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GROWTH AND DEVELOPMENT OF MSME IN NORTH-EAST INDIA

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ABSTRACT

Micro, small and medium enterprises have been globally considered as engines of economic growth and social development, contributing to employment generation at low capital cost as well as nurturing entrepreneurial and promoting equitable development by spreading wealth even at the grassroots level. The North-East Region of India, which is known for its rich natural and mineral resources, is also known as an industrially backward region. With the help of secondary data sources, the paper is an attempt to study the performance of the sector in the region and briefly highlight the major institutions involved in the promotion and development of the sector.

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KEYWORDS

MSMEs, North-East Region, Organizations, Performance, Problems.

INTRODUCTION

Micro, small and medium enterprises (MSMEs) have been globally considered as engines of economic growth and social development. Every new study has reiterated the importance of small businesses for an economy as they contribute towards creation of employment opportunities at low capital cost as well as play a key role in the industrialization of a developing country (Dobbs & Hamilton, 2007; Wennekers & Thurik, 1999). It also helps in nurturing entrepreneurial talent as well as promoting equitable development by spreading wealth even at the grassroots level (Mathur, 2012-17). For a developing country like India, where not only the problem of population but also that of unemployment and poverty is escalating, the role of MSMEs becomes very significant.

Growth of SSIs and small entrepreneurs in the country is said to have increased because of the promotional policies of the Government since the Third Five-Year Plan (Desai, 2000; Khanka, 2010). An OECD report (2004, p. 11) cited that there are studies which revealed that SMEs "contribute to over 55% of GDP and over 65% of total employment in high-income countries. SMEs and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries." Reddy (2007) in his study of small businesses in Fiji found that apart from employment generation, the income of the business operators also saw an increase.

It should be mentioned that prior to the enactment of "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006", there were two separate ministries, namely, the Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries. The Ministry of SSI was responsible for formulating policies, promotion, development and protection of SSIs in India. The definition of SSIs has been periodically revised and this definitional change of small scale industries in India can be seen as follows:

TABLE 1.1: DEFINITIONAL CHANGE OF SSIS IN INDIA

Year	Investment Limit	Employment Criterion
1955	Up to Rs.5 lakhs in fixed assets	Less than 50 if using power and up to 100 without power
1960	Up to Rs.5 lakhs in fixed assets	No condition
1966	Up to Rs.7.5 lakhs in plant and machinery for SSI unit and Rs.10 lakhs for ancillary units	No condition
1975	Up to Rs.7.5 lakhs for SSI units and Rs.15 lakh for ancillary units	No condition
1980	Up to Rs.20 lakhs for SSI units and Rs.25 lakhs for ancillary units	No condition
1985	Up to Rs.35 lakhs for SSI units and Rs.45 lakhs for ancillary units	No condition
1991	Up to Rs.60 lakhs for SSI units and Rs.75 lakhs for ancillary units	No condition
1997	Up to Rs.3 crore in plant and machinery for both SSI and ancillary units	No condition
1999	Up to Rs.1 crore in plant and machinery for both SSI and ancillary units	No condition
2003-04	Up to Rs.1 crore to Rs.5 crore in plant and machinery	No condition
2004-05	Up to Rs.5 crore	No condition

Source: <http://www.dcmsme.gov.in/publications/circulars/circularmay1994>

However, in pursuance to the amendment of the Government of India (Allocation of Business) Rules, 1961, on 9th May, 2007, the two ministries were merged to form a single Ministry, which is presently known as the Ministry of Micro, Small and Medium Enterprises. It was created "to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario" (Annual Report 2011-12).

Till date, four censuses of the sector have been conducted. The First and Second All India Census of SSIs, conducted in 1973-74 and 1990-92 respectively, were carried out only for the registered SSI units involved in manufacturing activities. In the Third Census (2001-02), apart from studying the registered SSIs, a sample survey of the unregistered sector was also conducted for the first time. However, with the passing of the MSMED Act, 2006, the scope of the sector, which was earlier known as Small Scale Industries (SSIs) and Small Scale Service and Business Enterprises (SSSBEs), expanded to include a larger segment of the service sector and also medium enterprises. The Fourth Census, thus, encompassed these aspects and was carried out in a more defined manner, in the sense that enterprises were categorized into manufacturing and service units and further sub-divided into micro, small and medium enterprises based on their investment limit in plant and machinery for manufacturing sector and equipments for services. This is shown in the following table.

