



A study on the role of government policies and regulations in promoting the growth of MSMEs in India

Kritika¹, Dr. Sharda Kumari²

¹ Research Scholar, Faculty of Management, University Department of Commerce and Management, B. R. Ambedkar Bihar University, Muzaffarpur, Bihar, India

² Assistant Professor and Supervisor, L.N. Mishra College of Business Management, Muzaffarpur, Bihar, India

Abstract

Micro, Small and Medium Enterprises (MSMEs) form a crucial part of the Indian economy, contributing significantly to employment generation, economic growth and poverty alleviation. However, these enterprises face numerous challenges such as lack of access to finance, technology and skilled labour, limited market reach and inadequate infrastructure. In order to address these challenges and promote the growth of MSMEs in India, various government policies and regulations have been put in place over the years. This study aims to analyze the role of government policies and regulations in promoting the growth of MSMEs in India. It will examine how these initiatives have impacted the MSME sector by providing a conducive environment for their development. The research will also highlight any gaps or limitations in existing policies that hinder the growth opportunities for MSMEs. The study will use both primary data collected through surveys from selected MSME owners as well as secondary data from relevant government reports and publications.

Keywords: Digital literacy, job creation, sustainable development, gross domestic product and economic growth

Introduction

Small and Medium Enterprises (SMEs) play a crucial role in the economic development of any country. In India, Micro, Small and Medium Enterprises (MSMEs) have emerged as the backbone of the economy due to their significant contribution to employment generation, industrial production, exports and overall growth. According to data from the Ministry of MSMEs, there are over 63 million MSME units operating in India, which contribute around 30% to the GDP [1]. However, despite their immense potential and contribution towards economic growth, MSMEs face numerous challenges that hinder their expansion and sustainability. Recognizing the need for promoting their growth, the Government of India has introduced various policies and regulations aimed at fostering a conducive business environment for these enterprises. This study aims to examine how effective these government policies and regulations have been in promoting the growth of MSMEs in India. It will also analyze any gaps or areas where improvements can be made to further enhance their impact on this vital sector of Indian economy [2].

Literature Review

The role of Micro, Small and Medium Enterprises (MSMEs) in India cannot be overstated. These small businesses contribute significantly to the country's economy by creating employment opportunities, stimulating innovation, and boosting local production. However, in recent years, MSMEs have faced numerous challenges such as lack of access to finance, limited technology adoption, and inadequate infrastructure. To overcome these obstacles and promote the growth of MSMEs, government policies and regulations play a crucial role.

In a study conducted by Shrijit Rudrappa Hubballi, Professor Deepak Shyam (2023), the authors examined the impact of government policies and regulations on the

growth of Micro, Small, and Medium Enterprises (MSMEs) in India. The authors highlighted that MSMEs play a significant role in driving economic growth, job creation, and poverty alleviation in developing countries like India. However, these enterprises face numerous challenges such as lack of access to finance, inadequate infrastructure, and bureaucratic hurdles [3].

The growth and development of Micro, Small, and Medium Enterprises (MSMEs) have been recognized as crucial for the overall economic growth of any country. In recent years, there has been an increasing focus on promoting the growth of MSMEs in India through government policies and regulations. This literature review aims to critically analyze existing studies on the role of government policies and regulations in promoting MSMEs' growth in India. One study conducted by Alok Kumar Pramanik (2019) examined the impact of various government initiatives such as credit guarantee schemes, technology upgradation programs, and cluster development programs on MSMEs' performance in different states of India.

In his 2010 paper "Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal," Ghatak, Shambhu points out that the status of Indian MSMEs surpasses that of their counterparts in Bangladesh and Pakistan. He notes that approximately 36% of Pakistani SMEs possess bank accounts, while around 46% of Bangladeshi SMEs have access to banking. In stark contrast, about 95% of Indian SMEs maintain bank accounts. Moreover, he emphasizes the need for the Indian government to enhance its efforts in supporting these small-scale industries.

Subrahmanya Bala (2011) examined how globalization influences the export capabilities of small-scale enterprises and found that while the effect was significant during the protection period, it has also exhibited an upward trend during the liberalization phase; however, this growth appears to have plateaued.

The findings suggested that these initiatives positively

influenced the productivity, profitability and competitiveness of MSMEs. Similarly, another study by Vinay Kumar *et al.* (2017) analyzed how government regulations related to tax incentives, labor laws, and infrastructural support impacted Indian MSMEs' growth^[4].

Research Gap

Despite the crucial role played by Micro, Small and Medium Enterprises (MSMEs) in driving economic growth and providing employment opportunities in India, there remains a significant research gap on the effectiveness of government policies and regulations in promoting their growth. While various studies have been conducted on MSMEs in India, most have focused on their contribution to the country's economy and challenges faced by them. However, limited attention has been given to exploring how government policies and regulations impact the growth of these enterprises. One major factor contributing to this research gap is the lack of comprehensive data available on the implementation and outcomes of various government policies for MSMEs. The existing literature mainly relies on secondary data sources such as reports from government agencies or surveys conducted by independent organizations.

