and investment should evolve from the agricultural sector to the industrial sector and, then, the service sector.

Definition

The new classification of MSMEs was notified on June 26, 2020. The manufacturing and service sectors are combined in this classification, with no distinction made between them. A new turnover criterion has been added to the classification based solely on investment in plant and machinery. This new classification came into effect on July 1, 2020.

New Definition of MSMEs

Enterprises	Investment in Plant& Machinery/Equipment(up to)	Turnover(up to)
Micro	Rs 1 Crore	Rs 5 Crore
Small	Rs 10 Crore	Rs 50 Crore
Medium	Rs 50 Crore	Rs 250 Crore

Source: MSMEs Annual Report, 2023-24

According to the above clarification, a microenterprise is defined as one where the investment in plant and machinery or equipment does not exceed ₹1 crore and the turnover does not exceed ₹5 crore.

A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees, and the turnover does not exceed fifty crore rupees.

Types of Village Micro and Small Enterprises

Agro-based and Food Processing Enterprises: Fruit and vegetable Processing Industries, Sugar and Jaggery Industries, Nurseries and Vermicompost, Pickles Industries, Dairy products Industries, Pulses and cereals Processing Industries, Rice, Wheat and Flour Mills, Spices and condiments Processing Industries, Organic Dyeing Industries, Spinning, Weaving, Colouring and Bleaching Industries, Meat Processing Units, Village Oil Industries, Palm Gur and other Palm Products, Village Oil Industries.

Forest-based Enterprises: Honey and Beekeeping Industries, Bamboo, Cane reed, Medicinal Plant Collection and Processing, leaf-based Industries, and Coffee and Nuts Industries.

Mineral-Based Enterprises: Clay bricks Industries, Quarrying Industries for construction materials, Hand-made Pottery, Glazed and Ceramic Pottery, Pottery as homemade Decor, Pottery for the Food Industry, and Salt Harvesting.

Wellness & Cosmetics Enterprises: Aromatic Oils and Fragrances Industries, Cosmetic and Beauty Products Industries, Hair Oil and Shampoos Industries, Toiletries Industries, Bathing and Detergent Soap Industries, and Agarbatti Industries.

Handmade Paper, Leather, and Plastic Enterprises: Paper Products Industries, Paper Conversion Industries, Leather Industries, Natural Fibre Other than Coir Industries, Traditional Decorative Products Industries, and Handicraft Toys Industries.

Rural Engineering and New Technology Enterprises: Tractors and Pump set repairs Industries, Agricultural Machinery and Equipment Industries, Bio-gas, Non-Conventional Energy, Carpentry Industries, Building Construction Material Industries, Electric and Electronic Products Industries.

Service based Enterprises: Maintenance and Servicing of Electrical and Electronic goods, Plumbing, AC repair and Maintenance, Mobile Repair, Sewing Machine Operation, Agriculture Machinery Repair Services, Seed/Fertilizer Supply Stores, Grocery Stores, Education and Vocational Training Institutions, Health Care Centres, Taxi and Transportation Services, Solar panel installation and Maintenance.

Role of Micro and Small-scale Enterprises for Rural Development

Economic Contributions

Employment generation

Micro and small enterprises (MSEs) are crucial for the Indian economy. They employ many people, especially in rural areas, and contribute to manufacturing and services. MSEs are indispensable for India's employment landscape. MSEs are businesses with relatively low investment in plant and machinery. Unlike large industries that use more machinery, MSEs use more human labour. They play a significant role in the economy, particularly in job creation. Establishing them in rural areas prevents migration to cities and reduces regional disparities. MSEs are pivotal to India's economy, characterised by low capital investment and high labour intensity.

Enterprises and Employment Distribution by MSMEs in Area Wise (In lakh)

Sector	Micro		Small		Medium		Total		Share (%)	
	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment
Rural	324.09	489.30	0.78	7.88	0.01	0.60	324.88	497.78	51	45
Urban	306.43	586.88	2.53	24.06	0.04	1.16	309.00	612.10	49	55
Total	630.52	1076.18	3.31	31.94	0.05	1.76	633.88	1109.88	100	100

Source: MSMEs Annual Report, 2023-24.

Micro and Small enterprises account for more than 99.5% of the total MSMEs; Medium enterprises account for only 0.01%. Micro and Small enterprises provide 99.8% of employment, and Medium enterprises provide only 0.16% of employment. MSEs employ approximately 10.8 crores of people. It is the second-largest employment generation sector after agriculture.

