

Importance of Financial Literacy for Micro, Small, and Medium Enterprises in the North Eastern Region, India.

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ABSTRACT

Micro, small, and medium enterprises (MSMEs) account for a sizable portion of all businesses globally, and they significantly boost economic growth. MSMEs act as a primary driver for job creation and a key contributor to GDP growth. It contributes more than 29% of the country's GDP. Financial literacy can play a critical role in the building of MSMEs and enrich potential entrepreneurs in strengthening money management skills and sustainability. Financial literacy is part and parcel of carrying on MSMEs' business activities smoothly. The present study examines the financial literacy levels and the impact of MSMEs in India at large and north-eastern states in particular. Sources of data are based on secondary data. The overall average financial literacy in the north-eastern states is high as compared to the national standard, with 33 percent and 27 percent. The study found that out of the total eight north-eastern states, only 37.5 percent are having a financial literacy rate above the national average and the majority of the regions remain at the bottom level. The study reveals that the share of MSMEs in all India GDP has moderately increased but not consistently over the years. India's rural and urban sectors both employ 51 percent and 49 percent of the country's total workforce, respectively. There is a handsome amount of budget allocation for the Northeast region yet the allotted money is underutilized, according to the findings. The study made a point in the concluding remark that a higher degree of financial literacy complements the effectiveness of MSMEs' growth.

Keywords: Financial literacy, MSMEs, North Eastern States

Introduction

Micro, small, and medium-sized enterprises (MSMEs) account for a sizable portion of all businesses globally, and they significantly boost economic growth and jobs. They make a sizable contribution to more enduring, equitable prosperity and development as well as more stable financial conditions. One of the most significant roadblocks to small business growth and job creation is a lack of access to capital. MSMEs' ability to develop is hampered by a lack of capital (Sisharini et al. 2019). Women who own small and medium businesses in India frequently cite a lack of finance as the most significant barrier to their success (IFC, 2019). SMEs are tiny, less diverse, and have weaker financial structures, they confront various challenges when it comes to borrowing capital. Another study shows that relationship banks do collect information on their borrowers, allowing them to continue to make loans during economic downturns when transaction banks appear to be pulling back. During such periods, SME financing is especially sluggish, potentially prolonging and weakening the later recovery phase. It appears to be chronically underfunded Beck et al. (2014). Access to credit is negatively associated with business size in the developing world, however, productivity and financial growth are favourably linked (Kuntchev et al. 2014).

Financial literacy tends to have a positive impact on SMEs' long-term viability, access to finance, and risk mindset (Ye and Kulathunga, 2019). The study shows the existence of a favourable and significant link between financial literacy and entrepreneurship (Burchi et al. 2021), (Usama and Yusoff, 2018). For SMEs, a lack of financial literacy is a key concern. They have a much larger potential for job development; however, the inadequacy of financial literacy likely causes them to stagnant or be out of business (Abiodun and Harry, 2016). Financial literacy's importance in entrepreneur success affects society's long-term growth Rahmandoust et al. (2012). Financial literacy influences company performance and religiosity strengthen the link between financial literacy and commercial success (Desiyanti and Kassim, 2020). Evidence shows that owners of new micro-businesses have a poor level of financial literacy Fatoki, (2014). We focus on revisiting some of the existing programs, evaluation, financial literacy assessment among MSMEs, and subsequent follow-up up-gradation the need of time. This study would examine how important is financial literacy for MSMEs as a strategy to improve their money management abilities. The aim of the study is of four folds as to look at the current MSMEs prevalent in India, examine the influence of

financial literacy on it, special focus on Northeastern states, and make realistic and workable suggestions.

Measuring financial literacy

A financial literacy evaluation provides policymakers incorporation of the latest developments and trends on the target population's level of knowledge, behaviour, and abilities. A more fundamental problem could be that a huge portion of the American people is financially ignorant. (Hung et al. 2009) and around the world as well (Lusardi & Mitchell, 2014). Its rating of India falls short of the global average, nonetheless, it is similar to the other BRICS countries. According to a global poll performed, about 76 percent of Indian individuals do not understand essential financial concepts (S & P survey, 2015). Understanding the educational impact as well as the hurdles to good financial decision-making requires defining and assessing financial literacy (Huston 2010). Financially literate individuals are better at budgeting, saving money, and controlling spending, as well as planning for retirement and eventually building wealth. It has a substantial impact on a person's financial well-being Ciemleja et al. (2014). National strategies are intended to address poor literacy in finance, with a greater emphasis on key target groups, especially disadvantaged sectors of the population. MSMEs are identified as possible users of financial education in various countries. Small and medium-sized businesses appear to be well-served in some nations, although they are not a primary target group for the education offered in Brazil, Chile, Colombia, or India (Atkinson A, 2017).

