

EVALUATION STUDY OF CREDIT GUARANTEE FUND SCHEME FOR MICRO, AND SMALL ENTERPRISES

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ABSTRACT

This study evaluates the Credit Guarantee Fund Scheme for Micro, and Small Enterprises (CGFS) administered by Credit Guarantee Fund Trust for Micro, and Small Enterprises (CGTMSE). In order to achieve the objective of the study, we had relied on primary data and secondary analysis. We spoke to more than 2500 beneficiaries of the scheme in 11 states – Uttarakhand, Uttar Pradesh, West Bengal, Chhatisgarh, Maharashtra, Rajasthan, Karnataka, Andhra Pradesh, Telengana, Assam and Meghalaya. We also interviewed 60 officials of member lending institutions in these states. Two separate questionnaires were prepared for these purposes. After evaluation of the CGTMSE scheme across various states of India we found that CGTMSE as an institution has played an essential role in the financial uplift of the sector in country. Most start-up and SMEs when starting to do businesses tends to use their own resources, from family and friends and also from the other external funding sources such as banks. Therefore, in order to develop, expand production and business, SMEs looks to external sources and mainly access bank financing. On the other hand, banks before lending to SMEs they often follow the precautionary principle and risk prevention. One of the requirements of banks when making lending to SMEs is to have collateral. Under such circumstances CGTMSE has positively impacted the entrepreneurial eco- system in the country and has been a boon for the SME sector. In all there were six major areas where CGTMSE funding impacted positively to the MSE sector - technology up gradation, skill up gradation, market development, sustainability of scheme, economic impact, and social Impact.

Keywords: Credit Guarantee, Small Enterprises

INTRODUCTION

Evaluation Study of Credit Guarantee Fund Scheme for Micro, and Small Enterprises

Many governments in the world have created partial credit guarantee schemes to facilitate SME access to finance. These schemes can play an important role, especially in a period where national and state governments are making efforts to improve the effectiveness of credit registries and bureaus and strengthen creditor rights. This study evaluates the Credit Guarantee Fund Scheme for Micro, and Small Enterprises (CGFS) administered by Credit Guarantee Fund Trust for Micro, and Small Enterprises (CGTMSE). The primary objectives of the study were to assess the impact of the Scheme in overall development of the MSE Sector with particular reference to the improvement in terms of the following parameters, due to adoption of upgraded technology/machinery, in measurable terms to the extent possible. The study also intended to evaluate the key issues pertaining to sustainability of the impact of the scheme and to make an assessment of the current

implementation arrangements and efficiency of delivery of the scheme. Finally the study assess the role and efficacy of the existing institutional arrangements in delivering the services for overall improvement and suggest modification to operative practices for facilitating integration with major changes being ushered in through reforms under progress.

RESEARCH DESIGN

This study was completed using both exploratory as well as descriptive techniques wherein, exploratory study was conducted to understand the scope and objectives of CGTMSE scheme in order to formulate data collection schedules and tools for pilot study as well as descriptive study. Exploratory research was conducted in order to understand:

- a) Details of member lending institutions and their geographical spread across the country.
- b) Assess the number of credit facilities approved, total number of guarantees approved in different states/districts/zones.
- c) Secondary data analysis of past 10 years data starting from 2007 regarding number of loans, amount disbursed, claims settled, NPA etc.

Followed by this we conducted a pilot study in the state of Gujarat and the questionnaire was finalized for the detailed field survey and in all 15 questions were framed to collect data in order to assess whether the scheme has been successful in fulfilling the 19 stated objectives as listed above. Similarly, primary interactions were conducted with the MLI's in Gujarat and a structured questionnaire was prepared for MLI survey.

Sampling

In this study multistage random sampling was done. Since the objective of the study was to assess the CGTMSE scheme at a National level first of all the data was divided in five strata's namely:

East, North, North East, South and West. In each strata states covered were then divided into two equal halves based upon the number of CGTMSE loans. One state from each half was selected using simple random sampling (SRS). Following this the total sample size of 2500 was divided proportionately in accordance to the CGTMSE funding done by that state.

