

## Role of MSMEs in poverty alleviation and rural development in India

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### Abstract

It is a reiterated fact that India is one of the fastest-growing countries in the world. The government has taken various initiatives to accelerate the growth of the country. Various Government and non-government institutions are working relentlessly to take the country to new heights of growth. The challenge here is to take care of every section of society and every sector of the economy for overall sustainable development. The problem of poverty still persists in rural areas. The rural development and poverty alleviation are the major challenges which hinder the growth of the country. The Micro, Small and Medium Enterprise Sector is one of the crucial sectors that could prove a game-changer in rural development and poverty alleviation. In this paper, an attempt has been made to study the situation of rural economy and poverty in the country. The researchers have tried to list out the possibilities that MSMEs could offer to alleviate poverty and contribute to sustainable rural development.

**Keywords:** poverty alleviation, rural development, micro, small and medium enterprise MSMEs, rural economy

### 1. Introduction

The problem of unemployment, poverty and lack of education signals that socio-economic situation of the country has not improved considerably even after 70 years of independence. It also implies that the efforts of government did not rip satisfactory results. In 2012, the Indian government stated that 22% of the Indian population lived below the poverty line. The World Bank report in 2011, based on Purchasing Power Parity (PPP 2011) calculations, estimated that 21.2% of the Indian population, lived below the global poverty line of \$1.90 PPP (World Bank, n.d.). To eradicate poverty and promote inclusive growth, MSME sector could play a crucial part owing to the huge impact it could create on the employability, poverty alleviation, reducing regional disparity, promoting social sector development etc. MSMEs have the ability to improve the economic and socio-economic condition of a large underprivileged population. Alleviating poverty and rural development is about Inclusive growth in rural India. Inclusive growth means economic growth that creates employment opportunities and helps in reducing poverty. Inclusive growth is about ensuring access to health and education, equality of opportunities, empowering people through education and skill development etc (Arthapedia, n.d.). Raising inequality in wealth has widened the gap between rich and poor in the country.

Filling this gap between rich and poor is a huge challenge for policymakers.

MSME sector is the backbone of our economy and plays a significant role in economic development. It is acknowledged worldwide that MSMEs are important contributors to a nation's economic and social development. In India, The MSME sector contributes to 45% of the total manufacturing output, 40% of the total export, 6% of the GDP, employs over 8 crore people and produces over 8000 products. Not only it supports large industries with their inputs but also it Ensures inclusive growth of the nation by supporting the rural economy. Most of the MSMEs are situated in rural areas and employ rural manpower.

### Definition of MSMEs

The definition of MSMEs in India has been ever-changing as per the growth in the economy. First systematic and robust definition of MSMEs was provided in the MSMED Act, 2006. Which defined the MSMEs in terms of investment criteria for both manufacturing and service enterprises. The definition has been changed again in June 2020, where the criteria of definition the MSMEs as manufacturing and service enterprises has been removed and the units are defined on the basis of investment and turnover. The below table offers a clear picture of the existing and revised definition

**Table 1:** Definition of MSMEs

MSME Classification as per the MSMED Act 2006			
Criteria: Investment in Plant and Machinery			
Classification	Micro	Small	Medium
Manufacturing Enterprise	Investment < ₹ 25 lakh	Investment < ₹ 5 crore	Investment < ₹ 10 crore
Service Enterprise	Investment < ₹ 10 lakh	Investment < ₹ 2 crore	Investment < ₹ 5 crore
MSME Classification as on June 2020			
Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Service Enterprise	Investment < ₹ 1 crore and Turnover < 5 crore	Investment < ₹ 10 crore and Turnover < 50 crore	Investment < ₹ 20 crore and Turnover < 100 crore

**Source:** Ministry of MSME, Government of India

The change in definition after 2006 MSMED Act was first initiated in 2015, when the government introduced MSME Development (Amendment) Bill, 2015 in the proposal was made to increase the investment limits for manufacturing and services MSMEs. Further, The MSME Development (Amendment) Bill, 2018 was proposed in 2018 which proposed to use annual turnover as criteria instead of investment for classification of MSMEs and remove the distinction between manufacturing and service enterprises (Vaishnav & Surya, 2020) <sup>[14]</sup>.

