



## **Economic Impacts of SMEs among Rural Population with Special Reference to Thiruvattar Block**

**M. Sugin Raj**

Asst.Professor Malankara Catholic College-Mariagiri

### **ABSTRACT**

*This research investigates the impacts of Small and Medium enterprises (SMEs) in economic development with reference to rural area. Moreover role of SMEs on financial inclusion, standard of living and savings pattern among rural population are analyzed. A survey method was used to collect 100 samples randomly from Thiruvattar block among rural peoples who are working in different SMEs and from the other stake holders of SMEs such as retailers and suppliers. Data was collected with a structured questionnaire and analyzed by using SPSS software and percentage method. The results of the study therefore reveal that the SMEs have significant economic impacts on rural developments in the form of employment, production, distribution and standard of living. In addition, the results show that SMEs influence financial inclusion activities and savings decisions among rural populations. It is suggested to have continuous policy implementation; rural entrepreneurship camps, producing value added products, capital market awareness programs and formulating village oriented products bring economic prosperity among rural population.*

**Key Words:** SMEs; Economic impacts; Rural population; Financial inclusion; Standard of living; savings pattern

### **INTRODUCTION:**

Indian small scale industries play an imperative role in the economic expansion of the country and have vast approaching for employment generation. Increasing small scale sector also results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The government has initiated several policies for the growth and development of small scale industries. Post liberalization economic conditions have created immense growth prospect for the small scale industries. The MSMEs in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural industries and Ministry of SSI have been merged into a single, Ministry namely, Ministry of Micro, Small and Medium enterprises. The small scale sector has played an extremely essential role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP) employment generation and exports. According to MSMEs Act 2006 the enterprises are broadly classified in terms of activity such as enterprises engaged in manufacturing, production and enterprises engaged in services. The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

#### **Manufacturing Enterprises\***

Micro Rs. 2.5 million / Rs. 25

Small Rs.50 million / Rs. 5 crore

Medium Rs 100 million / Rs 10 crore

#### **Service Enterprises\*\***

Rs. 1 million / Rs. 10 lakh

Rs. 20 million / Rs 2 crore

Rs. 50 million / Rs 5 crore



***\* Investment limit in Plant & Machinery \*\* Investment limit in equipment***

SME Department of the World Bank works with the following definitions for classification of enterprises:

**Micro enterprise** : up to 10 employees, total assets of up to \$10,000 and total annual sales of up to \$100,000;

**Small enterprise** : up to 50 employees, total assets and total sales of up to \$3million;

**Medium enterprise:** up to 300 employees, total assets and total sales of up to \$15million. (World Bank, 2005)

In this study, the researcher has considered the World Bank classification of enterprises. The SME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services and levels of technology. The sector not only plays a critical role in providing employment opportunities are comparatively lower capital cost than large industries but also helps industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. SMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development. This study seeks to investigate Small and Medium enterprises as a veritable tool on rural economic growth and development.

### **PRIMARY OBJECTIVE**

- To examine the impact of small and medium enterprises (SMEs) on economic development in rural areas.

### **SECONDARY OBJECTIVES**

- To investigate the impact of SMEs on financial inclusion among rural population
- To examine the impact of SMEs on improving the standard of living of rural population

- To examine the impact of SMEs on saving pattern among rural population

### **REVIEW OF LITERATURE**

Pon Murgan (2002), in his study entitled, "Industrial Estates in Tirunelveli Region – Anempirical study of their impact on the growth of small scale industrial units," analyzed the impact of industrial estates on small scale industrial units located in Kanniyakumari district. The study identified the various factors which influences the growth of small scale industrial units in industrial estates in Kanniyakumari District. They are scientific sales management, budgeted production, availability of institutional finance, availability of working capital, availability of water at concessional rate, undisturbed working environment, ploughing back of profits and availability of investment subsidy, nearness to raw materials and utilization of installed capacity

Neelam Jain (2004) in his study entitled "Small Scale Industries in the News Millennium" said that Small Scale Industry today constitute a very important segment of the Indian Economy. Creation of employment opportunities is a matter of great relevance to India where employment and unemployment are rampant on a massive scale. Added to this is the shortage of capital. The inability of large scale sector to provide



employment, is now to go for the maintenance of existence of small-scale and cottage industries. The only way out, now is to go not for the maintenance of existence of small scale and cottage industries only but also to develop this sector which requires less capital and provided the much needed support in employment level.

