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The role of government policy and entrepreneurship development programs in micro, small & medium sized enterprises in India: An overview

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Abstract

For the development and growth of the country, the government must actively promote the development of the organisation. Small and medium enterprises (MSMEs) among for-profit companies deserve special attention. SMEs are small investment companies with enormous stakes. The sector contributes over 28% of the GDP and almost 45% to the manufacturing output. The most common organisational model in many countries, the Ministry of Small and Medium Enterprises (MSMEs), is crucial to developing a market economy. It employs almost 111 million people. The sector acts as the instrument of inclusive growth, empowering the most vulnerable and marginalised groups. There are around 6.3 crore MSME units in the country, with over 99% categorised as small units (as per the original definition). The choice depends on many factors, including public attitudes toward entrepreneurs—human structure, Size and role of Current government, level of entrepreneurial activity and prevalence of existing MSMEs. The present study evaluates government policies for MSME and how these companies work under these policies and support. This paper aims to review government policies and SME development in India 2020-21 and measure performance and business engagement. The article used the approach of secondary data with an analytical approach. To fulfil the study's objectives.

Keywords: MSME sector, reforms entrepreneurship, EDP, challenges, government policy, initiatives government support, MSME India

Introduction

The complete form of MSMEs is SMEs which are the backbone of India's GDP. MSMEs are significant drivers of India's economic growth, including manufacturing, food and beverages, utility companies, packaging industry and more. It also contributes to the industrialisation of underdeveloped and rural areas and reduces regional disparities. Today, if a company wants to survive, it must fully demonstrate its vitality and entrepreneurial spirit. It is not uncommon for governments to introduce policies that promote the development of local small and medium-sized enterprises (MSMEs). Because they help directly alleviate poverty by raising income levels and creating jobs.

Experience in developed countries shows that SMEs are a significant link to their overall economic growth and development. Entrepreneurial policy-making is complex and confusing. The MSME sector is the second largest employer in India after agriculture. It employs nearly 111 million people. This sector represents more than 28% of GDP and almost 45% of industrial production. This sector serves as a tool for inclusive growth, empowering the most vulnerable and under pressure. "Small and medium-sized enterprises (SMEs) are an engine of growth for many developed and developing countries worldwide.

Worldwide Trends in the SME Sector

Important Note: In China, SMEs are continuously contributing a share of the output of 60% more in the last 20 years. The data quickly showed that SMEs aren't a small industry in the country's development. There are numerous SMEs that a person could estimate more than Europe and the United States combined. These countries are achieving higher growth with a focus on entrepreneurship projects.

Table 1: SME Share of Enterprises, Exports, and Output in Selected Asian Economies

	Share of all Enterprises (4)	Share of Exports (%)	Share of Output (%)	Indicators for Outputs	Data Year
High income					
Japan	99.7		43.7	Sales	2012
Rep. of Korea	99.9	18.8	47.6	MVA	2012
Singapore	99.4		45.0	GDP	2012
Upper middle-income					
PR China	97.3	41.5	60.0	GDP	2013, 2011, 2013
Kazakhstan	97.5		26.0	GDP	2014, 2013
Malaysia	97.3		35.9	GDP	2014
Philippines	99.6		35.7	GVA	2013, 2006
Thailand	99.7	26.3	39.6	GDP	2014
Lower middle-income					
Bangladesh	99.0		25.0	GDP	2013, 2014
India		42.4	37.5	MVA	2013

Table 2: SME Employment Share, Selected Asian Economic

Country	SME Employment as a Share of	SME Share (%)	Year
Rep. of Korea	Enterprise employment	87.7	2012
Thailand	Enterprise employment	80.3	2014
Bangladesh	Non-agricultural employment	75.0	2014
Cambodia	Enterprise employment	71.8	2014
Japan	Enterprise employment	69.7	2012
PR China	Industry employment	64.7	2011
Philippines	Enterprise employment	63.7	2013
Singapore	Total employment	68.0	2012
Malaysia	Total employment	65.0	2014
Vietnam	Total employment	46.8	2012
Sri Lanka	Total employment	35.0	2013
Kazakhstan	Total employment	32.1	2014

Source: Mohd Sauh, Abdullah, & Rahman, 2019^[16]

Small businesses (MSMEs) keep their income, assets, or headcount below a certain threshold. Each country has its definition of what an SME is. Small and medium enterprises (SMEs) play an essential role in the economy by hiring large numbers of people and helping them innovate. Governments often provide incentives to help them survive (Katyal & Xaviour, 2015)^[7].