## 2. Review of Literature

(Thahira K., 2017) <sup>[11]</sup> Studied the impact of MSMEs in Mallapuram district of Kerala. The research found that after the enactment of the MSMED Act, 2006 many positive changes were seen in the district. The researcher explored in detail the role of MSMEs in rural development. Researcher applauded the technical and managerial support provided by the District Industrial Centre (DIC) and concluded that it has helped to reduce poverty and gender inequality in the district.

(Patil & Patil, 2016) <sup>[8]</sup> Studied the role of entrepreneurship in rural development, the role of government support initiatives for entrepreneurs. They suggest that rural entrepreneurship programmes should be such that they promote innovation and inspire the youth to choose entrepreneurship as a career. They also opined that incentives and monetary benefits to the farmers would encourage rural entrepreneurs.

(Srinivas, 2013) <sup>[10]</sup> Stated the importance of Micro, Small and Medium Enterprises in inclusive growth of the Indian economy. The researcher discussed the challenges faced by MSMEs and support schemes provided by the government related to various matters. As per the researcher, the support provided by the centre and state governments have not been adequate and the potential of the MSME sector has not been fully utilized. Among the many problems, lack of finance is the biggest challenges for the MSMEs and there is a lot of scope for the growth of MSMEs in the country.

(Vandenberg, 2006) <sup>[15]</sup> Reviewed the Small Enterprise Development Programme (SEED) of International Labour Organization (ILO) in poverty reduction. The author highlighted the difficulties in evaluating the impact of enterprise development on the enterprise itself, poor workers, entrepreneurs and their families. The author also suggested the strategies which could be adopted by SEED to focus on poverty reduction programmes.

## 3. Objectives of the Study

1. To study the situation of poverty and employment scenario in India.
2. To study the role of MSMEs in poverty alleviation and rural development

## 4. Research Methodology

The study is descriptive and nature and is based on secondary data. The shreds of evidence produced have been

taken from journals, Magazines, web-pages, annual reports of Ministry of MSME, Report of the 73<sup>rd</sup> National Sample Survey, ILO working paper etc. the important facts have been stated through tables and charts.

## 5. MSMEs and Poverty Alleviation

India is the second most populated country after China accommodating about 1.25 billion people. The country is the seventh-largest country in the world with an area of 3,287,000 km<sup>2</sup>. (SOS Children Village Canada). According to the Global Multidimensional Poverty Index released by the joint collaboration of UNDP-Oxford University in September 2018, there were 364 million poor in India. Currently, in the wake of COVID-19 effect, the IMF World Economy Outlook suggests that by the end of 2020, some 690 people are likely to be poor in India (Kharas & Hamel, 2020). This would be a mammoth increase of 47.25% within two years. The challenge lies in providing employment and works to the people so that this poverty level is minimised. The COVID-19 has hit badly every nation around the globe, as per the World Bank estimates, the fact that the global economy is set to shrink by 5.2 per cent in 2020 and per capita income is expected to decrease by 3.6 per cent adds to the problem of poverty in the India (Chandrashekhar, 2020) <sup>[3]</sup>. Ironically, the first goal of The United Nations Sustainable Development Goals is Reducing poverty. These goals have to be completed before 2030. In the wake of COVID-19, the task is now a bit difficult as more people are going to be dragged below the poverty line. In such a scenario, the local MSME business is going to play a major role in the country like India. The MSMEs have been a great employment generator in the past and helps most disadvantaged people in society by employing them in various kind of establishments.

Central to the problem of poverty is unemployment. If everyone has something to do which earns them money for fulfilling the basic necessities of life, then there will be no poverty. Having something to do and making an earning out of it is a privilege which unemployed people lack. Poverty is cancer in any economy which does not let the economy grow. The MSMEs can be a game-changer in poverty reduction. This is said with the support of the fact that MSMEs in rural areas provide opportunities for self-employment and wage-employment through entrepreneurship and provides employment to over 1109 lakh people in more than 633 lakh MSME establishments (Vaishnav & Surya, 2020) <sup>[14]</sup>. As these MSMEs are mostly labour intensive, they are able to accommodate more manpower and create more jobs than large enterprises. These MSMEs help poor earn income for living and improve their socio-economic status. Also, they provide quality employment without displacing the rural folk from their native place as they are located in far reaching rural areas only. The MSMEs are the largest non-farm employment generator in rural India. The table below shows the employment generation capabilities of the MSME sector

