



# Study on Increasing MSME & Start-Up Financing Coverage & Expansion of NEDFi's Role in NER



**NORTH EASTERN DEVELOPMENT FINANCE CORPORATION LIMITED**  
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# EXECUTIVE SUMMARY

## TITLE OF THE STUDY

### STUDY ON INCREASING MSME & START-UP FINANCING COVERAGE & EXPANSION OF NEDFI'S ROLE IN NER

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## Executive Summary

*This study provides an overview of the Micro, Small and Medium Enterprise ecosystem and start-up ecosystem in the North-Eastern Region of India. The chapters in the study present the existing scenario of MSME sector in the NER, assessing the existing formal credit gap in the sector, highlighting the problems obstructing growth of the sector and the key factors impeding MSME financing in the region. Finally, the study explores the potential interventions to mitigate the existing obstructions, focusing on increasing MSME and start-up financing coverage and expansion of NEDFI's role in the region.*

### 1. Introduction

This study, related to “Study on Increasing MSME & START-UP Financing Coverage & Expansion of NEDFI's Role in NER” owes its genesis to the decision of Government of India that all Central Government Departments should study the factors impeding or obstructing the growth of particular sectors relating to them on account of plethora of regulations, non-availability of finances, etc. In view of this decision of Govt. of India, Ministry of DoNER, Government of India decided to carry out a study that would cover how to expand the coverage of MSME Financing, Start-Up Financing, etc. and expand the role of NEDFI in whole of North East within a time span of 1-2 years and asked NEDFI to get this study conducted under Techno-Economic Development Fund (TEDF). The objective of the study is to study factors impeding or obstructing the growth of MSME Financing, Startup Financing on account of plethora of regulations, non-availability of finances, etc. and suggest strategies to expand the coverage of MSME Financing, Start-Up Financing and expand the role of NEDFI in whole of North East in short to medium term.

The scope of the study involve 1) Studying & Analyzing the MSME & Start-Up Ecosystem in NER along with its Access to Finance, Quantum of Credit Flow happening; 2) Mapping the full range of financial instruments and developmental schemes available to MSME and Start-ups in the form of various credit schemes, promotional schemes, grants, subsidies, technical knowhow, marketing support etc. and Assessment of Financing and Developmental Requirements of the MSME & Start-Up Ecosystem in NER; 3) Identifying Financing and Developmental gaps in the MSME and Start-Up Eco System in NER; 4) To look into the role of NEDFI in developing the MSME and Start-Up in NER, and its Overall Performance over the years; 5) To devise suitable growth strategies for Expanding NEDFI's role in NER in short to medium term (2-5 Years' time span).

### 2. The Context:

The Micro, Small and Medium Enterprises (MSME) Sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. The MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the industrial development of the country. The sector has emerged as a highly vibrant and dynamic sector of the Indian Economy and the

contribution of MSME Sector in the country's Gross Domestic Product was 29% during 2015-16. In case of North Eastern States of the country, the emerging MSME sector provides a new hope not only to the unemployed population of the region but also in bringing overall balanced growth.

The eight North East States which cover 263179 Km<sup>2</sup> 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. Owing to the presence of multi-pronged deficits, the full potential of the NE region could not be tapped. 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. 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 Act East Policy and Globalisation process. 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 Act East policy.

In case of Startups, India has emerged as the vibrant hub of startups. India, being an emerging economy, is amongst the top five countries in the world having more than 19,000 startups. The government of India came up with 'Startup' Action Plan in the year 2016. 'Startup India' is a comprehensive action plan and it envisages 800 million potential entrepreneurs making the world a better place. The Department of Industrial Policy and Promotion (DIPP) has also estimated that Indian startups would contribute to around 21% of the formal job sector of India by 2020. In case of the North Eastern States too, the startup buzz has caught the fancy of this region's youth as well. Young entrepreneurs from the region have made their mark in different parts of the country with their unique startups in different sectors. Mostly, they have ventured to set up their enterprises in the region itself. These young entrepreneurs have been trying to leverage the uniqueness of the region in terms of the available raw material and human resources. They have been dabbling in export of processed pork (piggery being predominant activity in the region), biotechnology (northeast being the world's largest biodiversity hotspot), organic products (having abundant organic capital) etc.

In order to give a big push to the startup ecosystem in the northeast, North East Development Financial Corporation (NEDFi), in collaboration with the Ministry of DoNER, launched North East Venture Fund with a corpus of Rs. 100 crores in 2017. It is a professionally run fund under which a large number of startups have already been funded. It is a remarkable achievement considering elaborate statutory requirements in putting in place institutional structures and constraints associated with the region. All the entrepreneurs selected for funding by the Venture Fund belong to the region and working in the region in sectors like health, biotechnology, IT & ITeS, urban mobility etc. For example, one startup, namely, Symbiotic Food Pvt Ltd is engaged in commercial breeding of pigs for production and sale of piglets. Another startup, namely, Pratyaksha Agrotech is involved in Tissue Culture Laboratory working on medicinal plants.

In view of the above, there is immense requirement and opportunity for growth of MSME and Startup Sector in NER. In order to give these sectors a big push, there is a need to study factors impeding or obstructing the growth of these sectors in NER on account of plethora of regulations, non-availability of finances so that the Coverage of MSME and Start up Financing can be expanded along with the role of NEDFi, which is the major Developmental Financial Institution of the region, in the whole of the North East.



### 3. MSME Ecosystem Overview in NER:

The Micro Small and Medium Enterprise (MSME) sector plays multiple roles in promoting inclusive development and equitable growth of the economy. The sector has been rightly called as the engine of growth for a developing nation like India. With a contribution of about 29% in the GDP of the economy and 48.10% share of total exports, the sector plays a dual role of promoting employment along with encouraging the spirit of entrepreneurship amongst the population of the nation. The MSME sector has 633.92 lakh units employing around 1109.8 lakh persons<sup>1</sup>. The Micro segment consists of the largest share of units (99.46%), followed by the Small segment (0.52%) and the Medium segment (0.008%).

The NER of India has a network of 18.92 lakh number of MSMEs providing employment to 29.18 lakh persons in the region<sup>2</sup>. As on 2015-16, out of 18.92 lakh enterprises, the state of Assam popularly called the Gateway to North-East India has the highest share of MSMEs with 12.14 lakh enterprises (64%), followed by Tripura with 2.11 lakh enterprises (11%), Manipur with 1.8 lakh enterprises (10%), Meghalaya with 11.2 lakh enterprises (6%), Nagaland with 91,000 enterprises (5%), Mizoram with 35,000 enterprises (2%), Sikkim with 26,000 enterprises and Arunachal Pradesh with 23,000 enterprises, each with a share of 1% of the total number of MSMEs in the NER.

The MSME segment spans over two major sectors of the economy- service and industry (manufacturing), thus an increase in the number of MSME units is a significant indicator of the growth of the overall sector. Out of 633.92 lakh enterprises in the country, 31% were manufacturing, 33% were services and 36% were trading. However, the estimated share of Manufacturing, Trading and Services sector in the NER were 19%, 53% and 28% respectively as per the report of NSS 73<sup>rd</sup> Round, which shows that the sectoral composition of MSMEs in NER is in line with that at the national level.

Moreover, the replacement of earlier process of registration through Entrepreneur Memorandum (EM part - I & II) by hassle free system of Udyog Aadhaar Memorandum (UAM) that is based on self-declared online filing system, has provided a great impetus to incorporate a good number of registrations. The total number of MSMEs on Udyog Aadhaar Portal increased from 4.95 lakh on 2015 to 83.7 lakh on December 2019. There has been an increase in the number of MSMEs filing their UAM in NER from 2386 in the year 2015-16 which was 0.48% of the total enterprises filed their UAM in India to 58346 as on Dec 2019 that accounts for 0.7% of the total registered units.

In the context of changing economic scenario, the registration under GST has also led to formalization of the sector to a certain extent. Another remarkable change that would substantially impact the sector has been the change in its definition that has been announced on May 2020. The new definition of the MSMEs has eliminated the difference between service and manufacturing units of MSMEs while defining the size of a unit has been based on the investment and turnover of the unit that was previously based solely on investment as per the MSMED ACT, 2006. Further, various provisions of the MSMED Act facilitate MSMEs in terms of public procurement, delayed payment, marketing support, etc. It also empowers Central and State Government to establish institutions for promotion of MSMEs.

<sup>1</sup> MSME Annual Report 2018-19

<sup>2</sup> NSS 73<sup>rd</sup> Round as mentioned in the Annual Report of MSME, 2018-19



#### 4. Legislation and Institutional Support for MSMEs

Various provisions of the MSMED Act facilitate MSMEs in terms of public procurement, delayed payment, marketing support, etc. It also empowers Central and State Government to establish institutions for promotion of MSMEs. The provisions of MSMED Act, 2006 relating to delayed payment have regularly been updated in order to provide legislative support to MSMEs. Further, in order to expedite the disposal of pending delayed payment cases, the Ministry of MSME has launched MSME Delayed Payment Portal – MSME Samadhaan for empowering MSEs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments.CPSEs/State Governments. Moreover, Public procurement policy has been framed in order to support MSEs in selling their products wherein certain percentage of goods manufactured by them are procured by the Government, Government Departments, etc. as most of the MSEs find it difficult to access proper market for selling their products at a competitive price.

MSMED Act, 2006 provides for establishment of National Board for Micro, Small & Medium Enterprises (NBMSME). National Board functions as the body for reviewing and steering the overall implementation of various policies / schemes of MSMEs impacting all aspects of the MSME ecosystem, involving all stakeholders, particularly in terms of bringing MSMEs out of informal category, improving infrastructure, skill and capacity building, technical and financial know-how, etc.

