Impact of Udyam Registration and Digital Platforms on MSME Formalization

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doi.org/10.64643/IJIRTV12I8-191014-459

***Abstract*—The Udyam Registration Act in 2020 and the increase in digital platforms have had a significant impact on the formalization of Micro, Small, and Medium Enterprises (MSMEs) in the Indian economy. Through a structured examination of the legislative framework, implementation outcomes, existing challenges, and socio-economic implications, this paper assesses the changes in the formalization of MSMEs in the wake of these digital initiatives. Despite the positive impact on the formalization percentage and the simplified formalization procedure, challenges in digital literacy, awareness, post-registration following, and the implementation of tangible gains remain. The paper concludes with recommendations on how to ensure the inclusive growth of the MSME sector and the optimal impact of digital formalization.**

***Index Terms*—Udyam Registration, Digital Platforms, MSME**

I. INTRODUCTION

Micro, small, and medium enterprises form the core of India's economy, contributing about 30% to the country's GDP, 45% to manufacturing output, and 48% to exports. These enterprises employ more than 110 million people Despite their economic value, a large number of MSMEs in India have historically operated in the informal sector. hindered them from getting credit, government programs, market opportunities, and legal protections. The informal economy offers businesses and politicians a number of difficulties। Informal MSMEs are confronted with a number of issues, including limited access to institutional finance, a lack of capacity to participate in government procurement, a lack of integration into formal supply chains, and a high risk of economic shocks। The informal sector is seen by the government as a source of revenue leakage, regulatory issues, and challenges in implementing targeted policy interventions. This paper examines the influence of Udyam Registration and digital platforms on the formalization of MSMEs through the subsequent research inquiries: What impact has Udyam Registration had on the rates of formalization and the ease of registration? What part do digital platforms play in promoting and keeping formalization going? What barriers continue to impede formalization despite digital interventions? What are the socioeconomic outcomes of increased formalization?

II. LITERATURE REVIEW

As per various studies, the effects of formalization are to enhance economic growth and integration too (Ayyagari et al., 2011). Also, as per various studies, technology use has reduced transaction costs and enhanced market accessibility (World Bank, 2023). As per recent research, Udyam Registration has enhanced the number of formal entries, but there can be awareness and compliance challenges too (Ministry of MSME Report, 2024).

III. METHODOLOGY

This research adopts a mixed-method approach:

- Secondary data analysis: Udyam Registration statistics, government reports, MSME surveys.
- Policy review: Examination of the Udyam portal's framework, digital ecosystem policies, and enterprise support schemes.
- Comparative tabulation and graphical trend descriptions to illustrate key outcomes pre- and post-2020.

IV. MSME FORMALISATION: CONCEPTUAL FRAMEWORK

4.1 Formalization:

Formalization is the process where firms transform themselves from unofficial, unregistered economic activity to legally recognized and complying enterprises. Formalization allows access to

government programs, markets, financing facilities, social safeguards, and regulatory advantages.

4.2 Importance of Formalization:

- Access to finance: Loans at low interest rates can be accessed by registered MSMEs.
- Market Links: Formal businesses can participate in global and governmental chains.
- Licensing/Régulation Advantages: They receive subsidies, credit guarantees, and financial incentives.
- Data Inclusion: The data inclusion rate of the economy for the nation can be improved by the registration process.

V. UDYAM REGISTRATION: POLICY AND IMPLEMENTATION

5.1 Background:

The MSMEs that have already been registered under various schemes before the introduction of Udyam Registration include the Udyog Aadhaar Memorandum (UAM). In a bid to simplify the process of registration, the government launched the Udyam Registration Portal in July 2020. It is not necessary to upload documents because the registration has links with Aadhaar and GST details.