TABLE 1.2: PRESENT DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES

Classification	Investment in Plant & Machinery/ Equipment (excluding land and building)	
	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs.25 lakhs	Up to Rs.10 lakhs
Small	More than Rs.25 lakhs and up to Rs.5 crore	More than Rs.10 lakhs and up to Rs.2 crore
Medium	More than Rs.5 crore and up to Rs.10 crore	More than Rs.2 crore and up to Rs.5 crore

Source: Annual Report 2006-07

As per the Annual Report 2011-12 (Ministry of Micro, Small & Medium Enterprise [MoMSME]), the following are the key highlights of the MSME sector in India:

- This sector accounts for about 45 per cent of the manufacturing output and about 40 per cent of the total exports.
- Employs about 595 lakh persons in over 261 lakh enterprises across the country.
- Consistently registered a higher growth rate than the rest of the industrial sector.
- Manufactures over 6000 products, from traditional to high-tech items.

North-East India, which is known for its rich natural and mineral resources, is also known for its industrial backwardness, as declared by the Government of India (Srivastav & Syngkon 2008). A study sponsored by North East Council and Ministry of DoNER (Development of North Eastern Region) assessing and evaluating the impact of North-East Industrial and Investment Promotion Policy, 2007 revealed that out of the 8 NE states, only 5 states had some investment intentions for industrialization. They are Assam, Meghalaya, Sikkim, Arunachal Pradesh and Tripura. However, when the same was compared with the rest of the country, this investment came to only 0.7% of the total investment proposed in the entire country. In the same report, an analysis of data regarding number of proposals received from all the Indian states for industrialization showed a decrease in number for the entire country as well as NE (Mott McDonald 2010).

Recognizing the importance of MSMEs in bringing growth and development, the Governments of the North-Eastern states with assistance from the Central Government and various other institutions have been encouraging entrepreneurship and enterprise promotion in order to uplift the states economies. The paper is therefore an attempt to study the MSME sector in the region and its performance with the help of secondary data sources.

IMPORTANCE OF THE STUDY

The study is confined to the eight North-Eastern states of India, namely – Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya and Assam. It aims to present an overview of the sector in the region while at the same time studying its overall performance. Major institutions operating in the region and providing assistance to such enterprises will also be mentioned in brief. The data for the study is based on secondary data sources – Annual Reports, Fourth Census of the sector and literature review.

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES (MOMSME) AND ITS ACTIVITIES IN NE

Desai (2000) stated that for industrialization to take place, it requires the promotion and growth of small scale industries, now known as MSMEs. Despite being a region rich in minerals and natural resources, the North-East Region (NER), as mentioned earlier, is considered industrially backward by the Government of India. Its geographical isolation, chronic insurgency problems and the terrain discourages potential investors from investing in the region. The growth of MSMEs in the region is therefore, somewhat slow when compared to the rest of the country. But despite the inherent problems, all efforts are being made to promote and encourage growth and development of such enterprises.

The MoMSME, which was then known as Ministry of SIs, has been actively involved in the promotion and development of such enterprises in the region through its various organizations, some of which are discussed in brief as follows:

I. OFFICE OF THE DEVELOPMENT COMMISSIONER (MSME)

It was earlier established as Small Industry Development Organization (SIDO) and functions as an apex organization, acting as a link between the Ministry and its field organizations. It has set up MSME-DIs (Development Institutes) in all the eight NE states. It not only provides support in terms of training, consultancy services, credit, marketing, technology and infrastructure facilities but also assists the Government in policy formulation to promote and develop the sector (Annual Report 2010-11).

II. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC) LTD.

NSIC has its zonal office at Guwahati and 5 sub-offices in Agartala, Imphal, Shillong, Naharlagun, and Dimapur. It provides technical training and organizes skill upgradation and entrepreneurship development programmes, exhibitions for the products and handicrafts of the NE states, conducts seminars and conferences and also provided assistance to units in NE under its various schemes (Annual Report 2003-04 & 2011-12).

