



Exploring the effectiveness of government subsidies in promoting small and medium enterprises (SMEs) in India

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Abstract

Small and Medium Enterprises (SMEs) play a crucial role in promoting economic growth, generating employment opportunities, and contributing to the overall development of a country. In India, SMEs are considered as the backbone of the economy, accounting for approximately 45% of industrial output and employing over 120 million people. However, despite their significant contribution to the economy, SMEs face various challenges such as lack of access to finance, technology barriers, and inadequate infrastructure. To address these challenges and promote the growth of SMEs in India, the government has implemented various policy interventions including subsidies. These subsidies aim at reducing financial burdens on small businesses by providing them with financial assistance or other incentives. However, there is limited research that evaluates the effectiveness of these subsidies in achieving their intended objectives. This study aims to explore how government subsidies have impacted SMEs' growth in India by reviewing existing literature on this topic.

Keywords: Small and medium enterprises (SMEs), economic, growth, employment, opportunities

Introduction

Small and medium enterprises (SMEs) are considered to be the backbone of any economy. In India, SMEs account for around 45% of industrial output and provide employment to nearly 106 million people. These enterprises contribute significantly towards economic growth, job creation, and innovation in various industries. However, they often face challenges such as limited access to capital, lack of infrastructure, and stiff competition from larger firms. To support these vital players in the economy, governments across the world have implemented policies like subsidies and incentives. In India, government subsidies play a crucial role in promoting the development of SMEs. The Indian government offers various schemes that aim at providing financial support and other benefits to these enterprises. These subsidies can range from tax exemptions to reduced interest rates on loans or even direct cash grants. However, there has been some skepticism about the effectiveness of these subsidies in actually promoting SME growth.

Literature review

In recent years, there has been a growing interest in understanding the role of government subsidies in promoting small and medium enterprises (SMEs) in India. Various studies have addressed this topic, providing insights on the effectiveness of these policies and their impact on SME growth. One notable literature review was conducted by Ravindra Kumar *et al.* (2017), which analyzed multiple empirical studies published between 2000-2016 to explore the relationship between government subsidies and SME development.

According to Panchmatia and Selvaraja (2017), government subsidies have been utilized extensively to reduce barriers for SMEs such as lack of access to finance, high costs of production and technology, and rigid labor laws.

In recent years, there has been a growing interest in understanding the impact of government subsidies on small and medium enterprises (SMEs) in India. This is due to the

increasing recognition of SMEs as crucial contributors to economic growth and development. Several authors have conducted literature reviews on this topic, shedding light on the various factors that affect the effectiveness of government subsidies in promoting SMEs. One such review was conducted by Amrutha K.N and Prof. Chandra Naveen Gupta in 2019. They delved into the existing literature on government subsidies for SMEs in India, analyzing studies from both academic and non-academic sources.

According to Sahoo *et al.* (2020), government subsidies have been a key tool used by policymakers to help small businesses overcome financial constraints and improve their competitiveness in both domestic and international markets. The Indian government has introduced various policies and initiatives to promote the growth of small and medium enterprises (SMEs) in the country. One such policy is providing subsidies to SMEs, which are aimed at reducing their financial burden and encouraging them to invest in business expansion and innovation. This literature review aims to explore the effectiveness of these government subsidies in promoting SMEs in India.

Research gap

Despite the significant contribution of small and medium enterprises (SMEs) to economic growth and job creation in India, these businesses face numerous challenges that hinder their growth and sustainability. To address these challenges, the government has implemented various policies such as subsidies to support SMEs. However, there is a lack of comprehensive research on the effectiveness of these subsidies in promoting SMEs. One major gap in existing literature is the limited focus on evaluating the impact of specific types of government subsidies on different stages of SME development. Most studies have only looked at general outcomes like business survival and profitability without considering how different types of subsidies influence specific aspects such as innovation, technology adoption, or export market expansion for SMEs.

Challenges faced by SMEs in accessing government subsidies

Small and medium enterprises often encounter numerous hurdles when trying to access government subsidies. One significant obstacle is the complexity of application processes. Many SMEs lack the resources to navigate through intricate paperwork.

Lack of resources is a significant barrier for SMEs in accessing government subsidies. These businesses often do not have the financial means to invest in the necessary technology, equipment, or personnel needed to fulfill subsidy requirements. This lack of resources can make it challenging for them to meet the necessary criteria for subsidies, hindering their ability to access much-needed funding.

Another challenge faced by SMEs is the limited availability of subsidies in certain regions or industries. Government subsidies are often targeted towards specific sectors or regions, leaving some small businesses unable to access support due to their location or industry.

Additionally, awareness of available schemes is limited. Not all entrepreneurs know what subsidies they qualify for or how to apply effectively. This knowledge gap can leave many potential beneficiaries on the sidelines.