In addition to the above 2500 beneficiaries and 60 MLI's the study sample also included following

- CGTMSE officials: Two detailed interactions were carried out of which one was before starting the study and second was after completion of 20% of the field survey.
- MSME officials: Regular interactions were done with the in-charge of study at MSME, New Delhi.
- Industry associations (5)
- 2 Focused Group Discussions (FGD's) were conducted which had a mix of representatives from state industry department, Entrepreneurs, Bankers, Academicians etc.

In the next stage, five MLI's were selected from each state using SRS and these MLI's were approached for seeking beneficiary details. Systematic sampling was used to select the final respondents from the list of beneficiaries received from the MLI's. The summary of sample selected from each state is provided in the table below.

Zone	State	Sample size
East	Chhattisgarh	102
	West Bengal	411
North	Uttar Pradesh	482
	Uttarakhand	58
North East	Assam	72
	Tripura	50
South	Tamil Nadu	549
	Telangana & Andhra Pradesh	286
West	Maharashtra	352
	Rajasthan	138
MLI Interviews		60

Survey

Each MLI representative was interviewed by the senior faculty of EDII and a detailed interview ranging between 60 – 90 minutes was conducted using a structured questionnaire (Annexure 1). This allowed for a more in-depth and realistic analysis of the lender's perspective of this intervention. A pilot exploratory study was also conducted to facilitate preparation of research instrument for the filed research. In order to collect data from the beneficiaries, field investigation officers were given full day training at regional offices of EDII. The questionnaire (Annexure 2) used in the research was discussed in the light of pilot study and objective of each question was explained to the filed investigators involved in the study. The survey continued for a period of 45 days and 5 separate teams were appointed to work parallel in all five zones.

Profile of Respondents

Zone	State		Social Group			
			gen	OBC	SC	ST
East	Chhattisgarh	No of loans	83.44%	8.26%	5.63%	2.67%
		Funds sanction	92.69%	4.11%	2.01%	1.19%
	West Bengal	No of loans	85.88%	6.88%	5.11%	2.13%
		Funds sanction	92.96%	4.23%	1.81%	1.00%
North	Assam	No of loans	85.50%	7.00%	5.60%	1.90%

East	Tripura	Funds sanction	93.43%	3.12%	2.30%	1.15%
		No of loans	66.78%	21.20%	6.31%	5.71%
		Funds sanction	75.60%	14.90%	5.60%	3.90%
West	Maharashtra	No of loans	85.94%	7.26%	5.33%	1.47%
		Funds sanction	93.86%	3.31%	1.81%	1.02%
	Rajasthan	No of loans	87.60%	5.92%	5.05%	1.43%
		Funds sanction	93.92%	3.43%	1.64%	1.01%
North	Uttar Pradesh	No of loans	87.11%	6.25%	4.84%	1.80%
		Funds sanction	93.76%	3.02%	2.12%	1.10%
	Uttarakhand	No of loans	87.78%	6.20%	4.31%	1.71%
		Funds sanction	94.55%	2.82%	1.52%	1.11%
South	Tamil Nadu	No of loans	87.89%	5.63%	4.60%	1.88%
		Funds sanction	93.82%	3.02%	2.01%	1.15%
	AP & Telangana	No of loans	87.78%	6.20%	4.31%	1.71%
		Funds sanction	92.56%	4.90%	1.60%	0.94%

To understand the effective reach of any intervention it is critically important to have an idea about the profile of recipients. Their socio economic status plays major role in performance of any programme. It is usually agreed that higher the SES higher will be the performance level. Sample profile is always valuable to have deeper analysis of any initiative. Following part of the report describe the social economic profile in detail across the regions covered in the present study.

Distribution of Social Groups

It reflects that all the strata of the society are covered in the CGTMSE scheme. Inclusion of ‘OBC’, ‘SC’ and ‘ST’ in entrepreneurial activities and coverage under the credit guarantee scheme is highly appreciative trend from the angle of social justice and providing equal opportunity.