Literature review

Earlier in the study of research regarding MSME in India, there have been numerous works associated with the field. Many researchers have given their research papers and researched about it. Mali (1998) showed that SMEs face increasingly fierce competition in the current global scenario. He needs to improve himself. Especially in areas such as management, marketing, distribution of various products. Infrastructure development and technological modernisation. In addition, new SMEs may need to move from slow-growing regions to high-growing regions. And build strategic alliances with entrepreneurs in neighbouring countries. Subrahmanya (2004) emphasises the influence of globalisation and domestic reform on the small industrial sector. He stressed that small industries are struggling with unit growth, employment, manufacturing and exports. To make India's small industries competitive at the international level and contribute to the income and jobs of the people. Sudan (2005) describes the challenges of SME development and policy issues by asking. In conjunction with MSME, Rathod (2007) analyses the growth and patterns of the SSI sector, identifying the causes of success and failure. Assess the impact of globalisation on SSI and export opportunities and address SSI in response to globalisation.

Ghatak, Shambhu (2010) In a research paper Small and Medium Enterprises (SMEs) in India: Assessment shows that SMEs in India surpass Bangladesh and Pakistan. Approximately 36% of SMEs own 46% of banks, SMEs own banks. Compared to Bangladeshi SMEs with bank accounts, about 95% of Indian SMEs have bank accounts. The export potential of SMEs will be in the protection period. Even at high levels, however, it tends to be higher during periods of liberalisation. Anjum (2012) P Analysis of SMEs in India believes that the SME sector has made good progress in the number of SME units, production level and employment. But it can be concluded that growth is sluggish. The government should continue to strengthen its policies.

Venkatesh and Muthiah (2012) SMEs are a rapidly growing industrial sector driver of future growth. He is in the small and medium enterprise sector. Emphasising that nurturing is essential for the country's economic well-being, Srinivas (2013) analyses the effectiveness of SMEs, contributing to India's economic growth. This measures the number of SME businesses and employment, and we conclude that SMEs play an essential role in India's economic growth.

Srinivas, K. T. (2013). In his research paper "The Role of SMEs in General Growth," he concluded that SMEs are portrayed as the drivers of national growth. In recent years, significant changes have taken place at the federal and state levels to facilitate the sector's growth. Weak infrastructure and lack of marketing connectivity are one of the main reasons for the slow development of SMEs in India. State enormous and federal support not suitable for upgrading SMEs in India, hence Indian business to the government. Several initiatives are needed to develop these SMEs in India.

Objectives & Aim of the Study

This paper aims to review government policies and SME development in India 2020-21 and measure the performance of MSME. The SME sector is often referred to as the “engine of growth” of developing countries.

The main objectives of the study are: -

- To established the new definition of MSME.
- To know the Development of MSME’s sectors.
- To review the recent government initiatives in the area of MSMEs.
- To know the challenges in the policy of development of MSME sector.

Over the past few years, there have been significant changes in policy at the federal and state levels to promote and develop this industry. The 2020 SME Development Policy was revised in response to developments in the SME sector and recent policy changes. In particular, this paper focuses on the entrepreneurial development of micro and small and medium-sized enterprises (MSMEs) in India. It also considers the contribution of SMEs to domestic job creation. Similar to the activities of MSME, the global market has undergone significant changes (SELVAM, (2021) ^[14].

