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## Government Policies and MSME Growth in India: Enhancing Entrepreneurship as a Growth Engine

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### Abstract:

*Micro, Small, and Medium Enterprises (MSMEs) are significant to the India's economic landscape, employment, development, innovation and economic status of the people. It contributing around 30% of the GDP & 45% of its export and providing employment to over 120 million people making it second largest employer of the nation. This research paper analyses the influence of various government policies on the growth and sustainability of MSMEs in India, focusing on how these policies stimulate entrepreneurship as a driver of economic development. The study emphasizes the importance of MSMEs in fostering innovation, regional development, and inclusive growth in India. It focus on key government initiatives e.g. the MSME Development Act of 2006, Prime Minister's Employment Generation Programme (PMEGP), SFURTI, PM Vishvakarma etc. which aims to create a supportive regulatory environment for MSME growth, and the Pradhan Mantri Mudra Yojana (PMMY) which provides financial assistance to small businesses. The paper also examines the new initiatives designed to encourage innovation and entrepreneurship among young entrepreneurs with providing them the digital platform at their needed places. With thorough analysis of the policies, the study assess their effectiveness in addressing significant challenges faced by MSMEs, such as limited access to finance, complex regulatory frameworks, inadequate infrastructure, and restricted market access. The main objectives of the study are: - 1.To analyses the new definition of MSME. 2. To study the government initiatives in the field of MSME sector. 3. To examine the impact of digitalization on the MSME sector. The study concludes that government interventions have positively influenced the MSME sector. Continuous efforts are essential to overcome existing obstacles and fully realize the potential of MSMEs as a dynamic contributor to economic growth in India. By nurturing a robust ecosystem for entrepreneurship, India can ensure that MSMEs remain significant players in job creation, innovation, and overall economic resilience.*

**Keyword:** MSME, employment, entrepreneurship, PMEGP, Financial services etc.

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### Introduction:

India is primarily an agrarian society comprising more than 50 per cent of the people of the country directly or indirectly depending on agriculture. With population explosion the per capita land in hand declines, enlarges gap between income and expenditure and uncertainty in crop production causes poverty and unemployment in the country. To tackle these problems MSMEs provides opportunities towards employment and job creation. Although agriculture sector is the biggest employer in the country, MSME sector's overall contribution is more than agriculture. Over the last few decades the MSME sector has emerged as a vibrant and opportunistic sector in terms of employment creation, eradicating gap between rich and poor people, income distribution and poverty alleviation. Micro, Small, and Medium Enterprises

(MSMEs) are significant to the India's economic landscape, employment, development, innovation and economic and social status of the people. It contributing around 30% of the GDP with 45% of its export and providing employment to over 120 million people making it second largest employer of the nation.

Micro, Small and Medium Enterprises (MSMEs) are the vibrant towards the development of the industrial economy of the country. The MSMEs contribute close to 30 percent of the country's GDP, 45 percent of the manufacturing output and contributes around 45 percent of to India's export. The MSMEs have a compelling attraction across the country with production capacity of around 6000 diverse products and meeting needs of local as well as international markets.

#### **Review of Literature:**

**Asghar, A. J. Et al (2011)** concluded in their work **“The Role of Government Policy and the Growth of Entrepreneurship in the Micro, Small (&) Medium-sized Enterprises in India: an Overview”** that Micro, Small and Medium Enterprises (MSMEs) have arisen as an engine of economic and social growth in several countries irrespective of developed and under-developing economies . In India also, MSMEs have arisen as a prominent component of the economy with the significance of their inclined efforts toward job creation, GDP share and its export. He observed that with large number of micro, small and medium enterprises (1,035,102 out of 1,552,492) concentrate on manufacturing sector. The micro, small and medium enterprises (MSME) sector contributes significantly to the manufacturing output, employment and exports of the country.

**Lama, P. (2013)** has analyzed in the research study **“Micro, Small and Medium Enterprises (MSMEs) In India-Problems and Prospects”** that, due to their significant contribution to GDP and industrial production, Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of the economic and social development of the economy of India. To keep the growth engine on the right direction, it is necessary to improve its productivity and quality through innovation and reduction in their cost aspects

**Sheik, M. B. (2017)** analyzed in their study **“Growth, performance of MSMEs and its role in make in India”** that, Micro, Small and Medium Enterprises (MSMEs) presently provides a gateway toward the quantity and quality products as manufactured or services. However, its need to involvement of the government to minimize the transaction costs of technology up gradation, market penetration, modernization of infrastructure etc.

