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EMPOWERING LOCAL ENTERPRISES: THE ROLE OF MSMEs IN DRIVING GROWTH, OVERCOMING CHALLENGES, AND SHAPING POLICY IN UTTARAKHAND

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ABSTRACT

MSMEs in Uttarakhand's perform a very important function toward entrepreneurship, employment generation, and regional industrialization. This is instrumental in accelerating the state economy with the MSME functioning in almost all domains, such as manufacturing, handicrafts, tourism, and other agro-based industries. The present study aims to highlight the contribution of MSMEs in speeding up the economic development, their contribution towards socio-economic development, and the policy initiatives that would provide in streamlining their sustainability and competitiveness. The numerous contributions by MSMEs, just like other states, they are faced with innumerable challenges in Uttarakhand. These include but are by no means restricted to access to formal credit, infrastructures, market access, skill deficiency, and regulatory barriers. Many of these businesses are unable to grow due to a lack of financial literacy, low technological process intervention, and entry into bigger supply chains. Various government schemes like the Prime Minister's Mudra Yojana, Startup India, Make in India, and related state MSME policies have given these entrepreneurs much-needed support.

This research is based on secondary data. The review of MSME policy documentation examined in great depth describes gap areas in existing MSME policy frameworks that need to be addressed for creating a stronger business environment. It also discusses certain other practices in different regions and countries that may assist in formulating policy recommendations aiding in the potential empowerment of Uttarakhand MSMEs. Through the aforementioned factors to the various challenges posed, targeted policy interventions should also enhance the financial inclusion, technological upgrading, and infrastructure of MSMEs so that they can directly contribute to economic growth and employment generation in Uttarakhand. In this context, this research offers much useful information for the policymakers, industrialists, stakeholders, and entrepreneurs on methods of developing and strengthening a resilient and competitive MSME sector in the region

KEYWORDS: MSMEs, Economic Development, Entrepreneurship, Policy Interventions, Financial

Inclusion, Technological Up gradation, Employment Generation

INTRODUCTION

The role of the MSME sector in the Indian economy is vital as it looks after the development and growth of micro, small, and medium enterprises. They are one of the most significant segments of the economic and commercial framework of India: connected directly with entrepreneurship and the development of entrepreneurs across the country. The policies by the government about MSMEs can be complex but have a chance of being very effective actions in reducing poverty and upgrading levels of income and entrepreneurship. Most definitely, an exhaustive study of MSMEs and the exploitation of their business benefits would serve as a great tool for both aspiring and already established entrepreneurs. Besides, the Government of India considers MSMEs a part of the economic development. **According to Dhang (2014)**, MSMEs are the backbone of the economy, whether in India or globally, resulting in increased participation and recognition of women in the sector. The paper will throw light on the topic of MSMEs by discussing the definitions given by the Government of India and the Reserve Bank of India before moving on to the present state of MSMEs in India, particularly in the state of Uttarakhand, along with the different government schemes available. This work has further delved into the performance of MSME, challenges, and the roadblocks that prevent modernization and development within its potential.

Small-scale industries have become the lifeline to the economy of the developing states, like Uttarakhand, considering this growth essential to reducing regional inequalities and effecting inclusive development. Being addressed, they are engines of entrepreneurship, employment generation, and innovation in operation across various sectors, such as manufacturing, handicrafts, tourism, and agro-based industries, highly contributing to the state's economic basement. Their self-sufficiency, the promotion of local industries, and the integration of rural people make them indispensable towards sustainable growth. MSMEs in Uttarakhand are further characterized by various structural and operational challenges like inadequate access to credit, limited reach in the market, skills shortage, infrastructural deficiencies, and regulatory hurdles. This state of affairs prevents them from scaling or becoming competitive in a rapidly changing business environment. Despite being strengthened through various government initiatives like Mudra Yojana, Startup India, Make in India, or applicable state-level MSME policies, there still exists a need for other policy interventions to close the gaps that remain and create a more enabling business ecosystem

Definition of MSME

The Micro, Small and Medium Enterprises Development Act were enacted in 2006 by the Government of India, which defined the MSME based on various activities that they could be involved with in gov.in)). This Act divided enterprises into separate segments to provide an organized framework for

manufacturing goods or providing services [Source: RBI, Government of India] (www.rbi.org.in / www.gov.in) in their classification and development.

