

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

Schumpeter (1965) defined ‘entrepreneurs’ as “individuals who exploit market opportunity through technical and/or organizational innovation”. The Cambridge English dictionary defines an entrepreneur as “someone who starts their own business, especially when this involves seeing a new opportunity”. The nomenclature and definition of ‘Micro, Small and Medium Enterprises’ differ across nations. ‘Small and mid-sized enterprises’ (SME) is commonly used by the European Union, the United Nations (UN), and the World Trade Organization (WTO), whereas in the United States these firms are often referred to as ‘small-to-mid-size businesses’ (SMBs). In India, ‘Micro, Small and Medium Enterprises’ are those enterprises which are involved in some business activity in order to earn a profit and fall within the criteria as defined by the ‘Ministry of MSMEs’, formerly known as ‘small scale industries’, can be explicated as that section of the economy which relies on self for employment but are comparatively smaller in magnitude than the large corporate organisations. In 2006, identifying the importance of the sector, the government amended the existing provisions and merged the ‘Ministry of Agro and Rural Industries (India)’ and the ‘Ministry of Small Scale Industries (India)’ into a single ministry, the ‘Ministry of Micro, Small and Medium Enterprises’. The website of Ministry of MSME stated the following regarding the establishment of a definition for the sector in the country, the ‘Micro, Small and Medium Enterprises Development (MSMED) Act’ was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to promote the development and enhance the competitiveness of MSMEs. It presents the legal framework for identification of the concept of ‘enterprise’ which includes ‘manufacturing’ as well as ‘service’ entities. The Act has identified and segregated the MSMEs to be identified under three categories, namely, ‘micro’, ‘small’ and ‘medium’. The Act further provides a wide range of advisory functions at the national level. Some additional features of the Act include as stated under provisions of the Act, “establishment of specific funds for the promotion, development and enhancing

competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act” (About us, Ministry of Micro, Small and Medium Enterprises).

Till June 2020 in India, MSMEs were broadly classified as per the business activity they are engaged in and the limits for investments are defined by the ‘Micro, Small & Medium Enterprises Development (MSMED) Act, 2006’ (What are Micro, Small & Medium Enterprises, Ministry of MSME) accordingly as follows:

***Manufacturing Enterprises** - The enterprises, engaged in the manufacture or production of goods, pertaining to any industry, specified in the first schedule to the industries (Development and regulation) Act, 1951, or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.*

***Service Enterprises** - The enterprises engaged in providing or rendering of services are defined in terms of investment in equipment.*

The limits for investment in plant and machinery or equipment for manufacturing or service enterprise, that has been notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 were as follows:

**Table 1.1: Investment limits for Micro, Small and Medium Enterprises**

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant and machinery</b>
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipment</b>
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: Definitions of Micro, Small & Medium Enterprises, Development Commissioner, Ministry of MSME

However, with effect from July, 2020 the definition of MSME has been modified as follows:

**Table 1.2 Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover**

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than ₹1 crores and Annual Turnover ; not more than ₹ 5 crores	Investment in Plant and Machinery or Equipment: Not more than ₹10 crores and Annual Turnover ; not more than ₹ 50 crores	Investment in Plant and Machinery or Equipment: Not more than ₹ 50 crores and Annual Turnover ; not more than ₹ 250 crores

Source: Ministry of MSME

As per MSME Annual Reports 2016-17, there are 55.2 million MSMEs in India, out of which 11.7 million MSMEs are registered<sup>1</sup>, 47.6 million are not registered. Further 44.1 million of unregistered MSMEs are in service sector and 11.7 million are in manufacturing sector.

## 1.2 THEORETICAL FRAMEWORK

### 1.2.1 Importance of MSMEs

MSMEs are often termed ‘engines of growth’, referring to the importance of the sector, which can be inferred from the latest available MSME Annual reports which states the contribution of the sector towards GDP (%) at 31% and contribution to total Indian Exports (%) at 45% (MSME Annual Report, 2016-17). Over the last few decades, Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. The sector plays a crucial role in providing numerous employment opportunities at a comparatively lower investment cost in comparison to large industries. It also helps in developing industrialization in the rural & backward areas, and as a result, lowering regional imbalances, and ensuring a more balanced distribution of wealth and national income. MSMEs also act as a support system to large industries and contribute extensively to the socio-economic growth and development of the country (About us, Ministry of Micro, Small and Medium Enterprises). The significance of the MSME sector for the Indian economy is at the peak

<sup>1</sup> Registration with DIC, KVIC, KVIB, Coir board or other competent authority

level as evident from the numerous government schemes, institutions, researches, seminars, etc. aimed at development of the sector. As CNBC (one of the most followed business and financial news network in the World) reported in 2016, India has seen unprecedented growth in the MSME sector because of the rising unemployment, even for literate youths. With more than 65 per cent of population less than 35 years of age, there is a high need for next generation services with simplified solutions. Incumbent Prime Minister of India (2014- till date) Mr. Narendra Modi has greatly emphasized the need for more entrepreneurs in the country with his “Startup India” campaigns and a whole range of schemes for entrepreneurs. The government of India’s innovation arm Niti Aayog announced up to 2 million in dollars in support of those setting up new businesses or modernising existing arms.

