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**Website- [www.aarf.asia](http://www.aarf.asia), Email : [editoraarf@gmail.com](mailto:editoraarf@gmail.com)**

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## **Role of Government in Promoting Micro, Small & Medium Business**

Karan Singh

Department of Public Admin.

Chaudhary Devi Lal University, Sirsa

### **Abstract**

The government of India has been helping to develop small business activity in the country. India should give all its attention to rural industries and small businesses. Today, some people in India have small businesses in every nook and corner of the country. Every little thing that people buy comes from small or big businesses. We know that unemployment is an important topic in India. Small businesses have a special place in the industrial sector because of their contribution to creating jobs and the development of the country.

### **Introduction**

In a very large industry like India, 95% of the industrial units in the country are small businesses, and 40% of the total industrial output is to be provided by these small industries as part of the total. Again, small & medium businesses receive about 45% of the total for shipping goods to India. Small businesses are either service or retail operations such as grocery stores, medical stores, trades people, bakeries and small present participle units. Small & medium businesses are independently owned businesses that require little money, few employees and little or no

machinery. These businesses are ideally suited to operating on a smaller device to serve the local community and provide benefits to the company owners. The government of India defines small businesses based on the ability of the business to spend money on plans and machinery. As per the definition provided by the government website for business, [business.gov.in](http://business.gov.in), a small business is a business that has a financial commitment for infrastructure such as building and equipment, whether as an owner or on rent or on purchase basis, not exceeding Rs. 1 core. Small businesses play an important role in the economy. Think of the expensive cars you see on the roads every day. These are the millions of small & medium businesses that get you the car of your dreams. It is observed that 65-75% of the freshness or innovation comes from small business industries in the world. Small industries or businesses receive many benefits from the Indian government, such as land, electricity, water, sales tax, holidays, raw materials, finance, industrial wealth, and tax holidays. Even though adequate importance is given to backward areas and small industries, there is an imbalance in their economic development. Programs and schemes differ from state to state. Together, they form a package of benefits and encourage them to like industries or businesses in backward areas. The government of India focuses more on the economic and industrial development of the backward people, who have a lot of hilly and aboriginal areas in India. Committees have been constituted to certify and support the development of small-scale industries and business units and to suggest necessary schemes.

In the future, the World Trade Organization (WTO) facilitates today's trade and carries out many reforms as per global requirements. The World Trade Organization (WTO) system provides funds for development. Developing countries, on the other hand, need ductility in the time taken to appliance the system's agreements. India is showing care and effort in your work within the WTO framework as it is one of the founding members. The Indian economy is integrated with the global market, and small businesses can travel from one location to another and have the capability to establish new markets. Indian businesses will have to improve over time to match international business standards. Small businesses have to adapt to the changing needs of a market-driven economy with the entrepreneurial spirit. The government should be aware of new schemes that support partnerships between small and large industries. Helping small businesses to start and grow is a win-win for the government.

Through the Pradhan Mantri Mudra Yojana, the government gives the entrepreneurs of the country an opportunity to start their own business and provides them with loans at affordable rates. So far, many people have taken loans and started their businesses under this government scheme. A loan of up to 50,000 is available for first-time Mudra Yojana (PM Mudra Yojana) borrowers. By the time your business starts, you can get a loan of 50 thousand to 5 million. This scheme has been started by the Ministry of MSME, which is one of the largest startup loan schemes. Under this, help of up to Rs 1 crore is provided to startups and MSMEs to start businesses. The loan is transferred through a trust called the "Credit Guarantee Fund Trust for Micro and Small Enterprises", which is supported by the Ministry of MSME. Stand-up India, operated by the Small Industries Development Bank of India (SIDBI), provides financial assistance to SC, ST, and women entrepreneurs. An entrepreneur is given loans ranging from Rs 10 million to Rs 1 crore.

