



## Asian Journal of Management and Commerce

E-ISSN: 2708-4523  
P-ISSN: 2708-4515  
AJMC 2020; 1(2): 30-34  
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[www.allcommercejournal.com](http://www.allcommercejournal.com)  
Received: 25-06-2020  
Accepted: 27-07-2020

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# Micro small and medium enterprises (MSMEs) in Papum Pare district: Opportunities, issues and challenges

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### Abstract

Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing states of North east region and Papum Pare district of Arunachal Pradesh. Contribution of MSMEs to the Arunachal Pradesh economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing export potential of the country has been quite phenomenal. Despite some infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages, this sector has registered remarkable success with regard to increase in number, quantum of investment, scale of production and overall contribution to national GDP. The study makes an attempt to focus on the huge growth potential and opportunities available in Arunachal Pradesh for development of MSME sector, to identify important issues and challenges.

**Keywords:** Micro, small & medium enterprises (MSME), growth potential, challenges, market linkages

### Introduction

Micro, small and medium enterprises (MSMEs) in Papum Pare district of Arunachal Pradesh and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy. As a catalyst for socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. It is therefore, essential that Arunachal Pradesh adopts a suitable policy framework that provides the required impetus to seize the opportunities and create an enabling business environment in order to keep the momentum of growth and holistic development. It is equally important that the MSME sector must address the infrastructural deficiencies and is well empowered to meet the emerging challenges for its sustainable growth and survival in a globally competitive order.

### Objectives of the study

The objectives of this study are to briefly highlight on the functional scenario of micro, small and medium enterprises in Papum Pare district of Arunachal Pradesh, to focus on the huge growth potential and opportunities available for development of this sector; to identify some important issues, challenges and constraints confronted by these enterprises and to offer suggestions to overcome the same.

### Methodology

The study involves a critical analysis of functioning of some micro, small and medium scale enterprises in Papum Pare district of Arunachal Pradesh both in manufacturing and service sector and intends to identify the potentialities for growth, opportunities, major issues and challenges experienced by these enterprises.

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The data are collected mostly from secondary sources by way of access to various Government policies/ programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of entrepreneurs, industry workers and other stake-holders.

### MSMEs - in Arunachal Pradesh – an overview

Micro Small and medium industries form an important sector in the economy of Arunachal Pradesh. The industries are classified in different categories in different states, though the broad categories were mentioned by Indian Industrial Policy. According to Indian Industrial Policy,

there are four broad categories of industries exist i.e. industries controlled by central government like production of arms and ammunitions, management of railways, etc; industries are planned and regulated by central government like cement industries, paper industries, etc; industries undertaken by state government like mineral oils, iron and steel plants, etc; and industries run by cooperative groups or private individuals.

In Arunachal Pradesh industries classified under Indian industrial policy do not exist but it has certain industrial classification of its own in private sector only. The detail classification of industries in Arunachal Pradesh is shown below:

