FINAL REPORT

STUDY ON THE IMPACT OF ECLGS

For

NATIONAL CREDIT GUARANTEE TRUSTEE COMPANY (NCGTC)

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EXECUTIVE SUMMARY

The **Emergency Credit Line Guarantee Scheme** (ECLGS), under the **Atmanirbhar Bharat** package of Government of India, aims to mitigate the adverse impact of the Covid-19 crisis on MSMEs and other Business Enterprises, with a 3 lakh Cr. corpus. The 100 percent loan guarantee for the scheme is provided by the National Credit Guarantee Trustee Corporation (NCGTC). This study is undertaken by the National Institute of Bank Management (NIBM), Pune, on behalf of NCGTC, to assess the impact of the ECLGS. The final report is divided into six chapters.

Chapter I sets the context of the study. It discusses the impact of the Covid-19 crisis on the availability and cost of credit for MSMEs and other business enterprises, which created the need for the ECLGS. It outlines the broad contours of the survey based impact study, commissioned by NCGTC. It presents the main results and recommendations, based on the analysis conducted by the NIBM team.

Chapter II analyses the population data on Mudra and non-Mudra loans, shared by NCGTC. On the basis of information on Guaranteed Emergency Credit Line (GECL) disbursement to three lakh borrowers, it is observed that Public Sector Banks (PSBs) and NBFCs focus on smaller loans, while Private Sector Banks (PVBs) cater to relatively larger ones. Manufacturing firms get a very small share of GECL, which may hurt output growth and employment in the short run. PSBs offer GECL at the lowest cost.

Chapter III studies the survey responses from 1722 firms. It finds that till date, most borrowers have availed GECL for short-term liquidity support, up to three months, rather than business growth. The funds are likely to be utilized for repayment of supplier dues and restarting operations. The worst affected during the lockdown are likely to benefit more from the liquidity support, provided by GECL. Most borrowers feel that GECL has been easy to obtain. But, the inequitable pattern of GECL disbursement reduces its liquidity benefits for the smallest borrowers and manufacturing firms.

Chapter IV summarizes the responses of the Member Lending Institutions (MLIs). It not only corroborates the popularity of ECLGS, but also its preference as a liquidity support for borrowers. It highlights business disruption as the most plausible reason for non-availment, wherever applicable. The scheme guidelines are found to be simple and clear and the ECLGS is expected to improve credit business of MLIs.

Chapter V conducts an empirical analysis, based on the qualitative survey responses by the borrowers. Based on a number of dummy variable regressions, it finds that a percentage increase in disbursement not only improves business volumes across the board, but by more for those who otherwise don't associate GECL with business growth, i.e. small borrowers and the worst affected during the lockdown. It also shows that an increase in disbursement, and a positive opinion on liquidity benefits of GECL, would increase the chance of a positive outlook on business growth.

Chapter VI documents all the suggestions received from Nodal officers and field officers at MLIs as also borrowers. It identifies certain loopholes in the documentation process as one of the main reasons for non-utilization of GECL. It also states that many borrowers found the approved amount too small to be effective, in the current environment. It not only makes a case for a higher proportion of disbursement, but also links it to the Working Capital limit.

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CHAPTER I

INTRODUCTION

The Confederation of Indian Industry (CII) website states that MSMEs contribute more than 33% to India's output and around 45% to our exports. They employ more than 120 million people and have grown at a consistent rate, in excess of 10%. However, this sector has been hit hard by the Covid-19 pandemic. In a recent CII survey on the crisis, in which almost 300 CEOs (around two-thirds of them from MSMEs) participated, the majority (64%) expects business revenues to decline by at least 20% in FY 2020-21 and about 80% anticipate more than 15% job losses in their respective sectors. Almost 65% of respondents foresee that their companies will take at least six months to revert to normalcy. Another survey by Dun and Bradstreet, on behalf of the Ministry of MSMEs, indicates that the impact on MSMEs will not only be high but also prolonged (beyond one year). Their operations will be hamstrung by (i) decline in Indian exports (ii) liquidity problems due to delays in payments from customers and (iii) credit crunch, on account of strains in the banking sector.

The last point, i.e. deployment of bank credit in MSMEs, deserves closer scrutiny. Recent RBI data does show that bank credit disbursement to MSMEs has fallen since the announcement of lockdown in March 2020, with micro and small enterprises the most affected.

Sector	**Mar.27, 2020**	**May.22, 2020**	**May.22, 2020 / Mar.27, 2020**
			%
Industry (Micro & Small, Medium and Large)	**2905151**	**2861607**	**-1.5**
Micro & Small	381825	352949	-7.6
Medium	105598	99847	-5.4
Large	2417728	2408811	-0.4
Priority Sector	**2897461**	**2795546**	**-3.5**
Micro & Small Enterprises	1149394	1077748	-6.2
Micro-Credit	38237	34818	-8.9

Table 1.1: Bank Credit Deployment (in Rs. Cr.) since lockdown (Source: RBI Database)

The table shows that MSMEs already have a very low share in total bank credit, which has fallen further due to a decline in disbursement, between end-March and end-May 2020.

The second concern is with the cost of credit. Though the RBI reduced the policy repo rate by 115 basis points, between end-March and end-May 2020, the Weighted Average Lending Rate (WALR) on fresh disbursement declined to a much lesser extent. This means that borrowers like MSMEs (whose cost of funds often exceed 10%) would find even bank credit expensive when cost of funds in the capital market is exorbitant. Table 1.2 summarizes the change in lending rate on fresh credit, between March and May 2020.

Month	Public Sector Banks	Private Sector Banks	Foreign Banks	SCB
Mar-2020	8.64	9.29	8.28	8.82
Apr-2020	8.44	8.91	7.73	8.52
May-2020	8.21	9.21	7.19	8.54

Table 1.2: Bank WALR (in %) on fresh loans since lockdown (Source: RBI Database)

In order to ameliorate the credit crunch and reduce the cost of funds for MSMEs, so that they can tide over the Covid-19 crisis, the GOI introduced the **Emergency Credit Line Guarantee Scheme** (ECLGS) under **Atmanirbhar Bharat** package on 13th May 2020. The salient features of the scheme, obtained from the National Credit Guarantee Trustee Company (NCGTC) website, are given below.

The Loan is referred to as Guaranteed Emergency Credit Line (GECL). 100 percent loan guarantee would be provided by NCGTC to Member Lending Institutions (MLI). This will be extended in the form of an additional working capital term loan facility in the case of SCBs and additional term loan facility in the case of NBFCs, to eligible MSMEs / Business Enterprises and interested Pradhan Mantri Mudra Yojana (PMMY) borrowers. Sanction under GECL would be up to 20% of the borrower's total outstanding credit, up to Rs. 25 crore, excluding off-balance sheet and non-fund based exposures, as on 29th February, 2020, i.e., additional credit shall be up to Rs. 5 crore. The scheme has been modified on 4th August, 2020 to (i) cover individuals under Non-Mudra category (ii) enhance the limits to 20 percent of loan outstanding upto Rs.50 crore across MLIs and (iii) enhance the eligibility based on turnover of unit during FY 2020 from Rs.100 crore to Rs.250 crore. Hence, the scope of the scheme stands widened.

The Scheme would be applicable to all loans sanctioned under GECL during the period from May 23, 2020 to 31st October, 2020, or till an amount of Rs. 3 lakh crore is sanctioned under GECL, whichever is earlier. Borrower accounts should be classified as regular, SMA-0 or SMA-1 as on 29.2.2020. Accounts classified as NPA or SMA-2 as on 29.2.2020 will not be eligible under the Scheme. Interest rates on GECL shall be capped as follows: (i) For Banks and FIs, one of the RBI prescribed external benchmark linked rates +1% subject to a maximum of 9.25% per annum (ii) For NBFCs, the interest rate on GECL shall not exceed 14% per annum

The loan will be pre-approved. An offer will go out from the MLI to the eligible borrowers for a pre-approved loan which the borrower may choose to accept. If the MSME accepts the offer, it will be required to complete requisite documentation. Thus, an 'opt-out' option will be provided to eligible borrowers under the Scheme, *i.e*., if the borrower is not interested in availing the loan, he/she may indicate as much. NCGTC will not charge any guarantee fee under the Scheme. Since additional credit under GECL is to be provided to existing customers, no additional processing fee shall be charged by lenders. No additional collateral shall be asked by MLIs for additional credit extended under GECL.

Against this backdrop, NCGTC approached NIBM to conduct a Survey-based Study on the Impact of ECLGS. The **Terms of Reference** are as under:

Objective of the Survey

The survey is to assess the impact of the support to the MSMEs through ECLGS. It aims to understand the impact on Liquidity position, Ease of getting loan, Effect on Borrowing Cost of MSMEs, Banker perspective, demand and growth scenario and ability to sustain the crises for longer duration.

NIBM will have to arrange to share the response/assessment/analytics of the survey and the overall outcome with policy makers and SIDBI.

How this survey would be conducted

Online / telephonic mode. The data gathered / shared while conducting survey would be kept confidential.

Survey Process

- NIBM will try to reach out to a large sample.
- 500-800 responses via telephonic interview, with focus on qualitative feedback.
- MLIs would also be surveyed for their feedback and suggestions.

In view of the scope of work, the NIBM team prepared a questionnaire for MSMEs and other business enterprises and obtained 1722 responses from a stratified sample, through telephonic surveys. Henceforth, we use the term **MSMEs** to represent both MSMEs and Other Business Enterprises.

