



# RURAL DEVELOPMENT THROUGH RURAL INDUSTRIALIZATION: ROLE OF MSMEs AND THE ATTITUDE OF THE INDIAN GOVERNMENT

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## -----ABSTRACT-----

Although India seems highly urbanized, 65 percent of the population still lives in villages. Governments have undertaken and are implementing several schemes over the last seven decades in the name of the development of rural areas. However, even today, the fundamental problems are not yet solved in rural areas, such as poverty, employment, migration, illiteracy, medical care, nutrition, drinking water, Etc. There has been no qualitative change in the fundamental problems. It is important to remember that all currently industrialized countries were once primarily agricultural. Therefore, industrialization, which is the mainstay of the country's development, is the need of the rural areas as an alternative to the agricultural sector. Setting up Micro, Small, and Medium Enterprises (MSME), mainly in the manufacturing sector, can employ more people in less time with less investment. This paper analyses the importance of rural industrialization and the need and necessity of MSMEs to achieve rural development.

**KEYWORDS:** Rural Development, Rural Industrialization, MSMEs, Industrial Development, Rural Employment, Rural Economy.-----

## INTRODUCTION

India is a group of villages. It consists of 6,64,369 villages as of 2019. They shelter the country's largest population and protect its economic, political, social, and cultural sectors. Villages have the upper hand regarding population, acreage, food production, consumer markets, Etc. Villages provide food, raw materials, and working youth to the towns and cities. Hence, India's development was linked with villages' progress. At the Second Round Table Conference on Indian Constitutional Reform in London in 1931, Gandhi said, "India is in the villages, not in Bombay, Calcutta, Madras." Even though nine decades have passed since then, and our country has undergone high urbanization, 66 percent of the population still lives in villages.

Most people living in the villages are poor farmers and agricultural laborers. Poor farmers have small farms that are not enough to feed their families. As the income from their farms is meager, most of them are working as laborers. Landless agricultural laborers make a living by selling their labor power throughout the year. Due to ever-increasing agricultural investment costs and a lack of minimum support prices, Poor and tenant farmers and farm laborers are stuck in debt. They are only able to live if they go into debt. Poor farmers gradually lose their lands to debtors and become farm laborers. Even agricultural labourers are losing the little land they have. As a result, the number of landless agricultural laborers is increasing.

Employment in the agricultural sector is mainly seasonal. During the sowing or harvesting season, there is a demand for agricultural labor. In the remaining period, agri laborers are unemployed. The work available in the dry land areas is mostly only 150 days a year. Even in areas with available irrigation facilities, work is available only during the sowing and harvesting seasons. So, poor farmers and agricultural laborers migrate to distant places as migrant and contract laborers. There, they spend miserable lives in extreme insecurity and inhumane conditions. If there is any increase in farm wages, that is swallowed up by rising prices. This made the situation of agricultural laborers even worse. The crisis in the agricultural sector has exacerbated rural poverty and thus increased migration.



Rural industries should be developed to divert rural labour towards industrial work. Then, heavy agricultural machinery can be introduced and used in the farming sector. But, on the one hand, due to a lack of industrial development and on the other hand, due to the advent of heavy machinery/cutting machines in the agricultural sector, agricultural laborers are going to distant places seeking work. Contractors and intermediaries are squeezing about 10 percent of the wages of these laborers. The workers also bear traveling charges. No more left for them is nominal.

Governments have undertaken and are implementing several schemes over the last seven decades in the name of the development of rural areas. Some tremendous changes have occurred through these schemes, and it is widely advertised that more changes or miracles will happen. However, even today, there are fundamental problems in rural areas, such as poverty, lack of employment opportunities, migration, illiteracy, medical facilities, nutritious food, drinking water, Etc. There needs to be qualitative development in solving the fundamental problems. Reducing poverty and food security by increasing people's income is the right approach. This requires the creation of more employment opportunities. So far, rural industrialization has yet to develop as an alternative to agriculture to obtain sustainable employment and income.

