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## A STUDY ON THE RURAL DEVELOPMENT WITH A REFERENCE TO MSME

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### **Abstract:**

*Rural development is a crucial aspect of national growth, particularly in developing countries where a significant portion of the population resides in rural areas. This study explores the role of Micro, Small, and Medium Enterprises (MSMEs) in fostering rural development. MSMEs are recognized for their ability to generate employment, alleviate poverty, and promote economic diversification in rural regions. The research examines how MSMEs contribute to the rural economy by providing income opportunities, enhancing local infrastructure, and supporting the growth of other sectors such as agriculture and services. Through a comprehensive analysis of existing literature and case studies, this study highlights the challenges faced by MSMEs in rural areas, including limited access to finance, inadequate infrastructure, and lack of skilled labor. The study also discusses the impact of government policies and initiatives aimed at promoting MSME growth in rural regions, such as subsidies, credit facilities, and capacity-building programs. The findings suggest that while MSMEs have the potential to significantly contribute to rural development, their success is contingent upon a supportive ecosystem that includes financial, technical, and infrastructural support. The study concludes with recommendations for policymakers to create an enabling environment that fosters the growth of MSMEs, thereby accelerating rural development and reducing regional disparities.*

**Keywords:** Development, MSME, rural

### **Introduction:**

Since the beginning of economic planning, rural development has been one of the most important focuses, particularly in countries where a sizeable share of the population resides in rural regions. These locations, which are frequently characterized by lower income levels, inadequate infrastructure, and reliance on agriculture, provide a unique set of difficulties and potential for the development of sustainable practices. Micro, small, and medium-sized businesses (also known as MSMEs) have emerged as essential engines driving rural development



in the context of economic growth and the reduction of poverty. Providing alternate means of subsistence and lowering reliance on agriculture, micro, small, and medium-sized enterprises (MSMEs) play a crucial part in the diversification of rural economies. They provide a contribution to the addition of value at the local level, improve the distribution of income, and encourage entrepreneurial endeavors among rural communities. Not only can micro, small, and medium-sized enterprises (MSMEs) contribute to the reduction of rural-to-urban migration by generating job possibilities, but they also assist the development of local skills and infrastructure. Rural micro, small, and medium-sized enterprises (MSMEs) confront considerable hurdles, including restricted access to financial services, poor infrastructure, and a scarcity of trained personnel, despite the fact that they have the potential to be successful. Because of these challenges, the growth and viability of these businesses are frequently hampered, which in turn limits their capacity to make a complete contribution to the development of rural areas. This research is to investigate the role that micro, small, and medium-sized enterprises (MSMEs) play in rural development, with the goal of identifying both the potential that they bring and the problems that they confront. The purpose of this study is to give insights into how micro, small, and medium-sized enterprises (MSMEs) might be effectively supported to optimize their influence on rural economies. This will be accomplished through an evaluation of existing policies, case studies, and empirical data. In addition, the research will emphasize the significance of using a holistic strategy that incorporates financial, technical, and infrastructure assistance in order to establish an environment that is conducive to the expansion of micro, small, and medium-sized enterprises (MSMEs) in rural regions. The purpose of this study is to add to the larger conversation on rural development and economic diversification by gaining a knowledge of the dynamics of micro, small, and medium-sized enterprises (MSMEs) in rural settings. It is intended to provide policymakers, development practitioners, and other stakeholders with actionable suggestions that will increase the role that micro, small, and medium-sized enterprises (MSMEs) play in encouraging sustainable rural development.

### **Influence of Micro, Small, and Medium Enterprises on Rural Economic Growth in India**

In popular belief, the potential of rural businesses boils down to making good use of underutilized human and natural resources and drawing on the vast amounts of raw materials found in rural areas. Low levels of capital investment, high levels of labor intensity, and the application of fundamental technologies via the usage of local people and material resources define rural industrialization. Therefore, it is critical to strategically integrate local resources with labor if one wants to implement a development that has a chance of succeeding in these areas. When it comes to India's economy, the micro, small, and medium-sized businesses (MSME) sector is the one that