### **Examples and Ideas of Small & medium Scale Industries**

Bakeries

School stationery

Water bottles

Leather belt

Small toys

Paper Bags

Photography

Beauty parlors

## **India Government Policies on Small & Medium Scale Industries**

The government of India is encouraging small-scale industries, the backbone of India's economy, along with prescribing various investment limits and conditions that would meet their criteria. This whole process is in a constantly changing mode as per the global requirements. The small-scale industry segment introduces various changes as per the capital requirement. Since 1991, with the announcement of LPG policy by Dr. M. Singh, the definition and criteria have undergone a big change in SSI. Contributing a great deal to the country's economic development, modulation has a huge range of products and is widely accepted by the SSI industry. Modern small-scale industries are mainly manufacturing products like plastics and ceramics. Hardware items, automobile parts, glass, bicycle products, infrastructure products, handloom products and others. Due to the supporting role of the government of India, it is comparatively easier to set up small-scale industries with less investment in fixed capital assets and flexible capital requirements (Srinivas, 2013). With the growing number of SSI, export norms are expected to play an important role in generating small-scale employment and achieving desired outcomes. After the MSMED Act, 2006, the government has announced various development and promotion policies for small-scale industries. It was hoped that with the help of industrial policy resolution, small scale industry could tackle these problems. To meet the market requirements and desired export targets to enhance the profitability of this section. It was hoped that with the help of industrial policy resolution, small-scale industry could tackle these problems. To meet the market requirements and desired export targets to enhance the profitability of this section in India.

Small and medium-sized businesses have been widely promoted and recommended as one of the best tools for developing industries in less-developed countries with a larger population. Small and medium businesses have been receiving promotion in the development of action plans by the government of India. Generally, SME units involve a lot of work and require a small amount of capital.

**Definition of Small and medium industries:** One of the major issues faced by policy-makers up to the Second Five Year Plan was defining the term "small," as the application of the term varied

from industry to industry. Identification of small units is expressly required for the purpose of assistance under various programmers' definitions. Various options were suggested, including size of investment, size of employment, turnover, sources of energy, nature of activity etc. As per the definition, "an SME unit is an entity whose total investment is Rs 5 million and employs less than 50 people without using electricity." Over the years, the government has used different criteria for the definition of SMEs, especially since the definition was revised from 1958 to 1991 based on the investment limit. Several changes were made in the definition of SMEs to include various categories, such as export-oriented SME units and small-sized business enterprises, after the globalization of the economy in 1991.

**Government and SMEs:** State and central government policies are very important for the development of SMEs. These policies have been framed in different contexts according to the size of the Indian economy. The Common Minimum Program (CMP) was officially announced by the United Progressive Alliance (UPA) government on May 27th, 2004.

"In the past few years, the largest employment—which involves a lot of work—has been hit hardest by a segment of small-scale industry."

Growth in the SME sector has slowed from 11 percent in 1991-94 to 7 percent since then. Similarly, credit to SMEs as a percentage of net bank credit has declined from 17% in 1997-98 to less than 11% in September 2003. The Third Official Census of Small and Medium Enterprises (2001-02) showed that the employment density of SME units in the area has come down from 6.3 people per unit in 1987-88 to 4.5 people in 2001-02. These developments, globalization and the establishment of the World Trade Organization (WTO), have presented the SME sector with new challenges in the form of increased competition. These trends make one wonder whether the SME sector will be able to meet its targets of 12 percent annual growth and the creation of 4.4 million new jobs during the next plan period.

