

A Study on Role of Government support schemes in the growth of MSMEs in India

Ragini Singh

Research Scholar, Department of commerce, J.P University (Chapra), India

Abstract

This paper aims to explore the trends of budgetary allocation and utilization of MSMEs by Government and to know the various schemes launched by government of India for the growth of MSMEs. Tables and graphical methods have been used to know the trends of budgetary allocation by government for MSMEs. For these annual reports of MSMEs has been used hence, it is based on secondary data. The study finds that the government also allocated sufficient fund for MSME sector which shows increasing trend in the following year and the trend of utilisation was also increasing. The government has implemented several plans to encourage technology upgrades and modernization in infrastructure facilities as well as welfare of artisans and MSME workers. Enhancing the capacity of small and medium-sized businesses can propel economic growth through increased government budgetary allocation and usage for MSMEs. Innovation, increased competitiveness, and the development of jobs can all result from this help. Since MSMEs make up a large portion of the economy, they gain the most from additional finance, which boosts output and opens up new markets. This in turn creates a more dynamic and varied business climate, which benefits the economy as a whole. Comprehending MSME programs guarantees that small and medium-sized businesses may effectively use accessible resources, financial assistance, and support services. MSMEs are now more equipped to expand, develop, and compete in the market thanks to this improved access.

Keywords

MSMEs, innovation, growth, employment and business climate

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector has evolved as a vital and energetic segment of the Indian economy in the past fifty years. It is the second most important industry after agriculture in terms of boosting industrialism and developing significant jobs prospects at moderately less investment levels. MSMEs serve as essential support units to large industries and play a significant role in boosting inclusive industrial development in the nation. With their expanding presence in various sectors, MSMEs are diversifying their offerings to cater to both domestic and international markets' demands. One of the key strengths of the MSME sector is its ability to generate employment at a relatively low capital cost. Unlike large industries, MSMEs often require minimal investment to set up operations, making them accessible to a wide range of entrepreneurs, including those from marginalized communities and rural areas. This has a multiplier effect on the economy, as each job created in the MSME sector has ripple effects on local communities and economies.

MSMEs are not only important in their own right but also serve as vital support units to large industries, acting as suppliers of goods and services. This symbiotic relationship between MSMEs and large enterprises contributes to the overall competitiveness and resilience of the industrial ecosystem.

In recent years, MSMEs have been expanding their reach across different parts of the economy, diversifying their product and service offerings to meet the evolving demands of domestic and global markets. This diversification has been facilitated by factors such as technological advancements, government initiatives to promote MSME growth, and increasing access to finance and market linkage

Definition:

Table 1. Micro, Small and Medium Enterprises

Classification	Micro	Small	Medium
Manufacturing & Services	Investment	Investment	Investment
	< Rs. 1 cr.	< Rs. 10 cr.	< Rs. 20 cr.
	Turnover	Turnover	Turnover
	< Rs. 5 cr.	< Rs. 50 cr.	< Rs. 100 cr

Source: Compile by authors

Literature Review

Klonowski D (2016). The study's main focus is on the financial difficulties Poland entrepreneurial firms face. It clarifies why there are still noticeable liquidity shortages for Poland SME sector firms. It provides three policy recommendations—combining a package of cash and expertise, expanding the role of supporting agencies, and conducting research and informal discussions—for bridging liquidity gaps in the SME sector. Khan S (2017) - SMEs are essential to the development of a country. After agriculture, they are the second-biggest employers of labour. Millions of people in India depend on SMEs, which primarily work in the unorganised sector, for their livelihood. Notwithstanding their importance to the economy, SMEs encounter certain obstacles that keep them from realising their full potential. Inadequate financing is one of the main issues SMEs deals with. According to the study's findings, innovation is the secret to success, so banks should offer creative lending options to support SMEs' expansion. Rao, et.al. (2017) – The result of SMEs' restraints is a financing gap. It is mostly made up of supply, knowledge, demand, etc. Therefore, in order to close the financial gap, SMEs should work to increase system transparency and enhance the quality of information that lenders require. Owners of SMEs should improve their financial management abilities. Ndiaye, et.al. (2018) -. In this article, five performance metrics for SMEs are modeled using eighty potential components that come from trade, finance, infrastructure, innovation, technology, regulation, taxation, and labour force. Using data from 266 economies' World Bank enterprise surveys, it applies the general to specific modelling.

Objectives of the Study

- To know the trends of budgetary allocation of MSMEs by Government
- To know the Government schemes on the growth of MSMEs.

Research Methodology

Secondary data has been used from various articles, websites and annual reports published by the ministry of MSMEs". The descriptive methodology has been used in this article. The data explanation relies more on qualitative aspects than quantitative aspects.

