

CHAPTER 7

ROLE OF DISTRICT INDUSTRIES AND COMMERCE CENTRE IN FINANCING MSMEs

District Industries Centre (DIC) was the nodal agency for registration of MSMEs (till 2015) and facilitation of various major schemes for MSMEs in India. As registration status of MSMEs with DIC has been taken to be a major classifying criterion for selection of sample MSMEs, the role of DIC in development of MSMEs needs to be sufficiently examined. An attempt has been made in this chapter to throw light on DIC's role and examine the significance of registration status on MSME's bank loan experience. In 2015, Udyog Aadhar was introduced as an online MSME registration portal by Ministry of MSME which took time to pick up pace in Assam due to the compulsory requirement of Aadhar number for registration. However, DIC continues to monitor registration of MSMEs as well as implementation of major MSME schemes. From 1st July, 2020, Udyam has been introduced as the online MSME registration portal by Ministry of MSME along with the implementation of new definition of MSMEs. The EM II (DIC registration) and Udyog Aadhar registration shall remain valid till March 31st, 2020 after which MSMEs which wish to get registered shall have to register with Udyam portal along with GST registration number.

7.1 DISTRICT INDUSTRIES CENTRES

As laid by the Government of Industries and Commerce, the District Industries Centre is the institution at the District level, which provides all the services and support facilities to the entrepreneur for setting up Micro, Small and Medium Enterprises. There are 27 District Industries & Commerce Centre (DIC¹³) in Assam headed by a General Manager (at the rank of Joint Director of Industries & Commerce). The General Manager of DIC is assisted by Functional Manager/Project Manager (at Deputy Director Level) and other supporting officers/Staff. At the sub-divisional level, officer in the rank of Assistant Director / Superintendent of Industries & Commerce are posted in all Sub-divisions of Assam, (except the newly created sub-divisions). The Extension Officers of Industries & Commerce are the grass root level officers who look after activities at village level. The role of Department of Industries and Commerce, Government of Assam is to facilitate

¹³ District Industries & Commerce Centre is popularly known as DIC in common language in Assam.

trade, industry and promote investment in the State of Assam by streamlining and simplifying the procedures for various applications and subsidies under North-East Industrial and Investment Promotion Policy, 2007 (NEIIPP) and State Industrial Policy.

The functions of the DIC are as follows:

- Development of industries in the state
- Registration and licensing of new industrial undertakings
- Acquisition of land for industrial purpose
- Development of Industrial area
- State's participation in Private sector undertakings
- Industrial survey
- Creation and maintenance of Industrial Estates
- Organizing exhibition, industrial fairs within and outside the state

The objectives of the DIC are as follows:

- Promotion of Micro, Small and Medium Enterprises (MSMEs)
- Entrepreneurship and Skill Development
- Facilitating Infrastructure Development
- Promotion of investment and growth in the industrial sector in the state through private/ public/ public private partnerships
- Publicity and Marketing support to industries
- Preparation of a policy paper for inclusive growth

The various financial assistance schemes that are currently being implemented by 'District Industries Centre' in Assam (Schemes, Industries and Commerce, Government of Assam) are as follows:

- (i) Sarothi¹⁴ – The State Government has proposed to launch a new scheme called Sarothi with an initial amount of ₹10 Cr during 2016-17. The Industries & Commerce Department manages the scheme and has been operational from the financial year 2016-17 and will be valid for a period of five years. The basic objective of the scheme is to provide financial assistance in the form of loan with interest subvention @ 5% per annum through a designated bank. This scheme is not operational currently.

¹⁴ an Assamese word meaning helper

- (ii) Biponi¹⁵ – The objective of the state Govt. scheme is to support the Micro & Small enterprises to participate in different trade fairs and events within the State, in the Country and also abroad for marketing of their products and also getting an exposure.
- (iii) Swami Vivekananda Assam Youth Empowerment (SVAYEM) Yojana – SVAYEM is a state Govt. flagship program launched in 2017 to provide financial support to the youths of Assam to take up income generating activities in the manufacturing, trading and service sector. The scheme is available in the form of subsidised loan up to a maximum of ₹1 lakh for new entrepreneurs and up to ₹2 lakhs for existing entrepreneurs to be disbursed through public sector, private sector and regional rural banks.
- (iv) North East Industrial Development Scheme (NEIDS) –The NEIDS scheme has been introduced in 2017 by the central government to boost industrialization in the Northeastern states of India. The scheme offers capital, interest, tax (GST and income), insurance, transportation and employment incentives to eligible industrial units (not limited to MSMEs only).
- (v) Prime Minister’s Employment Generation Programme (PMEGP) –PMEGP is a central government launched credit linked subsidy programme popularly known as ‘DIC loan’ was introduced by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister’s Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. The Scheme is implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the administrative control of the Ministry of MSME as the single nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. In urban areas, the scheme is implemented by the DIC. The scheme is routed through designated banks (public, private, co-operative and regional rural banks) for eventual distribution to the beneficiaries / entrepreneurs in their bank accounts.