**Sahoo, B.B. & Swain, K.C. (2020)** have reflected in their study **“Micro, Small and Medium Enterprises (MSMEs) in India: The Engine of Growth”** in India the role of MSMEs have been depend in the roots of the Indian economy as they supports the essential needs of the needy people through providing them opportunity of employment and financial support. It is also felt that MSME sector provides supplement towards farmers' income and help rural India to achieve equity and promote a balanced economic development

**Gupta, P. K. (2023)** has summarized the research study **“A Study of Government Initiatives to Promote Micro, Small and Medium Enterprises Sector in India”** that Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy with efficient contribution towards the industrial production, employment, export and the GDP of the country. MSMEs faces multiple issues related to restricted financing availability, infrastructure impediments, technology constraints, and the difficulty of regulatory compliance. Recognizing the significance of the MSMEs the government should opt to the policies and necessary

programmes towards the fulfillment of the needs of the MSMEs as resource material, financial and management level.

### Objectives of the Study:

The research study focuses the role and related policies aspects of MSMEs of the country. The main objectives of the study are: -

1. To analyses the new definition of MSME.
2. To study the government initiatives in the field of MSME sector.
3. To understand the impact of digitalization on the MSME sector.

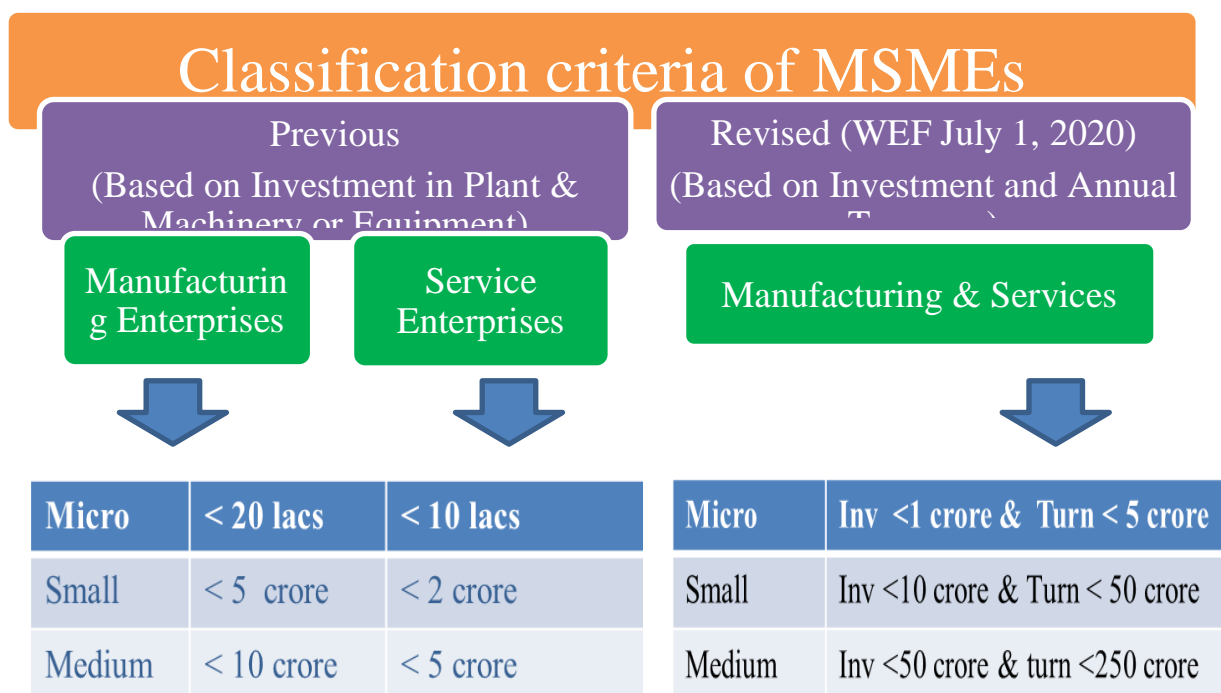
### Research Methodology:

The present Research study is descriptive in nature and completely based on the secondary data. The data has been collected from various secondary sources such as journals, magazines, newspapers, published reports. It includes public sources such as the MSME annual report, the Department of Statistics, the Ministry of Statistics and Program Implementation and the Central Bureau of Statistics. RBI provides information to the public information bureau (PIB), Business Intelligence Statistics Bureau (DGCIS), data published by CIBIL, bulletins from various media, etc. essential tables and figure are listed with the help of M.S. excel.