Data Analysis

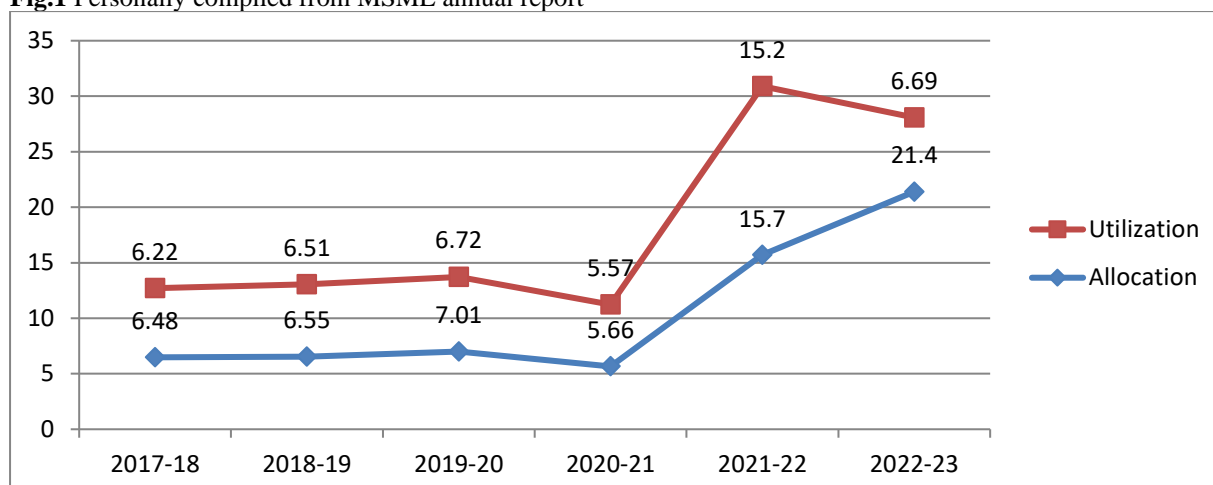
To know the trends of budgetary allocation of MSMEs by Government.

Table 2. trends of budgetary allocation of MSMEs by Government.

Year	Allocation	Utilisation
2017-18	6,48	6.22
2018-19	6.55	6.51
2019-20	7.01	6.72
2020-21	5.66	5.57
2021-22	15.7	15.2
2022-23	21.4	6.69

Source: Secondary Data

Fig.1 Personally compiled from MSME annual report



Sources: Annual report of MSME 2022-23

From the above table and graph, it is clear that the trend of allocation and utilization is increasing only in the year 2020-21 there is dip in the allocation and utilization due to pandemic. In the year 2017-18 the percentage of fund utilized is 95% of amount allocated, in the year 2018-19 the percentage is 99%, “in the year 2019-20” the percentage is 95.86%, “in the year 2020-21” the percentage is 98.4%, in the year 2021- 22 the percentage is approximately 97% and in the year 2022-23 the fund allocation is higher but the fund utilised is only 31% which is very low compare to last four year.

Schemes for Micro, Small and Medium Enterprises by the ministry of MSME

There are lots of schemes launched by the ministry of MSMEs but here we discussed only the financing schemes launched by the government.

Pradhan Mantri Mudra Yojana

As a non-banking financial company (NBFC), MUDRA supports the expansion of MSMEs by helping banks, microfinance institutions (MFIs), and NBFCs refinance. These entities then lend

to micro units that need loans up to Rs. 10 lakhs. These loans are provided by MFIs, NBFCs, Commercial Banks, and Small Finance Banks. Applying can be done online using the Udyam Mitra portal or by going directly to these lenders. Three schemes are available through PMMY: "Shishu," "Kishore," and "Tarun." Each scheme denotes a distinct stage of development and funding need for the micro-units or entrepreneurs. Loan amounts range from Rs. 50,000 to Rs. 5 lakhs for "Shishu," Rs. 50,000 to Rs. 5 lakhs for "Kishor," and Rs. 5 lakhs to Rs. 10 lakhs for "Tarun." These phases also act as benchmarks for the development

Prime minister Employment Generation Programme (PMEGP)

