

# A REVIEW OF GOVERNMENT PROGRAMMES FOR THE MSME SECTOR AND THEIR IMPACT TO INDIA'S DEVELOPMENT

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**Abstract:** The main objective of the paper is to analyse the government initiatives available to the MSME sector and to determine how to aid in the growth of our nation. The purpose of this investigation is to learn about the various challenges faced by MSME in India, to understand the government's programme for the MSME sector, and to determine how MSME and start-up businesses contribute to the growth of our nation. This report illustrates the contribution that MSME sectors and government policies are making to the developed world. MSMEs in India make up around 8% of the GDP of the nation and are responsible for about 40% of all exports as well as an estimated 45% of manufacturing output. Accordingly, the main advantages are that they increase business potential while requiring less initial investment. As a result, government policies act as a support system for the MSME sector, which significantly contributes to the growth of our country and creates new job opportunities.

**Keywords:** MSME sector, government initiatives, policies, GDP.

## 1.0 Introduction

MSMEs in India generate around 8% of the country's GDP, about 45% of manufacturing output, about 40% of exports, and they also support 11 crore jobs. It is currently referred to as the "Backbone of the country." In accordance with the Micro, Small, and Medium Enterprises Development (MSMEDS) Act of 2006, the Government of India has introduced MSMEs, or Micro, Small, and Medium Enterprises.

Type of Enterprise	Investment in Plant and Machinery	Annual Turnover
Micro	Not more than Rs.1 crore	Not more than Rs.5 crore
Small	Not more than Rs.10 crore	Not more than Rs.50 crore
Medium	Not more than Rs.50 crore	Not more than Rs.250 crore

These activities mostly involved making, putting together, handling, and protecting goods. MSMEs play a vital role in the Indian economy and have greatly influenced the country's recent financial developments. It creates economic opportunities and works hand in hand with rural and underdeveloped sections of the nation to enhance them. Small and medium-sized businesses (MSMEs) can benefit from credit offices' advantages. A table that reclassifies the definition of "Micro, Small, and Medium Enterprises" is displayed in accordance with the most current proclamation from July 2020 regarding redefining the MSMEs.

## 2.0 Objectives

- To learn what role MSMEs and startups play in the growth of our nation.
- To be aware of the government's plan for the MSME sector.

- To review the various difficulties MSMEs in India has looked at.

MSMEs provide a critical contribution to the Indian GDP; learn how start-ups and MSMEs help our nation thrive. MSMEs have developed significantly over the years, which will support the Indian economy. MSMEs account for 50% of all exports and more than 29% of the nation's GDP. The main force behind economic growth is these MSMEs. They are in charge of producing significant increases in exports, industrial production, and employment. They have demonstrated appreciative inventiveness and simple adaptability in surviving the ups and downs of the Indian economy thanks to their flexibility and liveliness.

**Growth and performance:** Compared to other industrial sectors, MSMEs have shown remarkable growth rates over the last few decades. These MSMEs are responsible for almost 40% of India's overall exports and 45% of its manufacturing output, respectively. The key advantages are therefore that they offer increased job possibilities at a minimal initial cost. The government has also developed a number of programmes, policies, etc. to aid with this.

**prospects for work:** The MSMEs sectors of the nation have produced numerous employment prospects for the populace. Here, a modest investment in fixed assets of one lakh rupees results in the employment of four individuals. They significantly contribute to the industrialization of rural and underdeveloped areas, which lessens regional inequality and promotes a more equitable distribution of national wealth. As a result, they support the socioeconomic advancement of the nation. Aside from the agriculture sector, the MSMEs are the only industry that offers the most chances for both wage employment and self-employment.

### **3.0 To Become Familiar With The Government's MSMEs Sector Plan**

Numerous initiatives have been started by the Indian government to support MSMEs and new businesses there. The two government programmes for start-ups and MSMEs that can spur their growth are protected here. The Indian government is determined that MSMEs and start-ups should be effectively safeguarded, advanced, and encouraged for India's development.

### **4.0 Zero Defect And Zero Effect<sup>[1]</sup>**

**4.1 Objectives:** The goal of the plan is to help the Make in India initiative by empowering MSMEs to assemble high-quality products by promoting Zero Defect and Zero Effect practises.

**Scheme applicable for:** - All existing entrepreneurs<sup>[1]</sup>

### **4.2 Key benefits:**

- To accelerate the transformation of Value frameworks and instruments and Energy Effective assembly.
- Financial assistance to be provided to MSMEs in order for them to get ZED accreditation. repayment of consulting fees and confirmation costs related to the effective certificate, if an upper roof is required under the plan rule. Only one of these can be pursued at a time for both the public and global guidelines.
- MSMEs that provide protection can once only receive reimbursement for guard-related disclosures or guidelines.
- Encourage and assist MSMEs in using the newest technologies to produce high-quality goods.
- continuous improvement aimed at achieving greater effectiveness while causing the least amount of environmental impact.
- Promote a manufacturing environment in MSMEs with zero defects and zero effects. Advancing flexibility of value and recognising the endeavours of effective MSMEs.