**Unemployment Rate**

<b>Year (Jan-April)</b>	<b>India</b>	<b>Rural</b>	<b>Urban</b>	<b>Graduate</b>
2020 (Sep-Dec)	7.08	6.7	7.8	21.2
2020	10.40	9.5	12.4	15.5
2019	6.87	6.5	7.6	14.7
2018	5.50	5.3	6.0	12.7
2017	4.68	4.3	5.6	11.3
2016	8.74	7.8	10.7	17.5

Source: CMIE (Jan-April 2016, 2017,2018,2019,2020 & Sep-Dec2020)

Considering the above statistics, the urban unemployment rate is higher than the national unemployment rate, and the rural unemployment rate is lower than the urban unemployment rate. The Agricultural sector employs the highest percentage of the people in the country, and it is the rural people's primary livelihood source. As a result, the rural unemployment rate is lower than the urban unemployment rate and is parallel to the national unemployment rate by a slight margin. Employment through MGNREGA in rural areas is one reason for this. However, the unemployment rate is rising in rural and urban areas.

Moreover, it is more prevalent among graduates. Although the country's unemployment rate lowered by the end of 2020 than at the beginning years, the graduate unemployment rate has risen to an all-time high. The lack of employment opportunities despite higher education is an unfortunate situation. In 2020, India's estimated youth unemployment rate was 23.75 percent, according to the International Labour Organization (ILO) data. The declining employment opportunities in the agricultural sector and the lack of employment opportunities in the industrial manufacturing sector are the main reasons for the rise in the graduate unemployment rate in the country.

The Government is undertaking many publicity campaigns and schemes regarding skill training, but youth are not inclined towards training centers. The reason is that there needs to be industrial development to get adequate employment after training. If industrial development occurs, the youth will come forward for skill training to get employment. Young people are currently being trained in various software and computer courses at the expense of thousands of rupees for employment in software and other companies, regardless of their degrees. When the youth believe they will get employment if they get any training and skills, they come forward to get skill training. When there are no employment opportunities, nobody goes for training or developing their skills.

Unemployment results in poverty, and it leads to disappointment, depression, unrest, insecurity, alienation from society, theft and fraud, Etc. Eradication of unemployment is essential to improve living standards and increase confidence in the future. The income of the people and living standards increase with the development of sustainable employment opportunities. Then, they will have adequate purchasing power. Economic growth is only possible with increasing the purchasing power of the people. The right way is to increase purchasing power by expanding employment opportunities. Until this happens, all government schemes are futile. Therefore, the creation of non-farm employment by establishing rural industries is significant.



**Importance of Industrialization**

United Nations Industrial Development Organization (UNIDO) underscores the need for industrialization in developing countries. The main objectives of the 1975 Lima Declaration on Industrial Development and Cooperation are: Industrialization is the basis for development. It increases productivity, job creation, and income. It thereby contributes to the eradication of poverty and provides opportunities for social inclusion, including gender equality, women empowerment, and better employment for youth. As industries develop, they upgrade science-technology and innovation and encourage investment in education and skills. Thus, industries contribute to securing resources to meet broad, comprehensive, and sustainable development goals.

Industrialization plays a crucial role in the economic development process of the country. Economic development has to follow the process of moving people who depend on agriculture to non-agricultural activities such as manufacturing and services. In industrialization, the manufacturing sector is crucial for the economy's growth. The experience of many developed countries has proved the importance of manufacturing in absorbing surplus labour from the agriculture sector. It should be remembered that all developed countries today were once agricultural. The sector receives raw materials and services from other sectors of the economy and, in turn, supplies them as a finished product. It promotes technological progress and also affects other economic sectors. Professor Y.B. Sing, in his "Indian Economy Yesterday and Today," remarks that "whether a country is industrializing itself or not, is to be judged on the criterion of the greater or increasing percentage of people depending on industries for their livelihood." Any economy that moves in the direction of development, employment, and investment should move from the agricultural sector to the industrial sector and then to the service sector. UNIDO clarified in the Lima Declaration that such a structured transformation is necessary for the country's economic development.

