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Government policies and growth of micro, small and medium enterprises in India

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the development of Indian and world market economies. MSMEs are the larger creator of employment all over the world. In developing countries like India, MSMEs are the agent of social and economic growth of the country and the large employment-producing sector after the agriculture sector. In the field of entrepreneurship policy making is a very complex process. Government policy affects entrepreneurial activity. People's attitudes toward entrepreneurship, regional development, trade, the nature of the labour force, government interference and prevailing MSMEs are the factors which are affected by government policy. The growth of MSMEs is the responsibility of the government because they helped in poverty alleviation by providing employment to a larger section of the country. This paper is an attempt to evaluate the performance of MSMEs in India and the government policies for the development of MSMEs. This study is based on secondary data collected from various resources such as Reports of the MSME ministry and RBI, journals, books, etc.

Keywords: Entrepreneurship, government policy, India, MSMEs, growth

Introduction

Micro, small, and medium businesses are thriving and growing industries in most countries across the world (Levy and colleagues, 2005). Creating favourable conditions for entrepreneurship and MSME growth has become a top policy priority in almost every country on the planet (Audretsch *et al.* 2006). According to Lester *et al.* (2007), "There is wide agreement on the virtues of designing policies to boost the involvement of MSMEs in world trade, given that MSMEs are widely acknowledged as under-represented in the global economy." MSMEs, for example, often generate over 50% of GDP and 60% of employment growth in developed economies, yet they only account for around 30% of trade and a fraction of global investment flows.

Micro, small, and medium businesses are critical to India's economic and social development. Policymakers, legislators, and intellectuals have all placed a strong priority on the development of MSMEs, particularly since the start of economic growth planning (Report of the MSME Task Force, 2010). "The expansion of MSMEs has effectively satisfied the multi-pronged objectives of increasing industrial output, creation of employment, dispersion of industrial activity across regions, and promotion of entrepreneurship (2006, Gupta)". Individual creativity and invention are frequently the driving forces behind entrepreneurs in the MSME sector (Banerjee, 2005). This industry accounts for 8% of the nation's GDP, 45% of its industrial output, and 40% of its exports. MSMEs employ around 60 million people through their 26 million businesses. MSMEs have a far greater labour-to-capital ratio than major industries, and their total growth is substantially faster. (Report of the MSME Task Force, 2010).

Micro, Small, and Medium Enterprises (MSMEs) in India

In India, businesses are divided into two categories: those engaged in manufacturing and those engaged in providing services. Entrepreneurs, small industry groups, and other stakeholders have long called for a single holistic piece of legislation. The MSMED Act, 2006 is the initial Act for MSMEs, and it establishes a legislative National Board for Micro,

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Small and Medium Enterprises, as well as measures to promote, develop, and strengthen MSMEs' competitiveness, credit facilities, supply chain preference, and projects that allow to payment delays to MSEs. For the first time in India, the medium sector has been defined, and micro firms have been defined for the first time in this Act.

The old, very restrictive, notion of 'Industries' has been

broadened to that of 'Enterprises' under the MSMED Act 2006. Enterprises are divided into two groups: those who work in the manufacturing/production of goods in any industry, as well as those who work in the service industry. The following are the definitions of businesses based on their investment in plant and machinery/equipment (excluding land and buildings).

Table 1: MSMEs are classified under MSMED Act, 2006

Enterprises	Investment in Plant and Machinery (manufacturing)	Investment in Equipment (Services)
Micro	Up to Rs. 25 lakhs	Up to Rs. 10 lakhs
Small	Rs. 25 lakhs- Rs. 5 crores	Rs. 10 lakhs - Rs. 2 crores
Medium	Rs. 5 crores- Rs. 10 crores	Rs. 2 crores - Rs. 5 crores

Source: Micro, Small and Medium Enterprises Development Act, 2006 (Retrieved from www.msme.gov.in)

In May 2020, the government announced a new definition for MSMEs under Aatmanirbhar Bharat Abhiyan. For both manufacturing and service sectors, the same limit was decided for investment and turnover. Micro enterprises were defined as those whose investment boundary was less than Rs. one crore and the turnover limit was Rs. five crores. Small enterprises were defined as those whose investment boundary was less than Rs. Ten crores and the turnover limit was Rs. fifty crores. The investment limit for medium-sized businesses was set at less than Rs. fifty crores, while the turnover limit was set at Rs. Two Hundred fifty crores.