Positive Impact of Government Initiatives on MSME Growth

The MSME (Micro, Small and Medium Enterprises) sector is considered the backbone of the Indian economy, contributing significantly to its growth and development. In recent years, the government has taken several initiatives to boost this sector and promote its growth. These initiatives have had a positive impact on MSMEs, leading to their increased participation in various industries and sectors.

One of the major steps taken by the government towards promoting MSME growth is the introduction of policies that provide financial support and incentives for these enterprises. The Micro, Small & Medium Enterprises Development Act of 2006 mandates banks to allocate a certain percentage of their lending towards MSMEs. This ensures better access to credit for small businesses with limited resources. Additionally, the Credit Guarantee Fund Scheme offers collateral-free loans up to Rs. 2 crore for small businesses, reducing their financial burden and facilitating their growth.

Another significant initiative is the creation of dedicated platforms such as GeM (Government e-Marketplace) which promotes procurement from MSMEs by government agencies. This not only provides a ready market for these enterprises but also helps them compete on an equal footing with larger companies.

Moreover, in line with its emphasis on digitalization, the government has implemented various measures to facilitate online registration processes for setting up an MSME. This has reduced bureaucratic hurdles and made it easier for entrepreneurs to start their businesses^[5].

Apart from financial support and technology facilitation, regulatory reforms undertaken by the government have also contributed greatly towards supporting MSME growth. The Goods and Services Tax (GST) regime has streamlined tax procedures and reduced the burden on small businesses, making it easier for them to operate. The Insolvency and Bankruptcy Code (IBC) has also provided a more efficient framework for dealing with bankruptcy cases, providing

MSMEs better chances of revival in case of insolvency.

Future Prospects and Role of Government in Sustaining MSME Growth

The Micro, Small, and Medium Enterprises (MSMEs) sector has played a significant role in the economic growth of India. With around 63 million enterprises, MSMEs have contributed to almost 29% of India's GDP and provided employment to over 110 million people. However, despite their crucial contribution, the potential of MSMEs remains largely untapped due to various challenges such as limited access to finance, lack of skilled labor, poor technological advancement, and inadequate infrastructure.

To address these challenges and boost the growth of MSMEs in India further, it is essential for the government to play an active role. The Indian government has been consistently launching policies and schemes to promote the growth of this sector. One such initiative is the "Atmanirbhar Bharat Abhiyan" announced by Prime Minister Narendra Modi in May 2020. This scheme aims at making India self-reliant by providing financial assistance, promoting local entrepreneurship and supply chains.

Apart from this initiative, several other policies have been implemented by the government like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Start-up India Initiative, Pradhan Mantri Employment Generation Programme (PMEGP), etc., which aim at providing financial support and promoting innovation among small businesses^[6].

Moreover, with technology being a driving force for any business's sustainability today, initiatives like Digital MSME Scheme have been launched to increase digital adoption among MSMEs through credit linked subsidy scheme. These schemes not only encourage digitization but also help MSMEs stay competitive in today's dynamic market.

The government has also taken steps to address the issue of inadequate infrastructure faced by small businesses by initiating programs like Udyog Aadhaar Memorandum (UAM). It enables hassle-free registration process for new enterprises by leveraging technology while simultaneously allowing them access to various benefits and schemes.

Further, to promote ease of doing business for MSMEs, the government has introduced the "Udyam" portal. It integrates various services such as registration, modifications, and tracking of applications under a single platform, making it convenient for entrepreneurs to register their businesses.

The Significance of Government Support for the Growth of MSMEs in India

The MSME (Micro, Small, and Medium Enterprises) sector in India plays a crucial role in the economic development of the country. It is estimated that this sector contributes around 29% to the country's GDP and employs over 111 million people. Despite being a significant contributor to the economy, the growth of MSMEs has been hindered by various challenges such as lack of access to finance, technological advancements, and limited market opportunities.

Recognizing the potential and importance of this sector in fostering socio-economic development, the Indian government has implemented several policies and regulations over the years to support its growth. These policies aim to address some of the key challenges faced by

MSMEs and create an enabling environment for their sustainable growth. This section will discuss some of the significant government initiatives that have played a vital role in promoting MSMEs' growth in India.

One of the most notable policies introduced by the Indian government is the Micro, Small, and Medium Enterprises Development Act (MSMED), 2006. This act defines micro-enterprises as those with investments up to Rs.25 lakhs; small enterprises with investments between Rs.25 lakhs – Rs.5 crores; and medium enterprises with investments between Rs.5 crores –Rs.10 crores. The MSMED Act provides legal recognition to these businesses and ensures their protection through various provisions such as delayed payment mechanisms, credit guarantee schemes, etc.