<u>The main results of our analysis are as follows:</u>

1. The ECLGS has reduced borrowing costs for all firms.
2. It is perceived primarily as a tool for immediate liquidity support, up to three months, rather than business growth. The worst affected zones feel that a loan would benefit them more.
3. The majority of the eligible customers of MLIs (60% - 90%) have utilized GECL. It is easy to obtain from the MLIs. Hence, it has become quite popular.
4. Econometric analysis suggests that an increase in the percentage of disbursement will not only enhance business volumes for all borrowers, but also be most effective for the smallest firms and the worst affected during the lockdown.
5. MLIs feel that GECL will improve their credit offtake as well.

<u>However, the scheme can be made more effective if some concerns are addressed. These are:</u>

1. The disbursement patterns are unequal – a large proportion of borrowers have received a small share of the total GECL.
2. The utilization rate is low for the smallest borrowers, manufacturing firms and those worst affected during the lockdown phase.
3. The utilization rate is lowest for customers of public sector banks, among all bank groups, though they offer the cheapest rates.

On the basis of these results, the main recommendations may be presented as follows:

1. Introduce progressive subsidization: Most respondents observe that the amount disbursed is inadequate. As a result, many borrowers have not utilized GECL. The smallest of borrowers may be given a higher limit than 20% of their outstanding credit, to reverse the inequality in distribution and make the scheme more effective. For instance, Micro enterprises may be given a limit of 50% while medium enterprises may continue to attract 20%.

2. Zero or simpler documentation: Since second charge is available to NCGTC and banks get 100% loan guarantee, there should be no documentation for GECL. In case it is unavoidable, it should be simplified to reduce the cost and delay associated with procedures like registrations and payment of stamp duty.

3. Based on sanctioned limit: The disbursement may be linked to Working capital or CC limit. If the outstanding balance, on 29.2.2020, is very low, the deployment may not be enough.

4. Moratorium on interest: If the interest cannot be waived off during the lockdown phase, there may be a moratorium on it along with the principal component, during the first twelve months.

5. Another loan: There is clear evidence that GECL has provided valuable liquidity support. With the unlock process underway, throughout the country, a second loan may be given to improve business volumes and support growth prospects.

More detailed suggestions may be found in Chapter VI.

CHAPTER II

ANALYSIS OF POPULATION DATA ON GECL

In this chapter, we study the population GECL data given by NCGTC, on Mudra and non-Mudra loans, for almost 3 lakh MSME and other business enterprises. We continue to use the term MSMEs to capture both MSMEs and other business enterprises. Our analysis suggests that Public Sector Banks (PSBs) and NBFCs are concentrated in the middle tier while private banks (PVBs) focus on bigger loans. PSBs also offer the cheapest rates among the three categories. From the data, it is clear that the rates on GECL are much lower than the market rates on loans to MSMEs.

Disbursement across Loan Size and Business Activities

Table 2.1 shows the distribution across bank groups, in terms of loan size and business sectors. It is evident that PSBs focus on the Rs. 50,000 – Rs. 5 Lakhs bracket, with 65.76% of their disbursement in this category. Likewise, NBFCs offer 67.8% of the GECL in the same band. In contrast, almost 59% of the loans made by PVBs are in the above Rs. 5 Lakhs range. The implication is that the lowest slab, i.e. up to Rs. 50,000, is not serviced by any of the bank groups and FIs. We will shed more light, on this issue, in the next chapter.

The table also highlights that a very small fraction of the GECL is allocated to manufacturing activities. PSBs focus more on Retail Trade, PVBs lend more to services while NBFCs offer loans only to the services sector. Such a disbursement pattern may have adverse implications for the revival of employment and output through GECL, given the high labour intensity of the manufacturing sector.

	PSBs	PVBs	NBFCs
50K-5L	65.76%	40.85%	67.80%
Manufacturing	4.19%	5.29%	0.72%
Retail Trade	35.11%	20.77%	0.26%
Services	26.45%	14.78%	66.82%
Above 5L	31.96%	58.91%	32.20%
Manufacturing	3.55%	8.15%	0.73%
Retail Trade	20.78%	24.19%	
Services	7.62%	26.56%	31.46%
Upto 50K	2.29%	0.25%	0.00%
Manufacturing	0.07%	0.01%	0.00%
Retail Trade	1.25%	0.08%	
Services	0.97%	0.16%	
Grand Total	100.00%	100.00%	100.00%

Table 2.1: GECL distribution across loan size and business activities

Likewise, Table 2.2 portrays the regional distribution of GECL disbursement across bank groups. PSBs are concentrated in the Northern and Central states, PVBs focus the most on the Western region while NBFCs are skewed to the Eastern states. The Southern region is well represented across bank groups and FIs. The regional picture may capture the relative penetration of financial intermediaries across the country.

	PSBs		PVBs		NBFCs
UTTAR PRADESH	**15.44%**	**MAHARASHTRA**	**18.34%**	**WEST BENGAL**	**10.70%**
KARNATAKA	**10.02%**	**TAMILNADU**	**7.80%**	**ORISSA**	**9.57%**
MADHYA PRADESH	**9.83%**	**UTTAR PRADESH**	**7.69%**	**TAMILNADU**	**8.52%**
MAHARASHTRA	**6.99%**	**TELANGANA**	**6.99%**	**UTTAR PRADESH**	**8.45%**
TAMILNADU	**6.03%**	**KERALA**	**6.84%**	**GUJARAT**	**7.84%**
ANDHRA PRADESH	**5.77%**	**MADHYA PRADESH**	**6.34%**	**MAHARASHTRA**	**7.71%**
KERALA	**5.53%**	**KARNATAKA**	**6.11%**	**RAJASTHAN**	**6.32%**
ORISSA	**5.01%**	**GUJARAT**	**5.97%**	**TELANGANA**	**5.81%**
RAJASTHAN	**4.14%**	**ANDHRA PRADESH**	**5.19%**	**MADHYA PRADESH**	**4.97%**
GUJARAT	**3.97%**	**RAJASTHAN**	**4.42%**	**CHHATTISGARH**	**4.61%**
UTTARAKHAND	3.62%	WEST BENGAL	3.32%	DELHI	3.72%
PUNJAB	3.58%	DELHI	2.96%	JHARKHAND	3.49%
WEST BENGAL	3.18%	JHARKHAND	2.70%	KERALA	2.86%
Bihar	3.01%	BIHAR	2.46%	KARNATAKA	2.47%
CHHATTISGARH	2.46%	PUNJAB	2.13%	ASSAM	2.24%
TELANGANA	2.03%	JAMMU & KASHMIR	2.01%	PUNJAB	2.23%
DELHI	1.52%	HARYANA	1.59%	HARYANA	2.15%
ASSAM	1.50%	ORISSA	1.57%	BIHAR	2.11%
JHARKHAND	1.46%	UTTARAKHAND	1.53%	ANDHRA PRADESH	1.87%
HARYANA	1.32%	HIMACHAL PRADESH	1.24%	CHANDIGARH	1.09%
HIMACHAL PRADESH	1.08%	CHHATTISGARH	0.92%	HIMACHAL PRADESH	0.55%
PONDICHERRY	0.70%	ASSAM	0.55%	UTTARAKHAND	0.23%
GOA	0.50%	CHANDIGARH	0.45%	PONDICHERRY	0.20%
JAMMU & KASHMIR	0.43%	PONDICHERRY	0.21%	MIZORAM	0.16%
SIKKIM	0.17%	Ladakh	0.19%	JAMMU & KASHMIR	0.14%
CHANDIGARH	0.12%	MIZORAM	0.13%	DADRA & NAGAR HAVELI	0.00%
LAKSHA DEEP	0.12%	SIKKIM	0.11%	DAMAN & DIU	0.00%
MEGHALAYA	0.11%	GOA	0.09%	GOA	0.00%
TRIPURA	0.09%	DADRA & NAGAR HAVELI	0.06%	MEGHALAYA	0.00%
ARUNACHAL PRADESH	0.07%	MANIPUR	0.05%	SIKKIM	0.00%
MANIPUR	0.06%	ANDAMAN & NICOBAR	0.02%	TRIPURA	0.00%
NAGALAND	0.05%	MEGHALAYA	0.02%		
LADAKH	0.04%	DAMAN & DIU	0.01%		
MAHARASHTRA	0.02%				
MIZORAM	0.02%				
DAMAN & DIU	0.01%				
ANDAMAN & NICOBAR	0.01%				
DADRA & NAGAR HAVELI	0.01%				
Punjab	0.00%				

Table 2.2: GECL distribution across states

Table 2.3 portrays the distribution of GECL disbursement, as per business size. The focus is on Micro enterprises, while medium enterprises appear to have been bypassed.

MSMEs	PSBs	PVBs	NBFCs
MICRO	86.53%	87.31%	65.41%
SMALL	5.38%	8.77%	11.51%
MEDIUM	0.73%	0.72%	0.00%
OTHER BUSINESS ENTERPRISES	7.35%	3.20%	23.08%

Table 2.3: GECL distribution as per business size

Finally, Table 2.4 depicts the benefit to MSMEs and other business enterprises, in terms of lower interest cost on GECL. It is well documented that the market rates on such loans are in excess of 10%, at banks. The ECLGS offers 100% loan guarantees at much lower interest cost. THE PSBs offer the cheapest rates, well below the ceiling rate of 9.25%. The PVBs and NBFCs are close to the maximum permissible rate, which are also less than free market rates. The borrowing cost reduction, due to GECL, is unambiguous.