The DICs were initially envisaged as a single window agency at the district level providing service and support to small entrepreneurs. DICs act as the implementation body for several schemes of both the State and Centre. The management of the DIC is under State Governments. The main objectives of DICs includes identify and nurture entrepreneurs by providing them support on their ventures, enable and enhance the industrialization efforts of the districts, provide implementation mechanism of various schemes of State and Centre and provide various procedures, permissions, licenses and registrations, etc., for new units.

#### 5. Policy Framework for MSME Sector in India and NER

The MSME Sector in NER is mainly governed by the policy initiatives and schemes of central as well as all the eight participating state governments of NER. The Central Government grants a package of fiscal incentives to eligible industrial units engaged in the manufacturing and service sectors. The total fund disbursed under NEIP (1997), NEIP (2007) and NEIDS (2017) from the year 2000 to 2020 is 2693.41 Crore in the form of capital subsidy, 53.72 Crore in the form of insurance subsidy, 4162.99 Crore in the form of transport subsidy, 428.90 in form of interest subsidy and 263.59 Crore in form of freight subsidy. Of the total subsidy disbursed 54.07% has been provided to the state of Assam, 30.46% to Meghalaya and the remaining amount was divided among the rest six states of NER. While Ministry of MSME, Govt. of India is the nodal ministry for the MSMEs in the country, yet on the ground there are several ministries which are responsible for the policy initiatives for MSMEs in their own sector.

Sl. No.	Ministry	Schemes
1.	Ministry of MSME	<ul style="list-style-type: none"> <li>i. Prime Minister's Employment Generation Programme (PMEGP).</li> <li>ii. Credit Guarantee Trust Fund for Micro &amp; Small Enterprises (CGT SME).</li> <li>iii. Interest Subsidy Eligibility Certificate (ISEC).</li> <li>iv. Credit Linked Capital Subsidy Scheme.</li> <li>v. Market Promotion &amp; Development Assistance Scheme (MPDA).</li> <li>vi. Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI).</li> </ul>

Sl. No.	Ministry	Schemes
		vii. Credit Linked Capital Subsidy Scheme. viii. Market Promotion & Development Assistance Scheme (MPDA) ix. Coir Vikas Yojana. x. Financial Support to MSMEs in ZED certificate Scheme. xi. A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE). xii. National Manufacturing Competitiveness Programme (NMCP). xiii. International Cooperation scheme. xiv. Marketing Assistance Scheme. xv. Procurement and Marketing Support Scheme (P&MS) xvi. Entrepreneurship Skill Development Programme (ESDP). xvii. Assistance to Training Institutions (ATI). xviii. Scheme of Surveys, Studies and Policy Research xix. National SC-ST-HUB xx. Scheme for Promotion of MSMEs in N.E. Region and Sikkim xxi. Scheme of Information, Education and Communication
2.	Ministry of Food Processing Industries	i. Marketing Research and Information Network ii. Development/Strengthening of agriculture Marketing Infrastructure. iii. Grading and Standardization iv. Agro Processing Cluster v. Mega Food Parks vi. Publicity and Marketing
3.	Ministry of Commerce	i. Startup India ii. Trade Infrastructure for Export Scheme iii. Modified Industrial Infrastructure Upgradation Scheme
4.	Ministry of Textile	i. Capacity Building in Textile Sector ii. Power loom Cluster Development iii. Integrated Textile Parks iv. Ambedkar Hastashilp Vikas Yojna
5.	Ministry of Ayush	i. Assistance to organisations (government / non-government non-profit) engaged in Ayush education / drug development and research / clinical research, etc. For upgradation to centers of Excellence. ii. Scheme for Development of Ayush Clusters
6.	Ministry of Chemicals and Fertilizers, Department of Pharmaceuticals	i. Cluster Development Programme for Pharma Sector (CDP-PS) ii. Pharmaceutical Promotion and Development Scheme.

Sl. No.	Ministry	Schemes
7.	Ministry of Communication and Information Technology	i. Technology Incubation and Development of Entrepreneurs ii. Software Technology Parks
8.	Ministry of Skill Development and Entrepreneurship Schemes	i. Udaan Training Programme for Unemployment Youth of J & K. ii. National Skill Certification and Monetary Reward (STAR Scheme) iii. Pradhan Mantri Kaushal Vikas Yojna.

## 6. Access to Finance for MSME sector in NER

One of the fundamental elements impacting the MSMEs directly is the availability of adequate finance in the sector. Considering only the formal sources of financing, the total supply of credit to the NER in the FY 2019-20 is Rs.15,346.03 crore in the Micro, Small and Medium enterprises by Public banks, Private Banks, Regional Rural Banks, NBFCs and others<sup>3</sup>. The supply of debt to Micro, Small and Medium enterprise segments are Rs. 12010.45 crore (78%), Rs. 2571.62 crore (17%) and Rs. 763.95 crore (5%) respectively. Hence, the highest share of debt has been supplied to the Micro segment followed by Small and then Medium segments of the MSME sector. Out of the total amount of loan disbursed in the North Eastern States, Assam has the highest share of loan disbursed (67%) followed by Tripura (23%). Major share of debt supply has been financed by the private banks (67%) followed by Public Banks (26%) and others (7%). Performing time series forecasting technique on them to get the components of level, trend and seasonality factors for the supply of MSME credit, it has been estimated that the supply need of debt for next two financial years will be around Rs. 23638.85 crore in the FY 2020-21 and Rs. 27451.04 crore in FY 2021-22.

Though the total credit supply to the MSME sector for the year 2019-2020 was Rs. 15,346 crores, there exists a demand-supply mismatch in case of NER which is mainly contributed due to the informal nature of the sector, limited access to credit and risk capital, inherent bottlenecks in NER in both upstream and downstream of the supply chain. Moreover, the banking penetration in this region is far below than rest of India.

<sup>3</sup> SLBC data for FY 2019-20



## 7. Factors Impeding the Growth of MSME Sector in NER

The role of MSME sector is critical in job creation, innovation, and entrepreneurship and supply chains. Hence, there is a need to facilitate, nurture and support innovative business ideas and shape them into enterprises. These sectors though important for overall growth in the economy are faced with numerous problems which have resulted in their retarded growth.

Although North East is advancing day by day with respect to the development of MSMEs, the region is far behind in comparison to mainland India. In order to understand the factors impeding growth of the MSME sector we have conducted a number of in depth interviews with various stake holders like, Director In-charge, MSME Office, Guwahati, Director In-charge, Commissionerate of Industry and Commerce, Govt. of Assam, Chairperson FICCI, Chairperson ICC.

### (i) Policy related issues

At the apex level, the Ministry of MSME formulates policies for overall growth of the sector while the Office of Development Commissioner MSME implements these policies through its various organizations. Commissionerate of Industries and Commerce frames the state level policy for the MSME sector.

The above institutions through their legislative and policy interventions are enabling growth of the sector. However, formulation of targeted policies in the areas of infrastructure development, formalization, technology adoption, backward and forward linkage, credit gap reduction and timely payments to MSMEs and their effective implementation has been a challenge for all the stakeholders. Government interventions have tended to be fairly supply-side oriented and unable to effectively respond to demands of the market. Moreover, the requirement of various clearances, along with the time required for approval as indicated in the section above gives a fair indication regarding the hardships that an entrepreneur has to face while setting up a factory.

### (ii) Lack of formalization in the sector

The census of Micro, Small & Medium Enterprises (MSME) (2006-07) also shows that of nearly 361 lakh MSMEs in India, about 95.7% are unregistered, with a large number operating in the unorganized/ informal sector. In respect to North Eastern Region the percentage of unregistered units further increases.

Utilization and reach of various schemes and credit support is constrained due to lack of formalization and low level of registration of MSMEs in Udyog Aadhaar Memorandum (UAM). Promoting formalization and digitization amongst MSMEs and encouraging them to register in UAM has remained a challenge. Further, with limited number of entrepreneurial development and incubation centers, entrepreneurial ethos of the MSME eco- system is not evolving.

### (iii) Infrastructural bottlenecks and breakage in supply chain linkages

Infrastructural bottlenecks affect the competitiveness of MSMEs and reduce their ability to venture into domestic as well as global markets.

Inadequate availability of basic amenities such as road and rail connectivity, work sheds, tool rooms, and product testing laboratories, electricity, internet broadband and innovation hubs is acting as a deterrent to the growth of the sector. Development of MSME clusters has been largely confined to Government organizations with low level of private investment.

In terms of the raw material, advance machinery and skilled manpower the region is still dependent on other states from mainland India. The connectivity issues with the remote location and difficult terrain adds to the time delay and increases the cost of production. Moreover, as the population density is low the

consumption-based market is also distributed in a large geographical region, which increases the costing for outbound logistics.

To mitigate the problem of inadequate and irregular supply of raw materials and marketing, institutions like National Small Industries Corporation (NSIC), District Industry Centre (DIC), Khadi and Village Industries Board (KVIB), etc. should actively participate.

The infrastructure facilities should be providing support in the form of industrial facilities, power and water, common service facilities, transportation network, marketing linkage, etc. for MSMEs.

#### **(iv) Lack of awareness among the entrepreneurs and information asymmetry**

Traditionally, MSMEs are subject to severe information asymmetry problems. Lack of information about various schemes for instance; deprive MSME units from availing benefits offered by Government, banks and other agencies. Access to information about market opportunities is sub optimal and unstructured. In many cases, they also lack managerial, legal and technical know-how and the necessary wherewithal to function effectively.

#### **(v) Limited access to credit and risk capital**

Implementation of GST has made turnover data available at a single network. However, MSMEs are not identifiable as the data on investments in plant and machinery is not captured under GSTN. Income tax data base contains information relating to financials of the units. On the other hand, Udyog Aadhaar portal contains registration related information of MSMEs. However, there is no single interface available for the lenders to access, map to triangulate data from these data sources and they have to primarily rely upon manual information furnished by borrowers.

Due to their informal nature, MSMEs lack access to formal credit as banks face challenges in credit risk assessment owing to lack of financial information, historical cash flow data, etc. Further, very few MSMEs are able to attract equity support and venture capital financing.

