

# Employment and Growth Prospects of MSMEs in Nagaland : An Analytical Study

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## ABSTRACT:

*The Micro, Small and Medium Enterprises plays a major role in the economic development of a country by contributing to the Gross Domestic Product (GDP) growth, generating employment, social stability and regional development. India's population is growing rapidly that, the current economy is unable to provide and generate adequate employment leading to increase in the number of educated unemployed youths. The MSME sectors pave a way for industrialization in the country and generates more employment at low capital cost. The sector faces a number of challenges despite their contribution to the economy and initiatives taken by the ministries. This paper aims to study the growth of the MSME enterprises over the years and analyse the various challenges faced by the MSME sector in Nagaland. The study is empirical and analytical using both primary and secondary data. The primary data are collected through questionnaire and secondary data are collected from Annual reports, Statistical Handbook of Nagaland and Annual Administrative Reports, Department of Industries and Commerce, Government of Nagaland. The findings of the study shows that increase in number of registered MSMEs leads to increase in employment generation. Difficulty in acquiring raw materials, proper market, lack of transportation infrastructure, lack of skilled labours and unavailability of finance are some of the major challenges faced by the MSMEs in Nagaland. The study concluded that the MSME sector generates employment and contribute to the economy of the state.*

**Keywords:** MSMEs, economic development, growth, employment generation, industrialization

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## INTRODUCTION

For the growth and development of a country's economy, Micro, Small and Medium enterprises play a crucial role. It has contributed to both developed and developing nations by enhancing employment generation, innovation and industrialisation of rural and backward areas. For a developing country like India, MSMEs contribute to the economy of the nation by fostering enterprises and generating employment opportunities next to agriculture as a source of livelihood (FAO, 2024). According to the (73rd round survey of MSMEs, 2015-16) report the Micro sector in India comprises of more than 99% (630.52 lakhs) of the total

estimated number (633.88 lakhs) of MSMEs, small sector comprises of 0.52% (3.31 lakhs) and medium sector comprises 0.01%(0.05 lakhs) of the total estimated MSMEs in India.

Despite their contributions to the Indian economy, the MSME sector faces multiple challenges like access to finance, lack of latest technologies, market competition, lack of skilled labours and trainings, transportation and infrastructure constraints. The sector faces problems which can be solved by providing timely and affordable solutions. Understanding these challenges and identifying the solution will help the MSMEs for future growth.

Nagaland is a state of North east India. The geographic and climate conditions of the state is different from other states. The state is often known for its rich culture and biodiversity. With increase in educated unemployed and limited large industries, the MSME sector in Nagaland plays a major role in developing the state's economy. The state government together with the central government is making effort to promote the MSMEs in the state. The number of MSMEs registered on Udyam portal as on 25 July 2024 is 3140 providing employment opportunities to 16633 people. There is a lot of opportunities for MSMEs in the state but the sector face challenges like poor infrastructure, financial problems, lack of skilled labours, etc. The sector has been developing through all the hurdles and contributing to the economy of the state.

### **Definition of Micro, Small and Medium Enterprises**

On 1<sup>st</sup> June, 2020 a notification on the change in classification of MSMEs was published by "the Ministry of Micro, Small and Medium Enterprises, Government of India in the Gazette of India, Extraordinary, Part II, Section3, Sub-section(ii), vide S.O. 1642(E)" (MSME, 1 june 2020). The basis for classification of micro, small and medium enterprises are: -

"(i) A micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;

(ii) A small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;

(iii) A medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees. This notification shall come into effect from 01.07.2020."

### **REVIEW OF LITERATURE**

Ali & Husain (2014) studied the status of MSMEs in India and the problems faced by the enterprises. The researchers state MSMEs in India can be a boon and hope for the country's economy in near future. The study found that MSMEs in 2006-07 provided 2.23 employment per unit while in 2011-12 the growth increased to 2.26 per MSMEs. The growth in market value of fixed assets found 28.29% gross output in 2011-12. The sector however faces problems due to lack of financial support, infrastructure issues, unawareness towards technological advancements, insufficient training and skill development. Although the sector faces many problems, many opportunities are available for the development of MSMEs such as employment generation, minimize regional imbalances, enhance exports and attract

foreign investments. The sector has the vital role in dispersal of industries and generating employment opportunities.

