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VOLUME  
II

## SUSTAINABLE DEVELOPMENTS THROUGH MSMEs : A PATHWAY TO SELF-RELIANT INDIA

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# CONTENTS

| Sl. No. | Title   | Page No. |
|---------|---|----------|
| 1       | ROLE OF MSME IN ENTREPRENEURSHIP DEVELOPMENT<br><b>Dr. Ahila. D &amp; Dr. N. Bagyalakshmi</b>   | 1        |
| 2       | EXPORT COMPETITIVENESS OF INDIA: THE ROLE OF MSMES TO PLAY<br><b>Dr. A. Anandalakshmy, Hindu Priyangna S &amp; Vishnupriya R</b>                            | 7        |
| 3       | IMPACT OF SUSTAINABLE FINANCE OF MSMES<br><b>Dr. Ida Samuel &amp; A.Jecintha</b>  | 14       |
| 4       | SUSTAINABLE AGRICULTURE AND FOOD PROCESSING<br><b>Dr. M. Jeeva</b>  | 19       |
| 5       | MSME – GROWTH THROUGH M-COMMERCE<br><b>Dr.E.Jothi, Sanjay C &amp; Hansika P S</b>   | 25       |
| 7       | THE ROLE OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN SUSTAINABLE DEVELOPMENT IN RURAL ECONOMIES<br><b>Dr. K. Jayaprakash &amp; Dr. K. Loganathan</b> | 32       |
| 8       | FINANCIAL HEALTH OF FIRMS AVAILING MSME FINANCE A STUDY<br><b>Dr. D. Kanakavalli &amp; C. Niruba Shri</b>   | 40       |
| 9       | DIGITAL INDIA IN MSME SECTORS<br><b>Dr. D. Kanakavalli &amp; T. Kishan</b>  | 43       |
| 10      | SIGNIFICANCE OF MSME IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS<br><b>Dr. Kothaiandal C &amp; Shilpa S</b>  | 50       |
| 11      | SUSTAINABLE DEVELOPMENT OF RURAL WOMEN'S ENTREPRENEURSHIP: A PATHWAY TO SELF-RELIANT INDIA<br><b>Miss. Shweta L Badiger &amp; Prof. D M Madari</b>          | 57       |
| 12      | DIGITAL INDIA AND INDUSTRY 4.0<br><b>Dr. Mangayarkarasi &amp; S. Sneha</b>  | 67       |
| 13      | EXPLORING THE DYNAMICS OF BRAND LOYALTY: INSIGHTS, INFLUENCES, AND IMPLICATIONS<br><b>Mrs. Mareena Abraham &amp; Priyanka.B</b>                             | 73       |
| 14      | MSMES & SUSTAINABLE DEVELOPMENT GOALS – PATH TO PROSPERITY<br><b>Dr. L. Meena</b>   | 81       |

|    |   |     |
|----|---|-----|
| 15 | THE IMPACT MSMES HAVE ON THE INDIAN ECONOMY<br><b>Dr. M. Nagendran &amp; Mr. K. Boopathiraj</b>                                     | 86  |
| 16 | ROLE OF MSME SECTOR IN INDIAN ECONOMY<br><b>Dr. S. Nambi Devi &amp; A.Jeyan Abhisheik</b>   | 95  |
| 17 | GREEN MANUFACTURING AND FINANCING FOR SUSTAINABLE<br>MSMES<br><b>Dr. P.V. Nandhini &amp; Dr. G. Gnana Selvi</b>                     | 99  |
| 18 | INDUSTRY 4.0 IN INDIA: EMBRACING THE DIGITAL REVOLUTION IN<br>MANUFACTURING<br><b>Mrs. B. Priya</b>                                 | 108 |
| 19 | ROLE OF MSME'S IN ECONOMIC SELF RELIANCE<br><b>Dr. M. Jeeva &amp; Dr. D. Rajasekar</b>  | 113 |
| 20 | FINANCIAL INCLUSION AND PERFORMANCE OF MSMES<br><b>Mrs. K.M. Saranya</b>  | 119 |
| 21 | DIGITAL REVOLUTION: MSMES EMBRACING M-COMMERCE AND<br>MOBILE APPS<br><b>Dr. M. Selvarani &amp; Ms. S. Poornimadevi</b>              | 122 |
| 22 | A STUDY ON MOBILE COMMERCE IN INDIA<br><b>Sethuraj N &amp; Riswanth R</b>   | 131 |
| 23 | A STUDY ON MOBILE COMMERCE IN INDIA<br><b>Ms. M. Shanmugapriya</b>  | 138 |
| 24 | FACTORS AFFECTING THE GROWTH AND PERFORMANCE OF<br>MSMES IN INDIA<br><b>Mr. T. Sivagnana Selvakumar &amp; Dr. R. Balaji Vignesh</b> | 144 |
| 25 | DIGITAL INDIA AND INDUSTRY 4.0<br><b>Dr. R. Somasundaram</b>  | 155 |
| 26 | ROLE OF MSME SECTOR IN INDIA ECONOMY<br><b>Ms. P. Sudha &amp; Ms. S. Pratheepa</b>  | 159 |
| 27 | FINANCIAL INCLUSION OF MSMES AND ITS IMPACT ON SOCIETY<br><b>Dr. N. Sumathi &amp; Ms. J. Madhubala</b>                              | 164 |
| 28 | CORPORATE SOCIAL RESPONSIBILITY IN MICRO SMALL AND<br>MEDIUM INDUSTRIES<br><b>Logesh Pandi. M &amp; Dr. R. Sundareswaran</b>        | 168 |
| 29 | LIFE CYCLE ASSESSMENT OF MSMES IN INDIA: A SUSTAINABILITY<br>PERSPECTIVE<br><b>Dr. J. Suresh Kumar &amp; Mrs. D. Shobana</b>        | 173 |