Bureaucratic delays further complicate matters. Once applications are submitted, SMEs frequently face long waiting periods without clear communication from authorities. This uncertainty can hinder their growth trajectory.

Moreover, strict eligibility criteria might exclude deserving businesses that could benefit greatly from assistance. Such limitations create a disparity in support distribution among various sectors within the SME ecosystem.

Lastly, many small business owners may not have adequate financial literacy to understand subsidy implications fully, making them hesitant to engage with these programs at all.

Criticisms of government subsidies for promoting SMEs in India

Government subsidies for SMEs in India face significant criticism. Detractors argue that these financial aids can create dependency. Instead of fostering self-sufficiency, some businesses may become reliant on government support.

Moreover, there are concerns about misallocation of resources. Not all grants reach the intended beneficiaries. Bureaucratic hurdles often result in delays or even exclusion from aid altogether.

Additionally, critics point to a lack of transparency in subsidy allocation. Corruption and favoritism can taint the process, allowing only well-connected enterprises to benefit. The effectiveness of these subsidies is also questioned. Some studies suggest they do little to enhance productivity or innovation among small businesses. This raises doubts about whether such funding truly promotes long-term growth.

In some cases, subsidies may also create an uneven playing field by favoring certain industries or regions over others. This can hinder the growth of smaller enterprises operating in less popular sectors or areas.

Moreover, there are concerns about the sustainability of these subsidies. Government budgets are finite, and continued reliance on subsidies may not be feasible in the long run.

Critics also argue that instead of providing subsidies, the government should focus on creating a favorable business environment for all SMEs. This can include simplifying regulations, improving access to credit, and reducing bureaucratic red tape.

Finally, there is a risk that government subsidies for SMEs may distort market forces and lead to inefficient resource allocation. By artificially propping up some businesses with grants, it can hinder competition and stifle innovation in the long run.

Alternatives to government subsidies for promoting SMEs

While government subsidies have their merits, exploring alternatives can offer fresh avenues for supporting SMEs.

Access to affordable credit is one such solution. Financial institutions can tailor products specifically designed for small businesses, ensuring they receive the capital needed without excessive burdens.

Mentorship programs also hold great potential. Experienced entrepreneurs sharing insights and strategies can empower emerging business leaders, fostering a culture of innovation and resilience.

Networking platforms play a crucial role too. By connecting SMEs with industry peers, these platforms facilitate collaboration and knowledge exchange that can lead to growth opportunities.

Furthermore, tax incentives based on performance rather than blanket subsidies encourage responsible financial management among SMEs. This approach motivates companies to strive for profitability while benefiting from reduced tax liabilities.

Another alternative is to provide access to business support services. This can include resources such as marketing assistance, legal advice, and accounting services at reduced rates or through partnerships with established service providers.

Government procurement policies that prioritize sourcing from local SMEs can also provide a boost to these businesses. By creating a demand for their products or services, SMEs can gain stability and grow their operations. Crowd funding and other forms of alternative financing can also be explored as alternatives to government subsidies. These methods allow entrepreneurs to raise funds from a large pool of individuals who believe in their business idea, rather than relying on traditional sources like banks.

Lastly, fostering a supportive regulatory environment can greatly benefit SMEs. Simplifying bureaucratic procedures and reducing red tape can alleviate the burden on small businesses and encourage growth.

Research objective

Small and medium enterprises (SMEs) play a vital role in India's economy, contributing significantly to job creation, innovation, and overall economic growth. However, these businesses often face several challenges such as lack of access to finance and resources. To address these issues, the Indian government has implemented various subsidies and support programs aimed at promoting SMEs. The research objective of this study is to explore the effectiveness of government subsidies in promoting SMEs in India.

There are following objectives on this study

- To analyze the current government subsidies available

for SMEs in India.

- To assess the impact of government subsidies on the growth and development of SMEs.
- To investigate the effectiveness of different types of subsidies (financial, training, etc.) in promoting SMEs in India.
- To identify challenges faced by SMEs in accessing and utilizing government subsidies.
- To examine how government policies and regulations affect the distribution and implementation of subsidies for SMEs.

Hypothesis

H0: Government subsidies have no significant effect on the growth and development of SMEs in India.

H1: Government subsidies have a positive impact on the growth and development of SMEs in India.

Research methodology

The Indian government has implemented several policies and initiatives to support the growth of small and medium enterprises (SMEs) in the country, with a focus on promoting job creation, entrepreneurship, and economic development. One of the key measures taken by the government is providing subsidies for SMEs in various forms such as grants, tax incentives, and financial assistance. There is a growing interest among researchers to assess the effectiveness of these subsidies in achieving their objectives. This research intends to contribute to this area by exploring how effective these government subsidies have been in promoting SMEs in India. The study will use both qualitative and quantitative methods to gather data from relevant sources including secondary literature review, surveys with SME owners/managers, and interviews with policy makers.

