

MSME Business Models in India: A Study On the Impact of CGTMSE On Micro and Small Business

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ABSTRACT

In this study, we aimed to examine the impact of Credit Guarantee Fund Trust for micro and small enterprises (CGTMSE) in empowering business models in Kottayam District, Kerala. This research tried to highlight various challenges and opportunities associated with the guarantee scheme. Moreover the study also analysed the transforming capacity of the scheme and impact of scheme on people who availed this facility. The findings of the research were developed from semi structured interview, observation and questionnaire survey analysis with micro and small business owners and also considering the banking officials of Kottayam District, Kerala. According to the findings of the study, the role of MSMEs in social and economic developments are widely acknowledged and appreciated but lack of awareness about various schemes along with non availability of collateral securities created hindrances for MSME units. The study argued that the scheme is best to enhance empowerment status in all dimensions by converting job seekers to job providers.

Keywords: Business dynamism across small and medium enterprises

I. INTRODUCTION

CGTMSE or Credit Guarantee fund scheme for Micro and Small enterprises previously known as Credit Guarantee Fund Scheme for Small Industries (CGFSI) was established in the year 2000 for financing MSME sector. Access to finance has been identified as a crucial barrier to the growth of Micro Small and Medium enterprises. In order to have a robust economic growth the MSME sector has to grow. Hence the finance to MSME sector should be readily available at low cost. Emergence of MSME units in effect provides greater job opportunities and hence mitigates poverty. Secondary sector has shown a sustained growth of over 10 percent for the past few years, which proves the ability of Indian enterprises to rediscover and provide solutions despite problems in the economy. Being the largest employer by providing more than 11 crore jobs through 6 crore enterprise and contributing over 30% of the nation's GDP, the role of the MSME sector can't be ignored.

Banks have been the major source of Finance in India and RBI has included financing to MSME sector as Priority sector lending. Banks have been allotted targets for achievement of these priority sector targets which also includes Housing, Educational and Agricultural loans etc. Government of India from time to time has been formulating new schemes and measures to support the sector so that there will be unrestricted credit flow.

The number of Member lending Institutions under the trust is 95, which includes Public sector, Private sector, RRBs, Foreign banks, Other financial institutions, Small finance banks and Cooperative banks. During the financial year (2021-22) 5, 30,808 guarantees were provided for an amount of Rs. 42,463 crores. There has been a decrease in the number of guarantees as compared to previous year. But the amount of coverage has increased as compared to the previous year which are 5, 82,543 guarantees for Rs. 28,714 Crore respectively.

Fig 2. Top lending institution for FY2021-22



Source : (CGTMSE, 2022)

Finance minister Nirmala Sitharaman in her budget 2023 speech announced revamping the credit guarantee scheme under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with the infusion of Rs 9,000 crore in the corpus, effective April 1, 2023. The revamp will enable additional collateral-free credit of Rs 2 lakh crore to MSMEs while the cost of credit will be reduced by 1 per cent. In this context, this study was conducted to understand the impact of CGTMSE on Micro and small enterprises in driving business models in Kottayam

II. LITERATURE REVIEW

Mund, C. S. (2020). Problems of MSME Finance in India and Role of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). In his study he showed the role of CGTMSE in averting the risk of financial institutions in lending to MSME sectors. Banks should act as growth partners for enterprises rather than credit providers. Insistence of collateral is reduced by the invocation of guarantee of the trust thus enabling free flow of credit. Scheme needs to be promoted by bankers and entrepreneurs. Acharya, S. S. (2019). Evaluated the efficiency of Indian credit guarantee scheme for MSMES. Study correlated the positive impact of CGTMSE in credit availability to MSME sector. This had further accelerated the growth of profit of enterprises. He argued that average employment possibility also had increased. Das, R. (2016). Studied performance of credit guarantee scheme for micro and small enterprises in north east India. In this study researcher found that there had been an

increase in growth of the CGTMSE coverage as a whole there is a dismal performance of the Credit Guarantee scheme in North east India(except Assam). There would have been an increase in the coverage if all the Regional Rural banks of North East had participated in CGTMSE coverage. Study suggested the requirement of further awareness among entrepreneurs to reap the benefit of the scheme. Dahale, S., Khairnar, S., Jain, S., & Patil, P. T. (2015). Critical Analysis of Role Played by Financial Institutions in Development of Indian MSME's. The study analysed MSMEs as drivers of Economic growth of the country. Government interventions based on committee recommendations would boost the growth. Banks and other financial institutions should take pride in serving the MSME sector.

III. RESEARCH GAP

Availability of Credit without the hassles of Collaterals/Security had been the major issue reported by first generation Enterprises for realising their dreams of setting up of an enterprise. Keeping this objective in mind Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) earlier known as Credit Guarantee Fund Scheme for Small Industries (CGFSI) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector. Whether the scheme was able to realise the dreams of the entrepreneurs in setting up their units. A ground level reality check has to be conducted for understanding the above statement. Enterprises normally complained that there existed a mismatch between the capital required for the enterprise to rise/flourish and the amount that was available from different sources. This study aimed at the effect CGTMSE had on the empowerment of business models in target area.

IV. RESEARCH METHODOLOGY

The study used convenient sampling and snowball sampling for conducting research. The study aimed to examine impact of CGTMSE from the perspective of both bank officials and beneficiaries who availed loan from the scheme. The research used unstructured interview, and a questionnaire to collect primary data for the study. To facilitate analysis, detailed notes were recorded as and when data was collected. Branch heads of various banks and beneficiaries of the scheme were part of data collection process. The study spread across ten branches of Kottayam District, Kerala. The study tried to explore and examine the difficulties associated to this scheme for bank officials and beneficiaries. The study used textual analysis to summarise the findings and recommendations.