Research Methodology

The present study based on the secondary data. The data has been collected from various secondary sources such as journals, magazines, newspapers, published reports, 2019-

20 MSME policy. It includes public sources such as the SME annual report, the Central Bureau of Statistics, the Department of Statistics and the Ministry of Program Implementation. RBI provides information to the public information bureau (PIB) / Business Intelligence Statistics Bureau (DGCIS), data published by CIBIL, regional bank development reports, bulletins from various media, etc. Statistical analysis, link analysis and correlation are used in enormous studies. (Raghuvanshi *et al.*, (2017) ^[11].

Results and Discussion

1. New Definitions for MSME Sector

Analysing various studies India is developing MSME companies with Atma Nirbhar Bharat Abhiyaan & Made in India campaigns. In 2020, the government created new rules and changed the current definition and increased investment limit. MSME companies were concerned if they exceeded the threshold. They would lose the high benefits, but GOI has positively promoted them. As a result, the Ministry of Finance changed its definition of MSME (Khatri, 2019) ^[8]. To redefine SMEs, the government has taken the following steps:

- Increase the investment limit
- Provides additional criteria of turnover.
- Bridging the gap between production and service
- Change the rules (Merger of Manufacturing & Services classifications)

Table 3: Classifications of MSME Sector

Existing classifications of MSME sector (2006)			
Criteria: Investment In Plant & Machinery Or Equipment			
Classification	Micro	Small	Medium
Manufacturing	<25 LAKHS	<5 CR.	<10 CR.
Services	<10 LAKHS	<2 CR.	<5 CR.
Revised Classifications of MSME Sector (2020)			
Composite Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Service	Investment < Rs 1cr, & Turnover <5cr.	Investment < Rs10 cr & Turnover <50cr.	Investment <Rs 20cr & Turnover <100 cr.

Development in the Sector of MSME (Till 2020)

I) Value of Output

Value of output defines the production of goods and services within an economy. Small and medium enterprises (SMEs) have contributed to supporting entrepreneurial

endeavours through business innovation. Micro and SMEs are expanding their influence in the economy by producing a wide range of products and services to meet their needs. Domestic and global market demand (Gaikwad & Dhokare, 2020) ^[5].

Table 4: Share of Gross Value Added (GVA) of MSME in all India GDP

Figures in Rs. Cores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India OP (in%)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

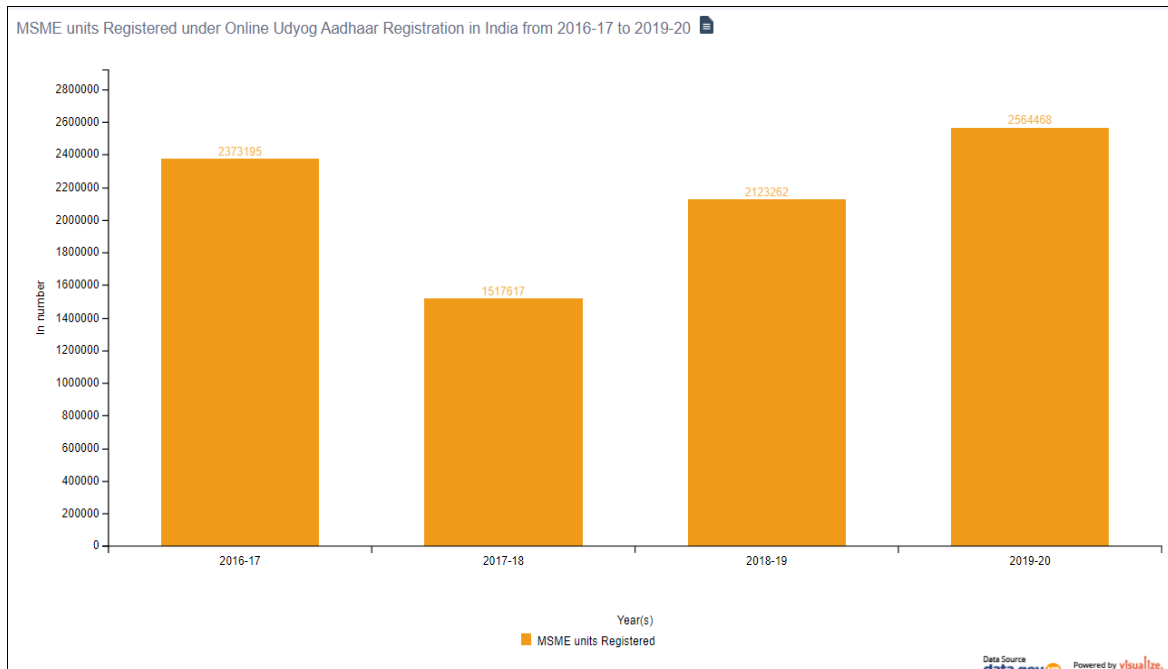
Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