Food Process and Supply

MSEs are crucial in India's agricultural and food processing sectors. The food processing industry is a significant component of India's economy, contributing to food security, meeting the growing consumer demand, connecting agricultural products with consumers, and helping to reduce hunger and poverty. This sector also creates additional employment opportunities for young people, including those in the agricultural industry. The food processing industry accounts for approximately 32% of the country's food market and represents 11.6% of total employment in India, making it a vital component of the rural economy.

Income Generation and Poverty Reduction:

MSEs create jobs not only for the owners but also for a few other individuals. Since they are relatively easy to start, MSEs provide opportunities for people with limited resources to earn an income. Additionally, women and marginalised groups are often involved in MSEs, contributing to inclusive growth in the community.

MSEs can help lift individuals and families above the poverty line by offering a stable source of income. Diversified income streams from MSEs help households navigate crises, such as crop failures or job losses. For example, a family operating a small grocery stall can compensate for lost agricultural income during droughts. MSEs boost rural economies by procuring goods and services from locals. Purchasing raw materials from local farmers boosts the incomes of farmers.

MSEs require minimal capital and skills, enabling individuals with limited resources to start businesses. Agriculture, retail, handicrafts, and services flourish due to local demand, allowing entrepreneurs to generate stable incomes. MSEs provide a lifeline for families living below the poverty line, improving household incomes. Moreover, the income generated from MSEs can be used for education and healthcare, and some of the income can be saved for future needs, thereby fostering long-term solutions to poverty.

Utilisation of Local Resources

Utilising local resources reduces transportation and import costs, enhancing profitability. Utilising local resources enables MSEs to be competitive and sustainable, thereby contributing to both rural and national economies. MSEs build rural sustainability and identity by utilising local resources, such as agricultural products from farmers, natural resources, raw materials, and the labour force. These also support the rural economy by creating jobs and circulating money in rural areas. MSEs can play a vital role in transforming local resources into global opportunities. MSEs innovate in product design or processes using agricultural waste to create new products, add value, and reduce waste.

Contribution to GDP and Exports

Share of MSMEs' Gross Value Added (GVA) in all Of India's GDP

Year	Share of MSME GVA in All India GDP (in %)
2018-19	30.5
2019-20	30.5
2020-21	27.3
2021-22	29.6
2022-23	30.1

Source: MSMEs press release, July 2024.

Share of export of MSME-specified products in all Indian exports

Year	Share of Export of MSME in All India Export (in %)
2019-20	49.75
2020-21	49.35
2021-22	45.03
2022-23	43.59
2023-24	45.73
2024-25 Up to May 2024	45.79

Source: MSMEs press release, July 2024.

MSEs form the backbone of India's economic growth. The overall MSME sector contributes approximately 30% of India's GDP and 45% to its exports; in this, MSEs account for a significant share. These directly bolster GDP through production and value addition. MSEs account for 6-7% of manufacturing and 24% of services GDP. However, their share in the manufacturing sector needs to increase more than in the service sector. Many MSEs operate in the informal economy, so their actual contribution to GDP may be higher than the official figures indicate.

Despite the significant contribution of MSMEs to GDP, their growth rate has been stagnant from 2019 to 2023. The share of MSMEs in exports has declined from 49.75% in 2019-20 to 45.79% by May 2024. The share of MSMEs in the country's GDP and exports has remained stagnant and low over the last five years. It has a negative impact on the country's economy, particularly the rural economy.

Social Impact

Empowerment of Women and Marginalised Communities

The impact of MSEs on the empowerment of women and marginalised communities in rural development is transformative, as these enterprises address systemic inequalities while fostering economic and social progress. MSEs serve as engines of inclusive growth in rural areas.

Share of gender-based MSMEs and Workforce in Rural and Urban Areas (In %)

Sector	Male		Female		Total	
	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment
Rural	77.76	32.40	22.24	12.46	100	44.86
Urban	81.58	43.60	18.42	11.54	100	55.14
Total	79.63	76	20.37	24	100	100

Source: MSMEs Annual Report, 2023-24.

According to the table above, rural areas have a slightly higher share of women-owned enterprises (22.24%) compared to urban areas (18.42%). The share of female employees in MSMEs is higher in the rural sector (12.46%) compared to the urban sector (11.54%).

Share of Gender-Based MSMEs by enterprises wised (In %)

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
All	79.63	20.37	100

Source: MSMEs Annual Report 2023-24.

More than 99% of all MSMEs are classified as micro-enterprises. Women run 20.37% of enterprises in all MSMEs. The majority of these women-owned businesses are single-person micro-enterprises. Only about 17% of women-owned enterprises have employed workers, with 95% operating with fewer than six workers.