The classification of Micro, Small, and Medium Enterprises (MSMEs) in India is based on investment in plant & machinery/equipment and annual turnover, as defined by the Government of India and the Reserve Bank of India (RBI). The classification criteria were revised under the **Atmanirbhar Bharat Abhiyan** in 2020 to promote growth and provide more benefits to enterprises. According to the **Ministry of Micro, Small, and Medium Enterprises**, MSMEs are categorized as follows:

Category	Investment in Plant & Machinery/Equipment	Annual Turnover
Micro Enterprise	Up to ₹1 crore	Up to ₹5 crore
Small Enterprise	Up to ₹10 crore	Up to ₹50 crore
Medium Enterprise	Up to ₹50 crore	Up to ₹250 crore

The revised classification applies to both manufacturing and service enterprises, ensuring a uniform framework for all businesses. As of December 31, 2024, because the State of Uttarakhand's, up to that date, holds the record of 341,905 Micro, Small, and Medium Enterprises registered under the Udyam Registration Portal across the State. Most of these fall under the Micro category counting up to 334,918 registered units, while Small enterprises have 6,443 and 544 have been termed as Medium ones. MSME is an important area for economic development; especially for a state such as Uttarakhand's entrepreneurship as well as small-scale industries is responsible for the employment generation and regionalization, thereby averting other types of growth. Approximately 509,020 jobs have been produced which will be able to support a big percentage of the state's workforce. This can be attributed to different types of schemes run by the government providing assistance in funds, skill development, and infrastructure assistance given to MSMEs.

The increase in the number of registered MSMEs indicates the gradual participation of small-scale business units in the formal economy, thus strengthening the industrial landscape of the state and adding to its overall economic well-being. Uttarakhand is the northern state of India and spreads over an area of 53,483 square kilometers, which can be divided mainly into two zones: Garhwal and Kumaon. Further, these territories are separated into 13 districts. The area is mainly hilly with vast areas of forest, covering approximately 34,662 square kilometers, thus presenting over 64% of its total area as rich in biodiversity. However, infrastructure development is below par and faces challenges in

transportation systems, internet connectivity, and warehousing facilities (Gupta & Pathak, 2017). Due to such geographical and infrastructure hindrances, establishing large-scale industries becomes difficult, thus making the MSME sector a key sector for production, investment, and employment generation in Uttarakhand. From the MSME Annual Report (2020-2021), it has been cited that about 4.17 lakh MSMEs, both registered and unregistered, are functioning in the state. The industries have invested ₹127.4357 crore collectively in tourism and hospitality, food processing, horticulture, floriculture, natural fiber, pharmaceuticals, wellness, and Ayush. The MSME sector is critical in curbing migration as it employs a considerable number of the workforce. The current employment scenario in Uttarakhand indicates that the MSMEs are providing jobs to 6.60 lakh persons, out of which 5.91 lakh are males and 0.69 lakh are females.

LITERATURE REVIEW

Ayyagari, Demirgüç-Kunt, and Maksimovic (2014) observe that MSMEs are an important tool for economic development, particularly in developing countries where large-scale industries hold no major position. The employment creation, innovation, and income generation done by these MSMEs are considered. Strong MSME sectors in a country, according to the authors, allow for higher levels of entrepreneurship and economic resilience. On the contrary, they emphasize that with limited access to finances and infrastructure and without a conducive policy environment, MSMEs will find it hard to scale and compete with larger firms. The authors thus endorse government assistance and financial inclusion policies to nurture a productive MSME ecosystem.

According to Tambunan (2019), among MSMEs, several constraints especially challenge the economies of developing countries like India and Indonesia. Among the key bottlenecks are lack of access to finance, poor technological adaptation, difficult regulatory frameworks, and market competition with larger firms. Also suggested is that informal MSMEs struggle in getting into the formal economic structure due to bureaucratic obstacles and a lack of awareness of legal benefits. The paper contends that an MSME-friendly regulatory environment and targeted support programs can make the sector more sustainable and competitive.

Beck and Cull (2014) examined the influence of financial inclusion on MSME growth in rural and depressed areas. Their study shows that MSMEs with access to formal banking, credit, and microfinance institutions do far better in terms of growth, productivity, and employment generation. According to the study, financial constraints remain a powerful obstacle to MSME development, especially in areas where conventional banks are often reluctant to lend due to perceived high risks. The authors suggest innovative financing solutions, including digital lending platforms, credit guarantee schemes, and mobile banking services, to promote the financial inclusion of MSMEs.

Rana et al. (2020) examine the role of digital transformation in the MSME sector and its impact on productivity and market expansion. The study finds that while digital tools such as e-commerce, cloud computing, and automation can enhance MSME competitiveness, many small businesses face significant barriers to adoption. These include high implementation costs, lack of digital literacy, cyber security concerns, and resistance to change. The research suggests that government initiatives aimed at digital skill training, affordable technology solutions, and infrastructure development can help bridge this gap.