5.2 Objectives:

- Simplify registration with self-declaration
- Increase formalisation rates
- Provide unique identification and compliance ease
- Facilitate access to benefits and schemes

5.3 Process Overview:

- Online self-registration through the Udyam Portal
- Aadhaar-based verification
- Classification of enterprises based on investment and turnover
- No fees or paperwork

5.4 Key Features and Innovations:

Several revolutionary features were introduced by Udyam Registration. It eliminated disparities between the manufacturing and service sectors by establishing uniform MSME classifications based on investment and turnover. Businesses are categorized as micro (investment up to ₹1 crore, turnover up to ₹5 crore), small (investment up to ₹10 crore, turnover up to ₹50 crore), or medium (investment up to ₹50 crore, turnover up to ₹250crore). In order to provide automatic validation, the system requires PAN/GSTIN for other companies and Aadhaar authentication for proprietorships. Self-declaration is used for registration, which is entirely paperless. Income Tax and GST system integration is used to verify investments and turnover. Certificates with permanent identity numbers are given out right away.

5.5 Integration with government systems

Integration with various databases, such as Income Tax PAN details, GST Network GSTIN details, and EPFO employment details, is required in the Udyam system. The integration makes data verification possible, prevents duplicate registrations, reduces data loading, and facilitates evidence-backed decision making. It is a very crucial part of the Udyam system.

Integration, on the other hand, faces challenges. Inaccuracies during registration could arise because of inconsistencies in the databases. The fact that most of these businesses conduct their operations in cash makes it difficult for them to document turnover.

VI. DIGITAL PLATFORMS AND MSME ECOSYSTEM

Platform Type	Examples	Enterprise Benefit
E-Marketplace	IndiaMART, Amazon, Flipkart	Expanded customer reach, online sales avenues
Digital Payments	UPI, Paytm, BharatPe	Reduced cash dependency, financial traceability
Government Portals	GST, GeM, Udyam Portal	Compliance, public procurement, scheme access
Digital Credit Platforms	NBFC/P2P apps	Faster loan processing, risk assessment

6.1 E-Commerce and Market Access

E-commerce portals like Amazon, Flipkart, or Meesho require vendors to be formally organized if they wish to be a part of these platforms by providing bank account details and GST numbers. The e-commerce platforms offer vendors marketing assistance, payment gateway solutions, logistics, and customer base of millions.

Formalization and government market access are very much interlinked with initiatives like GeM, where a specific registration under Udyam Registration for MSME is mandated for participating in government

procurement. In addition to the requirements, there are obvious incentives for registration.

6.2 Digital Financial Services

Access to finance for MSMEs is changing due to the fintech revolution. Digital lending platforms now use alternate data such as e-commerce sales, history of digital payments, and GST filings for the purpose of evaluating creditworthiness. Formal registration and compliance records reduce borrowing costs and significantly improve credit availability.

Financial businesses, therefore, consider documented revenue streams, GST compliance records, and their respective registration certificates as relevant indicators. This leads to a positive feedback loop whereby formalization increases financial access and thereby fosters growth-in turn, making further formalization advantageous.

6.3 Business Management Platforms

Digital accounting tools (Tally, Zoho Books), GST filing, and billing systems simplify the work involved in formalization by performing complicated tasks. Large investment costs for information technology infrastructure are avoided by cloud-based technology. Digital systems for compliance as a service handle all aspects of tax compliance, licensing, and registrations. Although service charges remain a stumbling block for the smallest firms, such platforms increase the possibilities of formalization, especially for micro, small, and medium enterprises that lack administrative personnel.

VII. RESULTS AND ANALYSIS

7.1 Registration Trends

Period	Registered MSMEs (India)	(Cumulative)
01.07.2020 – 31.03.2021	28,38,249	28,38,249
2021-22	51,35,906	79,74,155
2022-23	85,65,154	1,65,39,309
2023-24	2,49,12,943	4,14,52,252
2024-25 (up to 31.07.2024)	63,40,557	4,77,92,809