MSEs in organic farming and value-added products, such as pickles and spices, enhance women's market linkages. Food processing, handicrafts, or dairy farming enterprises provide stable income streams to women. Rural Micro and Small Enterprises (MSEs) linked to microfinance institutions, such as Self-Help Groups, enable women and marginalised groups to access credit, build savings, and invest in assets like livestock or machinery. MSEs improve cooperation and relationships between marginalised communities in rural areas.

Women in rural micro and small enterprises (MSEs) challenge patriarchal restrictions by participating in public economic activities. These empower women to earn fair wages and gain social recognition. Economically empowered women are more likely to engage in Panchayithi councils, community bodies, and local and state elections. Empowering women economically and politically can help villages achieve social and economic development.

Improve the Quality of Life

Rural areas face poverty, unemployment, and limited access to essential services. MSEs have emerged as powerful tools to address these challenges, driving economic growth and enhancing quality of life. These are engines of local employment, reducing dependency on erratic agricultural incomes or urban migration. For instance, cooperative dairies employ millions of rural farmers, stabilising milk prices. Agribusiness industries collect raw materials from local farmers and contribute to their financial sustainability. Similarly, handicraft cooperatives in rural India employ skilled artisans and provide them with steady incomes. By fostering local entrepreneurship, MSEs create sustainable livelihoods, improve access to healthcare and education, and encourage savings. Strengthen the social fabric, alleviate poverty, and foster financial security, enabling families to plan for the future with confidence.

Environment Protection

Agro-based Micro and Small Enterprises (MSEs) can adopt organic farming practices that avoid chemical fertilisers and pesticides, thereby protecting soil and water quality. These provide a direct environmental benefit. Additionally, by avoiding the use of harmful chemicals, they promote biodiversity. Water conservation practices, such as rainwater harvesting and efficient irrigation techniques, can also be integral to MSE operations. These practices help preserve vital water resources, particularly in rural areas that face water scarcity.

Waste management represents another important aspect of MSEs. Small enterprises often engage in recycling or upcycling materials that would otherwise be discarded, such as converting agricultural waste into biofuels or compost. This approach reduces landfill usage and pollution. Furthermore, some MSEs install solar panels or biogas plants, offering clean energy alternatives to fossil fuels and thereby lowering greenhouse gas emissions and reliance on non-renewable resources. They also produce biodegradable products, like paper bags instead of plastic and natural dyes for textiles, which help reduce pollution and the amount of non-biodegradable waste.

When MSEs create jobs in rural areas, it can discourage people from migrating to cities, thereby decreasing environmental pressure on urban areas, including issues such as slums and pollution. By keeping the population engaged in sustainable local industries, MSEs help prevent the over-exploitation of natural resources. Moreover, MSEs can promote environmental awareness among rural communities by providing training on sustainable practices and eco-friendly production methods.

MSEs play a crucial role in protecting the rural environment by utilising resources sustainably, managing waste effectively, adopting renewable energy sources, promoting organic agriculture, mitigating urban migration pressures, and educating communities on eco-friendly practices. They also support efforts to conserve biodiversity and water resources.

Challenges Faced by MSEs

- Rural areas often lack access to banks or financial institutions. Even if they do, the MSEs often lack

collateral or a credit history, making it difficult for them to obtain loans. Also, high interest rates from informal lenders could be a problem.

- Rural areas often have poor roads, limited access to electricity, and inadequate internet facilities, which can significantly impact production and distribution. For example, Small industries struggle to operate effectively if there are frequent power cuts. Poor roads also make transporting goods difficult and expensive.
- Rural MSEs do not have access to modern technology or the skills to use it. This could make their products less competitive compared to larger businesses. Additionally, digital literacy is low, making it challenging to utilise online platforms effectively for marketing purposes. They do not know how to reach more significant markets beyond their local area.
- Competition from larger and multinational companies that can produce goods at a lower cost also hurts them—favourable policies exist in India for foreign direct investment and multinational companies to occupy rural MSEs.
- Skilled labour is scarce in rural areas. Younger, educated individuals often move to cities in search of employment opportunities. Training existing workers could be expensive and time-consuming for small businesses.
- Then there are regulatory issues. Although the government has schemes for micro and small enterprises (MSEs), rural entrepreneurs are often unaware of them. Compliance with regulations is burdensome.
- Supply chain problems exist, too. Sourcing raw materials can be challenging when suppliers are located far away, resulting in higher costs. Dependence on local suppliers could lead to issues if suppliers have their problems. Natural risks, such as droughts or floods, disproportionately affect agro-based micro and small enterprises (MSEs). Climate change exacerbates these issues, making it harder to sustain the business.
- Women-owned MSMEs face challenges in accessing credit due to a lack of collateral and tangible assets and limited avenues to prove creditworthiness to women-owned enterprises. Most women-owned businesses are home-run, micro, and informal, so they have limited exposure to market spaces and marketing skills. They also lag in digital and technical skills due to low literacy rates and lack of mobile and Internet access.
- Even if a business is successful, MSEs often face a lack of financial resources, planning, and market knowledge, which hinders their ability to expand beyond local areas.