### Definition of MSME:

The Micro, Small and Medium Enterprises development (MSMED) act was notified in 2006 to address policy issues and facilitate to the MSMEs with enhance their competitiveness. The act classifies the MSMEs in two groups as:-

- (1). Manufacturing Enterprises- Investment in plant and machinery
- (2). Service Enterprises- investment in equipment.



*Source: Researcher's Compilation*

The union budget 2025-26 announced a revision to the classification of Micro, Small and Medium Enterprises (MSMEs). The revised classification includes new investment and turnover criteria.

Category	Investment (INR)	Annual Turnover (INR)
Micro	Up to rupee 2.5 crore	Up to rupee 10 crore
Small	Up to rupee 25 crore	Up to rupee 100 crore
Medium	Up to rupee 125 crore	Up to rupee 500 crore

*Source: Budget 2025-26*

### Government initiatives and achievements facilitating MSME sector:

The ministry of MSME, Government of India in collaboration with various organization & institutes has pioneered initiatives that promote growths and development of the MSME sector including Khadi, Village and Coir industries. These initiatives and programmes provide comprehensive support by focusing on key area such as credit support, technological assistance, infrastructure development skill development and enhancing competitiveness.

### Providing Financial Assistance And Credit:

#### Prime Minister's Employment Generation Programme (PMEGP):

The Prime Minister's Employment Generation Programme (PMEGP), a credit-linked subsidy programme to promote self-employment and entrepreneurship among individuals, especially from marginalized and economically weaker sections of society through setting up of new self-employment ventures, projects and micro enterprises. The scheme aims to generate sustainable employment opportunities in rural and urban areas of the country. The scheme also focuses to increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

The Scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the National level. At the State level, the scheme is implemented through State offices of KVIC, State Khadi and Village Industries Boards (KVIB), District Industries Centres (DIC), Coir Board (for coir related activities) and Banks. Under manufacturing sector the maximum cost of the project admissible is Rs.50 lakh and under service sector is Rs.20 Lakh.

#### PMEGP Performance during year 2020-21 to 2023-24

Year	Margin Money Disbursed (Rs.Crore)	Micro Assisted (Number)	Units	Estimated Employment Generated (Number)
2020-21	2,188.80	74,415		5,95,320
2021-22	2,977.66	1,03,219		8,25,752
2022-23	2,722.17	85,167		6,81,336
2023-24	3,093.88	89,118		7,12,944

*Source: MSME annual report 2023-24*

### Loan for up-gradation of the existing PMEGP, REGP and MUDRA Yojana:

Ministry of MSME has Up-graduate the financial assistance for the existing PMEGP and MUDRA units for manufacturing and Service or units from the year 2018 – 19. The maximum cost of the project under manufacturing sector for up-gradation is Rs. 1.00 Crore and Rs. 25.00 Lakh under Service sector.

Categories of beneficiaries	Beneficiary's contribution	Rate of subsidy
for up-gradation of existing pmeqp and mudra units under the manufacturing and service sector	10% of project cost	15% of project cost (20% in ner and hill states)

#### **Credit Guarantee Fund Trust for MSE (CGTMSE):**

A joint set up by Ministry of Micro, Small & Medium Enterprises (MSME), Government of India and Small Industries Development Bank of India (SIDBI) to stimulate flow of institutional credit to Micro & Small Enterprises (MSEs). The policy has provided the Guarantees for extending collateral free loans to Micro and Small Enterprises through banks and financial institutions. The Scheme covers collateral free credit facility extended by eligible lending institutions to micro and small enterprises up to Rs. 5 crore (w.e.f. 01.04.2023) per borrowing unit. The guarantee cover provided under this scheme is upto 85 % depending upon the quantum of loan and type of beneficiary.