II) Registrations of MSME units

The number of Micro, Small and Medium Enterprise (MSME) units registered under the online Udyog Aadhaar registration was 2,373,195 in India in 2016-17. We have seen an annual decline of -36.05% in MSME units registered under India’s online Udyog Aadhaar registration

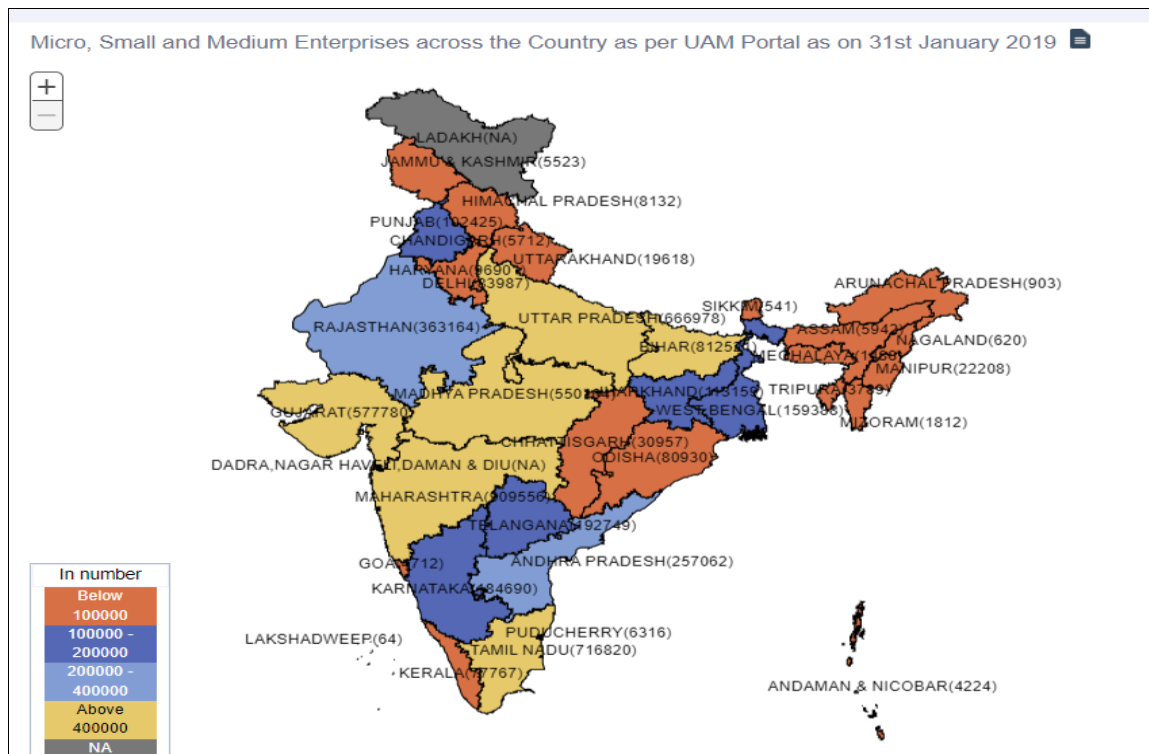
to 1,517,617 during 2017-18 over 2016-17. The number of MSME units registered under the online Udyog Aadhaar registration was 2,564,468 in India during 2019-20, up by 20.78% against 2,123,262 during 2018-19. The maximum annual growth of 39.91% was observed in 2018-19 in MSME units registered under the online Udyog Aadhaar

registration in India during the period under consideration (Lahiri & Banerjee (2019) [10].