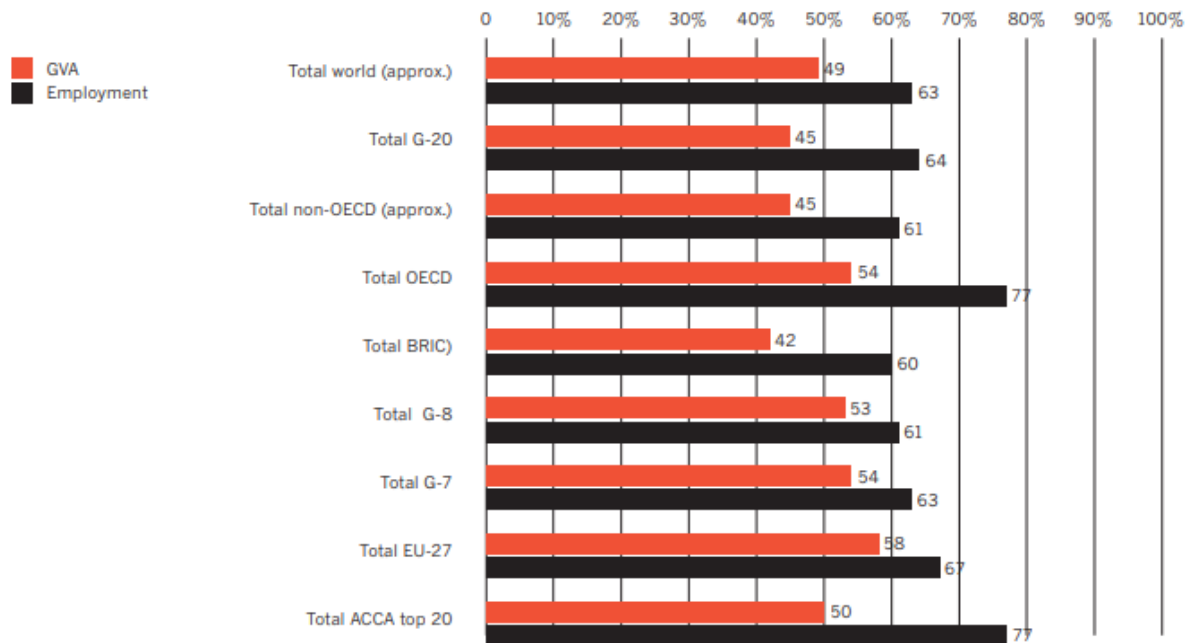
This entire process is in continuous change mode as per the global requirements. The table given below presents the various changes in the Small Scale Industries capital requirement.

<b>Year</b>	<b>Investment Limits</b>	<b>Conditions Applicable</b>
1950	Up to Rs.5.0 million in fixed assets	Less than 50/100 persons
1960	Up to Rs.5.0 million in fixed assets	Not Applicable
1966	Up to Rs. 7.5 million in Plant & Machinery	Not Applicable
1975	Up to Rs. 10 million in Plant & Machinery	Not Applicable
1980	Up to Rs. 20 million in Plant & Machinery	Not Applicable
1991	Up to Rs. 60 million in Plant & Machinery	Not Applicable
1999	Up to Rs. 100 million in Plant & Machinery	Not Applicable
2013	Minimum 25 million Up to Rs. 500 million in Plant & Machinery	Not Applicable
2016	Minimum 50 million Up to Rs. 1000 million in Plant & Machinery	Not Applicable

**Table 1: Changes in SSIs**

**Source: MSME Annual Reports 2015-16**

**Employment and GDP contribution of SMEs**



## In the Indian economy, the role of SMEs

Following independence, the government's primary goal was to achieve rapid industrialization within the overall framework of a welfare state. The purpose of economic growth with social justice was kept in mind in the overall planning of industrial development. Large, medium and small industrial units have been assigned a mutually complementary role with a view to the integrated and friendly development of the industrial sector as a whole. The industrial policies of the government of India and the respective state governments have been encouraging small enterprises to achieve the objectives of decentralization of industries, employment generation, and entrepreneurship development. The opinion of the planners involved in the fourth five-year plan favored the growth of the SME sector as they argued that capital-intensive modern technology would not absorb the growing job-seekers.

**Status of Small –scale Industries in India:** In recent years, the SME sector has been a dynamic and vibrant sector of the Indian economy. There are over 35 million small-scale industrial units in the country. According to the Third SME Census, there were 105 million registered and unregistered small businesses in 2006-07.

The Small-Scale Industries (SME) sector continues to be an important sector of the economy with a significant contribution to GDP, industrial production, job creation and exports.

According to The Census of Registered and Unregistered Units for the year 2008–09, there were 115.22 million SME units in the country, of which 15.54 million were registered working units and 99.68 million were unregistered.

The number of SME units is estimated to grow by 4.7 per cent to 115.22 million during 2008-09 as against 110.10 million in the previous year.

The performance of the small-scale sector based on the end results of the 3rd All India Census of SMEs in 2009 is given in the table.

**Number of units of SME in lakhs**

Year	Registered	Unregistered	Total
1999-00	11.61	67.99	79.60
2000-01	11.57	71.27	82.84
2001-02	11.99	74.22	86.21
2002-03	12.04	77.67	89.71
2003-04	12.00	81.36	93.36
2004-05	12.32	84.83	97.15
2005-06	13.10	88.00	101.10
2006-07	13.75	91.46	105.21
2007-08	14.68	95.42	110.10
2008-09	15.54	99.68	115.22

Source: Various publications of DCSME including Small Scale Industries in India – An Engine of Growth.