¹⁵ an Assamese word meaning platform

Objectives of PMEGP (PMEGP, Industries and Commerce, Government of Assam) are:

- (a) To generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.
- (b) To bring together widely dispersed traditional artisans/ rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place.
- (c) To provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural and urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas.
- (d) To increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

The levels of funding under PMEGP are as follows:

Table 7.1: Funding under PMEGP according to categories

Categories of beneficiaries under PMEGP	Beneficiary's contribution (of project cost)	Rate of Subsidy (of project cost)	
		Urban	Rural
General Category	10%	15%	25%
Special Category (including Schedule Tribe / Schedule Caste / OBC / Minorities / Women/ Ex-servicemen /Physically handicapped/ NER/ Hill / Border areas, etc. ¹⁶	05%	25%	35%

Source: PMEGP, Industries and Commerce, Government of Assam

The balance amount of the total project cost is provided by banks as term loan as well as working capital. As per RBI guidelines, projects costing up to ₹5.00 lakhs under PMEGP loans are free from collateral security. The CGTSME provided collateral guarantee for the project beyond ₹5.00 lakhs and up to ₹25.00 lakhs under PMEGP scheme. There were 5,031 MSME which were PMEGP beneficiaries in Assam out of a total of 1,22,602

¹⁶ As per reservation policy of Government of India

MSMEs which were PMEGP beneficiaries in the country till 2015-16, as per KVIC reports.

7.2 REGISTERING WITH DIC

DIC was the nodal registering agency for MSMEs till 2015. Registering with DIC provides benefits for the economy as well as the unit. The main motive behind registering is to maintain statistics and keep data about such units so as to facilitate incentives and support services. Registration with DIC is not compulsory for the MSME units, but as claimed by Development Commissioner, MSME (SSI Registration, Set up a new venture, Development Commissioner, MSME); it helps them avail some benefits such as:

- “Credit direction (Priority sector lending)
- Differential interest rates
- Excise exemption schemes
- Exemption under direct tax laws
- Statutory support such as reservation and the Interest on Delayed Payments Act¹⁷”.

As studies show, higher MSME registration was associated with high growth rate in India from 2007-08 to 2014-15. In some areas the PMEGP schemes were found to play a vital role in rural development in some parts of India as studies show. It has been of great assistance to unemployed sector who believes in self-help (Shalunkhe, 2016). However even in the presence of numerous schemes, it was evident that all the DIC branches were not aware or able to access those schemes. (Alamelugeeta, 2015). Another study conducted on DICs in Sivagangai district in Tamil Nadu found some inherent weakness in the coordination between DICs and MSME units. There is lack of synergy in the vision and mission of DIC and MSME units which needs to be revamped. Also there needs to be proper support system for the DIC also as the DIC alone cannot address the distress of the entire MSME sector overnight. (Alagar, 2015). Heavy bureaucratic procedure and lack of flexibility by recommended bank for registration of MSMEs proved to be a big hindrance for MSMEs. Some problems encountered by DIC officials are as follows:

¹⁷ A provisions to mitigate the problem of delayed payment, whereby any buyer who fails to make payment to MSMEs, as per agreed terms or a maximum of 45 days, would be liable to pay monthly compounded interest at three times the bank rate notified by RBI

- (i) Poor publicity about DICs schemes;
- (ii) Absence of extension services;
- (iii) Lack of co-ordination between DIC and other promotional agencies like banks and Khadi and Village Industries Commission;
- (iv) Invariable rejection of project reports, formulated by the experts of DIC, by the banks;
- (v) Frequent transfer of officials and failure to fill up vacant posts;
- (vi) Complex procedures to be followed to satisfy the regulations and
- (vii) Interference of political leaders, and the lack of adequate training facilities for junior officers (Suriyan, 2015 ;Muthulaksmi, 2015).

Lack of cooperation by the nominated banks is another deterrent (Muruthiah, 2015). A study found that there were considerable gains from registering with DIC for small urban manufacturing enterprises. But surprisingly, there was still very low percentage of registered firms in India. The author (Sharma, 2014) has found a few possible reasons behind reluctance of MSMEs to be registered. Some reasons are as follows:

- Registration would imply coming under compliance of a host of regulatory requirements.
- It would mean exposure to tax radar.
- Monetary and time cost involved in registration process.
- It would require documentation on part of MSME owners.
- Possibility of unofficial fees or bribery demanded by DIC officials.
- Necessary clearance documents would have to be obtained.
- Hassle of submitting updated business plan from time to time.

Registration process through DIC was initially very tedious with two forms, EM-I (to be submitted prior to commencement of business) and EM-II (to be submitted post commencement of business), that were required to be filled up and submitted at the DIC offices along with required documentary proof. To address the problem of slow registration rate, the government of India launched the Udyog Adhaar online registration system in 2015 where registration can be completed online or offline using a simplified single page registration form without any documentation required. A proforma of the form is attached in Appendix 11. W.e.f. April 2021, Udyam shall be the only valid registration portal for MSMEs.

