



# MSMEs and inclusive growth: a comparative study of wood-carving clusters in Saharanpur and agro-processing units in Muzaffarnagar

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## Abstract

The Micro, Small, and Medium Enterprises (MSME) sector serves as the vanguard of India's economic resilience, contributing significantly to GDP, employment, and export earnings.

This paper explores the role of MSMEs in fostering "inclusive growth" development that transcends urban boundaries to empower rural and semi-urban populations. The study utilizes a dual-case study approach, focusing on two distinct industrial hubs in Western Uttar Pradesh: Saharanpur and Muzaffarnagar.

Saharanpur, internationally acclaimed for its wood-carving industry, demonstrates how traditional artisanal skills can be integrated into the global value chain through the "One District One Product" (ODOP) initiative. Conversely, Muzaffarnagar showcases the strength of agro-based MSMEs, particularly through its world-leading jaggery (Gur) market and paper mill clusters, which create a symbiotic relationship between agriculture and industry.

The research analyzes how these clusters promote inclusivity by providing livelihoods to marginalized communities, reducing regional disparities, and encouraging women's participation. However, the study also identifies critical bottlenecks, including the "credit gap," technological obsolescence, and the challenges of formalization. The findings suggest that while these clusters are engines of local prosperity, their full potential for inclusive growth requires targeted policy interventions in digital literacy and infrastructure. The paper concludes that the Saharanpur-Muzaffarnagar model offers a scalable blueprint for rural industrialization in developing economies, provided that the transition from unorganized to organized sectors is handled with financial sensitivity.

**Keywords:** Atmanirbhar Bharat, ODOP, MSMEs, Muzaffarnagar

## Introduction

The narrative of India's economic metamorphosis is often told through the lens of its sprawling metropolises and billion-dollar tech unicorns. However, the true heartbeat of the nation's "Inclusive Growth" lies in the narrow lanes of industrial clusters like Saharanpur and the vast agricultural hinterlands of Muzaffarnagar. The Micro, Small, and Medium Enterprises (MSME) sector is not merely a statistical contributor to the GDP; it is a socio-economic stabilizer. In a country where the labor force grows by millions every year, MSMEs provide a decentralized model of employment that prevents mass distress migration and fosters regional equity.

Inclusive growth, as defined by the NITI Aayog, is a concept that ensures the benefits of development reach the "last mile." For a state like Uttar Pradesh, which possesses a complex demographic profile, MSMEs offer the most viable path toward this goal. By leveraging local skills such as the wood-carving heritage of Saharanpur and local resources such as the sugarcane surplus of Muzaffarnagar the state has pioneered a model where industrialization is not an enemy of rural life but its greatest supporter. This paper seeks to analyze how these specific clusters serve as engines of equity, the challenges they face in a post-digital economy, and their role in the "Atmanirbhar Bharat" vision.

## Literature review

The academic discourse surrounding small-scale industries has shifted from seeing them as "subsistence sectors" to viewing them as "innovation hubs."

### 1. The cluster development theory

Economist Alfred Marshall first proposed the idea of "Industrial Districts," where a concentration of small firms in a single location leads to external economies of scale. In the context of Western Uttar Pradesh, the clusters in Saharanpur and Muzaffarnagar exhibit what scholars call "collective efficiency." Research by the United Nations Industrial Development Organization (UNIDO) suggests that when small units cluster together, they overcome individual weaknesses in marketing and raw material procurement.

### 2. The ODOP paradigm and state intervention

Recent literature on the "One District One Product" (ODOP) scheme highlights a shift in Indian economic policy toward "Product-Based Industrialization." Scholars argue that by branding Muzaffarnagar with Jaggery and Saharanpur with Woodwork, the government has moved from a "one-size-fits-all" subsidy model to a "specialized-skill" promotion model.

This has been cited by the World Bank as a potential blueprint for reducing rural poverty.

### 3. The digital divide and formalization

A critical area of recent research involves the "Formalization of the Informal." Many researchers point out that while MSMEs provide massive employment, the "quality" of employment is often low due to a lack of social security. The transition to the Goods and Services Tax (GST) and the Udyam portal represents a double-edged sword: it brings units into the formal banking system but adds a compliance burden that many small-scale artisans in Saharanpur find difficult to navigate.

### 4. Entrepreneurship as a tool for social inclusion

Studies on Indian entrepreneurship frequently emphasize that MSMEs are the primary vehicle for "Social Entrepreneurship." Unlike large corporations, MSMEs in districts like Muzaffarnagar are often owned by local families who reinvest profits back into the community, leading to better local schools, clinics, and infrastructure—a phenomenon known as "Localized Multiplier Effect."

#### A. The case of Saharanpur

Key argument: Saharanpur represents "Cultural Capital." Its wood-carving industry is a bridge between the Mughal era and modern global furniture markets. It is inclusive because it values "Human Capital" (the skill of the artisan) over "Financial Capital" (the size of the factory).

#### B. Saharanpur – the artisan-led model of inclusion

Saharanpur stands as a testament to the fact that heritage and high-end commerce can coexist. The wood-carving industry here is not just an economic activity; it is a social fabric.

##### i) The structural dynamics of the cluster

The Saharanpur cluster is unique because of its low entry barriers. A young person with an aptitude for art can enter as an apprentice and eventually become a master craftsman (Karigar) without a formal university degree. This "skill-based inclusion" ensures that the youth from economically weaker sections have an immediate path to livelihood.

##### ii) Impact on inclusive growth

**Minority and rural empowerment:** The industry provides a massive safety net for the rural population surrounding the city. Artisans often work from home-based workshops, allowing for a "cottage industry" model that supports family-based income. **Export contributions:** Despite the small size of individual units, the collective output reaches markets in Europe and the Middle East. This demonstrates how MSMEs can bridge the gap between a local village and a global showroom.