The basic industrial structure for every economy is a triangular shaped pyramid where there are few large enterprises at the top level, followed by a slightly larger number of medium enterprises, followed by a substantially large number of small enterprises and at the bottom level, there are comparatively larger numbers of micro enterprises. It is very difficult to track such enterprises and especially micro enterprises in developing countries as very little statistical data is available on them. However, from the limited data available on such enterprises, the importance of such enterprises is very clear, not only in India but also globally. Choudhury (2018) in her book chapter reviewed various authors’ contribution to the field and found that in countries like Malaysia, Russia and Singapore and majority of Asia-Pacific Economic Cooperation members, the percentage of MSEs (micro and small enterprises) to total enterprises is more than 90% ( Tarmidi, 2005). Shilpi (2005) from their study in Bangladesh observed that non-farm activities have a large contribution in the employment and GDP in the country. The author further stated that nearly 70% of the 4.25 million MSMEs in the country were situated in rural areas. However, the formal and informal channels of finance supply to these MSMEs continue to be inadequate. The author (Shilpi, 2005) found that comparatively smaller size of loans, scattered locations, information asymmetry, failure to repay and difficulty in recovery in case of default were the issues leading to high cost of lending to this sector in Bangladesh.

Owing to the unique characteristics of MSMEs and particularly the micro sector, they need special treatment to help them grow amidst the fierce competition from the large enterprises. In his valedictory speech, R. Gandhi, Deputy Governor of RBI in 2015,

stated that “MSMEs are particularly important for emerging countries. This is primarily because of MSME’s potential in job creation and yet, lack of access to finance is a major obstacle to their growth” (R. Gandhi, 2015). Venkatesh et al. (2015) states that “the significance of MSMEs is attributable to their calibre for employment generation, low capital and technology requirement, promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products”. According to Choudhury (2018), the MSME sector has managed to generate nearly 10 crore jobs in over 4.6 crore units located throughout India. The sector has a prominent role in economic as well as social restructuring of the country, evident from the sector’s significant share of GDP and contribution to exports. However, the author also observed that contrary to the major role played by the sector, nearly only 4% of the sector falls within the formal banking network, as found from the latest census of MSME. However, the range of initiatives being taken by the GOI to uplift the sector in recent years is commendable and it is highly expected that it will lead to overall development of the economy.

Though MSMEs serve many important advantages to the economy, the following contributions are of utmost necessity in the current situation:

- (i) Contribute to national GDP (Gross Domestic Product),
- (ii) Generation of employment,
- (iii) Acting as a deterrent to migration from rural to urban areas which eventually leads to overpopulation in urban areas.

### **Issue of Urban Migration**

Migration to urban areas is the phenomenon of people moving from rural areas to cities, primarily in search of employment. Gupta (2014) stated that 38% of migrations are happening in search of better employment opportunities. If left uncontrolled, migration can cause adverse changes in income, expenditure and investment patterns and further affect family systems. In India, where a vast majority of population belong to rural and semi urban areas, such epidemic migration can irreversibly affect the growth of the country. Due to lack of employment opportunities and lack of industrial developments in rural areas, migration is increasing at a high rate. As per OECD report (2005), rural areas have seen an increase in aging population because of spurt of migration by young population to urban areas looking for jobs (as cited in Lavanya et al. 2014). Chauhan

(2013) has observed a structural change in the occupational pattern in India post British rule. As suggested by multiple sources, a solution to the problem of urban migration is the growth of MSMEs in the rural areas leading to self-employment opportunities for the youth. However, studies on rural MSMEs have found that “high rate of interest” on available sources of credit act as a deterrent to growth of MSMEs in the region (Choudhury, 2018).

