

MSMEs SECTOR IN NORTH EAST INDIA

“MSMEs have faced a number of critical development challenges 79 small business units are turning financially unviable every day or 3 units falling sick every hour”

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Abstract

The MSME today occupies an important role in directing the development process for growth and prosperity of the north eastern region, however the sector has been facing a tough fight, not only against its own counterparts (MSME), but also from large and organised sector of the country and also from the MNCs. Poor infrastructure and inadequate market linkages are also key factors that have constrained growth of the sector. Owing to the presence of such multi-pronged deficits, the full potential of the NE region could not be tapped. The neo-liberal development trajectory followed by the center and the state governments of the region has made the MSME even more complex. The state governments of the region depend heavily on the central assistance and thus efforts to create economic and physical infrastructure by the states themselves are inadequate. Surface transport and communication infrastructure is weak and hampers the movements of raw materials and finished goods among the states and outside the region. The land tenure system prevailing in the hilly region are not conducive to the industrialisation process. The region has to import for many of its needs. So, the speedy development of MSME is a fundamental prerequisite for the meaningful involvement of the NER in India's Look East Policy and Globalisation process. All these will require huge investment; and, therefore it is imperative that adequate fund flow for public investment needs to be assured. It is urging the policy makers and planners to formulate a comprehensive strategy for the speedy development of the sector and deepen the engagement with the ASEAN countries through expanding productive based of the economy.

INTRODUCTION AND BACKGROUND

The impact of neo-liberal globalization on small and medium enterprises (SMEs) has received a lot of attention in macro-economic policy discourses in the past few years. Today, globalization is a major driver that has impact on nearly every business. One of the reasons for the international focus on SMEs is that these firms make significant contributions to the economy of both developed and under-developed countries. SMEs contribute over 55 percent of GDP and over 65 percent of total employment in high-income countries (UNCTAD, 2004). In Middle and East Asia for example, SMEs are major players in their countries economy; accounting for a higher percent than what it represents in the developing countries. Many SMEs are now looking to 'go global'. However, most SMEs are finding it difficult to join the race, resulting in heavy losses. As is well-known, Globalization has increased competitive pressures on firms. Together with rapid technological change it has altered the environment in which SMEs operate. The bottom line is that, in an open and liberalized world, increasing SMEs competitiveness has become a major challenge. Compared to larger firms, Small and Medium-sized Enterprises (SMEs) are generally less well-equipped to face increases in international trade. As a result of their lower productivity, many have found it difficult to compete. Also, given their limited resources, they have found it more difficult to take advantage of the removal of tariff barriers. As a consequence of neo-liberal globalization we have seen the rise of the influence of large multi nationals, to the detriment of Small and Medium Enterprises. In addition they lack the economies of scale which results in lower cost per unit for the multi nationals. Pricing could be a challenge since the smaller firms are likely to have high costs per unit. Larger firms have the capacity to undercut the smaller firms prices as a consequence of this competition between smaller and large firm would erode margins of smaller firms and some of them would end up making losses and winding up. It would be difficult for smaller firms to attract a highly skilled work force because multi nationals have the capacity to pay better packages as they will have more financial resources. This would pose a challenge for smaller firms to operate efficiently and effectively. This paper attempts a critical appraisal of the micro, small and medium enterprises (MSMEs) in globalizing India with a focus on North East India.

II MSMEs IN INDIA

The Micro, Small and Medium Enterprise sector is crucial to India's economy. There are 29.8 million enterprises in various industries, employing 69 million people. The sector includes 2.2 million women-led enterprises (~7.4 percent) and ~15.4 million rural enterprises (51.8 percent). In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India's GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent. The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States only, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh and Karnataka. Only about 7% of MSMEs are owned by women; and more than 94% of the MSMEs are proprietorships or partnerships. MSMEs in India manufacture over 6,000 products, comprising of Food Products (22%), Chemical & Chemical Products (12%), Basic Metal Industries (10%), Metal Products (8%), Electrical & Machinery Parts (6%) and others (36%).