Comparison at the Zonal level of financial literacy in India and North Eastern States

Table 1: Financial Literacy in India in zonal wise

Distribution of respondents qualifying by the score for components of financial literacy	% of Respondents Qualifying for			
	Financial Attitude	Financial Behaviour	Financial Knowledge	Financial Literacy
	>=3 points	>= 6 points	>= 6 points	>= 15 points
	5 points	9 points	8 points	22 points
Central	88%	51%	41%	21%
East	92%	52%	31%	20%
North	91%	53%	56%	32%
North-East	84%	47%	56%	33%
South	88%	52%	64%	30%
West	85%	61%	52%	37%
All-India	89%	53%	49%	27%

Source- Data Compiled on the report from NCFE, India, 2019

The above data shows that a vast majority of the Indian population has limited financial literacy. Financial literacy is highest in the West Zone, with 37 percent, and followed by the Northeast, with 33 percent. The two zones with the lowest levels of financial literacy in India are Central and East, with 21% and 20% respectively, while the national average is 27%.

Table 2: Financial literacy in the North-eastern states

Distribution of respondents qualifying by scores for components of financial literacy	% of Respondents Qualifying for			
	Financial Attitude	Financial Behaviour	Financial Knowledge	Financial Literacy
	>=3 points	>= 6 points	>= 6 points	>=15 points
	5 points	9 points	8 points	22 points
Arunachal Pradesh	81%	23%	46%	18%
Assam	86%	51%	57%	36%
Manipur	87%	56%	61%	38%
Mizoram	75%	35%	62%	15%
Meghalaya	86%	35%	64%	27%
Nagaland	77%	48%	66%	16%
Tripura	75%	27%	36%	24%
Sikkim	80%	75%	13%	10%
All North Eastern States	84%	47%	56%	33%
All India	89%	53%	49%	27%

Source- Data Compiled on the report from NCFE, India, 2019.

In India, 27 percent of the population is financially literate. North eastern states' overall financial literacy is estimated to be at 33%, which is higher than the national level. The above table shows that out of the total 8 states 37.5 percent are having financial literacy above the financial literacy level of India. Manipur is in first place, with 38 percent, followed by Assam with 36 percent. Nagaland, Mizoram, and Sikkim have the lowest levels of financial literacy, with 16%, 15%, and 10%, respectively.

India MSMEs

India is home to a 75% literacy rate and 27% is financially literate. This reveals the pressing need to focus and educate the masses about finance. MSMEs have been operating as the backbone of the nation's economic progress. It makes a substantial contribution to the country's economic and social growth by encouraging entrepreneurship and creating enormous employment prospects at a low capital cost, second only to agriculture (Annual Report 2010-21). Financial literacy is not a particular scaling mechanism for MSMEs and

potential businesses in India. In India, the complexity of financing options was not a concern or a priority, either due to a lack of data or simpler instruments (OECD,2017). The survey discovered those entrepreneurs who are unable to produce collateral assets and incompetencies in finance are major barriers to formal sources (Singh & Wasdani, 2016). High educated entrepreneurs showed a higher level of literacy in finance as well. It was found that MSEs in Punjab are predominantly male-operated activities, while more female participation is to be encouraged in entrepreneurial ventures Anshika et al (2021). Results show that 25.5% actors of MSMEs have low literacy levels, 52.5% have moderate levels, and 22% have high literacy levels Widiyati et al (2018). Innovations in the arena of MSMEs have made rapid expansion space for entrepreneurial endeavours. They are preparing a variety of ways, goods, and services to suit the demands of individuals in worldwide markets.

A brief MSMEs status in India and Northeastern states

Table 3: MSMEs' contribution to India's economy measured in current price

Current price for FISIM (amount in billions)						
Period	MSME GVA in Total	Growth (%)	Total GVA	%MSMEs' share in GVA	All India GDP	% MSMEs' Share in All India GDP
2018-19	57417.65	12.88	171399.62	33.50	189712.37	30.27
2017-18	50864.93	12.98	155131.22	32.79	170983.04	29.75
2016-17	45021.29	10.90	139652.00	32.24	153916.69	29.25
2015-16	40596.60	10.97	125744.99	32.28	137718.74	29.48
2014-15	36581.96	-	115042.79	31.80	124679.59	29.34

Source: Central Statistics Office, Government of India

MSMEs' contribution to India's Gross Domestic Product (GDP) in percentage has moderately increased from 2014-15 to 2018-19 with 29.34 percent and 30.27 percent but not consistently. During the fiscal year 2016-17, all India's GDP contribution from the MSME sector has declined to 29.25% as compared to the previous financial year with 29.48 percent.

Northeast India's MSMEs Overview

MSMEs are extremely important in the economic development of Northeast India; despite only accounting for 1.5% of India's MSMEs, however, they contribute nearly 62% to the economy. Poor infrastructure, a lack of finance, and insufficient market linkages are among the obstacles that Northeast MSMEs face, all of which have stifled the sector's growth. (India EXIM banks & UNDP 2020).

