



Impact of Government Schemes on Growth of MSMEs in India

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the Indian economy by contributing significantly to GDP, employment generation, and exports. The outbreak of COVID-19 in 2020 created unprecedented challenges for the MSME sector, leading to disruptions in production, supply chains, and demand. In response, the Government of India introduced several schemes such as the Emergency Credit Line Guarantee Scheme (ECLGS), Pradhan Mantri Mudra Yojana (PMMY), and the Atmanirbhar Bharat Abhiyan to support MSMEs.

This study examines the impact of government schemes on the growth and sustainability of MSMEs in India up to January 2021. The research is based on secondary data collected from MSME annual reports, government publications, RBI reports, and other scholarly sources. The study uses descriptive and analytical methods to evaluate the effectiveness of these schemes. The findings reveal that government initiatives provided liquidity support, enhanced credit access, and promoted digitalization among MSMEs. However, challenges such as limited awareness, procedural delays, and uneven access to benefits persist. The study concludes that while government schemes played a vital role in stabilizing MSMEs during the crisis, further improvements in implementation and outreach are required for long-term growth.

Keywords: MSME, Government Schemes, ECLGS, PMMY, Atmanirbhar Bharat, Growth, India

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely regarded as the backbone of the Indian economy due to their significant contribution to industrial output, employment generation, and exports. The sector contributes around 30% to the GDP and provides employment to more than 11 crore people, thereby playing a vital role in inclusive economic development and regional balance. MSMEs also promote entrepreneurship by encouraging innovation and self-employment opportunities across both urban and rural areas. However, the year 2020 brought unprecedented challenges due to the COVID-19 pandemic. Nationwide lockdowns disrupted production activities, supply chains, and market demand. Many MSMEs faced severe liquidity shortages, labour migration issues, and declining revenues, which threatened their survival. The vulnerability of MSMEs became evident as many units were forced to shut down temporarily or permanently. To address these challenges, the Government of India launched several policy measures and financial support schemes under the Atmanirbhar Bharat Abhiyan. These initiatives were aimed at providing immediate liquidity support, ensuring business continuity, and promoting recovery. This study attempts to analyse the impact of these government schemes on MSME growth and sustainability during the crisis period up to January 2021.

2. Review of Literature

The importance of MSMEs in economic development has been widely recognized in academic literature. Several studies have highlighted their role in employment generation, poverty reduction, and industrial growth. Lusardi and Mitchell (2014) emphasized the importance of financial awareness in improving economic outcomes, which is particularly relevant for MSMEs that depend heavily on financial resources.

In the Indian context, Sharma (2020) examined the role of government support schemes in enhancing MSME resilience during economic downturns and found that financial assistance programs significantly improved business survival rates. Kumar (2021) analysed credit guarantee schemes and concluded that such initiatives improve access to institutional finance for small enterprises.

Reports from the Reserve Bank of India (2021) indicate that MSMEs faced acute liquidity constraints during the COVID-19 pandemic but benefited from targeted policy interventions. The World Bank (2020) also emphasized that government support measures, including credit guarantees and fiscal stimulus packages, played a critical role in sustaining small businesses during global crises.

Overall, the literature suggests that while MSMEs are highly vulnerable to economic shocks, timely government intervention can significantly mitigate adverse impacts and support recovery.

3. Objectives of the Study

The objectives of this study are designed to provide a comprehensive understanding of the impact of government schemes on MSME growth in India during the COVID-19 period. The first objective is to analyse the major government schemes introduced to support MSMEs, including their features, scope, and implementation mechanisms.

The second objective is to examine the growth trends of MSMEs during the financial year 2020–21, particularly focusing on production, employment, and financial performance. This helps in understanding the extent of disruption caused by the pandemic and the subsequent recovery pattern.

The third objective is to evaluate the effectiveness of government schemes in addressing the challenges faced by MSMEs. This includes assessing whether these schemes were successful in improving liquidity, enhancing credit access, and supporting business continuity.

Finally, the study aims to identify the key challenges and limitations in the implementation of these schemes, such as lack of awareness, procedural complexities, and uneven distribution of benefits. These insights are essential for suggesting policy improvements.

4. Research Methodology

The present study is descriptive and analytical in nature, focusing on understanding the impact of government schemes on MSME growth during the COVID-19 period. The research is based entirely on secondary data collected from reliable sources such as MSME Annual Reports, Reserve Bank of India (RBI) reports, Government of India publications, World Bank reports, and various research journals.

The data has been analysed using statistical tools such as trend analysis and percentage analysis to identify patterns and changes in MSME performance over time. Comparative analysis has also been used to examine pre-pandemic and post-pandemic scenarios.

The methodology ensures that the study is based on credible and authentic data, providing reliable insights into the effectiveness of government schemes. However, the study is limited by the availability of secondary data and the short time frame up to January 2021.