Review of Literature

Different research studies have been undertaken from time to time to explore various elements of growth patterns and effectiveness of India's MSMEs sectors, as well as various government initiatives for MSMEs, and notable studies are listed below-

Abraham and Schmukler, 2017, both supply and demand variables, can explain SMEs' (Small and Medium enterprises) poor use of banking services. When SMEs have viable investment initiatives but are unable to secure adequate external funding, they face a supply-side difficulty. When SMEs are not eligible for a loan, there is a demand-side problem. In this circumstance, lenders will not extend credit unless it is subsidised because they will lose money. SME financing might also be hampered by the macroeconomic situation.

Afroz, 2014, the classification of MSME is defined by the performance of MSME, MSME's involvement and MSME's role, MSME's participation, and MSME's advancement and MSME's ability to provide employment openings in India.

Garg, 2012, MSMEs offered the Indian economy a period of significant expansion worldwide, with the industry's Gross Domestic Product (GDP), employment, exports, and technology Instrumental variables as main contributors.

Sinha, 2012, MSMEs generally struggle to attain economies of scale due to their small size, and so miss out on new markets that require substantial manufacturing facilities. Furthermore, their tiny size makes it difficult to concentrate functions like market research, product innovations, and market intelligence, reducing their efficiency. However, their little size is not always a drawback. MSMEs are flexible and adaptable, and they can use these characteristics to thrive on their creative ideas.

Dixit, 2011, the comprehensive analysis is used to examine the relationship between SMEs output, export, workforce,

consistent outlay and proportion of India's GDP, total exportations from 1973-74 to 2006-07, and workplace environment. According to the rationale, SMEs in his study between output and Indian GDP are positive.

Sudhan, F. 2005, discussed Micro and Small businesses, and several queries linked to the development of MSEs (Micro Small Enterprises), to provide the identified issues and policy concerns. It explained the significance of the MSEs-Sector study, as well as the benefits, challenges, and policy options. MSE is an important segment of the Government of India's policies, absorbing each and every new workforce, and expansion to offer a diverse choice of employment prospects, according to the study's findings.

The objective of the study

1. To analyse the growth and performance of India's MSMEs.
2. To examine the government policies for the development of MSMEs in India.

Research Methodology

Data was gathered from secondary sources in order to better understand and examine government policies for MSMEs, as well as entrepreneurship growth and performance. Historical data analysis, company case studies, and industry reports, as well as articles, the internet, books, and magazines, websites were studied. There have been significant legislative reforms at the federal and state levels in recent years designed to strengthen and grow this industry. The most important of these recent policy improvements is the MSMED Act of 2006.

Discussion and Analysis

This paper has two sections:

1. The growth and performance of the MSMEs in India
2. The government policies for the development of MSMEs in India. These are discussed below.

1) Growth and Performance of MSMEs in India

Before MSMED Act 2006, there were only 123.42 lakh total working enterprises in India which were providing employment to 294.91 lakh persons only. Before 2006, MSMEs are known as small-scale industries and were not properly defined. MSMEs were properly defined under the 2006 MSMED Act and investment limits were decided for micro, small and medium units respectively which were discussed above in table-1 in the introduction section.