Al-Awamreh(2000) illustrates the important of SSIs in the Jordanian economy general and its role in the development of rural and desert particular. He focuses the need for strategic plan for the development of this sector to reduce the problems of poverty and unemployment. The researcher found that the industrial sector in Jordan faces many obstacles curb its growth and development such as financing, competition, lack of water, and infrastructure and marketing. The study recommends that the Industrial Development Bank should focus on financing SSIs in less developed regions and establishment a department at the ministry of municipal affairs to take care of rural areas.

Abbasi(2003) investigates the role of small-scale industries in economic development in Jordan. He found that SSIs play a positive role in the economy, its impact on increasing the GDP and reducing government debt and the negative impact of both consumption and government and consumption expenditures on SSIs investment. The study concludes that SSIs contribute in providing employment opportunities and its ability to produce goods suitable for the local market with low cost.

Abu-Alhija(2007) analyses competitiveness of Jordanian small and large-scale industries by identifying the determinants of the competitive performance and effects. He found that SSIs are relatively less competitive and productive than

large-scale industries at the national and international markets. The study recommends providing training programs for employees in the SSIs sector, creating communication channels with their counterpart abroad and better access to international markets.

Lozi(2008) examines the role of SSI in the economic development of Jordan by showing the effects of the SSI on the unemployment rate, production, and sales. The research concludes with policy recommendations to ensure the sustained and competitive growth of SSIs in Jordan. The results of the study show that the growth of SSI in Jordan in terms of employment, production and sales has increased due to globalization and domestic liberalization. However, it is still not as significant as planned. SSI sector should be encouraged to make a sustainable contribution to the national income, employment, exports.

Ayozie and Latinwo (2010) discuss the entrepreneurial developments and SSIs contribution to Nigerian national development. They confirmed that SMEs are the means of economic development and a veritable means of solving problems. This paper identifies the marketing problems of SMEs and entrepreneurs. It concludes by specifying the role of marketing to the survival of SMEs and entrepreneurs and relevant recommendation for SMEs to survive marketing practice and principles must be given prominence.

## **METHODOLOGY**

### **Research period:**

The period of study for this research work is from March 2015 to August 2015.

### **Primary data:**

Primary data such as standard of living of people, financial inclusion in rural population and savings pattern among rural peoples were collected



by using well structured questionnaire. 125 questionnaire circulated among employees of various SMEs, and to the stake holders of SMEs including suppliers, retailers. The questionnaire questions were translated in to local language Tamil and circulated for data collection.

**Secondary data:**

The secondary data has been collected from the books, websites, journals, newspapers and magazines.

**Data collection instrument:**

Once the topic was finalized, it was decided that a questionnaire to be prepared and the survey to be conducted. The questions in the questionnaire were designed pertaining to the problem and objectives of the study. The variables identified from review of literature were taken into account while drafting the questionnaire. Once the survey got over, the filled questionnaire were sorted out and summarized.

**Sample size:**

This refers to the number of items to be selected from the universe to constitute a sample. The size of sample should neither be excessively large, nor small. The researcher have collected and analyzed 100 samples for this study.

**Sampling procedure:**

The random sampling techniques are used in this study to collect primary data from various

types of small and medium industries in Thiruvattar block. Thiruvattar block has 10 panchayat villages such as Aruvikkarai, Ayacode, Balamore, Cherukole, Kannanoor, Kattathurai, Kumarankudi, Pechiparai, Surula code, Yettacode. Among these panchayat villages, randomly selected 5 SMEs. They are two cashew nut factories, one brick kiln, one hollow bricks production unit and one rubber factory . 75 samples have been collected from these SME employees and remaining 25 samples are collected from suppliers, retailers of these SMEs.

**Data collection:**

The researcher was able to collect only 100 filled questionnaires out of 125. The scrutiny of questionnaire has revealed that 25 questionnaire were not usable as they were not filled completely and hence rejected for further analysis. Finally 100 questionnaires were taken for analysis. Hence, the rejection rate and non-response rate can be treated as quite insignificant

**Research Tools:**

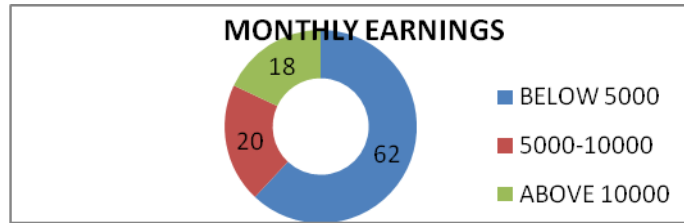
The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exists among data-groups. In this study, the statistical tools ANOVA and Percentage method are used to analyze the data scientifically with the application of SPSS software.

