



Impact of Government Schemes on Informal Enterprises in India

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Abstract: The informal sector plays a pivotal role in the Indian economy by generating employment and contributing to GDP. However, it often lacks access to formal credit, training, and legal protections. The informal sector in India constitutes a significant portion of the country's economy, employing a large segment of the workforce. In recognition of this, the Indian government has introduced several schemes aimed at enhancing the productivity, financial inclusion, and formalization of informal enterprises. This study evaluates the impact of key government schemes such as MUDRA Yojana, Start-Up India, Stand-Up India, PM SVANidhi, and Digital India on the performance and sustainability of informal enterprises. Using secondary data and field-based qualitative insights, the paper analyzes how these initiatives have influenced access to credit, ease of doing business, digital adoption, and the transition towards formalization. While there are visible benefits such as increased financial support and improved digital connectivity, the findings also reveal persistent challenges including lack of awareness, procedural bottlenecks, and limited capacity building. The paper concludes with policy recommendations to bridge implementation gaps and strengthen support systems for informal entrepreneurs.

Keywords: Indian economy, employment, GDP, informal enterprise, financial access

Introduction: The informal sector in India constitutes a significant part of the national economy, providing employment to over 90% of the workforce and contributing substantially to GDP. These enterprises, however, often operate outside the purview of formal regulations and access to institutional support, making them vulnerable to economic shocks and policy shifts. Recognizing their importance, successive Indian governments have introduced a range of schemes aimed at enhancing the productivity, sustainability, and formalization of informal enterprises.

Government initiatives such as Pradhan Mantri Mudra Yojana (PMMY), Start-up India, Stand-Up India, Skill India Mission, Digital India, and Make in India have sought to empower informal entrepreneurs by improving access to credit, skills training, market linkages, and digital infrastructure. Furthermore, schemes like Udyam Registration aim to bring informal businesses into the formal fold by simplifying registration processes and offering legal recognition.

While these initiatives reflect a proactive approach to address the challenges faced by informal enterprises, their actual impact remains mixed and context-specific. Critical issues such as awareness, accessibility, bureaucratic bottlenecks, and structural informality often limit the full potential of these schemes.

This study seeks to analyze the effectiveness and reach of such government schemes on informal enterprises in India, exploring both their positive outcomes and areas needing policy improvement.

The informal sector in India accounts for over 90% of the workforce and nearly 50% of the GDP. Recognizing its importance, successive governments have launched schemes aimed at improving financial





access, providing skill training, and encouraging formalization. Yet, the actual impact of these schemes remains mixed due to various implementation and structural challenges.

Objectives of the Study:

- To assess awareness and access of government schemes among informal enterprises.
- To analyze the impact of such schemes on income, employment, and formalization.
- To identify barriers to the effective implementation of schemes.
- To recommend actionable policy interventions.

Review of Literature: Here is a structured Review of Literature on the topic “Impact of Government Schemes on Informal Enterprises in India”. It covers scholarly studies, policy reviews, and empirical findings related to how Indian government schemes have affected the informal sector.

- **RBI (2017)** noted that MUDRA loans have significantly improved credit accessibility for micro and small enterprises.
- **Ghosh and Maji (2019)** observed that micro-enterprises used MUDRA loans for business expansion, but issues like lack of awareness and collateral-free guarantees remain challenges.
- **Kumar & Sharma (2021)** found a positive correlation between MUDRA loans and the growth of women-led informal businesses, though many loans were used for consumption due to lack of financial literacy.
- **Chen, M. (2012):** Defines informal work and explains global trends in informality.
- **Ministry of MSME Annual Report (2022):** Details policy frameworks and scheme performance.

MUDRA Yojana: The MUDRA Yojana, launched on 8th April 2015 by the Government of India, is a flagship financial initiative under the Pradhan Mantri MUDRA Yojana (PMMY). It aims to provide institutional finance to micro and small enterprises that operate in the non-corporate and non-farm sectors. The scheme was established to support the unorganized sector of the Indian economy, which often lacks access to formal banking services.