Note: Source: Ministry of Micro, Small and Medium Enterprises.

Fig 1: Sustainable Development Goals National Indicator Framework (Version 2.1) – 2020



Source: Rajya Sabha session – 248 unstarred question no 399; uam: Udyog Aadhaar Memorandum; MSME: Micro, Small and Medium Enterprises.

Fig 2: State and Category-wise Owned MSME across the Country as per UAM Portal as of 31.01.2019 (From Ministry of Micro, Small and Medium Enterprises)

IV) Employment

According to the 73rd National Survey (NSS) conducted between 2015 and 2016, the MSME sector employs 11.1 million people (360,410 manufacturing, 7,000 unfunded

generations and transmission, 387,180 for businesses and other services generate 36,282 million people. In rural and urban areas across the country. (Sahoo & Ashwani (2020) [13].

Table 5: Estimated Employment in the MSME Sector (Activity Wise)

Broad Activity Category	Employment (in lakh)	Share (%)
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	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

1. New reforms undertaken under Aatam Nirbar package in 2020

I) Global tender is disallowed up to Rs 200 crores

The government has announced new rules to help entrepreneurs expand their networks internationally. Merchants are allowed to trade in international tenders for Rs 200. This welcoming step the government took to promote micro, small and medium-sized enterprises to provide confidence in the next level of trading in the new world. In addition, the government and CPSE will spend around Rs 1 to pay small and medium-sized businesses within 45 days. It creates a smooth flow of money transactions between suppliers and the Government. (Jha, & Kumar (2020) [6].

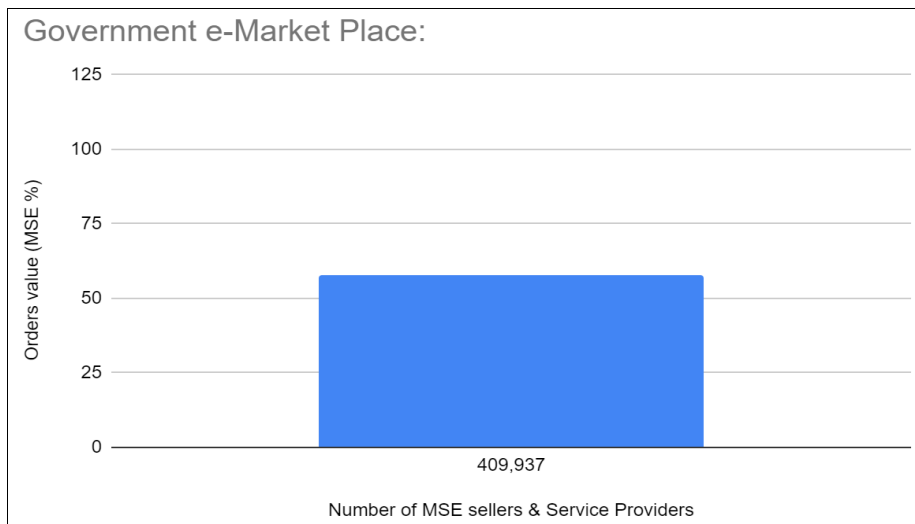
II) Inject liquidity into the industry

MSME unsecured loan 3 Rs (credit insurance) for outstanding loans with sales below 250 Rs or 100. The loan repayment period is four years, with an extension of 12

months (i.e. repayment starts after 12 months). MSME should pay the loan of MSME with the subordinated debt of Rs 20,000 to small and medium-sized companies is in difficulty which allows loans to small and medium-sized businesses that are already considered "troublesome" or difficult to repay. In this case, the state guarantee is insufficient, but in part. Establish a Rs 50,000 fund to inject capital into "viable" MSME companies to support the expansion and growth of MSME. (Kumar, & Biswas (2016) [9].