The following table provides data regarding the registration of MSMEs in the Udyam Registration system in India from July 2020 to July 2024, along with cumulative totals. It can be seen that 2.84 million MSMEs registered in the first phase from July 2020 to March 2021, thereby marking the beginning for the Udyam portal service itself. The number gradually rose in subsequent years to 5.13 million in 2021-22 and 8.56 million in 2022-23, thereby pointing toward increasing acceptance and awareness for online registration services itself. The number took a drastic turn in 2023-24, recording 24.91 million for MSMEs registered in that year—the highest in a year so far—to a large extent due to enhanced online reach efforts and also due to the launch of the "Udyam Assist Platform." Then in July 2024, 6.34 million MSMEs registered in merely four months in 2024-25, thereby taking the cumulative total to approximately 47.79 million or 4.78 crores, thus thereby pointing toward the influx of online services from Udyam Registration in terms of promoting MSME registration in India itself.

7.2 Access to Formal Credit

Tabulated Impact on Financing:

Indicator	Pre-Udyam (2018–19)	Post-Udyam (2021–23)
% of MSMEs with bank credit	~22%	~48%
Avg loan processing time	45 days	15–20 days
Credit guarantee uptake	Low	Higher

The table below contrasts the important funding factors for MSMEs in the pre-Udyam regime (2018-19) and the post-Udyam regime (2021-23), pointing towards the influence of formalization and digitalization. The table reveals an increase in the percentage of MSMEs who can avail bank funding from around 22% in the pre-Udyam regime to around 48% in the post-Udyam regime, signifying better funding inclusion. The average processing time for loans was also reduced significantly from around 45 days in the pre-Udyam regime to 15-20 days in the post-Udyam regime, signifying better efficiency because of digital documentation of the files. Also, the adoption rate of the credit guarantee schemes,

although low during the pre-Udyam regime, improved in the post-Udyam period because the number of registered MSMEs appears better in the conventional banking channels during the post-Udyam period. The table below aptly establishes the significance of Udyam Registration for better funding of the MSMEs because of the drastic reduction in loan processing time from around 45 days to 15-20 days, signifying better efficiency because of digitalized documentation of files by the MSMEs. Also, the adoption rate of the credit guarantee schemes improved because of the increased visibility of the MSMEs in the conventional banking channels

7.3 Government Scheme Access

The inclusion of scheme information by the Udyam portal has raised awareness. The Udyam Registration numbers are presently being utilized as primary identifiers for various schemes, making the application process easier. The number of MSMEs registered who are participating as vendors in GeM has also increased. However, there still are some areas of implementation, which can be seen in the sense that some businesses enroll in the programs, yet receive very small help regarding the actual use of these programs. Some obstacles are still created through documentary requirements going beyond simple registration. The Covid-19 Emergency Credit Line Guarantee Scheme is an example of the pros and cons of benefit programs through registration.

7.4 Business Performance

Compared to the unregistered ones, the rates of employment and revenue growth for the registered businesses are faster but proving the causal relationship still remains difficult. The rates of survival appear to be higher for the registered businesses. While better off firms have better prospects for being registered and surviving, there could be an advantage of being formally registered in respect of gaining legitimacy or relief in times of crisis.

After registration is done, market links get strengthened as formal qualifications enable participation in formal trade, government contracts, or supply chains of businesses. Formal registration of export credits and quality certifications is more useful to export-oriented MSMEs.

VIII. BARRIERS TO FORMALIZAION

8.1 Digital Infrastructure and Literacy

Despite the progress, digital infrastructure and digital literacy remain a challenge. The internet penetration in MSME operation locations remains unbalanced. Demographic characteristics vary extensively in digital literacy, with younger entrepreneurs with higher levels of educational background adapting more easily to digital technology than others with lower levels of education.

Issues associated with biometric failure, particularly for manual laborers, are ignored in the assumption of widespread availability of Aadhaar authentication. Although multilingual portals are available, the challenge of languages still exists because most of the entrepreneurs are not familiar with technical vocabulary used in business.

8.2 Awareness Gaps

Despite awareness efforts, there remain considerable knowledge gaps. A large number of the targeted beneficiaries are unaware or do not understand the intricacies related to the Udyam Registration. Confusion created by conflicting or outdated information because of the large number of information disseminating sources.