PSBs	Average of TRM_INTEREST_RATE	PVBs	Average of TRM_INTEREST_RATE	NBFCs	Average of TRM_INTEREST_RATE
MEDIUM	7.504	MEDIUM	9.03	MICRO	13.990
MICRO	7.535	MICRO	9.15	OTHER BUSINESS ENTERPRISES	13.844
OTHER BUSINESS ENTERPRISES	7.546	OTHER BUSINESS ENTERPRISES	9.01	SMALL	13.843
SMALL	7.538	SMALL	9.06	Grand Total	13.985
Grand Total	7.536	Grand Total	9.14		

Table 2.4: GECL borrowing cost across bank groups

In this chapter, we have analysed data on almost 3 lakh enterprises shared by NCGTC. The most important conclusions are that PSBs disburse relatively more of small-ticket loans (between Rs. 50,000 and Rs. 5Lakhs) at a much lower cost, than other financial intermediaries. But, the low share of manufacturing in GECL may be an area of concern in the revival of short-run output and employment.

CHAPTER III

ANALYSIS OF MSME SURVEY RESPONSES

Introduction

In this chapter, we present the survey responses from 1722 firms – both MSME and other business enterprises. The main results are as under:

1. Most of the respondents feel that the ECLGS will ease short-term liquidity problems. The majority also observe that the impact will be short-term – up to three months. Hence, firms appear to treat this scheme as a policy measure, to enhance their liquidity support.
2. A much smaller fraction observe that ECLGS will increase business volume, which is a longer – term concern. In fact, many of them are not sure how long it will sustain their business operations.
3. Most respondents want to use GECL to clear supplier dues and restart operations.
4. Most of them also state that it was easy to obtain GECL from banks/FIs.

However, the responses also highlight some areas of concern. These are:

1. The distribution of GECL disbursement is inequitable – 80% of the total borrowers get only 30% of the total amount.
2. The utilization rates of GECL sanctions are much lower than average for smaller borrowers. More than a third of the smallest borrowers did not get pre-approved loans from their lenders. The smaller firms are also less likely to perceive liquidity benefits or business growth, due to GECL, than others, primarily because of the smaller amounts approved.
3. The utilization rates are much lower than average for those zones worst affected by the lockdown (West and East).
4. The manufacturing firms perceive less liquidity benefits, compared to other activities. This may be because their share in GECL disbursed is the lowest, as the previous chapter shows.
5. PSBs offer the lowest borrowing rates, among all lenders. But the utilization rate of GECL among PSB customers is the lowest as compared to other MLIs.

Sample Selection Process

NCGTC gave us a dataset of almost 3 lakh MSME and other business enterprises. In order to have a fair representation in the sample, the following steps were carried out:

- As a first step, the important variables were identified as Zone (Based on States in the East, West Central, North and South of India), SSI_Unit_Type, Type_of_Activity, MLI and Loan_Size

- **Non Mudra loans**
    a. It was found out that 66% of accounts were having loan size upto Rs. 10 Lakh. Hence the data was divided into 2 groups – Upto Rs. 10 Lakhs and Above Rs.10 Lakhs. The total sample size required for survey was fixed at around 1500. Hence it was decided to extract 70% records from first group of loan size upto 10 Lakh and 30% records from second group of loan size above 10 Lakh. (1050 and 450 respectively.)
    b. The Member Lending Institutions (MLIs) were mostly concentrated in PSBs (85%) and Private Sector (14%). Less than 1% accounts (0.9%) represented Foreign Banks, NBFCs and Small

Finance Banks. Hence it was decided to consider the entire data of FBs, SFBs and NBFCs separately for the survey.

c. For the data of loan size Upto Rs.10 lakh, first leg of stratified random sampling was done to find out total number of accounts in the combination of Zone, SSI_Unit_type, Type _of_Activity and MLI. Using a small macro-program, in each of the combination above, the data was extracted in the same proportion as that of the population. E.g. If 3.6% accounts in the population belong to Central Zone, MICRO units, Retail Trade activity and Public Sector Banks, 38 accounts (3.6% of 1050) were selected for the sample. This process was repeated for all combinations for the sample creation.

   The same method was used for the second group of data where loan size was above 10 Lakh.

- **Mudra Loans**
  The sample of 1500 Mudra Loans was also selected using the same method as described above.

Profile of Randomly Selected Survey Respondents

The following tables provide the profile of 1722 ECLGS Survey Respondents. As can be seen, the sample has a fair representation in terms of

1. Geography.
2. Type of entity.
3. Activity.
4. Loan Size.
5. Mix of MLIs.

The diversity in the sample was obtained through appropriate Stratified Sampling (as described above) to derive the most representative sample from the population data of ECLGS borrowers provided by NCGTC. The tables 3.1 to 3.6 provide the distribution of survey respondents across various parameters.

MLI Category	No. of Respondents	% of Respondents	% Disbursed Amount
FB	1	0.1%	1.7%
NBFC	11	0.6%	4.4%
PSB	1468	85.2%	57.5%
Pvt.SB	195	11.3%	20.7%
SFB	47	2.7%	15.8%
Grand Total	1722	100.0%	100.0%

Table 3.1: Distribution of Survey Respondents by MLI Types

Zone	No. of Respondents	% of Respondents	% Disbursed Amount
Central	237	14%	10.19%
East	283	16%	10.94%
North	580	34%	43.40%
South	318	18%	17.51%
West	304	18%	17.95%
Grand Total	1722	100%	100.00%

Table 3.2: Distribution of Survey Respondents by Geographical Zone

Unit Type	No. of Respondents	% of Respondents	% Disbursed Amount
MICRO	1241	72%	58.95%
SMALL	148	9%	20.95%
MEDIUM	42	2%	6.59%
OTHER BUSINESS ENTERPRISES	291	17%	13.51%
Grand Total	1722	100%	100.00%

Table 3.3: Distribution of Survey Respondents by Unit Types

Activity	No. of Respondents	% of Respondents	% Disbursed Amount
Manufacturing	260	15%	34%
Retail Trade	972	56%	45%
Services	490	28%	20%
Grand Total	1722	100%	100%

Table 3.4: Distribution of Survey Respondents by Business Activity

Outstanding Amount (Rupees)	No. of Respondents	% of Respondents	% Disbursed Amount
O ≤ 50,000	126	7%	0.26%
50,001 ≤ O ≤ 5,00,000	867	50%	53.68%
5,00,001 ≤ O ≤ 10,00,000	308	18%	13.87%
10,00,001 ≤ O ≤ 50,00,000	401	23%	16.39%
50,00,001 ≤ O ≤ 100,00,000	7	0%	2.68%
O > 100,00,00	13	1%	13.12%
Grand Total	1722	100%	100.00%

Table 3.5: Distribution of Survey Respondents by Outstanding Amounts

Disbursed Amount (Rupees)	No. of Respondents	% of Respondents	% Disbursed Amount
D = 0	222	13%	0.0%
0 < D ≤ 10,000	220	13%	0.4%
10,001 ≤ D ≤ 50,000	394	23%	4.6%
50,001 ≤ D ≤ 1,00,000	313	18%	9.9%
1,00,001 ≤ D ≤ 5,00,000	483	28%	46.8%
5,00,001 ≤ D ≤ 10,00,000	74	4%	19.4%
D > 10,00,000	16	1%	16.1%
Grand Total	1722	100%	97.2%

Table 3.6: Distribution of Survey Respondents by Disbursed Amounts

Descriptive Statistics for GECL Survey Respondents Loan Amounts

Table 3.7 shows that among the Survey respondents, the average GECL approved amount was Rs. 1.68 lakhs, which was approximately 18% of the average loan outstanding and aligned to the scheme requirements. 84% of the GECL approved was availed by the respondents but there was a high variation in GECL utilization.

Total Sample	Total	Average	Standard Deviation
Existing Outstanding Amount	1,603,272,461	931,053	2,139,632
GECL Approved Amount	290,015,192	168,418	369,846
GECL Disbursed Amount	244,034,804	141,716	304,203
GECL Utilisation Rate (=Disbursed Amount / Approved Amount)		84%	14%

Table 3.7: Descriptive Statistics of GECL Amounts in Sample

Analysis of GECL Utilisation Pattern

The Table 3.8 disaggregates the average utilization of the GECL across approved Amounts and demonstrates that the average utilization rates are monotonically falling with smaller approved amounts, clearly indicating that for lower GECL approvals, the relevance of the scheme for funding business has been lower for the borrowers and therefore the utilization has been low. The utilisation rate in the above 10L bracket is due to a single SFB and may be ignored.

The Table 3.9 further shows that the percentage share of borrowers who did not avail the approved GECL funds is highest for those who were sanctioned smaller amounts (Column D = 0). The diagonal percentages represent the percentage of borrowers in a given approved category who have availed equivalent amounts.

GECL Approved Amounts	Percentage of Respondents	Share of Approved Amount	Average Utilisation Rate
A ≤ 10,000	11%	0.45%	75%
A ≤ 50,000	29%	5.06%	79%
A ≤ 100,000	22%	10.32%	83%
A ≤ 500,000	32%	46.80%	87%
A ≤ 10,00,000	5%	18.21%	92%
A > 10,00,000	1%	19.16%	**73%**

Table 3.8: GECL Utilization Pattern among Survey Respondents

	Disbursed Amounts						
Approved Amts.	D = 0	0 < D ≤ 10,000	D ≤ 50,000	D ≤ 1,00,000	D ≤ 5,00,000	D ≤ 10,00,000	D > 10,00,000
A ≤ 10,000	**18%**	**81%**	1%	0%	0%	0%	0%
A ≤ 50,000	**16%**	6%	**77%**	0%	0%	0%	0%
A ≤ 100,000	**13%**	3%	1%	**83%**	0%	0%	0%
A ≤ 500,000	**8%**	3%	0%	0%	**88%**	0%	0%
A ≤ 10,00,000	**7%**	1%	0%	0%	1%	**90%**	0%
A > 10,00,000	**29%**	0%	0%	0%	0%	0%	**71%**

Table 3.9: GECL Utilization Pattern among Survey Respondents

From the Table 3.10 we see that the utilization rate of the GECL sanctions was higher for those respondents whose business increased during the lockdown as compared to those who saw an adverse impact of the lockdown. This implies that market demand plays an important role in the availment of the GECL and that while the additional credit provided may be temporarily utilized to ease liquidity shortfalls, additional credit to entities which are resuming business post lockdown will definitely enhance growth prospects.