**ANALYSIS AND INTERPRETATION:**

**1) MONTHLY EARNINGS:**

MONTHLY EARNINGS		BEFORE JOINED IN SMEs	
		yes	No
BELOW 5000	62	12	50
5000-10000	20	6	14
ABOVE 10000	18	9	9
<b>TOTAL</b>	<b>100</b>	27	73

Source : primary data

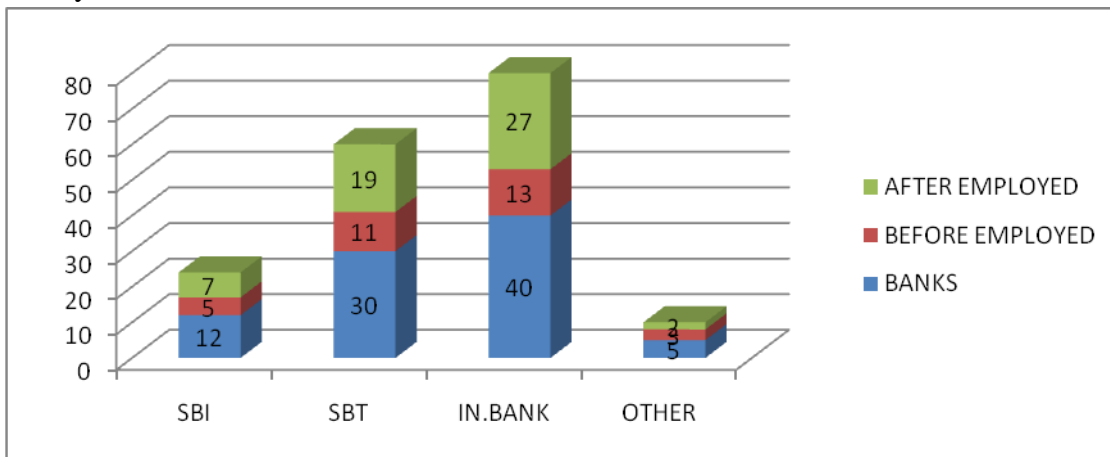


This table and chart discloses that 62 % respondents are earning below 5000 Rs as their monthly earnings. 20% of respondents are earnings 5000-10000 Rs earnings and 18% of respondents are earnings above 10000 Rs monthly. 73 % respondents says that their monthly earnings increased after the employment in SMEs. 27% respondents only had above mentioned earning capacity before joined in SMEs.

2) **ACCOUNT HOLDER’S BANK**

ACCOUNT HOLDERS BANK		BEFORE	AFTER
SBI	12	5	7
SBT	30	11	19
IN.BANK	40	13	27
OTHER	5	3	2
TOTAL	87	32	55

Source: Primary data



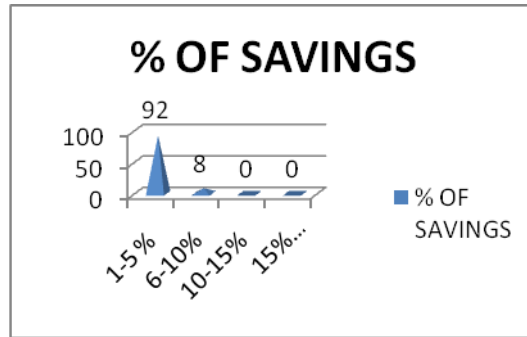
This above table and charts shows that 87% of respondents have bank accounts in different banks such as State bank of India, state bank of Tiruvangore, Indian bank, and other banks. 64% of respondents have been opened the bank account in banks after they joined in SMEs and 36% of respondents had bank account before they joined in SMEs.

**PERCENTAGE OF SAVINGS**

SAVINGS	
1-5 %	92
6-10%	8

10-15%	0
15% ABOVE	0
TOTAL	100

Source: Primary data

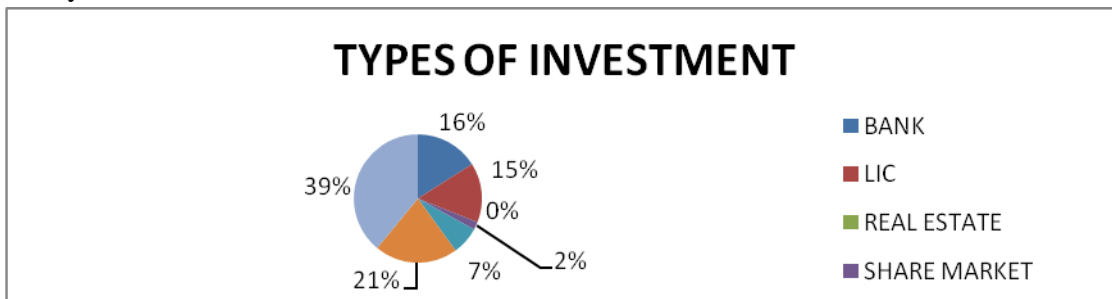


The above tables and charts disclose that 92 % of respondents are saving 1-5 % of monthly earnings in various investment opportunities and 8% of respondents are investing 6-10 % of monthly earnings.