However, Indian MSMEs have also faced a number of critical development challenges. It is reported that 79 small business units are turning financially unviable every day in the country. This translates to three units falling sick every hour, according to data compiled by the Micro Small and Medium Enterprises - Development Institute (MSME-DI). Of the total 1.33 crore SME units in the country, more than two lakh are sick now. Around 29,000 units are being added to the sick list every year. It has also led to an outstanding bank credit of over Rs 7,000 crore. The Reserve Bank of India (RBI) declares a small scale industry (SSI) unit sick if any of the borrowal accounts of the unit remains substandard for more than six months or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth in the previous accounting year. In 1997, NPAs of micro, small, medium, large industries put together stood at 15.8 percent of bank loans. In the same year, while the SSI sector was responsible for nearly one-half of the total number of NPA accounts, its share in the absolute amount of NPA accounts was about 20 percent. Thereafter, the proportion of NPA accounts started to decline due to the introduction of very stringent norms. It declined to 10.7 percent 1999-2000 and thereafter it showed a continuous decline and stood at to 2.4 percent in 2008-09. But recently there has been an enormous increase in the number and volume of NPA accounts. The NPAs of the Indian banking sector increased to 2.40 percent in 2010-11 and increased further to . 2.94 in 2011-12. In absolute figures NPAs have almost

doubled during 2009-2012, i.e. it increased from about Rs.56,300 crore in March 2008 to about Rs.117,262 crore in March 2012.

Figure 1: Distribution of MSME Enterprises across India

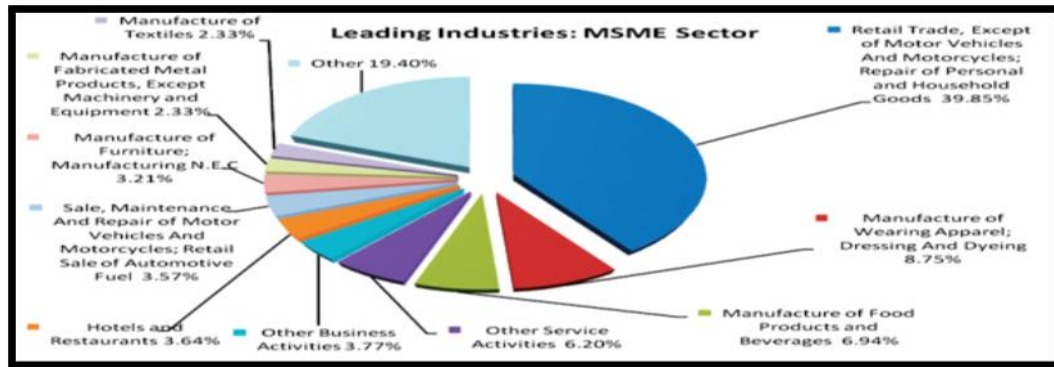
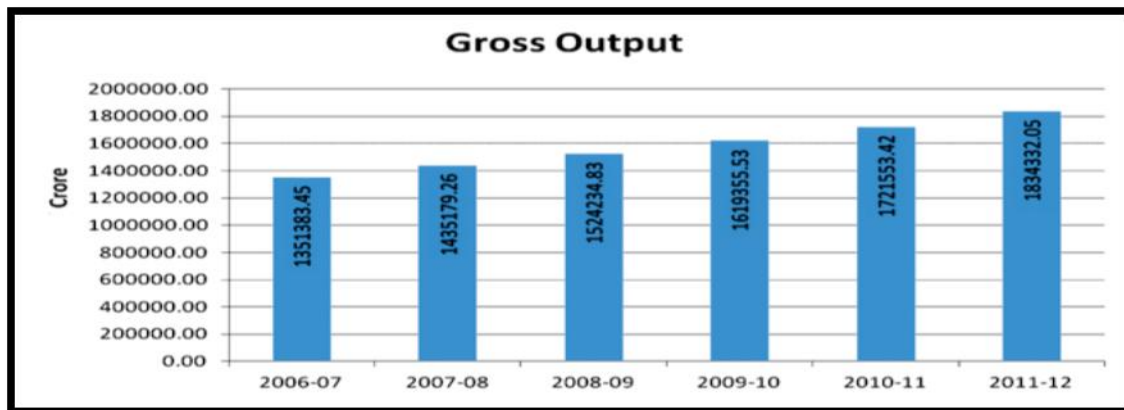


