

# A Study on Impact of Union Budget 2021-22 on MSMEs in India

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**Abstract - Small industries play vital role in economic development of nation by providing employment opportunities, revenue generation, diminishing poverty, rural development, reducing regional imbalances etc. Therefore, the Government give emphasis to Industrialization for rapid economic development of India. However, Industrialization is majorly supported by Micro, Small and Medium enterprises (MSMEs). MSME sector has the potential to emerge as a backbone for Indian economy and act as an engine for all overgrowth. Both Central and State government draft their important development policies by giving more deliberation to this sector. Budget echoes the government decision on taxation, borrowing, fiscal measures, resource allocation, income & wealth distribution, economic stabilization& economic growth. Union budget is a major policy announcement made by the government each year to bring in the waves of changes in the economy as deemed necessary by the economic conditions of a country. It is the annual financial statement of estimated receipts and estimated expenditure of the government for a year starting from 1st April of present year to 31st march of next year. Here is an attempt to showcase and analyze the effect of budget 2021 announcement on MSMEs in India.**

**Keywords:** MSMEs, Union budget, Economic Conditions.

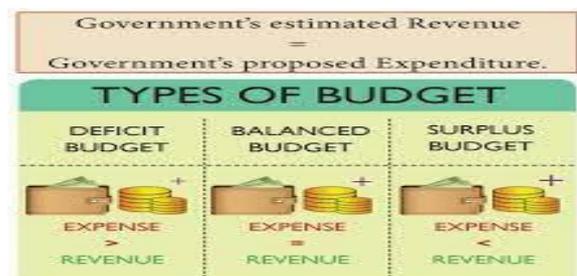
## I. INTRODUCTION

The Government of India has introduced MSME or Micro, Small, and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

In growth story of India, MSMEs are playing leading role. The contribution of MSMEs to the Indian economy is outstanding. MSMEs are the 2nd largest employment generating sector in India. The sector has 45% contribution in manufacturing, 40% in export and 7% approximately to the national GDP. The government of India with all the state governments also ascertains the importance of MSMEs in the country's growth.

Therefore, they gave special privileges to this sector. Most of the state governments are permitting special tax incentives to MSMEs functioning in their respective states.

The Union budget of India also denoted to as the Annual financial statement in the Article 112 of the Constitution of India. The government presents it on the first day of February so that it could be materialized before the beginning of new financial year in April. Until 2016 it was presented on the last working day of February by the Finance minister in Parliament. The budget, which is presented by means of the financial bill and the Appropriation bill has to be passed by Lok Sabha before it can come into effect on 1st April, the start of India's financial year. Budget is a financial plan that takes into account estimated revenue and expenses over a certain period of time, often a year. It is re-evaluated periodically. There are three categories of budget viz.



1. **Balanced budget:** A balanced budget is when the estimated expenditure to be incurred by the government is equal to the projected revenues. Many economists believe that the government's any expenditure should not exceed their revenue. While it is considered to be the ideal kind of budget by economists, attaining it is a complex affair. Additionally, a balanced budget does not ensure economic stability during times of depression or deflation.

2. **Surplus budget:** When the anticipated government revenues exceed the estimated government expenditure, then that budget is called a surplus budget. This kind of a budget is a pointer to the wealth of a country. A surplus budget fundamentally means that the government revenues including taxes are higher than the amount it employs on public welfare.

3. Deficit budget: If the estimated expenditure exceeds the expected government revenue, then it is said to be a deficit budget. The government incurs most of the excessive expenditure to improve employment resulting in a boost in demand. The government expends through public borrowings or from its reserve surplus. This kind of budget, where the government spends more than it receives is helpful for developing nations.

## II. REVIEW OF LITERATURE

Siddiqui<sup>1</sup>, (2018), throughout early growth stages micro, small and medium enterprises need timely and sufficient capital. MSMEs rely on various sources of finance. Various financial difficulties are inadequate and non-timely credit, limited knowledge and capital, collateral security requirement, not sufficient working capital, recovery from debtors, for availing loan from financial institutions excessive paper work is required.

Srinivas K. T.<sup>2</sup>, (2013), in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been incredible change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the upliftment of the MSMEs in India. Therefore, the entrepreneurs in India & Govt. should take some initiatives for more-development of these MSMEs in India.

Mehta<sup>3</sup>, (2013), the various problems of MSMEs are inadequate finance, capital and limited knowledge, high cost of credit, inadequate skilled manpower and inaccessibility to global markets.

