

Study of Performance of MSME Sector in North- Eastern Region of India

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Abstract

In India, the Micro, Small and Medium Enterprise (MSME) sector contributes considerably to the GDP, exports, employment, and balanced regional development. This study examines the performance of the MSME sector in the North-Eastern Region (NER) of India, which includes eight states, i.e., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. When it comes to any economic activity, this Region faces many challenges, such as a lack of infrastructure, inadequate access to finance, technological obsolescence, inadequate market linkages, lack of awareness and many more. The study is based on Secondary data from various official websites of the Government of India. An attempt has been made to see the performance of the MSME Sector in the North-Eastern Region of India. The policies and programs articulated by the Government of India to uplift the MSMEs of the NER. The Study addresses the difficulties faced by this sector and will suggest recommendations to enhance performance.

Key words: MSME, North-eastern India, GDP

Introduction

The Micro, Small and Medium Enterprise (MSME) sector contributes considerably to the GDP, exports, employment, and balanced regional development all over India. Eight Indian states are part of the North-Eastern Region (NER), including Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. The future trajectory of this region's economy also depends substantially on the

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MSME sector. MSMEs are considered the backbone for the development of the economy and have a remarkable share in employment generation, contributing to mitigating poverty and fair economic development. In this area, the contribution towards employment generation, income generation, and overall industrial development is noteworthy.

This region has many natural resources and untapped potential in sectors like agriculture, horticulture, handicrafts, handloom, tourism, bamboo-based industries, food processing, textiles, and IT-enabled services. MSMEs foster entrepreneurship, promote industrialization, support value addition in the manufacturing and service sectors, and contribute to export growth. There are many initiatives from the Government of India to boost and enhance this sector, specifically the MSME of the North-Eastern Region of India.

The criterion for MSME has been changing from time to time. Earlier Manufacturing units and services were also classified separately, but this criterion has been abolished in recent times. Not only that, previously, the definition of MSME was based on Investment limits, but now it also includes turnover limits too. The recent criterion was updated on 1stJuly, 2020 and it is as following:

MSME Classification (Based on 1st July 2020)

Sr. No	Type of Enterprise	Investment	Turnover
1.	Micro Enterprise	Not more than Rs.10 million	Not more than Rs. 50 million
2.	Small Enterprise	Not more than Rs.100 million	Not more than Rs.500 million
3.	Medium Enterprise	Not more than Rs.500 million	Not more than Rs.2500 million.” ¹

The classification of enterprises according to their investment and turnover criteria is shown in the above table. Here is a breakdown:

Micro Enterprises: These small firms with annual revenue of no more than Rs. 50 million and a maximum investment of Rs. 10 million. Micro units often employ a few people and require little financial investment. **Small Enterprise:** Compared to micro firms, small enterprises have a somewhat bigger scale. With investments limited to Rs. 100 million and a

turnover cap of Rs. 500 million, these classifications contribute to categorizing firms according to their size, capacity for investment, and turnover.

Medium Enterprise: In terms of size and scope, medium firms are the next tier. Their degree of investment is higher, with a cap of Rs. 500 million on investments and a turnover of Rs. 2500 million. Compared to micro and small businesses, medium-sized businesses are more significant in capital investment, production capacity, and employment.

This grouping can then inform the creation of regulatory frameworks, support systems, and policy decisions suited to the unique requirements and difficulties that businesses of all sizes confront. To boost employment levels across the country, the government is supporting MSMEs and promoting economic growth by removing exports from turnover limitations, so exports will not be counted towards MSMEs' turnover. Some studies in this field are included in the literature review to further identify the gap.

Literature Review

Many studies have been carried out on the MSME sector in the North-Eastern Region of India. This literature review attempts to examine the recent changes in MSMEs in this region of India.

Some of the studies by the North Eastern Development Finance Corporation Ltd. (NEDFC, 2018),² the Indian Council for Research on International Economic Relations (ICRIER, 2019),³ and the National Institute of Entrepreneurship and Small Business Development (NIESBUD, 2020)⁴, found that MSME sector in NER contributes significantly to employment generation and economic growth, but it faces many challenges, such as inadequate infrastructure, lack of availability of finance, poor market linkages, technology adoption, etc. and suggested remedies for the same.