Table 2: Growth and Performance of MSME Sector in India (Post MSMED Act, 2006)

Year	Total Working Enterprises (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Rs. Crore)
2005-06	123.42	294.91	1,88,113.00
2006-07	361.76	805.23	8,68,543.79
2007-08	377.37	842.23	9,17,437.46
2008-09	393.70	881.14	9,71,407.49
2009-10	410.82	922.19	10,29,331.50
2010-11	428.77	965.69	10,94,893.40
2011-12	447.73	1,012.59	11,76,939.40
2012-13	457.37	1,034.85	12,00,904.90
2013-14	488.46	1,114.29	13,63,700.50
2014-15	510.57	1,171.32	14,63,700.50
2015-16	633.88	1,109.89	15,71,912.90

Source: Ministry of Micro, Small and Medium Enterprises, Annual Report 2021-22

In table-2 indicate that there was a big increase in working enterprises and employment opportunities. The total number of MSMEs units increased to 633.88 lakhs and employment

increased to 1109.89 lakhs which were producing Rs. 15, 71,912.90 crore market value of fixed assets.

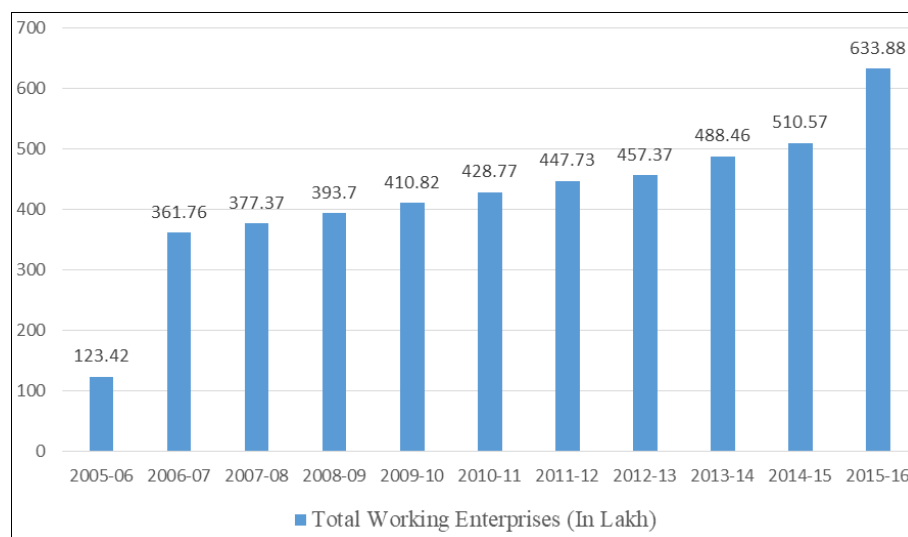
**Fig 1:** Total working MSMEs in India (In Lakh)

Figure 1 shows that the number of operating businesses significantly expanded with the implementation of the MSMED Act of 2006. The number of active businesses

expanded from 361.76 lakhs in 2006-07 to 633.88 lakh in 2015-16, with an average annual growth rate of 4.35%.

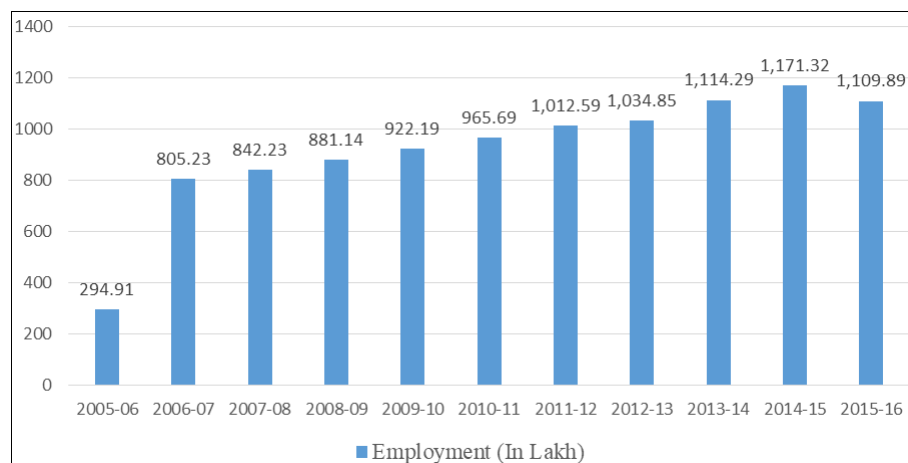
**Fig 2:** Employment provided by total working MSMEs in India (In Lakh)

Figure 2 shows that the number of jobs created by the MSME sector climbed from 805.23 lakhs in 2006-07 to

1109.89 lakhs in 2015-16. The rate of yearly growth at this time was between 4.5 and 5.11%, year over year.