III. INDIAN INSTITUTE OF ENTREPRENEURSHIP (IIE)

The institute was established in the year 1993 in Guwahati and began operating from April 1994. In order to create an environment for entrepreneurship in the region, the institute has organized a number of programmes such as Entrepreneurship Skill Development Programmes (ESDP), Entrepreneurship Awareness Programmes (EAP), Entrepreneurship Development Programmes (EDPs) on capacity building, sericulture, jute diversified products, science and technology, EDPs under Prime Minister's Employment Generation Programme (PMEGP) and for women. It is also involved in providing Rural Industries Programme (RIP) activities as well as conducting seminars, workshops for entrepreneurs and diagnostic studies of enterprises.

IV. KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

KVIC is a statutory organization established under the Khadi and Village Industries Commission Act, 1956 with the Central Office in Mumbai. The various programmes of KVIC are enforced through directly aided institutions, State KVIBs, NGOs and other recognized organizations. PMEGP and Scheme of Fund for Regeneration of Traditional Industries (SFURTI) are two of its major programmes that are implemented in all the eight NE states. Other schemes and programmes include Integrated Handlooms Development Scheme (IHDS), Product Development Design Intervention and Packaging (PRODIP) Scheme, Janashree Bima Yojana, schemes to promote coir and coir products, conducting exhibitions and providing marketing support for products manufactured by enterprises of North-Eastern region.

Other major organizations also working to improve and assist the sector in the regions are also mentioned briefly as follows:

I. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

It was established in the year 1982 with the aim to facilitate the flow of credit for the promotion and development of agriculture, small scale industries, cottage and village industries and other allied economic activities in the rural areas. It has its implementing agencies in all the eight states of NE (www.nabard.org).

II. SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

It was established in April, 1990 with the aim to aid the MSME sector in the country and thereby contributing to economic growth, employment generation and bringing in balanced regional development. It was established with the aim of bringing in a balanced socio-economic development of the entire NE through the promotion, financing and development of MSMEs.

III. NORTH EASTERN DEVELOPMENT FINANCE CORPORATION LTD. (NEDFI)

NEDFI was incorporated under the Companies Act 1956 in the year 1995, promoted by All India Financial Institutions. It aims to provide not only the financial need to convert business ideas into realities but also promote, guide and assist entrepreneurs in the region. The corporate office is located in Guwahati with the branch offices spread in all the eight Northeastern states.

IV. NORTH EAST COUNCIL (NEC)

NEC was established by an Act of Parliament in 1971. The main purpose for its formation is to bring in social and economic development in the region and to ensure that this development is balanced through out the region. It looks into matters such as reviewing of projects and schemes, their implementation and evaluation, etc.

PERFORMANCE OF MSMEs IN THE REGION

As per the latest census report, i.e., Fourth All India Census of both the registered and unregistered sector, it was found that micro enterprises dominated the scenario all over the country, providing highest employment with manufacturing being the major activity engaged in. According to the Annual Report (2011-12) of Ministry of MSME, the following is the performance of the registered MSME sector in NER from 2006-07 to 2010-11, where data for 2010-11 presents the projected figures. The variables used to study performance are: number of working enterprises, number of employment, fixed investment and production.

TABLE 1.3: NO. OF WORKING ENTERPRISES

State \ Year	No. of working enterprises				
	2006-07	2007-08	2008-09	2009-10	2010-11*
Sikkim	122	136	207	225	279
Arunachal Pradesh	417	480	587	698	829
Nagaland	1332	2110	4631	5602	9315
Manipur	4492	4530	4670	4759	4881
Mizoram	3715	3941	4419	4919	5403
Tripura	1343	1499	1711	1931	2180
Meghalaya	3010	3416	3826	4725	5497
Assam	19864	21618	23249	24927	26887
Total	34295	37730	43300	47786	55271

Source: North East and the Registered MSMEs (*2010-11 Projected), MSME Annual Report, 2011-12