Lahiri and Ghosh Moulic (2019),⁵ examine the status of MSMEs in the North-Eastern Region of India and identified the challenges faced by them. The study found that lack of finance, lack of skilled manpower, and inadequate infrastructure are the major challenges faced by in the region, as are the availability of natural resources, access to markets, and Government support.

In their paper, Kumar and Singh (2020),⁶ gave an overview of entrepreneurship and MSME expansion in the North-Eastern Region of India. They examined all policy initiatives taken by the Government for

boosting entrepreneurship and MSME development in the region. That there is a rise in the number of MSMEs in the region due to Policy Initiatives by the Government of India, but needed further policy support, to address the obstacles faced by MSMEs in this area.

A study by Small Industries Development Bank of India (SIDBI, 2021),⁷ concluded that the MSME sector in the NER has a significant potential for growth in food processing, tourism, and handicrafts and recommended measures for improving access to finance, infrastructure, providing support for skill development and entrepreneurship for the growth of MSMEs in the region.

Laltlanpuii and Lalrinawma (2021),⁸ evaluate the performance of MSMEs in the Northeastern Region of India using financial ratios. They found that the profitability of MSMEs in the region is low, due to factors such as inadequate infrastructure, lack of skilled manpower, and competition from larger firms. The study suggests a need for policy support to address these issues and improve the performance of MSMEs in the region.

Nayak and Tripathi (2021),⁹ examined the challenges and opportunities faced by MSMEs in the North-Eastern Region of India and found that lack of access to finance, inadequate infrastructure, and low productivity are the major challenges faced by MSMEs in the region. The study also pinpointed some opportunities like availability of natural resources and government support for the development of MSMEs in the region.

In their study, J. Suresh Kumar & D. Shobana (2022),¹⁰ described the importance of MSMEs in NER. At the Indian level they contribute only 1.5 percent, but in the region, their contribution is nearly 62 percent, in terms of employment, output, and exports.

The above literature suggests that the MSMEs in the North-Eastern Region of India have significant potential for growth and employment generation but still is facing several issues, i.e., lack of finance, inadequate infrastructure, and low productivity, poor market linkages, and technology adoption. Many studies focused on Government initiatives in terms of Schemes and policies. Still, very few studies focused on how the sector has grown over a while, specifically in recent times.

Objective of the Study

The study would probe into the policies implemented by the NER government to promote the MSME sector. This study aims to assess the effects of government spending and initiatives in this industry on the development and growth of the Northeast Region. The study also seeks to evaluate evidence for Wagner's Hypothesis, which proposes a positive relationship between economic growth and the extension of government operations, especially with regard to the MSME sector. To improve the growth of the MSME sector in the NER and inform policy decisions, the research will end with recommendations and suggestions based on the current situation.

Methodology

The study is based on a descriptive type of research, which aims to describe the relationship between Government assistance and outcomes in terms of patterns, trends and shares within the data. It also provides valuable information and insights into the current scenario. Secondary data is sourced from various annual reports, such as the Ministry of MSME, Government of India, National Statistical Office (NSO), Ministry of Statistics and Program Implementation, Government of India, and various Government reports and Publications.¹¹ Compound Annual Growth Rate (CAGR) is calculated to see the growth of MSMEs in the region.

However, to address these challenges, there are also opportunities for the development of MSMEs in the region, i.e., the availability of natural resources and Government support, so more precise policy initiatives are needed to assist MSMEs in solving their problems in the region and to enhance the performance of the Government of India.

Various policies and schemes

The government has articulated various policies and schemes to strengthen the MSME sector in the North-Eastern Area. Some key policies and schemes are as follows:

Northeast Industrial Development Scheme (NEIDS)

NEIDS was announced by the Ministry of Industry and commerce, promotes employment and industrialization in the region by providing various incentives, such as capital investment subsidies, interest subsidies, and Good and Service Tax (GST) reimbursement, to all MSME's.

Credit Support Schemes

These Schemes provide credit support to MSMEs.

North-eastern Region Textile Promotion Scheme (NERTPS)

NERTPS support's capacity building, infrastructure development, and technology up-gradation for MSMEs in the textile industry in the region

Industrial and Infrastructure Development Schemes

For industrial and infrastructure development schemes are formulated to attract investments and support MSMEs in the region by State governments.

Cluster Development Program

Cluster-based developmental steps are taken by providing access to shared facilities, technology, and markets to promote MSME clusters in the region and to enhance productivity, competitiveness, and innovation.