**Growth Rate and Composition of Real Gross Domestic Product (At 2011-12 prices), Supply Side(Percent)**

Sector	Growth Rate		Share			
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
<b>Agriculture, Forestry, Fishing</b>	5.9	2.4	4.0	15.1	14.6	14.6
<b>Industry</b>	6.8	4.5	0.8	23.4	23.1	22.4
<b>Manufacturing</b>	6.6	5.7	0.0	18.1	18.1	17.4
<b>Service</b>	6.7	7.5	5.0	61.4	62.3	62.9

Source: RBI Annual Report, 2019-20.

Despite the introduction of economic reforms in 1991 with the primary objective of accelerating industrialization, and although some schemes like Make in India, Skill India, and Digital India have been brought and allowed 100 percent Foreign Direct Investments(FDIs), the industrial sector in the country has not developed. Considering the above statistics, this is clear. The agricultural sector accounts for only 14.6% of GDP, but it is the livelihood for most of the population. The share of the industrial sector in GDP is 22.4%. Of this, the share of the manufacturing sector, which represents industrial development, is 17.4%. The industrial growth rate has declined over the last few years and has fallen to minus by 2019-20. This sector has achieved only 4-5% growth in employment creation in the last ten years; MSMEs are the main reason for achieving even this minimum growth rate. Despite providing all kinds of incentives, subsidies, and infrastructure to the big industries, they have yet to provide adequate employment opportunities to the country's youth in the organized sector. Even today, the highest percentages are employed in the unorganized sector, without job security. Due to a lack of industrial development, India is a major importer of goods in emerging markets and economies. The share of the service sector in GDP is growing positively. Trade, hotels and restaurants, transport, communication, defense and Government services, Etc., account for 62.9% of GDP. Accordingly, there is no employment in this sector.



**Sector and Area-wise Workforce Distribution (% Share in respective employment category)**

Sector	Rural		Urban		Rural+ Urban	
	Self-employed	Regular/salaried	Self-employed	Regular/salaried	Self-employed	Regular/salaried
<b>Agriculture</b>	73.9	4.7	10.5	0.5	60.4	2.1
<b>Mining&amp; Quarry</b>	0.1	1.1	0.1	0.8	0.1	0.9
<b>Manufacturing</b>	6.5	20.0	22.8	23.6	10.0	22.2
<b>Electricity&amp; Water Supply</b>	0.1	1.8	0.7	1.7	0.2	1.9
<b>Construction</b>	1.9	3.2	4.7	2.5	2.5	2.8
<b>Trade, Hotel&amp; Restaurant</b>	10.9	13.3	34.6	17.9	16.0	16.1
<b>Transport, Storage&amp; Communication</b>	3.0	12.7	12.3	9.8	4.9	10.7
<b>Other Services</b>	3.5	43.3	14.3	43.2	5.8	43.3
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100

Source: RBI Annual Report, 2019-20.

Although 60 percent of the country's population and 80 percent of the rural population depend on agriculture and allied sectors, the share of agriculture in the Gross Domestic Product (GDP) was only 14.6 percent. This decline shows how much poverty is concentrated in the agricultural sector. The decline in the share of the agricultural sector in the national income is not due to the increase in the industrial sector's share. The share of the industrial sector in national income is tiny. It is caused by the continuous growth of other non-productive services that create no value. The service sector is a non-productive source of income. The stagnation of the industrial sector and the growth of the service sector in GDP is dangerous. There is no positive relationship between the share of agriculture and service sectors in GDP and employment. So, it indicates the failures of the country's industrial policies over the last seven decades. Industrialization did not take place as an alternative to the agricultural sector in the industrial era, mainly in rural areas. As a result, unemployment and migration are increasing day by day.

Many are saying and arguing that the COVID-19 pandemic is a cause of the crisis in the country's economy, mainly in the industrial sector. This crisis is untrue because the industrial sector's growth rate and the country's real GDP have declined since pre-Covid-19. It is, moreover, reaching zero and minus for the 2019-20 financial year. So, to put aside the causes for the pre-existing decline and crisis before COVID-19 and to say that the cause of this misery is the COVID-19 pandemic is to hide the facts.