7.3 PERCEIVED DRIVERS AND INHIBITORS ASSOCIATED WITH MSME REGISTRATION

Based on previous research work on MSMEs, the following inference (Choudhury, 2018) can be drawn:

Table 7.2: Perceived Drivers and Inhibitors Associated with MSME Registration

	FOR MSMEs	FOR GOVT.
DRIVERS	<ul style="list-style-type: none"> • Credit direction (Priority sector lending) • Differential interest rates • Excise exemption schemes • Exemption under direct tax laws • Statutory support 	<ul style="list-style-type: none"> • Access to data on MSMEs • Helps in keeping track of MSME sector
INHIBITORS	<ul style="list-style-type: none"> • Compliance to regulatory requirements. • Exposure to tax radar. • Monetary and time cost in registration process. • Documentary requirements. • Unofficial fees or bribery. • Requirement of various clearance documents. • Hassle of timely submission of updated business plans 	<ul style="list-style-type: none"> • Lack of adequate promotional strategies for schemes; • Difficulty in co-ordination with other promotional agencies • Rejection of project reports formulated by the experts of DIC, by the banks; • Complex scheme policies • Lack of adequate support from government

Source: Literature review

The research has broadly tried to find whether MSMEs which are registered with DIC face lesser problem in obtaining loan from banks as compared to MSMEs which are not registered. In addition it has also been attempted to find whether MSMEs were satisfied with the assistance provided by DICs. For those who were not registered under DIC, it was attempted to find out the reason behind not registering with DIC.

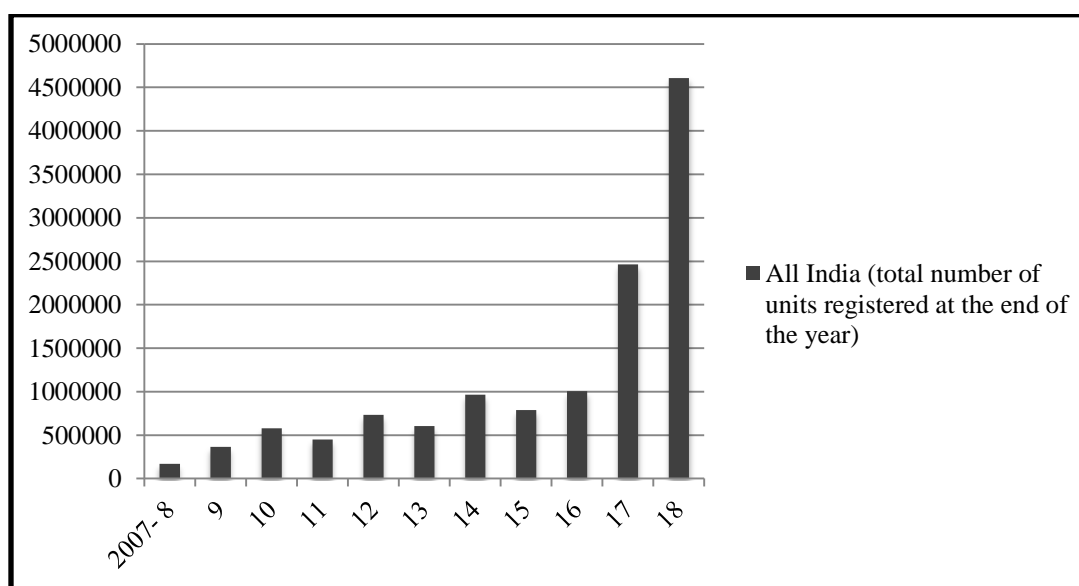
7.4 TREND OF REGISTERED MSME UNITS IN ASSAM

We can observe from the table below the trends of MSME registration in Assam every year in comparison to units registered every year in India as an aggregate.

