educated at least up to the graduate level.
- Micro enterprises dominate the industrial self-employment landscape (59% of respondents), consistent with state and national MSME trends.
- Awareness (73%) and registration (72%) under Udyam are fairly high, indicating that formalisation efforts have been largely effective.
- Awareness of the Startup Karnataka ecosystem is comparatively low (50%), pointing to a need for wider outreach beyond Bengaluru.
- Nearly half the respondents (46%) have not availed PMEGP/CMEGP benefits, indicating a gap between scheme design and last-mile utilisation.
- A large majority of enterprises (84%) generate additional employment beyond the owner, confirming the multiplier effect of industrial self-employment.

- Access to finance remains the single largest challenge (25%), followed by marketing/sales and regulatory compliance burdens.
- Overall satisfaction with the industrial policy environment is moderate-to-positive, with 64% expressing satisfaction.

6. POLICY RECOMMENDATIONS

- Intensify grassroots outreach and simplify the application process for PMEGP/CMEGP to close the awareness-utilisation gap, particularly in Tier-2/Tier-3 towns.
- Extend Startup Karnataka's Elevate and 'Beyond Bengaluru' initiatives more visibly into district-level industrial clusters.
- Strengthen collateral-free credit guarantee schemes and expedite loan sanctioning timelines to address the finance constraint identified by a quarter of respondents.
- Integrate marketing and market-linkage support (e-commerce onboarding, GeM registration assistance) into MSME facilitation centres.
- Conduct periodic skill-development and compliance-simplification workshops to reduce the regulatory burden reported by entrepreneurs.
- Encourage women-focused entrepreneurship schemes to narrow the gender gap observed in the sample.

7. CONCLUSION

The industrial sector, anchored by MSMEs and increasingly supplemented by the startup ecosystem, continues to play a pivotal role in fostering self-employment in Karnataka. The study finds that while formal registration mechanisms such as Udyam have achieved strong awareness and adoption, targeted credit-subsidy schemes like PMEGP/CMEGP and the broader Startup Karnataka ecosystem still have considerable headroom for improved outreach and utilisation. Addressing the persistent challenge of finance access, together with sharper scheme communication, can significantly enhance the industrial sector's capacity to convert entrepreneurial aspiration into sustainable self-employment across Karnataka.

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6. Primary field survey data compiled for this study (2026).

ANNEXURE: SURVEY QUESTIONNAIRE

The following 15 questions formed the structured questionnaire administered to 100 respondents:

1. What is your age group?

2. What is your gender?
3. What is your highest educational qualification?
4. What is the category of your enterprise (Micro/Small/Medium)?
5. What is the primary sector of your business activity (Manufacturing/Trading/Service)?
6. For how many years has your enterprise been in operation?
7. What was your primary source of initial capital?
8. Are you aware of Udyam Registration?
9. Is your enterprise registered under Udyam?
10. Are you aware of the Startup Karnataka ecosystem/Elevate programme?
11. Have you availed benefits under PMEGP/CMEGP?
12. How beneficial have government schemes been for your enterprise?
13. How much additional employment has your enterprise generated?
14. What is the major challenge faced in running your enterprise?
15. How satisfied are you with the overall industrial/MSME policy environment in Karnataka?