Export Promotion

Export promotion schemes provide opportunities for participating in international trade fairs and exhibitions, and export activities are provided in the region.

Technology Up-gradation and Skill Development

Infrastructure Development

Infrastructure is a severe barrier to the growth of MSMEs in this region, which is also focused on improving measures by the Government.

Ease of doing business

Performing business easily in the region streamlines regulatory processes and reduces bureaucratic hurdles, which will attract investment and facilitate business growth in the region. (Development Commissioner, MSME, Ministry of Micro, Small & Medium Enterprises, Government of India).¹²

All these initiatives in the form of schemes and policies have promoted the growth of MSMEs in the region. Apart from the above-listed schemes and policies, some many more resourceful programs and packages that are also launched by the Government of India to enhance the sector. These include the Atmanirbhar Bharat package for MSMEs, which was announced specially to overcome COVID-19 effects. Some other schemes focused on market promotion and development, credit and financial assistance technology support, and schemes for training and development. Thus, comprehensive steps were incorporated to achieve inclusive growth of the sector in this area.

Apart from all these Schemes and policies the Government make special budget allocation for NER. The Budget allocation is a prime factor in enhancing the sector. In this line, 10 per cent of the Budget allocation is made to NER, which is a developmental step for the sector.

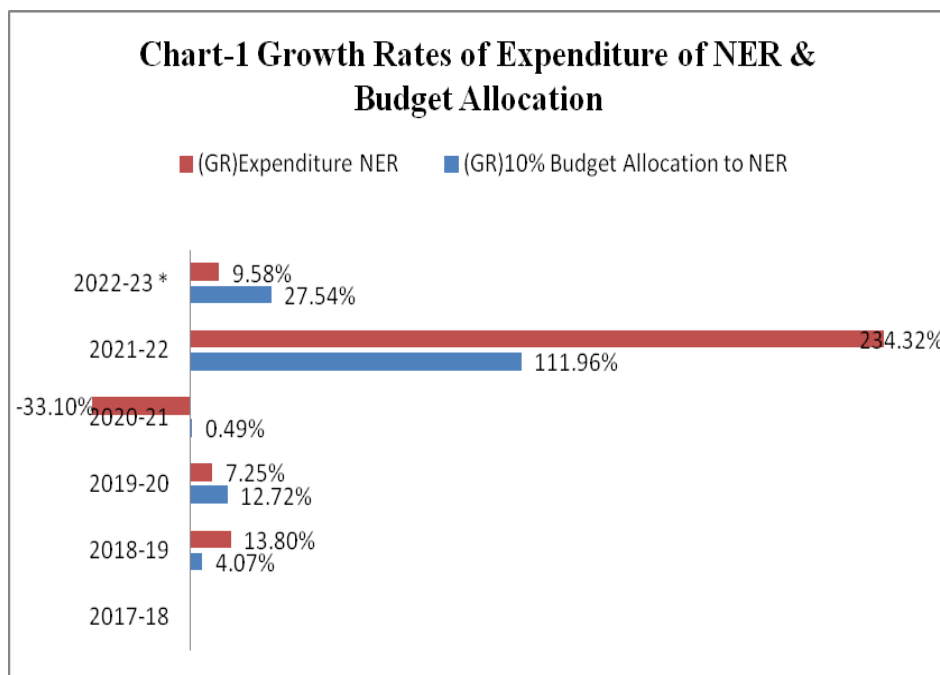


Figure 1: Growth Rates of Expenditure of NER & Budget Allocation
Source: Annual Report, 2022-23, Ministry of Micro Small and Medium Enterprise, Government of India, (NSS 73rd Round)