### **1.2.2 The Issue of Financing**

Choudhury (2018) further reviewed literature on the issue of financing for MSMEs which has been an area of broad and current interest for the whole world. Scope and problems relating to MSME financing is the gist of numerous researches. Mukherjee (2018) feels though the MSME sector in India is currently at a global level in terms of competition and quality, government intervention is important to help the sector to raise finance, minimise costs, assist in market capturing, development and expansion of infrastructure, etc. Many researchers have found that lack of access to financing, more particularly formal financing, is one of the primary factors hampering the growth of MSMEs. Sohns et al. (2017) said that “the mere existence of a bank in the village is not sufficient for starting a micro enterprise and it is important that the bank provides affordable micro loans to the enterprises”. Sambrani and Pol (2016) noted that rural entrepreneurs preferred to borrow from informal sources such as Zamindars (landlords) or local rural banks because of their lack of financial knowledge or training. Further both rural and urban entrepreneurs faced problems of collateral security and time consuming loan sanction process. Das (2017) conducted a study in Orissa and found that lack of access to finance to be the biggest weakness for entrepreneurs. He also observed that because banks and other financial institutions were unwilling to invest in the sector, business owners were forced to be dependent on self-finance. Many rural entrepreneurs did not bother to attempt for formal finance and managed finance by themselves or from neighbours, friends or relatives (Barslund et al., 2008). Priscilla et al. (2016) found that low level of financial literacy among micro entrepreneurs expose them to economic shocks as they depend on informal source. This was seen to hamper the growth of such MSMEs. This is concurred by other authors who agree that MSMEs mostly depend on unorganized and informal source of credit, leading to dependence on irregular and unpredictable supply of finance. It has also been observed by the author that although

overall credit to the sector by banks has improved, but it has still a long way to go to meet the total demand of the sector (Kumar et al., 2016).

### **1.2.2.1 Arranging Finance according to the provisions of Ministry of Micro, Small and Medium Enterprises**

Monetary support is essential for MSMEs. The need for finance by MSMEs can be broadly classified into following types according to the data provided at the website for Development Commissioner (MSME), Ministry of Micro, Small and Medium Enterprises:

- (i) Long and medium term loans
- (ii) Short term or working capital requirements
- (iii) Risk Capital
- (iv) Seed Capital/Marginal Money
- (v) Bridge loans

Formal financial assistance in India for MSME units is provided by a number of organisations. The major providers according to Ministry of Micro, Small and Medium Enterprises are:

- (i) Commercial/Regional Rural/Co-operative Banks
- (ii) SIDBI: Small Industries Development Bank of India (Refinance and direct lending)
- (iii) SFCs/SIDCs: State Financial Corporations (e.g. Assam Financial Corporation)/State Industrial Development Corporations
- (iv) NSIC: National Small Industries Corporation Limited
- (v) DIC: District Industry Centre.

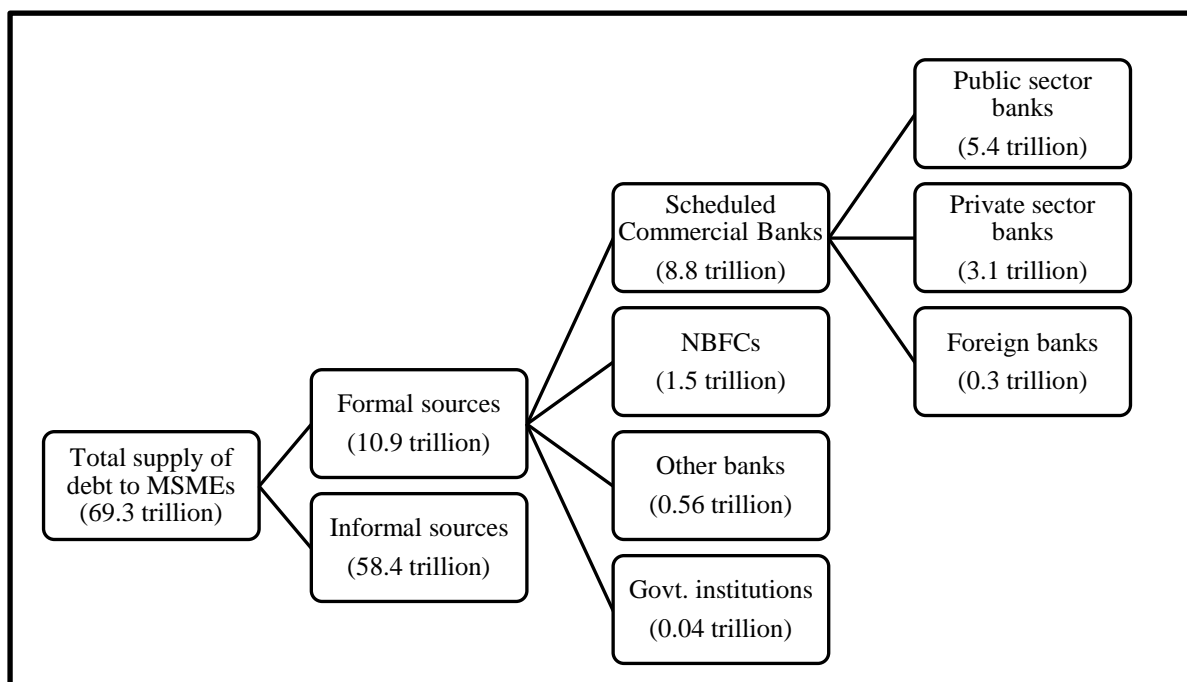
Commercial banks, SFCs, SIDBI and SIDC provide medium and long term loans. Such medium and long term finances are usually required for investment in capital assets. On the other hand short term credit is also demanded by the MSMEs to fund their day to day needs of raw materials, wages to labour and staff and similar other administrative expenses. Commercial banks supply short term working capital loans and cash credit to the MSMEs.

