



**ROLE OF CREDIT GUARANTEE SCHEME IN FINANCING TO
MICRO AND SMALL ENTERPRISES IN INDIA**

Pramod Prahakar Kamble, Department of Commerce, Sahakarbhushion S.K.Patil College, Kurundwad,Shirol, Kolhanur

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ABSTRACT

Micro and Small Enterprises (MSE), known as first generation entrepreneurs act as a seed for developing entrepreneurship in the county. It has been recognized as an engine for economic development of country. It has played significant role in providing employment, contributing to the GDP and export. Finance holds the key aspect for the development of this sector. There is significant gap between the requirement of funds and the supply of funds to small enterprises in India. The small enterprises especially new enterprises in India is facing difficulty in getting finance due to non availability collateral security. By considering this the government of India was launched Credit Guarantee Fund Scheme for Micro and Small Enterprises on 30 Aug. 2000. The object of this scheme is to make available collateral free credit to micro and small enterprises. The object of the present paper aims to review micro, small and medium sector and the role of CGMES in financing to this sector.

KEYWORDS: Small Micro and Medium Enterprises, Credit Guarantee Scheme, Financing, Collateral security.

INTRODUCTION:

Micro and Small enterprises is an important constituent of total industrial sector in India and has a lion share in the development of economy. The sector cultivates entrepreneurial talent and thereby exploits the resources for producing various kinds of goods and services. It has been contributing significantly to the National Gross Domestic Product besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. As per the data released by Ministry of Micro, Small and Medium Enterprises, this sector consist of an estimated 26 million micro and small enterprises (MSEs). It provides an employment to an estimated 60 million persons which is next to agriculture. MSE sector accounts for 45% of the manufacturing sector outputs and 8% of the Gross Domestic Products. The sector contributes close to 40% of nation's export.

Out of the many challenges before this sector, inadequate access to financial resources is most crucial. It is because the small enterprises and especially newly established enterprises are found unable to give collateral securities as per the requirement of banks and financial enterprises. To overcome the problem the Govt of India launched credit guarantee Fund Scheme for micro and small enterprises. It ensures that the micro and small enterprises get loans from banks and other financial institutions without collateral security and third party guarantee. The present paper attempts to highlights the role of CGTMSE in financing to this sector.

OBJECTIVES:

1. To overview of Micro, Small and Medium Enterprise (MSME) sector in India.
2. To analyze the Role of Credit Guarantee Scheme in the financing micro, small and medium enterprises in India

DEFINING MICRO AND SMALL & MEDIUM ENTERPRISES

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

(A) MANUFACTURING ENTERPRISES-

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified

in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

The Manufacturing Enterprise is **defined in terms of investment in Plant & Machinery.**

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

(B) SERVICE ENTERPRISES:

The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.**

Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

PERFORMANCE OF SSI / MSME UNITS, EMPLOYMENT, INVESTMENTS AND GROSS OUTPUT

Sr. No	Year	Total Working Enterprises (in lakhs)	Employments (In Lakhs)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
1	2001-02	105.21	249.33	154349	282270
2	2002-03	109.49	260.21	162317	314850

3	2003-04	113.95	271.42	170219	36454 7
4	2004-05	118.59	282.57	178699	42979 6
5	2005-06	123.42	294.91	188113	49784 2
6	2006-07	361.76	805.23	868543.79	13513 83.45
7	2007-08	377.37	842.23	917437.46	14351 79.26
8	2008-09	393.7	881.14	971407.49	15242 34.83
9	2009-10	410.82	922.19	1029331.4 6	16193 55.53
10	2010-11	428.74	965.69	1094893.4 2	17215 53.42
11	2011-12	447.73	1012.59	1176939.3 6	18343 32.05

Source: Annual Report 2012-2013 by Government of India Ministry of Micro, Small and Medium Enterprises

As shown in the above table the total number of working MSM enterprises has been continuously increasing over the last twelve years. It was 105.21 lakhs in 2001-02 which went up to the 447.73 lakhs in 2011-12. The Micro small and medium enterprises have provided an employment to 1012.59 lakhs people in the country in 2011-12. With the space the number of working enterprises increased, the employed people have also increased. The gross output of these enterprises has increased from 282270 crore to 1834332.05 crore during the period 2001-02 to 2011-12.