Mawoli & Aliyu<sup>4</sup>, (2010), MSMEs face problem in raising funds from capital and money market both. Loans are provided by commercial bank base on the availability of collateral security, risk level, performance of previous years. Commercial banks provide loan at high interest. In Nigeria, small and medium enterprises are provided less than one percent of total capital required by them.

Malhotra., et. al.<sup>5</sup> (2007), Small firms face difficulties like inadequate access to financial services, distortion of financial sector policy, inadequate bank knowledge, inadequate audited financial statements, high risk associated to SMEs lending.

International Finance Corporation<sup>6</sup>, (2000), Capital is needed for companies so that they can meet the requirement of fixed and variable cost. Many companies face the difficulty of

inadequate capital in establishing and operating firm so they have to borrow the money. The dependence on debt depends on size of firms. If firm is small there will be more debt dependency. As a primary source of early and growth stage micro enterprises is dependent on debt. Services related small firms have the tendency of transacting in cash and keeping less record. Manufacturing enterprises and order-driven services requires more money as they have longer working capital cycle and more capital expenditure.

## III. OBJECTIVES OF THE STUDY

- To examine the impact of Union Budget announcement on MSMEs in India.
- To study the need and role of government in providing protection to MSMEs in India.
- To analyze the Growth and development of MSMEs in India.

## IV. RESEARCH METHODOLOGY

The study is based on secondary data that has been collected from various secondary sources such as magazines, annual reports, department of MSMEs & various other published reports. The study is based on Indian Union Budget 2021-2022, to carryout analysis of budget allocations and priorities on MSMEs.

### Key highlights of the Union Budget for the MSMEs

#### 1. A Special framework for MSMEs

The National Company Law Tribunal (NCLT) infrastructure has not been greatly successful in providing effective solutions; insolvency cases are still pending. To combat this issue, the Finance Minister announced the following measures:

- Introduction of changes to strengthen the framework of NCLT
- Enactment of new ecosystems, for instance, e-courts to conduct virtual hearings to resolve and close cases efficiently
- In addition to these, the Indian government shall also introduce active debt resolution methods and distinct course of action for MSMEs soon.

#### 2. A scheme of Mega Investment Textile parks

India's textile industry is one of the prominent exporters of textiles and apparel across the world. Besides providing employment opportunities, it makes noteworthy contributions to the country's GDP. The Finance Ministry announced that in addition to the Production-linked Incentive (PLI) scheme, a new initiative would be launched to set up 7 new textile parks

in coming 3 years. These textile parks will be equipped with advanced facilities to ensure quick turnaround time and decline outflow of funds owing to logistics. It's an important move to reclaim the textile exports market, currently dominated by Asian countries like Vietnam and Bangladesh. This Scheme will ensure that the Indian textile sector becomes globally modest.

### 3. Major ports will be managed in PPP model

In financial year 21-22, the operations of seven significant ports worth Rs. 2,000 crores will be privatized. Moreover, the Finance Minister also stated a subsidy of Rs. 1,624 crores over 5 years, which is projected to foster the growth of Indian shipping companies.

But, the persisting issue of container shortage was not addressed during the presentation of Union Budget 2021.

### 4. Rationalization of Duties

There has been an acute impact on India's MSME sector owing to the gigantic rise in iron and steel prices. Thus, the government has taken initiation to provide relief to this segment.

- In Union Budget 2021, the Finance Ministry put forward to impose customs duty uniformly at 7.5% from 12.5% on semis, flat, and long products composed of alloy, non-alloy, and stainless steel.
- The Finance Ministry also aired that micro, small, and medium enterprises wouldn't have to pay customs duty on importing steel scrap until the end of Financial Year 2021-22.
- This measure is set to reduce the variable costs of the steel mills, which are a vital part of this country's MSME sector.
- A scheme has also been made in Union Budget 2021 to increase duty on steel screws and plastic builders' wares by 5%.
- The Finance Minister also proposed more than 400 old customs will be put under review, and a new customs duty structure will be put in place by 1 October 2021.
- Besides these, Union Budget 2021 also included exemptions on mobile phone parts to boost the local manufacturing operations.
- Customs duty on some parts of mobile phones has been enlarged from 0 to 2.5%.

### 5. Collateral-free Automatic Loans worth Rs.3 Lakh crores

Considering that the businesses including the MSMEs have been badly hit due to the COVID-19 pandemic, the government has initiated the provision of Collateral-free Automatic Loans worth Rs 3 lakh crores to MSMEs in distress. The move is look forward to help 45 lakh companies to revive their business.

- Emergency Credit line to businesses/ MSMEs from banks and NBFCs upto 20% of entire outstanding credit as on 29/02/2020.
- Borrowers with upto Rs 25 crore outstanding and Rs 100 crore turnover eligible.
- Loans to have 4-year tenure with moratorium of 12 months on principle repayment.
- 100% credit guarantee cover to banks and NBFCs on Principle and Interest.