Figure 2: Gross output of MSME Enterprises in India (Rs.in crore)



Source: IFC- Intellect Analysis

III MSMEs IN NORTH EAST INDIA

The eight North East States which cover 263179 Km² of area that is 8% of India's total area face a number of critical developmental challenges. The region is characterized by low per capita income, low capital formation, inadequate infrastructural facilities,

communication bottleneck and geographical isolation from the mainstream. It is also characterized by inadequate exploitation of the natural and human resources, for which industrial activities are very low in the entire region and high unemployment rate among the relatively highly literate people. The high Level commission on the North East popularly known as the Shukla Commission's Report on 'Transforming the North East' (1997) defined five basic deficits: a basic need deficit, an infrastructure deficit, a resource deficit, a two-way deficit of understanding with the rest of the country and a governance deficit. The biggest problem facing the NER is the lack of adequate and reliable infrastructure. In the front of industrial development, the N E 'a late comer to development' (as defined by Sukla Commission, 1997), is in the lowest rank among the region. The North East India is industrially backward and has been declared as category 'A' (Industrially backward region). Industrial backwardness of this region is reflected in the fact that the contribution of the manufacturing sector to the state domestic product of the region is much smaller than the contribution of this sector to the national product in the country. Owing to the presence of such multi-pronged deficits, the full potential of the NE region could not be tapped. The neo-liberal development trajectory followed by the center and the state governments of the region has made the North-East even more complex. Even after 63 years of planned development, we continue to see the phenomenon of regional imbalances, inter-state or even intra-state imbalances. The region is now particularly backward in both physical and social infrastructure. The state governments of the region depend heavily on the central assistance and thus efforts to create economic and physical infrastructure by the states themselves are inadequate. Surface transport and communication infrastructure is weak and hampers the movements of raw materials and finished goods among the states and outside the region. The land tenure system prevailing in the hilly region are not conducive to the industrialisation process. The region has to import for many of its needs. The contribution of the manufacturing to the SDP has been insignificant. The industrial backwardness is reflected in its total number of enterprises. Only about 1.5% of country's MSMEs have been set up in the region. In absence of large scale industries, manufacturing in north east is currently dominated by these small and medium enterprises. Industrialisation in the region as it stands today is marked by declining share of manufacturing sector at 5.66 percent (2012) as compared to 17 percent at National level since 1993-94. NSSO shows that in the industrial output of NER states, there is substantial contribution from the local micro and small enterprises (MSEs). The informal manufacturing sector (IMS), which is basically MSME in nature, is the highest contributing segment (62%) in the industrial output of the region.

At present, the SMEs in the region are facing huge challenges to be able to play their due role in the regional economy and national economy as well as to remain competitive in the era of globalization and liberalization. Keeping in view the challenges confronting the MSMEs in the region, the Government of India has turned its focus towards SMEs that have tremendous growth potential. Banks are also now offering to SMEs, various products from working capital loans to term loans. In order to mobilize the SMEs and Entrepreneurs of North East India to channelize their energy and resources to bring out economic development and prosperity of the region, the GOI Industrial Policy NEIIPP 2007 brought a package of incentives which has encouraged enterprise in North East India.

- a. 100% excise exemption on finished products,
- b. 100% income tax exemption,
- c. 30% capital investment subsidy on the investment of P & M,
- d. 90% transport subsidy
- e. 3% interest subsidy on working capital loan and comprehensive insurance etc.

North East Industrial Policy (2007) is expected to play a pivotal role in the industrial growth by providing the most conducive environment for attracting industrial investment. The policy is intended to accelerate the industrial growth of the region by intervening at the crucial point and provide the needed inducement to the entrepreneurs and industrial houses. Though the component of the policy can be said to be encouraging, the real test however it lies in how far these have been successful in attracting investment into the region. Government of India has been focusing on the North East as a priority area. 10% of the budget of each ministry is earmarked for expenditure in the North East. Short falls in this respect contribute towards the Non Lapsable Pool, which is used to fund projects in the NE. The Prime Minister has also directed that Ministers and senior officers of respective ministries must visit the states of the North East. Government has also announced North East Industrial and Investment Promotion Policy,2007.