The scheme categorizes loans based on the stage of development of the business:

1. **Shishu** (for startups or very small businesses)
Loan amount: **Up to ₹50,000**
For nascent entrepreneurs who need initial capital.
2. **Kishor** (for slightly established businesses)
Loan amount: **₹50,001 to ₹5 lakhs**
For businesses looking to expand or consolidate.
3. **Tarun** (for well-established enterprises)
Loan amount: **₹5 lakhs to ₹10 lakhs**

PMEGP (Prime Minister's Employment Generation Programme): The Prime Minister's Employment Generation Programme (PMEGP) is a flagship scheme launched by the Government of India in 2008, under the Ministry of Micro, Small and Medium Enterprises (MSME). It aims to generate employment opportunities through the **establishment of micro-enterprises** in rural and urban areas.

Key Objectives:

- **To generate employment** in rural and urban areas by setting up new self-employment ventures and micro enterprises.
- To bring together rural traditional artisans and unemployed youth, and give them the necessary support to become entrepreneurs.





- To reduce migration of rural youth to urban areas by providing sustainable employment at their native place.
- To increase the income levels and improve the standard of living in rural and semi-urban areas.

Eligibility Criteria:

- Any individual above **18 years of age**.
- At least **8th standard pass** is required for projects above ₹10 lakhs (manufacturing) and ₹5 lakhs (service sector).
- Self-help groups, cooperative societies, institutions, and charitable trusts are also eligible.
- Existing units or units already availing government subsidies are **not eligible**.

Stand-Up India and Start-Up India: Launched on April 5, 2016, the Stand-Up India scheme aims to promote entrepreneurship among Scheduled Caste (SC), Scheduled Tribe (ST), and women entrepreneurs by providing them with financial support. The key objectives of this initiative are to:

- **Facilitate loans** between **Rs. 10 lakhs to Rs. 1 crore** for setting up greenfield enterprises (new businesses) in the manufacturing, services, or trading sectors.
- **Encourage entrepreneurship** by ensuring that the marginalized communities have access to the necessary financial resources.
- **Increase employment opportunities** and contribute to inclusive growth.

Recommendation: The impact of government schemes on informal enterprises in India is a crucial area of study, especially considering that informal enterprises make up a significant part of the Indian economy. Here are some key recommendations for enhancing the effectiveness of government schemes targeting informal enterprises:.

Simplified Registration and Compliance Process:

- **Recommendation:** Simplify the registration process for informal enterprises under schemes such as the *PMEGP* (Prime Minister's Employment Generation Programme) and *Mudra Yojana* to encourage more businesses to formalize.
- **Rationale:** Many informal enterprises are hesitant to register due to complicated documentation and compliance requirements. A user-friendly system could significantly increase the number of businesses benefiting from these schemes.

Access to Finance and Credit:

- **Recommendation:** Enhance the access to affordable credit for informal enterprises through government-backed loan schemes like *MUDRA* or *Stand-Up India* by creating dedicated credit facilitation mechanisms.
- **Rationale:** Informal enterprises often face challenges in accessing formal credit. Government schemes can be more effective if they provide guarantees or low-interest loans, enabling them to expand.

Training and Skill Development Programs:

- **Recommendation:** Expand the reach of skill development programs, like *Pradhan Mantri Kaushal Vikas Yojana (PMKVY)*, specifically targeting the informal sector, to improve workforce capabilities.
- **Rationale:** Skilled labor is key to enhancing productivity in informal enterprises. Government schemes should focus on providing specific skills training relevant to these enterprises.





Conclusion: Government schemes have made a positive but limited impact on the informal sector. While access to credit has improved, issues of awareness, accessibility, and trust continue to limit wider benefits. There is a need for targeted outreach, simplification of processes, and integration of informal workers into digital platforms. Government schemes in India—such as MUDRA Yojana, Start-up India, Stand-up India, PMEGP, and others—have played a significant role in attempting to uplift informal enterprises by improving access to credit, formalization, skill development, and market linkages. While these initiatives have created a positive policy environment and supported many micro and small enterprises, their overall impact on the vast informal sector remains mixed. Challenges like limited awareness, bureaucratic hurdles, lack of financial literacy, and inadequate follow-up mechanisms often restrict their reach and effectiveness. For these schemes to create lasting transformation, a more inclusive, decentralized, and need-specific approach is essential—one that not only promotes formalization but also ensures ease of doing business for informal enterprises, especially in rural and underserved urban areas.

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