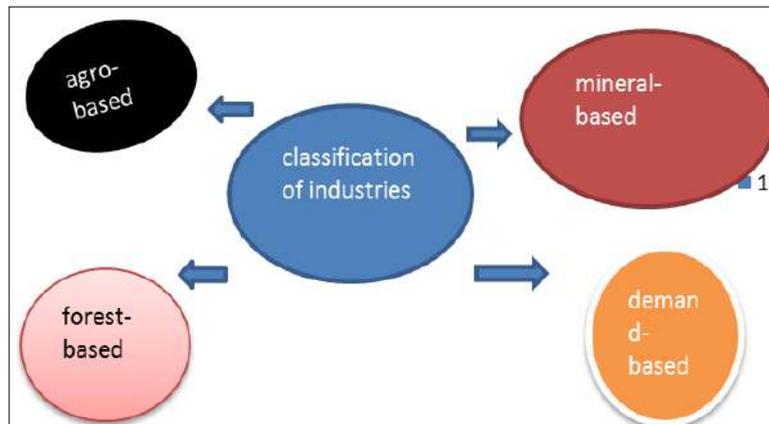


Fig 1: Classification of industries in Arunachal Pradesh

#### A) Agro-Based Industries

1. Paddy Dehusking Mill,
2. Tea Factory,
3. Mustard Oil Mill, etc.

#### B) Forest-Based Industries

1. Saw Mill,
2. Incense Sticks manufacturing unit,
3. Veneer & Plywood Mill, etc.

#### C) Mineral-Based industries

1. Cement Factory,
2. Stone Crushing Unit,
3. Ferrous Alloy Unit, etc.

#### D) Demand-Based Industries

1. Barbed wire Unit,
2. Black Smithy,
3. Printing Press Unit,
4. Steel Fabrication Unit, etc.

Micro, Small and Medium Enterprises Development Act, 2006 which has come into force from 2<sup>nd</sup> October 2006, the entire concept of 'Industries' has been changed to 'Enterprises'. The industries which were called as Small Scale industries and Agro & rural industries are now come under single head called Micro, Small and Medium Enterprise. Now the enterprises have been classified broadly into:

#### 1. Manufacturing Enterprises

The enterprise which is engaged in the manufacturing or producing goods to any industry called as manufacturing enterprises. The manufacturing enterprises have been defined in terms of investment in Plants & Machinery

excluding Land & Building, and further classified into:

- a) Micro Enterprises: Investment upto Rs 25 lakh.
- b) Small Enterprises: Investment above Rs 25lakh and up to Rs 5 crore.
- c) Medium Enterprises: Investment above Rs 5 crore and upto Rs 10 crore.

#### 2. Service Enterprises

The enterprise which is engaged in providing or rendering of services called as service enterprise. The Service enterprises have been defined in terms of their investment in equipment excluding Land & Building and further classified into:

- a) Micro Enterprises: Investment up to Rs 10 lakh.
- b) Small Enterprises: Investment above Rs 10 lakh and up to Rs 2 crore.
- c) Medium Enterprises: Investment above Rs 2 crore and upto Rs 5 crore (Government of India, 2007: 8-9)

The enterprises in Arunachal Pradesh are functioning according to the MSMED Act, 2006. The growth of small and medium enterprises in Arunachal Pradesh in the recent past has been significant. The district industries centers set up by the government has greatly contributed to the promotion of small and medium enterprises in the rural areas. The number of micro, small and medium enterprises significantly increased to 632. Their investment has also increased constantly. As per the data, the investment of MSME has increased to Rs 168612.04 lakh. Similar growth is observed in case of generation of employment by MSME sector. Their employment potential enormously increased to 4591 persons by the end of March 2018. A few more particulars are presented in table.

**Table 1:** District wise Small scale and Medium scale industries and their employment and investment in Arunachal Pradesh as on 31<sup>st</sup> March 2018

Sl. No.	District	No. of village and SSI units registered permanently	No. of Medium Industries	Total no. of Employment	Total Investment (during 2014-18)
1	Tawang	23	-	118	26.20
2	West Kameng	55	-	70	111.00
3	East Kameng	10	-	30	12.50
4	Papum Pare	108	4	1500	2500.00
5	Lower Subansiri	46	-	60	50.00
6	Kurun kumey	4	-	20	11.00
7	Upper Subansiri	29	-	30	21.00
8	West Siang	61	-	125	151.00
9	East Siang	48	-	1251	300.00
10	Upper Siang	3	-	62	95.70
11	Dibang Valley	1	-	10	10.00
12	Lower Dibang Valley	74	2	679	350.00
13	Lohit	83	2	234	280.00
14	Anjaw	-	-	-	-
15	Changlang	24	5	350	582.37
16	Tirap	47	3	58	300.00
	Total	616	16	4591	4793.07

Source: Statistical report 2018

A good number of enterprises have come up after March 2016, so the total numbers of enterprises in current period of time may be somewhat different. As no updated data is available so it is very difficult to reveal the exact numbers of enterprise in every district in Arunachal Pradesh. Although, the exact numbers of enterprises in case study area i.e., Papum Pare can be seen in upcoming chapter.

The table reveals that the highest number of permanently registered SSIs belongs to Papum Pare district with 17.53 percent, whereas with only 1 unit in Dibang valley district, having the lowest percentage of registered SSIs. The newly formed Anjaw district still has to start industrialization process. Coming with the medium industries Changlang district is having 31.25 percent of total industries of state and next with 25 percent of total industries is Papum Pare district.