CREDIT GUARANTEE SCHEME

Finance is the key factor in the success of every business enterprises. The small and micro enterprises face difficulty in getting the finance due to inadequate collateral securities. Considering this the Government of India launched Credit Guarantee Scheme to make available bank credit without the hassles of collaterals and third party guarantee to micro and small enterprises in India so as to strengthen credit delivery system and facilitates flow of credit to MSE sector. The credit guarantee scheme assures the lender that in the event of NPA of the business enterprises under this scheme the guarantee trust would make good the loss incurred by the lender up to 75/80/85 per cent of the credit facility so as the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed.

The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000 and is operational with effect from 1st January 2000. The corpus of CGTMSE is being contributed by the Government and SIDBI in the ratio of 4:1 respectively and has contributed Rs.1906.55 crore to the corpus of the Trust up to March 31,2010. As announced in the Package for MSEs, the corpus is to be raised to Rs.2500 crore by the end of 11th Plan.

ELIGIBLE MEMBER LENDING INSTITUTIONS (MLI'S)

The Credit Guarantee Scheme operates through banks and other financial institutions known as member lending institutions (MLI's). These consist of scheduled commercial banks (Public Sector Banks/Private Sector Banks/Foreign Banks) and select Regional Rural Banks (which have been classified under 'Sustainable Viable' category by NABARD). National Small Industries Corporation Ltd. (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi) and SIDBI have also been made eligible institutions. As on March 31, 2010, there were 112 eligible Lending Institutions registered as (MLIs) of the Trust, comprising of 27 Public Sector Banks, 16 Private Sector Banks, 61 Regional Rural Banks, 2 Foreign Bank and 6 other Institutions viz., NSIC, NEDFI, SIDBI and The Tamil Nadu Industrial Investment Corporation(TNIIC).

ELIGIBLE CREDIT FACILITY

The eligible guarantee cover available to new and existing micro and small enterprises under the credit guarantee scheme for term and working capital is up to 100 lakhs per borrowing unit. Further it is mandatory that the credit facility should be obtained from a single lending institution.

GUARANTEE COVER

The guarantee cover available under the scheme is to the extent of 75 per cent of the sanctioned amount of the credit facility.

The extent of guarantee cover is 80 per cent for

- micro enterprises for loans up to Rs.5 lakh;
- MSEs operated and/or owned by women; and
- all loans in the North-East Region.

In case of default, Trust settles the claim up to 75% (or 80% wherever applicable) of the amount in default of the credit facility extended by the lending institution. For this purpose the amount in default is reckoned as the principal amount outstanding in the account of the borrower, in respect of term loan, and amount of outstanding working capital facilities, including interest, as on the date of the account turning Non-Performing Asset (NPA).

TENURE OF GUARANTEE

The Guarantee cover under the scheme is for the agreed tenure of the term loan/composite credit. In case of working capital, the guarantee cover is of 5 years or block of 5 years.

FEE FOR GUARANTEE

The fee payable to the Trust under the scheme is one-time guarantee fee of 1.5% and annual service fee of 0.75% on the credit facilities sanctioned. For loans up to Rs.5 lakh, the one-time guarantee fee and annual service fee is 1% and 0.5% respectively. Further, for loans in the North-East Region, the one-time guarantee fee is only 0.75%

OPERATIONAL HIGHLIGHTS OF CGTMSE

The operational highlights of the CGTMSE is shown in the table and charts below:

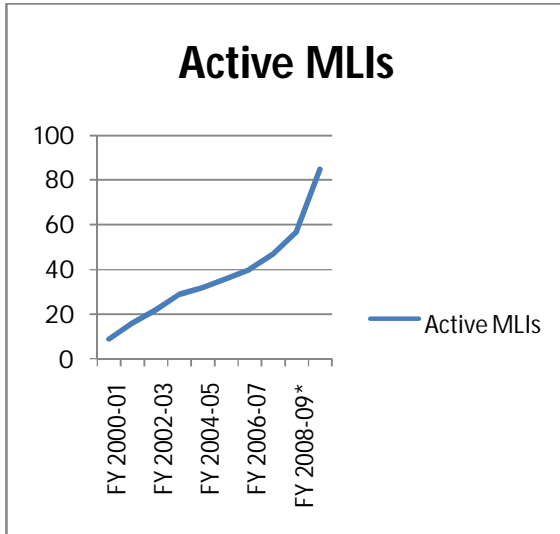
Period	Active MLIs	Number of Proposals Approved	Credit Amount Approved (Rs. in Lakh)
FY 2000-01	9	951	606
FY 2001-02	16	2296	2952
FY 2002-03	22	4955	5867
FY 2003-04	29	6603	11760
FY 2004-05	32	9516	32677
FY 2005-06	36	16284	46191