**Table 2:** Employment Generation by MSMEs (in lakhs) (2015-16)

	Micro		Small		Medium		Total	
	Units	People Employed	Units	People Employed	Units	People Employed	Units	People Employed
Rural	324.09	489.30	0.78	7.90	0.01	0.60	324.88	497.80
Urban	306.43	586.90	2.53	24.10	0.04	1.20	309.00	612.10

All	630.52	1076.20	3.31	32.00	0.05	1.80	633.88	1109.9
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Source: National Sample Survey, 73<sup>rd</sup> Round, 2015-16

From the above table, we can see that during the year 2015-16, the MSME were generating huge employment in the country. most number of employment is generated by micro-enterprises which are mainly based in rural and backwards areas, which implies that they mainly employ rural and backwards people who are more vulnerable to employment and poverty. The micro-enterprises employ around 1076 lakh people in more than 630 micro-units, followed by small enterprises which employ more than 32 lakh people in more than 3.31 lakh establishments. The medium enterprise provides employment to around 1.8 lakh people in more than 5000 establishments. The data shows how important MSMEs are in terms of employment generation.

**6. MSMEs and Rural Development**

Rural India is home to 70% of the total population of the country. The rural population resides mainly in far reach and backward villages. According to the 2011 census nearly 800 million people in rural areas lives in more than 600,000 villages (Elbers & Lanjouw, 2019). Rural development is characterised by improving the quality of life and economic well-being of the people residing in rural areas (Thahira K., 2017) [12]. The rural development generally takes place by the use of traditional knowledge to produce goods by exploiting the available local resources. The rural economy thrives on the productive utilization of locally available resources only. The MSME sector stands as a strong pillar for the growth of rural sustainable livelihood. The human capital residing in the rural areas are well utilized by the tiny and Cottage industries mainly working on the theme of traditional handicrafts. The major institution that works for rural development under the aegis of the Ministry of MSMEs is Khadi & Village Industries Commission (KVIC). Khadi & Village Industries Commission (KVIC) was established in 1956 for promoting and developing Khadi and village industries (KVI). The industry is providing huge employment opportunities in rural areas and thereby helping strengthen the rural economy. KVIC has been identified as one of the key organization in the MSME sector which generates admissible non-farm employment opportunities in rural areas at a low per capita investment. KVIC undertakes activities of skill development, transfer of technology, R & D in village industries, marketing support to Village industries etc. (Ministry of MSME, 2018) and helps in generating employment/self-employment opportunities in rural areas as majority of MSMEs are situated in rural areas and they have significant contribution in development of those areas. Through a wide range of activities of Khadi and Village industries, the workers are getting employment opportunities and are earning income for their survival. KVIC works with the wider objective of creating self-reliance amongst the people and building up of a strong rural community spirit, the social objective of providing employment in rural areas in general and in urban areas through DIC particular. Khadi and Village Industries sectors have helped the country in providing employment to a large number of persons. The estimates available from Village industries can be seen in the table below:

**Table 3:** Trends in Production, Sale and Employment in Village

industries (Production and Sales: □ in crore, Employment in Lakh Persons)

S.N.	Industry	2017-18	2018-19
1	Production		
a.	Khadi, Polyvastra and Solarvastra	1626.66	1963.30
b.	Village Industries	46454.75	56255.18
	Total KVI Production	48081.41	58218.48
2	Sales		
a.	Khadi, Polyvastra and Solarvastra	2510.21	3215.13
b.	Village Industries	56672.22	71113.68
	Total KVI Sales	59182.43	74328.81
3	Employment		
a.	Khadi, Polyvastra and Solarvastra	4.65	4.95
b.	Village Industries	135.71	142.03
	Total KVI Employment	140.36	146.98

Source: MSME Annual Report 2018-19, Government of India

It can be observed from table-3 that the total value of production of KVI has been increased from □ 48081.41 in 2017-18 to □ 58218.48 in 2018-19 which is a substantial increase of 21 per cent. It indicates that KVI has been operational in a full-fledged manner. The table also shows that sales have been increased by 25.59 per cent from □ 59182.43 crores to □ 74328.81 crores. The employment generation by KVIs in these two years has been phenomenal by employing around 140.36 lakh people in 2017-18 and 146.98 lakh people in 2018-19. Earlier, as per the MSME annual Report 2016-17, the earning of village industries had been growing substantially every year. In the year 2013-14, 2014-15 and 2015-16 the earnings of the village industries were □ 10,767.09 crores, □ 11,208.54 crores and □ 14,875.53 crores respectively. The benefit of which ultimately went to the rural entrepreneurs and the rural people employed in those establishments. As per the MSME annual report 2017-18, there are a total of 2,375 khadi institutions in the country that employ a total of 4,56,000 artisans.

