

PROBLEMS OF MSME'S IN ARUNACHAL PRADESH

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ABSTRACT

The MSMEs (Micro, Small and Medium Enterprises) face several problems in their day-to-day operations and overall functioning, like in production and marketing of their products. It is difficult for them to sell their output at remunerative prices and cannot spend much on advertising, marketing research, etc. They also face stiff competition from large firms. Inadequate infrastructural facilities and access to credit are other major problems. The MSMEs also find it difficult to recruit and motivate skilled managerial and technical personnel. They are mainly reluctant to adopt modern. A prominent drawback of the MSME sector is that a predominant number (94%) of the enterprises are in the unorganized sector. Due to this, there is lack of reliability and hampers monitoring of development initiatives and formulation of appropriate schemes to meet the differential needs of the heterogeneous profile of the enterprises. The MSMEs in Arunachal are not enjoying any better policies instead of having such resources and talents. The major problems faced by MSMEs of this region are lack of access to equity and credit. This sector also has poor paying capacity and therefore faces shortage of skilled manpower resulting in absence of managerial capabilities, marketing channels and brand building capacity. The Sector faces a number of problems - absence of adequate and timely banking finance, limited capital and knowledge, non-availability, identification of new markets, constraints on modernisation & expansions, non availability of highly skilled labour at affordable cost, follow up with various government agencies to resolve problems etc.

Keywords: MSMEs, Problems, Arunachal Pradesh

INTRODUCTION

The MSMEs in north eastern part suffer from a number of inherent handicaps: location, infrastructural, financial, and entrepreneurial. A study of IIE on status of MSMEs shows that although the rate of growth in terms of numbers of registered units is not comparable with all over India. The status of MSMEs can be termed as unhealthy in terms of size, bank finance, market presentation, entrepreneurial quality etc.

Industrialization, though it is necessary for the faster growth of an economy, brings many problems in its wake. The problem of micro, small and medium enterprises are multidimensional in the liberalized environment, which include delay in implementation of project, inadequate, availability of finance and credits, expensive mode communication, marketing problems, cheap and low quality products, delay in payments, technological obsolescence, imperfect knowledge of market condition, lack of infrastructure facilities, deficient managerial and technical skills etc. Rehabilitation consequent on displacement, psychological and sociological adjustment, absorption in the new setup is some of the main problems that are created by industrialization of tribal areas.

Micro, small and medium enterprises which is owned and run by one or few individuals are generally suffer from some instinctive deficiencies like weak capital base, lack of proper technical know-how, weak bargaining power, poor marketing capability etc. Thus the earlier chapters it is revealed that the micro, small and medium enterprises (MSMEs) plays an important role in the state's economy. It provides employment opportunities, generates income and substantially contributes to the state domestic product. But despite of their contributions and presence of new industrial policy, the enterprises in the district face problem from various fronts.

This sector has exhibited tremendous capacity for employment generation, greater resource use efficiency, and technical innovation, promoting inter-sectoral linkages, raising exports and reducing regional imbalances. But

still there are many problems faced by entrepreneurs to establish themselves as a part of MSME sector. Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME's Contribution towards GDP in 2017 was 17% which is expected to increase to 22% by 2020.

The study is an explanatory study based on secondary research and provide the types of problems faced by the MSMEs in the North Eastern region of India with special attention to Arunachal Pradesh. The following literature review has been done for the study purpose.

R. J. P. Reddy,(1991) “Problems and Development of Small Scale Industries in India” highlighted the problems of small and tiny industrial units of Prakasam district in Andhra Pradesh as it is learnt that they have been suffering from many problems on several fronts such as production, labour, marketing, finance, etc. He suggested that the borrowing should be made cheaper by lowering the rate of interest on short term loans. He also gives emphasis on the re-orientation programmes at district level so that entrepreneurs can get latest information.

J. Doji, (2003) “Problems and Prospects of SSIs in Arunachal Pradesh: A case study of SSI units in Along Circle with reference to Resource Utilization” her research emphasis on the impact of SSI units in social and economic life of tribal people of Along Circle. Moreover, his emphasis is on the problems faced by existing units as infrastructure bottlenecks, lack of government support, etc.