### 6. Subordinate Debt worth Rs 20,000 Crore for Stressed MSMEs

In order to infuse liquidity and help stressed MSMEs or MSME that are NPAs, Government will offer Subordinate Debt worth Rs 20,000 crore. The move will help over 2 lakh MSMEs to start over. Government will provide support of Rs 4000 crore to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which in turn will afford partial guarantee provision to banks.

### 7. New Definition of MSMEs

There has been a fear among the MSMEs that if they outgrow the threshold limits. they will lose the benefits they have been enjoying. The fear has been killing their urge to grow in terms of size and turnover. Taking this into consideration, the FM changed the definition of MSME in their favor.

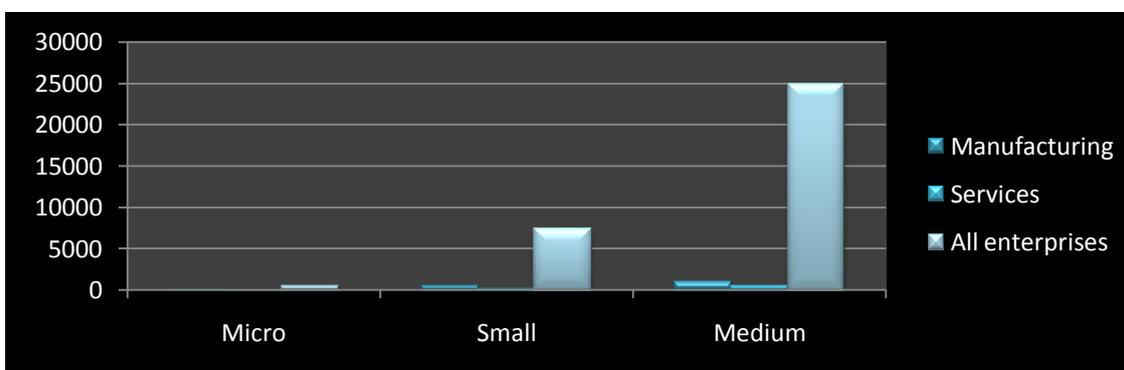
In order to redefine the MSME, government has taken following measures:

- Increased Investment Limit
- Announced additional criteria of turnover
- Abolished difference between Manufacturing & Service sector
- Amendments to law will be made

**Classification of enterprises into micro, small and medium enterprises (in Rs)**

Type of the enterprise	Act of 2006		Revised(2021-22)
	Manufacturing	Services	
	Investment towards plant & machinery	Investment towards equipment	Annual Turnover
Micro	25 lacs	10 lacs	5 Cr
Small	25 lacs to 5 Cr	10 lacs to 2 Cr	5 Cr to 75 Cr
Medium	5 Cr to 10 Cr	2 Cr to 5 Cr	75 Cr to 250 Cr

**Graphical representation of Classification of enterprises into micro, small and medium enterprises (in Rs)**



**V. FINDINGS**

- Government of India extended the eligibility of claiming tax benefits for startups
- On similar lines to promote investments in startups, capital gains have been exempted for investments by one more year till 31 March 2022.
- From a process perspective, the budget has permitted the incorporation of ‘One Person Companies’ (OPCs) to promote startups and innovation without any restrictions on paid-up capital and turnover. They can convert into any other type of company at any time.
- It also reduces the residency time limit for an Indian citizen to set up an OPC from 182 days to 120 days. NRIs can also incorporate OPCs in India.
- The Budget 2021-22 doubled the allocation to the MSME sector to INR 15,700 crores (vs. INR 7,572 crores allocation in Budget 2020-21).
- In addition to the increased allocation, the Budget has also focused on promoting domestic manufacturing that benefits the MSME sector.
- MSMEs are facing difficulties like inadequate access to financial services, distortion of financial sector policy, inadequate technical and non-technical assistance.

**VI. CONCLUSION AND RECOMMENDATIONS**

The last few months have seen the government introduce several measures to reduce the pandemic impact on the MSME sector. The Budget 2021-22 reinforced the ideology and could be an excellent start towards prosperity and this should be a good starting point to help them regain their lost ground.

**Government needs to focus on**

- A Marketing Fund, which could provide financial assistance in setting up distribution and Marketing Outlets.
- Creation of new rural enterprises that will generate rural economic growth and employment.
- Establishment of more Research Institutions for the development of MSMEs.
- Commence the programs to support Women Entrepreneurship.

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