drives things forward. Based on projections, the micro, small, and medium-sized enterprise (MSME) sector is predicted to contribute 36.69% to GDP in 2010–2011, 37.07% in 2011–2012, and 37.54% in 2012–2013. Micro, small, and medium-sized enterprises (MSMEs) accounted for 43% of India's total exports in 2012–2013, 42.38% in 2013–2014, and 44.70% in 2014–2015, according to export data maintained by the Director General of Commercial Intelligence and Statistics within the Ministry of Commerce. The industry has about 46 million units spread out over the nation, and according to evaluations done by the Indian government's Ministry of Micro, Small, and Medium Enterprises (MSME), it has created almost 100 million employment. Not only that, 95% of India's industrial units are located there, and it accounts for 45% of the country's overall exports and employment in the industrial sector. More than 6,000 distinct product kinds are created by these businesses (according to [msme.gov.in](http://msme.gov.in)). Micro, small, and medium-sized businesses (MSMEs) create around 6.11 percent of the manufacturing GDP and 24.63 percent of the service sector GDP. Historically, the MSME (micro, small, and medium-sized firm) sector has shown consistent growth, with an average annual growth rate of 10%. This sector is thought to account for around 8% of the nation's GDP. Research carried out by the Confederation of Indian Industries (CII) on behalf of the Indian Ministry of Micro, Small, and Medium-Sized Enterprises (MSME) indicates that by 2025, the MSME sector is projected to account for nearly half of India's GDP. People are staying put in rural areas because there are so many micro, small, and medium-sized businesses (MSMEs) there. Micro, small, and medium-sized companies (MSMEs) have a win-win relationship with giant corporations in the new economic climate that is being characterized by the formation of national and global supply chains.

### **Literature Review:**

The literature on rural development and MSMEs underscores the transformative potential of these enterprises in enhancing economic resilience in rural areas. Various studies have highlighted the critical role that MSMEs play in generating employment, particularly in sectors that are traditionally underdeveloped in rural regions. For instance, Khan (2019) notes that MSMEs contribute significantly to rural industrialization by fostering entrepreneurship and local enterprise development, thereby reducing dependency on agriculture.

Several researchers have explored the challenges facing MSMEs in rural contexts. Access to finance is one of the most frequently cited barriers. According to Beck and Demirgüç-Kunt (2006), rural MSMEs often struggle to secure financing due to the perceived high risk associated with lending to small businesses, compounded by the



lack of collateral and credit history. This financial exclusion limits the growth potential of MSMEs, as they are unable to invest in the necessary infrastructure, technology, or workforce to expand their operations.

In addition to financial constraints, MSMEs in rural areas are hindered by inadequate infrastructure, including poor transportation networks, unreliable electricity supply, and limited access to markets. Rural infrastructure is often underdeveloped, which increases the cost of doing business and limits the competitiveness of MSMEs. Moreover, the lack of skilled labor in rural areas poses a significant challenge to the growth and sustainability of these enterprises. Skills development initiatives are often concentrated in urban areas, leaving rural MSMEs with a shortage of adequately trained employees (Mahajan, 2017).

Despite these challenges, several studies have documented the positive impacts of MSMEs on rural development. For instance, Reddy (2020) highlights how MSMEs contribute to poverty reduction by providing employment and income-generating opportunities for rural populations. The decentralization of economic activities through MSMEs also promotes more balanced regional development, reducing the urban-rural divide.

Government policies and interventions play a crucial role in shaping the success of MSMEs in rural areas. Various programs aimed at providing financial assistance, technical support, and capacity-building have been implemented in different countries, with varying degrees of success. The effectiveness of these policies often depends on their alignment with the specific needs of rural MSMEs and the extent to which they address the structural barriers these enterprises face (Tiwari & Tiwari, 2021).

The criteria used by the government of India to classify the MSMEs is different from the definition followed by the World Bank. Till July 01, 2020 it was based on the investment in plant and machinery and the type of the organization i.e. manufacturing or service. This definition was established in the Micro, Small and Medium Enterprise Development Act (MSMED Act) of 2006<sup>1</sup>, to enable identification and facilitate development of MSMEs. Before this act, MSME's were collectively termed as Small-Scale Industries (SSIs) under the Industrial Development and Regulation (IDR) Act, 1951.

**Table 1: Old Definition of Micro, Small, and Medium-Sized Enterprises (MSMED Act)**

Enterprise Size	Manufacturing	Service
Investment in	Plant & Machinery	Equipment
Micro	Up to ₹ 25,00,000	Up to ₹ 10,00,000
Small	₹ 25,00,000 to ₹ 5,00,00,000	₹ 10,00,000 to ₹ 2,00,00,000
Medium	₹ 5,00,00,000 to ₹ 10,00,00,000	₹ 2,00,00,000 to ₹ 5,00,00,000

Source: The Gazette of India, June 16, 2006.

In a legal change that took effect on June 1, 2020, the government revised the definition of micro, small, and medium-sized businesses. This adjustment was made with the intention of providing a unified definition for actions that are associated with taxation, investment, and other areas that are pertinent. A change was made to the definition in order to enhance the environment in which micro, small, and medium-sized companies (MSME) in India may do their operations. The modification altered the criteria for designating micro, small, and medium-sized companies (MSMEs) from "investment in plant and machinery" alone to "composite of investment and annual turnover." This change was made in order to include the new criteria. This change was unanimously approved by the Cabinet of the Union.