To avail loans from formal channel such as commercial banks or other financial institutions, a borrower will need to apply through a formal application. A specimen of bank application form for a loan has been attached in Appendix 10 A. The bank conducts a credit assessment of the applicant after receiving the application. Based on the assessment, the bank either accepts or rejects the application. Once accepted, the applicant will have to agree to the rules and conditions as laid down by the bank or financial institution. In due course, the loan amount is disbursed to the applicant as per the terms and conditions of the bank. In the current scenario, there are several options apart from commercial banks and government financial institutions that supply credit to MSMEs. Small finance banks and other MFIs are mushrooming all over the country. Equity is another source of finance that can be used by small or medium enterprises (Arranging Finance, Development Commissioner (MSME), Ministry of Micro, Small and Medium Enterprises).

#### **1.2.2.2 Flow of Credit to MSME Sector**

There are many organisations that delve into the area of flow of finance to MSME sector. It is both difficult and cumbersome to find exhaustive data on MSMEs because many of the MSME are out of the radar of the formal financial system. However, with the government's continuous effort to bring the economy under the formal financial system, it has managed to reach more and more MSMEs in the last few years. As claimed by many reports majority of MSMEs funding come from the informal sector. As per IFC report (2018) on "Financing India's MSMEs", the flow of credit to MSME for 2016-17 has been estimated as follows:





Source: Financing India's MSMEs, International Finance Cooperation (IFC) report

**Figure 1.1: Flow chart showing flow of credit to MSME sector for 2016-17**

The report, published in 2018, states that,

*“The total addressable demand for entering the market and new approaches to external credit is estimated to be ₹36.7 trillion (USD 565 billion) while the overall supply of finance from formal sources is estimated to be 10.9 trillion (USD 167.8 billion). Therefore, the overall addressable credit is estimated to be ₹25.8 trillion (USD 397.5 billion). The addressable credit demand is estimated to be ₹36.7 trillion (USD 565 billion), after excluding 80 per cent of credit which is demanded by new enterprises, closed enterprises and micro enterprises which do not demand formal financing”.*

The report further says that Assam accounts for 71% of the total credit gap in the Northeastern region of India. The report further states that the credit-to-deposit ratio in the Northeastern India is the lowest in the country and reflects how risk-averse banks are in the region.

**Table 1.3: Credit Flow to MSME sector by SCBs and NBFCs**

(amount in ₹ billions)

Year ended	Public Sector Banks	Private Sector Banks	Foreign Banks	Scheduled Commercial Banks	Non-Banking Finance Company
March 2014	7583.78	2471.22	344.30	10399.30	85.76
March 2015	8526.89	2815.48.	367.87	11710.26	286.48
March 2016	8205.48	3590.85	363.73	12160.07	880.13
March 2017	8289.33	4309.62	365.02	12963.98	1113.10
March 2018	8645.98	4107.60	488.81	13242.39	1441.40
March 2019	9367.24	5717.04	691.37	15775.66	1622.17

Source: Sinha Committee Report, Reserve Bank of India, 2019

The latest All India MSME Census (i.e. the Fourth Census of MSMEs 2006-07) presents the amount of finance received by MSMEs from various sources (Quick Results Fourth All India Survey of MSME 2006-07, 2009) which was published in 2012. The reports of the next MSME Census survey remains unpublished till date. As observed in Table 1.4, institutional sources could cover only a negligible proportion of total MSMEs. The statistics reveal that only “5.18 % of MSMEs availed finance through formal sources”, “2.05% through informal sources” and “92.77% of MSME units were dependent on self-finance” (Choudhury, 2018).