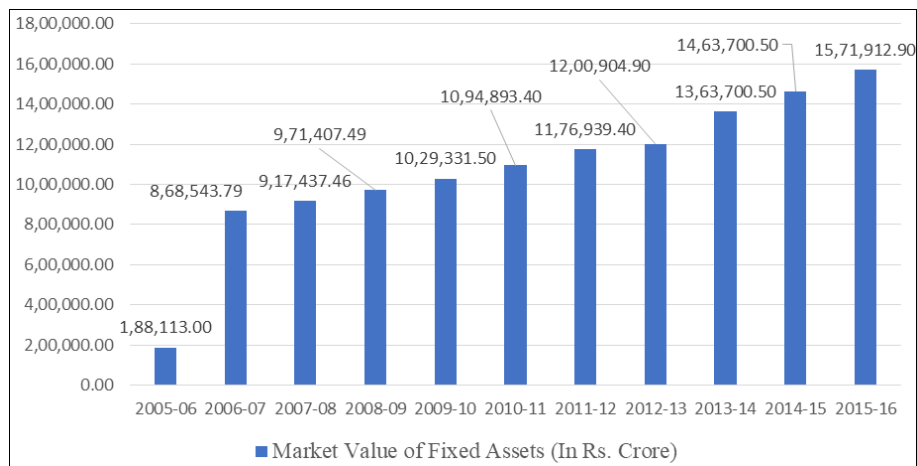


Fig 3: Market value of Fixed Assets produced by total working MSMEs in India (In Rs. Crore)

Figure 3 shows that in 2006–2007, the total capital employed or market value of fixed assets was Rs. 1,88,113 crore and about Rs. 15,71,912.90 crore worth of capital was employed in the MSME sector in 2015-16.

Recent Development of MSMEs

A total of 65, 23,067 MSMEs were classified on October 10, 2021, with 44, 09,834 registered under the service sector and 21, 13,233 registered under the manufacturing category at Udyam Registration (Annual Report of Ministry of MSMEs 2021-22).

At current prices, the Contribution of MSMEs to the Country's economy

Table 3 depicts the contribution of MSMEs to the Indian economy at current prices in terms of growth and performance. MSMEs' GVA (Gross Value Added), Growth, Total GVA, the proportion of MSMEs in GVA, Total GDP, and the proportion of MSMEs in GDP were all explained between 2011-12 and 2018-19. In the 2011-12 fiscal year, MSMEs accounted for 29.57% of GDP. In the 2012-13 fiscal year, it increased by 29.94%. In comparison to previous years, the portion of MSMEs' GDP increased to 30.27% in 2018-19.

Table 3: Contribution of MSMEs in Country's Economy at Current Price (Figures in Rs. Crores adjusted for FISIM at current prices)

Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in%)
2011-12	25,83,263	-	81,06,946	31.86	87,36,329	29.57
2012-13	29,77,623	15.27	92,02,692	32.36	99,44,013	29.94
2013-14	33,43,009	12.27	1,03,63,153	32.26	1,12,33,522	29.76
2014-15	36,58,196	9.43	1,14,81,794	31.80	1,24,45,128	29.34
2015-16	40,59,660	10.97	1,25,74,499	32.28	1,37,71,874	29.48
2016-17	45,02,129	10.90	1,39,65,200	32.24	1,53,91,669	29.25
2017-18	50,86,493	12.98	1,55,13,122	32.79	1,70,98,304	29.75
2018-19	57,41,765	12.88	1,71,39,962	33.50	1,89,71,237	30.27

Source: Annual Report of Ministry of MSMEs 2021-22

2) Government Policies for the MSME Sector in India:

Polymaking in the field of entrepreneurship is hard and perplexing. Regulations, trade agreements, employment market policies, regional growth policies, welfare programs, and even sexual identity policies all have an impact on levels of venture creation. The combination of policy options will be determined by a variety of factors, including community attitudes toward entrepreneurs, labour force structure, government accountability and role, the predominance of existing levels of business activity, and present MSMEs.