Figure 1 shows the Annual Growth Rate (AGR) of Budget allocation and AGR of Expenditure on NER annually. However, the Expenditure NER is less in terms of Rs. It shows that the AGR of Budget allocation for five years from 2017-18 to 2022-23 is 4.07 per cent, 12.72

per cent, 0.49 per cent, 111.96 per cent, 27.54 per cent, and 26.09 per cent, respectively. And AGR of Expenditure on NER five years from 2017-18 to 2022-23 is 13.80 per cent, 7.25 per cent, -33.10 per cent, 234.32 per cent, 9.58 per cent and 24.50 per cent, respectively. It mostly shows augmented growth rates except in the year 2020-21 due to the COVID-19 pandemic. It severely impacted MSMEs, disrupting their supply chains, hampering demand, and creating cash flow problems. Numerous MSMEs shut down which resulted in a decline in output and unemployment. As per the survey done by Confederation of Indian Industry (CII), at the Indian level about 35 per cent of MSMEs had to shut down their operations during the pandemic, and only five to seven per cent were able to operate with full capacity. This impact is also visible in the figure for the year 2020-21 in the given Figure and in later years it was recovered with high investment from Government. According to Figure-1 the CAGR of Budget allocation for five 2017-18 to 2022-23 is 26.09 per cent and CAGR of Expenditure on NER for the given five years is 24.50 per cent.

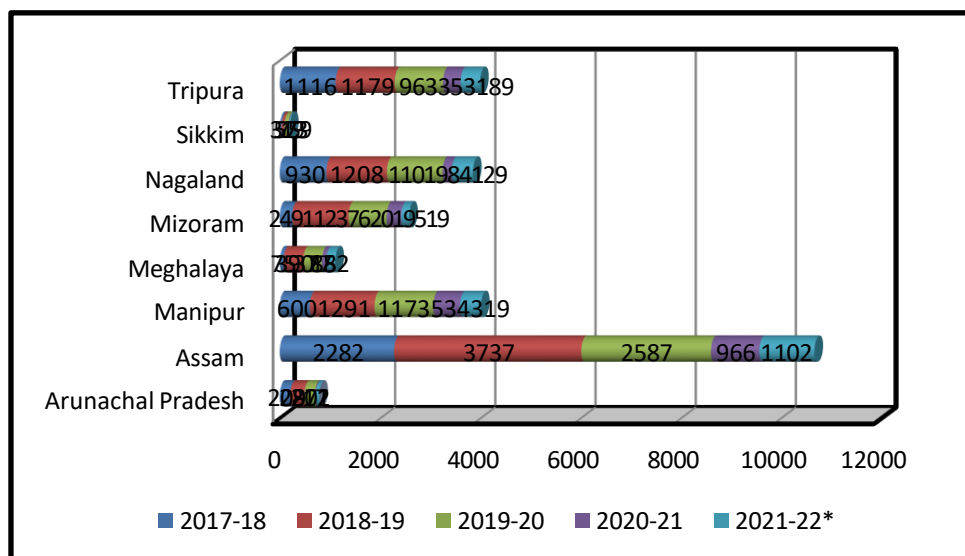


Figure 2: NER- States with Micro enterprises projects assisted under PMEGP during 2017-18 to 2021-22

Source: Annual Report 2022-23, Ministry of Micro, Small and Medium Enterprise, Govt of India, (NSS 73rd Round)

Figure -2 shows State-wise Micro Enterprises (Projects) Assisted under PMEGP in Northeast, 2017-18 to 2021-22. It is visible that MSMEs of Assam State has availed Maximum number of projects offered by PMEGP as compared to rest all other seven states. Assam state taken up projects in

numbers from 2282, 3737, 2587, 977, 1102 between 2017-18 to 2021-22 respectively, which is highest among all other the maximum number of assisted total MSMEs in NER was 9263 in 2018-19.

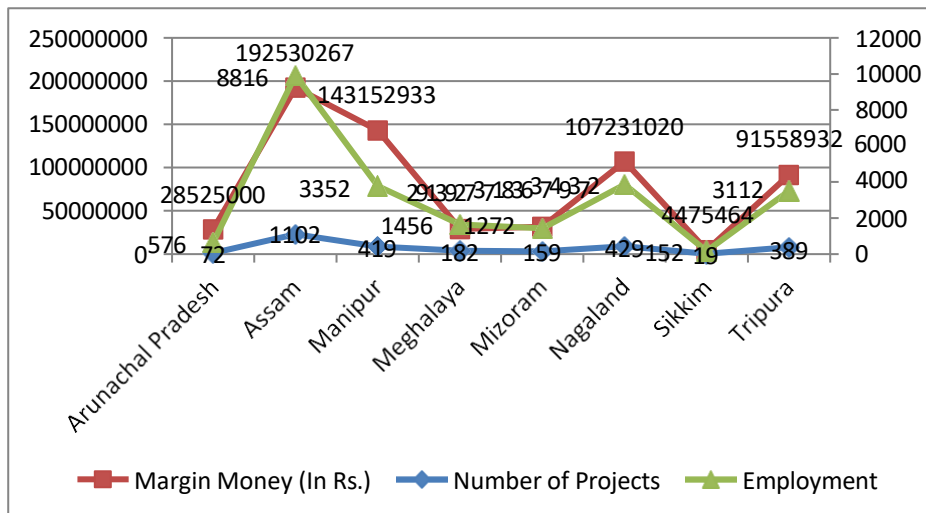


Figure 3: Margin Money Disbursed to State in FY 2021-22 (PMEGP)

