

A Study Of The Economic Impact Of The Micro Small and Medium Enterprises (MSMEs) In Churachandpur District, Manipur

Jangkhola

Research Scholar,
Department of Commerce,
Manipur University – 795003
Mail: lamboibaite@gmail.com
Mobile: 8414992397

Dr. A Rajmani Singh

Professor of Finance,
Department of Commerce,
Manipur University – 795003
Mail: rajaheibam2@gmail.com
Mobile: 9612154739

Abstract:

The Micro Small and Medium Enterprise is an important sector continuously contributing to the economy of the country. This sector a very important place for the development of the economy of a country. The sector gains its fame in the country because of the low investment needs and the employment opportunities they provide for both semi-skilled and unskilled workers. While the sector continues to contribute to the economy, they continuously face problems in finance, management, and obtaining raw materials which stagnate its growth. This study tries to find out the financing problems of the MSME in Churachandpur which deprived them of exploring their optimum capacity and growth. The study uses both primary and secondary data. Primary data are collected by using questionnaires while secondary data are collected from annual reports, magazines, books, journals, web pages, etc. The collected data are analyzed using IBM-SPSS 26 and Microsoft Excel to obtain meaningful results and interpretation.

Keywords: MSMEs, Economic impact, Financing Problems, Churachandpur.

JEL codes: H19; J11; L32; M10; M19; M21

I. INTRODUCTION

MSMEs play an important role in the economic development of the country. This sector is considered to be the engine of the economic growth. The sector provides employment opportunities for both the skilled and unskilled workforce. As per the **73rd round of the**

National Sample Survey (2015-16), 633.88 lakh units provide 11.10 crore jobs in the country. Micro Small and Medium Enterprises are among the largest contributor to the Indian economy. (Farhana M & Anil, 2016) pointed out that MSMEs contributed a major chunk to the economy of the country, GDP, and also to exports. This sector also gains its fame because of its flexibility and low capital investment. (Afande, 2015) Easy access to credit has a significant influence on growth of the enterprises. The growth of an enterprise, to a large extent, depends on the easy availability of credit.

Despite its tremendous contribution, the MSME sector continues to suffer from various problems such as finance, raw materials, skilled labor, etc. The Micro Small and Medium enterprises in the Churachandpur district of Manipur face a lot of problem regarding the sources and obtainment of the required amount of finance. According to (Saini A. , 2015), minimal or no access to banking finance affect the growth potential of Microenterprises. The MSMEs cannot obtain the necessary financial resources which are very much needed for their growth and expansion. The study by (Prakash, 2019) concluded that finance is the main problem affecting the MSMEs in the state of Bihar.

The present paper attempts to highlight the problems faced by MSMEs of the Churachandpur district regarding the obtainment of the necessary financial resources. Finance which has always been one of the basic needs of emerging enterprises has always been a major hurdle for the new and existing micro small and medium enterprises of the district. The study also shows the economic impact the MSMEs had on the people of the district.

II. REVIEW OF LITERATURE

Extensive literature has been published regarding the importance of MSMEs in the economy of a country. The following works of literature have been reviewed to justify the need for the present study.

(N., 2012) in their study concluded that financial obstacles such as inability to obtain external financing, inability to obtain internal financing, and insufficient capital are the major factors that causing problems to the owners/managers of MSMEs as they heavily depend on financial institutions for the supply of finance to meet their daily financial needs.

(Bala, Kumar, & Gugloth, 2012) found out in their study that inadequate finance is the major problem of small-scale units, as their internal sources are small and the credits provided by the various institutions like banks, SFCs, and SIDBIs are inadequate to meet the requirements of the small units.

The study conducted by (Tiwari, 2013) concluded that the number of working MSMEs, employment opportunities provided by MSMEs, and production and export have shown an increasing trend from 2001 to 2011. The study suggested that the government should conduct more awareness camps and programs which will help them in answering the questions in the minds of the people.

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(Dahale, 2015) in their paper wrote that MSMEs help in solving the twin problems of our country i.e., unemployment and poverty. The study further stated that government can derive the maximum benefit from the MSMEs only after they address the problems they faced.