Mathai (2015) examined the challenges faced by the SMEs in the nation's economic growth. The paper emphasised on human resource development perspective for the progress of SMEs. The role of SMEs in developing the economy of the country is well established but the enterprises face challenges such as financial constraints, globalization, indeterminate turnover, low motivation on employees, poor infrastructure, inadequate training and skill development programs, unavailability of raw materials, etc. The study proposed that the sector can improve by bringing technological needs, panels of consultants for training and skill development, awareness programs on schemes and their benefits, availability of credit, relaxation in labour laws and proper research and development for implementing innovative methods. The sector provides employment potential at low capital cost. The study concluded that since Independence SME sector have been a major pillar for India's economic development.

Hamid (2017) examined the growth and employment, opportunities and the problems faced by Micro, Small and Medium Enterprises (MSMEs) in Jammu and Kashmir state of India. Both primary and secondary data were used to fulfil the objectives of the study. The periodicity from 2000- 2001 to 2013-2014 were considered. The study shows that there is growth of MSMEs and employment from 2004 till 2006 and thereafter the growth rate of both is declining. The state being rich in Agro, Horticulture, Forest and livestock resources has a lot of opportunities suitable for setting up different types of small-scale industrial units. The state has available resources in areas such as food processing, sports goods, engineering products, leather products and medicinal plants and herbs, etc. Though the region has much potentials, the sector faces many challenges. Some of the major issues faced by the enterprises are ranked according to Garrett's rank techniques where infrastructure issues ranked first, political instability ranked second, power shortage ranked third, financial problems ranked fourth, raw material problems ranked fifth, marketing problems ranked sixth, climate issues ranked seventh and other problems. The study concludes that assistance from the central and state government to frame policies and programmes can develop the Micro, Small and Medium Enterprises by leaps and bounds.

Khatri (2019) reviewed on the role of MSME sector, highlights the issues and challenges faced by the Indian MSMEs. The sector has contributed to the GDP growth of the nation's economy, created employment generation, increased industrial production, enhanced regional development and social stability. The sector faces many challenges despite various initiatives taken by the Ministry of MSMEs. The sector faces problems relating to finance, technological backwardness, marketing, skilled human resources, export potentials, infrastructural gaps, socio-cultural issues. The present study provides suggestions to enhance the growth of MSMEs through awareness of schemes and policies, EDPs (Entrepreneurship Development Programs), Employee engagement practices, Research and development. The sector as a whole contributes to the country's GDP, Industrial output, regional development, export earnings and social stability.

Sivasree & Vasavi (2020) attempts to study the growth and contribution made by MSMEs in India and the problems faced by these sectors. The sector provides employment opportunities and helps industrialisation in rural areas and contributes to the GDP of the country. To promote the sector, the Government of India made tie-ups and agreements with NGOs and Government agencies to implement the Government policies properly. The study reveals that MSMEs face a lot of challenges such as lack of finance from banks, poor infrastructure, unavailability of raw materials, lack of advanced technology, training and skill development programs and ineffective marketing channels. The study concluded that the problems can be improved by creating more employment opportunities in urban areas, lack of knowledge can be removed after effective training and skill development programs concerning technology and innovation, provide low-cost credits and the panel of experts to access the status and needs of the MSMEs.

Singh (2021) analysed the growth and performance of MSMEs and the various challenges and prospects associated with the sector in India. MSMEs contributes significantly to the growth of India's economy through industrial production, employment generation, production, export and industrialisation of rural areas. Though the sector is growing swiftly, it faces issues in raw materials, finance, marketing, under-utilised capacity, deficiency of advanced technology, lack of skilled labours, etc. The study found prospects of MSMEs such as employment formation, customer satisfaction, captivate foreign investment and expansion of exports. Future growth of the country's economy is dependent on the development of the sector. The study also saw that COVID-19 pandemic which strike globally has adversely impacted the MSMEs in India. The study concluded that if the government promotes the MSMEs, the sector can drive the engine of the economy.