Business Volume Impact During Lockdown	Share of Approved Amts	Utilisation Rate
Decreased	94%	85.8%
Increased	6%	91.5%

Table 3.10: GECL Utilization Pattern for Different Business Impact of Lockdown

The Table 3.11 shows the variation in GECL utilization across zones. The businesses from Western and Eastern zones exhibit the lowest utilization rates.

Row Labels	Utilisation Rate
Central	86%
East	80%
North	89%
South	91%
West	72%

Table 3.11: GECL Utilization Pattern among Survey Respondents across Zones

The Table 3.12 demonstrates that the while public sector banks had sanctioned 58% of the GECL to the respondents, the utilization rate for PSB sanctioned GECL was relatively low at 84% as compared to customers of private sector banks and small finance banks. Thus, while public sector banks were more prolific in approving the GECL, at the lowest possible rates, their borrowers were either unable to or unwilling to drawdown the additional funds. The utilization rate of GECL sanctions by NBFCs was the lowest at 47%.

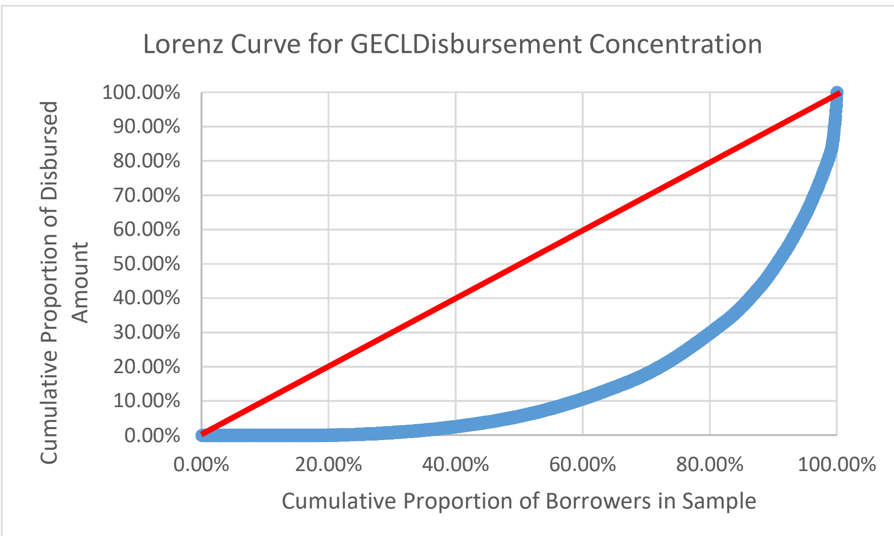
MLIs	Share of Respondents	Share of Approved Amt	Utilisation Rate
FB	0.1%	1%	100%
NBFC	0.6%	8%	47%
PSB	85.2%	58%	84%
Pvt.SB	11.3%	19%	92%
SFB	2.7%	14%	94%

Table 3.12: GECL Utilization Pattern among Survey Respondents across MLI Types

Concentration of ECLGS Disbursements

In view of the wide variation in patterns of utilization, we wanted to study how equitable the overall disbursement is. The results are worrisome, to say the least.

The Lorenz Curve (Graph 3.1) and Gini Co-efficient were used to measure the equality of disbursement amount distribution across ECLGS borrowers. As can be seen from the graph, the red diagonal represents the (45°) line of equality, that is, where the disbursements would be equally distributed across borrowers. For instance, along the 45° line, 20% of the borrowers get 20% of the cumulative disbursements, 50% get 50% and so on. However, the actual Lorenz Curve exhibits strong convexity, indicating that larger proportions of the ECLGS borrowers received smaller GECL loan amounts. For instance, it is clear that 80% of the borrowers get only 30% of the disbursed amount, while the balance 20% get 70% of the sum disbursed. The corresponding Gini Coefficient value is 68.8%, which is indicative of a fairly high degree of concentration of GECL disbursements among a limited proportion of borrowers.

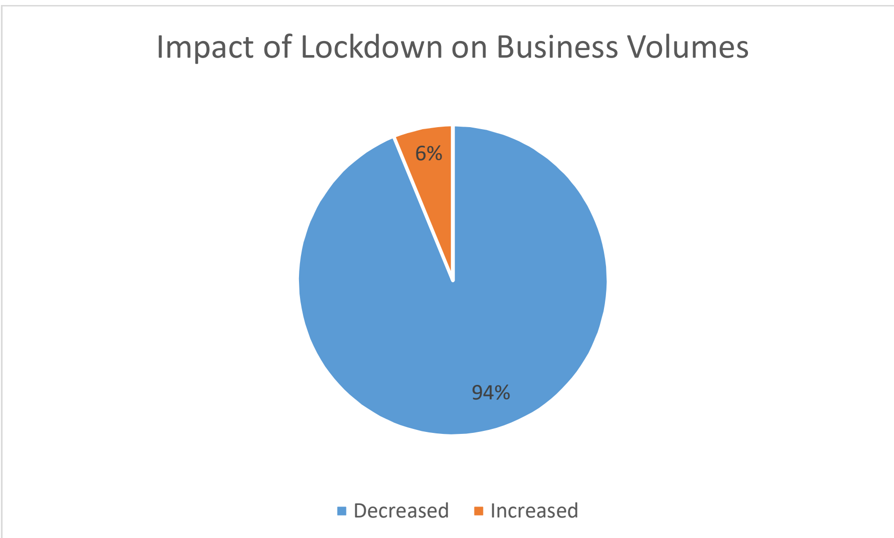


Graph 3.1: Lorenz Curve for Concentration of GECL Disbursements

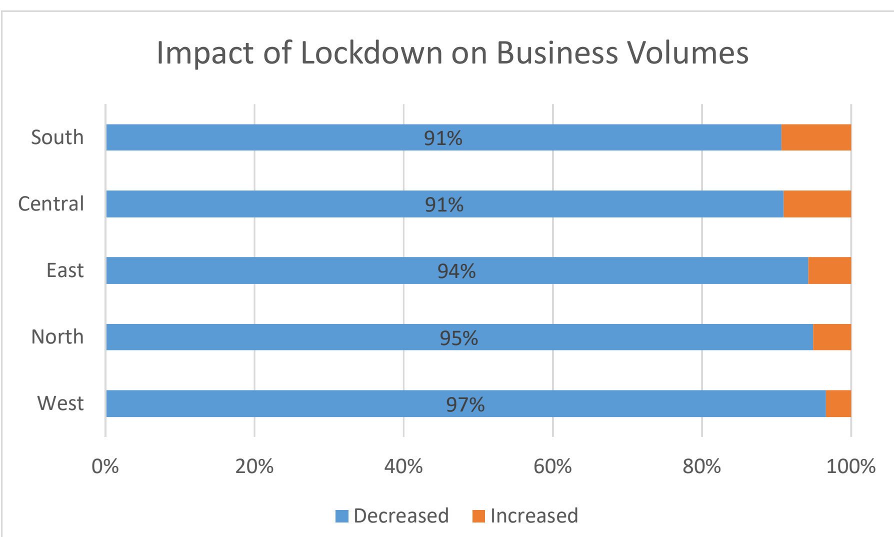
Analysis of Impact of the ECLGS

Impact of the Covid-19 related Economic Lockdown on the Business Volume

As shown by Graph 3.2 and 3.3, 94% of the overall respondents had seen a decrease in their business volumes as a consequence of the lockdown. The severity of lockdown on business varied across states and was highest (97%) for respondents from Western Zone (Maharashtra, Gujarat, Rajasthan and Goa) and the Eastern states. Relatively fewer respondents from some of the Central and Southern States were adversely impacted due to the lockdown. As seen earlier, the Western and Eastern zones had the lowest GECL utilisation rates. Perhaps, due to greater lockdown severity, such firms were not in a position to utilize the amounts approved.