Sitharam and Hoque (2016) analyzed the different government supports and policies for MSMEs and the impacts the policies have made in growing the sector. The result of their research indicated a considerable positive impact obtained from programs like Mudra Yojana, Startup India, and Make in India in terms of bringing in financial assistance, training, and marketing linkages for the MSME development. The study also brings out some critical challenges like bureaucratic delays in the scheme, limited awareness of available schemes, and difficulty in availing benefits. The authors recommend simplifying regulatory processes, enhancing transparency, and ensuring proper implementation of policies to further strengthen the MSME sector.

Gupta and Pathak (2017) zero in on the limitations and advantages that specially confront the micro, small, and medium enterprises in Uttarakhand, focusing on their geographical conditions and infrastructural confines. The discovery indicates that growth among small enterprises in the state is hampered since it is characterized by hilly terrain, difficult connectivity, and limited market access. However, handicrafts, tourism, agriculture-based industries, and herbal products, have great potential for growth as a compared to the hills of the region. The study has recommended infrastructure improvement, logistics development, and specific policy interventions in favor of the sustainability and growth of the MSME in Uttarakhand.

Ghosh and Guha (2018) scanned the scenario of India policies concerning MSMEs countries like China, South Korea, and other emerging economies. It established that some of the successful MSME models followed by these nations are based on strategies that focused primarily on exports, with delivery into global supply chains and very significant government financial support. The authors propose that India can do better by improving trade relations, investing in industries and labor reforms.

Nikaido, Pais and Sarma observed that, in their study, MSMEs can be costly, with mostly contributions towards employment generation in developing countries. This proportion is very important in rural areas and holds strong in communities that tend to be marginalized. They also found that most of the employment generated from the operations of MSMEs are low-paying and informal and almost without benefits from social security. Therefore, expert studies gave recommendations for

government interventions to include skills development and labor law changes alongside wage standardization, which would enhance the quality of employment in the MSME sector.

OBJECTIVES OF THE STUDY

- To examine the pivotal role of MSMEs in driving Uttarakhand's economic growth, employment, and industrial development.
- To explore the key challenges hindering the growth of MSMEs in Uttarakhand, including financial, infrastructural, and regulatory barriers.
- To assess the impact of government initiatives on strengthening the MSME sector and fostering sustainable entrepreneurship in Uttarakhand.

RESEARCH METHODOLOGY

The present research is fundamentally qualitative and descriptive and was exclusively based on secondary data sources in assessing how MSMEs contribute to Uttarakhand's economic growth, the problems they face, and the effect of government policies on the sector. The methodology includes a thorough review of the literature, government documents, policy documents, and statistical data for distilled insights. Secondary data for this study has been collected from a wide variety of credible sources, encompassing government reports and publications such as those coming from the Ministry of Micro, Small & Medium Enterprises (MSME) and NITI Aayog, the Reserve Bank of India (RBI) for Uttarakhand Government Policy Documents, MSME annual reports from the years 2020 to 2024, etc. The effectiveness of national policies, such as the Prime Minister's Mudra Yojana, Startup India, Make in India, and state-level MSME policies to promote the MSME sector, are key areas of concern for the study. Moreover, the study attempts to capture views from manuscript contents and case studies devoted to MSME development, financial inclusion, and government interventions, thereby laying a comprehensive groundwork for examining the performance and policy implications of the sector.

ANALYSIS AND INTERPRETATION

1. Roles of MSMEs in the economy of Uttarakhand, industrial development.

The definition of micro, small and medium enterprises (MSMEs) is such that it corresponds with the possible difference in their other name-the Indian Economy. In Uttarakhand, the MSMEs play a very important and pivotal role-basically by way of inducing entrepreneurship and job creation in different lines, and then by helping in the industrialization of all sectors of the economy. As of now, the MSME sector in Uttarakhand is as broad and diverse as any other in the country, such as manufacturing, handicrafts, tourism, and agro-based enterprises. To quite an extent, it contributes to the developmental pace of the regions. According to the Udyam Registration Portal, as of December 2024, Uttarakhand State has 341,905 registered MSMEs, of which the majority (334,918) falls under the classification of micro enterprises. All these together have generated almost 509,020 jobs, which is a very eminent impact on the employment generation of the area

and its economic stability. Further, this continues to be the most promising industrialization in the whole region through local entrepreneurship and industries spread across rural-urban territories that have brought a lesser difference between the two. For example, it covers areas like food processing, horticulture, wellness, and pharmaceuticals, which are popularly known to have done well due to available resources and state support in terms of incentives. Despite the huge contributions, MSMEs in Uttarakhand are still constrained by many structural as well as operational challenges that limit their growth and competitiveness.