5. Government Schemes for MSMEs (Up to Jan 2021)

Government intervention during the COVID-19 crisis was crucial for the survival and revival of MSMEs. Several schemes were introduced to address the immediate and long-term needs of the sector. One of the most significant initiatives was the Emergency Credit Line Guarantee Scheme (ECLGS), which provided collateral-free loans to MSMEs facing liquidity issues. This scheme ensured that businesses could continue operations despite financial constraints.

The Pradhan Mantri Mudra Yojana (PMMY) also played a vital role by providing financial support to micro enterprises through different categories of loans. Additionally, the Atmanirbhar Bharat Abhiyan introduced a comprehensive economic package worth ₹20 lakh crore, which included measures such as revised MSME definitions, credit support, and policy reforms.

The introduction of the Udyam Registration Portal simplified the registration process for MSMEs, promoting formalization and access to government benefits. These schemes collectively aimed to strengthen the MSME sector by improving financial access, reducing operational challenges, and promoting growth.

6. Data Analysis and Interpretation

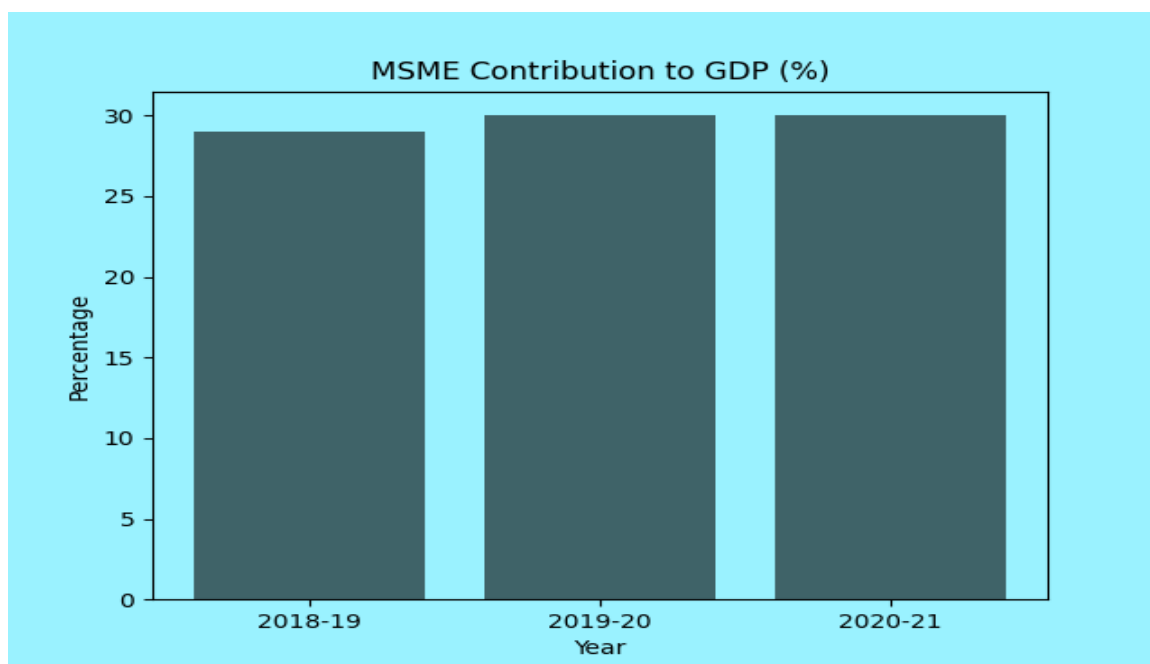
The data analysis focuses on understanding the impact of government schemes on MSME performance during the pandemic period. The following tables and graphs present key indicators of MSME growth and support measures.

Table 1: MSME Contribution to GDP

Year	Contribution (%)
2018-19	29%
2019-20	30%
2020-21	30% (approx.)

Source: Compiled from Ministry of MSME Annual Report (2020–21), Reserve Bank of India Reports (2021)

Graph 1: MSME Contribution to GDP (Trend)



Interpretation:

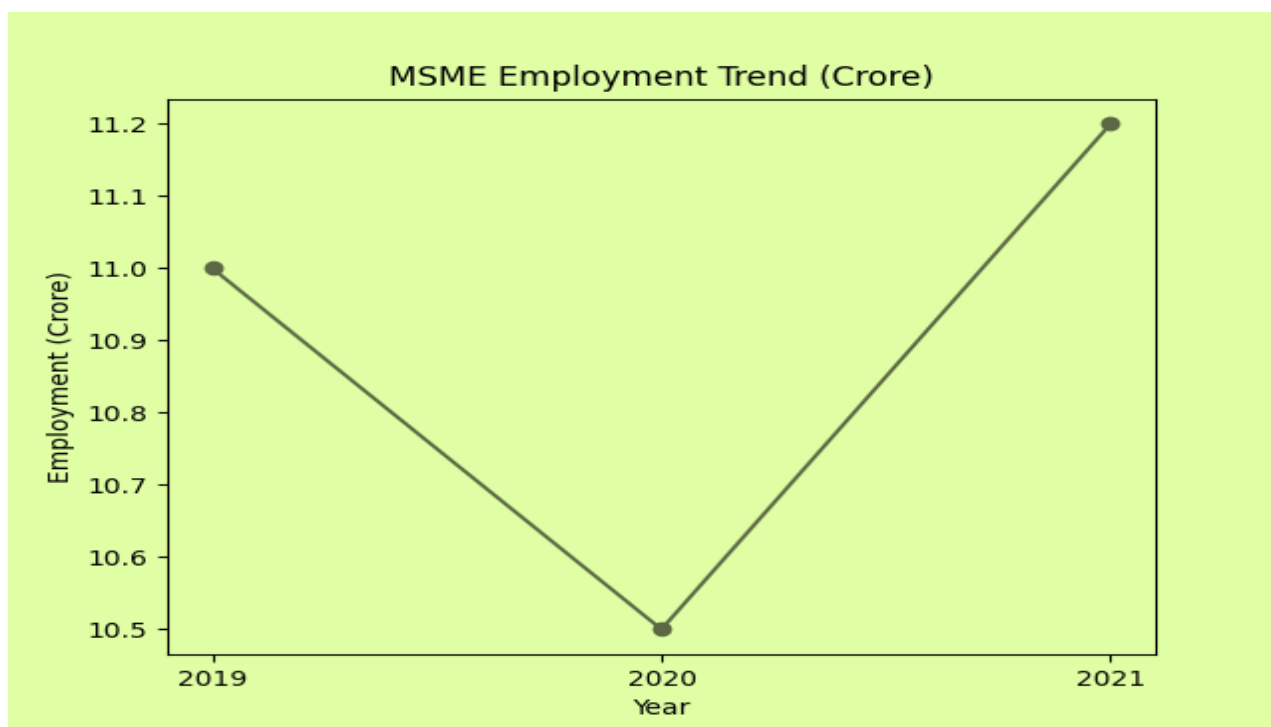
The data indicates that the contribution of MSMEs to India’s GDP remained relatively stable despite the economic disruptions caused by COVID-19. While many sectors experienced sharp declines, MSMEs managed to sustain their contribution due to timely government interventions. This stability reflects the resilience of the sector and highlights the effectiveness of schemes such as ECLGS and Atmanirbhar Bharat in maintaining economic activity. It also suggests that MSMEs play a counter-cyclical role in the economy, helping to cushion the overall impact of economic shocks.

Table 2: Employment in MSME Sector

Year	Employment (Crore)
2019	11.0
2020	10.5
2021	11.2

Source: Compiled from Ministry of MSME Annual Report (2020–21), Reserve Bank of India Reports (2021)

Graph 2: Employment Trend



Interpretation:

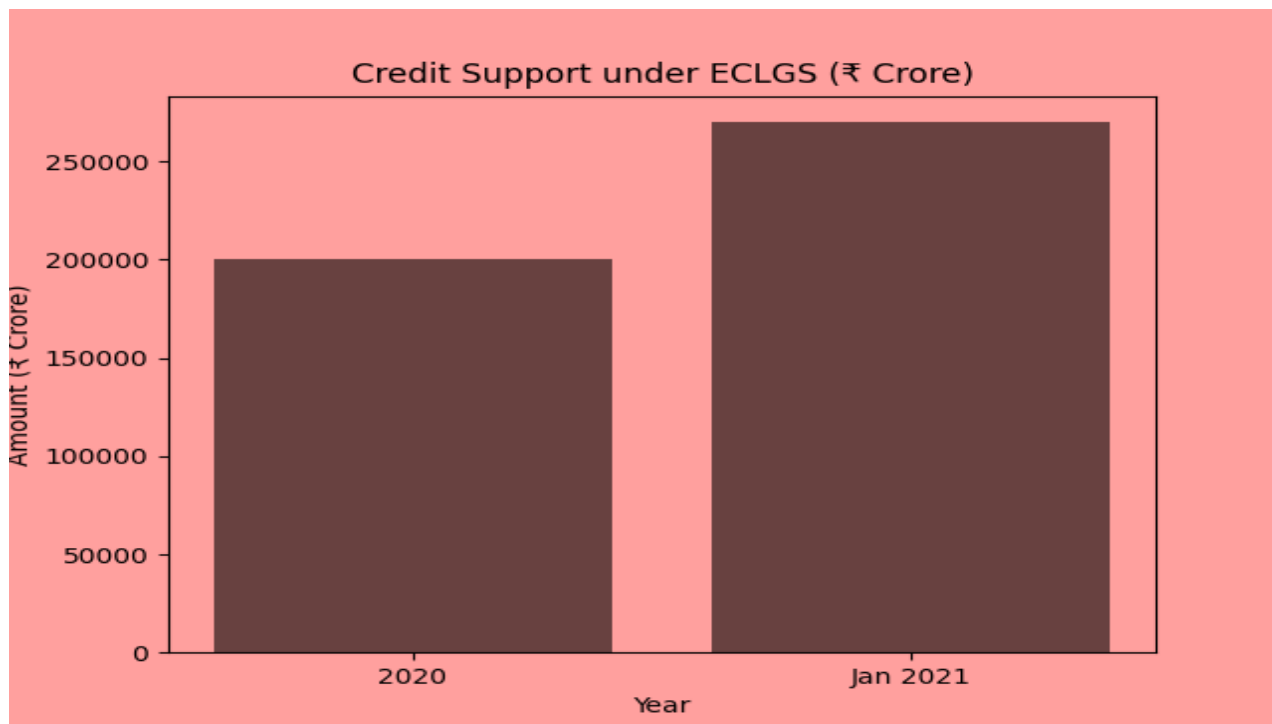
The employment data shows a decline during 2020 due to lockdowns, reverse migration of labour, and reduced production activities. However, the recovery in 2021 indicates that government support measures were effective in restoring employment levels. The increase in employment suggests that MSMEs were able to resume operations and rehire workers. This highlights the importance of policy support in safeguarding livelihoods during economic crises. It also reflects the adaptability of MSMEs in responding to changing economic conditions.

Table 3: Credit Support under ECLGS

Year	Amount (₹ Crore)
2020	200000
2021 (Jan)	270000

Source: Compiled from Ministry of MSME Annual Report (2020–21), Reserve Bank of India Reports (2021)

Graph 3: Credit Growth (ECLGS)



Interpretation:

The significant increase in credit disbursement under the ECLGS scheme demonstrates the government’s proactive approach in addressing liquidity constraints faced by MSMEs. Access to credit enabled businesses to meet operational expenses, pay wages, and sustain production activities. The growth in credit flow also indicates increased trust and participation from financial institutions. However, it is important to note that smaller and informal enterprises may still face challenges in accessing such credit due to lack of documentation and awareness.

Overall Interpretation:

The combined analysis of GDP contribution, employment trends, and credit support clearly indicates that government schemes played a crucial role in stabilizing the MSME sector during the COVID-19 crisis. While the pandemic caused short-term disruptions, timely interventions ensured recovery and sustained growth. The data also suggests that MSMEs are highly responsive to policy support, and targeted measures can significantly enhance their resilience. However, for long-term sustainability, there is a need to address structural challenges such as access to finance, digital adoption, and market linkages.

7. Findings

The study reveals several important findings regarding the impact of government schemes on MSME growth. Firstly, government interventions played a crucial role in providing financial stability to MSMEs during the crisis period. Schemes such as ECLGS ensured liquidity support, enabling businesses to continue operations despite economic disruptions.

Secondly, the study finds that MSMEs benefited significantly from improved access to credit and financial assistance. This helped in maintaining employment levels and preventing large-scale closures.

Thirdly, digital adoption increased among MSMEs due to policy initiatives and changing market conditions.

However, challenges such as lack of awareness, procedural delays, and limited access to benefits for smaller enterprises were also identified. These issues highlight the need for better implementation and outreach of government schemes.

8. Suggestions

Based on the findings, several suggestions can be made to improve the effectiveness of government schemes for MSMEs. Firstly, there is a need to increase awareness about available schemes through targeted campaigns and digital platforms. Many MSMEs, especially in rural areas, are not fully aware of the benefits they can access.

Secondly, the loan approval process should be simplified to reduce procedural delays and ensure timely access to credit. Financial institutions should adopt more flexible and inclusive lending practices.

Thirdly, the government should focus on strengthening digital infrastructure and promoting digital literacy among MSMEs. This will enhance efficiency and competitiveness in the long run.

Finally, continuous monitoring and evaluation of schemes should be conducted to identify gaps and improve policy implementation.

9. Conclusion

The study concludes that government schemes played a vital role in supporting the MSME sector during the COVID-19 crisis. Despite facing significant challenges, MSMEs were able to survive and gradually recover due to timely policy interventions and financial support.

The findings highlight that while government schemes have a positive impact on MSME growth, their effectiveness depends on proper implementation, awareness, and accessibility. Strengthening these aspects will ensure sustainable growth and resilience of the MSME sector in the future.

10. References

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