Suggestions

Expand Credit Facilities: Strengthen initiatives such as the MUDRA Yojana and NABARD programs to provide collateral-free loans. Encourage microfinance institutions and Self-Help Groups (SHGs) to offer tailored financial products and services. Expand Stand-Up India for women-led enterprises. Strengthen SHGs with seed funding and market access.

Address Inequalities: Reserve MSE benefits specifically for marginalised groups, including SC, ST, OBC, and women.

Financial Literacy: Implement workshops on loan management, savings, and digital banking to empower entrepreneurs.

Vocational Training Centers: Offer agro-processing, handicrafts, and digital literacy courses in collaboration with the National Skill Development Corporation (NSDC) and NGOs.

Basic Amenities: Invest in rural infrastructure, including roads, reliable electricity (with solar energy options for off-grid areas), and high-speed internet access under the BharatNet project.

Common Facility Centers (CFCs): Establish shared spaces equipped with machinery (e.g., textile looms and food processing units) to help reduce operational costs.

E-Commerce Platforms: Utilise the Open Network for Digital Commerce (ONDC) and form partnerships with platforms like Flipkart and Amazon to reach broader markets.

Government Procurement: Connect Micro and Small Enterprises (MSEs) to public procurement opportunities through the GeM Portal, enabling them to supply goods and services to schools, hospitals, and government offices.

Branding & GI Tags: Rural tourism should be encouraged by promoting regional products and obtaining Geographical Indication (GI) tags.

Simplify Regulations: To streamline operations, introduce single-window clearances and tax incentives for rural Micro and Small Enterprises (MSEs).

Digital Tools: Train MSEs to effectively utilise digital payment systems (such as UPI), inventory management applications, and social media marketing strategies.

Innovation Hubs: Set up rural incubators in collaboration with Krishi Vigyan Kendras to develop agri-tech solutions.

Protection from Foreign Direct Investments (FDIs) and Multinational Corporations (MNCs): Protect Micro and Small Enterprises (MSEs) by regulating foreign direct investments (FDIs), domestic corporations, and multinational companies.

CONCLUSION

Focusing on the growth of rural micro and small enterprises (MSEs) is crucial for several reasons. These businesses make significant contributions to the manufacturing sector, create jobs, utilise local human and natural resources, and produce numerous goods that rural communities need. Additionally, they help accumulate capital, which can lead to the establishment of more industries.

Rural micro and small enterprises (MSEs) are often self-sufficient and exhibit rapid growth. Wealth distribution becomes more equitable as these businesses expand, resulting in a skilled workforce. This growth generates more employment opportunities and reduces migration from rural to urban areas, thereby alleviating pressure on city populations.

Furthermore, it can help prevent slum development, control pollution, and reduce poverty. As purchasing power increases, industrial growth will follow, and infrastructure development will rise. Ultimately, these changes will enhance the living standards of people in rural areas.

REFERENCES

1. *Ministry of MSMEs (2024): Annual Report 2023-24, Ministry of Micro, Small and Medium Enterprises. Delhi. Government of India: Author.*
2. *Ministry of MSMEs (2024): Contribution of MSMEs to the GDP, Ministry of Micro, Small & Medium Enterprises, Delhi, July 2024.*
3. *MicroSave Consulting (2022): Decoding government support to women entrepreneurs in India - The anatomy of entrepreneurship support scheme, MicroSave Consulting, Lucknow, October 2022.*
4. *ILO (2024): India Employment Report 2024 - Youth employment, education and skills, International Labour Organization(ILO), Institute for Human Development (IHD), New Delhi, 2024.*
5. *Bharathi, M. (2010): Abhivruddhini Ella Chooddaam: Essays and Reviews (Telugu). Hyderabad. Veekshanam Publications.*
6. *IBEF (2021): Foreign Direct Investment (FDI). Retrieved from https://www.ibef.org/economy/foreign-directinvestment.aspx*
7. *Invest India (2021): Food Processing. Retrieved from https://www.investindia.gov.in/sector/food-processing*