|    |   |     |
|----|---|-----|
| 30 | A STUDY ON DIGITAL MARKETING STRATEGY<br><b>Dr. R. Seeni Syed Ibrahim &amp; M. Suruthi Meena</b>  | 185 |
| 31 | EMPOWERING THE FUTURE: THE TRANSFORMATIVE ROLE OF<br>MSMES IN SUSTAINABLE SELF-RELIANCE<br><b>Dr. Tessy Thomas &amp; Tennyson Thomas</b>  | 190 |
| 32 | IMPACT OF MARKETING STRATEGIES ADOPTED BY WOMEN<br>ENTREPRENEURS TO ENSURE THE SUSTAINABILITY OF SMALL<br>BUSINESSES IN SATTUR<br><b>S. Thanga Keerthana &amp; Dr. K. Jegatheesan</b> | 199 |
| 33 | SUSTAINABILITY IN ENERGY WITH RELEVANCE TO SELF-RELIANT<br>INDIA<br><b>M. Velayutham Pillai, V. Poonkodi, V. Prabhu, K. Vimaladevi &amp;<br/>S. Arunachalam</b>                       | 204 |
| 34 | AGRICULTURE - THE MAGICAL ECONOMY<br><b>A. Benil Pravin Raj &amp; Dr. T. Vigneshkumar</b>   | 219 |
| 35 | FOSTERING INDEPENDENCE: MSMES DRIVING SUSTAINABLE<br>PROGRESS FOR A SELF-RELIANT INDIA<br><b>V. Prabhu*, K. Poonkodi, K. Vimaladevi &amp; M. Velayutham Pillai</b>                    | 227 |
| 36 | ENERGY EFFICIENCY AND RENEWABLE ENERGY ADOPTION FOR<br>SELF RELIANT INDIA<br><b>K. Vimaladevi*, V. Prabhu, K. Poonkodi, M. Anusuya &amp;<br/>M.Velayutham Pillai</b>                  | 234 |
| 37 | ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME'S) IN<br>ACHIEVEING SUSTAINABLE DEVELOPMENT GOALS<br><b>Dr. N. Vivek &amp; Kamal.T</b>  | 238 |
| 38 | EMPOWERING INDIA'S FUTURE: MSMES AS CATALYSTS FOR<br>SUSTAINABLE DEVELOPMENT AND SELF-RELIANCE<br><b>Visalakshi R &amp; Aravind.C C</b>   | 244 |
| 39 | EMPOWERING INDIA'S MSMES: PATHWAY TO ECONOMIC GROWTH,<br>RESILIENCE, SOCIAL INCLUSION<br><b>Dr. M. Akilanayaki &amp; Dr. R. Kalaiselvi</b>  | 249 |
| 40 | ROLE OF GREEN CRACKERS IN ENVIRONMENTAL SUSTAINABILITY<br><b>Dr. Antony Mary Vinothini &amp; Theva Aravinth K.K</b>   | 253 |
| 41 | ROLE OF MSME'S IN ECONOMIC DEVELOPMENT OF INDIA<br><b>Dr. T. Gana Gowsalya &amp; S. Jeba Selva Rani</b>   | 262 |
| 42 | A STUDY ON HUMAN HEALTH AND SOCIAL CARE ACTIVITIES<br><b>Dr. K. Ganesh Kumar &amp; R. Pavithra &amp; J. Suganya</b>   | 268 |