Table 7.3: Trend of Registered MSME Units in Assam

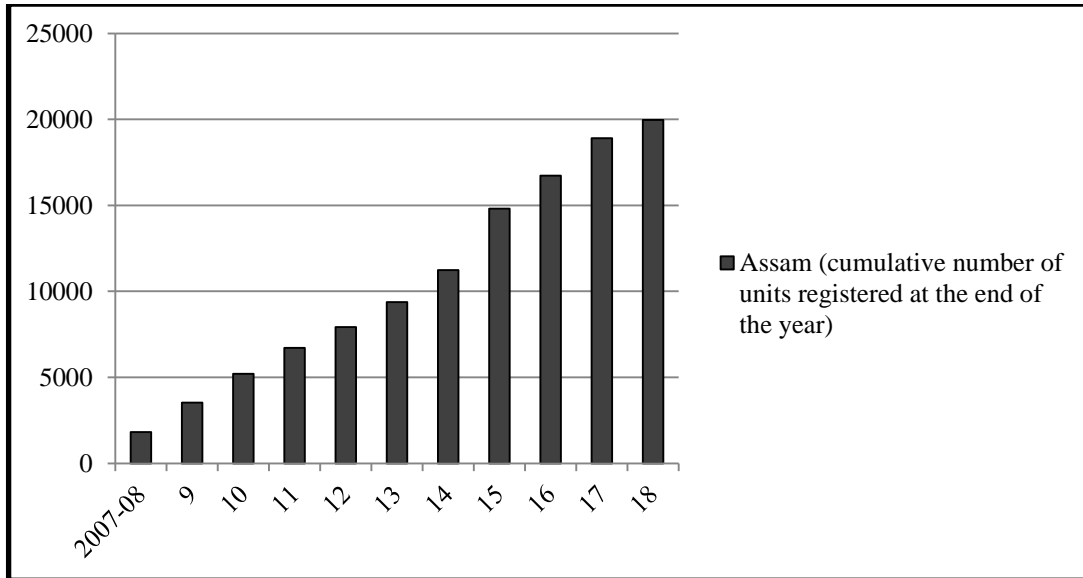
Year	No. of units registered during the year in Assam	Units registered at the end of the year in Assam	Y-O-Y growth in units registered in Assam (in %)	Number of units registered at the end of the year in India	Y-O-Y growth in units registered in India (in %)	Registered units in Assam to registered units in India (in %)
2007- 8	1,811	1811	-	172703	-	1.049
2008-9	1,711	3,522	94.48	365729	52.78	0.963
2009-10	1,678	5,200	47.64	578935	36.83	0.898
2010-11	1,506	6,706	28.96	451635	-28.19	1.485
2011-12	1,218	7,924	18.16	733063	38.39	1.081
2012-13	1,451	9,375	18.31	604246	-21.32	1.552
2013-14	1,860	11,235	19.84	967237	37.53	1.162
2014-15	3,573	14,808	31.80	788349	-22.69	1.878
2015-16	1917	16,725	12.95	1006203	21.65	1.662
2016-17	2180	18,905	13.03	2464828	59.18	0.767
2017-18	1072	19,977	5.67	4608939	46.52	0.433

Source: Annual Reports, Ministry of MSMEs (percentages are author calculated)



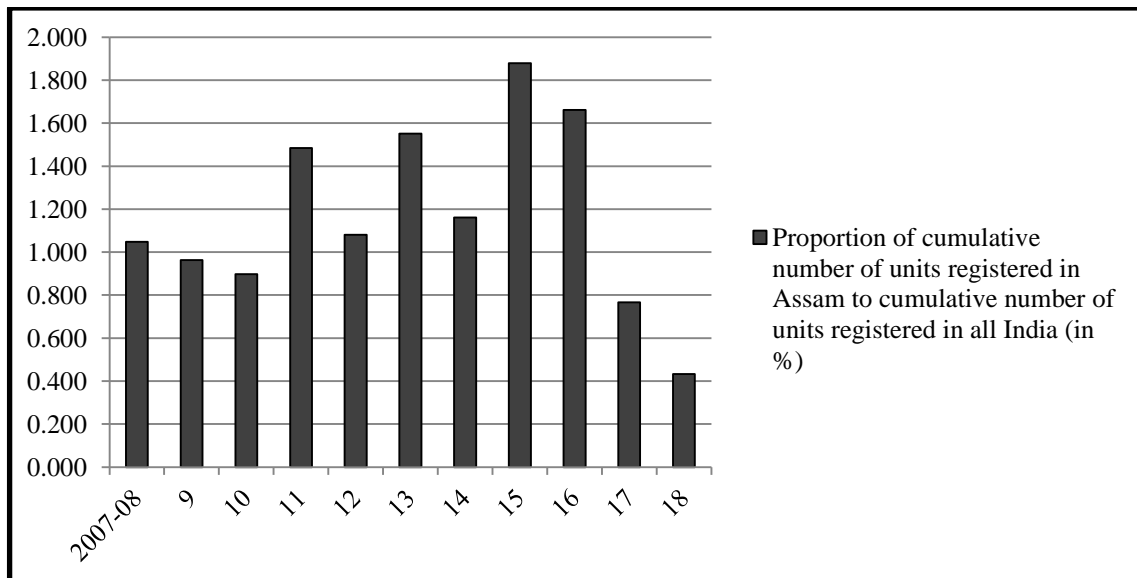
Source: Table 7.3

Figure 7.1: Cumulative numbers of MSMEs registered per year (All India)



Source: Table 7.3

Figure 7.2: Cumulative numbers of MSMEs registered per year (Assam)



Source: Table 7.3

Figure 7.3: Proportion of DIC registered MSMEs in Assam to aggregate DIC registered MSMEs in India

A linear trend line depiction of the proportion of aggregate number of units registered in Assam to aggregate number of units registered in all India (in %) (Fig. 7.3) shows that there has been a moderately upward trend although the absolute amount still remains very low at 32793 units compared to 15296000 units at all India level (0.21%). The Y-O-Y growth also has surprisingly declined post 2007 even though the MSME Development Act was introduced in 2006 prior to which MSMEs were only defined as Small Scale Industries.