The following time phases can be used to classify the advancement of the government's regulatory framework and support policies for MSMEs.

1948 to 1991

During this time period the govt. announced many policies for the development of MSMEs. In 1954, the micro, small and medium enterprises development organization was set up. A commission for Khadi and Village Industries was set up, a coir board was established, all over India MSME

development institutes were set up and DICs (Directorate of Industries) were set up in all states of the country. Micro and small businesses were noted in all policy resolutions from 1948 to 1991 as a means of expanding employment possibilities, assuring equitable distribution of national revenue, and promoting the efficient mobilisation of private sector resources and capabilities.

1991 to 1999

During this time, quality certification testing centres were established, a subcontracting exchange was established, supportive measures focused on improving quality, technology, and infrastructure, SIDBI (Small Industrial Development Bank of India) and a technology improvement and modernization fund were established, and the delayed payment act was enacted. For small-scale industries, an industrial infrastructure development organization was launched. From 1991 to 1999, the new policies laid the framework for government aid in the context of reform, with the goal of replacing protectionism with competition to provide MSMEs more vitality and growth in the face of

global competition and an open market.

1999 to 2006

The Ministry of MSME was established in 1999. A credit-linked capital subsidy programme has been established. For MSEs a market development assistance scheme was introduced and an exemption limit was raised on payment of central excise duty. For the MSE sector, the list of reserved products decreased every year. The new policy package presented in August 2000 aimed to more effectively handle the persistent difficulties with financing, infrastructure, innovation, and marketing. In 2006, MSMED Act was introduced and on the basis of distinct investments in plant and machinery and the service sector, a proper definition for micro, small, and medium firms was offered.

Other recent policy reforms in India for MSMEs are addressed below

Credit guarantee trust for SMEs

This CGT SME scheme, which is a viable scheme for micro and small businesses, provides capital funds to qualifying beneficiaries from a Trust created jointly by the Ministry of MSME and SIDBI.

Funding Scheme for Traditional Industry Regeneration

MSME ministry created this scheme with the goal of revitalising traditional industries, stressing traditional skills, and ensuring long-term sustainable income for rural craftsmen. Artisans will be concentrated under this strategy, and emphasis will be placed on improving product creation, productivity, competition, product innovation, and even sales and marketing. Local artisans and businesses are given adequate training and enhanced equipment to help them confront the difficulties ahead and maximise their earnings.

Credit-linked capital subsidy scheme

This scheme is a huge help in allowing any enterprise in the MSME sector to enhance its technologies.

Building awareness on intellectual property rights

Innovative business ideas and methods must be protected because they are what will make your company stand out. This programme focuses on raising knowledge about IPRs and the importance of protecting them among MSMEs.

Procurement and marketing scheme

This programme aims to assist Micro and Small Enterprises to expand domestic markets and to teach MSMEs about industry growth opportunities, trade fairs, and the most up-to-date market tactics.

International cooperation scheme

Though breaking into the foreign market is difficult, it is worthwhile to commit money, time, and effort. The same may be said for the development of MSMEs. The government created this scheme to help MSMEs engage in international tradeshows fairs, conferences/ delegations, and other forms of foreign marketing. To learn more about the sector and to advertise items internationally.

A scheme for promoting innovation, rural industries and entrepreneurship

ASPIRE's mission is to foster invention in the MSME sector, particularly by fostering new businesses that address

unmet social needs and providing jobs for young people.

ZED certification scheme

The Zero Defect & Zero Effect (ZED) production strategy aims for flawless products by decreasing waste and thereby improving productivity and income. By giving financial assistance to MSMEs in the ZED Certification Scheme, each MSME will strive to meet quality standards, implement new quality tools and processes, and regularly upgrade their standards of quality.

Lean manufacturing competitiveness for MSMEs

Lean is a production and work-style improvement technique that has been widely adopted by successful manufacturing companies. The government has created this program to introduce and effectively employ Lean in MSMEs.