Patel & Tripathi (2022) studied on challenges of MSME in India and impeding factors derived from literature study. The study used primary data through questionnaire-based survey with Likert scale. The sector contributes to employment generation, regional development, GDP growth, economic diversification, export earnings, social stability, industrial production and indigenous self-reliance. Though the Government of India takes various initiatives, the sector explores various problems and challenges. Difficulty to acquire funds, lack of updated technological skills, lack of motivation, low ICT literacy, poor quality products, inefficient logistics, export potentials and poor bargaining power are few of the many issues confronted by the MSME sector. According to the study, challenges impact growth and success of MSMEs in India. The study concluded that MSME sector contribute significantly to the country's GDP, regional development, industrial output, social stability and export earnings. The sector also experienced steady growth in terms of new registrations, employment generation and products manufactured.

## **OBJECTIVE OF THE STUDY**

The objectives of the study are:

- The analyse the growth and employment of MSMEs in the Nagaland
- To find the challenges faced by MSME sector in Nagaland

## **RESEARCH METHODOLOGY**

### **Research Design**

The study is empirical and analytical in nature and based on both primary and secondary data. The primary data was collected from entrepreneurs registered under MSMEs with prepared questionnaire cum schedule.

### **Sample size**

The primary data was collected using simple random sampling technique from 100 MSMEs as sample size from 5 districts namely Kohima, Dimapur, Tseminyu, Wokha and Chumoukedima districts of Nagaland.

### **Sampling frame**

The list of registered MSME of Nagaland received from the Directorate of Industries & Commerce, Government of Nagaland 2023, has been applied as the sampling frame by the researcher.

### **Statistical tools used for analysis:**

The primary data collected were first codified, then entered and processed using Statistical Package for the Social Sciences (SPSS) and MS Excel. Statistical tools such as coefficient of correlation, graphical representation and Relative Importance Index (RII) method were employed for the analyses.

### **Source of Secondary data:**

The secondary data were collected from following documents:

- i. Statistical Handbook of Nagaland (2002-2023).
- ii. Annual reports, Government of India, Ministry of MSME (2002-2023).
- iii. Annual Administrative Report, Directorate of Industries and Commerce, Government of Nagaland (2002-2023).

### **Periodicity of the Study**

The periodicity of the study is from 2023-2024

## **ANALYSIS AND INTERPRETATION**

### **Growth of Micro, Small and Medium Enterprises in Nagaland**

Industrialization plays an important role in creating employment of any economy. In Nagaland large and heavy industries are limited. Whereas the Micro, Small and medium enterprises are growing and providing large employment opportunities at low capital cost, reducing regional imbalances, industrializing rural and backward areas. The sector is helping and guiding the educated youths towards manufacturing sectors. The sector has many opportunities and prospects for growth in the state. The growth and employment rate of MSMEs is shown in the table.

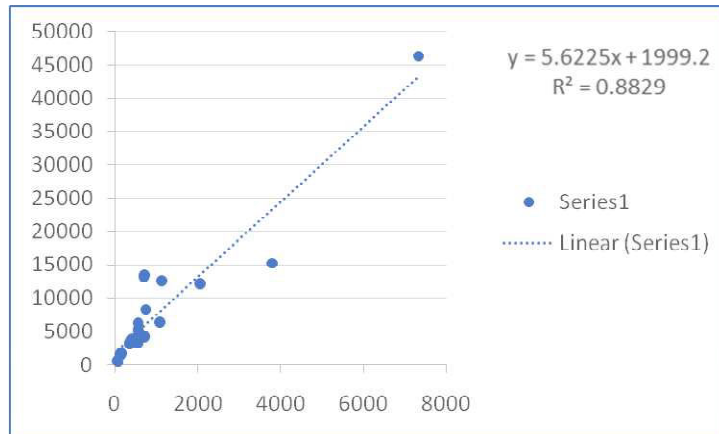
**Table 1**  
**Correlation between number of registered MSMEs and Employment generated**