Despite all these development, benefits to the north east economy is extremely marginal. It cannot attract much of the investment and also entrepreneurs. It may be noted that private capital is yet to be interested in investing in infrastructure development in the North East. The main reason why investment both Domestic and Foreign is not North-East friendly is that,

“Crowding out theory” does not work in this peripheral region. The theory is that public investment crowds out Private investment. But fact is that it does not crowd out, rather it provide precondition for private investment, as experienced by the coastal states of India. Public investment crowds out private investment is incorrect theory being peddled by the IMF and World Bank misguided expenditure deflating policies. India saw cutbacks in investment, public spending and credit to small producers after neo-liberal reforms.

If the center wants to make the NE a as a gateway to better trade and economic relations with the East and Southeast Asian countries and its look east policy meaningful and effectual, it must seriously implement the task of comprehensive development of the backward and long neglected North East. Keeping in view of the strategic importance of North →East, the economic development of this extremely backward region should not be left entirely to the operation of the market forces in the name of liberalisation, privatisation and globalisation. In the absence of public investment, mere opening up of the region to the global capital flow, and the much-hyped Look-East Policy will further increase disparities and this is likely to generate a feeling of alienation in the region. The reactivation of public investment on the basis of appropriate structures of accountability is, therefore, the need of the hour especially for this already fragile economy. Thus, public investment have to be relied upon to ensure that adequate infrastructure is created in this region in order to provide the preconditions for meaningful and effectual much hyped MSMEs sector. Keeping in mind the potential of MSME sector, it becomes all the more important to give special attention for growth of Small and Medium Enterprise sector in the region since they only have the potential to provide highest wage employment for the labour force next only to agriculture as well as to provide goods and services at a lower cost.

Table I: Distribution of Principal Characteristics of MSME Sector* in NER (2012 -13)

Sl. No.	State/UT	Enterprise (lakh)	Employment (lakh)	Market Value of Fixed Assets (Rs. Crore)	Gross Output (Rs. Crore)
1.	Sikkim	0.07	0.57	72.16	189.76
2.	Arunachal Pradesh	0.25	0.88	937.48	1101.73
3.	Nagaland	0.18	1.17	1273.67	2845.03
4.	Manipur	0.49	1.58	646.03	1094.70
5.	Mizoram	0.13	0.56	403.14	677.21
6.	Tripura	0.28	0.76	661.73	1177.84
7.	Meghalaya	0.50	1.17	468.55	1150.80
8.	Assam	2.34	6.58	6941.15	13403.27
	Total (NER)	4.24	13.27	11403.91	21640.34
	All India	214.38	501.93	689954.86	1077212.86
Percentage of North East Region against all India		(1.97%)	(2.64%)	(1.65%)	(2.00%)

*Excluded activities under wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage).

IV CONCLUSION

Though the MSME today occupies an important role in directing the development process for growth and prosperity of the north eastern region, the MSME sector have been facing a tough fight, not only against its own counterparts (MSME), but also from large and organised sector of the country and also from the MNCs. Poor infrastructure and inadequate market linkages are also key factors that have constrained growth of the sector. Owing to the presence of such multi-pronged deficits, the full potential of the NE region could not be tapped. The neo-liberal development trajectory followed by the center and the state governments of the region has made the MSME even more complex. The state governments of the region depend heavily on the central assistance and thus efforts to create economic and physical infrastructure by the states themselves are inadequate. Surface transport and communication infrastructure is weak and hampers the movements of raw materials and finished goods among the states and outside the region. The land tenure system prevailing in the hilly region are not conducive to the industrialisation process. The region has to import for many of its needs. So, the speedy development of MSME is a fundament prerequisite for the meaningful involvement of the NER in India's Look East Policy and Globalisation process. All these will

require huge investment; and, therefore it is imperative that adequate fund flow for public investment needs to be assured. It is urging the policy makers and planners to formulate a comprehensive strategy for the speedy development of the sector and deepen the engagement with the ASEAN countries through expanding productive based of the economy.