There is a particularly minimal amount of data on requirements after registration. It may be possible for businesses to register without recognizing there are changes each year, as well as disclosure considerations. Some criteria on scheme requirements also lack understanding.

8.3 Compliance Burden

Though Udyam registration is quite easy, it is still complex in terms of overall compliance. GST, income tax, labor, environment, and industry-related licenses are many practices that MSMEs with registration undergo. These proofs of compliance prove to be too great an overhead on small businesses, with no administration to assist.

Uncertainty arises from the numerous regulatory changes. The penalty structure for non-compliance scares people away. Although there are attempts at consolidation, the different levels of government still have varying registration processes for businesses.

Micro-businesses are most affected by the cost of compliance, which includes time and resource costs.

8.4 Trust Cultural Factors

It has to be noticed that cultural and psychological factors lead to formalization decisions in many ways that cannot be fully addressed through the emergence of digital platforms. Conventionally, most informal business practices are entrenched in many areas. Formalization may interfere with important characteristics of cash transactions, undocumented agreements, and labor flexibility.

Trust in government agencies determines the willingness to register and divulge information. Communities, who have been victims of corruption, harassment, or arbitrary enforcement, consider formalization as attracting attention rather than achieving benefits. Past events, rather than assertions of present policy, play a major role in perception.

8.5 Post-Registration Challenges

There must be continuous compliance and maintenance. Though not cumbersome, the annual Udyam data update complacency often leads to ignoring it. Redoing is also doubtable for entities carrying out research and development above defined category limits. Problems arise due to discrepancies in Udyam returns and taxation return submissions because of linkage with taxation data bases.

The advantages that come with the system often have to be registered further beyond Udyam. The fully digital process guarantee is offset by the requirements for verification that some courses entail. The disillusionment with the value for formalization is thus derived.

IX. DIFFERENTIAL IMPACTS

9.1 Size-Based Variations

Micro firms face the largest barriers to digital literacy, compliance capability, and obtaining significant benefits. People in crisis often register opportunistically but do not actively maintain their registration over time.

Small businesses are more likely to actively pursue the benefits of formalization and to possess higher levels of organizational capacity. For that group, institutional lending, supply chain integration, and government procurement are more relevant and accessible.

Before Udyam, medium-sized businesses were often nominally operating already. The new approach is thus largely a matter of administrative simplification rather than revolutionary formalization.

9.2 Sectoral and Geographic Variations

Given the nature of capital intensity and regulatory regimes, the manufacturing business sector has generally experienced higher formalization rates. The businesses within the services sector have experienced more dramatic formalization changes due to the influence of GST and digital platforms.

Formalization is more feasible and advantageous for the urban MSMEs because of their enhanced connectivity in terms of information technology infrastructure, banking, and professional and market opportunities. Lower connectivity in terms of information technology infrastructure, absence of financial infrastructure, scarcity of professional services, and largely unorganized market links can be considered as some of the compounding challenges being faced by the rural MSMEs.

Variations within states reflect variations in digital infrastructure, industry structure, bureaucratic effectiveness, and quality of governance. The quality of formalization outcome is improved within states with positive policy and effective implementation.

X. POLICY RECOMMENDATIONS

10.1 Strengthening Digital Infrastructure and Literacy:

It's important to continue investments in telecoms infrastructure, particularly in rural areas. Digital literacy initiatives targeted specifically at entrepreneurs should provide applications that matter to business people, in addition to basic computer training.

A focus on results and not just registration figures should be introduced in common service centers providing assisted registration services. Simplified language, improved error messages, and mobile optimization should also be included as improvements on the Udyam website. Feedback should be used for continuous improvement.

10.2 Enhancing Awareness

There is a requirement to create mass awareness through various channels such as print media, radio, television, and outdoor advertisements in commercial zones. Social media platforms, influencer collaboration with successful MSME entrepreneurs, as well as short video content, form essential elements within digital marketing.