#### **(vi) Market competitiveness**

The end product of the MSME sector has to compete with its counterparts as well as products from large MNCs. In this regard MSMEs face the twin challenge of limited access to quality raw material and market for finished product. National Small Industries Corporation (NSIC) through market assistance scheme facilitates MSMEs to discover markets for their products and the Government e-Marketplace (GeM) portal has enabled MSMEs to connect with buyers from Public Sector Undertakings (PSUs) and Government Departments. However, the number of MSMEs availing benefits under the schemes is few. For example, the GeM portal has only 38,609 registered MSMEs on the platform as on June 12, 2019.

### **8. Factors Impeding Financing of MSMEs in NE**

Low levels of bank penetration as well as higher degree of risk aversion from financial institutions in these geographies have constrained the growth of MSMEs in NE region and as a result, financing to these geographies is also lower.

In order to understand the underlying factors an in- depth interview was conducted with the stakeholders. The underlying factors can be categorized as demand side bottlenecks faced by entrepreneurs while accessing credit and supply side challenges faced by financial institutions on financing MSMEs. The bottlenecks faced by entrepreneurs are:

**(i) Information asymmetry:** in most of the cases, the entrepreneurs are not aware of the various banking products available for MSME financing and how to procure a loan from bank. Many times, they also are unable to meet documentation protocols to qualify as loan applicants to financial institutions. As most of the business takes place on cash transactions, they often seem to have discrepancies between the reported financial data and the actual state of financial affairs, data of micro enterprises in particular is often different from actual sales and profitability figures. The problem is common for small and medium enterprises too due to the lack of organized and formalized book keeping systems.

**(ii) Lack of securities and collaterals for availing loan:** Micro and small enterprises do not have asset base to submit as adequate collateral that meets the criteria of availing loans from formal financial institutions. Since banks and most NBFCs continue to insist on collateral requirement in order to minimize the risk, only limited number of MSMEs has access to loans from these banks at low interest rates. As in the case of most of the North Eastern states land classified under the tribal belt is not considered as collateral or mortgage it limits the borrowing capacity of the entrepreneur. The land tenure system in the hill areas, inhabited mostly by tribal population, is markedly different from the system found in the plain areas. As in most other parts of the country, in the plains of the North East individual rights over land holding are transferable, buying, and selling of such rights are ordinarily unrestricted. However, in the hill areas individual rights over land is yet to take the form of full property rights in the sense that transfer of these rights is subject to restrictions if not virtually possible. Non-transferability of holding rights renders land unsuitable as collateral for the purpose of securing institutional credit to land holders.

**(iii) Lack of owner's contributing margin:** In most of the cases banks provide a certain percentage (approx. 65-70%) of the total capital cost as one third of the total expenditure is expected to be borne by the entrepreneur himself. On account of their inadequate equity base, MSMEs often ends up taking loans from unorganized/informal sector, overextending themselves financially and making them vulnerable to defaulting.

## 9. The challenges faced by Financial Institutions

**(i) High transaction cost and lower margins with high-risk perception:** Compared to other bank products like home loan, vehicle loan, financing MSMEs is both an expensive and a high-risk affair for the banks, as it requires constant monitoring. The average ticket size of loan by formal financial institutions is also low as it is based on assessed repayment capacity and past credit records. On account of factors such as smaller ticket size, high cost of due diligence and collections, the profit margin from MSME loans also decreases.

As banks have limited understanding of the MSME business and due to erratic cash flows associated with the sector MSMEs are perceived as a high-risk segment. The banks are more comfortable in working with corporates having more stable cash flows, formalized operational processes, and adequate collateral, affording a greater margin of safety and less resource-intensive due diligence to understand their business model.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 is a powerful instrument in the hands of the banks and financial institutions (FIs) as secured creditors. However as most of the land in North East is demarcated as tribal belt a property belonging to a Scheduled Tribe person cannot be sold to a non-tribal person.



**(ii) Out dated underwriting process:** The issue of higher risk aversion in the case of MSME loans, especially loans to micro and small enterprises, is further exacerbated by out dated standards of credit evaluation that place too much emphasis on collateral and do not truly paint an effective picture on a borrower's ability to repay a loan. Because many financial institutions do not spend adequate time on the ground with MSMEs, understanding their business models and monitoring their performance, traditional lenders are unable to create loan-underwriting systems that are more relevant to MSMEs. In most cases, institutions rely more on evaluation parameters that focus on past performance of the enterprise rather than future opportunities<sup>4</sup>.

**(iii) Existing bank product not adequate as per MSME's current requirement:** The procedure of availing loan from formal sector financial institution is cumbersome and time consuming. Moreover, an average Micro or Small sector unit cannot fulfill the documentation required for sanction of loan.

The traditional loan products like term loan and working capital loan against fixed asset collateral and stock inventory are not enough to cater to the emerging needs of the modern day business. A new product needs to be developed in alignment with the credit requirement of the MSME sector.

## 10. District-wise MSME sector analysis for the states of North East India:

In order to understand the relative development of MSMEs in various states of NER at district level, an exercise has been undertaken to understand and identify the factors on which the development of MSME mostly depends by considering the various factors that would present an idea about the stages of MSMEs' growth in all the districts of North Eastern states of India. The analysis enabled us to identify the cluster of districts which are progressive, districts that are emerging and those districts that are aspiring in terms of MSME development. The various factors that have been taken into consideration for devising a MSME potential index based on which the categorization of the districts of NER has been done are Demography, Composite, No. of MSMEs, Industrial Infrastructure, Banking and Credit availed by the MSMEs. In assigning the overall score of the districts, each particular state has been analyzed as a separate entity as the source data timeline varies for all the states. A comparison among all the districts in NER could not be performed as a limitation to this study. The MSME potential of the districts of 8 North-Eastern States has been categorically discussed below:

### (i) Arunachal Pradesh: District-wise MSME sector analysis:

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Arunachal Pradesh.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive	Papumpare	1.52	27.98
	East Siang	1.24	22.76

<sup>4</sup> Financing India's MSME's "Estimation of Debt requirement of MSMEs in India" Nov 2018 [www.ifc.org](http://www.ifc.org)

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Emerging Districts	West Siang	0.28	5.13
	Lohit	0.23	4.29
	Changlang	0.23	4.27
	West Siang	0.22	4.04
	Upper Subansiri	0.22	3.95
	Lower Subansiri	0.21	3.81
Aspiring Districts	Dibang Valley	0.20	3.59
	Anjaw	0.19	3.48
	Lower Dibang Valley	0.17	3.08
	Tawang	0.15	2.83
	Longding	0.15	2.78
	East Kameng	0.14	2.64
	Kurung Kumey	0.10	1.86
	Upper Siang	0.10	1.77
	Tirap	0.09	1.72

**(ii) Assam: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Assam.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	Kamrup Metro	1.03	17.67
	Kamrup	0.47	8.09
	Goalpara	0.52	8.94
	Tinsukia	0.44	7.49
	Nagaon	0.25	4.33
	Dibrugarh	0.23	3.91
	Cachar	0.23	3.88
Emerging Districts	Sonitpur	0.18	3.08
	Jorhat	0.18	3.13
	Sibsagar	0.17	2.93
	Barpeta	0.18	3.14
	Golaghat	0.16	2.67
	Dhubri	0.16	2.76
	Darrang	0.15	2.61
	Karimganj	0.15	2.60
	Lakhimpur	0.14	2.44
	Nalbari	0.16	2.69
Aspiring Districts	Bongaigaon	0.13	2.26
	Morigaon	0.14	2.33
	Dhemaji	0.11	1.81
	Baksa	0.11	1.96

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
	Kokrajhar	0.10	1.75
	Chirang	0.11	1.80
	Karbianglong	0.09	1.52
	Udalguri	0.09	1.62
	Hailakandi	0.09	1.59
	Dimahasao	0.06	0.98

**(iii) Manipur: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Manipur.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	Imphal West	1.42	28.39
	Imphal East	0.82	16.31
Emerging Districts	Thoubal	0.49	9.77
	Senapati	0.36	7.18
	Bishnupur	0.33	6.53
	Churchandpur	0.32	6.47
Aspiring Districts	Ukhrul	0.19	3.80
	Chandel	0.16	3.26
	Kakching	0.15	2.98
	Tamenglong	0.14	2.87
	Jiribam	0.14	2.82
	Kangpokpi	0.11	2.29
	Pherzawl	0.11	2.13
	Tengnoupal	0.10	2.04
	Noney	0.08	1.59
	Kamjong	0.08	1.57

**(iv) Meghalaya: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Meghalaya.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	East Khasi Hills	2.10	40.49
	Ri-Bhoi	1.05	20.34
Emerging Districts	West Jaintia Hills	0.53	10.32
	West Khasi Hills	0.50	9.67
Aspiring Districts	West Garo Hills	0.47	9.00
	East Garo Hills	0.32	6.20
	South Garo Hills	0.21	3.98



**(v) Mizoram: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Mizoram.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	Aizawl	2.70	48.36
Emerging Districts	Mamit	0.78	13.90
	Lunglei	0.49	8.76
	Champhai	0.43	7.68
Aspiring Districts	Kolasib	0.37	6.68
	Serchhip	0.36	6.46
	Lawngtlai	0.26	4.70
	Saiha	0.19	3.46

**(vi) Nagaland: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Nagaland.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	Dimapur	1.86	37.58
	Kohima	0.81	16.39
Emerging Districts	Mokokchung	0.51	10.26
	Tuensang	0.33	6.73
Aspiring Districts	Wokha	0.32	6.41
	Mon	0.25	4.99
	Zunheboto	0.22	4.47
	Phek	0.20	4.03
	Peren	0.16	3.18
	Kiphire	0.15	3.05
	Longleng	0.14	2.91

**(vii) Sikkim: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Sikkim.

Category of Cluster	Name of Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	EAST SIKKIM	3.81	0.63
Emerging Districts	SOUTH SIKKIM	1.00	0.17
Aspiring Districts	NORTH SIKKIM	0.62	0.10
	WEST SIKKIM	0.58	0.10

**(viii) Tripura: District-wise MSME sector analysis:**

Based on the six parameters, the districts have been clustered as Progressive, Emerging and Aspiring in order to identify specific problems from the perspective of MSME potential in the state of Tripura.