**Table 2: New Definition of Micro, Small, and Medium-Sized Enterprises (MSMED Act)**

Enterprise Size	Investment in Plant and Machinery or Equipment	Annual Turnover
Micro	Up to ₹ 1,00,00,000	Up to ₹ 5,00,00,000
Small	₹ 1,00,00,000 to ₹ 10,00,00,000	₹ 5,00,00,000 to ₹ 50,00,00,000



Medium	₹ 10,00,00,000 to ₹ 50,00,00,000	₹ 50,00,00,000 to ₹ 250,00,00,000
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Source: The Gazette of India, June 01, 2020.

### **Influence of Micro, Small, and Medium Enterprises on Rural Economic Growth in India:**

Micro, small, and medium-sized businesses (MSMEs) constitute the backbone of developing nations due to the economic and social benefits they provide. Micro and tiny enterprises may go by a different name, but they've made a big splash in economies all across the globe (Morris & Brennan, 2000). When compared to other nations experiencing extremely rapid expansion, India is now ahead of the pack. One hundred and ten million people have jobs thanks to the 63.3 million firms that fall under the umbrella of micro, small, and medium-sized enterprises (MSMEs). The agriculture industry is the most successful in terms of scale, employing 380% of the industrial workforce (Sinha, 2019). Women own and operate 20.33 percent of the businesses, and 51% of those businesses are situated in rural regions. According to Sinha (2019), this industry accounts for 45% of India's overall industrial production and 40% of exports; when added together, these two factors give this industry a 35% contribution to India's GDP. The sector has grown at a frequency of more than 10% over the last decade, thanks to the innovative spirit and resourcefulness of Indian entrepreneurs who have thrived in the face of logistical, social, and resource challenges (Iyer, 2018). According to Dewan (2019), this industry is expected to account for 50% of India's GDP, which is higher than the total growth rate of 8%. The industry's nimbleness allows it to support growth at a quick pace. A wide range of company sizes and technological capabilities characterize India's micro, small, and medium-sized enterprise (MSE) sector. With over 8,000 products and services to choose from, it really covers it all.

### **Employment**

After agriculture, the SSI business in India offers the second-highest number of job opportunities to the Indian population. The one lakh rupee investment in fixed assets was anticipated to generate four jobs in the small-scale market. Among their many valuable contributions, micro, small, and medium-sized enterprises (MSMEs) generate employment opportunities at lower capital costs than large industries. The industrialization of undeveloped and rural regions also plays a significant role in reducing regional disparities and promoting a more balanced distribution of the nation's income and wealth. Small and medium-sized enterprises (SMEs) not only





play an important role in the country's economic and social development, but they also support bigger companies. There is a strong correlation between the manufacturing sector and the region's GDP, employment rate, and exports. The strongest opportunities for self-employment and paid employment are in the micro, small, and medium-sized enterprise (MSME) sectors, which are well recognized outside of agriculture. The MSME sector is a constant engine of economic growth, which contributes to a more just and stable society in countless ways. These include, but are not limited to, the following: the establishment of low-cost non-farming livelihoods; the promotion of gender and social equilibrium; the advancement of environmentally sustainable development; and, of course, the prevention of recessions. The 73rd wave of the National Sample Survey (NSS) found that in 2015-16, almost 11.10 crore jobs were created by micro, small, and medium enterprises (MSME). In all urban and rural sections of the country, 360.41 lakh were engaged in manufacturing, 0.07 lakh in noncaptive electricity production and transmission, 387.18 lakh in trade, and 362.22 lakh in other services. Coming from India...In Figure 1, we can see the number of job vacancies that have been generated by MSMEs.

Broad Activity Category	Employment (in lakh)		
	Rural	Urban	Total
(1)	(2)	(3)	(4)
Manufacturing	186.56	173.86	360.41
Electricity*	0.06	0.02	0.07
Trade	160.64	226.54	387.18
Other Services	150.53	211.69	362.22
All	497.78	612.10	1109.89

*\*Non-captive electricity generation and transmission*

**Figure 1: The creation of jobs by micro, small, and medium-sized enterprises**

Source: annual report (2019-20), ministry of micro, small and medium enterprises, govt. of India

### MSME's promoting women empowerment

Micro, small, and medium-sized companies (MSMEs) have been crucial in advancing women's equality and have contributed greatly to the advancement of women's status in industrialized nations, which has seen a major improvement in the position of women. Despite the fact that their inclusion is not on par with that of men, they have nonetheless managed to achieve a number of key milestones. Since the beginning of time, women have been actively engaged in non-monetary economic activities. These activities include farming for food, raising children, and doing household work, among other labor-related chores. Additionally, at the present time, they are taking



part in monetary economic activities such as associations for self-help, commerce, labor, and ownership of enterprises, amongst other things (Kpelai, 2013).