Gender Distribution

Table 3 GENDER DISTRIBUTION AMONG BENEFICIARIES SURVEYED				
Zone	State		Male	Female
East	Chhattisgarh	No of loans	82.74%	17.26%
		Funds sanction	93.09%	6.91%
	West Bengal	No of loans	83.89%	16.11%
		Funds sanction	94.38%	5.62%
North East	Assam	No of loans	83.81%	16.19%
		Funds sanction	94.88%	5.12%
	Tripura	No of loans	85.87%	14.13%
		Funds sanction	98.09%	1.91%
West	Maharashtra	No of loans	83.78%	16.22%
		Funds sanction	95.72%	4.28%

	Rajasthan	No of loans	84.10%	15.90%
		Funds sanction	95.49%	4.51%
North	Uttar Pradesh	No of loans	83.44%	16.56%
		Funds sanction	95.97%	4.03%
	Uttarakhand	No of loans	83.88%	16.12%
		Funds sanction	96.05%	3.95%
South	Tamil Nadu	No of loans	83.89%	16.11%
		Funds sanction	95.20%	4.80%
	AP & Telangana	No of loans	84.09%	15.91%
		Funds sanction	95.45%	4.55%

Gender analysis of respondents shows that 82.74 percent beneficiaries were male and 17.26 percent were females. However, in terms of funds sanctioned it was observed that 93.03 percent of loan amount was disbursed to male borrowers. Therefore it was observed that female participation in CGTMSE scheme is an area of concern and there is a need to actively promote this scheme among female borrowers.

Distribution of Sector Wise Funding under CGTMSE

For the purpose of categorization of beneficiary we have classified enterprises in the following categories:

Category	Classification Parameter
A	Sector Manufacturing/servicing Investment in Plant and Machinery/equipment
B	Micro Manufacturing Up to Rs 25 Lakh
C	Micro Servicing Up to Rs 10 Lakh
D	Small Manufacturing above Rs 25 Lakh to Rs 500 Lakh
E	Small Servicing above Rs 10 Lakh to Rs 200 Lakh
F	Medium Manufacturing above Rs 500 Lakh to Rs 1000 Lakh
G	Medium Servicing above Rs 200 Lakh to Rs 500 Lakh

Zone	State	A	B	C	D	E	F	G
East	Chhattisgarh	36 %	24%	11%	10%	11%	7%	1%
	West Bengal	37%	23%	21%	10%	5%	4%	0%
North East	Assam	41%	32%	10%	9%	5%	3%	0%
	Tripura	47%	27%	11%	8%	5%	2%	0%
West	Maharashtra	35%	18%	12%	15%	10%	8%	2%
	Rajasthan	34%	23%	12%	11%	11%	8%	1%
North	Uttar Pradesh	34%	24%	15%	12%	10%	5%	0%
	Uttarakhand	34%	26%	18%	15%	7%	0%	0%
South	Tamil Nadu	32%	21%	20%	17%	9%	1%	0%
	AP & Telangana	39%	22%	17%	9%	9%	3%	1%

It was observed that units taking loan up to 5 lacs were in the category of A and B *i.e.*, micro manufacturing up to 25 lacs. Such loans constituted 61 percent of the total funding under CGTMSE. Within this firms availing loan up to 2 lacs were approximately 37 percent. If we look at the average ticket size of loans covered under CGTMSE funding in last 10 years between the years 2007-2017 it amounts to 4.67 lacs. Therefore, it is observed that there is a dominance of A and B category entrepreneurs among the beneficiaries.

At the same time it was observed that entrepreneurs in the G category were capable of providing collateral security and were looking for funding at competitive interest rate. They avoided guarantee cover due to high guarantee fee *i.e.* 1%. Similarly, entrepreneurs in D, E and F category also preferred loans at lesser interest rates if available and were willing to offer collateral. Majority of loans in the D, E and F category were taken for the purpose of working capital.

Usage of Funding

It was observed that majority of funding under CGTMSE was given for establishment of new units/businesses. In terms of percentage 38 percent borrowers started a new venture with the help of CGTMSE funding. 62 percent of funding was done to existing units for either expansion, purchase of new machine, market creation or for working capital needs.