Category of Cluster	Name of the Districts	MSME potential index score	Percentage share of total MSME potential score in the State
Progressive Districts	West Tripura	2.28	37.94
	North Tripura	0.71	11.86
Emerging Districts	South Tripura	0.67	11.13
	Sepahijala	0.53	8.84
Aspiring Districts	Gomati	0.49	8.10
	Unakoti	0.46	7.69
	Dhalai	0.44	7.40
	Khowai	0.42	7.04

On analyzing the MSME sector in a micro level with respect to the district level various factors are highlighted which are hindering the growth of this sector. All though these issues and challenges are present across all the districts in the state the level of problem is not uniform in all. The districts belonging to the progressive cluster has the adequate level of financial literacy and banking linkages but the MSME units faces difficulty in sanction of loan due to lack of collateral and high level of documentation where as for the districts in other clusters the banking penetration is comparatively less so RRBs and Micro finance units plays a bigger role in these areas. Similarly, in terms of marketing linkages, providing infrastructure based support and other form of government intervention a district specific intervention is suggested as below:

**The factors affecting the performance in Progressive and Emerging districts in NER are:**

- Organizational Structure: Lack of skilled manpower, advanced management techniques, Misalignment of strategic orientations and business process or organizational innovation
- Technology & Production: Low quality inputs, Non-availability of suitable technology, Low production capacity, Constraints in modernization and expansions, technology development and transfer
- Marketing: Ineffective marketing strategies, lack in implementation/adoption of new or significantly improved production and delivery methods, confinement to local market
- Govt. policies: Untimely Initiation of Govt. schemes, complicated bureaucratic registration procedures, Lack of Skill for Cluster Development.

**The factors affecting the performance in Emerging and Aspiring districts in NER are:**

- Entrepreneurial and management Skill: Limited Skill and knowledge, Lack of information, Lack of training, Lack of focus competencies (mainly observed in the districts belonging to the Aspiring clusters)
- Finance: Non-availability of formal sector finance due to lack of financial literacy, collateral requirement or lack of proper documentation.
- Soft Infra (Lack of Business linkages, Service providers and consultancy services, Knowledge partners, Training institutes/ faculty,)
- Physical Infra (Lack of adequate warehousing/godowns, Transportation and Communication problems, Electric (Power shortages)

### **Interventions required for the progressive districts:**

- i. Intervention in facilitating financial linkages (more focus on IT enabled platform for quick and better service eg. psbloans59min for in principle loan approval).
- ii. Intervention in branding and quality certification for better market linkages.
- iii. Clearances for various government departments can be facilitated through single window clearance.
- iv. Provision of tax incentives for SMEs operators to encourage investment from other states.

### **Interventions required for the emerging districts:**

In addition to the interventions for progressive districts, the following interventions are also to be considered:

- i. Intervention in skill development and linkages with training institutes.
- ii. Infrastructure upgradation and development of new industrial growth centres.
- iii. Provisions for soft loan to first generation entrepreneurs and government guarantee for long term borrowing for capital investment in plant and machinery upgradation.

### **Interventions for the aspiring districts:**

In addition to the interventions for emerging districts, the following interventions are also to be considered:

- i. Implementation of MUDRA scheme through RRBs, MFIs for better reach, involvement of NBFC and Micro Finance Agencies for linkage with remote locations and underdeveloped markets.
- ii. Hand holding support in skill upgradation and financial literacy.

## **11. Start-up Ecosystem in NER**

A start-up is a technology-based company that uses the added value of combined technologies to provide new products or services. Startup plays a very critical role in today's business environment. The growth of these new ventures is shaping the industrial scenario of the nation and helping in providing cost effective affordable solutions for a developing nation like India. India is the 3rd largest startup ecosystem in the world with 40,000+ start-ups recognized by Department for Promotion of Internal Trade and Industry (DPIIT). The entire startup ecosystem raised \$50 BILLION FUNDING between 2014 and 2019

As on Dec 2020, out of 40,192 DPIIT recognized start-ups in India the share of North Eastern states is only 372 which is less than 1%, In terms of total number of start-ups in India which is 1,18,056 the share of North Eastern States is 1,670 which is approximately 1.4%. Among the North Eastern States, we can observe an uneven distribution of start-ups with majority share being concentrated in the state of Assam. The top sectors for NER were to be found in education, health care and professional services followed by agriculture and allied sectors (including food processing), IT and IT enabled services and the construction industry. Apart from the start-ups in Assam, more than 80% of the start-ups in other states are still in the early stage of Ideation.



In 2018, the Department of Industrial Policy and Promotion (DIPP), Government of India has undertaken an exercise to assess States/UTs on key areas of interventions that are germane to a healthy Startup ecosystem. On the basis of performance in these categories, the States have been recognised as the Best Performer, Top Performers, Leaders, Aspiring Leaders, Emerging States and Beginners. Among the North eastern states Assam have been categorized under emerging states, where as Manipur, Mizoram, Nagaland, Sikkim, and Tripura falls under the category of beginners. As indicated by the number of action points attempted by each State across all the seven pillars of ranking framework Assam fared well in terms of startup policy and implementation, easing public procurement, awareness and outreach but lagged in parameters such as incubation and funding support and is categorized under emerging states. For the rest of the states in NER the performance was much below the national average and is categorized under beginner category.

In 2019 'State/UT ranking framework' is spread across 7 areas of intervention including Institutional Support, Simplifying Regulations, Ease of Public Procurement, Incubation Support, Seed Funding Support, Venture Funding Support, and Awareness & Outreach with a total of 30 action points, as compared to the 38 action points in previous years' Ranking Framework. To establish uniformity and ensure standardization in the ranking process, States and UTs were divided into Category-X and Category-Y. Category-X entails states and UTs with a well-established start-up ecosystem. Category-Y includes all UTs, except Delhi, and all states in North East India, except Assam. Compared to the previous year all the states were able to improve their performance in most of the parameters.

In category X states Gujarat tops the list as best performer and Assam is categorized under emerging startup ecosystem and in category Y states / UT Andaman and Nicobar Island tops the list as best performer, Nagaland is categorized under aspiring leader, Mizoram and Sikkim comes under the emerging startup ecosystem.

Apart from startup India which was launched by the Indian Government in 2016, all the states have drafted the state startup policy with an objective to build a strong eco-system for nurturing innovation and start-ups. With the end goal of upgrading the accessibility of capital for new companies, the government has now broadened the meaning of a startup. Now, an entity will be called Start-ups for a period of 10 years from the very date of its foundation, and will keep on being considered as a Startup, if yearly turnover for any of the financial years from the time of formation of the organisation does not surpass Rs.100 crore

With the number of startups in India touching the 55,000 mark by the end of 2020, the Indian startup ecosystem recorded a total funding amount of \$70 Bn across 5,985 funding deals from 2014 to 2020<sup>5</sup>. The total funding provided to the startup in NER during the period is Rs. 128.56 Crore out of which majority (more than 80%) is in the form of government grant and remaining is in the form of equity investment and soft loan.

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<sup>5</sup> "What Slowdown? 11 Unicorns, 900+ Deals And \$11.5 Bn Raised By Indian Startups In Pandemic Year"

Sandeep Singh (Inc42 )

## 12. Factors impeding the growth of start-ups in North East India

The challenges faced by start-ups begin with essentials such as hiring and managing a team, dealing with customers, and developing a marketing strategy. There are typical challenges like that start-ups all over the nation struggle with how ever certain obstacles, are more peculiar to the North East business environment. The study outlines the six key challenges facing by start-ups in this region.

### **i. Lack of technical knowhow and business knowledge among the start-up founders**

In comparison to the rest of India the start-ups of North Eastern region have less access to updated technological knowhow and in many cases when the founders have a technical background they lack business knowledge. In many cases deficit homework on the revenue generating model is observed without which a proper strategic growth of the firm cannot be planned and executed.

### **ii. Lack of Funding Sources (Angel investors, VC firms and Alternative Funding Institutes in the region)**

For running a start-up, a significant amount of working capital is required. Many start-ups, especially at early stages, are bootstrapped, i.e. self-funded through the founders' own savings, or using capital from friends and family. While not every start-up needs external investment, many of them start looking for investors as they plan to scale their business. However, finding the right investor and raising funds is difficult, even if they have received positive responses on their product and have some proven market validation.

Nearly 128.64 crore of total funding has gone to the Start-ups in North East as per our data source as indicated in the respective states of NER. This number is negligible and there is a strong cause to increase it substantially more to sustain early-stage risk capital. Due to the processes involved and the high-interest rates, debt as a source of funding is also not a viable option. Personal funding becomes an issue as financial stability calls for immediate sources of revenue which may not be possible in the initial stages of starting a company.

### **iii. Lack of customer insights**

In order to build successful products, start-ups need to develop an in-depth understanding of the customers and their needs so that their product or services can fulfil these market need gap in a faster, better and cheaper manner. This is particularly difficult in the North East context, because the customers in this region is not concentrated in a single geographical location and are equally diverse in respect of their product or service requirement.

Due to different living environments, start-ups often have an insufficient understanding of the customers and their needs. The start-up understanding of them is often limited to certain regions, which they know well and where they know local people to work with. In that sense, comparative advantages are linked to specific regions. Therefore, building up a scalable model, which caters to a greater population, is difficult as, there is disconnection between the start-up founders and the customers, for whom they aim to build the final products.

### **iv. Difficulty in accessing the market**

It is hard for start-ups to generate willingness to pay for their products and services. The customer base continues to be price-sensitive and has little willingness to pay for products and services. Often customers expect discounts, or buy cheaper versions. Therefore, start-ups face the challenge of building affordable

solutions, which is sometimes done at the expense of quality. For this reason, many businesses are volume driven, with marginal returns.