While coming to the total investment during the year 2014-18, the highest share of 52.17 percent is with Papum Pare district as the numbers of industries is higher than the rest of the districts. The highest rate of employment is also in the Papum Pare district with 32.67 percent. The per unit employment is highest in the East Siang district with 26.06 percent whereas by leaving Anjaw district, the lowest per unit of employment is in the Upper Subansiri district with 1.03 percent.

#### Potentialities for growth: Opportunities

Micro, Small and Medium Enterprises have substantially contributed to the economic development of Papum Pare district of Arunachal Pradesh. The MSME sector in Papum Pare occupies the second position next alone to agriculture in terms of employment generation. This sector accounts for about 60% of the industrial units, 35% of manufacturing output, 30% services sectors industries in the district. MSMEs have greater opportunities to grow as ancillary industries to unleash higher industrial growth. MSMEs being less capital intensive and more employment-friendly have easier access to raw materials, subsidies and other incentives under cluster programs. The Papum Pare has huge growth potential to create and enhance the capacity of enterprises both in the manufacturing and service sector by using the available resources. There are huge opportunities

for the MSMEs to grow as ancillary industries to unleash greater industrial growth. Development of the sector is therefore extremely important as it holds the key to inclusive growth and plays a pivotal role in holistic development of the District. Arunachal Pradesh the incidence of growth is evident from the increased investment in infrastructure, abundant job opportunities, emergence of a robust private sector with small and big companies/ corporate houses and high rise in consumerism. The MSME sector has the potentialities to emerge as the backbone of Arunachal Pradesh economy and to continue as an engine of growth provided an environment-friendly policy framework and enabling infrastructural support are made available for its functional operations. MSMEs in Papum Pare consistently feed the domestic and the international value chain as manufacturers, suppliers, distributors, retailers, contractors and service provider by accounting for a substantial segment of our industrial units. This sector has been performing appreciably better than the overall rate of GDP. Availability of adequate financial resources, a supportive policy framework to address the areas like entrepreneurial skill development, a competent pool of human resources, application of latest technology and new innovations, adequate international market linkages and bilateral trade agreements etc. would make the Arunachal Pradesh MSME sector globally competitive to address the emerging challenges and help ensure their sustainability. The roadmap for MSME development should include a target for increase in the share of their contribution from the present 8% to 15% by 2020, a substantial increase in generation of employment avenues up to 50%, an enhancement in MSME contribution in the key public and private industry sector by meeting the growing domestic demand, indigenization and important substitution and growth in foreign exports<sup>15</sup>. The recent 'Make in India' initiative by Government of India would make a substantial impact in the area of indigenization and would also attract sizable foreign investment. Similarly, the 'Digital India' programmed offers huge opportunities to MSMEs to participate in big way in the Information and Communication Technology (ICT) sector.