The Prime Minister's Rojgar Yojna (PMRY) and the Rural Employment Generation Programme (REGP) have been combined to form the Prime Minister's Employment Generation Programme (PMEGP)”. By launching small businesses in the non-farm sector, this initiative seeks to provide traditional craftspeople and unemployed youngsters with opportunities for self-employment. The national nodal agency in charge of carrying out this plan is the “Khadi and Village Industries Commission (KVIC)”. PMEGP is managed by banks, [State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs)], and State KVIC Directorates at the state level. Government subsidies are channelled through the KVIC through approved banks, which thereafter deposit the money straight into the bank accounts of the entrepreneurs or beneficiaries. Eligibility – “Applicants must be at least eighteen years old. Applicants must have completed at least eight grades to be considered for projects in the manufacturing sector costing more than Rs. 10 lakhs, and projects in the business or service sector costing more than Rs. 5 lakhs. Under this approach, only new projects are eligible for consideration. Self-help groups, organisations established under the Societies Registration Act of 1860, production-based cooperative societies, and charity trusts are among the eligible entities. PMEGP is not available to units that are currently enrolled in PMRY, REGP, or any other government programme, nor to units that have previously benefited from government subsidies under any programme”.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The “Small Industries Development Bank of India (SIDBI)” and “the Ministry of Micro, Small, and Medium Enterprises” collaborated to create “the Credit Guarantee Fund Trust for Micro and Small Enterprises”. A credit guarantee programme for MSMEs is intended to be implemented by these trusts and the Indian government together provide the scheme's fund. Providing banking assistance to “small and medium-sized businesses” without the need for collateral or guarantees from external parties is the main goal of CGTMSE. There are three different levels of guarantee coverage under this scheme: 50% for retail activities, 75% for other firms, and “85% for micro enterprises (up to Rs 5 lakh)”. Eligibility – This programme is open to both new and established businesses. To apply for help under the programme, qualified candidates should contact banks, financial institutions, and some regional rural banks. Nature of Assistance –A guarantee cover of the approved credit facility amount is provided under the scheme. “The guarantee cover for microenterprises up to Rs 5 lakh is 85%. The guarantee cover is 50% for loans to MSME borrowers for retail trade activities, ranging from Rs 10 lakh to Rs 100 lakh. If there is a default, the trust pays up to 75% of the outstanding balance for credit facilities up to Rs 200 lakh that the lending institution issued”.

Credit Linked Capital Subsidy Scheme (CLCSS)

The Credit Linked Capital Subsidy Scheme (CLCSS)” provides MSMEs with financial assistance for upgrading their technologies. Under this initiative, further investments for

technological upgrades which entail adopting cutting-edge or nearly cutting-edge technology up to Rs. 1 crore are eligible for a 15% subsidy. To get the subsidy, qualified applicants should go to one of the twelve banks or organisations. Eligibility: This scheme is open to all MSME units. Nevertheless, units that upgrade with old machinery or replace current technology or equipment with a similar type are not eligible for the subsidy. Assistance Aim: In order to support technology upgrades, the initiative provides MSMEs with an upfront capital subsidy of 15% on the institutional funding they get. With this incentive, the employment of improved and established technology is encouraged in specific subsectors or for products that have received scheme approval. For specific industries, subsectors, or innovations, the program offers an upfront 15% subsidy on institutional funding up to Rs. 1 crore (with a maximum subsidy of Rs. 15 lakh)

Equity Infusion for MSMEs through Fund of Funds

MSMEs frequently experience equity issues. Private equity (PE) and venture capital (VC) organisations rarely give growth-stage finance, but they do provide early-stage funding. MSMEs can apply to the Fund of Funds for equity financing in the event that they are viable and have potential for development, which helps to support MSMEs' expansion and speeds up their listing on stock exchanges. Through government engagement, this programme seeks to fulfil the expanding needs of sustainable, high-growth MSMEs and channel various sorts of finance into underserved MSMEs. Eligibility: All MSMEs are eligible to apply through Investor Funds that have been "onboarded and registered with the planned Fund of Funds." Nature of Assistance: To support MSMEs' expansion needs, the "Government of India" will help venture capital and private equity (PE) firms participate in financially feasible MSMEs. The suggested Fund of leveraging rs 50000 cr.

MSME Business Loan for Startups in 59 Minutes

A recent programme by the Indian government aims to provide MSME Business Loans for Startups in 59 minutes. To help MSMEs get loans, a new online platform that completely automates the loan processing processes has been introduced. Loans are processed through this platform in an hour, and after they are accepted, the applicant receives their money in seven or eight working days. The automation and digitization of different company lending processes is the main goal of this programme. Eligibility: Any currently operating company or MSME that is looking for initial approval for a working capital loan or term loan is qualified. The company needs to have a six-month bank statement facility and comply with IT regulations. Businesses with and without a GST registration are both qualified Assistance required – "Business loans with in-principal approvals range from Rs.1 lakh to Rs.5 crores and can be provided with or without collateral. The interest rate starts at 8.5%. Mudra loans with in-principal approvals range from Rs.10,000 to Rs.10 lakh"

Conclusion

The ministry of MSMEs envisions vibrant MSMEs. The government makes initiatives to support the growth and development of the MSME sector. The government has implemented several plans to encourage technology upgrades and modernization in infrastructure facilities as well as welfare of artisans and MSME workers. The government also allocated sufficient fund for MSME sector which shows increasing trend in the following year and the trend of utilisation was also increasing.

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