A systematic awareness-raising approach should be adopted by the chambers of commerce and industries. Microfinance institutions and banking correspondents who often engage with small businesses should be trained to provide information on registration and formalization.

10.3 Simplifying Compliance

There should be a simplification of the overall regulatory regime. There could be an easing of the burden if there was a combination of reporting requirements from various government systems. Smaller companies could be less hindered if risk-based regulations apply varying standards of compliance based on company size, industry, and past history.

The areas that require an increase in technology-based compliance are pre-filled forms, tax liability calculation, and simplified return submission. In view of eliminating inequalities, the linkage between the GST, taxes, and Udyam systems should be improved.

10.4 Linking Formalization to Tangible Benefits

The value argument needs to be strengthened, with concrete, achievable benefits. Priority sector lending, credit guarantees, and preferential pricing should concretely enhance the access of registered businesses to finance. Simplified procedures and timely payment are two ways government procurement should, in fact incentivize MSME participation.

The implementation of the subsidy plan has to be enhanced to ensure conversion and that application leads to beneficiaries' receipt smoothly, eligibility is not ambiguous, and there is transparency in selection. Access to the market should be supported with focused targeting of registered businesses: integration into supply chains, buyer-seller meetings, and onboarding on e-commerce.

10.5 Strengthening Post-Registration Support

Ecosystems for overall support post-registration are very important. Support regarding compliance, strategy, and grievance solving needs to be offered through expert MSME help desks operational at different levels. Confidence boosts through grievance redressal mechanisms with specific timelines.

Businesses will maintain their positive status through active compliance alerts, including deadline reminders for filings and alerts regarding scheme opportunities. System upgrades can actually be informed through communication with learning about experiences with the enterprise.

10.6 Addressing Equity and Inclusion

Apart from the law on reservations, support policies for women, SC/SST entrepreneurs, minorities, and the disabled should also tackle the core handicaps. The gender-sensitive policies should realize the challenges faced by women entrepreneurs and support them with exclusive mentorship and support services.

The initiatives for financial inclusion should be around relationship-based loans and products for the underprivileged segments. The initiatives required for underprivileged regions for mobile registration camps, satellite facilitation centers, and regional-language assistance are required.

XI. CONCLUSION

Udyam Digital MSME registration in India is an important development in the formalization of MSMEs. There has been significant registration gained, and hurdles removed, through the streamlined process. MSME formalization is both necessary and advantageous in environments provided to MSMEs through digital platforms.

Studies indicate positive influences on market linkage, participation in the government scheme, loan access, and registration rates. Obstacles still exist, however, and include the missing components within the online environment, the lack of awareness, the cost of ongoing compliance, and a lack of tangible benefits to diminish the incentive to register and maintain registered status.

The equity challenges are brought to light by disparities in the impact based on firm size, industry, geography, and social group. The toughest to reach through formalization are micro-enterprises, rural enterprises, and marginalized groups.

The future of policy should lie in the promotion of digital literacy and infrastructure, raising awareness efforts, optimizing the broader environment of

compliance, and, most importantly, linking the benefits to create a strong value proposition for formalization. The need is to bolster the post-registration ecosystems, apart from the issues of equity.

The future prospects lie in the coming technologies such as blockchain or artificial intelligence; however, their application needs to provide solutions to actual needs. Foreign experiences bring learning from benefit consolidation, integrated schemes, and long-term support.

In order to support full success, formalization has to be viewed as an instrument for the development of business, creation of jobs, and inclusive growth, as opposed to an end in itself. Digital platforms, such as Udyam Registration, have brought about the necessary change that has led to the way forward. Dedication, resources, innovation, and meaningful engagement with the diverse enterprises that comprise this important sector require being harnessed to support full success.

It will take time to undergo the transition from an informal to a formal MSME environment. Although the journey is already on, it is entirely possible that due to certain challenges, it might not be possible to take advantage of MSMEs in creating shared wealth.

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