### **5.0 Credit Guaranteed Scheme For Micro And Small Enterprises(CGT MSE)**

**5.1 Objective:** The goal of the proposal is to encourage autonomous work among creative entrepreneurs by providing funding for outside assurance- and insurance-free advances.

**Scheme applicable for:** Current Entrepreneurs and Aspirant Entrepreneurs

### **5.2 Key benefits:**

- Without a third-party guarantee or security, there is a guarantee on credits for loans up to INR 2 crores.
- Guarantees for coverages range from 75% for other coverages to 85% for Micro Enterprise coverage up to INR 5 lakh.

- The retail sector is covered to a 50% extent.
- Guarantees under the programme are available for third-party/collateral guarantee-free credit facilitation by qualified institutions with a credit limit of up to INR 200 lakhs. Recently, certain Small Finance banks and NBFCs have been declared eligible for guarantee coverage. Guarantee coverage amounts are 50%, 75%, 80%, and 85% of the credit facility's sanctioned amount. For credit up to Rs. 5 lakhs, the level of guarantee protection is 85% for microenterprises.
- The extent of the guarantee covers 50% of retail trade activity debt for micro and small firm borrowers ranging from INR 10 lakh to INR 100 lakh.
- For MSMEs owned or controlled by women as well as loans 200 lakhs, the trust pays 75% of the amount extended by the lending institutions in cases of default. or credits in the North East Region for credits up to INR 50 lakhs, the extent of the guarantee cover is 80%. For credits up to INR

## 6.0 Credit Linked Capital Subsidy Component (CLCS & TU Scheme)

**6.1 Objective:** The proposal aims to provide an upfront capital allocation of 15% (on institutional money of up to INR 1 crore that they have access to) in MSEs with cutting edge innovation, regardless of extension, on and for new MSEs that have set up their offices.

**Scheme applicable for:** - Existing Entrepreneurs and Aspiring Entrepreneurs.<sup>[1][2]</sup>

### 6.2 Key benefits: -

- introduction of updated and established technologies.
- A 15% subsidy on institutional loans up to INR 1 crore, with a maximum subsidy of INR 15 lakh.
- The CLCS component of CLC-TUS aims to support innovation for MSEs by providing institutional funding for the recruitment of substantial and convincing improvements in the specific sub-sector/items approved under the plan - Upfront subsidy of 15% on institutional credit up to INR 1.0 crore (i.e., a subsidy cap of INR 15.00 lakh) for identified sectors/subsectors/technologies.
- Toto ensures fair inclusion of SC/ST category, women entrepreneurs and entrepreneurs <sup>[1][2]</sup>from NER, Hill States (Jammu & Kashmir, Himachal Pradesh & Uttarakhand), Island Territories (Andaman & Nicobar and Lakshadweep), and the identifies Aspirational Districts/ LWE Districts, the subsidy has been proposed to be admissible also for investment in acquisition/ replacement of plant & machinery/equipment & technology up- gradation of any kind. <sup>[1][2]</sup>

## 7.0 Pradhan Mantri Mudra Yojana

**7.1 Objective:** The goal of the proposal is to give small/miniature businesses that are neither corporations or ranches advances. The PMMY system refers to these advances as MUDRA credits.

In the Pradhan Mantri Mudra Yojana, which the prime minister launched, Miniature Units Advancement and Renegotiate Organisation Banks, also known as MUDRA Banks, provide credit at low rates to smaller than usual cash foundations and non-banking financial institutions, which in turn provide low-premium advances to start-up businesses and MSMEs. In order to attract Indian business visionaries, the Pradhan Mantri Mudra Yojana was developed and conceptualised as one of its kind of resources. Under the MUDRA scheme, credits up to Rs 10 lakh may be availed.

The above graph displays the beyond long-term data, the total amount authorised by the government, and the total amount distributed by this PRADHAN MANTRI MUDRA YOJANA. The total amount authorised in 2018 is 321722.79 crore, and the total amount distributed is 311811.38 crore. The total amount authorised in 2019 was 337495.53 crore, while the total amount distributed was 329715.03 crore. In 2020, the total amount authorised was 321759.25 crore, while the total amount distributed was 311754.47 crore.

## 8.0 Design Clinic for Design Expertise to MSMEs

**8.1 Objective:** The strategy aims to collaborate with Indian MSMEs using resourceful arrangements and expert advice on ongoing plan challenges, increasing intensity item by item in global business sectors.

Scheme applicable for: - Existing Entrepreneurs<sup>[1][1]</sup><sub>[SEP][SEP]</sub>

### 8.2 Key benefits:

- Assisting MSMEs with new design strategies through design interventions and consulting. GOI will contribute at a rate of 75% for micro, and 60% for SMEs for projects up to INR 40 lakhs, in order to financially help MSMEs for design interventions. Shall additionally assist design work by covering 75% of costs up to INR 1.5 lakhs incurred for final-year student projects completed for MSMEs.
- bringing the Indian manufacturing industry and the design community together on a single platform to access affordable solutions and professional advice on current design difficulties, leading to continual improvement in new product innovations.