|    |  |     |
|----|--|-----|
| 43 | ROLE OF FINTECH - INNOVATION AND ADOPTION IN SUSTAINABLE BUSINESS START-UPS<br><b>Ms. A. Gomathi</b>   | 275 |
| 44 | WOMEN CUSTOMER'S OPINION TOWARDS NETWORK SECURITY IN ONLINE PURCHASE<br><b>Dr. P. Gomathi Devi &amp; M. Gayathri</b>   | 283 |
| 45 | DIGITAL INDIA AND INDUSTRY 4.0<br><b>Dr. T. Mohana Sundari</b>   | 288 |
| 46 | MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA (MSME) - SCHEMES & OPPORTUNITIES FOR SUSTAINABLE DEVELOPMENT<br><b>M. Prem</b>  | 294 |
| 47 | INDUSTRY 4.0 IN INDIA: EMBRACING THE DIGITAL REVOLUTION IN MANUFACTURING<br><b>Mrs. B. Priya</b>   | 299 |
| 48 | POVERTY ALLEVIATION AND RURAL DEVELOPMENT THROUGH MSMES<br><b>Ms .M. Ragaprabha</b>  | 304 |
| 49 | SUSTAINABLE DEVELOPMENTS THROUGH MSME'S: A PATHWAY TO SELF-RELIANT INDIA<br><b>Ms. R. Sasikala</b>   | 309 |
| 50 | ROLE OF MSME SECTOR IN BUILDING SELF-RELIANT INDIA AND ROLE OF COMPANY SECRETARY IN THE MSME SECTOR<br><b>Dr. M V. Sathiya Bama &amp; Ms. P. Shiney</b>                                | 318 |
| 51 | EFFORTS OF GREEN FINANCING AND DIGITAL INDIA TOWARDS THE DEVELOPMENT OF MICRO ENTERPRISES IN INDIA<br><b>Mr Rajagopalan S &amp; Dr M Umamaheswari</b>                                  | 324 |
| 52 | A STUDY OF TEACHER EFFICIENCY AND JOB SATISFACTION AMONG SECONDARY SCHOOL TEACHERS<br><b>E. Ganesh Priya &amp; Dr. K. Jegatheesan</b>  | 330 |
| 53 | THE ROLE OF MSMES IN ECONOMIC SELF-RELIANCE: DRIVING SUSTAINABLE GROWTH<br><b>P. Anu Shruthi, Dr. B. Indirapriyadharshini &amp; Dr. R. Ramya</b>                                       | 336 |
| 54 | DIGITAL INDIA AND INDUSTRY 4.0<br><b>Dr. N. Giri, B. Pavithra &amp; K. Gnanasundari</b>  | 341 |
| 55 | AN INVESTIGATION ON THE RELATIVE SIGNIFICANCE OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN TERMS OF ECONOMIC SELF-RELIANCE<br><b>Mr. R. Saravanan &amp; Dr. M. Chithirai Selvan</b> | 346 |