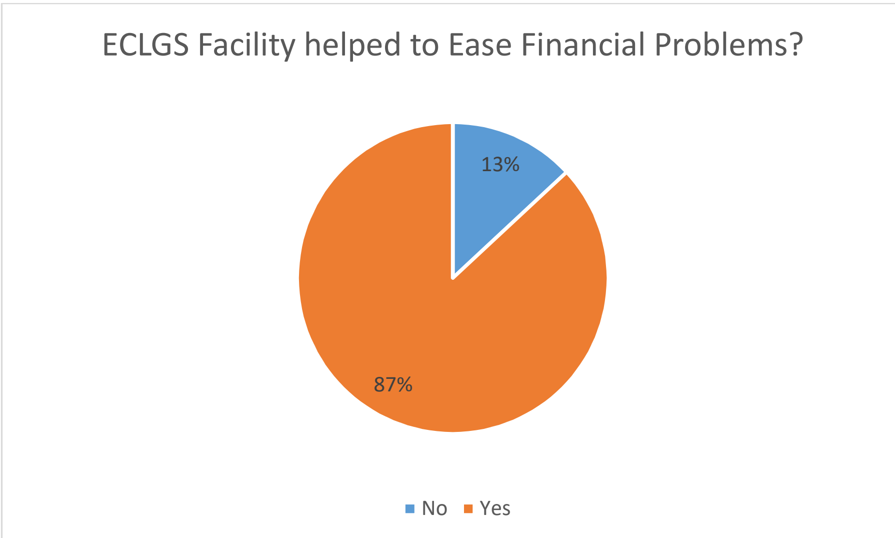
Graph 3.2: Impact of Lockdown on Business Volumes



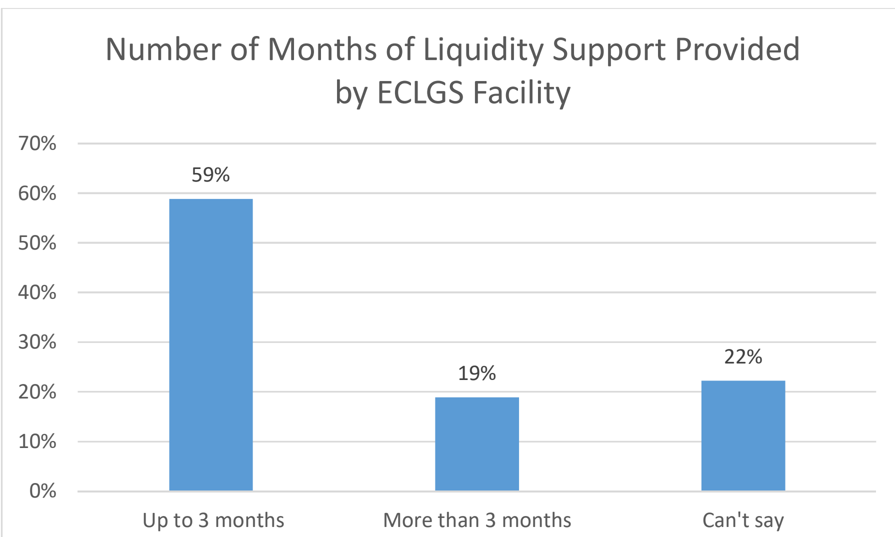
Graph 3.2: Impact of Lockdown on Business Volumes by Geographical Zones

Benefit of ECLGS in Easing Financial Problems

"Easing of Financial Problems" is proxy indicator for better access to Liquidity with the scheme. As shown in Graphs 3.3 and 3.4, 87% of all the respondents said that the ECLGS facility had helped to ease their short term financial problems. 59% felt that the loan would sustain their business requirements only in the short run (upto 3 months) and a much smaller proportion (19%) believed that it would ease liquidity problems beyond 3 months.



Graph 3.3: Impact of ECLGS on Easing Financial Problems



Graph 3.4: Number of Months of Liquidity Support provided by ECLGS Facility

As shown in Tables 3.13 to 3.15, for borrowers who had received a smaller ECLGS loan, the short term liquidity benefit was relatively lower than those who had received a larger ECLGS loan. This was further substantiated by the fact that a higher proportion (95%) of the Medium MSME unit respondents saw a liquidity benefit of the ECLGS loan as compared to only 87% of the Micro and Small unit respondents. We have seen earlier that the utilisation rates are also lower for smaller borrowers. This means that the liquidity benefits may not be enough for such firms to avail small approved amounts.

Furthermore, fewer smaller borrowers believed that the ECLGS would support their business beyond 3 months as compared to the larger borrowers.

Across Activity type, marginally fewer manufacturing units saw liquidity benefits of GECL as compared to retail trade and services. This may be due to the low share of manufacturing activities, as pointed out in Chapter II, in the GECL disbursed by banks and NBFCs. This may have broader economic consequences.

	Will Availment of GECL Ease Financial Problems?		No. of Months of Liquidity Ease Through GECL		
Disbursement Amount	Yes	No	Upto 3 months	More than 3 months	Can't say
0 ≤ D ≤ 10,000	84%	16%	58%	14%	29%
10,001 ≤ D ≤ 50,000	87%	13%	64%	11%	25%
50,001 ≤ D ≤ 1,00,000	90%	10%	60%	21%	19%
1,00,001 ≤ D ≤ 5,00,000	87%	13%	56%	24%	21%
5,00,001 ≤ D ≤ 10,00,000	90%	10%	56%	33%	11%
10,00,001 ≤ D	88%	13%	31%	69%	0%

Table 3.13: Liquidity Ease by Disbursement Amounts

	Will Availment of GECL Ease Financial Problems		No. of Months of Liquidity Ease Through GECL		
Unit Type	No	Yes	Upto 3 months	More than 3 months	Can't say
MICRO	13%	87%	58%	18%	24%
SMALL	13%	87%	62%	**24%**	14%
MEDIUM	**5%**	**95%**	50%	**32%**	18%
OTHER BUSINESS ENTERPRISES	13%	87%	61%	18%	21%

Table 3.14: Liquidity Ease by Unit type

	GECL Eased Financial Problems		No. of Months of Liquidity Ease Through GECL		
Type of Activity	No	Yes	Upto 3 months	More than 3 months	Can't say
Manufacturing	17%	**83%**	**64%**	21%	15%
Retail Trade	12%	88%	58%	19%	23%
Services	13%	87%	57%	19%	24%

Table 3.15: Liquidity Ease by Activity Type

As shown in Table 3.16, the respondents from the Western states, which had felt the highest severity of the lockdown were the most optimistic about the GECL scheme in easing their financial problems.

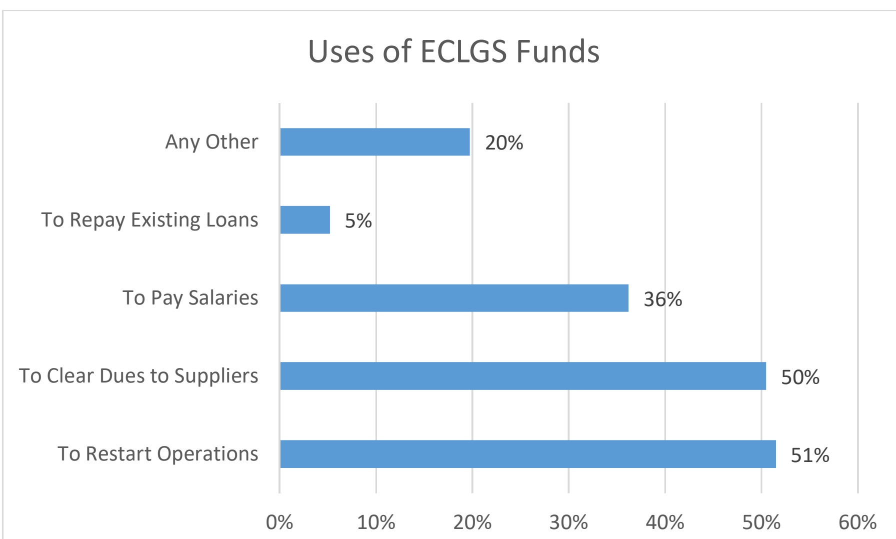
GECL Eased Financial Problems		
Zone	No	Yes
Central	10%	90%
East	10%	90%
North	**17%**	83%
South	**20%**	80%
West	4%	**96%**

Table 3.16: Liquidity Ease by Zones

Uses of GECL Funds

As shown in Graph 3.5, overall, GECL funds were most likely to be used to restart operations and clear dues to suppliers.

Clearing supplier dues increasingly of greater relevance for borrowers who obtained larger funds under ECLGS and for manufacturing units, as shown in Tables 3.17 and 3.18. Since manufacturing units are also likely to be more labour intensive, payment of salaries is necessary for restart of operations. In contrast, since services firms are less dependent on suppliers and workers, by design, their focus is on restart of operations.



Graph 3.5: Application of GECL Funds

Activity	Suppliers Dues	Restart Operations	Pay Salaries	Repay Loans	Other Use
Manufacturing	**54%**	46%	47%	5%	15%
Retail Trade	48%	48%	30%	5%	18%
Services	**39%**	46%	32%	5%	21%

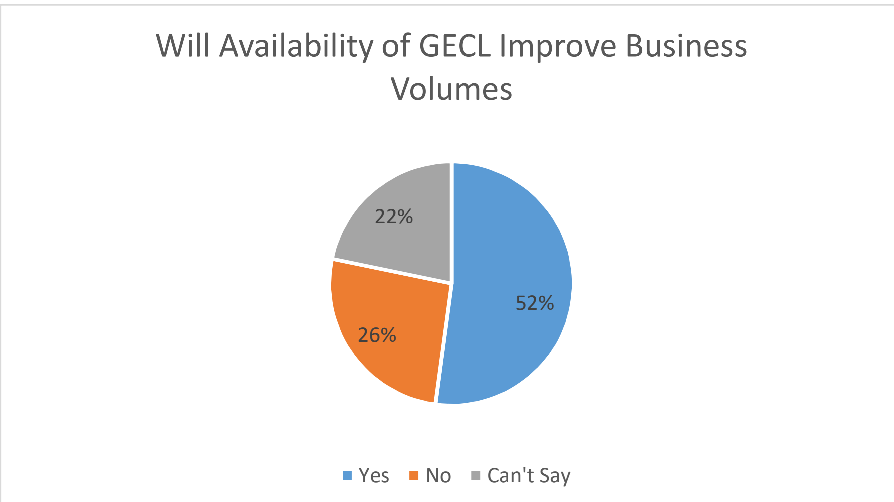
Table 3.17: Application of GECL Funds by Activity Type

Disbursement Amount	Supplier Dues	Restart Operations	Pay Salaries	Pay loans	Other
0 < D ≤ 10,000	**30%**	38%	20%	4%	18%
10,001 ≤ D ≤ 50,000	**41%**	53%	26%	5%	19%
50,001 ≤ D ≤ 1,00,000	**54%**	54%	37%	5%	18%
1,00,001 ≤ D ≤ 5,00,000	**56%**	48%	45%	6%	17%
5,00,001 ≤ D ≤ 10,00,000	**69%**	40%	48%	3%	20%
10,00,001 ≤ D	**87%**	40%	47%	0%	20%

Table 3.18: Application of GECL Funds by Disbursement Amounts

Benefit of ECLGS in Improving Business Volumes and Growth

As shown in Graph 3.6, 52% of the respondents believed that the GECL scheme would help to improve business volumes in the longer term. This was significantly lower than the proportion which felt that GECL scheme would ease short term financial problems (87%). Furthermore, the uncertainty of the long term growth impact of GECL was also fairly high (22%). This suggests that most respondents may use GECL for liquidity support, rather than business growth.