## 9.0 The Different Issues Faced By The MSMEs in India

**9.1 Financial issues:** Access to capital has historically been a problem for smaller businesses and organisations in the Indian economy. This is a major roadblock for businesses as well as MSMEs. In any case, the reality is that only 16% of SMEs are approved for easy credit, forcing small and medium-sized businesses to rely on their assets. Larger companies also contend with this problem because even the biggest businesses have a difficult time obtaining cheaper credit from conventional banks.

### 9.2 Regulatory issues:

Over time, a few administrative problems have come to light, including ones like tax compliance and changes to workplace legislation that have seriously hurt MSMEs. A few years ago, certain work changes were made in an effort to elevate this region above others. In any case, they failed to make any progress towards making MSMEs more competitive than larger companies. As a result, it has become extremely difficult for MSMEs to adhere to these rules and register for charge consistency, which has led to many of them working with limited capital or, in any case, liquidating their businesses.

### 9.3 Infrastructure:

Since we are commonly referred to as the "world's administrative centre" and since there are so many projects in this area that are finished abroad, the foundation area is important in India. Applications like e-commerce and BPO, for instance, have increased the number of jobs in low-wage countries like India.

### 9.4 Low efficiency:

MSMEs do a specific work that conveys more value than it produces, despite their lower than average productivity. Retailers typically charge less for the things they sell to end users. In actuality, MSMEs may be quite helpful just because they are capable of producing in huge volumes at incredibly low costs and are cost-productive. However, because of their limited production and low efficiency compared to larger companies, they may find themselves in a challenging scenario.

### 9.5 Lack of advancement:

Indian MSMEs lack creativity, and the majority of the products they manufacture rely on outmoded technologies. Due to the severe lack of businesspeople in this region, it has been unable to adopt new technologies and instruments that have had a significant impact in fields like e-commerce and contact centres, among others. MSMEs have thus had to contend with outmoded innovation as well as poor levels of efficiency, especially when compared to larger companies.

### 9.6 Technical changes:

Over time, there have been plenty of specialised adjustments, and most businesses have undergone some kind of development to stay competitive. Indian MSMEs have consequently had to deal with a number of significant changes that have limited their ability to develop.

Since the beginning, the land's possession rights have been altered, which has increased the area's susceptibility to poor management and, consequently, a decline in efficiency.

**10.0 Findings:****10.1 Lack of Professionalism:**

The majority of the power in India is decentralised. The ability to sway government policy regarding the entrance of new market participants is what I mean by that. Despite being essential to the growth of larger ventures, a larger portion of Indian MSMEs require extraordinary skill. They are therefore particularly prone to debasement and abuse of force, which has a significant impact on the effectiveness of their organisations.

**10.2 No standardized policies:**

In India, there aren't many MSME approaches. As a result, there is no consistency in the programmes for business improvement and MSME advancement. In any event, Delhi has made progress over the long term, but this work needs to be done publicly so that Indian businesses may gain more respect from international organisations and financial supporters.

**10.3 Lack of innovation:**

Indian MSMEs lack outstanding creativity, and the majority of the products they manufacture rely on outmoded technological advances. The severe lack of business visionaries in this region has prevented it from adopting new innovations and technology that have brought about significant improvements in several fields like eCommerce and contact centres, among others. MSMEs have thus had to contend with outmoded innovation as well as poor levels of efficiency, especially when compared to larger companies.

**11.0 Suggestions:**

- They can conduct a session to make sure business owners are up to date on technology, and they can also give financial support to the smaller industries.
- People lack the education necessary to access MSMEs' funding.
- Our research shows that SMEs are crucial for the development of any economy because they aid in the age of work and redesigning valuable areas, but they face difficulties because money is difficult to come by and competent labour is difficult to get at a reasonable price. The MSME sector is important to the Indian economy. It influences a significant chunk of Indian industry. It has also made a major commitment to exporting the goods.
- With the support of the MSME, the businessperson has advanced in a variety of ways. Modernization and mechanisation stand out among them.
- Following foundation and competition as major problems are macroeconomic instability, inadequate administrative support, a lack of data, and research and development. Lack of data is the primary cause of a wide range of problems, including technological advancement and R&D. Since small MSMEs owners are typically not well-educated, they lack familiarity with the most recent and cost-effective technologies and require more information to fuel their organisations' R&D departments. They lack information regarding the advantages provided by the public authorities. Most business owners are unaware that there is a Service for Micro, Small, and Medium-Sized Enterprises. In this way, even while the government recognises the importance of MSMEs as engines for economic growth and has several strategies and plans in place to address pretty much every aspect of the concerns considered by the study. MSMEs have been working to ensure development despite the low efficiency, degradation, and difficult working conditions.
- Due to this, the region has an abnormally low level of productivity and development, which is bad for the economy as a whole. If India has a healthy MSME sector, it would create a significant number of jobs that will unmistakably benefit the country and its people. MSMEs confront a variety of challenges, but the government is making a tremendous effort to ensure that the MSME sector remains competitive. The cost of finance is gradually declining, and both public and private sectors are working to provide better products that might be significant in terms of both quality and price. Maybe if we get rid of filth and put more of an emphasis on quality, MSMEs will truly desire to outperform bigger companies.

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