Source: Annual Report, 2022-23, Ministry of Micro Small And Medium Enterprise, Government of India, (NSS 73rd Round)

The Figure 3 shows margin money used number of projects and employment generated in these eight northeastern states under PMEGP for the year 2021-22. The Correlation between Figure 2 & Figure 3 is observed. In Figure 2 it was observed that Assam State had availed a maximum number of projects under PMEGP in all the years between 2017-18 to 2021-22. It is also visible that the maximum results for all these indicators are with the State Assam. Margin money disbursed is Rs.192530267, number of projects 1102 & 8816 Employment generated. Under PMEGP for the year 2021-22, the total for NER for Margin money is disbursed. Rs 628449690, 2771 number of projects & 22168 employments generated.

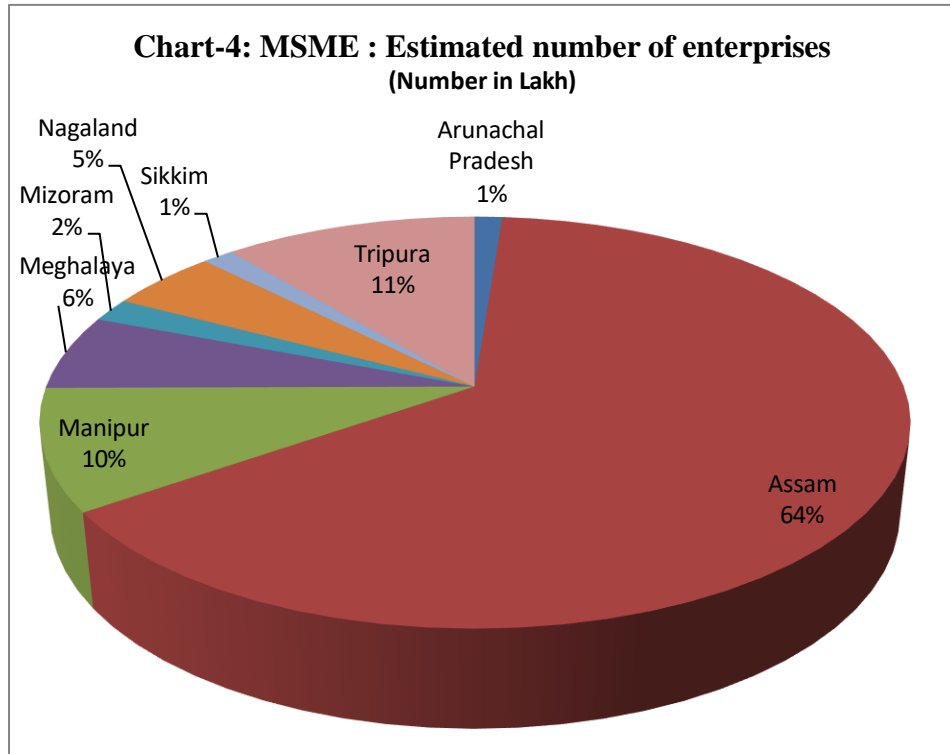


Figure 4: MSME Estimated number of enterprises

Source: Annual Report, 2022-23, Ministry of Micro Small and Medium Enterprise, Government of India, (NSS 73rd Round)

Figure-4 shows the estimated number of MSMEs and State-wise share. Assam holds a dominant position among the remaining seven states. The total numbers of MSMEs is 18.92 lakhs, out of which 12.14 lakhs are in Assam and the remaining are in the other rest seven states.