To facilitate better access to finance for MSMEs, several schemes have been launched by both central and state governments. For instance, Credit Guarantee Trust Fund Scheme offers collateral-free loans up to Rs 2 crores for both new start-ups as well as existing businesses at low-interest rates through banks and financial institutions.

The government also launched Udyog Aadhaar Memorandum (UAM) scheme for online registration of MSMEs providing them with an easier way to obtain benefits from schemes like NSIC (National Small Industries Corporation) without any physical documentation. The "Startup India" initiative launched in 2016, provides various benefits such as tax exemptions and easier registration process to promote entrepreneurship and enable a conducive environment for start-ups.

In addition to these initiatives, the government has also taken steps to improve the sector's ease of doing business by simplifying processes like obtaining various approvals and licenses. For instance, the Udyog Aadhaar Memorandum Scheme allows for self-certification of compliance with various labour laws, thus saving MSMEs time and resources.

Research Methodology

Research methodology is the systematic process by which information is gathered, evaluated and analyzed in order to answer research questions. In this study on the role of government policies and regulations in promoting the growth of MSMEs (Micro, Small and Medium Enterprises) in India, a mixed method approach will be utilized. This means that both qualitative and quantitative data will be collected and combined to gain a comprehensive understanding of the research topic. The first step in this research methodology involves conducting a thorough literature review on existing studies related to government policies and regulations for MSMEs in India. This will provide a theoretical background for the study, identifying gaps and potential areas for further investigation. Next, primary data will be collected through surveys from a sample population composed of various stakeholders such as MSME owners/managers, representatives from relevant government bodies, industry associations and business experts. The survey questionnaire will cover aspects such as awareness about current policies and regulations affecting MSMEs, their effectiveness in promoting growth, barriers faced by MSMEs in complying with these policies, etc.

Hypothesis

H0: Government policies and regulations have no significant impact on the growth of MSMEs in India.

H1: Government policies and regulations play a crucial role in promoting the growth of MSMEs in India.

Research Objective

The micro, small and medium enterprises (MSMEs) sector plays a vital role in the economic growth of India. It contributes significantly to employment generation, innovation, and overall development of different sectors. In recent years, there has been a growing recognition of the importance and potential of this sector in driving economic growth. However, MSMEs face several challenges such as lack of access to finance, limited technology adoption, inadequate infrastructure facilities among others. In order to promote the growth and development of MSMEs in India, government policies and regulations play a crucial role.

There are followings Objectives on this study

- To identify the current government policies and regulations related to MSMEs in India.
- To examine the impact of these policies and regulations on the growth of MSMEs.
- To analyze the challenges faced by MSMEs in complying with government policies and regulations.
- To determine the effectiveness of existing financial support schemes for MSMEs.
- To investigate how taxation policies affect MSMEs' operations and competitiveness.

Research Questioner

- What are the current government policies and regulations in place for supporting the growth of MSMEs in India?
- How effective have these policies been in promoting the development of MSMEs?
- What challenges do MSMEs face while trying to comply with government regulations?
- How has the recent economic downturn affected government support for MSMEs?
- What is the role of financial institutions in implementing government policies for promoting MSME growth?

Data Collection

The data collection process for this study on the role of government policies and regulations in promoting the growth of MSMEs in India will consist of both primary and secondary sources. The primary data will be collected through surveys, interviews, and focus groups with relevant stakeholders such as business owners, policymakers, industry experts, and representatives from MSME associations. These methods will provide first-hand information on the impact of government policies and regulations on MSME growth. In addition to primary data, secondary data will also be collected from various credible sources including government reports, academic articles, industry publications, and databases such as World Bank's Enterprise Surveys. This will ensure comprehensive coverage of existing literature and statistics related to the research topic. Both quantitative and qualitative approaches will be used to analyze the gathered data. Quantitative analysis techniques like statistical tests and regression models will help in examining the relationship between different variables such as type of policy/regulation implemented by the government and its effect on MSME growth.

Methods of Data Analysis and Data Interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

Data Discussion

The data gathered from the study highlights the crucial role that government policies and regulations play in promoting the growth of micro, small and medium enterprises (MSMEs) in India. The findings reveal that there is a positive correlation between supportive government policies and the expansion of MSMEs in the country. One key aspect identified by the data is the impact of easier access to finance on MSME growth. With more streamlined processes for obtaining loans and financial assistance, entrepreneurs are able to invest in their businesses and stimulate growth. This further leads to job creation, economic development, and poverty reduction.

