

Challenges and Growth Prospects of MSMEs in Arunachal Pradesh

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Abstract

One of the main reasons the economy of Arunachal Pradesh is growing is the state's micro, small, and medium-sized businesses. Micro, small, and medium-sized enterprises (MSMEs) not only create jobs but also aid in rural regions' industrialization, which, in turn, helps level income distribution. Small and medium-sized firms (SMEs) play a crucial role in the growth of the Arunachal Pradesh economy. Whether it's via exports, domestic production, operational flexibility, minimal investment needs, technology-oriented businesses, etc., SMEs contribute considerably. In an effort to pinpoint critical concerns and difficulties, the research zeroes in on Arunachal Pradesh's massive untapped growth potential and possibilities for the MSME sector. In spite of possessing such assets and skills, the MSMEs in Arunachal are not benefiting from improved policies. Lack of equity and financial access is a big challenge for MSMEs in these areas. Lack of management skills, marketing channels, and brand-building ability are all outcomes of this industry's low-paying capacity, which in turn causes a scarcity of trained workers.

Keywords: *MSME; Arunachal Pradesh; Growth; Challenge; Employment*

1. Introduction

The global and regional economies rely heavily on small and medium-sized businesses (SMEs) because of the substantial contributions they make to gross domestic product (GDP), innovation, and economic diversity. They create jobs and make up more than 90% of all enterprises on the planet. By creating jobs, encouraging entrepreneurial spirit, and decreasing poverty, SMEs propel local economies in emerging countries. By expanding into neglected areas and establishing economic equilibrium, they pave the way for equitable development. By responding quickly to changes in the market and making good use of available local resources, SMEs promote economic integration and boost competitiveness in their regions. Economic stimulation, social stability, and sustainable development are three areas in which they excel, highlighting their significance. Many economic theories highlight the importance of small and medium-sized businesses (SMEs) to overall economic growth. According to the innovation idea, tech breakthroughs, higher productivity, and overall economic development are all driven by small and medium-sized businesses. According to endogenous growth theory, SMEs may help the economy overall by sharing their expertise.

According to Schumpeter's theory of creative destruction, competition is fostered by small and medium-sized firms (SMEs), which cause inefficient industries to be replaced by more efficient ones. According to the resource-based perspective, SMEs may get ahead of the competition and expand if they can be flexible and make good use of their unique assets. Furthermore, human capital theory posits that a common practice among SMEs is the provision of

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training and skill development programs, which in turn boosts employee quality and productivity. Supportive rules for small and medium-sized businesses (SMEs) are necessary, according to institutional economics, since these policies may increase SMEs' contribution to economic development. In broad strokes, these ideas illustrate the many ways in which SMEs might contribute to the advancement of economic growth. The aforementioned ideas make it clear that small and medium-sized enterprises (SMEs) confront real obstacles such as a lack of resources, restricted market prospects, and regulatory hurdles, even while economic theories highlight SMEs' importance in driving economic advancement. Theoretical frameworks like these also fail to account for the realities that small and medium-sized enterprises (SMEs) face, such as cultural diversity, economic volatility, and the effects of global competition.

The micro, small, and medium-sized businesses (MSMEs) in India are widely believed to be the backbone of the country's economic development. In India, the micro, small, and medium enterprise (MSME) sector is second only to agriculture in terms of importance to the country's economy. Small and medium-sized enterprises (SMEs) account for about 8% of the country's gross domestic product (GDP), 45% of industrial production, and 40% of exports. Following agriculture, they account for the lion's share of the labour force. They are the places where new ideas and entrepreneurial spirit are nurtured. MSMEs are contributing to inclusive industrial development in the nation via their diverse range of business classifications. One positive aspect is the opportunity it provided to many low-income rural residents via its micro-businesses category. To the contrary, SMEs are reaching out to people in both urban and rural areas, encouraging them to take part in nation building. Many consider the Indian states in the northeast to be economically disadvantaged. But there's a lot of room for entrepreneurial development in these areas, especially in Arunachal Pradesh. The state is naturally endowed with climates that are ideal for undertaking various forms of entrepreneurship and large-scale industry. Businesses in the tourism, hydropower, biodiversity, etc., sectors would benefit greatly from the state's abundance of resources. On the other hand, most of the state's resources are still sitting dormant and underutilized. For the state's residents, this is a huge obstacle that contributes to and worsens issues like poverty and unemployment. The state's economic development or growth process is being impeded by these obstacles.