### 3) TYPES OF INVESTMENT

TYPES OF INVESTMENT	
BANK	16
LIC	15
REAL ESTATE	0
SHARE MARKET	2
POST OFFICE	7
BANK AND LIC	21
LIC AND POST OFFICE	39
TOTAL	100

Source: Primary data

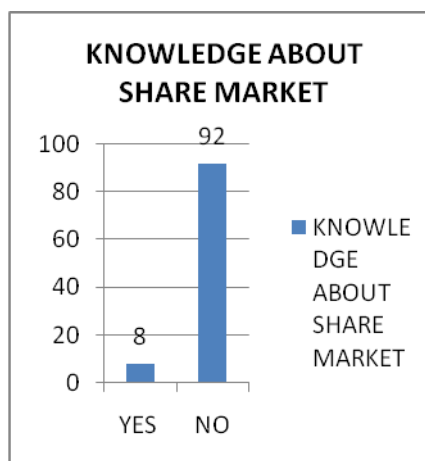


The above table and charts disclose that 39% of respondents prefer to save their earnings in LIC and post office, 21% of respondents like to save in banks and LIC, 16% of people prefer to deposits in banks, 15% of peoples prefer to invest their earnings in LIC, 7% of people interest to invest post office recurring deposits and 2% of respondents invested in Shares.

### 4) KNOWLEDGE ABOUT SHARE MARKET

KNOWLEDGE ABOUT SHARE MARKET	
YES	8
NO	92
TOTAL	100

Source: Primary data



This chart illuminates that 92% of people does not have knowledge about share market and only 8% of people have share market knowledge.

#### 4.1 HYPOTHESIS TESTING

I)  $H_0$ =There is no significant difference in earnings of rural people and role of SMEs

MONTHLY EARNINGS		BEFORE JOINED IN SMEs	
		yes	No
BELOW 5000	62	12	50
5000-10000	20	6	14
ABOVE 10000	18	9	9
<b>TOTAL</b>	<b>100</b>	<b>27</b>	<b>73</b>

#### ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Sample	5.333333333	1	5.333333	5.017957	0.896708	5.317655
Columns	0	1	0	0	1	5.317655
Interaction	833.3333333	1	833.3333	2.805836	0.132452	5.317655
Within	2376	8	297			



Total 3214.666667 11

HO:  $\mu_{\text{before}} = \mu_{\text{after}}$

Calculated F is 5.01795 and table  $F_{\alpha}$  is 4.84.

The calculated value is greater than table value. The null hypothesis is rejected .Hence the significant evidence that SMEs has increased the earnings of peoples in rural area.

**II)  $H_0 =$  There is no significant difference in financial inclusion of rural people and role of SMEs**

ACCOUNT HOLDERS BANK		BEFORE JOINED IN SMEs	AFTER JOINED IN SMEs
SBI	12	5	7
SBT	30	11	19
IN.BANK	40	13	27
OTHER	5	3	2
TOTAL	87	32	55

Anova: Two-Factor With Replication

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Sample	0.25	1	0.25	6.002943	0.957632	4.747225
Columns	0	1	0	0	1	4.747225
Interaction	702.25	1	702.25	8.265817	0.013959	4.747225
Within	1019.5	12	84.95833			
Total	1722	15				

HO:  $\mu_{\text{before}} = \mu_{\text{after}}$

Calculated F is 6.002943 and table  $F_{\alpha}$  is 4.54. The calculated value is greater than table value. The null hypothesis is rejected .Hence the significant evidence that SMEs has been increased number of people's involvement on financial inclusion in rural area.

## FINDINGS

### 1) IMPACT OF SMES ON FINANCIAL INCLUSION AMONG RURAL POPULATION

➤ 87% of respondents have bank accounts in different banks such as State bank of India, state bank of Tiruvangore, Indian bank, and other banks. 64% of respondents have been

opened the bank account in banks after they joined in SMEs and 36% of respondents had bank account before they joined in SMEs.