D. Chobin (2002) “Problems and Prospects of Industrial Development in Arunachal Pradesh: A Case Study of Lower Subansiri and Papumpare District” in his book he made an attempt to examine the industrial scenario and identify the factors which are responsible for slow growth of industries in Lower Subansiri and Papumpare district. Further he had attempted to identify the industries based on locally available resources, which have potentiality for development in both the districts. He also concluded in spite of government support the local industries did not grow to a large scale.

Problems of MSMEs in Arunachal Pradesh

The North East Region (NER) States comprises of eight states Arunachal Pradesh, Assam, Meghalaya, Mizoram, Nagaland, Manipur, Tripura and Sikkim, which cover 263179 Km² of area that is 8% of India's total area face a number of critical developmental challenges. The North East region is characterized by low per capita income, low capital formation, inadequate infrastructural facilities, communication bottleneck and geographical isolation from the mainstream. It is also characterized by inadequate exploitation of the natural and human resources, for which industrial activities are very low in the entire region and high unemployment rate among the relatively highly literate people. The biggest problem facing the NER is the lack of adequate and reliable infrastructure. Industrial backwardness of this region is reflected in the fact that the contribution of the manufacturing sector to the state domestic product of the region is much smaller than the contribution of this sector to the national product in the country. Despite of different policies and supports provided by the Government, benefits to the north east economy is extremely marginal. It cannot attract much of the investment and also entrepreneurs. It may be noted that private capital is yet to be interested in investing in infrastructure development in the North East. This sector can stimulate economic activity and is entrusted with the responsibility of realizing various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. The MSMEs are not in a position to play their role effectively due to various constraints. The problems of MSMEs Arunachal Pradesh are not much different from that of the problems of MSMEs in the national level are facing, yet following are some of the specific problems faced by the MSMEs of these two region. The MSME sector face problems at every stage of their operation, whether it is buying of raw materials, manufacture of products, marketing of goods or raising of finance. The various constraints, the various problems faced by small scale industries are as under:

INTERNAL AND EXTERNAL PROBLEMS

Infrastructural Problems

Development and expansion of infrastructure facilities are essential pre – conditions for industrial development of any region. Strictly speaking, industrial development is the effect for which infrastructure is the cause. Inadequate infrastructure facility is one the main reasons for poor growth of enterprises in Arunachal Pradesh and in other North Eastern states. The development of the most of the infrastructure items has not yet crossed the minimum threshold especially in the hilly region of Arunachal Pradesh, Which is still today a great hindrance in the development of enterprises. The agricultural potential of the hills region has not been systematically assessed .Full information of the availability of forest resources is not available as the level of geographical desegregation and detail that is required for planning.

Management Problem

Success of any business depends on the well organized management of the unit. For this purpose the role of manager or the entrepreneur is very important. A well prepared plan to face the future disaster leads to the success of business. The management of enterprises in the Papumpare district is mainly selves controlled by the individual himself/herself .But the management problem still arise because of lots of different factors. The owner rare visit to production site, owner depend totally on the senior workers to supervise the work apart from these problems the entrepreneur in other economic activities contribute the poor management of the business. The enterprise in the district has the following management problems which affect the smooth and efficient functioning of the enterprises, which are as follows:

- Lack of depth involvement by entrepreneur in the management of product planning, finance, marketing, and manpower planning.
- Lack of expertise in the field of professional enterprise management activity.
- No book is prepared to maintain the financial records, due to the shortage of accountants in the districts.
- Lack of safety and medical facility at the working place in the enterprises.
- Unavailability of working staff force which is required for proper management of the industrial units.
- Lack of proper training facility for the employee because mostly single individual is forced to performed number of works in the enterprise.
- Most of the people working in the firm without the proper educational qualification, training and experienced in the field of management units.
- The lack of awareness, courage, and determination of the owner.