**Real GDP (% change from the previous year)**

	2018	2019	2020(Estimate)
<b>World</b>	3.0	2.3	-4.3
<b>Advanced Economies</b>	2.2	1.6	-5.4
<b>United States</b>	3.0	2.2	-3.6
<b>Euro Area</b>	1.9	1.3	-7.4
<b>Japan</b>	0.6	0.3	-5.3
<b>China</b>	6.6	6.1	2.0
<b>India</b>	6.1	4.2	-9.6
<b>High-Income Countries</b>	2.2	1.6	-5.4
<b>Developing Countries</b>	4.4	3.7	-2.3
<b>Low-Income Countries</b>	4.4	4.0	-0.9

Sources: Global Economic Prospects - 2021.

This fact becomes evident when one examines the RBI Annual Report, 2020-21, Global Economic Prospects - 2021, and any other reports and their estimates. This situation is not only in India but in every country worldwide. The real GDP growth rate in countries like China, Bangladesh, the Arab Republic, and Egypt has not fallen to zero, but the growth rate has declined. The decline was greater in Advanced Economies and High-income countries.



### Rural Industrialization through MSMEs

The increase in the workforce in the industrial sector is correlated with an increase in per capita income. It means that when there is a more significant share of the workforce in the industry, there will be a greater increase in per capita income. Then, the percentage of workers decreases in the agricultural sector. When the proportion of workers in the secondary and tertiary sectors increases, it will be possible to increase the country's economic growth. Thus increasing national income and per capita income. If the rural people's purchasing power increases, the industrial and service sectors will get more momentum. Therefore, there is a need and necessity to develop rural industrialization. The growth of the rural economy is crucial for the country's overall growth and development; the rural economy employs about 53% of the workforce, the highest percentage of working people living in rural areas. For this, MSMEs should be established and developed in rural areas to provide sustainable employment and income as an alternative to the agricultural sector. There should be maximum use of local agricultural products and natural and human resources by MSMEs.

The Micro, Small, and Medium Enterprises (MSMEs) sector has emerged as the most potent and dynamic sector in the Indian economy. It significantly contributes to the economic and social development of the country by providing substantial employment opportunities at low capital cost. Compared to big manufacturing industries, MSMEs' labor and employment ratio is much higher. These offer maximum opportunities for self-employment and jobs in India, next to the agriculture sector, utilizing natural resources. If MSMEs are set up in rural areas, it can help reduce regional imbalances.

MSMEs are a budding ground for entrepreneurs and encouraging innovations in the country. These are ancillary units to large industries, and this sector contributes significantly to the overall industrial development of the country. These are the backbone of the Indian manufacturing sector. Junaid Ahmad (Director of India on behalf of the World Bank) said, "MSME sector is central to India's growth and job creation and will be key to pace India's economic recovery."

### MSMEs New Definition

The new classification of MSMEs was notified on June 26, 2020. The manufacturing and service sectors have been combined in this classification; there is no difference between the manufacturing and service sectors. 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, 2020-21

**Share of MSMEs in Gross Value Added (GVA) & Total GDP**

Year	Share of MSME in GVA (%)	Share of MSME in Total GDP (%)
2014-15	31.80	29.34
2015-16	32.28	29.48
2016-17	32.24	29.25
2017-18	32.79	29.75
2018-19	33.50	30.27

Source: MSMEs Annual Report, 2020-21

In 2018-19, the share of MSMEs in Gross Value Added (GVA) was 33.5%, i.e., one-third of the country's total manufacturing and 30.27% of the country's total GDP, and out of this, only 6.1% of GDP from manufacturing as well as 33.5% of India's manufacturing output; and 48% of related products export. From 2014-15 to 2018-19, MSMEs achieved positive growth in GDP, GVA. However, these got only 14.08% of total bank credit in 2018-19 and 11.74% in 2019-2020. This credit was reduced to 2.34% compared to the previous year. It is so low that almost 95 percent of the total industrial sector is in the MSME sector.