(Garg, 2016) concluded in his study that free flow of credit and easy availability of low-cost funds are needed for the MSMEs. The study found that the overall demand for credit exceeds the flow of credit to them.

(Mukherjee, 2018) concluded in her study that improved access to finance will help to improve the competitiveness of the MSMEs. The study pointed out that easy access to adequate and timely credit at a reasonable cost is a big problem faced by MSMEs.

(Shah, 2020) mentioned that there is a concerning gap in India regarding the supply of credit to the MSMEs. The formal credit available to this sector is Rs.16 trillion while the total demand is Rs36 trillion showing a credit gap of Rs.20 trillion. The main reason for this gap is the lack of formalization amongst the MSMEs. The study found that only about 1.1 crore MSMEs are registered with the GST regime out of a total of 6.3 crores.

S.S. Rana & Co. (2021) wrote that the MSMEs constitute 90% of India's total enterprises. The sector employs over 110 million people across the nation. The study clearly shows that the government also provide lots of assistance for the upliftment of the MSME by providing various schemes as well as providing the require resources in the form of raw material assistance, marketing assistance, working capital requirement facility, etc.

III. RESEARCH METHODOLOGY

Objectives of the study:

- 1) To find out the economic impact of MSMEs in the Churachandpur District.
- 2) To find out the problems regarding the financing of the MSMEs for their business
- 3) To suggest remedial measures for the improvement of the enterprises.

The Hypothesis of the study:

Ho1: There is no significant relationship between the contribution of micro and small enterprises and reduction of poverty.

Ho2: There is no significant relationship between the difficulty in getting loans and the financial problems faced by micro and small enterprises.

Design:

The study is descriptive. The study is conducted using a simple random sampling method. The quantitative data are collected through a standardized questionnaire. The secondary sources of data will include annual reports of the government, published articles, theses, web pages, periodicals, published reports, newspapers, conferences, books (print & e-book), seminar and committee reports, etc. The questionnaire used for the study was framed using previously studied questions. A total of 50 questionnaires were collected with a 100% response rate. The collected data were analyzed using IBM-SPSS 26.

The questionnaire has three parts. The first part consists of questions about the demographic profile of the enterprises and the entrepreneurs. The second part consists of the economic impact of MSMEs and the final section consist of the problems they face regarding their financing.

IV. DEMOGRAPHIC PROFILE

Table 1: Demographic profile of the enterprises and the entrepreneurs

Variables	Classification	Frequency/ Percent	Mean	S.D.
Age	20-30	10 (20%)	2.2800	0.78350
	31-40	16 (32%)		
	Above 40	24 (48%)		
Year of Est.	2010-2015	16 (32%)	1.9200	0.75160
	2016-2020	22 (44%)		
	Above 2020	12 (24%)		
Types of Industry	Micro	44 (88%)	1.1200	0.32826
	Small	6 (12%)		
	Medium	0		
Status of Land, P&M	Owned	38 (76%)	1.2400	0.43142
	Borrowed	12 (24%)		
Form of ownership	Sole -Proprietorship	49 (98%)	1.4000	2.82843
	Partnership	1 (2%)		
	Co-operative	0		
Mode of Capital	Owned	33 (66%)	1.6200	0.90102
	Borrowed	3 (6%)		
	Both	14 (28%)		
Management	Self	50 (100%)	1.0000	0.00000
	Employee	0		
Loans: Sources	Commercial banks	4 (8%)	0.6400	1.50861
	Friends & relatives	1 (2%)		
	Others	4 (8%)		
No Loans: Reasons	Unaware	6 (12%)	2.8200	1.66218
	Not selected	1 (2%)		
	Long procedures	3 (6%)		
	Others	31 (62%)		