Source of Information

It was observed that in majority of cases bank official was the main source of information about CGTMSE scheme. 54 percent respondents said they got the first information about CGTMSE scheme by the loan officer. Referrals from existing beneficiaries was the second important source of information. 18 percent borrowers said that they were informed by the existing beneficiaries covered under the scheme. 14 percent got information from the professional sources such as accountants, Chartered Accountants and Tax Advisors. 8 percent respondents shared industry

association as the source of information about CGTMSE. Remaining 6 percent reported that they got the information from their friends or relatives.

Disbursement Process of Loan under CGTMSE

We asked beneficiaries if they understood the process of disbursement under the CGTMSE coverage and whether they were aware of all documentation. It was observed that majority of beneficiaries were able to recall the documents they submitted for the loan coverage under CGTMSE. Respondents reported that banks have been extremely cooperative and helpful in

Tenure of Loan

82 percent of beneficiaries contacted reported that the loan tenure was between 4 years to 5 years. 15 percent beneficiaries reported that the tenure was of 3 years. Remaining 3 percent were not aware of the exact tenure of their loan. Interest rate varied from 10.70 percent to 16.30 percent across various banks. Following table presents a comparative assessment of interest rates, maximum loan amount covered under CGTMSE and maximum tenure of loan.

Name of MLI*	Interest Rate	Maximum Loan Amount	Maximum Tenure
SBI	12.9% - 14.9%	15 Lacs	5 Years
Allahabad	13% floating	7.5 Lacs	5 Years
Canara Bank	12.7% - 13.7%	3 Lacs	5 Years
Union Bank	14.4% floating	5 Lacs	5 Years
Dena Bank	13% - 14%	9 Lacs	3 Years
OBC	10.70% - 12%	10 Lacs	5 Years
Central Bank	11.4%	10 Lacs	4 Years
Bank of Baroda	11.35% - 16.35%	10 Lacs	4 Years
BOI	12.9% - 13.9%	5 Lacs	3 Years
IOB	13.55% floating	15 Lacs	5 Years
UCO Bank	11.35% - 11.6%	10 Lacs	5 Years

Source: Based on sample of the study

* Only those MLI's are included where sample size was large (*i.e.* n>50).

Status of Repayment

Status of payment was also an important parameter in the study. It was observed that 71 percent respondents were on track in terms of repayment. 18 percent respondent were under the category of defaulters with active loans. Under this category the beneficiaries were lagging up to 4 instalments and were willing to repay their pending instalments in near future. Major reasons cited for delay in payment included: inadequate working capital, poor turnover, problems of infrastructure such as electricity, inadequate cash credit limit and other technical problems in machinery. 5 percent respondents expressed their inability to repay in near future due to various reasons such as loss in

business, economic slow-down etc. Remaining 6 percent respondents did not answer the question pertaining to repayment.

Purpose and Utilization of Loan

Zone	State	Building	P&M	W. Cap	Asset
East	Chhattisgarh	12.00%	28.00%	45.00%	15.00%
	West Bengal	17.00%	38.00%	37.00%	8.00%
North East	Assam	11.00%	25.00%	40.00%	24.00%
	Tripura	10.00%	30.00%	41.00%	19.00%
West	Maharashtra	9.00%	32.00%	51.00%	8.00%
	Rajasthan	19.00%	30.00%	40.00%	11.00%
North	Uttar Pradesh	15.00%	22.00%	50.00%	13.00%
	Uttarakhand	14.00%	27.00%	45.00%	14.00%
South	Tamil Nadu	16.00%	33.00%	47.00%	4.00%
	AP & Telangana	10.00%	33.00%	45.00%	12.00%

In order to understand the utilization pattern of the loans guaranteed under the scheme, we had asked respondents to share the purpose for which had a taken loan under CGTMSE. It was observed that majority of respondents reported using the loan for working capital requirements. Overall 44.10% beneficiaries used loan for their working capital needs. This was followed by 29.80% respondents using the loan for buying plant and machinery. 13.30% reported using the amount for construction purpose and 12.80 reported buying other assets required for the business.