**Distribution of Enterprises and Employment 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, 2020-21.

Micro enterprises account for more than 99% of the total of MSMEs; Small and Medium enterprises account for only 0.52% and 0.01%. In the MSMEs sector, Micro-enterprises provide 97% of employment. Small and medium enterprises provide only 2.88% and 0.16% of employment. These are 51% of rural and 49% of urban areas. 55% of urban and 45% of rural MSMEs provide employment. The main reason for this is that trade and service enterprises and their size are big in urban areas, and it is low in rural areas. However, there are more manufacturing enterprises in rural than in urban areas.

Moreover, they are employing more people. Villages are the main centers of production, while towns are the centers of trade and service that sell them. The figures in the table below make this point very clear.

**Activity and Area Wise MSMEs Employment (In lakh)**

Activity Category	Rural		Urban		Total		Share (%)	
	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment	Enterprises	Employment
Manufacturing	114.14	186.56	82.50	173.86	196.65	360.41	31	32
Trade	108.71	160.64	121.64	226.54	230.35	387.18	36	35
Other Services	102.00	150.53	104.85	211.69	206.85	362.22	33	33
All	324.85	497.73	308.99	612.09	633.85	1109.81	100	100

Source: MSMEs Annual Report, 2020-21.

MSMEs are vital in India's agri-food sector and food processing chain. The food processing industry forms a significant part of India's economy. It addresses food security, meeting growing consumer demand, bringing agricultural products to consumers, and reducing hunger and poverty. These give more employment opportunities to youth, including in the farming sector. The food processing industry forms a significant part of India's economy. It accounts for about 32% of the country's food market and 11.6% of total employment. The Indian food and grocery market is the sixth-largest in the world and accounts for 70 percent of retail sales. Also, it is one of the largest industries in India and occupies the fifth rank in terms of production, consumption, exports, and expected growth. Today, the food industry market is estimated to be 35 billion dollars. The Indian packaged food industry is expected to double and increase to 70 billion dollars in the next 5-10 years. Foreign Direct Investments occupy the agri-food sector - food processing industries (Dairy, Fruits and vegetables, Poultry and meat processing, Fisheries, Food retail, etc.). Because of the percentage of profits is high in these sectors. 10.2 billion dollars of FDI inflows into the Indian food processing industries between April 2000 - September 2020; It is 2.04% of total FDI(US\$ 500.12 bn) inflow in this period. This sector received \$ 904.7 million in FDIs in the financial year 2019-20. Forty-four percent rose more than the previous year. \$ 628.24 million in 2018-19 and \$ 904.90 million in 2017-18. These have a massive impact on MSME's growth.

The agenda of the Government is that the rural economy should reach \$ 5 trillion by 2025. However, it will be possible only through agricultural development as well as the development of agro-based industries and other village industries. On the other hand, there are favorable policies for foreign direct investments and multinational companies to occupy the rural economy.

The FDI growth rate in the food processing sector is very high. At the same time, bank credit facilities to MSMEs are meager. On the other hand, the inflow of FDI into the food processing sector and the entry of countries and foreign large industries are increasing. According to the new definition of MSMEs, these will mainly occupy Small and Medium enterprises. After the new definition, the World Bank and the Government of India signed a \$750 million loan agreement under the MSME. However, the Emergency Response Programme supports only 15 lakh MSMEs. These profoundly affect the survival of current MSMEs, mainly in rural industries. As a result, along with unemployment, the wealth is concentrated in the hands of just a few companies. Furthermore, economic inequalities and poverty will increase.

Rural people need hundreds of industrial products. The rural consumer goods market in the country is fast expanding. The country's rural consumer markets are expected to grow faster than urban ones. Its value is



estimated to be one trilliondollars by 2025; it will be 40% of India's overall commodity goods consumption market. Multinational corporations are taking over rural markets through media and other communication services. Their goods reach every household, including remote villages. Furthermore, they are influencing the people's purchasing decisions. This has a severe impact on the development of MSMEs.