Source: Prepared by the researcher

It is seen from the table above that majority (i.e.,48%) of the respondents are more than 40 years. This shows that entrepreneurship is taken up mostly by the elder group. Seeing the type of industry, the majority (i.e.,88%) of the respondents are micro-enterprises and 12% of them are small enterprises while there are no medium enterprises. 76% of the enterprises use their owned land, plant, and machinery while the remaining 24% of them borrowed. While seeing the mode of capital, 66% of the enterprises use owned funds, 28% use borrowed funds for capital while 6% of them use both owned and borrowed funds. All of these enterprises are managed by the owners. About 22% of the enterprises take loans for their business while the majority 78% of them do not obtain loans. Out of the total enterprises, 8% of them took loans from commercial banks, 2% took from relatives and friends and another 8% took from other

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sources. 12% of the enterprises were not aware of the availability of loans, 2% of them applied for the loans, but they were not selected 6% of them did not apply because of the long procedures involved in applying for loans, and the remaining 62% of them mentioned some other reasons.

Table 2: Reliability analysis

Reliability Statistics	
Cronbach's Alpha	N of Items
0.765	16

Source: Prepared by the researcher

With the help of IBM SPSS 26, 16 items were taken for the study. As the value of Cronbach's Alpha is 0.765, the scale is found to be adequate.

V. IMPACT OF MSME ON THE ECONOMY

Table 3: Economic impact of MSMEs in Churachandpur

SA= Strongly Agree; A= Agreed; N= Neutral; D= Disagree; SD= Strongly Disagreed

Items	SA	A	N	D	Mean	Std.Dev.
Distribution of income	17(34%)	21(42%)	9(18%)	3(6%)	1.96	0.87970
Regional development	10(20%)	22(44%)	18(36%)	0	2.16	0.73845
Productive investment	12(24%)	24(48%)	11(22%)	3(6%)	2.10	0.83910
Control immigration	16(32%)	16(32%)	16(32%)	2(4%)	2.08	0.89989
Provides employment	20(40%)	23(46%)	7(14%)	0	1.74	0.69429
Raise the standard of living	11(22%)	12(24%)	26(52%)	1(2%)	2.34	0.84781
Increase income	8(16%)	28(56%)	12(24%)	2(4%)	2.16	0.73845
Reduce poverty	10(20%)	23(46%)	17(34%)	0	2.1400	0.72871

Source: Prepared by the researcher

The above table shows that 34% of the respondents strongly agreed that MSME helps in the distribution of income, 42% agree while 18% remain neutral and only 6% disagree with this. (Devi, 2002) MSMEs help in reducing unemployment and underemployment, increasing industrial production and state domestic product, making the optimum use of natural and human resources and thereby reducing the unequal distribution of income and wealth. Again, 64% of them agreed that MSME brings in regional development. (Ahmad & Sanu, 2016) MSME creates large-scale employment opportunities, scaling down regional disparities and bringing up the backward classes of the economy. 72% of these respondents further agreed with the point that MSME makes productive investments from the idle savings of the public. The study clearly shows that MSME control the immigration of people from rural to urban areas as 64% of them agree with this. 86% of these respondents agreed that MSME employs the unemployed, and 66% of them agreed that it reduced poverty in the region. (Dahiya, 2015) mentioned that most of the MSMEs were located in rural and backward areas which helps in the equal distribution of income and wealth. 72% of them agreed that the sector increases the income of the people. While 46% agreed that MSMEs raise the standard of living of the people, 2% of them disagree 52% of them remain neutral. (Prakash, Impact of

government policies on entrepreneurship in Micro Small and Medium Enterprises in India, 2017) MSME help in the sustainable contribution for employment generation, increases national income, and promotes the country's export.

VI. FINANCING PROBLEMS OF THE MSME

Table 4: Financing problems of the MSMEs in Churachandpur

Items	SA	A	N	D	SD	Mean	Std.Dev.
Low creditworthiness	19(38%)	14(24%)	13(26%)	2(4%)	2(4%)	2.0800	1.08496
High rate of interest	39(78%)	9(18%)	0	0	2(4%)	1.3400	0.84781
Inadequate assistant	23(46%)	15(30%)	10(20%)	0	2(4%)	1.8600	1.01035
Improper use of Government funds	18(36%)	16(32%)	12(24%)	2(4%)	2(4%)	2.0800	1.06599
F.I. is not enough to solve financial problems	19(38%)	13(26%)	10(20%)	4(8%)	4(8%)	2.2200	1.26636
No expansion helps from the Government	30(60%)	6(12%)	12(24%)	0	2(4%)	1.7600	1.07968