**Issues and Challenges**

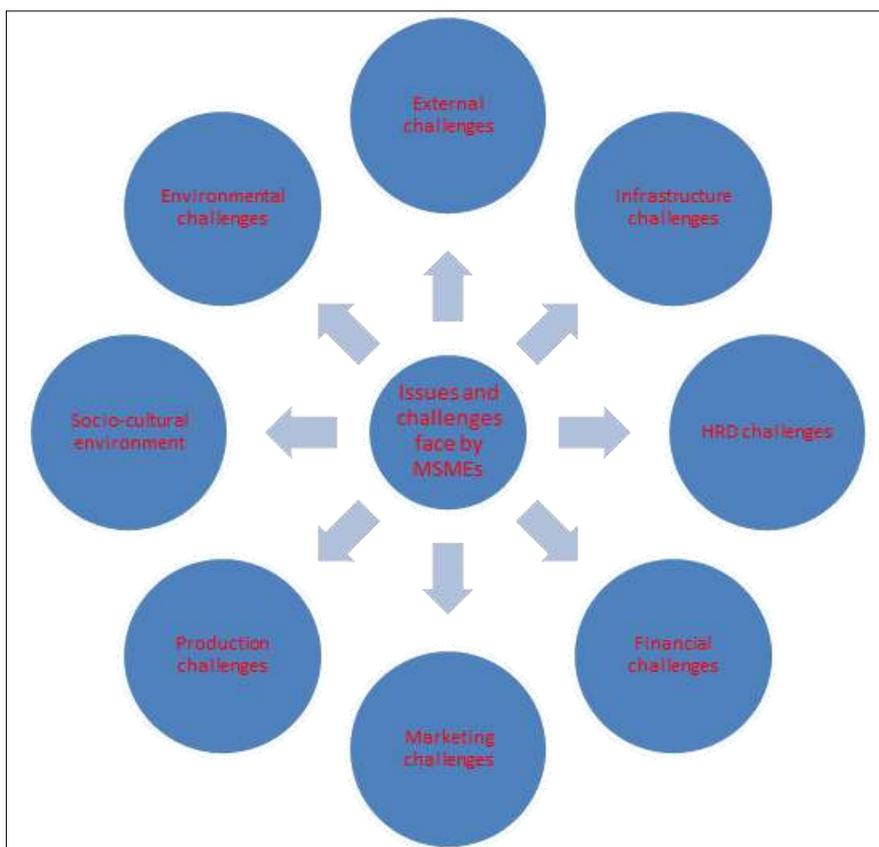
MSMEs are facing many challenges and issues because of both internal and external factors causing MSMEs performance. Here in the figure 1it is given that issues and challenges faced by MSMEs- external challenges and issues include external factors like changes in legal system, estimating market conditions, environmental factors includes political, legal, social and economical factors and socio cultural environmental factors which determines an entrepreneurs state of becoming entrepreneur. External challenges for MSMEs includes all the socio cultural factors like education, caste, religion, family background and networks which influence an individual.

Internal factors include all management related factors like production, marketing, human resources development, financial and infrastructure related factors etc. Internal challenges are production challenges, marketing, financial, human resources development and infrastructure etc. Production challenges include lack of power, lack of resources, lack of scarcity, lack of high cost raw materials, poor quality of raw materials, lack of machinery etc.;

marketing challenges includes lack of promotional strategies, lack of market channels, lack of networking, lack of organized distribution channels, lack of delivery time etc.; financial challenges includes lack of credit from bank, lack of awareness on schemes and services, delayed process in bank, lack of working capital etc.

Human resources development includes lack of training, lack of motivation among employees, lack of technical and managerial training, improper way of recruiting etc. Infrastructure challenges include lack of communication road network, lack of water facilities, lack of storage facilities etc.

Hence from the above discussion it is clear that there are many challenges influencing MSMEs. Among them major are production, marketing, financial, human resources development and infrastructure etc. from above all issues and challenges external challenges are also not avoidable in nature as they occur because of environmental changes which not in organization control but internal challenges and issues can overcome and avoidable through certain safety measures and through management involvement.



**Fig 2:** Showing issues and challenges of MSMEs

Despite the pivotal role and strategic importance in the context of industrial development and economic growth of Papum Pare district of Arunachal Pradesh, MSME sector experiences several constraints and challenges. Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable industrial development. The Committee on financial architecture of MSME sector in their Report submitted in the February, 2017 has identified some key issues-

a. Equity as a source of financing is underutilized and the prevalence of investment by venture capital and angel investors is low,

- b. MSMEs face the problem of delayed payments from their buyers which adversely impacts their working capital as well as their next cycle of production,
- c. MSMEs lack adequate information about various schemes and benefits available by the government,
- d. Financial institutions/Banks face challenges in credit risk assessment of MSMEs,
- e. The utilization of the available credit guarantee and insurance schemes by banks has been low.

Some of the major challenges confronted by these enterprises include; lack of adequate credit and capital, poor

and inadequate infrastructural facilities, inadequate access and marketing linkages, technological obsolescence and inadequate application of new technology, lack of skilled human resources, dilatory and cumbersome regulatory practices for clearance and poor adaptability to emerging international trends. This calls for the need for strategic intervention to improve coordination and linkages between various stake-holders including the Government, industries and other agencies/associations working in this field.

### Conclusion

MSMEs over the years have assumed greater significance in our Burgeoning national economy by contributing to employment generation and rural Industrialization. This sector possesses enough potential and possibilities to push button accelerated industrial growth in our developing economy and well poised to support national programme like 'Make in India'. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for them under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

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