| Year    | No. of registered MSME units | Growth rate of registered MSMEs | Employment generated | Growth rate |
|---------|------------------------------|---------------------------------|----------------------|-------------|
| 2001-02 | 1132                         |                                 | 12586                |             |
| 2002-03 | 362                          | -0.68                           | 3212                 | -0.74       |
| 2003-04 | 573                          | 0.58                            | 5397                 | 0.68        |
| 2004-05 | 569                          | -0.01                           | 6318                 | 0.17        |
| 2005-06 | 416                          | -0.27                           | 3955                 | -0.37       |
| 2006-07 | 717                          | 0.72                            | 13452                | 2.40        |
| 2007-08 | 704                          | -0.02                           | 13150                | -0.02       |
| 2008-09 | 717                          | 0.02                            | 4302                 | -0.67       |
| 2009-10 | 704                          | -0.02                           | 4224                 | -0.02       |
| 2010-11 | 2062                         | 1.93                            | 12192                | 1.89        |
| 2011-12 | 1092                         | -0.47                           | 6444                 | -0.47       |
| 2012-13 | 560                          | -0.49                           | 3360                 | -0.48       |
| 2013-14 | 126                          | -0.78                           | 1733                 | -0.48       |
| 2014-15 | 78                           | -0.38                           | 506                  | -0.71       |
| 2015-16 | 63                           | -0.19                           | 670                  | 0.32        |
| 2016-17 | 166                          | 1.63                            | 1866                 | 1.79        |
| 2017-18 | 138                          | -0.17                           | 1527                 | -0.18       |
| 2018-19 | 360                          | 1.61                            | 3415                 | 1.24        |
| 2019-20 | 757                          | 1.10                            | 8335                 | 1.44        |
| 2020-21 | 574                          | -0.24                           | 5026                 | -0.40       |
| 2021-22 | 3790                         | 5.60                            | 15243                | 2.03        |
| 2022-23 | 7314                         | 0.93                            | 46241                | 2.03        |

Source: Statistical handbook of Nagaland, UAM publication June 2020 and compiled by the researcher.

**Chart 1**

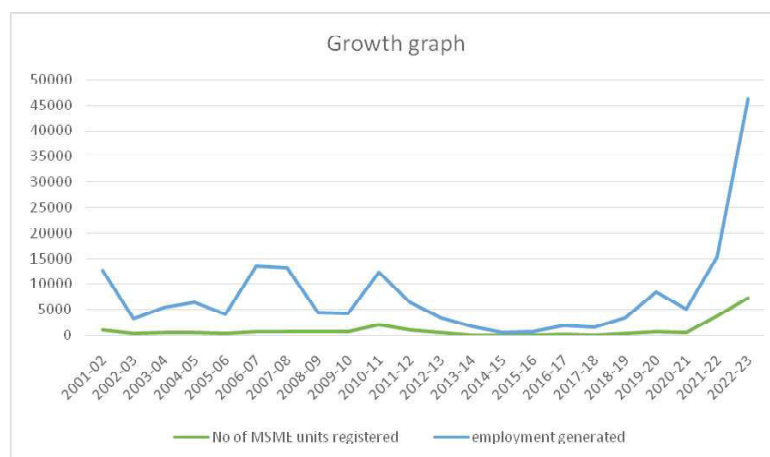
**Graph showing the correlation between number of MSMEs registered and employment generated.**



The value of coefficient of correlation( $r$ ) is 0.88, which shows that there is a high correlation between the number of registered MSMEs and employment generated. Thus, it can be seen that the number of MSMEs registered yearly has high correlation with the employment generation in Nagaland.

**Chart 2**

**Graph showing growth of registered MSMEs and Employment**



The above Table 1 and Chart 2 shows the growth and employment rate of MSMEs from 2001-02 to 2022-23. The above figure shows that the growth of MSMEs and employment is rising in 2006 to 2008 and starts declining but rises again in 2010-11 and after that the growth rate of both declines and takes a huge rise from 2021. The rise in 2021-22 can be seen due to the change of registration process to Udyam registration online. It is apparent that there is increase in number of employment with the increase in number of enterprises, thus showing that as number of registered MSME units increase it creates more employment.