2. Literature Review

Rai, Laxmi. (2024) Small and medium-sized firms (SMEs) play a crucial role in the growth of the Arunachal Pradesh economy. Whether it's via exports, domestic production, operational flexibility, minimal investment needs, technology-oriented businesses, etc., SMEs contribute considerably. Small businesses in Arunachal Pradesh employ more people than any other sector, second only to agriculture. More than 80% of all businesses in the industrial sector are MSMEs, and they're crucial to the growth of the industry since they account for 40% of all exports, 80% of all jobs in the industrial sector, 45% of all value created by manufacturing, and 80% of all industrial production. The purpose of this article is to investigate the expansion and impact of Arunachal Pradesh's micro, small, and medium-sized businesses (MSMBs), as well as their function in the state's job market. Also covered in this study are the many challenges that these MSMEs have while running their business.

Ankita, Roy & Roy Karmakar, Ankita. (2022) The entrepreneurs in the Papum Pare District of Arunachal Pradesh's Handloom and Handicraft industry face several obstacles that limit their growth and development. This research tries to investigate these restraints. This study examines the limitations that entrepreneurs have in terms of finances, marketing, technology, and infrastructure, among other aspects, by putting themselves in their shoes. Papum Pare areas with the highest concentration of handloom and handicraft businesses are the subject of this research, which employs primary and secondary data. Statistical inferences, such as hypothesis testing, are also used in this research to make conclusions and determine whether there is a significant relationship between the expansion of handloom and craft firms and the improvement of entrepreneurs' quality of living. Also, to find out how crucial financial and non-financial institutions are in releasing the restraints, and how important entrepreneurial management is.

Sarkar, Bina. (2016) It is extremely challenging for MSMEs to attract and retain talented management and technical staff. The majority of them are hesitant to embrace contemporary things. The fact that the vast majority of MSME businesses are disorganized is a major negative aspect of this industry. As a result, trust is low, which makes it hard to keep tabs on development projects and come up with suitable plans to suit the varied requirements of the diverse range of businesses. The micro, little, and medium-sized enterprises (MSMEs) in Arunachal Pradesh and Assam do

not benefit from improved policies, although possessing these assets. Lack of equity and finance access is a big challenge for MSMEs in these areas. Lack of management skills, marketing channels, and brand-building ability are all outcomes of this industry's low paying capacity, which in turn causes a scarcity of trained workers. There are a lot of issues that the sector has to deal with, such as not having access to sufficient and timely banking finance, not having enough capital and knowledge, not being able to find new markets, limits on modernization and expansion, not having affordable, highly skilled labor, and not being able to follow up with different government agencies to handle problems.

Ashok Sharma (2014) The role of small businesses in regional and rural development is seen as crucial and perhaps dominant. Everyone knows that the most fundamental needs of those living in rural regions are food, housing, and a job. In particular, small businesses may aid the impoverished and rural populations by employing the vast majority of them, which in turn allows them to address their most fundamental issues. In the Papum Pare area of Arunachal Pradesh, this research aims to shed light on small firms and how efficiently they generate jobs. The purpose of this study is to demonstrate the current employment situation of small businesses in the Papum Pare region. The study's critical components include the workers' and employees' size, category, education level, compensation, etc. In order to get a better understanding, the research used statistical tools to evaluate both primary and secondary data.

Saikia & Das (2012) "Entrepreneurship and Micro & Small Enterprises growth in Assam" was a 2012 study by Saikia & Das that looked at MSE expansion in Assam using a variety of metrics, including employment, unit count, and more. Using NSSO data on Assam's unorganised manufacturing sector from 1994–95 to 2005–06, the research was conducted. From 2000-01 to 2005-06, micro and small businesses in Assam saw substantial expansion. Additionally, it was noted that micro and small businesses in Assam did not provide enough jobs for the people, even though they had a great deal of potential to do so.