Graph 3.6: Business Growth Benefit of GECL

More of the entities which received larger disbursements amounts under ECLGS were optimistic about the long term growth benefits of the scheme (Table 3.19).

Will Availability of GECL Improve Business Volumes?			
Disbursement Amounts	Can't Say	No	Yes
0 < D ≤ 10,000	23%	28%	49%
10,001 ≤ D ≤ 50,000	25%	33%	42%
50,001 ≤ D ≤ 1,00,000	19%	20%	61%
1,00,001 ≤ D ≤ 5,00,000	21%	24%	55%
5,00,001 ≤ D ≤ 10,00,000	21%	21%	59%
10,00,001 ≤ D	13%	6%	81%

Table 3.19: Business Growth Benefits of GECL by Disbursement Amounts

Respondents from the Eastern States were the most enthusiastic about the growth benefits of the GECL. Respondents from the Western states, which had seen the most adverse impact of the Lockdown, were the most uncertain and least optimistic about the business growth impact of the GECL (Table 3.20).

GECL Impact on Future Business Volume			
ZONE	Can't Say	No	Yes
Central	13%	39%	48%
East	12%	13%	76%
North	27%	23%	50%
South	21%	35%	44%
West	28%	27%	45%

Table 3.20: Business Growth Benefits of GECL Across Zones

Analysis of Lockdown Severity and Liquidity and Growth Benefits of GECL Across States

Rank correlation analysis was conducted across states based on the percentage of respondents who had seen an adverse impact of the Lockdown, percentage of respondents who perceived liquidity benefits of GECL and percentage of respondents who had perceived business growth benefits of GECL. The results are given in Table 3.21.

In general, there was a weak but positive correlation between liquidity and business growth benefits of GECL across States.

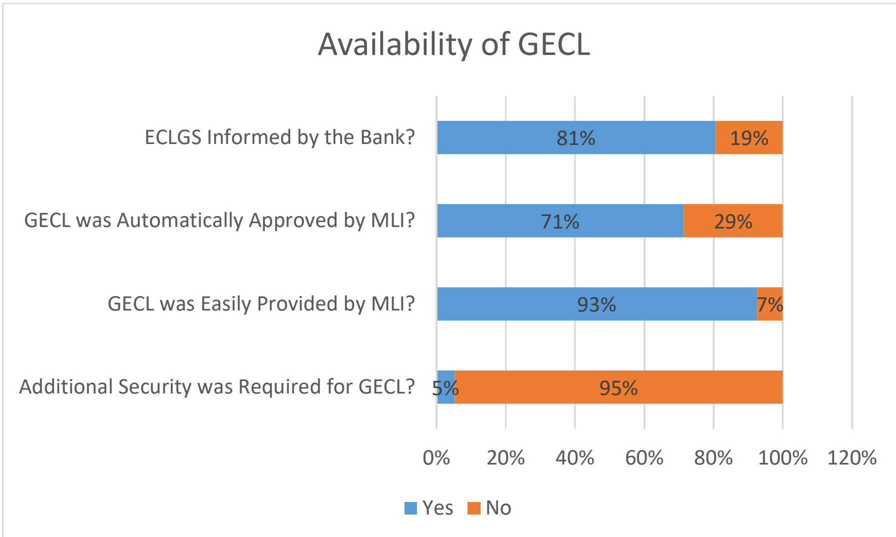
A positive correlation of 0.43 for adverse impact of lockdown and liquidity benefit of GECL across States implied that for the States which had felt the lockdown impact more severely, the GECL scheme had provided larger liquidity benefits whereas a negative correlation of -0.14 for lockdown impact and growth impact of GECL implied that for States where the lockdown impact was more severe, the GECL scheme did not improve the long term growth prospects of business.

	Adverse Impact of Lockdown	GECL Beneficial for Liquidity	GECL Beneficial for Business Growth
Adverse Impact of Lockdown	1.00	0.43	-0.14
GECL Beneficial for Liquidity		1.00	0.37
GECL Beneficial for Business Growth			1.00

Table 3.21: Rank Correlation of Adverse Business Impact of Lockdown, Liquidity Benefit of GECL and Business Growth Benefit of GECL Across States

Ease of Getting GECL Approval and Disbursement from MLIs

As shown in Graph 3.7, while 81% of the respondents stated that their MLI informed them about the ECLGS scheme, only 71% obtained automatic approval for the GECL loan from their MLI. The GECL loan process was fairly easy for the majority (93%) of the respondents. However, 5% of the respondents stated that they were asked to provide additional security to avail the GECL facility.



Graph 3.7: Ease of GECL Availability

There was no significant difference between Public and Private sector bank customers in terms of automatic approval (71% versus 69%) and ease of availability (92% versus 93%), but the NBFCs and Small Finance Banks had been relatively more proactive in approving the GECL facility (91% and 79%) and providing it smoothly to their customers (100% and 94%); as shown in Table 3.22

9% of the private sector bank customers had been asked for additional security as compared to 5% of public sector bank customers

MLI	Scheme Informed by MLI?	GECL Preapproved by MLI?		GECL Easily Available from the Bank		Additional Security Asked by MLI?	
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
FB	100%	100%	0%	100%	0%	0%	100%
NBFC	91%	9%	91%	0%	100%	100%	0%
PSB	81%	29%	71%	8%	92%	95%	5%
Pvt.SB	79%	31%	69%	7%	93%	91%	9%
SFB	81%	21%	79%	6%	94%	93%	7%
Grand Total	81%	29%	71%	7%	93%	95%	5%

Table 3.22: Ease of Availability of GECL by MLI Type

Across Loan size categories (Table 3.23), relatively fewer of the smallest borrowers were informed or given pre-approved GECL by their MLI. The largest borrowers on the other hand faced more difficulty in obtaining the GECL loan and more were asked for additional security as compared to the other categories.

	Scheme Informed by MLI?	GECL Pre-approved by MLI		GECL Easily Available from the Bank		Additional Security Required by MLI?	
Existing Loan Size		Yes	No	Yes	No	Yes	No
1 ≤ O ≤ 50,000	**74%**	**64%**	36%	91%	9%	7%	93%
50,001 ≤ O ≤ 5,00,000	80%	73%	27%	94%	6%	4%	96%
5,00,001 ≤ O ≤ 10,00,000	84%	79%	21%	92%	8%	5%	95%
10,00,001 ≤ O ≤ 50,00,000	81%	65%	35%	91%	9%	7%	93%
50,00,001 ≤ O ≤ 100,00,000	86%	71%	29%	100%	0%	**14%**	86%
100,00,001 ≤ O	77%	77%	23%	**77%**	23%	**8%**	92%

Table 3.23: Ease of Availability of GECL by Disbursement Amount

Summary

In this chapter, we studied the survey responses from 1722 MSMEs and other business enterprises. There is clear evidence that GECL is easy to obtain and preferred as a liquidity support rather than as a source of funds for business growth. However, the unequal distribution of disbursement may defeat the purpose of the ECLGS.

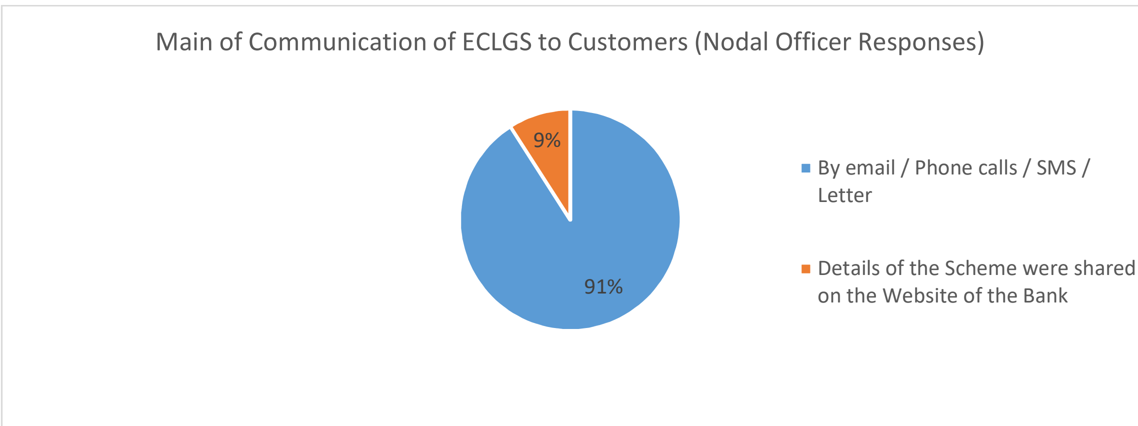
CHAPTER IV

ANALYSIS OF MLI SURVEY RESPONSES

The Nodal Officers and Field Officers of MLIs were surveyed with respect to their opinion about the ECLGS scheme in terms of how it has been accepted by their customers and how it would impact their bank. A total of 62 responses were received from a mix of public and private sector banks.