**Table 2: SME units in million**

The years and number of SME units are subjected to linear regression using the least squares method.

**Regression of SME units and years**

Independent	Dependent	R-square	F-value	Sig
Year	SME units	0.995	1504.07	0.000

**Table 3: SME units and years**



## MSME SECTOR IN INDIA

Micro, Small and Medium Enterprises (MSMEs) form a very important sector of the Indian economy. It has a huge share in job creation by providing a chance for Indian youth to get and grow with little capital cost. MSMEs are integral to large industries and act as units subordinate to them. This sector contributes a lot to the socio-economic progress of the country. MSME covers an important part of the private sector and contains all the potential for innovation, entrepreneurship, and creativity. According to the MSME Act of 2006, micro, small and medium enterprises are classified. The manufacturing business units have been classified in terms of investment in plants and machinery. The service rendering units are classified in terms of equipment. The classification of investment for business firms to be categorized as micro, small, or medium enterprises is given below:

Classification	Investment Ceiling (Excluding land and building)	
	Manufacturing Unit (in Rs.)	Service Unit (in Rs.)
Micro	Up to 25 <u>Lakhs</u>	Up to 10 <u>Lakhs</u>
Small	Between 25 <u>Lakhs</u> to 5 Crores	Between 10 <u>Lakhs</u> to 2 Crores
Medium	Between 5 Crores to 10 Crores	Between 2 Crores to 5 Crores

**Table 4: Classification of Enterprises** Source: [www.msme.gov.in](http://www.msme.gov.in)

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
<b>Manufacturing</b>	114.14	82.50	196.65	31%
<b>Trade</b>	108.71	121.64	230.35	36%
<b>Other Services</b>	102.00	104.85	206.85	33%
<b>Total (approx)</b>	324	309	633	100%

**Table 5: Estimated numbers of Enterprises**Source: [www.msme.gov.in](http://www.msme.gov.in)

Parameter	Estimated Number of Enterprises (in lakh)		
	NSS 73 <sup>rd</sup> Round 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
<b>No. of MSMEs (Total)</b>	633.88	361.76	6.43
<b>Manufacturing</b>	196.65	115.00	6.14
<b>Services</b>	437.23	246.76	6.56
<b>Employment (Total)</b>	1109.89	805.24	3.63

**Table 6: Growth of MSME sector in different parameters** Source: [www.msme.gov.in](http://www.msme.gov.in)

## Literature Review

**Ramana et al (2009)** -A study conducted by Ramana et al examined the influence of demographic factors on entrepreneurial characteristics and success. A sample was collected from 200 business start-ups from medium and small enterprise sizes covering five states of the

country. Entrepreneurial qualities like industrial knowledge and skills, risk tolerance, and social demographics have been studied with ambiguity and the entrepreneurial success factor. Study findings suggest higher educational qualifications do not inevitably result in entrepreneurial success. Also, neither the aged nor senior citizens' businesses are always successful. According to research, the educational qualifications and age of the entrepreneur have a limited effect on the success of a business.

**Simon-Moya et al (2014)** - Economic and institutional factors are the determining factors in entrepreneurial activity. It is told by Simon-Moya et al. The Simon-Moya et al find significant effects between the type of environment under which firms operate and the resultant business activity and innovation output.

**Quatraro and Vivarelli (2014)** - Quatraro and Vivarelli have discussed the concept of entrepreneurship in the context of developing countries. According to researchers' subsidies given by developing countries, A must have for future entrepreneurs, coupled with structural policies that significantly improve the business environment as a fertile land for the development of new enterprises.

**Subrahmanya et al (2010)** - Research by Subrahmanya et al investigated the driving factors, aspects, achievements and results of technological innovation in small and medium-sized businesses. The areas selected for study are businesses that manufacture automobile parts, electronic and machine components and equipment in the geographical location of Bangalore, India. The study finds a better growth rate innovative SMEs who are non-innovative as compared to SMEs. Growth rates are studied in terms of sales of a company, employment provided and investments made by a firm.