Source: Prepared by the researcher

From the above table, it is seen that 64% of the respondents strongly agree that it is difficult for enterprises to get loans. 80% of them agree that they did not go for loans or financial assistance from the banks or government because of the long procedures followed by the financial institutions. 62% of them responded that they were not given loans because of their low creditworthiness. Most Small and Medium Enterprises lack creditworthiness which made it difficult for them to obtain the required funds for financing their business (Afande, 2015). 96% of the respondents responded that the interest rates charged by the financial assistance providers were very high (Jani, Joshi, & Pandya, 2015) the MSMEs still face problems to avail of the needed finance and to avail them at a cheaper rate. 76% of the enterprises agreed that there is inadequate assistance on the part of the government. (Kaplan, 2012) observed that the development obstacles of the enterprise include government policies. 68% of these respondents feel that there is an improper use of government funds meant for the MSMEs, while 64% of them agreed that the financial institutions were not enough to solve the financial problems of the MSMEs. 72% of them gave the response that the government does not provide any help for the expansion of these MSMEs.

Null Hypothesis Ho1: There is no significant relationship between the contribution of micro and small enterprises and the reduction of poverty.

Table 5: Model I summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
I	.765 ^a	0.585	0.548	0.48987

Predictors: (Constant), helps in the distribution of income and wealth, increases income, employment, and higher standard of living; **Dependent variable:** Poverty reduction

From table 5, the value of R is 0.765 and the R-square value is 0.585 which shows that the model is good enough to proceed for further analysis.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
I	Regression	15.221	4	3.805	15.858	.000 ^b
	Residual	10.799	45	0.240		
	Total	26.020	49			

P-value/ Sig value: The p-value in the above table is .000 which is lesser than 0.05. Therefore, the result is significant. In the above table, the value of F-ratio is 15.858, which is good. The p-value of the ANOVA table is 0.00 which is lesser than 0.05, there is therefore a possibility of rejecting the null hypothesis in further analysis.

Table 7: Coefficients

Model	Unstandardized coefficients			Standardized Coefficients		
		B	S.E.	Beta	t	Sig
I	(Constant)	0.294	0.258		1.139	0.261
	A Higher standard of living	0.178	0.114	0.207	1.555	0.127
	Increase income	0.511	0.107	0.517	4.751	0.000
	employment	0.303	0.126	0.288	2.396	0.021
	Income and wealth distribution	-0.102	0.095	-0.123	-1.070	0.290

Predictors: (Constant), Higher standard of living, increase income, employment, distribution of income and wealth. **Dependent variable:** Poverty reduction

Table 8: Interpretation and explanation of the coefficient values

Independent variables	Sig. value	Testing of the Hypothesis	Interpretation
A Higher standard of living	0.127	Null Hypothesis not rejected since $0.125 > 0.05$	No significant relationship exists between reduction of poverty and a higher standard of living
Increase in income	0.000	Null Hypothesis rejected since $0.000 < 0.05$	A significant relationship is found between increase in income and poverty reduction. With a 1% increase in income, there will be a reduction in poverty by .511% (B value)
Employment provider	0.021	Null Hypothesis rejected since $0.021 < 0.05$	No significant relationship exists between employment and poverty reduction. With a 1% increase in employment, there will be a reduction in poverty by .303% (B value)
Income and wealth distribution	0.290	Null Hypothesis not rejected since $0.125 > 0.005$	No significant relationship exists between reduction of poverty and distribution of income & wealth

Dependent variable: Poverty reduction

It is seen from the above analysis that a significant relationship is found between the reduction of poverty and the contribution of micro and small enterprises (higher standard of living; increase income; providing employment; distribution of income and wealth).

Null Hypothesis Ho2: No significant relationship exists between the difficulty in getting loans and the financial problems faced by micro and small enterprises.

Table 9: Model II summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
II	.869 ^a	0.755	0.739	0.55953

As the R-value is 0.869, which shows that there is a good correlation between the dependent and independent variables. R-square value is 0.755 which explained 75.5% of the dependent variables by the independent variables. Adjusted R-square value is .739, which is good. The model summary table is therefore satisfactory.