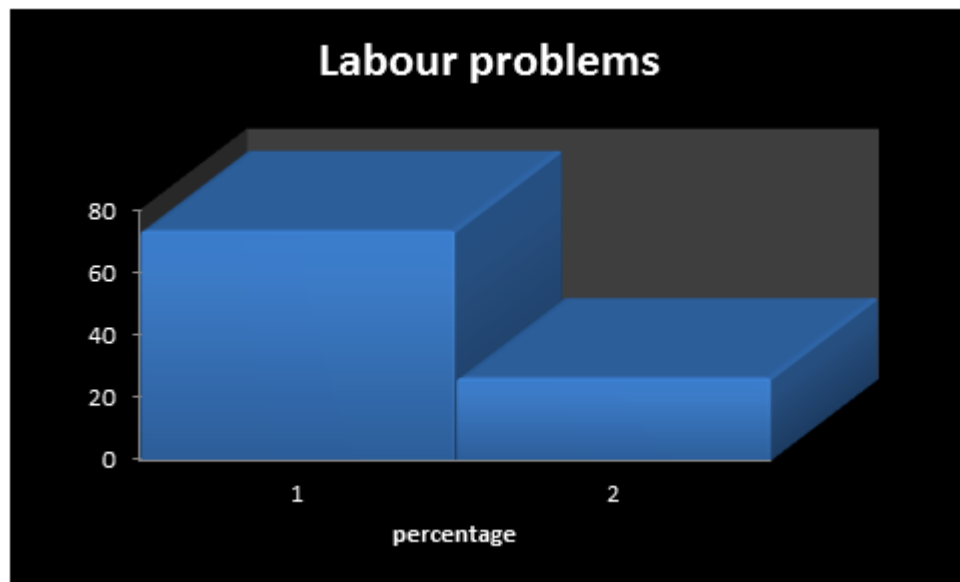
Out of 30 sample units it is found that the managerial problems mostly arise in small enterprises, the medium enterprises are not having any specific management problems. The basic reason for these is the large work force which leads to the good supervision as the investment rate is very high .whereas the same enterprises have low work force as their investment is also low, hence the entrepreneur gives less interest as the income is also low.

Labour Problem

Lack of both skilled and unskilled workers is one of the most crucial problems in the hilly region. Jhuming is the traditional agricultural practice of the tribal people where most of the work force is engaged and these people seldom found any interested in the industrial activities. Due to the non-availability of local workers, the existing industrial units of papumpare are suffering and compel them to bring required workers from outside.

Labour problem is one the internal problem of MSMEs in papumpare district. The labours are the major contributors to the enterprises production; on the other hand they are the pot of number of problems exist in the small enterprises as the labour force is very less. But in case of the large industries labour problem are more. The problem of industrial labour is high in the district as the cheap labour is not available. Most of the industrial labours are from Assam as the local labour is insufficient in the state.

Chart 1.1: Represents the number of entrepreneurs facing labour problems in their enterprises in Papumpare district



The 73.53% of the sample units have labour related problems and rest 26.47% do not have such problems. The percentage is high among the enterprises which have larger number of workers. Enterprises which have less numbers of workers relatively have less labour problems. The absenteeism rate is high in the micro, small and medium enterprises, since workers come from far place. About 85.29% of enterprises cited that the workers do not present regularly in the work place which adversely affect the production process. Rather than the absenteeism, labour turnover is another major problem. The workers generally in search for good wages, they do not find any difficulty to leave enterprises when they find higher wages in other units, cited by many entrepreneurs. The production is also related with the training and development of the employees.

Specifically, the enterprise in the district has the following labour related problems which affect the smooth functioning of the enterprises:

1. Lack of coordination between the workers.
2. Workers demand for higher wage rate.
3. Insincerity in work.
4. Labour turnover.
5. Health related problems.
6. Lack of trained workers.
7. Low employees' morale.