7.5 REGISTRATION AND ITS EFFECT ON BORROWING

The primary survey covering 750 MSME units had 375 registered units and 375 unregistered units. It has been attempted to compare whether the difficulties experienced by MSMEs in obtaining credit from banks were influenced by whether or not the units were registered with DIC. In other words it was attempted to find out if DIC played a role in easing the borrowing woes of MSME borrowers. It is believed that registration will help in easing credit procurement for the firm. Several statistical tests on several parameters have been conducted to find out whether registration has an influence over borrowing experience.

7.5.1 Registration Status and Satisfaction with Sanctioned Amount

It has been attempted to find out whether there was significant difference between amount of loan applied and amount of loan sanctioned. In case of a significant difference it was attempted to find out whether satisfaction with sanctioned amount was influenced by registration status of the MSME.

7.5.1.1 Amount of Loan Applied and Amount of Loan Sanctioned

It has been often observed that borrowers fail to get the exact amount they have applied as a loan. Every bank has their own set of guidelines and after analysing the project on certain criteria, they decide upon the amount that can be loaned to the borrower. The borrowers selected for the study were asked to report the amount of loan they applied and the amount they sanctioned. A paired sample t-test was conducted to find out if any difference existed for average amount applied and sanctioned across borrowers.

The hypothesis framed was as follows:

H_0 = There is no difference in average amount of loan applied and average amount of loan sanctioned

H_1 = There is significant differences in average amount of loan applied and average amount of loan sanctioned

Table 7.4: Paired Samples t-test results for amount of loan applied and sanctioned

Parameter	Sig. (2-tailed)
Amount of loan applied in absolute amount - Amount of loan sanctioned in absolute amount	0.000

Table 7.5: Means of amount applied and sanctioned for registered and unregistered units

Whether unit registered		Amount of loan applied in absolute amount	Amount of loan sanctioned in absolute amount
Yes	Mean	2375813.33	2002829.33
	N	375	375
	Std. Deviation	7200674.067	5959967.775
No	Mean	2655360.00	2091032.00
	N	375	375
	Std. Deviation	7011782.812	5616726.888
Total	Mean	2515586.67	2046930.67
	N	750	750
	Std. Deviation	7103487.324	5787192.210

The t-test result from Table 7.4 reveals that there is significant difference among average amount of loan applied and average amount of loan sanctioned among borrowers. Table 7.5 reveals that average amount of loan sanctioned is much lower than average amount of loan applied, and the difference is higher in case of unregistered units. Therefore, it is established that on many occasions borrowers may be dissatisfied with the amount of loan sanctioned.

7.5.1.2 Registration status and satisfaction with amount of loan sanctioned

The borrowers were asked to respond with a 'Yes' or 'No' response to the question whether or not they were satisfied with the amount that have been sanctioned by the bank. A chi-square test between 'registration status' and 'satisfaction with sanctioned amount' revealed that there is a relationship between 'registration status' and 'satisfaction with sanctioned amount' (p value = 0.024). From the bar chart in Figure 7.4, we can see that more registered units (52.5%) were satisfied with sanctioned amount than unregistered units and more unregistered units (55.5%) were dissatisfied with the sanctioned amount.

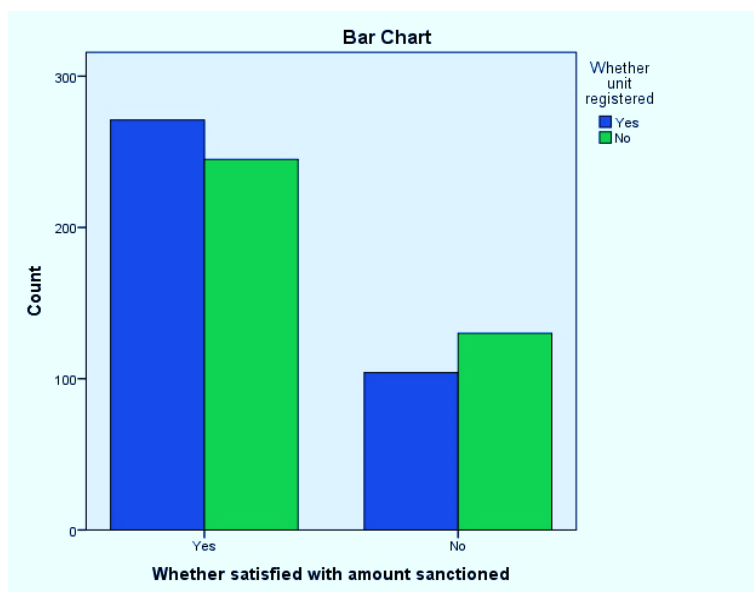


Figure 7.4: Bar chart showing registration status and satisfaction with sanctioned amount

In order to find out whether this relationship is influenced by demographic variables chi-square tests were carried out and the following parameter (district) revealed significant relationship,

Table 7.6: Chi- square tests between registration status, district and satisfaction with sanctioned amount

District	p-value
Kamrup	0.839
Nagaon	0.024
Dibrugarh	0.009

From Table 7.6 for chi-square test results, we observe that null hypothesis is rejected in case of Dibrugarh and Nagaon district. Therefore, it implies that ‘registration status’ has an association with satisfaction with sanctioned amount in Nagaon and Dibrugarh districts. From Table 7.7, we observe that there a weak positive correlation between satisfaction with sanctioned amount and registration status in Nagaon and Dibrugarh.