TABLE 1.4: NO. OF EMPLOYMENT

State \ Year	Employment (Person)				
	2006-07	2007-08	2008-09	2009-10	2010-11*
Sikkim	1159	1292	1967	2138	2651
Arunachal Pradesh	5411	6228	7617	9057	10757
Nagaland	16281	25790	56605	68473	113857
Manipur	19960	20129	20751	21146	21689
Mizoram	26032	27616	30965	34469	37869
Tripura	23166	25857	29514	33309	37604
Meghalaya	12700	14413	16143	19936	23193
Assam	210507	229095	246379	264162	284933
Total	315216	350420	409940	452689	532543

Source: North East and the Registered MSMEs (*2010-11 Projected), MSME Annual Report, 2011-12

TABLE 1.5: FIXED INVESTMENT

State \ Year	Fixed Investment (Rs. in Crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11*
Sikkim	27.82	31.01	47.20	51.31	63.62
Arunachal Pradesh	543.78	625.95	765.46	910.21	1081.04
Nagaland	718.33	1137.90	2497.44	3021.08	5023.46
Manipur	96.76	97.58	100.59	102.51	105.14
Mizoram	296.95	315.01	353.22	393.19	431.88
Tripura	326.57	364.50	416.05	469.55	530.10
Meghalaya	134.54	152.69	171.01	211.20	245.70
Assam	5867.40	6385.49	6867.26	7362.90	7941.84
Total	8012.15	9110.12	11218.25	12521.95	15422.78

Source: North East and the Registered MSMEs (*2010-11 Projected), MSME Annual Report, 2011-12

TABLE 1.6: PRODUCTION

State \ Year	Production (Rs. in Crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11*
Sikkim	51.37	57.26	87.16	94.74	117.48
Arunachal Pradesh	237.21	273.05	333.91	397.06	471.58
Nagaland	1396.04	2211.44	4853.65	5871.33	9762.85
Manipur	199.80	201.49	207.72	211.68	217.10
Mizoram	309.90	328.75	368.63	410.34	450.71
Tripura	608.30	678.96	774.98	874.63	987.41
Meghalaya	447.31	507.64	568.57	702.17	816.90
Assam	9389.20	10218.27	10989.20	11782.35	12708.79
Total	12639.13	14476.87	18183.83	20344.29	25532.81

Source: North East and the Registered MSMEs (*2010-11 Projected), MSME Annual Report, 2011-12

Table 1.3 indicates the spread of MSMEs in the region. As per the data, Assam leads the pack comprising of almost 53% of the registered enterprises in the region. The share of Sikkim for all the five periods on the other hand, is quite insignificant as its percentage share to the total ranges from 0.36% in 2006-07 to 0.47% in 2009-10 and 0.50% in 2010-11. The share of Arunachal Pradesh is also very low, but its contribution comes to at least 1% of the total share. Nagaland and Tripura shows almost the same percentage share in the year 2006-07, 3.88% and 3.92% respectively. While percentage share of Tripura remains almost constant for all the consecutive years, Nagaland shows a significant increase to 10.70% in 2008-09 and 16.85% in 2010-11. Mizoram and Meghalaya maintain, approximately, a consistent share, 10.31% and 9.30% respectively. However, Manipur showed a decline from 13.09% in 2006-07 to 9.96% in 2009-10 and 8.83% in 2010-11.

In Table 1.4 we have data showing the number of employment, wherein, once again Assam takes the lead, making up for almost 61% of the total share of employment in the region. The percentage share of Sikkim and Arunachal Pradesh is similar to the share as shown in Table 5.1. When we compare the data in Table 1.3 with that of Table 1.4 to study the average employment per unit for each state, it can be observed that Tripura has the highest number with 17.3 persons employed per unit, followed by Arunachal Pradesh, Nagaland, Assam, Sikkim and Mizoram. Also, although the number of working enterprises is least in Sikkim and Arunachal Pradesh, they have a higher average employment of 9.5 and 12.9 persons per unit compared to Manipur and Meghalaya, the two states with the least employment per unit, 4.2 and 4.4 respectively.