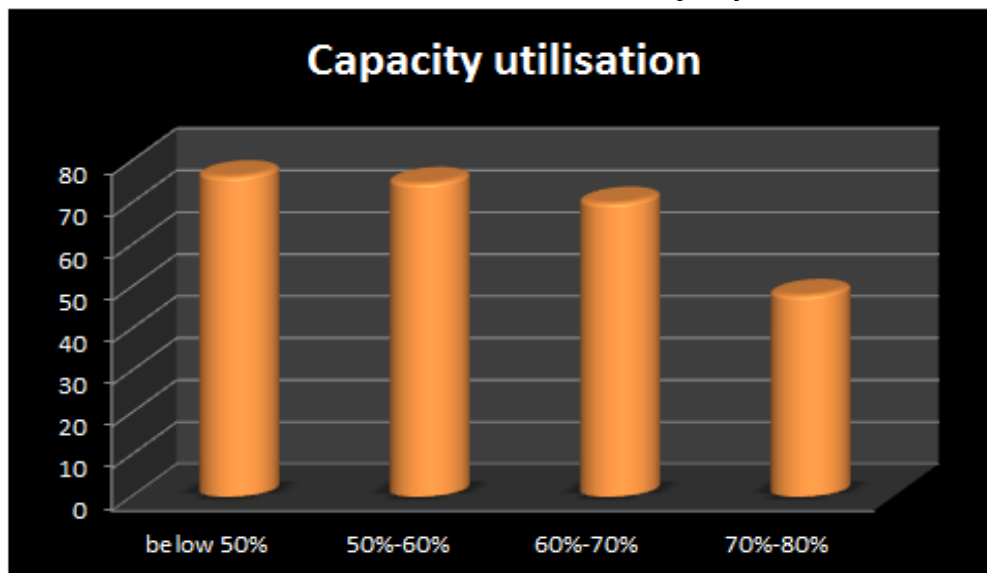
Under-Utilization of Capacity

Under –utilization capacity is a crucial problem faced by the micro and small entrepreneur of papumpare districts. Under-utilization is one of the major factors for the industrial sickness. If utilization of capacity is higher, then the production capacity and the rate of return will also be higher. But it was found that the capacity is being underutilized among sample units. Many enterprises in the district are not utilizing the 100 percent capacity. Even to the 80% of capacity utilization. The highest degree of utilization of capacity has been found on the agro based unit with 76.30% followed by the mineral based unit to 74.70%.capacity utilization has been observed in between 60-70%, mostly in the district. Lowest utilization capacity has been found in one fabrication unit with 48% utilization.

On the basis of the study, following reasons are found for the under-utilization of capacity, which affect the smooth functioning of the machines as well as enterprises

- Problem of power shortages.
- Unavailability of raw materials.
- Lack of advance technology, as competitive product is more sophisticated in the market.
- Less maintenance of machines.
- Low labour productivity.

Chart 1.2: Under Utilization of Capacity



Lack of Technology

In this age of stiff competition the knowledge of latest technology in the production process is highly essential to cope with the situation. For increasing productivity and reduced the cost of production technical training and provision for the latest machines' and equipment for micro and small enterprises sector ,market surveys and demand forecasts and their products, provision for working capital and long term finance in liberal terms and managerial training for entrepreneurs is indispensable. MSMEs suffer from technological obsolescence in India due to dumping of cheap products in the market under the liberalized economy.

Inadequate Support System

The industrial support systems in Papumpare district are neither adequate nor well equipped with modern facilities. There are absences of central or state level MSMEs organization in the hilly region and their activities are nil almost. Though both the district industries & commerce centers (DICC), except some routine works,

there is lack of proper planning and keen interest for entrepreneurial development. The industrial estates of Arunachal Pradesh and in Papumpare district are inoperative due to lack of adequate facilities needed for growth of MSMEs sector. The facilities of tool rooms, repair shops, quality controls etc are poor or do not exist at in and around the industrial estates of Papumpare district.

Problem of Raw Material

Scarcity and high cost of raw material are most difficult problem followed by poor quality and transportation problems in Papumpare. The difficulties in procurement of raw materials adversely affect the production of micro, small and medium enterprises. About 50% the enterprises in Papumpare under MSMEs sector are based on locally available resources with limited diversification. Inadequate transport and communication has been the major problem of irregular supply of raw material for MSMEs. About 55% units procure raw material from outside the district.

The problem of raw material has assumed the shape of an absolute scarcity, a poor quality of raw materials, and a high cost. Earlier, the majority of micro, small and medium enterprises mostly procured items dependent on the local raw material. Then, there was no problem in obtaining the required raw materials. But, ever since the emergence of modern micro, small and medium enterprises manufacturing of sophisticated items, the problems of raw material has emerged as a serious problem for the units. (Khanka, 2008:80).