### **CHALLENGES FACED BY MSME SECTOR IN NAGALAND**

Every sector faces similar or different challenges in a country's economic growth and development. The state of Nagaland face similar or different challenges in industrial sector from other states due to geographical conditions, climatic conditions and stagflation. Micro, Small and Medium enterprises is one sector creating a bridge between the economy and employment of the state. The challenges encountered by the MSMEs in Nagaland are discussed below:

- **Challenges relating to Raw Material:** - For MSMEs, availability and price of raw materials are the most important factor. Due to unavailability of raw materials, it is difficult to produce products at affordable price and the frequent increase in price of raw materials continue to impact the enterprises.
- **Challenges relating to Labour:** - Lack of skilled work force at low price is a challenge faced by the sector. The number of skilled labours is less whereas the demand is high causing more issues in retaining the skilled workers. Non availability of skill training programmes is one key reason for this problem.
- **Challenges relating to transportation:** - Though MSMEs are growing rapidly transportation infrastructure plays a major role in Nagaland. The state has railway connectivity to only one district (Dimapur). The state being a mountainous region faces natural calamities such as landslide impacting the maintenance of road infrastructure. Due to inadequate infrastructures the cost of transportation increases and their production cost also increases.
- **Challenges relating to Finance:** - For any enterprise finance is an important factor. MSMEs presently faces problems due to difficulty in availing credits from financial institutions. The banks are not providing the adequate amount to the MSMEs. To avail various government scheme, the entrepreneurs are made to produce different types of documents and the procedures are lengthy.
- **Challenges relating to market:** - With the increase in competition ranged from local to global brands, customer loyalties and market dynamics constantly changes. The demand for affordable and branded products with the introduction of online delivery have caused a major issue for MSME entrepreneurs dealing in local products.

Through the questionnaire, the magnitude of different challenges was identified and ranked by the respondents. The response is converted into ranks using Relative Importance Index method. The Relative Importance Index (RII) method is applied in determining the relative importance of factors involved (Dube, Wankhade, & Sabhuiuddin, 2022). The Relative Importance Index (RII) is calculated as:

$$R = \frac{\sum W}{A \times N}$$

Where,

W- Weightage given to each factor by the respondent (based on Likert scale point)

A - The highest weight in the research

N- Total number of respondents

#### Data analysis:

The challenges faced by MSMEs entrepreneurs are analysed and ranked as given below:

**Table 2 Challenges faced by MSME entrepreneurs in Nagaland**

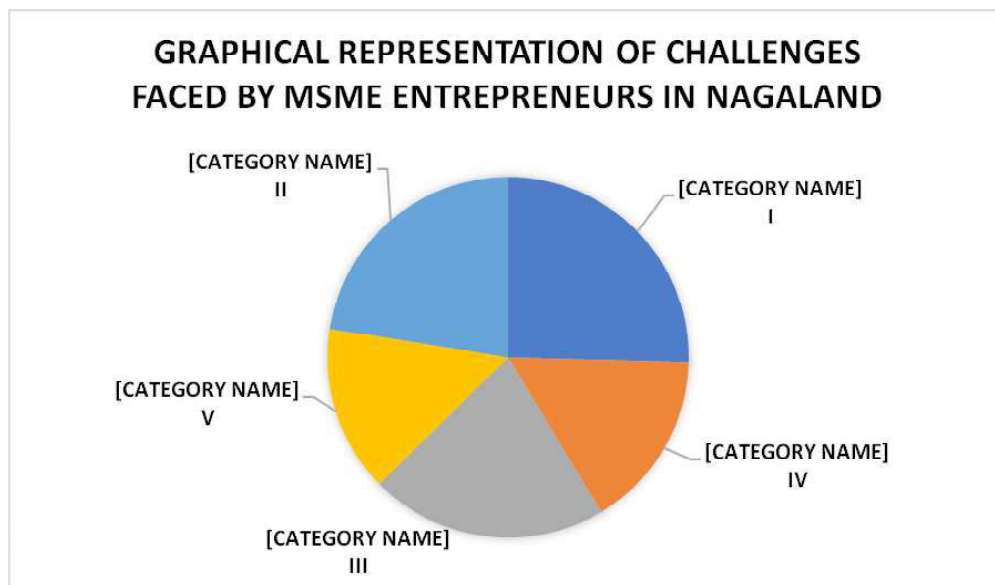
| Sl. No. | Particulars                                            | weight | RII  | Overall RII | Rank |
|---------|--------------------------------------------------------|--------|------|-------------|------|
| 1.      | Challenges relating to Raw material                    |        |      | 2.21        | 1    |
|         | a. Frequent price rise of raw materials                | 435    | 0.87 |             |      |
|         | b. Raw material cost is high                           | 423    | 0.85 |             |      |
|         | c. Inadequate supply of raw materials                  | 249    | 0.50 |             |      |
| 2.      | Challenges relating to Labour                          |        |      | 1.39        | 4    |
|         | a. Non- availability of labour on time                 | 241    | 0.48 |             |      |
|         | b. Demand for high wages                               | 207    | 0.41 |             |      |
|         | c. Unavailability/ Non availability of skilled labours | 248    | 0.50 |             |      |
| 3.      | Challenges relating to transportation                  |        |      | 1.85        | 3    |
|         | a. Lack of railway connectivity                        | 401    | 0.80 |             |      |
|         | b. Lack of proper road infrastructure                  | 226    | 0.45 |             |      |
|         | c. High transportation cost                            | 299    | 0.60 |             |      |
| 4.      | Challenges relating to finance                         |        |      | 1.30        | 5    |
|         | a. Non availability of source of finance               | 317    | 0.63 |             |      |