Table 7.7: Cramer’s V for satisfaction with sanctioned amount in terms of registration and district

District		Value
Kamrup	Cramer's V	0.014
Nagaon	Cramer's V	0.226
Dibrugarh	Cramer's V	0.217

7.6 REGISTRATION STATUS VS DIFFICULTY

It has been observed in Chapter 6 that registration status influence over difficulty experienced. Now, it has been attempted to find out whether registration status has interaction effects, if any with other demographic parameters in influencing difficulty scores. The parameters that were observed to have significant interaction effect with registration status are:

- (i) Education of borrower
- (ii) Type of unit

The results of the analysis conducted are presented as follows:

- (i) Education and registration status on difficulty

Table 7.8: Two way ANOVA test results for unit registration and education of owner on difficulty

Source	Dependent Variable	Sig.
Unit_regstrtn * Education_status	Application	0.017
	Documentation	0.279
	Staff support	0.202
	Sanction process	0.927
	Attitude	0.742
	Support service	0.650
	Post sanction	0.541
	Terms and policies	0.386

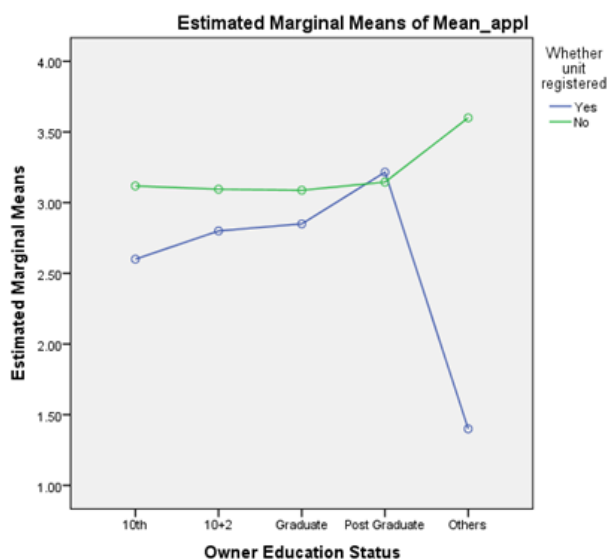


Figure 7.5: Marginal means plot for owner education and registration status

From the two-way ANOVA between registration and education, it is revealed that p-value is significant in case of 'Application' parameter of difficulty. Therefore, education

status has interaction effect with registration status in influencing ‘Application’ parameter of difficulty. On examining the means plot of Difficulty (Application) in terms of registration status and owner education status, it is found that units that were not registered experienced significantly more difficulty, except in the case of post-graduates.

(ii) Type of unit

Table 7.9: Two way ANOVA test results for unit registration and type of unit on difficulty

Source	Dependent Variable	Sig.
Unit_regstrtn * Unit_type	Application	0.022
	Documentation	0.901
	Staff support	0.202
	Sanction process	0.271
	Attitude	0.029
	Support service	0.003
	Post sanction	0.979
	Terms and policies	0.227