V. ANALYSIS AND DISCUSSIONS

From the study, 88 %percentage of the respondents replied that they were satisfied with the amount requested for the loan and the amount sanctioned as loan. Most of the times there occurred a disparity between the capital required for the enterprise and the capital available for the enterprise from different sources. With the introduction of the scheme, borrowers were able to obtain the required capital they required. Unless and until the necessary amount is available to the enterprise it can't thrive. Every enterprise has to possess sufficient amount of capital to service the different financial ratios of the firm (Solvency ratio, Profitability ratio, Liquidity ratio, Earnings ratio, Turnover ratio). These ratios are important for the understanding and further leverage of the firm.

92% of the respondents responded that they would recommend the scheme to their family, friends and entrepreneurs. High degree of conformity of this attribute confirms that they were highly satisfied with the scheme. Most of the times marketing of a product happens through word of mouth. When it comes to starting of a business there are high chances that budding entrepreneurs seek the advice of successful entrepreneurs. Survey confirms that out of hundred respondent ninety two of them will suggest the scheme to others. With the growth of IT, information has been in the fingertips of customers. Kottayam town, which was the first town in India to have achieved 100% literacy, is no exception. Information gathered has been used to improve the customers position and is also shared to improve the status of others.

A whopping 96% of the respondents confirmed that CGTMSE coverage had helped to improve the business. Capital without the hassles of collateral/security is prime driver of MSME units. Ever since the launch of the scheme, it helped entrepreneurs from the clutches of money lenders, who charged exorbitant interest along with collateral. Survey confirmed that hassle free capital had helped to improve the business scenario. They could get the capital from a number of Member Lending institutions at their disposal. Ease of obtaining capital is the key to drive further economic growth. Unstructured interview with the Branch heads provided other valuable qualitative insights to the study. The units which were provided with CGTMSE units further improved lending organisations business position. Footfall at the business unit helped to have an impression of the lending institute with the help of QR codes installed at the premises and the Hypothecation boards. Single sanctioning of the loan had a catalyst effect for the lending institution. More and more queries for diverse business models occurred. With the advent of credit information reports from different agencies (CIBIL, CRIF, EQUIFAX) lending institutions were able to sort out credit worthy applicants. Preliminary scrutinisation/rejection of the proposal could be done from the initial stage itself, without causing much worry to the applicant, by not wasting their valuable time.

A recent trend that has been reported by Branch heads of the surveyed institutions confirmed the surge in diverse proposals from youth. Startup enquiries are on a higher side. This was a good signal for the growth of MSMEs in the region. Influx of youth into MSME sector would ensure that new ideas and energy would be imbibed to the organisation. With the available demographic dividend to the nation, the contribution of the youth to the sector should be considered positively. More than 30% of the branch heads expressed their concern for the mounting NPA under the schemes given under CGTMSE coverage. When there was an increase in the percentage of NPA under a certain scheme there will be imposed credit restriction to the branch for the stressed scheme. As the recovery and claim mechanism was cumbersome, there would be strong monitoring from the controlling offices of the branch. There should be proper due diligence while appraising proposal and invoking CGTMSE guarantee. There are instances where borrower was defaulting even on the annual guarantee fee.

Qualitative aspect of the scheme varied from branches to branches depending upon a pluralistic of reasons. They vary upon the nature of savings and expenditure of the customers, economic potential of the area etc.

VI. FINDINGS AND SUGGESTIONS

In this study, with respect to the bank official's perspective they need to take extra care and time for studying the feasibility of the proposal. Since there was no collateral security attached to the loan, there can be high chances that party would default. Hence due care should be there to ascertain the credit worthiness of the customer. If the party or the customer failed to pay, it would be classified as a Non Performing Asset and it would become a task for the bank officials to recover it. Since bank officials need more time to study the report, it would

reasonably take more time to get the loan sanctioned. Lack of awareness and limited study in this area would add concerns to both banking officials as well as the beneficiaries.

The annual guarantee fee rate should be lowered from the existing rate for the upliftment of MSMEs. Incentives or subsidy scheme should be provided for those borrowers who are prompt in their operations. This will boost the performance and encourage others to pay/prompt. Proper training and awareness should be given from the government side to all the bankers, prospective beneficiaries and entrepreneurs to make them aware about the loan procedures and also about the existing government support schemes.

VII. CONCLUSION

It can be concluded that CGTMSE had a game changing effect on the growth of MSME sector in Kottayam region. With the availability of collateral free credit entrepreneurs were able to open new establishment, upgrade their business with much ease. The shortage capital had thwarted the growth of enterprises in the recent past. The scheme from onset had addressed this key issue. There were ups and downs in the business due to the pandemic. But with greater coverage and inclusion of retail trade into CGTMSE coverage there was a large influx of capital to enterprises. Though there was an increase in the NPA percentage of the CGTMSE MSME loans this problem was reduced by giving proper awareness of the scheme to the borrowers. They need to be educated of the possibility of enhancement availability of the existing scheme and future prospects of growth. Once the borrower's credit history is badly reflected in Credit rating agencies, they will be deprived of future credit avenues. This can be avoided by proper utilisation of the capital for income generation.

VIII. REFERENCES

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