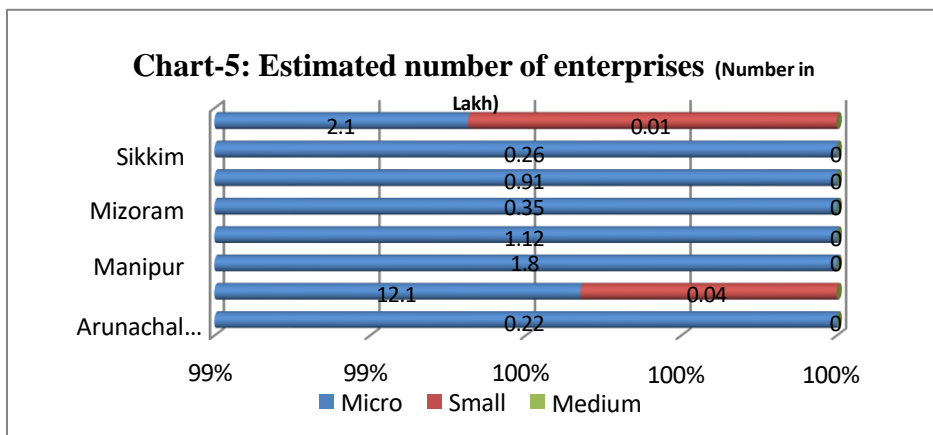


Figure 5: Estimated number of enterprises

Source: Annual Report 2022-23, Ministry of Micro, Small and Medium Enterprise, Govt. of India, (NSS 73rd Round)

Figure 5 Shows state of Micro, Small and Medium Enterprises as per NSS 73rd Round. In NER, the total MSMEs is 18.92 lakhs. Among them, the majority of enterprises are micro units i.e., 18.86 lakhs, only 0.05 lakhs are small units and there is an absence of medium types of enterprises.

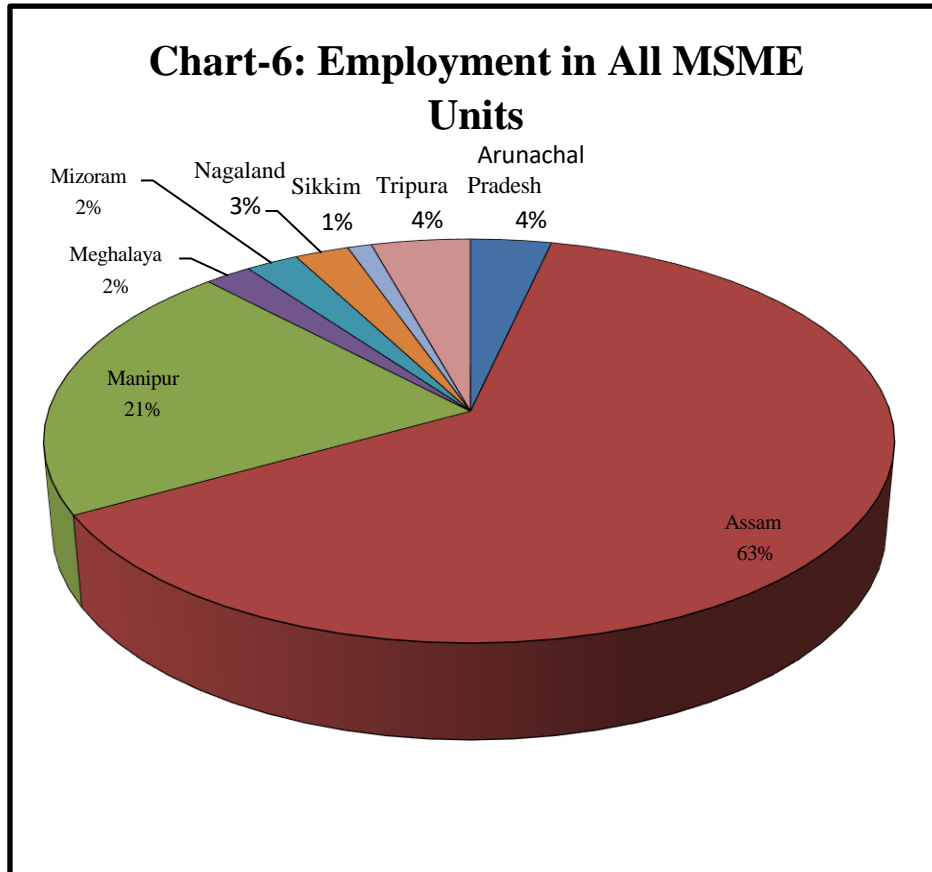


Figure 6: Employment in all MSME units Source: <https://udyamregistration.gov.in>