Micro and small-scale industries are crucial in economic developmentand employment creation. However, they are under intense pressure from domestic and multinational corporations. Job creation will inevitably stagnate if MSMEs go bankrupt as they cannot withstand competition from large industries. Those entering the jobmarket face a lack of employment opportunities, mainly young people. Unemployment will lead to anarchy. In addition to encouraging and assisting small industries, protecting MSMEs from competition from big companies is vital. Advanced technology and training are to be increased in this sector to produce goods of international quality standards at the lowest possible price. They can also increase product volume and export.

**The number of programs conducted, the number of trained participants, and the number of trainees who were self-employed or able to obtain wage-employment from 2013-14 to 2020-21**

Year	Programs	Trainees	Achievement( Success rate)				
			Wage Employed		Self-employed		Overall %
			No	%	No	%	
2013-14	1045	30910	8843	51.34	5905	41.36	47.54
2014-15	1599	47092	15419	32.74	9236	19.42	52.16
2015-16	1075	31874	14130	44.30	6313	19.18	64.10
2016-17	135	4050	2159	53.00	615	15.00	68.00
2017-18	87	2610	328	12.56	498	19.08	31.64
2018-19	25	750	54	7.00	53	7.00	14.00
2019-20	89	2290	67	3.00	88	3.84	6.84

Sources: MSMEs Annual Report, 2020-21.

Considering the table above, in 2014-15, there were 1599 skill training programs, and 47092 people were trained. This is a little increase compared to the previous year. In 2016-17, 4050 people were trained through 135 programs. In 2018-19, only 25 programs were conducted, and only 750 were trained. From 2016-17, the number of training programs, trainees, and people employed was less than 10 percent compared to previous years. The success rate in 2019-20 is only 6.8 percent. The industrial growth rate has declined since 2017-18 and recorded a '0' growth rate by 2019-20. This growth clearly shows the Government's so-called commitment to industrial development, skill training programs, and employment creation and the hollowness of govt. Policies are also apparent.

Anyway, it is imperative to focus on the growth of rural MSMEs, which fills the manufacturing sector, increase employment levels, utilize local human and natural resources, produces hundreds of goods rural people need, and enhance capital accumulation to establish more industries. They are also self-sufficient and develop rapidly; wealth centralization will decrease; skilled workforce will increase as rural industries grow; employment opportunities will increase; migration will decline; population stress will reduce in urban areas; slum prevention and pollution control will be possible; poverty will decline; the purchasing power of the people will increase; industrial growth will alsoincrease; infrastructure creation will increase. Eventually, there will be changes in the living standards of the rural people.

**CONCLUSION**

The Government should provide full cooperation to MSMEs to access the technologies, finance, markets, vocational education, and skill development in manufacturing. There is a need to ensure the production of hundreds of industrial goods required by the rural people and industries. MSMEs should be protected by regulating FDIs, domestic corporate companies, and multinational companies. The MGNREGA scheme is showing some temporary employment to the rural people. But rural workers are being kept technically unskilled. On the one hand, those who say that industrial development has a problem with skills in rural areas, but on the other hand, more priority is given to employment that requires no skills. If MSMEs are set up in rural areas in installments, spending thousands of crores of rupees annually under MGNREGS, rural people, mainly educated youth, will get stable employment and income. Through this, rural people can be made into technologically skilled forces. That can effectively use human and natural resources in rural areas, and villages can become prosperous. Technology should give the solution to the fundamental problems of society. But, it fails to reduce social and economic inequalities. It serves only a few individuals rather than the



development of the entire population.

If the manufacturing sector in the country develops through industrial development, we can meet the country's needs; we will be able to export surplus products. We can achieve self-sufficiency in production. As a result, the developed countries will lose the Indian market, their largest consumer market. Then where do they sell their products? So industrial development is prevented in the country. They are keeping industries of our country in their grip and their custody. Whatever it may be, the decline in people's income will be the most significant financial disaster in the future.

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