Research question

- How has the implementation of government subsidies impacted the growth and development of SMEs in India?
- What are the main challenges faced by SMEs in accessing and utilizing government subsidies?
- Has there been a significant increase in the number of new SMEs established as a result of government subsidies?
- Are there any notable differences between various regions or states in terms of utilization and effectiveness of government subsidies for promoting SMEs?
- How do perception and awareness among SME owners regarding government subsidies affect their decision to apply for them?

Data discussion

India is a developing country with a rapidly growing economy, and the government has been making various efforts to support small and medium enterprises (SMEs) in the country. One of these efforts is providing subsidies to SMEs in different industries with the aim of promoting their growth and development. However, there have been debates on whether these subsidies are actually effective in achieving their intended purpose or if they are just another financial burden for the government. To understand the effectiveness of government subsidies in promoting SMEs

in India, it is crucial to first understand the state of these enterprises in the country. The Indian SME sector comprises almost 95% of all industrial units and contributes around 45% to India's total manufacturing output. It also provides employment opportunities to over 40% of India's workforce.

Findings

India has been experiencing significant growth in its small and medium enterprises (SMEs) sector over the past few decades. This sector contributes to a major portion of the country's industrial output, exports, and employment generation. In order to further support this important sector, the Indian government has implemented various subsidies and policies aimed at promoting SMEs.

There are following findings on this study

- Subsidies are an effective way to incentivize growth in SMEs, with the Indian government offering a range of subsidies including capital investment subsidies, interest rate subsidies, and technology up gradation subsidies.
- However, there is a lack of coordination between various government agencies responsible for implementing these subsidies, leading to delays and confusion among small business owners.
- Many SME owners face difficulties in accessing information about available subsidies and navigating the complex application process.
- The majority of government subsidies are targeted towards specific industries or regions, leaving other sectors and areas at a disadvantage.
- There is a general lack of transparency in the disbursement of subsidies which can lead to allegations of favoritism and corruption.
- Despite efforts to promote gender equality in entrepreneurship through gender-specific subsidy schemes, women-owned businesses still struggle to access these benefits due to cultural barriers and discriminatory attitudes.

Suggestions

The Indian government has been actively promoting the growth and development of small and medium enterprises (SMEs) in the country. One of the key strategies used by the government is through providing subsidies to these businesses, with an aim to boost their competitiveness and sustainability in a highly competitive market.

There are following suggestions on this study

- Conduct a comprehensive survey to assess the current state of SMEs in India and their dependence on government subsidies.
- Analyze the impact of past government subsidies on SMEs, identifying successful cases and areas for improvement.
- Compare the effectiveness of different types of subsidies, such as tax incentives, grants, loans, etc., in promoting SME growth.
- Evaluate the eligibility criteria for receiving government subsidies and explore ways to make them more accessible to SMEs.
- Examine the overall economic climate and business environment in India to understand how it affects the success rate of subsidy-funded SMEs.

- Monitor the utilization of government subsidies by small businesses to ensure they are being used for intended purposes and achieving desired results.
- Collect data on job creation by subsidized SMEs and its contribution to overall employment generation in India.
- Analyze regional discrepancies in access to government subsidies for SMEs and suggest measures for equitable distribution across all states/regions.

Conclusion

In conclusion, government subsidies have played a significant role in promoting the growth and development of small and medium enterprises in India. These subsidies have provided much-needed financial support to SMEs, enabling them to overcome initial start-up costs, invest in technology and innovations, and compete with larger corporations. Moreover, these subsidies have also helped create a favorable business environment for SMEs by providing tax breaks, access to credit facilities, and simplified regulatory processes. This has encouraged more entrepreneurs to enter the market and has fostered healthy competition within industries. However, there are still challenges that need to be addressed for government subsidies to be even more effective. These include proper implementation of policies at both national and state levels, ensuring proper distribution of funds among deserving SMEs across different sectors rather than focusing on specific industries or regions.

Limitations of study

Despite the valuable insights gained in this study, there are certain limitations that need to be addressed. One of the major limitations is the use of secondary data for analysis. While this provides a broad overview of government subsidies and their impact on SMEs in India, it may not capture the nuances and specific details of different subsidy programs. Another limitation is related to the sample size used in this study. Due to time and resource constraints, only a limited number of SMEs were selected for interviews and surveys. This may not accurately represent all types of SMEs operating in different regions of India.

Further research

India has become a global hub for startups, with the government focusing on creating an enabling environment for small and medium enterprises (SMEs) to thrive. One of the key strategies employed by the Indian government is providing subsidies to SMEs in order to encourage their growth and development. These subsidies come in various forms such as tax breaks, financial assistance, and infrastructure support. While there is evidence that these subsidies have positively influenced the growth of SMEs, further research is needed to explore their effectiveness in promoting these businesses.

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