3. Challenges of MSMEs in Arunachal Pradesh

On a global basis, the small-scale industry is now driving expansion. Small and medium-sized enterprises (SMEs) in India have been instrumental in the country's rapid social and economic development. This industry has shown remarkable promise in creating jobs, improving resource use, fostering technological innovation, increasing exports, and decreasing regional imbalances, all while fostering inter-sectoral connections. To this day, however, entrepreneurs continue to confront several obstacles on the path to integration into the MSME sector. As a whole, SMEs account for 45% of India's industrial output, 40% of exports, 60% of the country's employment, 1.3 million annual job creations, and the production of over 8,000 high-quality items for sale in India and throughout the world. The predicted rise in the contribution of SMEs to GDP from 17% in 2011 to 22% in 2012 is substantial. About 12 million people will enter the labor market in the next three years, while there are almost 30 million MSME Units in India.

The eight states that make up India's North East Region (NER)—Arunachal Pradesh, Assam, Meghalaya, Mizoram, Nagaland, Manipur, Tripura, and Sikkim—cover an area of 263179 km², or about 8% of the country's total landmass, and they're all dealing with serious developmental issues. Low capital formation, poor infrastructure, connectivity bottlenecks, geographical isolation, and low per capita income are some of the characteristics of the North East area. A high unemployment rate among the relatively well-educated populace and a general lack of investment in the region's natural and human resource capacities are other hallmarks of this phenomenon. The absence of sufficient and dependable infrastructure is the most significant issue confronting the NER. A sign of the region's industrial backwardness is the manufacturing sector's much lower contribution to the region's state domestic product compared to the country's overall output. The government's various programs and assistance have had very little impact on the economy of the northeast. Neither investors nor entrepreneurs will be interested in it. The private sector has not shown any interest in funding the North East's infrastructure development projects as of now. A number of goals, including the reduction of regional imbalances, the creation of additional job possibilities with less investment, and the stimulation of economic activity, have been assigned to this sector. For a variety of reasons, the MSMEs can't fulfill their function to the fullest. The following are some of the unique challenges encountered by micro, small, and medium-sized enterprises (MSMEs) in Arunachal Pradesh and the rest of the country. These challenges are similar to

those experienced by MSMEs nationwide. Obtaining raw supplies, making things, selling commodities, and generating capital are all areas where the MSME sector has difficulties. These are some of the limitations and issues that small businesses confront:

- The operation of small-scale units is negatively impacted by infrastructure factors. Backward regions suffer from a lack of infrastructure, including poor transportation, communication, electricity, and other necessities. Even if they do manage to get a power connection, they still run the risk of lengthy, unplanned outages.
- The primary obstacles to the expansion of MSMEs are a lack of public knowledge about available government programs, incentives, and capital. Dealing with limitations is still hindered by a lack of strength. Growth cannot be driven only by subsidies and incentives.
- Fewer company units in the area are attributed by policy makers to a lack of entrepreneurial spirit among the population.
- Also vulnerable to marketing issues are these smaller units. Because of this, they are unable to gain first-hand knowledge of the market, including its competitive landscape, customer preferences, likes, and dislikes, and current trends this prevents them from improving their goods in response to customer feedback and market needs. Less of it is of worse quality, and they're charging more for it. Because they can't sell their wares, small and medium-sized enterprises (SMEs) still struggle with marketing.
- One of the biggest challenges faced by small-scale businesses is raising capital. Without sufficient cash, no organization can operate properly; hence, finances are the lifeblood of any organization. The main reasons for this issue are the lack of available credit facilities and the limited amount of money.
- In order to fulfill their raw material needs, small-scale companies often turn to nearby suppliers. Inadequate quantity, poor quality, and irregular raw material delivery are just a few of the many issues that these units must contend with. All of these things make these units less effective. Raw materials, whether they are locally accessible or imported, may be a huge challenge for small units when it comes to purchasing them. Improper and inconsistent raw material supply is the root cause of the difficulties.