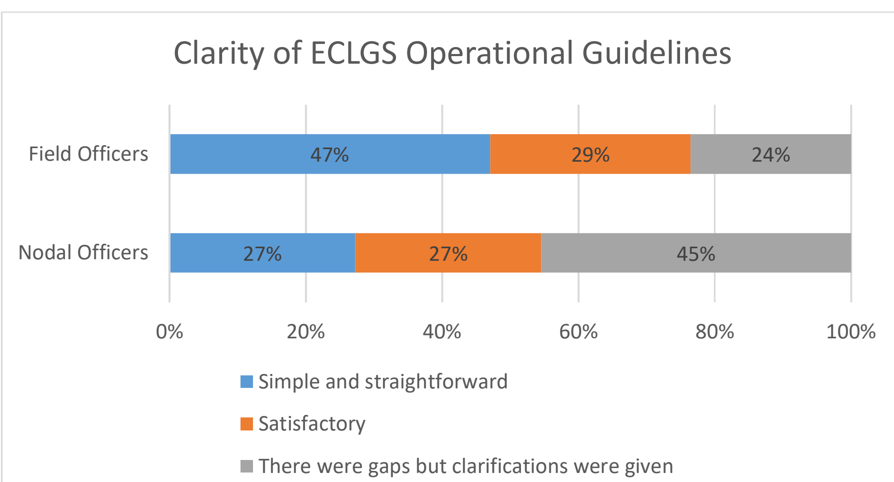
Implementation of ECLGS

Main Mode of Communication with Eligible Customers: The majority of the Banks' nodal and field officers had informed the eligible customers about the scheme through direct communication (Graph 4.1). One PSB stated that they had posted the details of the scheme on their Website as their main mode of communication with customers. Two field officers specified that they had primarily conveyed the scheme to their customers during branch visits.



Graph 4.1: Main Mode of Communication of ECLGS to Customers

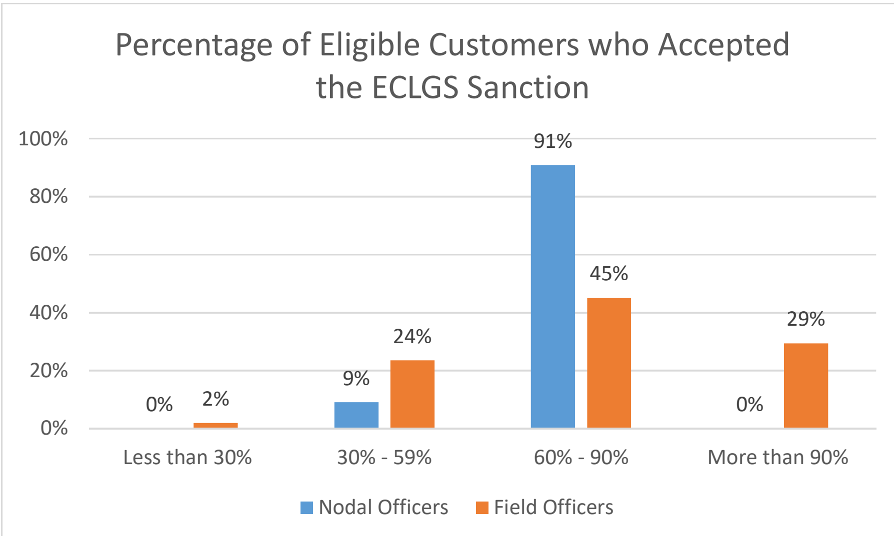
Clarity of ECLGS Operational Guidelines: Majority of the Bankers (Graph 4.2) found the operational guidelines satisfactory and comprehensive. For the Nodal officers who found some gaps, clarifications were provided.



Graph 4.2: Clarity of ECLGS Operational Guidelines

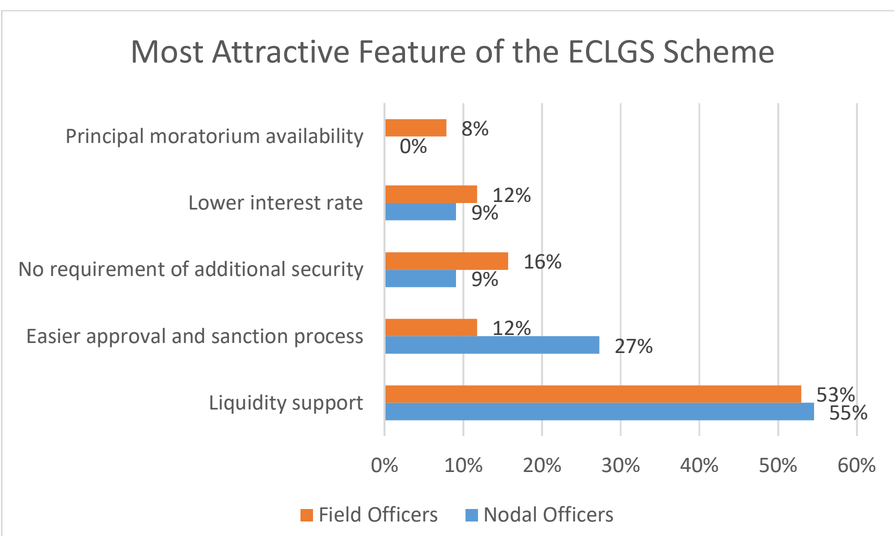
Acceptance and Usage of the ECLGS Loan by Customers

Acceptance of ECLGS Sanction: The majority (91%) of the Nodal officers asserted that 60% - 90% of their eligible customers have accepted the ECLGS sanction. Among the field officers, there were 29% which had seen more than 90% acceptance and another 26% which had seen less than 60% acceptance. At the field level, therefore, there was an average of 72.6% customer acceptance. (Graph 4.3)



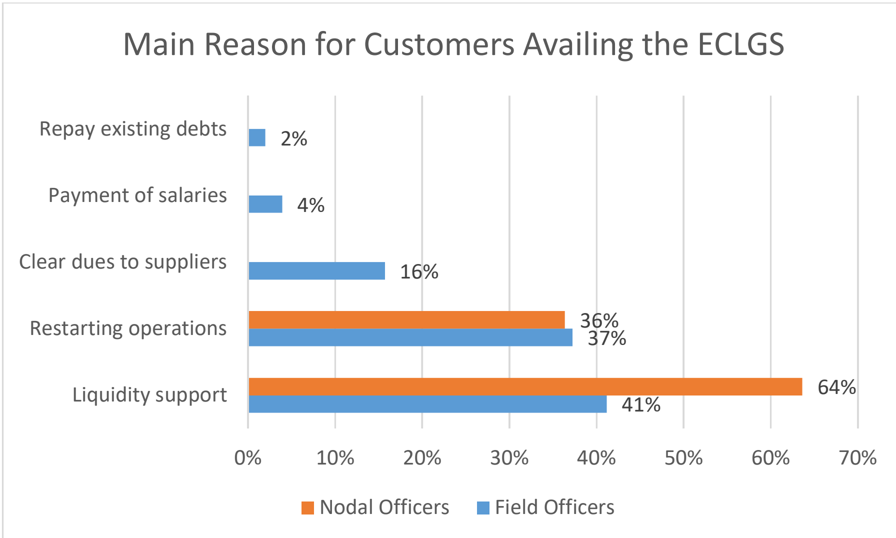
Graph 4.3: Percentage of Eligible Customers who Accepted the ECLGS

Attractiveness of ECLGS: The liquidity support provided by the timely availability of the ECLGS scheme during the Covid 19 crisis was what made it most attractive for the customers as per the opinion of many of the Nodal officers (55%) and Field Officers (53%). Easier approval and sanction process, without requirement of additional security was the next most attractive feature of the ECLGS scheme (36% of Nodal Officers and 28% of Field Officers). (Graph 4.4).



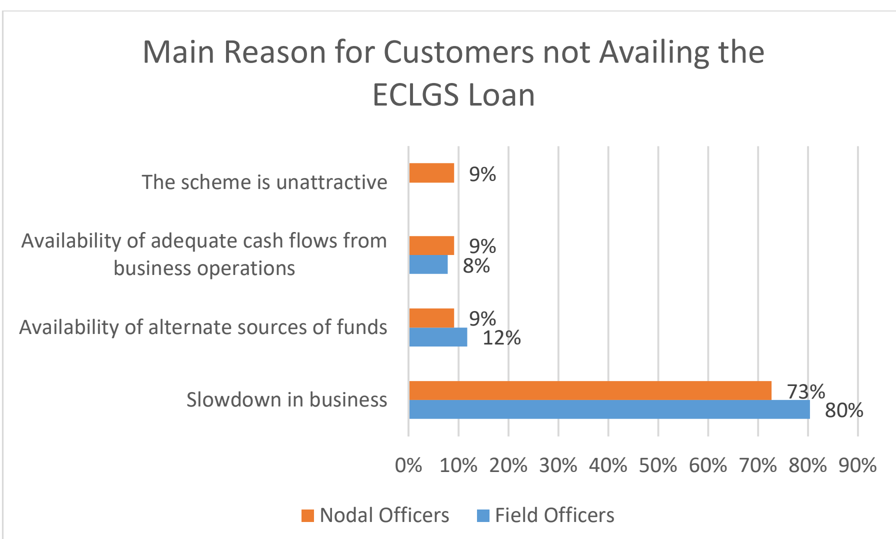
Graph 4.4: Most Attractive Feature of the ECLGS Scheme for Bank Customers

Business Reasons for Availing ECLGS: Liquidity was once again listed as the major reason for customers availing the ECLGS by majority of the Nodal and Field Officers, followed by Businesses needing to restart operations. At the field level, bankers also identified that customers availed the ECLGS for clearing supplier dues, payment of salaries and repayment of existing loans. (Graph 4.5).