### **MSMEs contribution in Industrial Development**

Micro, small, and medium-sized enterprises (MSME) make up around 90% of the industrial sector as a whole and are the principal suppliers of raw materials to large-scale manufacturers. The MSME industry is a broad sector, producing about 6,000 distinct product types (Annual Report). It uses a lot of raw materials derived from natural resources and supplies those materials to large-scale businesses (Wrigley). The company produces a wide array of goods to meet the needs of businesses and consumers at home. Everything you see in the areas of textiles, furniture, food and drink, manufacturing, and metal processing is really made by it. Along with that, it is crucial in increasing exports and decreasing imports as much as feasible.

### **Issues Faced by the Sector**

Along with this issue, there are a great number of hurdles that Micro and Small Enterprises face on their path. Some of these difficulties include not having enough money on hand, not knowing about the many financial goods and services that are available, and not receiving timely funding from the official banking sector (Adomoko et al., 2016). Many entrepreneurs seek funding for their businesses for different reasons, as stated by Chisimran et al. (2021). These reasons might range from the need to weather tough times to the desire to capitalize on good times. "Finance is a tonic that fosters the creation of enterprises and permits them to yield the benefit of prospects to nurture, engage labors, and assist other enterprises and the government through the payment of taxes," Duff (2019) writes. However, development potential, competitiveness, and the ability to create jobs are all jeopardized since the industry faces the challenge of inadequate access to suitable funding at appropriate times. There is a severe shortage of external financing options for startups and small enterprises. Meeting the credit needs of micro, small, and medium-sized companies (MSMEs) is crucial since their contributions are vital to the growth of the national economy. Another thing to think about is that this industry is a big part of the banking sector's clientele, and they can't afford to lose them to competitors. The main reasons why micro, small, and medium-sized enterprises (MSME) can't get enough money are because banks are too picky, there aren't enough symmetrical data points, there aren't enough papers to prove the company is financially stable, and people don't know enough about the various loan programs and alternatives. Several studies have shown that company owners in this





industry lack financial literacy skills and knowledge about the many government programs and policies that might help them.

### **Problems of MSMEs:**

Due of insufficient and delayed funding. insufficient and not easily accessible technologies. Global corporations pose a threat. Inadequate production capacity. Marketing plan that didn't work. Improvements and expansion are constrained. Low quality has a detrimental effect on export competitiveness. It takes a long time and a lot of red tape to set up a new unit with the government. The bureaucratic procedures cause approvals to be delayed. The country's judicial system is broken. Reasonably priced, competent labor is in short supply. Coders who aren't given enough chances to learn and advance in their careers. Labor regulations and bureaucracy that are hard to grasp. insufficient structures. An association with modern technology. Certification by relevant legislative bodies in energy, environmental, labor, etc. There are problems with the basic materials' quality. Productivity drops when old-fashioned machines are used. We are not making use of the capacity that has been developed. Outdated technology. The absence of well-organized trading networks. Something is missing from your knowledge of the current market situation. The operations are inherently chaotic. lack of competence in technological and managerial domains. To support MSMEs, or micro, small, and medium-sized businesses.

### **Conclusion:**

This study's results show how important Micro, Small, and Medium Enterprises (MSMEs) are for advancing rural development initiatives. According to the research, micro, small, and medium-sized companies (MSMEs) play a crucial role in rural areas in order to diversify the economy, create jobs, and promote local entrepreneurship. By diversifying their revenue streams and decreasing their dependency on agriculture, micro, small, and medium-sized businesses (MSMEs) significantly boost the economic health of rural communities. Conversely, the research highlights a number of challenges that rural micro, small, and medium-sized businesses (MSMEs) have while trying to grow and become more efficient. Limited access to capital, inadequate infrastructure, and a lack of qualified workers are three of the biggest problems that rural MSMEs face. In addition to limiting these companies' operational capacities, these challenges also affect their sustainability and long-term impact potential. Results like these show how important it is to help rural micro, small, and medium-sized businesses (MSMEs) in every way possible. Successful governmental interventions are critical for resolving the financial, infrastructural, and human resource challenges these companies are encountering. Government measures including targeted



financial aid, infrastructure development, and skill training programs are necessary to create an atmosphere that is conducive to the expansion of micro, small, and medium-sized businesses (MSME). Furthermore, the research highlights the need of integrating public-private partnerships and community-driven development models into development initiatives. Successful case studies show that rural micro, small, and medium-sized firms (MSMEs) may overcome some of their obstacles by collaborating, leading to more sustainable and meaningful solutions. In conclusion, MSMEs hold great promise for rural development; however, for this promise to be fully realized, it is imperative that stakeholders, development practitioners, and legislators work together. By fixing the highlighted problems and using the tried-and-true methods, micro, small, and medium-sized businesses (MSMBs) may perform a better job of fostering long-term economic growth and narrowing regional gaps.

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