In rest of India start-ups mostly charge customers through means of digital payment, but as the financial literacy is less and apart from the capital cities online mode of payment is hardly used collecting and ensuring timely payment is another issue.

In context of North East as private B2B market is limited most of the business comes from government procurement. As the big market players are more capable of dealing with bureaucratic regulations, the start-ups face a disadvantageous position. Although certain exemption and relaxation has been given to the start-ups in terms of government procurement, we can see very less start-ups from the region engaging in such tenders.

#### **v. Difficulty in hiring qualified manpower**

For many job seekers, joining a start-up as an employee is not an attractive career option, due to the inherent risk that the start-up might fail. Instead, the majority prefer to work for large corporations, which promise more stable jobs. In addition, start-ups can rarely compete with the reputation and compensation structures which large companies can offer so a significant number of highly qualified specialists move outside the region for jobs. Many of those who start working for start-ups switch to established companies after a few years. Job changes in the opposite direction occur less likely, because many get used to the benefits of a corporate job.

At the same time, many job applicants are not sufficiently skilled. Start-ups see a gap between the knowledge taught to students in colleges and the knowledge needed for the jobs, especially in sectors in which technologies change at a fast pace. Because they have little awareness of industry needs, fresh graduates are usually not readily employable from the beginning. As a consequence, when hiring new staff, start-ups have to invest significant amount of time and cost to train new employees.

#### **vi. Complex Regulatory Environment**

The government of India has introduced policies that aim to ease the business environment for start-ups. However, the present regulatory framework in which start-ups operate is widely seen as difficult, inefficient and unpredictable. As shown in the state ranking 2018, 2019 other than the state of Assam, all the North Eastern states scored below the national average in terms of simplifying regulations and ease of public procurement.

One of the challenges faced is the legal incorporation and registration as a start-up as well as the closing of a business. Despite government's declared intention to hasten the setting up of a business, the process is generally described as lengthy and complicated. It requires many approvals, constituting a high entry barrier. After the legal setup is accomplished, formal registration as a start-up is a necessary requirement to qualify for tax exemptions and further benefits. There are specified criteria linked to the government's start-up definition, but few start-ups in North East are able to fulfil them. As can be seen in the total number of recognised start-up by DPIIT is limited to 372 for the entire Northeast region, which is less than one percentage of the national total.

### 13. Growth strategies for NEDFi's Expansion in NER

NEDFi, being one of the premier financial institutions in the North East India, is mandated to catalyse economic development of the NER by extending financial services with the objective of overall industrial growth, more particularly of Micro, Small & Medium Enterprises and Micro Finance sectors and for larger projects, it remains a catalyst for investment. For the last 25 years, so far Corporation has grown in scale & size and has been instrumental in the growth of industries, infrastructure, small enterprises and also micro finance to the needy at the grass roots in the region. Triggered by its formidable understanding of the region, NEDFi has been successfully offering advisory and consultancy services in the region. It has achieved exponential growth, having extended financial assistance with its tailor made products/schemes like RTL, NEEDS, NOSSE, WEDS, EDS, etc. to 6844 projects with cumulative sanctions & disbursements of Rs. 5,487.92 crore & Rs. 4,222.64 crores respectively in the region.

The Start-up culture in the North East received a powerful boost when NEDFi launched its first venture capital fund through North East Venture Fund (NEVF) with a corpus of Rs.100 crores. The fund which was set up in line with the Start-up India initiative of Government of India, acts as an enabler to stimulate innovation & entrepreneurship and thereby contributing towards creation of the eco-system required for nurturing and development of start-ups in the region.

Apart from lending activities, the Corporation has also been providing hand holding support to first generation local entrepreneurs through their experienced Mentors at Business Facilitation Centre attached to most of their Branch Offices. As a promoter of overall growth in NER, NEDFi also spans across other developmental activities that include Microfinance to small borrowers, capacity building support to NGOs/MFIs, taking up Business Development Initiatives and HRD initiatives, conducting techno-economic feasibility services.

The **Growth strategies for NEDFi's expansion in NER**, which is one of the major objective of the study is based on the Ansoff Matrix, a strategic planning tool has been used to devise strategies for future growth of the Corporation. The four strategies of the Ansoff Matrix include the following-

**Market Penetration:** Focuses on increasing sales of existing products to an existing market.

**Product Development:** Focuses on introducing new products to an existing market.

**Market Development:** Focuses on entering a new market using existing products.

**Diversification:** Focuses on entering a new market with the introduction of new products.

Out of these strategies, the first three strategies can be applied suitably in NEDFi's context to devise sustainable expansion plans in alignment with NEDFi's stated vision and mission.

#### (i) Market Penetration Strategy for NEDFi:

The Corporation has 15 nos. of Branch Offices and 16 nos. of Representative Offices in the entire region which is comparatively lesser than other Banks/FIs. Further, the visibility of the Corporation is comparatively lower in the market due to lack of awareness levels of general people about various products/schemes of the Corporation. So, the market penetration strategies for NEDFi is mainly based on need for NEDFi to deepen credit markets for MSMEs in underserved districts and region of NER by increasing its direct presence in those area and by handholding private lenders such as NBFCs and Micro Finance Institution (MFIs).



Based on the business outstanding if the existing branches are upgraded to higher level manned by senior officers with sufficient staff, in the next 1-2 years opening of 4 new branches in NER (Indicative list based on MSME potential of the districts: **3 nos. in the state of Assam at Jorhat, Nagaon and Bongaigaon and one in the state of Manipur at Churhandpur**) would suffice for NEDFi to increase the loan outstanding to at least 2500 Crore in the next 5 Years. For the implementation of same, an additional interest free fund of Rs. 800 crores is required from the Ministry in the next 5 years, phasing in 3 parts of 200 crores 250 crore and 350 crores respectively.

Based on the analysis of District-wise MSME Potential Index for all the district of NER, the Strengthening & Expansion Strategies of Branch Offices of NEDFi in NER has been suggested. For the districts where physical branch is not present, NEDFi's presence will be established by the Representative Offices. Total of 95 nos. of Representative offices would be located across all the states and it would serve as a first point of contact for any enquiry. The Representative Offices will serve last mile connectivity with the customers. The R.O will also be engaged in other activities of the Organizations like conducting workshop on financial literacy and cluster development and promoting entrepreneurship at the grass root level. In combination with the above strategies in order to mitigate some of the current challenges faced by the Corporation viz. system and process, limited use of IT and better customer relation, the following upgradations (discussed at Chapter 7) are necessary:

- ✓ Technology Platform upgradation for implementation of the growth strategy,
- ✓ Back end call centre for customer support in alignment with the growth strategy,
- ✓ Process re-engineering to support the implementation of growth strategy.

## **(ii) Product Development Strategy for NEDFi:**

As the debt requirement of the MSME sector has evolved over time, NEDFi needs to update the loan products as per the market requirement.

Based on the comparative analysis of various loan products of SIDBI and SBI with NEDFi, suggestions are made in designing new loan products for increasing the market reach in MSME sector. This can be done by drop line over draft facility sanctioned for periods ranging from 12 months to 96 months with either equated reduction in limit or customized reduction in limit depending upon the cash accruals. NEDFi can also focus on CGTMSE scheme as an alternative to provide collateral free loan up to Rs. 2 crores. MSME receivable finance and credit guarantee schemes can be devised in line with the SIDBI's existing policy.

Working capital loan can be sanctioned to existing clients with 3 years or more experience in the same sector and showing positive cash flow during the period. In this line the technology upgradation like data pulling from GST portal plays an important role in monitoring of current account and financial health of the company. Sector specific finance schemes like, fleet finance, lease rental discounting, real estate based finance can be devised as per the need of local market.

### (iii) Market Development Strategy for NEDFi:

One of the strategies for the NER can be that the government creates a dedicated fund for addressing the systemic issues faced by the MSME in NER (in the line of RIDF fund of NABARD) for lending to State Government of NER as soft loans for infrastructural and cluster development, Product Development, Technology Adoption and Marketing Strategy. This fund can be managed by NEDFi, which will expand NEDFi's role in area of development of MSME Ecosystem in real sense. A similar fund can be created specifically for building ecosystem for creating large enterprises in the NER as well which again NEDFi should be managing, as the key mandate of NEDFi is the Industrial & Economic Growth of NER. In order to manage both the funds effectively, NEDFi may create a suitable department, which dedicatedly manages these funds, both from financing and developmental angle. In this manner, NEDFi will be able to expand its role in NER to a great extent.

NEDFi can play a vital role in MSME eco system development by imparting financial literacy, enhance capacity building and inculcate more grass root level entrepreneurs to the formal sector lending with the help of this additional budget allocation. As most of the present MSME units are still being catered by the informal market lending with higher rate of interest, this would help in expanding the role of NEDFi with regards to MSME financing throughout northeast.

### (iv) Financial implication for implementing the growth strategy:

As per the growth strategies the existing branches has to be upgraded and to increase the loan outstanding to over 2500 Crore within a 5-year span, 4 new branches along with IT upgradation and back end call centre support needs to be established. Moreover, having 95 Representative offices to have last mile point of contact significant infusion of additional fund is required to the existing system. The additional fund can be segregated into two components first being the one-time capital cost expenditure and the other one being increase in the operational expenditure to be bearded on a yearly basis. The details of the financial implications are as follows.

**The total capital cost for implementing the operational plan is estimated at INR 1.72 crore.**

Description of item	Total Amount (in Rs.)
Total capital cost in opening of 4 number branch office	88,00,000
Total capital cost in establishing back end call center	22,00,000
Total capital cost in enhancing IT infrastructure	62,00,000

**Additional annual Operational expense for implementing the operational plan is INR 6.89 crore.**

Description of item	Total Amount (in Rs.)
Additional annual operating expenses for the branches	6,27,20,000
Annual operating cost of the call centre	38,12,000
Annual operating cost for the IT implementation	23,96,000

The following scenario has been considered to estimate the total fund requirement for the next 5 years. The cash flow analysis shows a requirement of 800 Crore to increase the market exposure from the current value of Rs. 1000 Crore to Rs. 2600 Crore within a span of next 5 years (assuming 20% YoY growth rate).