|    |   |     |
|----|---|-----|
| 56 | EFFECTIVENESS OF RISK MANAGEMENT IN THE MSME SECTOR: A SYSTEMATIC REVIEW<br><b>Ms. B. Chitra &amp; Dr. Shanmugapriya. S</b>   | 354 |
| 57 | SUSTAINABLE DEVELOPMENT THROUGH MSME'S: A PATHWAY TO SELF-RELIANT INDIA: INTERNET OF THINGS FOR PERISHABLE INVENTORY MANAGEMENT SYSTEM<br><b>Ms. S.S. Shanthi, S. Kavyadharshini &amp; M. Pandivarshini</b> | 363 |
| 58 | A STUDY ON INNOVATION AND PRODUCT DEVELOPMENT IN INDIA<br><b>Dr.N.Bairavi &amp; A.Femina Banu</b>   | 370 |
| 59 | THE ECONOMIC IMPACT OF MSMES ON INDIA: INVESTING IN INDIA'S FUTURE<br><b>Mr. K. Boopathiraj &amp; Dr. M. Nagendran</b>  | 375 |
| 60 | SUSTAINABLE DEVELOPMENT THROUGH MSME'S: DIGITAL INDIA AND INDUSTRY 4.0<br><b>Dr. K. Haridas &amp; P. Geetha</b>   | 385 |
| 61 | IMPACT OF COVID -19 AND PERFORMANCE OF MSMES IN INDIA<br><b>Dr. C. Hariharan</b>  | 391 |
| 62 | A STUDY ON GIG EMPLOYEES IN MADURAI CITY – WITH SPECIAL REFERENCE TOFOOD DELIVERERS<br><b>Dr. E. Keren Judi &amp; R. Hari Vishnu</b>  | 399 |
| 63 | THE TRUTH BEHIND INDIA'S HINTERLAND<br><b>Dr.P.Pon Meenakshi, Dr.V.Suresh Kumar, Akhila.R &amp; S. Vasuki</b>   | 403 |
| 64 | GREEN MANUFACTURING AND FINANCING FOR SUSTAINABLE MSMEs<br><b>Dr.A.Kanimozhi</b>  | 407 |



# MSMEs & SUSTAINABLE DEVELOPMENT GOALS – PATH TO PROSPERITY

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## Abstract

*Micro, Small & Medium Enterprise (MSME) sector accounts for 50% of India's exports and employs more than 120 million people. This sector influences the country's development and contributes to achieve the Sustainable Development Goals (SDGs) in three-fold: eradicating poverty, providing goods and services, and facilitating economic resilience. Such a huge sector with broader scope and potential is facing with serious challenges. This paper attempts to explain the various challenges faced by MSME like finance, infrastructure, and lack of formalisation. The paper also presents the recommendations to overcome the serious challenges faced by MSME sector. The recommendations being improved access to credit and liquidity, encouraging women entrepreneurs, and Fintech solution.*

**Keywords:** MSME, SDG, Challenges, and Recommendations

## Introduction

Micro, Small & Medium Enterprise (MSME) sector includes more than 63 million enterprises in India, and contributes to close to 30% of the nation's GDP. The sector accounts for 50% of India's exports, and employs more than 120 million people. With such a broad scope and potential, the industry unquestionably has a huge impact on the social fabric of the nation. Sustainable Development Goals (SDGs), or Global goals are the collection of 17 objectives designed for improvement. MSMEs contribute to the attainment of SDGs in three fold contexts, viz. eradicating poverty, providing goods and services, and facilitating economic resilience. Over the past few decades, the social fabric of India has undergone a series of transformations. In the 1990s, the Indian economy was liberalized, and the market opened up, increasing employment opportunities and living standards. A growing financial access led to an increase in social mobility. Certain sections of society, however, have lagged behind for a variety of reasons, from social barriers to a lack of education and funding. MSMEs make up one of these sections, which form the economy's foundation.

## Contribution of MSMEs in Sustainable Development Goals

A unifying framework for peace and prosperity for people and the planet, both now and in the future, is provided by the 2030 Agenda for Sustainable Development, which was

accepted by all United Nations Member States in 2015. The 17 Sustainable Development Goals (SDGs), which are an urgent call to action for all nations—developed and developing—in a global partnership, are at the center of it. They understand that combating poverty and other forms of deprivation requires policies that enhance health and education, lessen inequality, and promote economic growth, combat climate change, and fight to protect our oceans and forests.

MSMEs contribute to the attainment of SDGs in three fold contexts, viz. eradicating poverty, providing goods and services, and facilitating economic resilience. Let us discuss this briefly.

### **Eradicating poverty:**

A sizable underprivileged population can benefit economically and socioeconomically from MSMEs. In rural India, inclusive growth is important for reducing poverty and promoting rural development. Economic growth that reduces poverty and opens up employment opportunities is referred to as inclusive growth. MSME ranks second in India behind agriculture as an employer.

### **Providing goods and services:**

MSMEs are the main provider of products and services to villages, which make up a bigger portion of society. The bigger unreached population of the community in rural, which is not even covered by huge corporations, is connected through MSME. Thus, by making goods and services available to the underprivileged group, inclusive growth is ensured.

### **Facilitating economic resilience:**

MSMEs stimulate economic growth and generate significant job possibilities in both urban and rural areas. This supports socioeconomic empowerment and regional harmony. MSMEs help India's economy remain resilient by spreading out risks and decreasing reliance on a small number of major businesses or industries. Their existence across a range of industries and regions contributes to stability, particularly in trying economic times. MSMEs facilitate a more inclusive and sustainable economic growth model and contribute to balanced regional development.