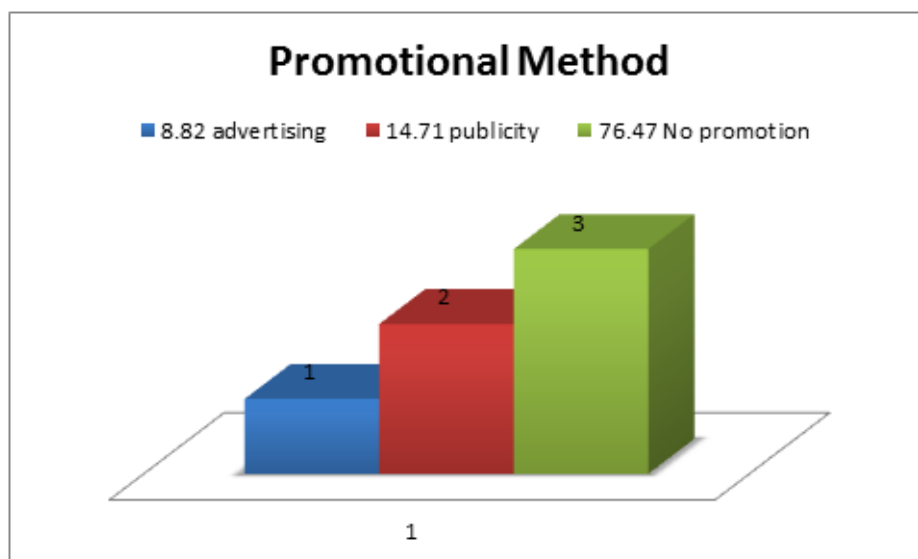
The problem of raw material has been a great problem to the Papumpare district also. It is the main hurdle in the way of enterprises development. The entrepreneurs find it difficult to acquired adequate raw material like iron and steel, timber, cotton, etc. from different agencies.

Marketing Problem

The problem of marketing is another constraint of Micro small and Medium Enterprises. The problems arises because the inability to market the product. Marketing of the product also becomes very difficult for the newer established local enterprises as the consumer do not give great interest to the local produced article. Hence, consumer shifted towards the better quality of product produce by large producer from outside the states.

The problem of marketing arises because of the lack of advertising and promotion of the product. The competition is also high in the market because the branded product is available with the reasonable price. Small entrepreneurs sell their product to the local market only, whereas the medium enterprises sell their product even to the outside of the state. Most of the MSMEs sell their product to the local market in the district as the local product hardly finds the markets outside the state. Promotion of the product is another problem in the district because small enterprises hardly have the sufficient fund for promotional activities.

Chat 1.3 Shows the promotion of product by the MSMEs in the district



Only 8.82 percent of units have done publicity for their products and around 14.71 percent of sample units use the advertising as method for promotional of product. And rest 76.47 percent of sample units do not use any promotional activity for the products.

On the basis of field study following problem is related to the marketing which adversely affected the selling of the product in the district:

- a) Poor local demand of the product
- b) Competition from the branded producer
- c) Lack of promotional activity
- d) Lack of market information
- e) Lack of government buying etc.

Some additional problems of MSMEs as under:

- Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts
- Lack of enough awareness among people about government schemes, motivation and easy availability of funds are the main deterrents in the growth of MSMEs. While dealing with constraints, lack of power continues to be a major bottleneck. Subsidies and incentives alone cannot drive the growth.
- Policy makers attribute the lack of entrepreneurial spirit among people behind less number of business units in the region.
- These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Marketing continues to be a challenge for SMEs, since they are unable to sell their products and services.
- Economic development of any region is an outcome of purposeful human activity. Lack of skilled manpower, high unemployment and land prices are other major hurdles in the region. Assam, being the largest state in NER, alone has 2.2 million unemployed youth. Downstream ancillary industries could generate around 1,50,000 jobs, but the Government of Assam doesn't have huge land bank to set up large industries and cannot acquire land by displacing small farmers.
- Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem
- Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units. Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials.
- There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

To summarize, it can be said there are various problems faced by the MSMEs of the study area like absence of

adequate and timely banking finance, limited capital and knowledge, poor infrastructure, non-availability of suitable technology, low production capacity, poor quality products, ineffective marketing strategy, lack of marketing ability, constraints on modernization & expansions, incidence of sickness, delayed payments to banks and financial institutions, non availability of skilled labour at affordable cost, lack of awareness, managerial quality etc. These problems of the MSMEs are putting hurdles in the growth of the MSME sector in the region and the country as a whole.

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