



Role of MSMEs in Rural and Inclusive Economic Development

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in India's economic development, particularly in promoting rural growth and inclusive progress. Known as the backbone of the Indian economy, MSMEs generate large-scale employment, utilize local resources, and encourage entrepreneurship in both rural and urban areas. This research paper, based on secondary data from journals, books, government reports, and other sources, examines the concept, historical evolution, and contribution of MSMEs to inclusive rural development. The historical background highlights how MSMEs evolved from traditional village industries to a structured sector supported by policies such as the Industrial Policy Resolutions and the MSMED Act of 2006. Today, MSMEs significantly contribute to GDP, exports, and employment, making them essential for balanced regional development. Their role in inclusive growth is reflected in empowering women, creating opportunities for youth, supporting weaker sections, and promoting self-employment and skill development.

Despite their potential, MSMEs face challenges like limited finance, outdated technology, poor infrastructure, and low awareness of government schemes. The study concludes that strengthening MSMEs through better financial access, technology adoption, and policy support is vital for achieving sustainable and equitable economic development in India.

Keywords: *MSMEs, SSIs, MSMED, GDP, Startup India, Economy etc.*

Introduction:

Micro, Small and Medium Enterprises (MSMEs) are very important for India's growth and development. They are known as the backbone of the Indian economy because they create many jobs and help local industries to grow. In rural areas, MSMEs give people a chance to start small businesses, use local skills, and sell traditional products. This helps reduce poverty and stops people from moving to cities in search of work.

MSMEs also support inclusive growth by giving opportunities to women,

young people, and those from weaker sections of society. They help in spreading economic progress to villages and small towns, not just big cities. By promoting entrepreneurship and self-employment, MSMEs encourage balanced regional development. Overall, MSMEs play a key role in building a stronger, more equal, and self-reliant Indian economy.

Objective:

1. To study the concept of MSMEs.
2. To study the historical background of MSMEs.

3. To study the Role of MSMEs in rural and inclusive economic development.

Data Collection:

The primary source of data collection in this research paper is the secondary data. The available information on MSMEs has been extensively used to complete the research report. All the available Journals, Related books, Web, Articles, Publish and unpublished information and Papers provided necessary information to the finalize the research paper.

Data Analysis:

1. Micro, Small and Medium Enterprises (MSMEs):

Micro, Small and Medium Enterprises (MSMEs) are small-scale industries that play an important role in the growth and development of the Indian economy. They work in manufacturing, service, and trade sectors and help in creating large employment opportunities with low investment. MSMEs promote entrepreneurship, use local resources, and support rural as well as urban development.

According to the MSME Act, 2006 (revised in 2020), enterprises are classified based on investment and annual turnover: micro (up to ₹1 crore investment and ₹5 crore turnover), small (up to ₹10 crore investment and ₹50 crore turnover), and medium (up to ₹50 crore investment and ₹250 crore turnover).

2. Historical Background of MSMEs:

The development of Micro, Small and Medium Enterprises (MSMEs) in India has a long history that began even before independence. Traditional industries such as

handlooms, handicrafts, village industries, and small-scale trades were an important part of the rural economy. After independence in 1947, the Indian government recognized the need to support small industries to promote employment, reduce poverty, and achieve balanced regional growth.

The first major step was taken through the Industrial Policy Resolution of 1948, which emphasized the promotion of small-scale industries. Later, the Industrial Policy Resolution of 1956 further strengthened this sector by giving it a special place in India's economic development plans. During the Five-Year Plans, several programs were launched to provide financial assistance, training, and infrastructure support to small enterprises.

In 2006, the Micro, Small and Medium Enterprises Development (MSMED) Act was passed, which clearly defined MSMEs and provided a legal framework for their promotion and growth. This Act replaced the earlier term "Small Scale Industries (SSIs)" with MSMEs.