Sl. No.	Market exposure (INR Crore)	1000	1290	1522	1806	2150	2567
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1.	Cash Out flow in loan disbursement	320	490	588	706	847	1016
2.	Cash outflow for operational expense	42	50	55	60	66	72
3.	Cash Inflow from previous loan repayment	290	361	426	506	602	719
4.	Cash Inflow from other source	36	25	27	29	31	33
5.	Cash reserve at start of year + FD infusion of 300 Cr	454	409	255	65	0	0
6.	Implementing cost of new plan	9					
7.	<b>Surplus reserve</b>	<b>409</b>	<b>255</b>	<b>65</b>	<b>-166</b>	<b>-280</b>	<b>-336</b>
8.	<b>Total fund required</b>				<b>166</b>	<b>280</b>	<b>336</b>
	<b>Fund required including contingency (Rs. 800 Crore)</b>				<b>200</b>	<b>250</b>	<b>350</b>

Note: The assumptions underlying the projection for the next five financial years:

- The growth rate in term of Loan disbursement has been fixed at 20% year-on-year basis.
- The initial expenditure related to the implementation of expansion plan is kept at Rs. 9 crores (Capex Rs. 2crore & Opex Rs. 7 crore).
- The increase in the operational expense on a y-o-y basis is fixed at 10%.
- No dividend would be shared among the shareholders in the next five years and the entire amount would be ploughed back.
- The average loan cycle is assumed to be of five years implying 20% recovery on y-o-y basis.

At present NEDFi is partially meeting the market demand with its own resources and the support extended to it by ways of the interest free loan by the Ministry of DoNER. NEDFi's futuristic projections envisage the growing requirement of funds to match the rapidly expanding demand as described in the above scenario. Additional fund requirement of Rs. 800 crore has to be infused in a span of five years' duration.

## 14. Findings and Recommendations

The major findings and recommendation of the study are summarized below:

### (I) MSME Ecosystem and Financing related Findings:

- i. The estimated supply of debt credit to the MSME sector in NER is Rs. 23638.85 Crore for the FY 2020-21 and Rs. 27451.04 Crore for the FY 2021-22
- ii. In terms of total lending to the MSME sector in NER, 78.46% is provided to the Micro, 16.76% is provided to the Small and remaining 4.98% to the Medium Units. This shows that maximum focus has to be taken on the micro segment to enable their growth and upscale them to the next segment through various interventions.
- iii. In terms of credit lending, it has been observed that private sector banks are catering to the majority of the market requirement for the state of Assam, Manipur and Tripura whereas the public sector banks have greater exposure and market penetration in rest of the states of NER.
- iv. The factors that hinder the development of a conducive business environment for expansion of the MSME sector in NER include the issues such as lack of institutional support, lack of adequate finance, inadequate and irregular supply of raw materials, backward and forward linkage, technological obsolescence, lack of infrastructural facilities, lack of motivation to entrepreneurship, Lack of storage, product designing, packaging and display and so on.
- v. The factors impeding financing of MSMEs include information asymmetry, lack of adequate securities and collaterals, access to equity capital, high transaction cost, and unaligned loan product as per MSME requirement and so on. Hence, developing the MSME eco-system emerges as one of the crucial issues to be emphasized.
- vi. The relative development of MSMEs in various states of NER at district level, an exercise has been worked out based on analysis of factors such as Demography, Human Development Index, Literacy rate, Employment rate, MSME factor, Industrial Infrastructure factor, Banking and Credit factor. The analysis enabled us to identify the cluster of districts which are progressive, districts that are emerging and those districts that are aspiring in terms of MSME development. The 'progressive district' category recognizes the districts which are ahead of others in respect to majority of the parameters taken into consideration thereby setting benchmark for other districts. However, as compared to the developed regions of mainland India these districts have a long way to go. The 'emerging districts' are in the process of strengthening the institutional mechanism to organize and scale their MSME sector to replicate the success stories from the 'progressive districts'. In this category it is observed that by focusing on certain key aspects like providing infrastructure and market linkage support, these districts can be put at par with the progressive cluster. In the 'aspiring districts' it is observed that actively reaching out to concerned stakeholders of the ecosystem and handholding support to the grass root entrepreneurs is required to accelerate the growth of MSME sector which is lagging far behind. The state-wise status in this regard is provided below:
  - The districts in the 'progressive cluster' of **Arunachal Pradesh** include Papumpare and East Siang as these two districts have the largest infrastructure in terms of industrial estates as well MSME units in them. These two districts also have higher banking penetration and maximum credit is



infused to the MSMEs located in this cluster. West Siang, Lohit, Changlang, West Kameng, Upper Subansiri and Lower Subansiri belong to the 'emerging cluster'. Industrial infrastructure among the districts in this cluster range between 3%-6%. Banking penetration ranges between 3%-9% and accordingly, the credit infused to the MSME sector ranges within 5% to 9% in the cluster. The 'Aspiring cluster' include Dibang Valley, Anjaw, Lower Dibang Valley, Tawang, Longding, East Kameng, Kurung kumey, Upper Siang and Tirap. The districts under this cluster have less number of MSMEs and the concentration of MSMEs throughout the cluster is almost uniform. Banking penetration is moderately low as compared to the other clusters while MSME credit disbursement has been much lower with credit disbursed only to the districts of Lower Dibang Valley, Tawang and East Kameng in this cluster.

- The districts in 'progressive cluster' of **Assam** state includes Kamrup (M), Kamrup (R), Goalpara, Tinsukia, Nagaon, Dibrugarh and Cachar. On further analysis of this cluster, it has been found that Kamrup (M) acts as an outlier. The common characteristics observed in the cluster are high population density, higher level of employment and literacy rate with corresponding banking penetration. In terms of the total number of MSMEs, Kamrup (M) has a majority share i.e. 40% of the entire state while the remaining districts in the cluster the percentage of MSMEs varies within a range of 4%-10%. The number of MSMEs has got a direct relation with credit as it can be observed that 33% of the total MSME funding has gone to Kamrup (M) and in the rest districts the percentage of credit varies between 4%-6%. The major government allocated industrial areas are located in the districts of Goalpara and Tinsukia that account for more than 50% of the total industrial area in Assam. However, the total number of MSMEs presents in the particular districts and the industrial infrastructure provided has large variation within the cluster. The districts under 'emerging cluster' include Sonitpur, Jorhat, Sibsagar, Barpeta, Golaghat, Dhubri, Darrang, Karimganj, Lakhimpur and Nalbari. The population density of the districts under this cluster ranges within 400-700 /sqkm but the concentration of MSMEs in these districts are comparatively lower than that of the previous cluster. However, banking penetration has facilitated infusion of credit in the MSMEs that ranges within 2%-5%.per district. It is notable that this cluster lags behind in the industrial infrastructure index except for the districts of Darrang, Nalbari and Bongaigaon which cover some industrial infrastructure out of the total industrial area in the state. The districts in 'aspiring cluster' include Morigaon, Dhemaji, Baksa, Kokrajhar, Chirang, Karbi anglong, Udalguri, Hailakandi, Bongaigaon and Dima Hasao. These districts are sparsely populated with an exception to the district of Morigaon. The concentration of MSMEs is the lowest in this cluster as compared to the above two clusters. Dhemaji, Baksa, Kokrajhar, Chirang and Karbi anglong are the districts that possess industrial infrastructure in this cluster. Both banking penetration and credit to MSMEs in this cluster is the lowest as compared to the above two clusters.

- In the state of **Manipur**, the districts under 'progressive cluster' include Imphal West and Imphal East. Imphal West has concentration of about 32% of total number of MSMEs in Manipur. With a banking penetration of 32%, MSME credit disbursed in the district is the highest i.e. 52%. Thoubal, Senapati, Bishnupur and Churachandpur belong to the 'emerging cluster'. Here majority concentration of Industrial infrastructure is in the district of Kakching (carved out from Thoubal). Banking penetration in the districts ranges within 7%-13%. There exists a great variation within the cluster with regard to MSME credit disbursed, ranging from 1% to 14%. The districts in cluster-2 include Ukhrul, Chandel, Kakching, Tamenglong, Jiribam, Kangpokpi, Pherzawl, Tengnoupal, Noney and Kamjong. These districts are characterized by low population density, less number of MSMEs,

low banking penetration and low disbursement of MSME credit as compared to cluster-1. This cluster comprises approximately 2% of the total number of MSMEs in the state, with a banking penetration of 2% disbursing MSME credit of about 0.08% of the total MSME credit disbursed in the state. Tengnoupal (new district carved out of Chandel) is the only district in this cluster that has industrial infrastructure.

- In the state of **Meghalaya**, the districts grouped under 'progressive cluster' include East Khasi Hills, Ri-Bhoi. East Khasi Hills has highest concentration MSMEs 40% of total MSMEs in state, maximum banking penetration and 84% of total MSME credit disbursement. Ri-Bhoi has the highest concentration of industrial infrastructure accounting for about 68% of total industrial infrastructure in the state. Emerging cluster includes the districts of West Jaintia Hills and West Khasi Hill. Although the Concentration of MSMEs in this cluster is lower as compared to East Khasi hills, these two districts combines constitutes 28% of the total MSMEs of the state but the corresponding infrastructure, banking penetration and credit disbursement is less. Aspiring Cluster includes the districts Garo Hills. The concentration of MSMEs in this cluster is low (2%-6%) with low banking penetration and credit disbursement to the MSME sector.