Impact of CGTMSE

Business Growth

Beneficiaries interviewed reported that CGTMSE funding has helped them in increasing the turnover of their business as well as growing the business. 62 percent respondents surveyed answered questions related to impact on turnover whereas remaining units refrained to speak about their turnover. Those who answered to this question agreed to only answer in terms of percentage improvement and denied to share financial data related to their turnover. 18 percent of the respondents answering to this question accepted that their turnover grew by at least 15 percent per annum in the first three after receiving CGTMSE loan. The new units that started their venture with the help of CGTMSE funding reported an average growth of 15–20 percent in their businesses in first three years (42 percent of respondents answering question on turnover). 40 percent of the respondents who answered this question reported an increase of 8-10 percent growth rate in their business due to CGTMSE funding and attributed the success to the timely disbursement of loan.

Employment Generation

The new units started under CGTMSE funding reported employing on an average 4-5 employees in their business in the first three years of starting their new venture. Existing units that had taken loan under CGTMSE scheme reported increase in the number of employees post funding. On an average each unit increased their employee base in the range of 4 – 6 new employees per year in last three years. Therefore, CGTMSE has a positive impact as far as employment generation is concerned.

Satisfaction with the CGTMSE Scheme

Beneficiaries covered under the sample were largely satisfied with the CGTMSE scheme. They reported that the bank officials were quite helpful in explaining the scheme and related modalities. However, few beneficiaries suggested that the guarantee fee is on the higher side. Overall they were satisfied with following:

- a) Credit limit was found to be sufficient by the beneficiaries.
- b) Functioning of the scheme was satisfactory and they appreciated the efforts of bank officers in documentation file preparation, and loan disbursement.
- c) 80 percent of the beneficiaries surveyed agreed that they would be recommending CGTMSE scheme to their friends and family members. Whereas, 43 percent said that they have already recommended CGTMSE funding to their family and friends.

Findings from MLI Interactions

Findings from the survey of MLI representatives is summarised in the following section. These findings have been arrived at after conducting in-depth interviews with the MLI representatives using a structured questionnaire. MLI representatives included AGM's, makers as well as checkers.

Awareness of Scheme

It was observed that there was a sound understanding of CGTMSE related documentation, communication and guidelines among the MLI representatives. However, it was also found that due to frequent transfer in the credit department leads to some gaps in the understanding of new joiners. It was suggested by many MLI officials that annual training program may be organized by CGTMSE office in different zones of the country so that updates about new amendments and changes can also be percolated effectively. During the interaction it was also informed that the information about CGTMSE scheme among beneficiaries was reasonably low and pull demand for CGTMSE cover was low. Therefore, there is a need for branding CGTMSE at a national level to create mass awareness. It was found that in most of the cases awareness creation was done by bank officials. Same was also found in the beneficiary survey wherein bank officials were reported as the major source of awareness about the scheme. However, it was also reported that there was a fraction of beneficiaries who were quite aware and knowledgeable about the scheme. Such customers may be appointed as brand ambassadors of the scheme and they may be motivated for referrals. MLI representatives suggested that in order to further the awareness about CGTMSE scheme additional efforts such as conducting seminars at industry associations, development campaigns etc. can be conducted by DC-MSME, GOI as well as CGTMSE, Mumbai.

Scouting of Customers

MLI officials reported that scouting of customers to be covered under CGTMSE scheme is done at branch level by the loan officers. Whenever a new customer applies for funding and after evaluating his proposal bank officer usually inform the customer about the scheme if the customer

has constraints in terms of providing collateral. Banks also reported distributing leaflets about the CGTMSE scheme in addition to putting the information on their website and displaying banners on the notice board.

Knowledge about Loan Disbursement Parameters

MLI representatives were aware about the process and reported that the procedure was simple and easy to understand. The online portal was reported to be user friendly and easy to operate. However, it was suggested that CGTMSE should develop the system which can be integrated with the bank software for further simplifying the documentation and disbursement of loan.