Findings

The role of government policies and regulations in promoting the growth of Micro, Small and Medium Enterprises (MSMEs) in India has been a topic of great interest and discussion. In recent years, the Indian government has implemented various measures to support MSMEs and encourage their development. These efforts have been aimed at boosting job creation, increasing exports, narrowing regional disparities and promoting inclusive economic growth.

There are followings Findings on this Study

- Government policies play a crucial role in promoting the growth of MSMEs (Micro, Small and Medium Enterprises) in India.
- The study found that the implementation of various policies and regulations has significantly contributed to the increasing number of MSMEs in India.
- One key finding was that government initiatives such as Start-up India, Make in India and Digital India have created a conducive environment for the growth of MSMEs.
- The study also highlighted that financial support through schemes like MUDRA Yojana and Stand-Up India has played a vital role in empowering small businesses to grow.
- It was observed that the simplification of regulatory processes, such as GST registration and compliance, has encouraged more entrepreneurs to enter into the MSME sector.

Suggestions

The role of Micro, Small and Medium Enterprises (MSMEs) in India's economic growth cannot be underestimated. These small businesses contribute significantly to the country's GDP, provide employment opportunities, and foster innovation and entrepreneurship. However, despite their importance, MSMEs face many challenges that hinder their growth potential. One crucial factor affecting the growth of MSMEs is the government policies and regulations. While some policies have been beneficial for these enterprises, others have created obstacles for them.

There are followings Suggestions on this study

- Implement a simplified and streamlined process for starting and registering MSMEs in India.
- Provide financial support through low-interest loans, subsidies, and tax breaks to encourage MSME growth.
- Encourage the adoption of technology by providing incentives for digitalization and modernization of operations in MSMEs.
- Promote collaborations between large corporations and MSMEs to enable access to new markets, technology transfer, and financial support.
- Establish dedicated zones or industrial parks for MSMEs with necessary infrastructure and services such as power, water supply, transportation, etc.
- Develop specialized training programs for skill development among the workforce employed in MSMEs to enhance their productivity and efficiency.

Conclusion

In conclusion, government policies and regulations play a crucial role in promoting the growth of MSMEs in India. These policies provide financial assistance, favourable tax schemes, and other incentives to support the development of small businesses. The regulatory framework also ensures a conducive business environment that allows for ease of doing business and encourages innovation and competitiveness among MSMEs. Furthermore, with initiatives like Make in India and Start-up India, the Indian government has propelled the growth potential of MSMEs by creating opportunities for them to scale up their operations both domestically and globally. However, there is still room for improvement as some challenges such as bureaucratic hurdles, lack of access to finance, and inadequate infrastructure continue to hinder the progress of these enterprises.

Reference

1. Anitha S, Siva Kumar P. A study on "The Role of Msme's in building National Economy", 2025, 12(5). Available from: <https://www.jetir.org/papers/JETIR2505107.pdf>
2. Sonker D. Impact Assessment of Government Policies on Small Business (MSME) In Uttar Pradesh, 2024, 12(5). Available from: <https://www.ijcrt.org/papers/IJCRT24A5681.pdf>
3. Hubballi SR, Shyam D. Role of Micro, Small, and Medium (MSMEs) in Indian Economy, 2023;4(9):3086-3095. Available from: <https://ijrpr.com/uploads/V4ISSUE9/IJRPR17488.pdf>
4. Kumar V. An Analysis of Growth of MSMEs in India and Their contribution in Employment and GDP of the Country, 2017, 4(2). Available from: <https://www.ijims.com/uploads/3dd6a9c10360fd4f16bf38vinay.pdf>
5. Kumari KNB. Role of Msmes In Sustainable Development of India, 2023, 11(11). Available from: <https://www.ijcrt.org/papers/IJCRT2311195.pdf>
6. Murthy RA. Evaluating The Role of Government Policies In Enhancing Rural Enterprises, 2017, 4(4). Available from: <https://www.ijrar.org/papers/IJRAR19D5924.pdf>
7. Buteau S. Roadmap for digital technology to foster India's MSME ecosystem Opportunities and

- challenges. CSIT,2021:9:233–44. Available from: <https://doi.org/10.1007/s40012-021-00345-4>
8. Bhalla N, Sharma RK, Kaur I. Effect of goods and service tax system on business performance of micro, small and medium enterprises. SAGE Open, 2023, 13(2).
 9. Srivastava, Sarika S. Role of MSME sector in Indian economy: A study with special reference to Gujarat. Pacific Business Review International, 2020, 13(3). Available at SSRN.
 10. Jha SK, Kumar A. Revitalizing msme sector in India: Challenges and the road ahead. Journal of Politics & Governance,2020:8(5):4–11.
 11. Raju K, Peri P. Growth Strategy for MSMES in defence sector to be self-reliant. Korea Review of International Studies,2022:15(37):189–206.