- In **Mizoram** the district of Aizawl acts as an outlier and forms the progressive cluster in itself having a concentration of 65% of the total MSME units of the states and correspondingly 67% of the MSME credit flows to this district. In the emerging cluster Mamit, Lunglei and Champhai is included. More than half (50%) of the MSME industrial estate land of the state is located in the district of Mamit. But the banking infrastructure and credit facility is less in this cluster. Kolasib, Serchhip, Lawngtlai and Saiha belong to the aspiring cluster with approximately 17% of the total state MSME units in this cluster. Other than Kolasib no major industrial estate is observed in this cluster.

- In the state of **Nagaland**, the districts of Dimapur and Kohima belong to the progressive clusters of the state. 58% of the total MSME units of the states are located in Dimapur, followed by 10% in Kohima and 84% of the total MSME credit flows to these two districts. Population density is also highest in the district of Dimapur. Mokokchung and Tuensang having a total of 20% of the state MSME units in them constitute the emerging cluster. In terms of banking infrastructure Mokokchung has the 3<sup>rd</sup> highest number of bank branches in the state. The rest of the districts namely Wokha, Mon, Zunheboto, Phek, Peren, Kiphire and Longleng belong to the aspiring cluster.

- In the state of **Sikkim**, the districts of East Sikkim comprise of the progressive clusters as it has more than 90% of the industrial area of the state and 60% of the MSME units are located here. South Sikkim which have the next highest population is categorized under the emerging district and the aspiring districts constitutes of the remaining North and West Sikkim.

- In the state of **Tripura**, West Tripura acts as an outlier for the state and constitutes the progressive cluster with more than 42% of the state MSME units and 47% of the MSME credit infusion taking place in it. Moreover 62% of the state industrial area also falls under the district. The districts of North Tripura, South Tripura and Sepahijala fall under the emerging cluster. With 27% of the state MSME units located in these three districts it is able to gather equivalent percentage (26.4%) of MSME credit infusion. The rest of the districts of Gomati, Unakoti, Dhalai and Khowai belongs to the aspiring cluster.

- vii. The data available in ASI reveals that only 2.19% of the total number of factories by 3-digit Industry Code in India are based out of NER and majority of it (approximately 76%) are located in Assam, followed by Tripura with 11% share.

## **(II) Recommendations for growth and development of MSME sector and increasing MSME financing in NER:**

### **A few recommendations for growth and development of MSME sector in NER:**

#### **i. Location/need based interventions**

Based on the MSME potential index analysis (*done in chapter 2*), it is recommended to intervene by linking the districts that have an advantage of one or more of the parameters (demographic index, composite index, MSME index, banking index, credit index and infrastructure index) with those that lack in the same.

In this context, the districts scoring high on the infrastructure and MSME index should be provided access to formal sector lending and digital platform for faster application of loan process. In case of districts scoring low on parameters such as composite index and credit index, capacity building and handholding support is required for bringing the grassroots level units to the formal sector and inculcate better financial literacy to them.

#### **ii. Skill development and linkages with training Institutes**

Capacity building and workshop on both technical knowhow as well as management related knowledge on formulating business plan needs to be imparted on the grass root level entrepreneurs. As seen in most of the micro units the enterprise is limited to a means of livelihood and the growth is limited or stagnant. In order to upscale the existing units to the next level of industrialization technology linkages with the Research institute and Government test facility centre is required. In this context the engineering colleges, and MSME tool room, training institute could play a greater role in skill upgradation of the manpower engaged in MSME sector. Incubation cells and hubs within clusters can be developed in collaboration with academia / regional institutions to provide MSMEs with mentoring and technology support, and shared R&D facilities.

#### **iii. IT enabled platform to facilitate MSME lending process**

As seen in PSBLoanIn59Minutes MSME loan provided by SBI online interactive platform by linking with the GST, ITR and last six-month bank statement similar format may be devised by the other financial institutes to appraise the loan documentation in a quick and effective manner. Moreover, it attaches benefits to the client if in case the loan is not approved one has time to approach other sources.

For the new entrepreneurs, similar facility needs to be developed by which loan can be appraised on the basis of the documents provided online. The loans specific to smaller units like standup India and MUDRA should be incorporated in the online platform of the bank so that the timeline can be clearly demarcated on the appraisal for the loan application and informed to the beneficiary.

#### **iv. Branding and certification of MSME output products and services**

As can be seen in most of the MSME products proper certification is lacking due to which the market acceptability of these products are low. Moreover, as local products are perceived to be of substandard quality in comparison to the branded products their retail prices has to be lowered

although the cost of production is comparatively high on a unit rate basis. With certification and branding backed by the government this issue can be resolved to a great extent. Already branding in lines of "Make in India" has created a good ground in launching the MSME based local products.

Technology is increasingly seen as business enabler and a vital tool for bringing in process efficiencies and higher degree of standardization. In order for MSMEs in the region to develop a competitive advantage, a strong focus on implementing new age technology, developing indigenous technology as well as technology collaboration with Research partners is likely to play a crucial role.

#### **v. Creation of Industrial growth centres and Special economic zones**

In context of North Eastern region, a limited growth in the creation of Industrial parks and growth centres can be seen, which play a crucial role in growth of the MSME sector. The development of the NCR region of India gives a substantive evidence of the impact of SEZs on the industrial development of the region. In context of North east creation of SEZ keeping in view the upcoming sectors of the region like food processing, bamboo, IT and ITES has the potential to increase the industrial growth by many folds.

#### **vi. Government policy and regulation**

For the NER, every state has its own specific needs that seek tailored attention. Thus sector specific intervention from the state government. In case of North eastern region, it can be seen that the laws related to registration of firm as well as land acquisition varies from states to state. Due to the different tax regime and land laws as applicable in the tribal states, the entrepreneurs are not incentivized to register their units under the company's Act.

Single window approval would allow entrepreneurs from any region of India to start his/her firm in North East and register their business, obtain required licenses, PAN, etc. through a single application for setting up business and easy facilitation of registrations. Annual Filing and Declaration to file taxes and other regulatory compliances, licenses, etc. annually in order to reduce administrative time and effort in meeting compliances on monthly or quarterly basis. A mechanism needs to be devised by the respective state governments so that the land in the tribal belt can also act as a form of collateral/security in case of the north eastern states.

Public Procurement Policy of the state government should be drafted and implemented in line with the Central government, the eligibility criteria of which doesn't require any prior turnover and work experience for the MSME units. No EMD should be charged on the MSMEs for participation in government tenders and minimum annual purchase of 20% from the MSME units of the state should be made mandatory for any government procurement.

In order to have an accurate picture of the MSME scenario in the state, the registration in UDYAM portal is to be made mandatory and awareness and publicity for the same should be made by the respective DIC-MSME in the districts. Handholding support for the registration should be provided to the grassroots entrepreneurs. This would help in bringing the unorganized units to the formal sector and also help in directing the government benefits to the targeted segments.

The government procurement portal GeM should be sensitized to all the MSME stakeholders and handholding support should be provided to them for empanelment in the portal.



### **Recommendations for increasing MSME financing in NE:**

- i. An MSME loan product should be designed to provide a hassle free loan to support the entrepreneurs with easy to meet eligibility criteria, minimum security or collateral free loan that should come with a short processing cycle with minimal paperwork and comfortable repayment tenure at an attractive rate of interest.
- ii. An alternative investment fund can be created to cater to the specific requirement to the MSME sector of the North Eastern states. The same fund would be used for meeting the viability gap specific to the projects in MSME sector (indicative example- 60% of the total project can be funded by bank loan, 10% through owner's contribution and the remaining 30% in the form of grant-in-aid from the government). Apart from this, incentives like interest subvention may be given to promote indigenous sectors of the region like handloom and handicraft, food processing, rural tourism etc.
- iii. Seed funding may be provided on a pilot basis to the technically qualified youth on a group lending basis. The qualification of the entrepreneur would itself serve as a collateral in this regard.
- iv. Implementation of the MUDRA scheme needs to be achieved through the RRBs, MFIs and in the various capacity building programs taken up by the department of MSME in the respective states so that its benefit reaches the grass root level entrepreneurs.
- v. Recommendation for use of land as collateral securities in NE: In those parts of the hills of the North East where there is no practice of issuing documents conferring transferable rights or where the procedure is cumbersome, the respective governments (or autonomous councils) should expeditiously put in place a system of issuing land ownership or possession certificates. It can be issued to the land owners with endorsement of his/her possession of the specified plot of land by an appropriate local authority. The State laws should be amended wherever required to create mortgages in favour of all scheduled commercial banks with limited land transfers to specified entities such as locally domiciled inhabitants of the State or the government bodies or the commercial/cooperative banks. For industrial and other projects, banks should be sympathetic and for want of immovable property as collateral, no viable project should be turned down. Where the Credit Guarantee Fund Trust for Small Industries (CGTSI) guarantee is available, such guarantee along with other primary security and the personal guarantee of the promoter/ borrower should suffice.

### **(III) Start-up related findings**

Regarding funding of the ventures maximum fund has been infused in the state of Assam and Manipur. As the number of private Venture Capital firms are less, most of the funding has taken place as a grant and seed capital to the firms. In total Rs. 128.56 Crores fund has been infused to the start-ups in NER among 1300+ start-ups. The sectors which show high potential for growth in NER and have received maximum funding are Edutech, food processing, health care, Biotechnology, IT and IT enabled services and tourism. Apart from these sectors some of the start-ups are funded by the Oil sector PSUs, and agriculture based fund, these start-ups are working on providing solutions specific to the sector.

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- ii. In terms of incubation support Assam has the majority of it in form of Nest Start-up Assam, TIC-IIT Guwahati and other educational institute, rest of the states the incubation facilities are limited to only one or two centres and most of it are in nascent stage.

### **(IV) Recommendation for Growth of Start-up Sector in NER.**

#### **i. Government policy support:**

Start-up policy along with clear-cut guidelines on the registration process and process for availing benefits offered by the states should be drafted and implemented by the respective state government. Dedicated nodal officer should be appointed to oversee the development of start-ups.