Knowledge about CGTMSE and Communication Process

It was observed that MLI's were reasonably satisfied with the communication and response from the CGTMSE officials. They reported that mails are reverted within 48 working hours and all sort of queries are addressed immediately. However, there was a common concern about the reachability of CGTMSE officials through help line number provided to them. In few cases MLI officials offered to provide evidence of the same to the research team by calling at the CGTMSE number in presence of the researcher and in all such instances the phone was not answered.

Knowledge about the Recent Changes and Amendments in the Scheme

MLI officials were reasonably aware about the changes made by CGTMSE and appreciated almost all the amendments made by CGTMSE. The arrangement of checker and maker was widely appreciated by the MLI representatives. This change has facilitated fast tracking of the loan disbursement and also shares some degree of responsibility with the respective MLI. Similarly, remittance process has also been eased out by accepting NEFT transfers. This was also appreciated a lot by the MLI's across the country. MLI's were also aware about the revised limits of the guarantee from 100 lakhs to 200 lakhs.

Few MLI representatives suggested that CGTMSE may also think for allowing one time settlement by bank on a case to case basis in order to fast track the claim settlement. More flexibility in OTS will expedite closure of the NPA cases.

Limits of Guarantee Cover

Though all the MLI's interviewed were aware about the current guarantee cover and they had information about the extension in the cover from one crore to two crores but the guarantee cover offered by CGTMSE is not sufficient to mitigate the risk of lending institutions in case of loans above 50 lakhs. It was also observed that since the maximum guarantee cover (*i.e.* 85%) is available in case of loans not exceeding 5 lakhs majority of MLI's were interested in funding below the 5 lakhs limit. MLI's suggested to extend the maximum limit of 85% up to a loan of 10 lakhs and similarly the 75% cover should be extended up to 75 lakhs.

MLI Experiences with CGTMSE

MLI representatives were highly satisfied with the overall functioning of CGTMSE. They had reported satisfaction in regards to claim filing, disbursement of claim as well as query resolution process adopted by CGTMSE.

Claim Filing

In relation to the claim filing, almost all MLI's reported that the process was simple and easy to understand. Few MLI's however, suggested that the lock in clause of 18 months may be waived off. Similarly, it was also reported that the verification process adopted by CGTMSE to check whether due diligence was done by the bank official at the time of screening the loan application at the time of claim filing should be done prior to issuing guarantee cover and not at the time of claim filing.

There were few suggestions to further ease the process:

a. The current regulations require MLI to mark the account NPA before completion of next quarter from the quarter in which account is found to have become NPA. In certain cases, this time period was deemed to be insufficient. Therefore, there was a suggestion to make this requirement as two quarters instead of one quarter.

b. Similarly, MLI's are required to submit the evidence of filing a legal suit against the defaulter before filing the claim. Here MLI's were of the opinion that the requirement for filing a legal action against the defaulting borrower should be raised from 50,000 to 2,00,000.

Disbursement of Guarantee Cover: They reported that the first claim was received in a period of 2–3 weeks. However, the second claim took a little longer. Few MLI's suggested that the first claim amount which is 50 percent of guarantee cover should be allowed to be adjusted against the outstanding amount instead of waiting till the final outcome of legal cases.

Non Performing Accounts (NPA)

During our interactions with MLI representatives we strived to get information about the NPA levels in case of CGTMSE covered loans. It was reported that NPAs in this scheme were significantly higher as compared to collaterally secured loans and ranged from 9 percent to 12.50 percent across MLI's covered under this study.

Year	NPA's (Rs. Lakh)
2007-08	723.834
2008-09	860.671
2009-10	3,407.05
2010-11	5,941.88
2011-12	6,801.29
2012-13	16,973.69
2013-14	42,713.03
2014-15	71,729.63
2015-16	99,447.94
2016-17	1,02,296.80

NPA in last three years have shown a significant rise and is an area of concern.

Satisfaction with CGTMSE

Majority of MLI's interviewed were satisfied with the overall functioning of CGTMSE. However,

there were few areas of concern.