### **Challenges Faced by MSMEs**

Despite being one of the foundations of the Indian economy, MSMEs are still overwhelmingly found in the unorganized sector. Without formalization, it is not only challenging to measure the employment and income metrics for these enterprises, but they

also fail to qualify for government welfare programs and subsidies. Some of the serious challenges faced by MSMEs are discussed here under:

**Finance:**

The Rs 20 lakh crores credit shortfall is the biggest problem facing MSMEs. In order to meet their credit demands, many micro-entrepreneurs are consequently compelled to turn to unofficial sources including family, friends, and local moneylenders, which results in higher interest rates and increased responsibility. 27% of business owners said they had trouble making loan payments on schedule. Enhancing MSMEs' access to funding is essential to their continued viability and growth. The sector also faces a huge credit deficit, which the World Bank estimates to be worth over \$400 billion. Small firms are significantly hindered by this gap, and having access to formal financing can greatly boost their capacity to grow, provide more income and jobs, and support local economies.

**Infrastructure:**

Because of the lack of infrastructure, MSMEs have higher operating expenses and are less competitive. Another issue mentioned by MSMEs is the lack of skilled labor and raw resources. According to 57% of business owners polled by the Bhartiya Yuva Shakti Trust, supply chain problems and rising raw material costs because of higher transportation expenses caused business disruptions.

**Lack of formalisation:**

MSMEs are widely dispersed throughout India, but the market is still mostly unorganized due to a lack of timely and affordable funding, a tiny talent pool, and weak supplier/dealer negotiating leverage. According to a survey, the majority of MSMEs operate in the unorganized sector and are not registered. The Udham portal for MSME registration only lists 79,84,801 enterprises (or roughly 12.4% of all businesses), despite the Ministry of MSMEs' projection that there were 633.9 lakh MSMEs in India as of March 30, 2022. In fact, only 1.1 crore MSMEs in India are officially registered with the Goods and Services Tax, and many of them lack the necessary financial and business documents. The majority of these unorganized businesses are owner-managed, fall into the micro category, and employ less than five people. For MSMEs, the lack of formalization causes obstacles to technological advancement, economic growth, and the acquisition of labour and raw supplies.

**Recommendations to MSMEs**

Initiatives should be triggered by the Government of India, to gear up the MSME sector. The following steps need to be taken:

### **Improved access to credit and liquidity:**

Since MSMEs are the development engine for the Indian economy, the government would need to relax capital requirements in order to boost business. It entails enhancing liquidity, advancing financial inclusion, and providing accessible credit at reasonable rates to encourage growth.

### **Women at the wheel:**

Women MSME business owners play a significant role in fostering long-term socioeconomic growth and raising the standard of life for families and communities. Making a genuine change in the lives of millions of Indians depends on providing them with access to formal capital and simplifying the process for them to receive it. Only 20.4% of Indian MSMEs are owned by women. To support female entrepreneurs, it is essential to extend the Sudra Scheme, Stand Up India, and other credit guarantee programs.

### **Fintech solution:**

The 'missing middle' issue in MSME finance can be mostly linked to two things: the risk aversion of traditional lenders like banks, accessibility problems with regard to documentation, linguistic barriers, and a lack of adequate support networks for last-mile borrowers. NBFCs, especially those that have embraced the fintech paradigm, are the modern answer to these problems.

They frequently specialize in serving certain customer groups that standard lenders avoid. Many of them now evaluate the creditworthiness of MSME borrowers using a more technologically advanced method, taking into account elements like company potential and order pipeline.

The efforts of NBFCs to access underserved markets and provide sustainable effect for MSMEs are also aided by the tech change that has been taking place across the country over the past few years. Giving small company owners the tools they need to grow, develop, and maintain their enterprises significantly impacts their and their families' social mobility. Additionally, it causes improvements for the entire community. Giving small company owners the tools they need to grow, develop, and maintain their enterprises significantly impacts their and their families' social mobility. Additionally, it causes improvements for the entire community.

### **Conclusion**

Unlocking MSME growth is essential if India is to accomplish its goal of having a \$5 trillion economy. It will need regulations and organizational frameworks that make doing business easier. MSMEs are waiting for initiatives to be unveiled that would promote their growth, therefore all eyes are on the Finance Minister and the Union Budget 2023.

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