4. Growth Prospects of MSMEs

In the Papum Pare district of Arunachal Pradesh, micro, small, and medium enterprises (SMEs) have played a significant role in driving economic growth. In terms of job creation, the MSME industry in Papum Pare ranks second, behind only agriculture. Approximately 60% of the district's industrial units, 35% of its manufacturing output, and 30% of its service sector businesses are accounted for by this sector. When it comes to unleashing faster industrial development, MSMEs have more room to flourish as supplementary industries. Small and medium-sized enterprises (SMEs) benefit from cluster programs in several ways, including better access to raw materials, subsidies, and other incentives, and a lower capital intensity. Utilising existing resources, the Papum Pare offers tremendous expansion possibilities for businesses in the service and industrial industries. As supplementary industries, MSMEs have enormous potential to expand and release even more industrial development. Since it is essential to the District's overall development and contains the key to inclusive progress, the sector's development is of the utmost importance. Arunachal Pradesh has seen a surge in investment in infrastructure, a proliferation of employment possibilities, the establishment of a strong private sector with both small and large enterprises, and a dramatic increase in consumer spending.

With the right policies in place and the right infrastructure in place, the micro, small, and medium enterprise (MSME) sector in Arunachal Pradesh has the potential to become the state's economic backbone and development engine. The majority of Papum Pare's industrial units are micro, small, and medium-sized enterprises (MSMEs), which reliably provide goods and services to both local and global markets. The rate of growth in this industry has been much higher than the GDP rate as a whole. To make the micro, small, and medium enterprise (MSME) sector in Arunachal Pradesh

globally competitive and ensure their sustainability, there needs to be sufficient financial resources, a supportive policy framework to address areas like entrepreneurial skill development, a competent pool of human resources, the application of latest technology and innovations, and adequate international market linkages and bilateral trade agreements, among other things. Meeting the increasing domestic demand, indigenisation, and important substitution, as well as growth in foreign exports, should be part of the MSME development roadmap, along with a target to increase their share of the economy from 8% to 15% by 2020 and a significant increase in job generation avenues up to 50%. There will be huge indigenisation effects and large influxes of foreign investment as a result of the new "Make in India" program launched by the Indian government. Similarly, micro, small, and medium-sized enterprises (MSMEs) have a lot of room to grow in the ICT industry thanks to the 'Digital India' project.

4.1 Arunachal Pradesh's MSMEs

Arunachal Pradesh does not have any industries that fall within the purview of the Indian industrial strategy; nevertheless, the state does have its own private sector industrial classifications. The following is a breakdown of the many types of businesses in Arunachal Pradesh:

Agro-Based Industries

- i. Paddy Dehusking Mill
- ii. Tea Factory
- iii. Mustard Oil Mill, etc.

Forest-Based Industries

- i. Saw Mill
- ii. Incense Sticks manufacturing unit
- iii. Veneer & Plywood Mill, etc.

Demand-Based Industries

- i. Barbed wire Unit
- ii. Black Smithy
- iii. Printing Press Unit
- iv. Steel Fabrication Unit, etc.

Mineral-Based Industries

- i. Cement Factory
- ii. Stone Crushing Unit
- iii. Ferrous Alloy Unit, etc.

The term "Industries" has been entirely replaced by "Enterprises" under the Micro, Small, and Medium Enterprises Development Act, 2006, which went into effect on October 2, 2006. Micro, Small, and Medium Enterprises now include everything formerly known as Small Scale Industries, Agro, and Rural Industries. The businesses are now

generally categorized as:

a. Businesses Engaged in Production

Manufacturing firms are businesses that make or provide items to other industries. Companies in the manufacturing sector may be further categorised according to their investment in Plants and Machinery (excluding Land and buildings):

- ✓ Micro Enterprises: Put up a maximum of Rs. 25 lakh.
- ✓ Small Enterprises: Investment amounts between 25 lakh and 5 crore rupees are applicable to small businesses.
- ✓ Medium Enterprises: Investments beyond 5 crore and up to 10 crore rupees are considered medium-sized.

b. Service Enterprises

A service enterprise is a business whose primary activity is the provision of services. Businesses providing services are categorized according to the amount of capital they spend in equipment, excluding land and buildings. For example,

- ✓ Micro companies are described as having an investment of up to Rs. 10 lakh.
- ✓ Investments between 10 lakh and 2 crore rupees for small businesses.
- ✓ Investments in medium-sized businesses beyond 2 crore and up to 5 crore rupees (Govt. of India, 2007: 8-9).