**Table1.4: Sources of Finance received by MSMEs in India as per 4th Census of MSMEs**

(amount in ₹ lakh)

Source of Finance	Distribution of MSME units			Per cent Distribution		
	Registered	Unregistered	Total	Registered	Unregistered	Total
No finance/ Self finance	1362568	22850626	24213194	87.77	93.08	92.77
Finance through institutional sources	174060	1177212	1351272	11.21	4.80	5.18
Finance through non-institutional sources	15864	520467	536331	1.02	2.12	2.05
Total	1552492	24548305	26100797	100	100	100

Source: Quick results Fourth All India Census on MSME 2006-07 (published in 2012).

### 1.2.3 Problems with Financing of MSMEs

According to Gandhi (2015), the following factors have a considerable role in increasing the MSME financing gap:

- (i) *“The poor quality of projects seeking funding,*
- (ii) *The inability of MSMEs to make the best possible use of available resources of funding and*
- (iii) *The negative attitude displayed by MSMEs towards equity financing.”*

Choudhury (2018) reviewed contributions of authors on the problems of MSME financing and found that Patnaik et al. (2016) has identified strict regulations by banks as a deterrent for MSMEs. The author feels the sector will be hugely benefitted if the documentation system in applying for credit can be simplified. A case study on rural banks in Bali (Mandala et al., 2012) found that the factors assessed by banks in sanctioning borrowers are ‘gender’, ‘age’, “size of loan”, “monthly income”, “monthly expenditure”, “monthly payments”, “collaterals”, “repayment period opted”, “type of business”, “alternate sources of funding” and “credit rating” or past credit history. However, collateral security was found to be an important factor. Yoshino and Taghizadeh-Hesary (2017) identified problems with bank lending to SMEs in Asia as “preference towards large borrowers”, “strict BASEL capital requirements” and “lack of information infrastructure for SMEs” as magnifying the information asymmetry. It was further found that majority of SMEs in Asia still obtain credit by paying “high rates of interest” or by “offering costly collateral”. Paramasivam et al. (2013) feels there is a need for improvement in the attitude of bank officials towards MSME sector based on a study on Dalit entrepreneurs in Tiruchirappalli in Southern India. Arora et al. (2012) conducted a study in Punjab and observed that although public sector banks were attempting to cater to micro sector, still a long term consistent effort will be required to solve the issue of financing. Awareness regarding various schemes was found to be very low for the MSMEs, and at the same time intended beneficiaries were found to be discouraged from applying for these schemes. They found that on average banks had less than 5% micro borrowers in their loan portfolio.

#### **1.2.4 Government Assistance for MSME Sector**

As per the information provided in the website of Ministry of MSME (2019), the primary responsibility of promotion and development of MSMEs is vested to the State Governments. However, the Central Government augments the efforts of the State Governments with the help of various initiatives. The role of the Ministry of MSME is to supplement the State Government in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. The Ministry of MSME has two segments called 'Small & Medium Enterprises (SME) Division' and 'Agro & Rural Industry (ARI) Division'. The SME Division is allocated the work, inter-alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd. and the three national level entrepreneurship development/training organisations. The Division is further in charge of the implementation of schemes associated with 'Performance and Credit Rating and Assistance to Training Institution', among others. The 'SME Division' is further entrusted the duty of preparation and monitoring of 'Results- Framework Document (RFD)'. The ARI Division is in charge of managing the administration of the two statutory bodies, viz. the 'Khadi and Village Industries Commission (KVIC)', 'Coir Board' and 'Mahatma Gandhi Institute for Rural Industrialization (MGIRI)'. It also undertakes the implementation of the 'Prime Minister's Employment Generation Programme (PMEGP)'. The implementation of policies and various programme schemes for providing infrastructure and support services to MSME's is undertaken through its component office, namely the Office of the Development Commissioner {DC (MSME)}, National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC); the Coir Board, and three national level training institutes viz., 'National Institute for Entrepreneurship and Small Business Development (NIESBUD)', 'National Institute for Micro, Small and Medium Enterprises (NI-MSME)', 'Indian Institute of Entrepreneurship (IIE)' and 'Mahatma Gandhi Institute for Rural Industrialization (MGIRI)'. The 'National Board for Micro, Small and Medium Enterprises' (NBMSME) was established by the Government under the Micro, Small and Medium Enterprises Development Act, 2006. The role of the Board is to examine the factors affecting promotion and development of MSME, reviews existing policies and programs and makes recommendations to the Government in

formulating the policies and programs for the growth of MSME (About the Ministry, Ministry of Micro, Small and Medium Enterprises).