**The ODOP intervention:** Under the "One District One Product" scheme, the government has established Common Facility Centres (CFCs). These centers allow small artisans to access expensive seasoning plants and laser-cutting machines that they could never afford individually, effectively "democratizing" technology.

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### C. Muzaffarnagar – the agro-industrial synergy

While Saharanpur thrives on aesthetics, Muzaffarnagar thrives on utility and scale. Its model of inclusive growth is built on the intersection of agriculture and manufacturing.

- **The jaggery (gur) economy:** Muzaffarnagar is home to over 800-1,000 Kolhus (traditional crushers). These units are the definition of "Micro" enterprises.
- **Direct farmer benefit:** Because these units are located in the heart of the sugarcane belt, farmers save on transportation costs and receive immediate payments, unlike the longer credit cycles of large sugar mills.
- **Employment diversity:** The Jaggery industry employs a vast number of seasonal migrant laborers, providing them with income during the lean agricultural months.
- **The paper mill cluster:** A Success Story in Circularity Muzaffarnagar's paper industry is a global outlier. By using waste paper and bagasse (sugarcane residue) as raw materials, it creates an environmentally conscious industrial model.
- **Inclusion through waste:** This sector creates a secondary economy for waste collectors and transporters, ensuring that the economic "multiplier effect" reaches the lowest rung of the urban poor.
- **Industrial resilience:** Even during global supply chain disruptions, Muzaffarnagar's mills remain resilient because their raw material is sourced locally from the district's own farms.

### Comparative analysis

#### Skill vs. Resource

To provide a high-level academic discussion, we must compare these two models:

Feature Saharanpur (Skill-Centric)

Muzaffarnagar (Resource-Centric)

Capital Requirement Low (Investment in Tools/Skill)

Moderate (Investment in Machinery) Labor Type Highly

Skilled / Artisanal Semi-skilled / Industrial Primary Challenge

Intellectual Property & Design Piracy Energy Costs &

Pollution Control Growth Catalyst E-commerce & Branding

Infrastructure & Power Supply.

#### The digital leap

Both districts are currently undergoing a "Digital Inclusion" phase. In Saharanpur, e-commerce platforms like Amazon and Etsy are removing middlemen. In Muzaffarnagar, digital Mandis and UPI-based payments for sugarcane are bringing transparency to the once-opaque rural trade. This digital layer is the final piece of the inclusive growth puzzle, ensuring that the "small" player is no longer "invisible."

#### Critical challenges and bottlenecks

Despite the robust growth of MSME clusters in Western Uttar Pradesh, several "systemic frictions" prevent these districts from reaching their maximum potential for inclusive growth.

##### a) The credit gap and financial inclusion

While the government has introduced schemes like PMMY (Pradhan Mantri Mudra Yojana), small-scale artisans in

Saharanpur often lack the collateral required for formal banking. The "informal" nature of their business makes credit assessment difficult for banks. In Muzaffarnagar, the high seasonal capital required for jaggery production often forces small owners into the hands of local moneylenders, where high interest rates eat into the "inclusive" profits.

### b) Technological obsolescence

In Saharanpur, the reliance on traditional hand-tools, while culturally significant, limits the speed of production. There is a dire need for "Modernization without Dilution"—introducing CNC machines and automated seasoning kilns that assist the artisan rather than replace them. Similarly, in Muzaffarnagar, many Kolhus operate with low extraction efficiency, leading to a waste of raw sugarcane potential.

### c) Marketing and branding asymmetry

A major hurdle for inclusive growth is that the "value addition" often happens outside the district. A wood-carved table made in Saharanpur for ₹5,000 might sell in a Delhi or Dubai showroom for ₹50,000. The artisan, due to a lack of direct market access and branding knowledge, captures only a fraction of the final price.

### Policy recommendations for enhanced inclusivity

To transform these clusters into world-class industrial hubs, the following strategic interventions are proposed:

- **Establishment of "Design Labs" in Saharanpur:** To bridge the gap between traditional craft and contemporary global tastes, a government-backed design center should provide artisans with trending global furniture motifs and ergonomics.
- **Green energy subsidies for Muzaffarnagar:** To reduce the carbon footprint of paper mills and sugar units, the government should provide localized solar-grid incentives. This lowers operational costs, making the units more sustainable and profitable for local owners.
- **Strengthening the "Udyam" ecosystem:** Simplifying the registration process and providing "Digital Literacy Bootcamps" will help informal workers transition into the formal economy, giving them access to insurance and social security.
- **E-commerce aggregators:** The state should facilitate a localized logistics hub that acts as a "single-window" for shipping Saharanpur woodcraft and Muzaffarnagar's branded organic jaggery directly to global consumers, bypassing exploitative middlemen.

### Conclusion

The study of Saharanpur and Muzaffarnagar reveals that MSMEs are not just a "component" of the economy; they are the very fabric of Social Resilience. In Saharanpur, we see how "Cultural Capital" can be converted into "Economic Capital," providing dignity and a global platform to the traditional artisan. In Muzaffarnagar, we see the power of "Agro-Industrial Synergy," where the farm and the factory exist in a symbiotic relationship that sustains the rural middle class.

Inclusive growth is not a top-down gift but a bottom-up process. As India marches toward its goal of becoming a \$5 Trillion economy, the roadmap must pass through these districts. By solving the challenges of credit, technology, and market access, the "Saharanpur-Muzaffarnagar Model" can be replicated across the Global South. The future of India belongs to the small-scale entrepreneur who, supported by the right policy framework, can turn a local skill into a global standard. "Small" is no longer just beautiful; it is indispensable.

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