#### **Schemes for Skill Development and Training:**

##### **A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE):**

ASPIRE is a Government of India initiative under the Ministry of Micro, Small and Medium Enterprises (MSME), launched in 2015 and aims to support the establishment of Livelihoods Business Incubation (LBI) centers to boost entrepreneurship and employment generation particularly in agro-industries with special focus on rural and underserved areas. Till 31.03.2024, 109 Livelihood Business Incubators (LBI) and 22 Technology Business Incubators (TBI) have been approved. A total of 1,01,012 beneficiaries have been trained in the 77 functional LBI and employed in agro rural sector.

##### **Entrepreneurship and Skill Development Programmes (ESDP):**

The office of DC-MSME under the development of MSMEs, The Programme is being organized regularly to nurture the talent of youth by enlightening them on various aspects of business activity required for setting up MSMEs, building capacity of existing MSMEs and inculcate entrepreneurial culture in the country. These Programmes are conducted for youth and other people interested in setting up their own industrial/self-employment venture. Such activities are also organized in ITIs, Polytechnics and other technical institutions/business schools, where skill/talent is available to motivate them towards self-employment.

#### **Schemes for Infrastructure Development:**

##### **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):**

The scheme was launched in 2005 by the ministry of Micro, Small and Medium Enterprises (MSME) helps to traditional industries and artisans become more competitive and profitable. The main objectives of the scheme are:-

- To improve the skills and capabilities of traditional artisans.
- To create common facilities for artisans
- To improve tools and equipment for artisans.
- To strengthen cluster governance systems.
- To provide sustainable employment for artisans and entrepreneurs.

The scheme covers three types of interventions:

1. Soft Interventions: Activities to build general awareness, skill development, capacity building, design development, counseling and motivation.
2. Hard interventions: creation of facilities like common facility centers, raw material banks and warehousing facilities.



3. Thematic interventions: Brand building, new media marketing, e-commerce initiatives and innovation etc.

The financial assistance provided for any specific project shall be subject to a maximum of Rs. 5 crore, to support Soft, Hard and Thematic interventions.

Type of Cluster	Per Cluster Budget limit
<b>Regular Cluster</b> (up to 500 artisans)	Rs. 2.50 crore
<b>Major Cluster</b> (more than 500 artisans)	Rs. 5.00 crore

*Source: MSME annual report 2023-24*

### Micro and Small enterprises Cluster Development Programme (MSE-CDP)

The Ministry of Micro, Small and medium Enterprises (MSMEs) is implementing Micro and Small Enterprises - Cluster Development Programme (MSE-CDP) for development of clusters and improve their competitiveness. The objectives of the scheme are:-

- Improve the quality, technology and skill development of the MSMEs.
- Increase market access for MSMEs.
- Build the capacity by extending financial assistance as grant for establishment of Common Facility Centers (CFC) of MSMEs and startups.
- Create and upgrade infrastructure in industrial areas and clusters through providing assistance as infrastructure development (ID).

MSE-CDP is a demand driven scheme that helps the MSMEs to address common challenges by integrating self-help groups and district industry associations, to achieve economies of scale by focusing on the needs of similar industries.

Achievement - Year-wise data during the FY 2017-18 to 2023-24

Year	Projects Approved			Projects completed			Budget utilized (Rs. in crore)		
	CFC	ID	Total	CFC	ID	Total	BE	RE	Expenditure
2017-18	9	12	21	13	11	24	184.00	157.65	157.11
2018-19	11	26	37	17	11	28	279.00	173.40	172.73
2019-20	38	35	73	11	11	22	227.90	227.90	226.34
2020-21	26	42	68	8	12	20	390.69	116.28	116.28
2021-22	18	13	31	3	13	16	156.50	156.50	135.59
2022-23	9	19	28	1	2	3	262.00	120.00	78.68
2303-24	20	26	46	10	30	40	150.00	178.97	178.96
CAGR (In %)	14.23	13.75	13.96	-4.28	18.20	8.89	-3.35	2.14	2.19
Total	131	173	304	63	90	153	1650.09	1130.7	1065.69

*Source: MSME Annual Report & Researcher's compilation*

*CFC = Common Facility Centers*

*ID = Infrastructure Development*

*BE = Budget Estimate*

*RE = Revised Estimate*

During the FY 2017-18 to 2023-24 the CAGR under approved projects constitutes 13.96 % and for completed projects are 8.89 %, which is generally less than the approved projects. In the budget estimates its show negative 3.35 % & for revised estimates it comes as 2.14 % and the final expenditure shows as 2.19 % CAGR.