➤ 85% of respondents have Savings bank account in banks, 7% of respondents are opened fixed accounts, 3% and 5 % of respondents have SB, FD, & RD accounts and other accounts respectively. 90% of





respondents have taken different loans from banks and 10% of respondents are not taken any loan from banks

➤ 51% respondents haven't taken Self Group Loan (SHG) from banks, 33% of respondents have taken agricultural loans, 9% of respondents have taken educational loan, 4% respondents have taken housing loan and 3% respondents have taken vehicle loan from banks.

➤ The hypothesis test evidence that SMEs has been increased number of people's involvement on financial inclusion in rural area.

## 2) IMPACT OF SMES ON IMPROVING THE STANDARD OF LIVING OF RURAL POPULATION

- 62% respondents are earning below 5000 Rs as their monthly earnings. 20% of respondents are earnings 5000-10000 Rs earnings and 18% of respondents are earnings above 10000 Rs monthly. 73% respondents say that their monthly earnings increased after the employment in SMEs. 27% respondents only had above mentioned earning capacity before joined in SMEs.

- 53% have own vehicle and 47% of respondents does not have own vehicle. 88% of respondents have own motor cycle vehicle, 6% respondents have own car and 6% respondents have both car and motor cycle vehicles.

- 76% of respondents have television in their home, 15% of respondents have Fridge and Television, 3% of respondents are using T.V, Fridge & washing machine and 6% of

respondents are using other different type of home appliances in their home.

- 91% of respondents are living in their own houses, 6% of respondents are living in rental houses and 3% of respondents have constructed their home with the help of bank loan.

- 78% of respondent's children are studying in schools and colleges. 22% of respondent's children are not studying now. 36% of respondent's children are studying below SSLC level, 21% of respondent's children are studying HSC level, 17% of respondent's children are studying engineering degrees and 15% of respondent's children are studying arts & science degrees, 6% and 5% of respondent's children are studying medical and diplomas respectively.

- The hypothesis test evidence that SMEs has increased the earnings of peoples in rural area.

## 3) THE IMPACT OF SMES ON SAVING PATTERN AMONG RURAL POPULATION

- 92% of respondents are saving 1-5% of monthly earnings in various investment opportunities and 8% of respondents are investing 6 to 10% of monthly earnings.

- 39% of respondents prefer to save their earnings in LIC and post office, 21% of respondents like to save in banks and LIC, 16% of people prefer to deposits in banks, 15% of peoples prefer to invest their earnings in LIC, 7% of people interest to invest post office recurring deposits and 2% of respondents invested in Shares

- 92% of people do not have knowledge about share market and only



8% of people have share market knowledge.

- 79% respondents believed that future needs influenced them to take investment decision, 12% of respondents accepted that high return on investment motivates them to investment decision and 9% of people says that future safety is a primary safety while take investment decision

### **SUGGESTIONS**

1) In rural areas, many agricultural products are available like coconut, banana, latex products, and arecanut seeds are available. Government has to make policies to develop value addition in these products through SMEs in rural areas and make product wise cluster for other market functions.

2) The rural areas have a large concentration of micro business. However the Small and Medium Scale business are functioning in town areas or industrial areas. In Kanyakumari district the fish net companies operates thier business in industrial areas at Konam instead of villages or coastal areas. Rural development depends upon SMEs growth in rural areas. So that respective district industrial centre may encourage the new entrepreneurs to start their business in villages with the intention to provide the employment to village people.

3) In villages, there are plenty of persons with different skills and knowledge and labour is cheap. Even large corporation can run their business operation in villages. It will helps to the village people to uplift their earnings and standard of livings.

4) This study reveals that 92% of people have tendency to save 1 to5 % of their earnings, this savings can be utilized by micro finance

companies and micro insurance companies for their business development.

5) Among rural people knowledge about capital market is very low. So that government can take necessary steps to create awareness about share market investment among rural peoples.

6) The rural women are very much interested to involve in various jobs. New business opportunities and its related policies can be identified which can use the skills of women.

7) Entrepreneurship camps can be conducted in villages to encourage rural people mainly youngsters to establish SMEs in their areas.

### **CONCLUSION**

The current research highlighted the SMEs economic impacts among rural population in financial inclusion, standard of living and savings pattern. Nations economic development starts from a village. Village economic development depends upon the available employment opportunities and other earnings. This study examined the SMEs economic contribution in rural areas in the form of employment and earnings and how it leads them into the financial inclusion and savings pattern. Our Indian institutions such as Ministry of MSMEs(Micro, Small and Medium Enterprises), EDI (Entrepreneur Development institute), DIC (District Industrial centre) continuous policy implementation on rural entrepreneurship camps, producing value added products, capital market awareness programs and formulating village oriented products bring economic prosperity among rural population.

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