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## CHALLENGES OF MICRO AND SMALL ENTERPRISES DEVELOPMENT IN ASSAM WITH A FOCUS ON THE HILL DISTRICTS

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### ABSTRACT:

Northeastern region as a whole suffers from a number of inherent problems- locational, infrastructural, financial and entrepreneurial etc. Accordingly, the micro and small enterprises face many challenges. A study of IIE shows that the status of MSME shows that the rate of growth of growth in the terms of number of unit registered has been higher than the all India average. But in terms of status of MSME can be termed as unhealthy in terms of size, bank finance, marketing and entrepreneurial quality. Though Assam is considered more developed in the industrial sector in the region. But in spite of having rich potential for development of different types of resource- based enterprises, the pace of development of enterprises has not been found satisfactory during last seven decades of national planning. In Assam, there are few large, medium and even substantial number of MSME but except petroleum enterprises, the contribution of other enterprises is insignificant in comparison with other states like West Bengal, Maharashtra etc., in respect of output and employment. MSME contribution is very insignificant in export trade in the all India level except tea industry. The factors which are mostly responsible for the development of MSME in Assam will be highlighted in this paper.

**KEY WORDS:** *MSME, entrepreneur, employment, enterprises, substantial etc.*

I.

### INTRODUCTION:

Industrialization, though it is necessary for faster growth of an economy, brings many problems in its wake. The problems of micro and small enterprises are multi-dimensional in the liberalized environment, which include delay in implementation of the project, inadequate availability of finance and credit, expensive mode of communication, marketing problems, cheap and low quality products, delay in payment, technological obsolescence, imperfect knowledge of market condition, lack of infrastructure facilities, deficient managerial and technical skills, etc. Rehabilitation consequent on displacement, psychological and sociological adjustment, absorption in the new setup is some of the main problems that are created by industrialization of the tribal areas. Moreover, the investment environment in the State is considered to be insecure considering the growing problem of insurgency, prevailing in the entire NE Region. The State is facing the problem of huge capital flight and exodus of business firms out of Assam due to this burning problem. Such insecure investment climate is always going against the interest of industrial development in the State. International confidence on the State economy is yet to be restored as the foreign investors did not show any active interest to participate in any major



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industrial and infrastructural projects. This paper tries to throw light relating to position of MSME in the state.

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II.

#### **OBJECTIVES:**

The basic objectives of this paper are:

- associated with MSME sector.
- government to this sector.

To find out specific problems

Financial support of the

III.

#### **METHODOLOGY:**

To prepare this paper exploratory method has been adopted where secondary data has been used extensively. In this regard many books, journals, government reports on the hill districts in particular and Assam in general have been analyzed for the collection of required data. To identify the problems, bank reports and statistical handbook, Government of Assam have been analyzed.

IV.

#### **DISCUSSION:**

The problems of enterprises whether in the small scale sector or in the organized sector, are almost identical. The micro and small enterprises of Assam Hills are suffering from both external and internal problems that hinder in the promotion of this sector. The internal and external problems reinforce each other in most of the industries and force the units into sickness. According to the size of investment, most of the enterprises of Assam Hills fall under micro category. They are generally artisan oriented; use relatively little machinery and equipment, much of which is locally made. These micro units continue to face serious problems, the most important being small rural markets, low productivity, high costs and poor or stagnant technology. Modernization is proving difficult due to the very small capital base of these



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enterprises. The objective of this chapter is to highlight the different problems faced by micro and small enterprises of Assam Hills. The researcher has made an attempt to throw light in the problems based on the empirical studies. Moreover, efforts are made to analyze the reasons of the problems that are identified so that the workable solutions could be evolved for the same. It is observed that every unit is hit by some problems or the other depending on its size and structure. In course of present study, most of the units reported some common problems while some enumerated more than one and many units reported only one problem. The following analysis will throw light on the problem of Infrastructure and Entrepreneurship in Assam Hills.

The problems can be summarized as follows:

### **1. Infrastructure problems**

Development and expansion of infrastructure facilities are essential pre-condition for industrial development of any region. Strictly speaking, industrial development is the effect for which infrastructure is the cause. Inadequate infrastructure facility is one of the main reasons for poor growth of enterprises in Assam and other North Eastern States. The development of the most of the infrastructure items has not yet crossed the minimum threshold especially in the hilly region of Assam, which is still today a great hindrance in the development of enterprises. The agricultural potential of the hills region has not been systematically assessed. Full information of the availability of forest resources is not available as the level of geographical desegregation and detail that is required for planning. With regard to mineral resources also the region has not been surveyed systematically so far. Thus, the inadequacy of infrastructure facilities holds back the Hilly regions from taking benefits of whatever advantages it has in terms of forests, minerals and other natural resources.