Online application for state start-up registration and availing its benefits is seen only for the state of Assam and Manipur. Online portal needs to be developed for rest of the states to implement their start-up policy. Full-fledged online implementation system for registration of start-up and tracking of application should be devised to facilitate the process for the start-ups.

#### **ii. Simplifying regulations**

An interactive online business compliance information system should be in place to connect with start-ups from disruptive technology areas and understand their regulatory issues. The start-ups should be allowed self-certification of start-ups to comply with labor laws, pollutions laws and other state related subjects.

#### **iii. Easing public procurement**

Relaxation to start-ups in public procurement tenders for the criteria related to prior experience and prior turnover, exemption from submitting any earnest money deposit to participate in public procurement should be allowed for the state government in line with the central government public procurement policy.

As the private sector market is underdeveloped in the region, the purchase policies of the state government should also be made mandatory to procure a certain minimum percentage of goods and services from start-ups and online mechanism to resolve grievances of start-up related to public procurement should be devised. This would help in initial traction of the start-up and help them to gain momentum for further expansion and growth.

**iv. Incubation support**

As seen in most of the NER states the incubation center is limited to only a few numbers and some of it are specific to a particular sector like agriculture or biotechnology. As incubators have a crucial role in the growth of the start-up from the ideation stage to growth more number of incubation facilities need to be developed in the state. Partnering with educational institutes like IITs, IIMs, NITs and other state universities to provide incubation space and support to the start-ups will help in providing physical space as well as access to the labs and workshops to make the minimum viable product.

Mentors from both industry and academia should be taken on board for guiding the start-ups on the same platform to give response to the start-up queries.

Setting up of new incubators and upgrading of the existing ones is required. Support in form of grant should be provided to the incubators to procure the resources required such as lab equipment, machinery, conduct programs and workshops, honorarium to mentors etc.

Total number of seats in the incubation cell needs to be enhanced depending upon the number of start-ups in the state, and the facilities like co-working space and access to labs should be provided to the incubates free of cost or at a very nominal rate.

**v. Seed funding support**

Clearly defined guidelines for availing seed funding from the government should be formulated defining the eligibility, criteria and extent to it. The seed funding can be in form of grant, equity seed funding or reimbursement of the expenses beared to make the minimum viable product or services. Online application and tracing for the seed fund should be made available to the start-ups

Once a start-up has got a seed funding from any of the government departments or agencies the same firm should not be given seed funding from any other government source, however in order to scale up and accelerate a different provision could be provided under a separate head. This will ensure maximum numbers of ventures in the state are benefited by the seed funding.

**vi. Venture funding support**

State government can have venture capital fund dedicated for investment in the start-up with growth potential in their respective states. Fund managers to manage the funds and operational guidelines for the venture fund should be devised by the industries and commerce department of the state.

Apart from the government based funding, in order to encourage private Venture capital funds to participate in the state, incentives are to be devised.

An impact fund can be generated with grant in aid from World Bank and other sources for the start-up working in the domain of environmental sustainability, healthcare, education, renewable energy or any of the SDG goals.

Another viable option of funding the start-ups in growth stage is by providing loan from the formal banking sector. The Manipur government model of partially funding the contributor margin and providing interest subvention in loan repayment could be tested on a pilot scale by rest of the states in NER.

#### vii. **Awareness and Outreach**

Boot camps and workshops need to be conducted extensively in the colleges and universities to foster innovation and entrepreneurship among the students on a regular manner by the respective state's Department of Industries and Commerce. Start-up competitions, hackathons and other national and international events should be conducted in regular interval with the help of incubation centres and other stakeholders so that a platform is provided to the budding start-up founders to showcase their ideas and get it evaluated by the experts. Exposure tours and linkages to the developed markets and incubation centres in Bangalore, Delhi, Mumbai, etc. should be provided to the early stage start-ups.

### **(V) Recommendations for Expansion of NEDFi's role in NER**

The proposed strategies for Expansion of NEDFi's role in NER is primarily based on the understanding of Supply, Demand and Gap in MSME Financing in NER; Factors Impeding the Growth of MSME and MSME Financing in NER and on the evaluation of NEDFi's performance in the NER market since its inception. Expansion strategies for NEDFi mainly focusses on the Market penetration, Product development and Market development strategies as given below:

- i. The **Market Penetration** strategies for NEDFi is mainly based on need for NEDFi to deepen credit markets for MSMEs in underserved districts and region of NER by increasing its direct presence in those area and by handholding private lenders such as NBFCs and Micro Finance Institution (MFIs). It is recommended that the the existing branches has to be upgraded and to increase the loan outstanding to over 2500 Crore within a 5-year span, 4 new branches (**3 in the state of Assam at Jorhat, Nagaon and Bongaigaon and one in the state of Manipur at Churchandpur**) along with IT upgradation and back end call centre support needs to be established. Moreover, 95 Representative offices (discussed at Chapter 7) in each district is recommended to achieve the last mile connectivity in the underserved districts of NER. For this envisaged expansion activities, Significant infusion of additional fund is required to the existing system. An additional fund requirement of **800 crore** has to be infused in a span of five years' duration in order to realise the above mentioned market penetration strategies, which can be provided by way of interest free loan to NEDFi by the Ministry of DoNER. The additional fund can be segregated into two components first being the one-time capital cost expenditure and the other one being increase in the operational expenditure to be bearded on a yearly basis.
- ii. The **Product Development** strategies for NEDFi is mainly based on designing new loan products for increasing the market reach in MSME sector finance. The recommended strategies are mentioned below:
  - Drop line over draft facility can be sanctioned for periods ranging from 12 months to 96 months with either equated reduction in limit or customized reduction in limit depending upon the cash accruals
  - NEDFi can focus on CGTMSE scheme as an alternative to provide collateral free loan up to Rs. 2 crore.
  - Working capital loan can be sanctioned to existing clients with 3 years or more experience in the same sector and showing positive cash flow during the period. In this line the technology upgradation like data pulling from GST portal plays an important role in monitoring of current account and financial health of the company.



- MSME receivable finance and credit guarantee schemes can be devised in line with the SIDBI's existing policy
  - Sector specific finance scheme like, fleet finance, lease rental discounting, real estate based finance can be devised as per the need of local market.
- iii. The **Market Development** strategies for NEDFi is based on the understanding that being the only Development Financial Institution in NER with the core mandate of contributing towards the Industrial and Economic Growth of the NER, NEDFi needs to work in a focused manner on the development and expansion of MSME Ecosystem in the NER. In order to address issues such as Product Development, Technology Adoption and Marketing Strategy and creating a conducive business ecosystem for MSME in the NER, a clear-cut strategy keeping the priorities of NER into mind needs to be there. One of the strategy for the NER can be that the government creates a dedicated fund for addressing the systemic issues faced by the MSME in NER (in the line of RIDF fund of NABARD) for lending to State Government of NER as soft loans for infrastructural and cluster development, Product Development, Technology Adoption and Marketing Strategy. This fund can be managed by NEDFi, which will expand NEDFi's role in area of development of MSME Ecosystem in real sense.
- iv. A similar fund can be created specifically for building ecosystem for creating large enterprises in the NER as well which again NEDFi should be managing, as the key mandate of NEDFi is the Industrial & Economic Growth of NER. In order to manage both the funds effectively, NEDFi may create a suitable department, which dedicatedly manages these funds, both from financing and developmental angle. In this manner, NEDFi will be able to expand its role in NER to a great extent.
- v. NEDFi's role in area of development of MSME and Start-up Ecosystem in real sense includes induction of financial literacy and capacity building to the grassroots level entrepreneurs. In this regard the Representative Office and BFC would play a vital role as they form a linkage with the remotest district of NER. The mentoring support and guidance that can be provided by conducting regular workshop and training program in order to upscale the knowledge of first generation entrepreneur in NER would create a conducive ecosystem and form as a platform for further growth in the MSME as well as start-up sector.
- vi. Explore collaboration with Fin-Tech ventures to increase the exposure and reachability. The Fin-Tech players with varied business model have been successful in catering to the credit needs of the MSME sectors on account of their flexible approach and ability to use alternate data for credit assessment. NEDFi could opt for collaborating with suitable Fin Tech Company and leverage each other's competitive advantages.
- vii. As NEDFi Venture Capital (VC) funding is catering to the start-up ecosystem in the growth stage of the ventures having proof of concept, institutional linkages with the incubation centres and academic institutes will provide a better understanding of the start-ups having growth potential.
- viii. As the role of a V.C firm is not only limited to provide equity funding to the venture but other supportive role like industry specific mentoring, sharing of technical knowhow and providing market linkage are expected out of it NEDFi needs to partner with other organizations to provide the same to the funded ventures.

ix. The MSMEs and Startups plays a very critical role in today's business environment, more so in context of India as they are working towards providing cost effective affordable solutions for a developing nation like India working towards the achievement of the SDG goals. Moreover, they also help in equitable distribution of wealth among the population contributing towards poverty eradication. As such the existing financial products are not adequate enough to cater to the needs of the evolving MSME and Startups working in the domain of social impact. Typically, the sectors of interest include education, healthcare, affordable housing, financial inclusion, water and sanitation, energy and promotion of sustainable livelihood. A special impact fund needs to be created to cater to these needs. NEDFi can set up a social impact fund (NESIF) to scale high impact enterprises that provide sustainable solutions while amplifying social and environmental impact. NESIF can aims to measure the impact created through its investment at the grass root level through metrics derived from internationally accepted frameworks including the Impact Reporting and Investment Standards (IRIS+) (IMM framework), PRISM and GIIRS and tailored indicators that allow for a data-driven assessment of social outcomes. An impact fund can be generated with grant in aid from World Bank and other sources for the start-up working in the domain of environmental sustainability, renewable energy or any of the SDG goals. This fund can be managed by NEDFi for proper allocation to the targeted ventures.

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