Arunachal Pradesh's businesses are operating in compliance with the MSMED Act, 2006. Medium and small businesses in Arunachal Pradesh have been booming recently. Small and medium-sized businesses in rural regions have benefited substantially from the government-established district industry centers. There was a dramatic growth to 632 micro, small, and medium-sized businesses. Additionally, their investment has been steadily rising. Statistical evidence indicates that investments by MSMEs have risen to Rs. 16,8612.04 lakh. When it comes to the creation of jobs, the MSME sector has also been seeing similar development. The number of people they may potentially hire jumped to 4,491 by the end of March 2020. Additional details are included in the table.

Table 1: By district Investment in and employment in Arunachal Pradesh's small and medium-sized businesses as of March 31, 2020

Sl. No.	District	Number of villages and SSI units registered permanently	No. of Medium Industries	Total no. of Employment	Total Investment (during 2012-20)
1	Tawang	23	-	118	24.21
2	West Kameng	55	-	70	104.10
3	East Kameng	10	-	30	11.41
4	Papumpare	108	4	1500	2501.10
5	Lower Subansiri	46	-	60	51.01

6	Kurun kumey	4	-	20	12.01
7	Upper Subansiri	29	-	30	22.10
8	West Siang	61	-	125	152.00
9	East Siang	48	-	1251	301.01
10	Upper Siang	3	-	62	94.60
11	Dibang Valley	1	-	10	11.00
12	Lower Dibang Valley	74	2	679	351.01
13	Lohit	83	2	234	281.01
14	Anjaw	-	-	-	-
15	Changlang	24	5	350	581.26
16	Tirap	47	3	58	301.11
Total	616	16	4591	4973.06	

Source: Statistical report 2020

The overall number of businesses in this time period may fluctuate somewhat from what it was in March 2020, since many new businesses have emerged since then. It is quite difficult to disclose the precise number of enterprises in every district in Arunachal Pradesh due to the lack of current statistics. Papum Pare district has the most proportion of permanently registered SSIs (18.53%), while Dibang valley district has the lowest percentage of registered SSIs (just 1 unit), according to the data. The industrialisation process has not yet begun in the newly constituted Anjaw district. When it comes to medium-sized businesses, the Changlang district accounts for 31.25% of the state's total, while the Papum Pare district comes in second with 25%. Due to its larger concentration of industry, the Papum Pare region received the lion's share of overall investment (54.17%) from 2012 to 2018. Also, at 32.67%, the Papum Pare area has the greatest employment rate. After excluding the Anjaw district, the Upper Subansiri district has the lowest per-unit employment rate of 1.03%, while the East Siang district has the greatest per-unit employment rate of 26.06%.

5. Conclusion

We can conclude that in the micro, small, and medium-sized enterprises (MSMEs) in the research area encounter numerous challenges, such as a lack of timely and sufficient banking financing, inadequate capital and knowledge, outdated infrastructure, inappropriate technology, inadequate production capacity, subpar products, an ineffective marketing strategy, an inadequate marketing department, limitations on modernization and expansion, illness rates, late payments to banks and financial institutions, an absence of affordable skilled labor, inadequate managerial quality, and so on. As a whole and in the area specifically, these issues are hindering the development of the micro, small, and medium enterprise (MSME) sector. The area runs the danger of missing out on the developmental advantages that SSIs might provide unless these structural and peripheral impediments are tackled together. For more inclusive and sustainable industrialisation in the state, targeted strategies are needed. These strategies should prioritise infrastructure upgrading, cluster and value chain integration, improving linkages to external markets, and strengthening local entrepreneurial and institutional capacities. The only way to turn these problems into possibilities for development, employment, and regional harmony is for politicians, business leaders, and entrepreneurs on the ground to work together.

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