However, a research carried out jointly by the 'NITI Aayog', 'Government of India' and 'IDFC (Infrastructure Development Finance Bank) (2017)' found that "the average (i.e., mean) time taken to set up a business in India was 118 days", with a wide variations across different states in India. On the lowest side, on an average, it took "63 days to set up a business in Tamil Nadu" and "67 days in Andhra Pradesh" whereas on the higher side, for "Kerala and Assam, it took 214 days and 248 days respectively" (Choudhury, 2018).

### **Major Government Schemes for Financing MSMEs in Assam**

The Government of India has implemented many schemes focusing on the Northeastern region of India for development of MSMEs and utilization of the abundant resources available and creating employment for the local educated unemployed youths. The central and state government have been implementing schemes directed towards MSME sector. The major schemes of the government have been listed in Appendix 5. Some major schemes for financing MSMEs by the Government of India in Assam as well their brief description are as follows:

#### **1.2.4.1 Pradhan Mantri Mudra Yojana (PMMY)**

'Pradhan Mantri Mudra Yojana' (PMMY, 2019) was launched by the Hon'ble Prime Minister on April 8, 2015 as a scheme with the aim of providing loans up to '10 lakh to the non-corporate, non-farm small/micro enterprises'. These are commonly referred to as MUDRA loans under PMMY. These loans are provided through Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs. The borrower can apply at any of these lending institutions or through an online portal. MUDRA loan is further classified into three types namely "Shishu", "Kishore" and "Tarun" to signify the 'stage of growth / development' and accordingly 'the funding needs of the beneficiary micro unit'.

The performance of the scheme in Assam has been shown in Table 1.5:

**Table 1.5: Performance of PMMY scheme in Assam**

(amount in ₹ crore)

Year	Shishu (Loans up to ₹50,000)	Kishore (Loans from ₹50,001 to ₹5 Lakh)	Tarun (Loans from ₹5 to ₹10 Lakh)	Total
2015-16	759.22	614.57	354.67	1728.46
2016-17	3593.18	725.46	505.91	4824.54
2017-18	4311.15	1583.47	675.70	6570.32
2018-19	6331.27	2550.20	916.86	9798.33

Source: Pradhan Mantri Mudra Yojana report

**1.2.4.2 Prime Minister Employment Generation Programme (PMEGP)**

‘Prime Minister’s Employment Generation Programme’ (PMEGP) is a ‘credit-linked subsidy programme’ with the objective of generating self-employment opportunities by supporting in establishment of micro-enterprises in the non-farm sector by assisting traditional artisans and unemployed youth in the form of subsidised loan (Prime Minister’s Employment Generation Programme (PMEGP), Press Information Bureau, Government Of India). The year wise data for funds allocated under the scheme in Assam is as follows:

**Table 1.6: Amount Disbursed under Prime Minister Employment Generation Programme (PMEGP) from 2014-15 to 2017-18**

(in ₹ crore)

Year	2014-15	2015-16	2016-17	2017-18
Amount Disbursed	5388.74	4969.87	5636.41	5351.99

Source: Open Government Data (OGD) Platform India

**1.2.4.3 One Hour Loan**

On November 2nd, 2018, incumbent Prime Minister of India Narendra Modi announced an on-line portal for MSME borrowers that provide an in-principal approval in less than an hour. The portal is a strategic initiative of a SIDBI-led consortium of banks, - SBI, Bank of Baroda, Punjab National Bank, Vijaya Bank and Indian Bank implemented under the support of Department of Financial Services, Ministry of Finance. The loans are processed without human intervention, until disbursement, for which the applicant needs to visit the bank which can take 7-8 working days. However, the scheme has been criticised as promoting private and crony capitalists at the expense of public institutions

and also of the portal being managed by a private firm based in Ahmedabad. Many MSMEs have reportedly expressed unease over giving up of private business information to a portal owned and managed by a private party. There is also a processing charge of ₹1000 in addition to GST charges.

#### **1.2.4.4 Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE)**

‘Government of India’ launched a scheme called the ‘Credit Guarantee Scheme (CGS)’ in 2000 to strengthen the credit delivery system and increase the flow of credit to the Micro and Small Enterprises sector. The Government of India and SIDBI jointly set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to operate the scheme. The primary motive of this scheme is to supply credit guarantee to all formal financial institutions providing finance to MSME sector.