A peculiar trend is observed in case of five states, namely Nagaland, Manipur, Mizoram, Tripura and Meghalaya. In 2006-07, Tripura which has only 1343 units (3.93%), employs 23166 persons (7.35%) which is higher than Manipur, with 4492 units (13.09%) employing 19960 persons (6.33%) and Meghalaya, 3010 units (8.78%) employing 12700 persons (4.03). Again in 2007-08, despite having the lowest number of units, Tripura once again employs more persons than Nagaland, Manipur and Meghalaya and only 0.5% less than Mizoram. For the following three years, with the increase in number of units, Nagaland takes the lead in terms of employment while Tripura continues at an even rate.

Table 1.5 and 1.6 shows the fixed investment and production of enterprises in the region. A study of the data shows an increase in values in both the tables. When we study the percentage increase from 2006-07 to 2010-11 for all the eight states, we find that even though Assam has the highest values in terms of both fixed investment and production, its percentage increase for both tables is only 35.36% which is lesser than all the other states, except Manipur. Manipur shows a very low increase, which is only 8.66% for fixed investment as well as production, whereas, Nagaland displays a singular characteristic by showing an increase of almost 6 times from 2006-07 to 2010-11.

PROBLEMS ENCOUNTERED BY MSMEs

The importance of MSMEs cannot be undermined. They however, often operate under difficult circumstances. While small business entrepreneurs often have good ideas, their ignorance of the fundamentals of business and how to run it is one of the causes for failure (Brink *et al.* 2003). As per the Final Report of Fourth All India Census of MSMEs, micro enterprises occupy the highest percentage share in terms of number of units as well as employment generated in the country as well as the state. "However given their size, capital intensity and technology, micro enterprises are positioned at the weakest point in terms of job quality and income generating capacity" (ILO 2009).

Due to their weak financial strength, unclear information of business plans and accounting statements, the credit worthiness of MSMEs cannot be ascertained and as such they are considered as high-risk borrowers by investors and banks. Moreover, their size, lack of market knowledge, weak bargaining power and product quality also makes it tough for such enterprises to compete with the larger counterparts (Kumar, Batra & Sharma 2009). Coad and Tamvada in their study of small firms in India identified that while problems of labor and market were more visible in large enterprises, smaller and younger enterprises seemed more susceptible to problems relating to working capital, lack of demand, power shortages, equipment problems and also raw materials and management problems (2012).

Suman & Gangopadhyay identified problems like interferences from government officials for various clearances, difficulties in collection of outstanding payments from customers, especially in case of those enterprises who supply products to Government departments. They also observed that due to the inability of MSMEs to market or export their goods directly, larger enterprises end up selling or exporting the same in its own name (2011-12). Lack of security, experience and finance knowledge were also identified as impediments to growth of small businesses (Reddy 2007).

CONCLUSION

A study of the secondary data available shows that the economy of the Northeast region is slowly opening up to the rest of the country. While one of the reasons for the increase in number of enterprises and employment of MSMEs in the region may be partly due to the expanding of the scope of the sector, however this is not the sole reason. Number of programmes and schemes are being introduced by the ministry to encourage individuals to start their own businesses. The MSME units being small in size and more labour intensive have greater flexibility to adapt itself to changes in comparison to their larger counterparts. However, with the economy growing more complex each day, it becomes necessary for such units to keep up with the changing scenario for its survival as they have to face competition not only at the domestic level but also internationally.

Keeping in mind this vast pool of unexploited natural and human resources available as well as the limitations of the region, it therefore, becomes necessary to ensure that the schemes and incentives the Government and various institutions offer should be suitable and satisfy the requirements of the entrepreneurs. No doubt, the MSME sector of the states still have a lot of catching up to do with the rest of the country, but on a positive note, with the efforts of the Central Government as well as the State Governments and other supporting institutions, the region will soon be progressing towards creating an economy where entrepreneurship thrives.

LIMITATION AND SCOPE FOR FURTHER RESEARCH

The present study is wholly based on secondary data sources and therefore bears the inherent drawbacks associated to such data. Finally, from an academic point of view, the scope for research in this sector in the region is still quite unexplored. Lack of proper records and data makes it difficult for researchers to present an accurate and clear picture. But this should not be a deterring factor. Instead such researches should be encouraged as it will assist to give the region a platform to bring to fore not only the difficulties faced by the sector but more importantly, the vast pool of talent and variety of products that the region has to offer.

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