III) Government E-MARKET

The SME Ministry has done its utmost to encourage SMEs to join the GeM portal and has provided a button on the Udyam online registration form to express their willingness to join GeM. Recently, many emails have been sent to all Udyog Aadhaar (UAM) memo holders in preparation for GeM Portal. GeM is provided to access the UAM database for particular and automatic setup of all SMEs in GeM.



Source: MSME Annual Report 2021, Roy, et al. (2020) [12].

Fig 3: Government E-Market

2. Challenges in The Sector of MSMEs

SMEs also play an essential role in the country's development as they contribute significantly to export revenue, operational flexibility, domestic production, defence production, etc. However, despite these contributions, SMEs still face some challenges (Biswas et al., 2018) [3].

A. Credit conundrum: One of the gaps of concern in India's MSME sector is the lack of credit. Since September 2018, the NBFC industry has faced a liquidity crisis, and SMEs have faced tremendous cash pressures. The official credit available in the industry is 16 trillion Renault. The current credit gap is \$ 20 trillion, but aggregate demand is \$ 36 trillion. In addition, due to limited access to the banking industry, MSMEs in India often rely on non-bank financial

institutions and microfinance institutions for their funding needs. (Behera & Wahi, 2018) [2].

- B. Lack of economic awareness:** Many financial companies in India offer upfront payments such as personal loans and business loans. In addition, these lenders frequently change their growth guidelines. Often, small businesses are unaware of the change and will use higher credit rates to impact their budget. The government has also introduced various schemes to make it easier for borrowers to receive down payments. These changes make it difficult for these SMEs to keep up with the adjustments.
- C. High-interest rates:** Pre-regulated financial institutions often offer high-interest rates to SMEs to mitigate default risk. As higher interest rates become available,

the overall cost of borrowing will increase and can put a strain on your pocket. To assist SMEs (formally MSMEs) in these situations, NBFC offers upfront payments, such as business loans, with additional features and reasonable rates.

D. Lack of formalisation of MSME: The main reason for this credit gap is the lack of formalisation. About 86% of MSMEs operating in the country are not registered. Currently, of the 63,000 rupees of MSME, only about 110,000 rupees are registered in the GST system. Income tax returns are even lower. As a result, India's MSME credit requirements are poorly met due to limited availability, data access, and outdated warranty methods.

E. Technological disruption: India's MSME sector relies on outdated technologies that hinder productivity. With the advent of new technologies such as artificial intelligence, data analysis, robotics, and related technologies (collectively referred to as the Industry 4.0 Revolution), MSME presents a more significant challenge than large-scale organised manufacturing.

Conclusion

MSMEs are driving inclusive growth by improving the lives of disadvantaged and marginalised groups in India. It represents the majority of MSME holders. Therefore, the MSME sector empowers people by breaking the vicious circle of poverty and poverty. India's MSME sector relies heavily on people's skills. It's not wealth or capital. There are more and more programs, portals, programs, etc. However, on the small business side, awareness of these initiatives is low among eligible beneficiaries, so you need to develop a better communication strategy and use the latest media like social media. Specifically, Stakeholders need to be involved in the design process. India will transform from an emerging superpower to a full-blown economic superpower in the next decade, and MSME will be a crucial part of this journey. Globalisation should be encouraged to contribute to sustainable people's income, employment, and exports. Availability of government entrepreneurship development programme tends to stimulate anticipated equitable policies that are success driven. Specifically, the application of government entrepreneurship development programme enhances success of small and medium scale enterprises. Thus, firms through its technology should create an enabling environment in embracing and applying government entrepreneurship development programme as it would encourage success of small and medium scale enterprises.

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