#### **(a) Transport**

An extensive and efficient system of transport is the basic support system to industrial growth of any region. Geographical location and inadequate transport system in the entire North Eastern Region have resulted in crippling disincentives of excessive transportation cost, inordinate delay in movement of materials and problems of marketing. Assam Hills suffers from inadequate transport and communication facilities, which is the major obstacle to the socio-economic development of this region. Transport disadvantage discourages industry from locating in Assam as well as Assam Hills. Only those enterprises that are based on special raw materials available in Assam are likely to locate here. To move a 9 ton truck from Guwahati to Kolkata, a distance of 1,100 km, today costs around Rs 20,000. A truck going from Chennai to Kolkata, a distance of 1,600 km, costs only Rs. 16,000. This also reflects on the quality of road connecting the Northeast with the rest of the country. The gravity of the situation in Assam Hills can be realized when transportation cost is compared with the other parts of the State. For instance to move a loaded truck of goods from Guwahati to Haflong, a distance of 310 kms, costs around Rs. 10,000; while carrying cost for the same distance in the plains area around Rs. 5,000 only. The net effect has been that people pay higher prices for goods brought from the rest of the State. The



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manufacturing costs go up abnormally and the entrepreneurs of Assam Hills cannot face the competitive price of the products. An enterprise has to incur extra cost ranging from 10-20% as compared to similar units elsewhere in the country. Project cost for individual projects goes up by 20-25%.

## **2. Financial and Credit problem**

Finance is considered as the prime factor and is the life blood of a business enterprise. Micro and small enterprises generally depend on two kinds of capital, viz., (a) Equity or own capital and (b) borrowed capital consisting of (1) long term capital for its investment in equipment and other capital assets and (i) short term capital to meet current needs of the industry. The flow of institutional finance in Assam is still at very low ebb when compared with its flow in many other States of the country. For a MSE entrepreneur, whose resources are very limited and also who has no access to the capital market, the availability of institutional finances becomes a very crucial factor. The economic and industrial development of a region largely depends upon how efficiently funds are managed by its banks and financial institutions. Efficacious management of banks and financial institutions will not only improve their profitability but also enhance their contribution to the industrial and economic development of a country vis-à-vis entrepreneurial development.

Taking the cue from Schumpeter's view that financial services promote economic development in general and industrial development in particular, an attempt is made in the present study to examine, in brief, the network of financial institutions and role played by them in facilitating the industrial development in Assam Hills. Availability of finance is foremost for the entrepreneurs of Assam Hills; as more than 90% of the entrepreneurs are of the first generation. But in Assam Hills, MSEs because of their poor financial structure the resources are very limited. For most of the entrepreneurs in this sector, shortage of finance or capital is considered to be the most important factor responsible for a host of problems faced by them. Business that starts with too little investment by owners has a greater chance of failure than business with adequate investment by owner. In Assam Hills, capital inflow and formation are at low level, credit facilities are limited and hence most of the micro and small enterprises are to manage their required capital from their own resources, which are great impediments for industrialization in this region. The MSEs are also facing the problems of working capital at affordable rate of interest and insistence of collateral security by the lending banks.

## **3. Problem of Power**

Growth of industry in a particular region depends upon adequate and uninterrupted power supply. Power shortage, power shutdown and power cuts could paralyze industrial activity, throw thousands of workers out of job and cause inconvenience to consumers. The power sector in the State did not show much improvement over the years. The installed capacity of power in Assam has remained at the same level i.e. at 574.4 MW for last several years. During 2000-01 the energy requirement of the State was 3323.16 MU while the availability was 3092.4 MU and



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thus shortage was 6.9%. The acute power shortage in the State compelled the Government to impose power cut on industrial units, which naturally hampered industrial units using power. Entrepreneurs are facing difficulties in continuing their programme of production due to inconvenient load-shedding by the Assam state electricity Board.