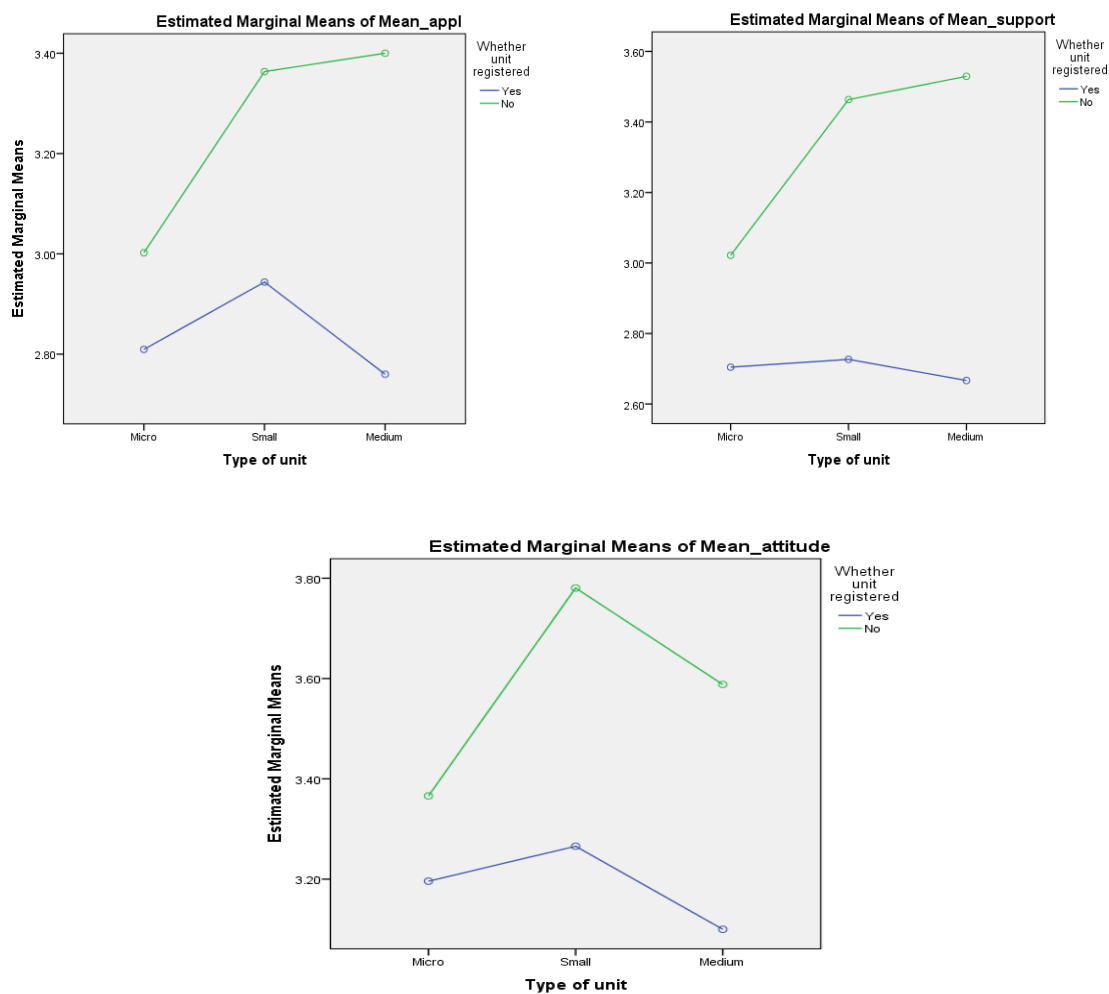


Figure 7.6: Marginal means plot for unit registration and type of unit (application attitude and support)

From the two-way ANOVA between registration and type of unit, it is revealed that p-value is significant in case of ‘Application’ ‘attitude’ and ‘support service’ parameters of difficulty. Therefore, type of unit has interaction effect with registration status in influencing ‘Application’ ‘attitude’ and ‘support service’ parameters of difficulty. On examining the means plot of Difficulty (Application, attitude and support service) in terms of registration status and type of unit, it is found that difficulty experienced is comparatively and significantly higher for unregistered units and the difference is significantly higher for medium and small enterprises.

7.7 ADDITIONAL ISSUES WITH REGISTRATION

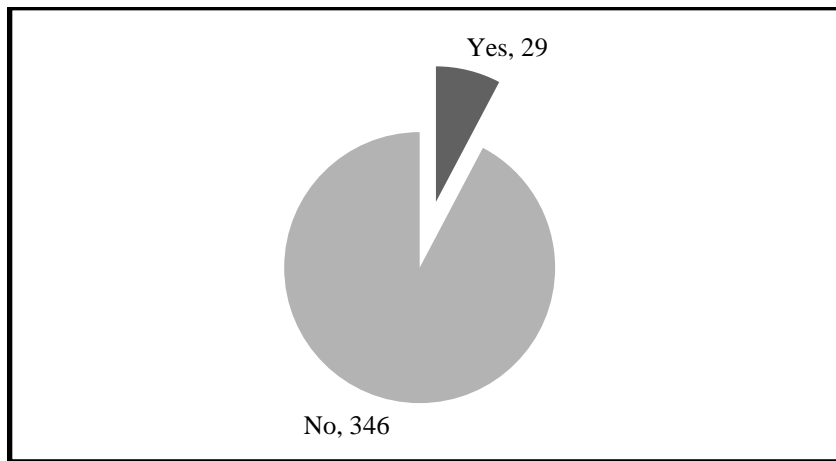


Figure 7.7 Any unofficial payment to DIC for their services

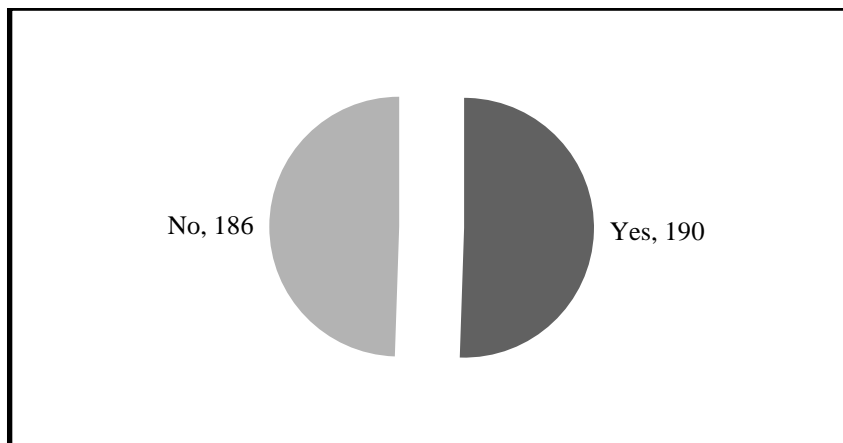


Figure 7.8 Whether satisfied with DIC’s overall support in availing institutional finance