FY 2006-07	40	27457	70453
FY 2007-08*	47	30825	105584
FY 2008-09*	57	53708	219940
FY 2009-10*	85	151387	687511

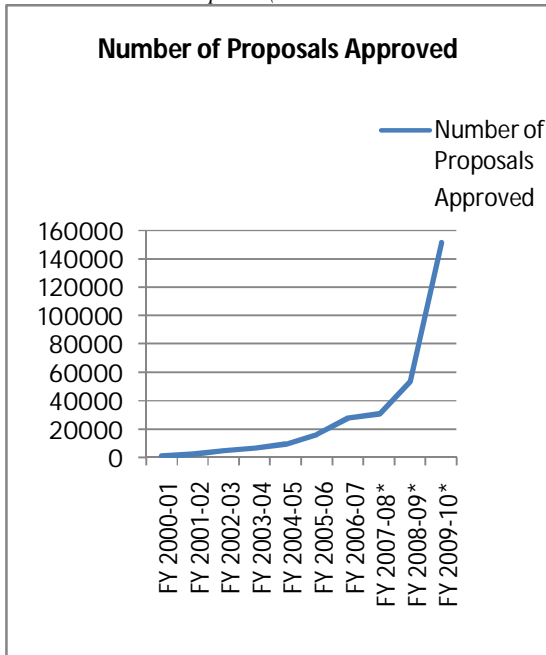
Source: Ministry of Micro Small and Medium Enterprises on Web:

<http://dcmsme.gov.in/schemes/scrguar.htm>

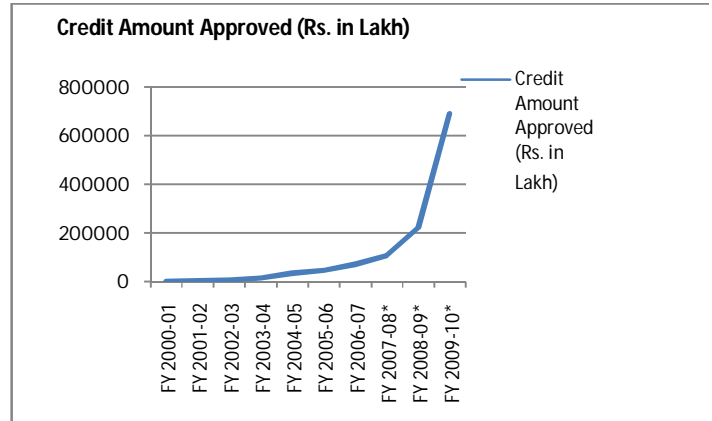
TRENDS IN CREDIT GUARANTEE SCHEME NCTIONED



Data Source: CGTMSE (Status as of January 31, 2010)
 RBI: Report of the Working Group to Review the Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)



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The above table and charts shows that initially there was poor response for the credit guarantee scheme. In 2000-01 there were only 9 active MLI's in 2000-01 sanctioned loans under credit guarantee scheme to merely 951 enterprises of Rs.606 lakh. However it has taken space soon and up to 2009-10 the number of MLI was 85, sanctioned guarantee cover to 151387 micro, small and medium enterprises and the amount of guarantee cover was Rs.687511. Further as per RBI report on credit guarantee scheme SBI has sanctioned most number of proposals under this scheme which accounted 18.93% out of the total proposals under this scheme. The total amount approved by SBI was Rs. 1517.65 crores as of January 31,2010. Among all the states Uttar Pradesh is the leading beneficiary with guarantee cover for 36,583 proposals involving an aggregate credit of Rs. 877.66 crore,

CONCLUSION:

Credit Guarantee Scheme has played crucial role for development of micro and small enterprises in India. It has given guarantee cover to the financial institutions to make loss good in case if asset become non performing asset, thus financial institutions has no hesitations to provide term and working loans to first generation entrepreneurs. The proportion of credit covered under this scheme to the total credit sanctioned to micro and small enterprises is relatively very less. Government should take necessary steps to reach to the maximum enterprises. However as there is no requirements of collateral and third party guarantee for availing loans there is possibility that loan is taken with intention to default.

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6. <http://msme.gov.in/Web/Portal/New-Default.aspx>