#### **4. Under-utilization of Capacity**

Under-utilization of capacity is a crucial problem faced by the micro and small entrepreneurs of Assam Hills; which debarred them from availing the economies of scale. The under utilization of capacity happens mainly due to the lack of marketing facilities As stated earlier, 49% SSI units of Assam Hills use power in the manufacturing process and all these units are suffering the problem of under-utilization of capacity. However, lack of market demand is the most integral factor of under utilization of capacity 51% MSE of KarbiAnglong and 40% of N.C. Hills, totaling 91% units are suffering under utilization of capacity. Capacity utilization is the effect of several factors. The problem of under-utilization of capacity is the result of lack of market demand and inadequate power. 82.7% units are suffering this problem due to lack of market demand while 24.5% suffering due to inadequate power. Problem of working capital is the third important factor of underutilization of capacity

#### **5. Lack of Technology**

In this age of stiff competition the knowledge of latest technology in the production process is highly essential to cope with the situation. For increasing productivity and reduce the cost of production technical training and provision for the latest machines and equipment for micro and small enterprise sector, market surveys and demand forecasts and their products, provision for working capital and long term finance in liberal terms and managerial training for entrepreneurs is indispensable. MSMEs suffer from technological obsolescence in India due to dumping of cheap products in the market under the liberalized economy. One of the major handicaps of the small enterprise sector has been the absence of the latest technology, which alone can ensure quality, and high rate of production.

#### **6. Inadequate Support System**

The industrial support systems in Assam Hills are neither adequate nor well equipped with modern facilities. There is absence of Central or State level SSI organizations in the region and their activities are also almost nil. Though both the districts have District Industries & Commerce Centres (DICC), except some routine works, there is lack of proper planning and keen interest for entrepreneurial development. The Industrial Estates of Assam are inoperative due to lack of adequate facilities needed for growth of SSI sector. The facilities of tool rooms, repair shops, quality control etc are poor or do not exist at all in and around the Industrial Estates of Assam.

#### **7. Marketing problems:**

The State of Assam is located in the extremely east of the country; as a result the State cannot enjoy locational advantages in marketing of its products. The most important reasons for the





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poor industrial structure in Assam Hills are relative isolation of the region from the main centres of trade and industry, inadequate economic and physical infrastructure, smallness of the market inside the region. The products of micro and small enterprises do not have any market value due to competition from highly finished machine goods that are cheap and maintenance free. Large number of micro and small enterprises of this region is either closed or become sick due to this problem. The ability to produce is a necessary condition but it is not the sole condition for success. It is the market force that guides and decides the fate of any enterprise. It is a fact that the North Eastern region heavily depends upon other industrially developed States; particularly the neighbouring State of West Bengal for its consumer goods.

### **8. Labour Problem:**

Lack of both skilled and unskilled workers is one of the most crucial problems in the region. Jhuming is the traditional agricultural practice of the tribal people where most of the work force is engaged and these people seldom found interested in the industrial activities. Due to non-availability of local workers, the existing industrial units of Assam are suffering and compel them to bring required workers from outside. The ratio of local and migrant workers employed in MSEs of Assam is 77:23. Though the local workers constitute the major segment of workers; only 20% of them are tribal. There is apathy among the local tribal people to get employed as workers in the industrial sector. The inflows of migrant workers are from neighbouring districts as well as from outside the State. More than 75% workers are either casual workers or employed on temporary basis. Agro-based enterprises have employed highest number of workers. Though Rice mills owners employ local people, the most of the workers employed in the Bakeries are outsiders. The mineral-based enterprises such as Hume pipe and Stone granulating units employed the workers from the adjacent areas. 64% MSEs of Assam have been suffering labour problem and 65% of these are due to irregular supply of workers.

### **9. Entrepreneurial problems**

Lack of entrepreneurship is one of the important reasons for slow growth of enterprises in Assam Hills. There is lack of entrepreneurship among the indigenous tribal people in the hilly region. More than 58% population of Assam Hills is tribal; but growth of entrepreneurship among scheduled tribes in comparison to non-tribals is significantly low. The unemployed youths of the State as well as Hilly region desire to, by and large, some kind of job having assured and stable income, preferably in government and semi-government establishments. In Assam hills tribal and Scheduled Caste entrepreneurs form 20% and 10% respectively. 13.6% and 6.4% tribal entrepreneurs belong to NC hills and KarbiAnglong. It indicates lack of entrepreneurs among tribal communities.

V.

### **CONCLUSION:**

Problems of the MSMEs are multi-dimensional in nature. These problems can be solved by coordinated efforts of entrepreneurs, financial and promotional agencies. Above all, to solve the problems faced by MSMEs, government agencies will have to play an active role by providing

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assistance to the local youths without redtap bureaucratic delays. In this regard, motivational measures are also necessary to achieve the goal of MSME development in the state.



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