From the survey of registered units (Questionnaire attached in Appendix 6), some additional questions were posed to the respondents and the following responses were collected (Refer Figures 7.7 and 7.8):

- 9% of DIC registered MSMEs accepted that they had to bribe DIC officials to get their work done.
- Only 58% of DIC registered MSMEs were happy with overall service of DIC.

7.8 RESPONSES OF UNREGISTERED UNITS

From the sample MSMEs, there were 375 units that were not registered with DIC. The following are the basic findings from the survey of the unregistered units:

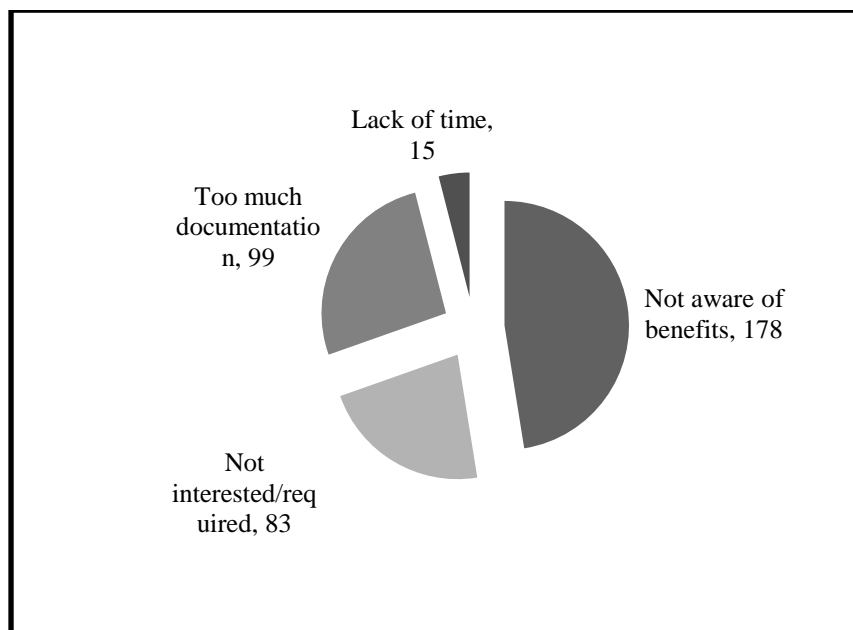


Figure 7.9 Reasons behind not registering

55% of unregistered borrowers were unaware of benefits from DIC registration. 33% of unregistered borrowers felt that getting registered meant too much documentary requirements. 25% of unregistered borrowers felt registering with DIC was unnecessary. 5% of unregistered borrowers cited lack of time as a reason behind not registering.

7.9 SUMMARY OF FINDINGS

Trend analysis of the proportion of aggregate number of units registered in Assam to aggregate number of units registered in all India reveals a moderately upward trend although the proportion of units in Assam to units at all India level is still very low at 0.21%.

Additionally studying the parameters that affect difficulty with respect to registration status of MSMEs, the following are the summary of results:

Table 7.10: Summary of parameters that influence the relationship between registration status and satisfaction with sanctioned amount and difficulty scores

PARAMETERS	TEST USED	P- VALUE	DECISION	INTERPRETATION
Amount of loan applied and amount of loan sanctioned	Paired sample t-test	.000	REJECT NULL HYPOTHESIS	There is significant difference among amount of loan applied and sanctioned
Registration Status on Satisfaction with sanctioned amount district-wise	Chi-square	.024 (Nagaon) .009 (Dibrugarh)	REJECT NULL HYPOTHESIS	Registration status an influence over satisfaction with sanctioned amount in Nagaon and Kamrup districts
Education and registration on difficulty score	Two-way ANOVA	.017 (Application)	REJECT NULL HYPOTHESIS	There is interaction effect between registration and education on difficulty related to application.
Type of Unit and registration on difficulty score	Two-way ANOVA	.029 (attitude) .003 (support service)	REJECT NULL HYPOTHESIS	There is interaction effect between type of unit and registration on difficulty related to application, attitude and support service.

Out of unregistered units, 48% were unaware of benefits from DIC registration and 26% of unregistered borrowers felt that getting registered meant too much documentary requirements and 22 % did not feel it was necessary to get registered.