Table 10: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
II	Regression	44.479	3	14.826	47.358	.000 ^b
	Residual	14.401	46	0.313		
	Total	58.880	49			

P-value/ Sig value: The result of the p-value in the above table is .000 which is significant as it is lesser than 0.05. **F-ratio** value in the above table is 47.358, which is good. These results estimate that the p-value of the ANOVA table is below the tolerable significance level i.e., 0.05. Thus, there is a possibility of rejecting the null hypothesis.

Table 11: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	S.E.	Beta	t	Sig.
II	(Constant)	0.135	0.180		0.750	0.457
	Long procedure	1.083	0.132	1.031	8.237	0.000
	Low creditworthiness	-0.437	0.128	-0.432	-3.415	0.001
	High-interest rate	0.311	0.120	0.240	2.596	0.013

Predictors: (Constant), Long procedure, Low creditworthiness, High-interest rate;

Dependent variable: Difficulty of getting loans

From the analysis, it is found that there exists a significant relationship between the difficulty of getting loans by micro and small enterprises with the financial difficulties they face which include, long procedures, low creditworthiness and the high-interest rates.

VII. OVERALL FINDING OF THE STUDY:

1. It is found from the study that entrepreneurship is taken up mostly by the elder group of people in the Churachandpur district of Manipur

2. All of the sample enterprises are managed by the owners
3. The study found that MSMEs help in reducing unemployment and underemployment, increase production and state domestic product, make the optimum use of natural and human resources and also help in reducing the unequal distribution of income, and wealth
4. 80% of the enterprises agree that they did not take loans or financial assistance from the banks or government because of the long procedures followed by the financial institutions
5. The study found that most MSMEs lack creditworthiness which made it difficult for them to obtain the required funds for financing their business
6. 96% of the respondents from the study responded that the interest rates charged by financial institutions are too high
7. When asked about the uses of funds provided by the Government, 68% responded that there is an improper use of government funds meant for the MSMEs while another 72% of them responded that the government does not provide any help for expansion
8. It is found from the study that 64% of the MSMEs agreed that the financial institutions were not enough to solve the financial problems
9. It is found from the study that there is a significant relationship between the reduction of poverty and the contribution of micro and small enterprises (higher standard of living; increase income; providing employment; income and wealth distribution).
10. It is found from the study that there is a significant relationship between the difficulty of getting loans by micro and small enterprises with the financial difficulties they face which include, long procedures, low creditworthiness, and high-interest rates.

VIII. CONCLUSION AND RECOMMENDATION OF THE STUDY

The global economic scenario has put up both challenges and opportunities for MSMEs. One very big problem faced by these enterprises is that there are no facilities for providing cheap credit to them. From the analysis of the collected data, it is found that there are no medium enterprises operating in the district of Churachandpur. It is also found from the study that most of these enterprises are service enterprises and are managed by the owners themselves. The majority of these enterprises are set up after 2015 and are in the form of sole-proprietorship. They use their fund for capital. The study also clearly shows that the majority of these enterprises do not take the advantage of leveraging. These enterprises do not take the help of banks and financial institutions for availing of loans or financial assistance. The financial problems faced by the MSMEs in the Churachandpur district include difficulties of getting loans, low creditworthiness of the enterprises, high-interest rates, unsupportive attitude of the government officials towards these enterprises, no expansion help from the government, improper use of government funds, etc.

It is recommended that for the efficient functioning of the enterprises, the owners should be aware of the assistance provided by the government and financial institutions. Low-interest rate finance should also be made more easily available to these enterprises. The study suggests that the government should not only be bothered for making policies but also act

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towards the successful implementation of them. Even the best-planned policies and initiatives will fail if they are not properly and efficiently implemented.

Scope for Further Research:

The study is made within the district of Churachandpur in Manipur. The paper focuses more on the financing problems of the micro-enterprises, a deeper study regarding the sources of finance could be done which will help the owner/managers to be able to get the required funds and assistance from the right sources.

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