Table 4: Funds released Agro and Rural Industry (ARI) from 2014-15 to the 31st Dec 2020, for the North Eastern Region (NER) (in crores)

Year	(RE) Allotment of Budget for ARI	10% Allotment of Budget to NER	Expenditure NER
2020-21	2570.98	257.10	152.22 (till 31 st Dec. 2020
2019-20	3714.43	349.90	355.48
2018-19	3488.40	409.90	419.30*
2017-18	2517.71	252.21	248.21
2016-17	1717.55	171.76	143.25
2015-16	1754.18	175.40	163.47
2014-15	1500.00	151.00	101.40

*Added expenditure over to the allotted money extra because of the previous relevant years

Source: compiled MSMEs Annual Reports from 2017-18 to 2020-21

The above table has shown the funds released ARI during 2014-15 to 2020-21. During the period 2014-15, the budget allocation to NER is ₹ 151 crores. The regions could only spend ₹ 101.40 (67%). For four consecutive financial years, the allotted money to NER is underutilised. Between 2018-19 and 2019-20, the regions have spent beyond the budget allocation by 2% and 1%.

Table 5: PMEGP helped projects for MSMEs in the northeastern states (New units as well as the second round of financial support for existing units)

State	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020- Till 31 st Dec. 21
Assam	8255	5015	3483	6028	2282	3737	2587	966
Arunachal Pradesh	657	652	35	301	209	280	211	17
Manipur	733	747	685	1265	600	1291	1173	533
Mizoram	777	817	1134	425	249	1123	760	291
Meghalaya	397	555	603	329	75	390	377	85
Nagaland	421	416	623	1018	930	1208	1109	181
Tripura	1307	787	642	2297	1116	1179	963	351
Sikkim	66	16	110	27	37	55	79	13
TOTAL	12613	9005	7315	11690	5498	9263	7259	2437

Source: Annual Report 2020-21

During the years 2017-18 and 2018-19, a total of 5498 and 9263 PMEGP projects were aided using a margin money subsidy of ₹ 90.58 crores and ₹ 135.06 crores in North-eastern states. During the year 2017-18, Nagaland emerged the highest while Manipur came second place in the margin money utilization with 97% and 96%. Half among eight states were above 50% utilization of the sanctioned money. The two bottom states are Sikkim and Meghalaya with

23% and 8% respectively. In the financial year 2018-19, Tripura is in the first position of margin money utilisation with 70% and it was followed by Nagaland with 65%. Again the state of Meghalaya remains at the bottom with 17%. Again the state of Meghalaya remains at the bottom with 17%. (MSME-Annual Report, 2017-18)

Table 6: North Eastern States' PMEGP performance during 2020-21 (31st Dec.2020)

State	Allotted Amount (₹ in Crores)	Utilisation# Amount (₹ in Crores)	Unit Assisted (Number)	Estimated Job Creation (Number)
Assam	145.89	15.04	966	7728
Arunachal Pradesh	4.79	0.47	17	136
Nagaland	42.97	8.44	181	1448
Manipur	51.58	24.56	533	4264
Mizoram	28.93	4.79	291	2328
Tripura	30.72	7.79	351	2808
Meghalaya	38.37	1.26	85	680
Sikkim	1.91	0.35	13	104
Total	345.16	62.72	2437	19496

#Adding the balance funds of un-utilized of the previous year

Source: MSME-Report 2020-21

North-eastern states received a total of ₹123.00 crores in margin money subsidy for (New & Old Units) 7,259 PMEGP projects, for the 2019-20 fiscal year. Sikkim tops with 87%, followed by Nagaland with 78% in regard to the utilisation of the allocated funds. During the year 2020-21, the NER carried out 2,437 PMEGP projects, (new & old units), with a margin money subsidy of ₹ 62.71 crores. Till 31.12.20, Manipur is the only state which has utilised the margin money with 48 percent, even during a pandemic and the rest remaining seven states are way below 25 percent, and the least is Meghalaya with 3 percent.

Conclusion

Financial literacy plays an important role in the building of MSMEs, enriching potential entrepreneurs in strengthening money management skills and sustainability. Financial literacy has become a fundamental driver of economic development and is critical for the financial success of MSMEs. Entrepreneurs recognize that having a better understanding of finances will help them manage their firms more efficiently. The slow growth rate of financial literacy among Indians entrepreneurs is a big factor. The overall average financial literacy in the north-eastern states is high as compared to the national standard, with 33 percent and 27 percent. The study found that out of the total eight north-eastern states, only 37.5 percent are

having a financial literacy rate above the national average and the majority of the regions remain at the bottom level. The study reveals that the share of MSMEs in all of India's GDP has moderately increased but not consistently over the years. There is a handsome amount of budget allocation for the NER yet the allotted money is underutilized, according to the findings. According to the findings, having a greater level of financial literacy has a positive impact on the growth of small businesses.

Implications for the policymakers

Financial education can be an effective strategy for supporting aspiring entrepreneurs. It can a torchbearer for entrepreneurs engaging in the MSME sector helping them in securing finance and improving their money management skills. The policymakers should do frameworks based on the localized target group, demographic differences, topographic difficulties etc in the national education programme to address such issues. Revisiting some of the existing programs, evaluation, financial literacy assessment among MSMEs, and subsequent follow-up up-gradation is the need of time. The collaborative mission of the private and public sectors can better address developing infrastructure, bridging the funding gap, sharing resources and responsibilities, etc. Widening the small firms' financial gap should be the stakeholders' primary concern and bridging it should be the top policy priority if MSMEs have to survive.

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