Over time, the government has introduced many schemes such as Make in India, Startup India, PMEGP and Digital MSME to support entrepreneurship and innovation. Today, MSMEs are a key driver of India's economy, contributing significantly to GDP, employment, and exports.

3. Role of MSMEs in Rural and Inclusive Economic Development:

Micro, Small and Medium Enterprises (MSMEs) play an important role in India's economic growth and social development. They are known as the backbone of the Indian economy because they provide employment to millions of

people, use local resources, and promote entrepreneurship. MSMEs help both urban and rural areas by creating jobs, reducing poverty, and supporting small businesses. In a developing country like India, where most people live in villages, MSMEs are very important for rural and inclusive economic development. They help bring growth to every part of the country and include all sections of society-women, youth, and weaker communities in the process of economic progress.

MSMEs are vital for India's overall development. They contribute nearly 30% to the GDP, provide employment to over 11 crore people, and account for almost half of India's exports.

Inclusive growth means development that includes everyone-especially the poor, women, and marginalized communities. MSMEs play a vital role in ensuring such inclusive development:

1. Empowering Women Entrepreneurs:

Many women in rural areas run small businesses such as tailoring, food production, and handicrafts. MSMEs give them income, independence, and respect in society.

2. Opportunities for Youth: MSMEs provide jobs and training to young people, helping them gain practical skills and reducing unemployment.

3. Inclusion of Weaker Sections: MSMEs provide work for people from economically weaker and socially disadvantaged backgrounds, promoting equality.

4. Skill Development: MSMEs help workers learn new skills and improve productivity through on-the-job training.

5. Encouraging Self-Employment:

MSMEs encourage individuals to become self-employed rather than depending only on government or corporate jobs.

6. Balanced Urban-Rural Growth: By spreading industries across villages and small towns, MSMEs reduce pressure on cities and support sustainable urbanization.

Government Support and Policies for MSMEs:

The Indian government has introduced several policies to promote MSMEs and help them overcome financial and operational challenges. Some of the main schemes are:

1. MSME Development Act, 2006 – Provides a legal framework and classification for MSMEs.
2. Prime Minister's Employment Generation Programme (PMEGP) – Offers financial help for starting micro enterprises.
3. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) – Provides loans without collateral security.
4. Cluster Development Programmes – Encourages small enterprises to work together for better productivity and shared infrastructure.
5. Digital MSME Scheme – Helps MSMEs adopt digital tools and online marketing.
6. Make in India & Startup India Initiatives – Encourage innovation and manufacturing within the country.
7. Skill India Mission – Focuses on training and upgrading workers' skills to meet industry demands.

Challenges Faced by MSMEs:

Despite their importance, MSMEs face many challenges that limit their growth:

1. Limited Access to Finance – Small entrepreneurs often struggle to get bank loans due to lack of collateral or credit history.
2. Lack of Modern Technology – Many MSMEs still use outdated tools and machinery, which reduces productivity.
3. Poor Infrastructure – Irregular power supply, poor roads, and lack of internet connectivity make it hard for rural MSMEs to grow.
4. Low Awareness of Government Schemes – Many entrepreneurs are unaware of the financial and training support available.
5. Marketing Challenges – MSMEs find it hard to compete with big companies due to poor branding and limited market reach.
6. Shortage of Skilled Workers – Many rural areas lack properly trained workers, affecting product quality and output.

Conclusion:

MSMEs are an essential part of India's journey towards economic growth and social equality. They provide employment, promote entrepreneurship, use local resources, and contribute to rural development. By involving women, youth, and weaker sections in productive activities, MSMEs ensure that economic progress reaches every corner of the country. To make India's development more "inclusive and sustainable", it is important to strengthen the MSME sector through better

finance, technology, and policy support. A strong network of rural MSMEs can transform villages into centers of economic activity, reduce poverty, and build a self-reliant India. In conclusion, the role of MSMEs in rural and inclusive economic development is not just about business-it is about empowering people, building communities, and shaping the future of the nation.

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