**Table 4:** Employment provided by KVIC (Artisan in Lakh)

S.N	Year	Employment
1	2014-15	123.19
2	2015-16	126.76
3	2016-17	131.84
4	2017-18	135.71
5	2018-19	142.03

Source: MSME Annual Report 2018-19, Government of India

From the above table, it can be observed that KVICs have regularly employed a huge number of people every year. In 2014-15 and 2015-16, the KVICs employed 123.19 lakh and 126.76 lakh people in various KVIC units. These number further increase in the years 2016-17 and 2017-18 when a total of 131.84 lakh and 135.71 lakh people were provided employment opportunities in these KVIC units. The KVIC keeps taking strategic initiatives to promote khadi and village industries to them and make them competitive. Some recent initiatives by the KVIC include Workshed scheme for Khadi Artisans, Strengthening of the infrastructure of khadi institutions, assistance in marketing infrastructure, khadi reform and development program, interest subsidy, honey

mission, franchise scheme etc.

In recent decades, Inequalities have widened significantly between rich and poor. With the increase in population, the agriculture sector has failed to accommodate the total rural population. Inclusive growth efforts should be able to reduce inequality, alleviate poverty and benefit the most disadvantaged people in the economy. The MSMEs which have a turnover of more than 5 crores has to fulfil corporate social responsibility obligations. They may adopt schools and hospitals in villages as part of their CSR obligation and they could help locality in building roads and transport facilities. It may not always be easier for Small and Medium Enterprises to adopt schools and hospital but they could bear the cost of educations of children the employed workers and give them free medical care. MSMEs should take steps towards improving the living conditions of their employees and their families. MSMEs could also contribute by providing employment totally to local people and taking supplies from local vendors.

### 7. Suggestions

The government must formulate a detailed policy for rural MSMEs and take necessary steps to nurture the entrepreneurship activities in rural areas. Some of the key points that researchers have noted for the betterment of MSMEs for poverty alleviation and rural development are as follows:

- Emphasis must be given to establishing more agro-based units in the rural areas as farm products can be easily procured by them without any extra transportation cost. Many entrepreneurs in villages have started their own businesses in rural areas to use the farm produces to transform them into saleable products. These type of entrepreneurs must be provided proper support in the form of technical assistance, marketing support etc.
- Promoting rural tourism with the help of rural MSMEs can be one of the best ways to boost the rural economy. Many natural hill stations and cultural sites are situated in rural areas. They can be developed as a tourist spot with the help of local people which would generate employment and source of income to the local people for many generations to come.
- Skill Development Programs and Entrepreneurship Development Programs must be provided in the rural areas so that the rural youths can be imparted skills other than farming activities that their ancestors have been doing since ages. This would encourage them to take initiatives for undertaking entrepreneurial activities. Panchayat Bhawan and Primary schools could be used for these purposes.
- Setting up of ancillary units of large enterprises in the rural area could generate more employment in the rural areas. These ancillary units would supply the farm produces and other finished and semi-finished goods to large enterprises. These ancillary units must be made mandatory to employ the village people only.
- Lack of infrastructure in rural areas has remained a major problem since independence. The government must ensure that Infrastructural support in the form of uninterrupted water and electricity supply is provided to the MSMEs in rural area along with the road connectivity for transport.
- Branches of DICs must be set up at block level which

would track the growth of MSMEs in the rural areas. This would help in keeping the records of MSMEs and also help the Ministry to assess the funding requirements of the MSMEs.

### 8. Conclusion

MSMEs can be an effective medium to use local resources for more productive purposes with the coordination of government and local institutional bodies. It is required that MSMEs must be backed and supported in the mission to reduce poverty and unevenness in the development. The problems faced by MSMEs must be addressed properly and special attention should be given to Micro enterprises. The Government of India has taken a slew of measures and is striving to improve the economic and social conditions of the rural population and non-farm sector. Setting up of Micro-Units Development and Refinance Agency (MUDRA) Bank is one such step in this regard. The government should continuously and comprehensively monitor such schemes. Through government interventions in the form of financial, infrastructural and technological support, MSMEs must be strengthened create more employment which would ultimately lead to rural development and poverty alleviation. More the MSMEs flourish, more it paves the way for poverty alleviation and rural development in the country.

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