- a. Availability of CGTMSE officials over phone needs to be ensured and a dedicated call centre facility may be established.
- b. Annual training programmes may be announced to disseminate the information and amendments to MLI representatives.
- c. A regular feedback mechanism must be established to take a regular feedback from MLI's.
- d. Guarantee fee should be relaxed as it distracts the high ticket borrowers.
- e. Some amount of dissatisfaction was also registered regarding the procedural requirements or lodging the claim and settlement of claims.
- f. Few MLI's been dissatisfied with the delay in settlement of second claim and suggested that amount of first claim should be 75 percent.
- g. It was also shared that CGTMSE should have a regional presence in order to expedite the process of claim settlement.

Suggestion of MLI's

Based on the MLI interactions we have documented the suggestions offered by MLI's across the country to strengthen the implementation of CGTMSE scheme. Following were the broad suggestions received.

1. Trading is a big segment of business across the country and they need funding for working capital requirements as well as creating soft infrastructure on market places in order to compete with the online players and multi-nationals. Therefore, trading should also be included in the CGTMSE cover. However, stringent screening may be done in case of trading applications.
2. Annual guarantee fee needs to be rationalized as it is the major reason why medium enterprises are not availing the credit guarantee under CGTMSE. In order to leverage the scheme for the benefit of manufacturing units 1% guarantee fee may be reduced to the tune of 0.75% percent.
3. Provision of marking NPA within a time frame of one quarter from the quarter of NPA realization may be increased to two quarters.
4. CGTMSE should develop their systems to facilitate integration of bank software with the CGTMSE portal in order to further simplify the process of lodging proposal, filing claim etc.
5. Requirement of filing law suit should be relaxed up to a loan amount of 2 lakhs from the existing limit of 50,000.
6. More flexibility should be given to MLI's to exercise the one-time settlement option in case of NPA's.
7. CGTMSE portal should also permit the banker to retrieve complete data pertaining to beneficiaries. Currently MLI can only retrieve the CGPAN number, name of the firm and loan details. For the contact information and other personal details MLI's have to rely on the manual process. This is time consuming and does not allow for generating regular MIS.
8. Guarantee cover should be increased in case of loan exceeding 50 lakhs from 50 percent to 75 percent.
9. Deposit guarantee and credit guarantee should be merged in one entity. This shall provide natural hedge on both asset and liability side of banking institutions.

FINDINGS OF STUDY

Impact of CGTMSE Scheme

SMEs are an important part of the economy and the driving force for development of each country. However, in the process of development, SMEs face many difficulties and challenges, such as technology, management skills, problem of information asymmetry, quality workforce, competition, market, economic and financial crisis, etc. Among them one of the major difficulties of SMEs is accessing capital from banks and credit institutions. To solve this problem, the countries

around the world have used different financial tools to help SMEs easily access finance. One of the effective financial instruments applied by more countries in the world is credit guarantee. Impact on Business Impact on Employment Generation Impact on Efficiency of Organization. After evaluation of the CGTMSE scheme across various states of India we found that CGTMSE as institutions has played an essential role in the financial uplift of the sector in country.

Most start-up and SMEs when starting to do businesses tends to use their own resources, from family and friends and also from the other external funding sources such as banks. Therefore, in order to develop, expand production and business, SMEs looks to external sources and mainly access bank financing. On the other hand, banks before lending to SMEs they often follow the precautionary principle and risk prevention. One of the requirements of banks when making lending to SMEs is to have collateral. Under such circumstances CGTMSE has positively impacted the entrepreneurial eco-system in the country and has been a boon for the SME sector.

Impact of CGTMSE Scheme on MSE Sector

Overall our research reveals that the majorities of beneficiaries under CGTMSE scheme belongs to MSE sector, and are typically young enterprises. These beneficiaries reported that they experienced a boost in their turnover as well as employment generation in the years following approval of CGTMSE funding. In all there were six major areas where CGTMSE funding impacted positively to the MSE sector.