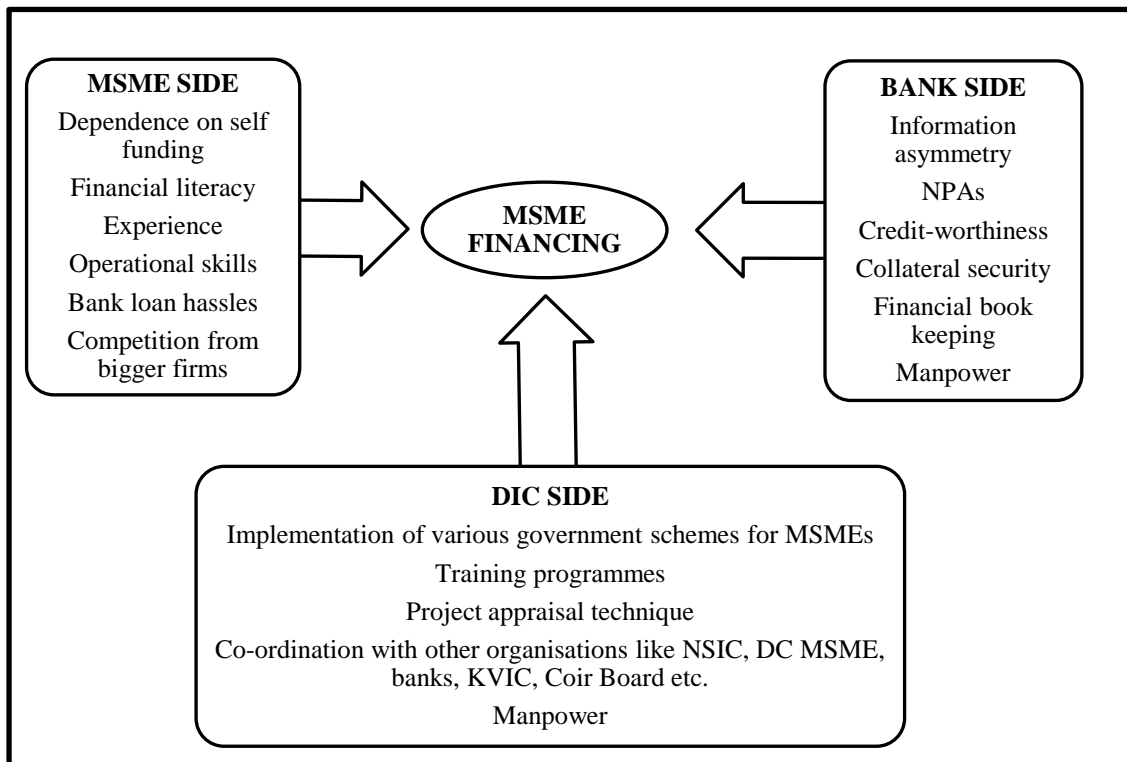
#### **1.2.5 Role of District Industries Centre**

The ‘District Industries Centres (DIC)’ were set up in 1962 with the objective of providing necessary services and facilities to the small, tiny, cottage and village industries at one place. The Department was renamed as “Industries & Commerce Department” w.e.f. January, 2010. The DIC provided a voluntary registration service to MSMEs in the state (registrations under DIC shall be valid till 31<sup>st</sup> March 2021 after which Udyam registration portal by Ministry of MSMEs will become the nodal registering authority) and also implements various schemes by the government for intended beneficiaries and also monitor the performance of the sector. However, statistics reveal that only negligible numbers of MSMEs choose to get registered under DICs. It is essential that the role of DIC be re-evaluated and re-reconsidered in supporting and promoting the sector. The role of DIC has been discussed in details in Chapter 7.

#### **1.2.6 Factors Adversely Affecting MSME Financing**

After a brief introduction of the major issues surrounding the sector of MSME, it is observed that there many underlying factors that have a role to play in the issue of financing of MSMEs. Extensive literature survey (presented in Chapter 2) and compilation of various reports from relevant sources have highlighted certain factors that play the key factor in affecting the MSME financing conundrum. The factors along with

sources have been discussed in Chapter 2 at length. The following representation of the factors can be derived from the situation:



**Figure 1.2 Factors Adversely Affecting MSME Financing**

### 1.3 MSMEs IN NORTHEAST INDIA

Northeast India (officially ‘North Eastern Region, NER’) is the easternmost region of India comprising eight states – Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. As per the information given by Ministry of MSMEs on NER India, the eight ‘Northeast States’ combined cover 263179 km<sup>2</sup> of area which is roughly 8% of the total country. However, the Northeastern states face a number of unfavorable developmental challenges. The region is afflicted by “low per capita income”, “low capital formation”, “inadequate infrastructural facilities”, “communication bottleneck” and “geographical isolation from the mainstream”. S. S. Khanka, in his research paper mentioned that “in addition to limited development of industries in Northeastern Region of India, there is limited availability of data on whatever industries exist there” (Khanka, 2006). Ahmed and Rashid (2012) in their paper found the main constraints behind banking and financial development in Meghalaya as