**Market Assistance Scheme:****Market Development Assistance (MDA):**

The policy has been announced in the view to increasing the participation of representatives of participating units. Presently MDA is offered in three forms:-

1. Participation in international exhibitions for registered MSMEs with DI/DIC.
2. Financial assistance for using global standards (GS1) in barcoding.
3. Availing financial assistance through office of the DC-MSME.

**A. Scheme for Technology Up-gradation and Competitiveness****MSME Champions Scheme:**

A one-stop solution that brings various schemes and supports to help MSEs business to grow and succeed. The scheme's aim to pick up clusters and enterprises and modernize their processes, reduce wastes, increases competitiveness facilitate their reach at globally. Through modernization the aim is to create a vibrant ecosystem for MSMEs. The scheme has been formulated with three components as:-

1. MSME-Sustainable (ZED) Certification Scheme
2. MSME-Competitive (Lean) Scheme
3. MSME-Innovative (for Incubation, IPR and Design) Scheme

**Raising and Accelerating MSME Performance (RAMP) Scheme:**

A World Bank supported Central Sector Scheme aimed at improving access to finance, market and technology with strengthening institutions at the state and central level and to improve credit and liquidity needs. Incentivize banks and NBFCs to offer loans to MSMEs, and creating space to scale up guarantees to women-owned Micro and Small enterprises.

**Impact of Digitization on MSMEs:**

Digitization has had a profound impact on Micro, Small, and Medium Enterprises (MSMEs) across various sectors as access to finance, Improved Operational Efficiency, Access to Financial Services and many more.

**1. Access to Markets**

- E-commerce Platforms: MSMEs can leverage e-commerce to sell products directly to consumers, broadening their market reach beyond local boundaries.
- Digital Marketing: With online advertising and social media, MSMEs can target specific demographics effectively and at a fraction of traditional marketing costs.
- Online Presence: MSMEs can reach a broader audience through e-commerce platforms and social media, reducing dependency on physical locations.
- Global Reach: Digitization enables MSMEs to export products and services, opening up international markets.

**2. Improved Operational Efficiency**

- Automation of Processes: Digitization allows MSMEs to automate various operational processes, such as inventory management, accounting, and customer relationship management (CRM). This leads to reduced errors and increased productivity.
- Improved Communication: Digital tools facilitate better communication within teams and with clients; ensuring information is shared promptly and accurately.

**3. Cost Reduction**

- Reduction in Overheads: By moving operations online, many MSMEs can cut down costs on associated with physical infrastructure.
- Access to global Resources: Digital marketing is often more cost-effective than traditional methods, allowing for better-targeted advertising and enable MSMEs to source raw materials and services at competitive prices from around us.

**4. Access to Financial Services**

- Fin-tech Solutions: Digital finance solutions enable MSMEs to access loans, investments, and other financial services more easily compare to physical hands.
- Transparent Transactions: Digital payment systems foster transparency and trust, facilitating smoother financial interactions.

### 5. Customer Insights

- Data Analytics: Digitization allows MSMEs to gather and analyze customer data, gaining insights into preferences that can inform product development and marketing strategies.
- Feedback Systems: Digital platforms facilitate real-time feedback, helping businesses improve products and services quickly.

### 6. Resilience and Adaptability

- Crisis Management: Digitized businesses can more rapidly adapt to market changes or crises, such as during the COVID-19 pandemic and create a pathway to cater the existing problems associated with specific aspects.
- Flexible Work Models: Remote working technologies allow MSMEs to maintain operations in challenging environments with adaptation through specified training programme.

### Conclusion & Suggestions:

Government policies play a significant role in enhancing MSME growth and promoting entrepreneurship in India. However, for these policies to be effective, it is essential to address the existing challenges and ensure that the intended benefits reach the end-users—entrepreneurs. By creating a more conducive environment for MSMEs, India can leverage this sector as a robust growth engine, leading towards a more prosperous economy. With numerous opportunities to MSMEs, digitization also comes with challenges that need to be addressed to ensure sustainable growth and competitiveness. Embracing digital transformation could be a game-changer for many MSMEs in today's economy. The study suggests as enhancing the efficacy of government policies, such as streamlining regulatory processes, increasing financial literacy among entrepreneurs, and improving infrastructure. By reinforcing the entrepreneurial ecosystem, India can maximize the potential of MSMEs as a catalyst for sustainable economic growth and resilience.

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