Figure-6: shows employment in all MSME Units in NER. Total number of Employment for MSMEs Having Udyam Registration as on 30th June 2021 is 47,267. Among which Assam state holds maximum 29,938,4 with 63 per cent. The German economist Adolph Wagner has stated a Wagner's Law or Wagner's law of increasing state activity. His theory propounds that if a country's economy grows and its income grows over time, there is a propensity for government spending and the size of the public sector to increase. In other words, the law supposes a positive correlation between economic growth and expansion of state activities. This is also known as "Wagner's law of increasing state expenditure." As the economy grows with the passage of time, demand for public goods and services also

increases, which pushes Government spending to increase even at a faster rate. For MSMEs in NER, this hypothesis also manifests the same. Government spending leads to better overall development of the sector, especially for the State of Assam.

Conclusion & Recommendations

The study reveals a consistent augmented growth trajectory in budget allocation and expenditure on the Northeastern Region (NER) over the past five years, aside from a notable downturn in 2020–21 attributed to the COVID-19 pandemic. Despite pandemic-induced challenges, subsequent years witnessed a recovery, driven by government expenditures, this emphasizes how crucial it is to take proactive steps to strengthen economic resilience, especially for MSMEs. To promote inclusive growth in the NER, tailored policies and continued investment will be necessary to sustain this increasing trend. The CAGR of the budget allocation for the five years from 2017–18 to 2022–23 is 26.09 per cent, whereas the CAGR of the NER expenditure for the same period is 24.50 per cent. Between 2017–18 and 2021–22, Assam continuously received the greatest number of PMEGP projects, with project numbers ranging from 977 to 3,737. This illustrates Assam's proactive stance on MSME growth and entrepreneurship. Assam State has benefited from the greatest amount of PMEGP projects from 2017–18 to 2021–22. It is also evident here that the State of Assam has the best scores across the board for each metric. The amount of margin money disbursed is Rs. 19,253,0267, with 8816 jobs created and 1102 projects from the total amount of NER for money disbursed under PMEGP for the fiscal year 2021–2022 is Rs 62,844,9690, with 2771 total NER projects and 22168 jobs created in NER.

In NER, 'Missing middle' is the accurate scenario, out of the 18.92 lakh MSMEs, 18.86 lakh are micro units, and only 0.05 lakh are small units. The bulk of MSMEs are micro units. It is noteworthy that the region lacks medium-sized enterprises. This distribution highlights the NER's micro-scale entrepreneurial activity preponderance, due to the region's economic environment and the prevalence of small firms. To promote a more robust and diverse MSME sector in the region, policymakers and stakeholders should consider the potential areas for expansion and growth indicated by the absence of medium-sized firms.

The noteworthy employment role that Micro, Small, and Medium-Sized Enterprises (MSMEs) play in the Northeastern region (NER),

especially in Assam, which employs 63 per cent of MSMEs with Udyam registration as of June 30, 2021. Wagner's Law, or Adolph Wagner's notion of rising state activity, is relevant to MSME growth in the Northeast Region. Government expenditure and economic growth go hand in hand, with greater state intervention resulting in higher sector development overall, particularly in places like Assam. This demonstrates how crucial it is for the government to make thoughtful investments and policies that support the expansion and sustainability of MSMEs, promoting local economic growth and job creation.

In summary, a positive correlation evident in all the data given in this research. It has been witnessed that Assam has taken up maximum benefits of Government initiatives in the northeastern region and developmental results in terms of number of units, employment is also maximum. The MSME sector plays a crucial factor in the story of the growth of this region. Innumerable Government initiatives are there to strengthen the sector, but the fact remains that there are growth obstacles on the way to desired growth. In the area of infrastructure, scarcity of credit and capital, skilled labour force, etc., In the era of globalization, the sector must compete not only with its own competitors, Large and organized sector industries, but also MNCs. Government spending varies a lot, which we can see in Figure 1. There is a need for assured and persistent aid for the sector, to overcome all the difficulties. A much more extensive approach should be taken by the Government of India as this region is not free from growth barriers and yet has unexploited potential.

Notes

¹ <https://poonawallafincorp.com/blogs/msme-classification-criteria-structure-feature.php>

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