**Safoora habeeb (2020)** - Entrepreneurs have reported the smallest skilled workforce both arising from in-house training programmers and the smallest skilled workforce arising from the weak education system and vocational training programmers. Though much effort is being made through various initiatives of the Indian government and the NSDC Skill India programmers, yet results are awaited. The skill shortage has emerged as one of the most pressing issues in the way

of business innovation; thus, workforce skilling is an enormous need of the hour. There is a fear seen in most businesses—whether it is the fear of losing market share or the fear of a price increase compared to competitors as a result of a new or improved product or service. It's a difficulty in the way of a lack of confidence in innovative practice. The seminars, workshops and other training sessions, particularly for medium and small businesses, need to be organized to impart confidence and the capability to take calculated risk needed for business innovation. Medium and small-sized enterprises have been found to be poor at working together, one of the well-known drivers of business innovation. Such business units need to be more productive and collaborative so as to share the resources and capabilities synergistically for business innovation. Such organizational collaboration must be encouraged at the public policy level as well. It is sincerely believed that this research will shed light on innovations related to small and medium-sized businesses, especially the textile industry. The challenges that handloom medium businesses face are more of a serious issue that requires attention through the provision of health benefit programs, regulation of wages, and cheaper product customization to yield innovative output from the industry. The work sincerely hopes to provide supports that require the intervention of stakeholders and institutions, with appropriate policies in place to promote innovation and entrepreneurship in industry, small and medium-sized businesses.

**Dun & Bradstreet (2012)** - According to Dun & Bradstreet MSMEs are known as the growth engines for India. This sector holds immense importance for the Indian economy owing to its 45% share. Along with contributing to India's total output, there is also the fact that it employs around 73 million people across the country. There are about 31 million working units, which contribute about 40% of India's exports. These are the regions of India that are heterosexual in nature and provide a wide range of products related to manufacturing or services.

**Srinivas et al. (2013)** - The study compares the growth of MSMEs in India on the basis of secondary data. From 2001 to 2010, he uses time series data on the number of units, employment, production, and investment. The search reveals a 200% increase in the number of MSME units in India, with the remaining three parameters showing consistent growth in employment, production, and investment from 2001 to 2010 in India.

**Sonia and Kansai Rajeev (2009)** - Their study sheds light on the influence of the New Economic Policy of 1991 on the MSME Sector in India. They used four indicators of India's MSME growth, which are employment, exports, number of units working and production, during the period before and after liberalization. This is a secondary data-based study that used the Annual Average Growth Rate (AAGR) as a tool for calculating the result shows that the performance of all four parameters is better than the former the period of relaxation as compared to the period after relaxation. The New Economic Policy has not been very fruitful for SMEs in India.

## **Conclusion**

Micro, Small and Medium Business (MSMEs) have emerged in the world as engines of growth in many sectors. Due to their significant contribution to GDP, industrial production and exports, they have emerged as a vibrant and dynamic component of the Indian economy too. The most important contribution of this sector is employment generation, which is second only to agriculture. Recent experience shows that while employment in agriculture is declining, large industries are also experiencing jobless growth. In this situation, the main responsibility for employment generation lies with the unorganized sector, including small and medium Business and the service sector. Given its potential, the MSME sector has been given a target of 12 percent annual growth and 4.4 million additional jobs. It has been observed that a large number of micro, small, and medium Business (1,035,102 out of 1,555,492) in India are concentrated in the manufacturing sector. The Micro, Small and Medium Business (MSME) sector contributes significantly to the country's manufacturing output, employment and exports. It is estimated that, in terms of value, the sector accounts for roughly 45 percent of manufacturing output and 40 percent of total output of the total exports of the country. The sector is estimated to employ around 65.9 million people in over 28.5 million units across the country. This sector has consistently registered a higher growth rate as compared to the rest of the industrial sector. There are more than 6000 products ranging from traditional to high-tech items manufactured by MSMEs in India. It is well known that the MSME sector provides the maximum opportunities for both self-employment and jobs, followed by the agriculture sector. A notable shortcoming of the

MSME Development Act of 2006 is that it does not adequately address labor policy. The act does not encourage provisions for more flexible employment policies, nor does it have provisions to promote entrepreneurship among women, in spite of the clear objective laid out in the 11 five-year plan (2007).

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