2. Key Constraints That Affect the Growth of MSMEs in Uttarakhand

The MSME sector in Uttarakhand, without any exception of the rest of India, is also facing myriad constraints for its sustainable growth and scalability. These include the following major challenges:

a. Limited Access to Formal Credits

It has access to formal credit, which proves to be one of the most important barriers for the MSME sector; most small firms find it difficult to obtain loans due to a lack of collateral. The procedures for the loan application are highly bureaucratic, and interest rates are also exorbitantly high. Some schemes, such as PM Mudra and CGTMSE, have opened up avenues for access to credit; however, most remain oblivious to such schemes or find the process highly bureaucratic.

b. Lack of Infrastructure Facilities

Due to hilly terrains and poor infrastructure, Uttarakhand creates a hindrance to the infrastructure concerning transportation, warehousing, and connectivity of MSMEs. Poor road networks and a lack of digital infrastructure restrict market access and make it difficult for businesses to scale beyond their local market. Unreliable power supply and water shortages further affect production efficiency, particularly in the manufacturing sector.

c. Market Access and Supply Chain Integration

Access to larger markets and much-needed integration into supply chains is an even bigger problem for MSMEs in Uttarakhand. Most of these businesses are so small that they cannot meet the quality standards and bulk requirement of larger corporations in the mainstream; competition with well-established brands and imports makes it nearly impossible for these businesses to self-sustain. With little marketing knowledge and almost no digital presence, these businesses are left to reach a few consumers.

d. Skill Defectiveness and Technology Constraints

A major challenge to the growth of MSME is simply the absence of skilled and educated labor, in addition to the absence of technological advancement. Most small and medium enterprises operate with obsolete technology that results in low productivity and high production costs. In addition, there are limited technical training programs and remoteness from modern digital tools preventing smooth upgrading of their operations. Digital transformation initiatives, though promising, have hardly been internalized by small-scale entrepreneurs in this state.

e. Legal and Bureaucratic Barriers

Regulatory challenges faced by MSMEs are compliance to government regulations, taxation policies, and labor laws. Complicated registrations, countless changes to policies, and delays in getting approvals are discouraging entrepreneurs from expanding their businesses. Furthermore, there is a lack of awareness and clarity on the different government support programs them, leading to their being underused.

3. Impact of Government Initiatives on Strengthening the MSME Sector

Several policy measures have been introduced by both the Government of India and the Uttarakhand State Government to encourage MSME growth. Developments in the following schemes have produced noteworthy impacts:

a. Prime Minister's Mudra Yojana (PMMY)

PMMY has opened the doors for MSMEs, especially micro-enterprises, to easy access to credit by facilitating avenues for collateral-free loans. Statistics show that with steady growth in Mudra loan disbursement in Uttarakhand, investments by businesses and employment opportunities have increased. Challenges related to awareness and accessibility could do with some more attention.

b. Startup India and Make in India

these schemes act as a stimulus for innovation and entrepreneurship with support in funding, incubation facilities, and skill development programming for MSMEs. At the same time, the state-level Startup Uttarakhand scheme has worked to further foster local entrepreneurship with the provision of financial assistance and networking opportunities.

c. Udyam Registration and Digital Reforms

The launching of the Udyam Registration Portal has made MSME registration straightforward, allowing businesses to formalize their operations with great ease. Digitalization in the form of e-marketplace platforms has helped to dramatically widen the existing customer base for MSMEs and to access global markets.

d. Sector-Specific Incentives

The Uttarakhand government has given several incentives, such as financial support, tax exemptions, and land benefits to MSMEs engaged in the tourism, handicrafts, food processing, and wellness sectors. Although these incentives have offered some sustenance to the businesses, there is still a huge need for improvement of policy implementation so as to optimize the results.

CONCLUSION

The MSME sector in Uttarakhand plays a significant role in fostering entrepreneurship and promoting industrial development throughout the state, thereby acting as a catalyst for economic growth. The sector has also contributed to employment generation, rural development, and the economic solidity of the region, having more than 340,000 registered enterprises. Despite the vast potential of MSMEs in Uttarakhand, there seem to be several challenges blocking their growth, including restricted access to credit, infrastructural drawbacks, limited market linkages, and skill gaps. Such constraints hamper the scaling of these businesses and effective competition in the general economic environment. For MSMEs of Uttarakhand to achieve their fullest potential, a multi-faceted approach is required such as improved infrastructure, simplified regulatory processes, enhanced financial inclusion, and increased relevant digital literacy. The further strengthening of skill development programs and integration into larger supply chains will further generate sustainability and competitiveness for MSMEs. With continuous government support, policy changes, and the impetus of entrepreneurship, the MSME sector can become a much more resilient and mobile part of the economic development of Uttarakhand in the coming years.

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