Digital MSMEs

The scheme's major goal is to digitally strengthen MSMEs and encourage them to use ICT tools and apps in their investment and manufacturing operations in order to boost their competitiveness in the domestic and international markets.

Design clinic for design expertise for MSMEs

Any organisation will undoubtedly benefit from fresh design strategies. The ministry created this scheme to encourage MSMEs to develop innovative strategies.

MSME Business Loan for Start-ups in 59 minutes

The Indian government just stated that it will provide MSME Business Loans for Startups in 59 Minutes. A new online portal has been launched to offer MSMEs loans in as little as 59 minutes. This online platform's loan procedure for MSMEs is completely automated. The loans will be processed within one hour using this platform. The loan is released to the applicant in 7 - 8 working days after it has been accepted through this portal. This programme attempts to automate and digitise the different processes associated with business loans, such as term loans, credit facilities, and mudra loans.

Prime Minister employment generation programme

With the rate of education rising year after year, unemployment is at an all-time high. This programme is designed with the goal of eliminating unemployment and encouraging the growth of new businesses by giving financial assistance.

Coir industry technology up gradation scheme

CITUS, which replaces the Coir Vikas Yojana provides funding to entrepreneurs for the purchase of machinery for the establishment of new facilities or the upgrade/modernization of existing businesses.

Pradhan Mantri Mudra Yojana

On April 8, 2015, the Hon'ble Prime Minister Announced the Pradhan Mantri Mudra Yojana (PMMY) scheme. Non-corporate and quasi-small or micro-enterprises can apply for loans of up to ten lakhs under this plan. PMMY classifies these loans as Micro Units Development and Refinance Agency Limited loans.

During the last 20 years, there has also been a movement toward supporting more "social entrepreneurship" as a

means of reducing poverty, boosting job possibilities, and empowering disadvantaged or under-represented communities, particularly in rural areas. Globally, people are becoming more aware of the potential of entrepreneurship to promote social inclusion. Governments spend a lot of emphasis on aiding target communities in starting micro-businesses, usually through the design of affordable micro-credit. Some criteria have demonstrated that these policies applied in many developing economies are highly effective, as evidenced by the performance of the Grameen Bank.

Conclusion

The historical background of entrepreneurship in India illustrates the Indian people's culture, customs, and traditions. As a result, the entrepreneurial process flowed through the current societal potential roots, and all those who selected entrepreneurial roles have a cultural history of trade and business. MSMEs, on the other hand, are an important economic component in India. They account for the majority of domestic commercial transactions while also playing a significant role in international trade. Because of their enormous contribution to GDP, industrial production, and trade, they have developed into a key and active economic sector. However, this industry makes the most significant contribution to job creation, coming in second only to agriculture. Although employment in the agriculture sector has been dropping in recent years, large sectors have also experienced jobless growth. The unorganised sector, comprising MSMEs and the private sector, bears the primary responsibility for job creation. It has been observed that a high percentage of MSMEs in India are concentrated in the service sector. MSMEs make a substantial contribution to the country's manufacturing activities, employment, and exports. It was discovered that the overall number of MSMEs expanded by 633.88 lakh in 2015-16, providing employment to 1,109.89 lakh people and generating a market price of Rs. 15,71,912.90 crore in fixed assets. A total of 65,23,067 MSMEs were classified on October 10, 2021, with 44,09,834 registered under the service sector and 21,13,233 registered under the manufacturing category at Udyam Registration. MSMEs should be helped by government policy to increase their productivity and competitiveness in the business world. For the growth of MSMEs and the smooth operation of their output, the government has implemented a number of plans and policies. Credit guarantee trust for SMEs, CLCSS, PMEGP, building awareness on IPR, International cooperation scheme, ASPIRE, ZED certification scheme, LMC for MSMEs, Digital MSMEs, Design clinic for design expertise for MSMEs, CITUS, Pradhan Mantri Mudra Yojana, and others are some of the policies and schemes discussed above. These government programmes support the MSMEs sector both directly and indirectly.

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