|    |                               |     |      |      |   |
|----|-------------------------------|-----|------|------|---|
|    | b. Bank unwillingness         | 163 | 0.33 |      |   |
|    | c. High interest rate         | 168 | 0.34 |      |   |
| 5. | Challenges relating to market |     |      | 1.96 | 2 |
|    | a. High Competition           | 430 | 0.86 |      |   |
|    | b. Low demand                 | 283 | 0.57 |      |   |
|    | c. Limited local market       | 267 | 0.53 |      |   |

Source: Field survey

**Diagram 1**

**Pie chart showing the challenges faced by MSMEs in Nagaland**



Source: Field survey

## INTERPRETATION

Table 2 represent the problems faced by MSME enterprises according to Relative Importance Index (RII) method. The higher RII value indicates greater importance. From the table (2) it can be seen that challenges relating to raw materials has maximum value (2.21) and ranked as the first (I) major problems and challenges relating to market ranked

second (1.96). The other challenges relating to transportation ranked third (1.85), challenges relating to labour ranked fourth (1.39) and challenges relating to finance ranked fifth (1.30).

## **MAJOR FINDINGS**

1. With the increase in number of registered MSMEs there is increase in number of employments. Thus, creating more employment with more MSMEs.
2. Acquiring raw materials is a major challenge faced by MSMEs in Nagaland. The frequent increase in cost of raw material hinders the MSMEs growth and performance.
3. The increase in high market competition dealing in similar products or business is a major challenge faced by enterprises in Nagaland.
4. Lack of railway connectivity due to mountainous region to every district of the state plays a major challenge. In rural and backward region of the state proper transportation facilities are essential for MSMEs to explore and function.
5. Availability of adequate skilled labours or manpower is a challenge faced by MSMEs in the state.
6. Lack of finance from banks and other financial institutions and government schemes are lengthy and requires more documents hindering the MSMEs business prosperity.

## **CONCLUSION**

The Micro, Small and Medium enterprises play a significant role in providing employment and economic development of the country. In India government along with the Ministry of Micro, Small and Medium enterprises have undertaken various initiatives for the development of the sector. Nagaland being a state which lacks large industries depend on the micro, small and medium enterprises in filling the economic gap. Increase in number of educated unemployed has given a rise to the MSME sector. Though the state promotes the MSME sector, many enterprises face challenges due to numerous reasons. Some of the challenges faced by entrepreneurs are lack of finance, issues in availing raw material with the frequent hike in price of goods, no proper market to sell finished products, lack of proper transportation infrastructure, lack of skilled and trained labour. The MSMEs in rural areas need to be improved to create more employment. The Government should take necessary measures for the promotion of the sector in availing different schemes issued for the sector. In both urban and rural areas proper training facilities and opportunities should be provided. To assist in eradicating the challenges and developing the sector, the state government together with the Central government should promote MSMEs, frame policies and programmes easily available by any entrepreneur. The development of the MSME sector will uplifts the economy and reduce unemployment rate in the state.

### Limitations and Further research scope

The study has data limitation to only 100 MSMEs entrepreneurs registered from Udyam registration portal under the Ministry of MSME, Government of India. The research is based on prevailing factors contributing to the challenges faced by MSMEs. Further research can be conducted through other factors such as technology, research and development, export orientations and gender biases. The effectiveness of Government promotion schemes and the Quality of Skill Development Programs can be researched. A comparative study on challenges and policy between states can also be performed.

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