- Technology upgradation
- Skill upgradation
- Market development
- Sustainability of scheme
- Economic impact
- Social Impact

OBSERVATIONS ON CURRENT IMPLEMENTATION

1. The scheme has been successful in spanning itself geographically across the country with a special focus in the North East. It was also observed that the largest number of beneficiaries were in the less than 5 lakh loan amount category. The benefits of the scheme have also reached more than 100 industrial sectors in which MSEs are operating.
2. It was also observed that majority of Grameen Banks across the country were partners in furthering the mandate of CGFS and hence it can be concluded that beneficiaries are spread over even tier 3 towns and not limited to major industrial hubs.
3. Another significant observation related to implementation of the scheme is that the funding has constantly grown in between 2007 and 2014 and as stagnated in last 3 years. Therefore, it was felt that there is an urgent need to broaden the corpus base of the trust.
4. It was also observed that the contribution of nationalized banks has been significantly high as compared private sector banks. However, at the same time the average loan amount of the former is less than 5 lakhs whereas the average loan amount of the later was greater than 30 lakhs.
5. It was also observed that CGTMSE was highly effective in settling the claims wherein the first installment was settled within 3 week time frame in majority of the cases.
6. Similarly, the risk coverage is adequately calculated and measures have been taken to ensure that banks conduct due-diligence before submitting the application under CGTMSE scheme. Among the stringent criteria for availing loans are registration of an enterprise as an LLP, private Limited or Proprietorship Company, the necessary tax registrations and approval to do business. New businesses, especially, need to submit a detailed plan with financial projections, business model, and promoter profiles and existing

- businesses have to submit their financial performance report and financial statements.
7. Loans are available only for manufacturing and service businesses; trade businesses are currently not covered under the scheme. Implementation is still a challenge in some cities as branch officials are not aware of all the eligibility norms and conditions of this scheme, and as a result do not provide this information to customers.
 8. IT was observed that against the corpus fund CGFS has facilitated loans which were 20 times the corpus and has thus been able to promote entrepreneurial activities in the country.
 9. It is the only of its kind guarantee scheme which has covered more than 27 lakh beneficiaries in last 10 years.
 10. The scheme is successfully implemented and monitored effectively with less than 50 employees and a single office resulting in the operational cost of less than 1 percent of the revenue.

Cost Benefit Analysis of CGTMSE

In view of the data and information constraints, performing the complete cost benefit analysis of the scheme would be a highly ambitious task. However, considering that the amount of claims settled in in last ten years–INR. 3509 crores and total beneficiaries more than 27 lakhs during the same period, and assuming that each beneficiary may be generating additional 3 employments, it turns out that approximately cost of INR. 3200 is incurred to generate the benefit of one employed person.

Therefore, looking at the social impact created by scheme and the associated cost paid in terms of claims being paid we can conclude that the scheme has created huge impact in comparison to the associated cost and we believe that the corpus of the fund may be further increased.

Income Generation per Beneficiary in Last 5 Years

- On an average income generated due to CGTMSE funding per beneficiary was 2.33 lacs per annum and for a period of 5 year it was 7.68 lacs.
- Assuming 2.7 lakh beneficiaries per year it can be concluded that total income generated due to the scheme was to the tune of 6291 crore per annum.

Zone	Avg Employment	Avg Salary PA	year 1	year 2	year 3	year 4	year 5	Total
North	2.5	120000	300000	300000	300000	300000	300000	15,00,000
East	2.2	100000	220000	220000	220000	220000	220000	11,00,000
North East	1.6	96000	153600	153600	153600	153600	153600	7,68,000
West	2	120000	240000	240000	240000	240000	240000	12,00,000
South	2.1	120000	252000	252000	252000	252000	252000	12,60,000

Proposed Benchmarks to monitor the progress on a regular basis

1. One of the benchmark could be the operational cost of the trust with respect to its revenue.
2. NPA as a proportion of total loans can be an obvious benchmark to measure the quality of implementation.

3. Total employment generated directly and indirectly should be considered as an important benchmark before taking any decision related to continuance or dis-continuance of such schemes.
4. Improvement in the health of MSE sector due to easy access to credit should be considered as a major contribution of such schemes and must be treated as a benchmark.
5. Increase in entrepreneurial activities and industrialization of backward areas and weaker sections should be considered as an important benchmark.

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