*“hilly trait of the districts, sparse population settlements, poor infrastructure, small size of market, lack of entrepreneurship, law and order conditions, peculiar land tenure system, low banking network, lack of simple, customize and flexible financial products to suit the needs of the local population, poor loan recovery experience, lack of awareness of banking services and inadequate payment system”.*

Due to the presence of such multi directional deficits, the potential of the NE region could not be fully utilized. In current context, the emerging MSME sector provides a new hope not only to the unemployed population of the region but also in bringing overall balanced growth. Of late, GOI has been making concerted efforts for the economic development of the region. According to the latest census (Fourth Census, 2006-07), which was published in 2011-12 and data from ‘Economic Census 2005’, which is conducted by ‘Central Statistics Office’ (CSO), the numbers of MSMEs in the North-East Region, including Sikkim in the MSME Sector accounts for a total of 10.64 lakh MSMEs which is quite insignificant comparing to other parts of the country. Assam, popularly called the ‘Gateway to North-East India’ has the highest number of MSMEs estimated at 6.62 lakhs, housing numerous industries like tea, agriculture and allies, sericulture and tourism. Coming second in the list is Tripura followed by Manipur, Meghalaya, and Arunachal Pradesh. The countdown list feature Nagaland and Sikkim on seventh and eighth position in the list respectively; owing to their geographical isolation from the rest of the country and resultant communication bottlenecks.

The Joint Secretary (Small and Medium Enterprises, Ministry of MSME) stated that though it is clear that MSME plays an important role in supporting the growth, development and prosperity in the NER region of India, the MSME sector in the area has been facing tough challenges and bottlenecks in terms of competition from counterpart MSMEs as well as the MNCs, large industries and organised sector of the country. The advent of giant conglomerates such as Uber, Ola, Future Group retail, KFC, Dominos, etc. to name a few has posed a great challenge on the survival of local entrepreneurs. Moreover, the region has been resorting to imports to meet many of its demands. The rapid development of MSME is fundamental for the purposeful involvement of the NER in schemes like Look East Policy by the Government. The geographical location which has so far been regarded as the bane of Northeast has become a boon for the region with the changing policies of the government and emphasis on look east policy. However, if

skilling ecosystem is not developed properly, there would be a huge skill demand supply mismatch. Thus, it is imperative to train people in this region given the high literacy levels, and integrate region with national economic mainstream to make it India's gateway to the east in the true sense of the world (Northeast India Calling, Ministry of Micro, Small and Medium Enterprises).

#### **1.4 MSMEs IN ASSAM**

Assam is often called the gateway of Northeastern India as it is the largest economy in the region. The reason for Assam being the most industrially developed state in the region is because of its comparatively better connectivity to the rest of the country as well as better quality infrastructure which offers a favorable environment for industry<sup>2</sup>. The Indian Brand Equity Foundation states that Assam boasts of the largest tea industry areas in the world, contributing to around “one-seventh of the global tea production”. Assam also has “20 industrial estates, three industrial growth centers, 11 Integrated Infrastructure Development Depots, 17 industrial areas, 12 growth centers, eight mini industrial estates, one export promotion park and one food processing industrial park. Assam is also a popular tourist destination among the north-eastern states”. GSDP (Gross State Domestic Product) of Assam at constant (2011-12) prices for the year 2016-17 is estimated at ₹195496.93 Crores. The GSDP has registered a growth of 9.26 % in comparison to previous year. “Around 54 per cent of industrial units of North-eastern states are concentrated in Assam” (Khanka, 2006).

Assam occupies 15th place out of 29 states and 7 Union Territories in India with respect to number of unregistered MSMEs and at 18th position in case of registered MSMEs as per the census carried out in 2006-07 (Final Report on Fourth All India Census of MSME – Unregistered Sector 2006-07, 2011). There were “37,356 MSME units registered with DIC in Assam providing employment to approximately 2.05 lakh persons by 2013” (Economic Survey of Assam 2013-14, 2014).

However, insufficient access to formal finance is one the crucial problems associated with MSME sector that are prevalent in Northeast India, including the state of Assam as found from literature review (discussed in detail in Chapter 2). Many schemes are being introduced to overcome the problems associated with the sector. However in light of rising unemployment and rising competition coupled with slow economic growth there is

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<sup>2</sup> <https://www.ibef.org/states/assam-presentation>

an imminent threat to the sustenance of the MSME sector, especially the informal micro sector in the region. It has become imperative for the government to intervene and propel the MSME sector towards growth and development.