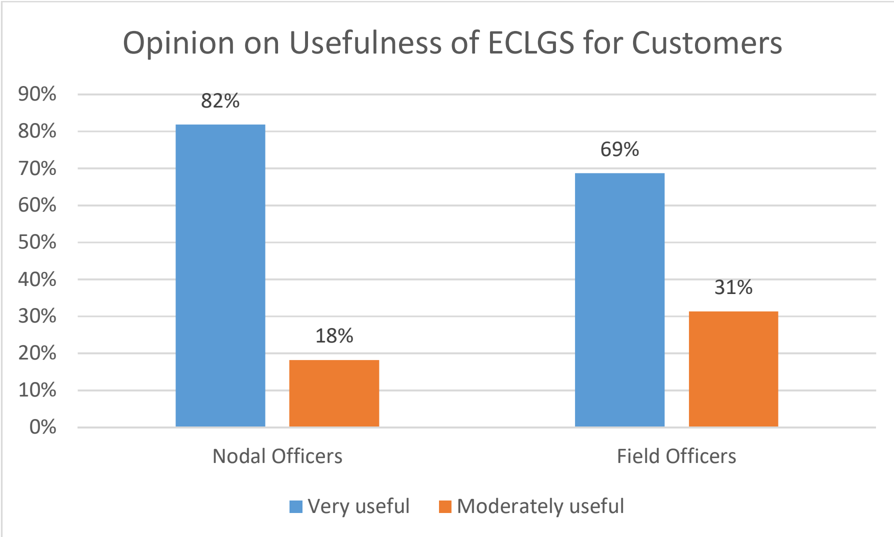
Graph 4.5: Main Reason for Banks' Customers for Availing the ECLGS

Reasons for Customers not availing the ECLGS Loan: Slowdown in business was identified by the majority of the Field and Nodal Officers as the reason for customers not availing the loan under the scheme, followed by availability of alternative sources of funds. One PSB also stated a major reason for customers declining the loan was because those customers found the scheme unattractive. However, this reason was not supported by the opinions of any of the field officers. (Graph 4.6).



Graph 4.6: Main Reason for Banks' Customers for Not Availing the ECLGS

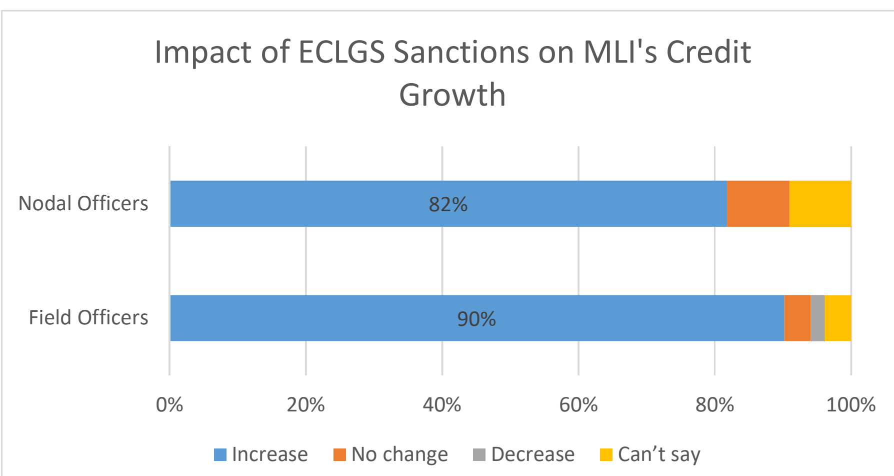
Usefulness of ECLGS for Customers: 82% of the Nodal Officers perceived the scheme to be very useful for their customers as compared to 69% of the Field Officers. (Graph 4.7).



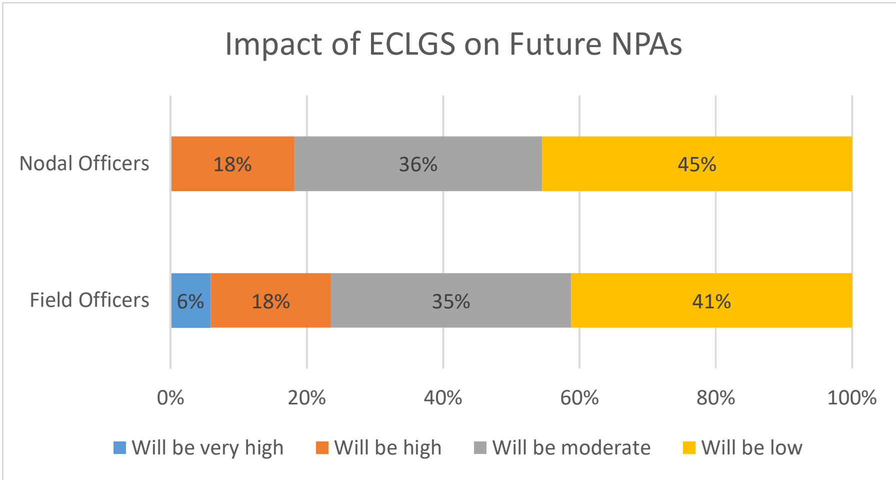
Graph 4.7: Usefulness of ECLGS for Banks' Customers

Impact of ECLGS on MLI's Business

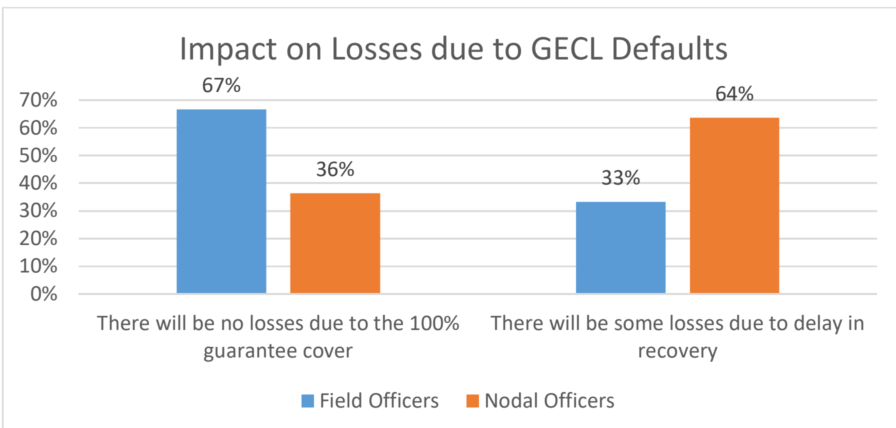
The majority of the bankers believed that the ECLGS sanctions would enhance their credit growth (Graph 4.8). The Nodal officers were more optimistic about a low impact of the ECLGS sanctions on their bank's NPAs as compared to the Field officers (45% versus 41% in Graph 4.9). On the other hand, more of the Nodal officers were concerned by losses due to delayed recoveries on ECLGS loans as compared to the Field officers (Graph 4.10). The concern related to losses due to delayed recoveries could have arisen because of the nature of the guarantee cover in which 75% of the guaranteed amount will be paid by NCGTC within 30 days of an eligible claim raised by the MLI whereas the balance 25% will be paid on conclusion of recovery proceedings or till the decree gets time barred, whichever is earlier.



Graph 4.8: Impact of ECLGS Sanctions on Credit Growth



Graph 4.9: Impact of ECGLS on NPAs



Graph 4.10: Impact on Losses due to GECL Defaults

CHAPTER V

EMPIRICAL ANALYSIS OF MSME RESPONSES

In Chapter III, we analysed the qualitative responses by 1722 MSME borrowers, to two important questions: Whether the GECL will help them (i) overcome financial problems (a proxy for improvement in short-term liquidity conditions) and (ii) increase business volume (a longer-term view on business growth). The expected answer to both these questions is either **Yes** or **No**, which is qualitative in nature. In this chapter, we make an attempt to use such qualitative explanatory variables, to capture the impact of GECL on business growth. We also try to link the two qualitative responses – whether those who feel that the GECL would ease liquidity problems also expect the scheme to improve business volumes. Since we use binary explanatory and dependent variables (Yes/No or 1/0), in our models, we exclude those responses which are uncertain (i.e. **Can't Say**). Hence, our sample size of 1362 responses, in this chapter, is about 20% smaller than that in Chapter III. But, before we discuss our models and results, it is important to understand the concept of dummy variables which we have used in our regression equations.

The main results of this chapter are as follows:

1. A percentage increase in disbursement is likely to increase business volumes across the board. It is more effective for those firms who would otherwise not have perceived any positive impact of GECL on business growth. As explained in Chapter III, these are the smaller borrowers or those worst hit by lockdown.

2. As the likelihood of easier liquidity and the amount of disbursement increase, with GECL, the probability of a positive outlook on business growth also increases.

<u>Dummy Variables</u>

Dummy variables take values of 1 and 0 and allow the analyst to include qualitative responses in regression models. For example, those who said the GECL would improve business volumes get a value of **1** and the others (i.e. those who feel that it won't) get a value of **0**. In other words, Dummy Variables classify the data into different subgroups, so that regression equations can be run on them. If the impact of the qualitative variable is statistically significant, either the intercept coefficient and/or the slope coefficient, in the equation, will change. The logic will become clearer as we proceed.

<u>Model 1:</u>

Our first model, which tries to predict business growth in future, is as follows:

$$\ln(sales) = \alpha_1 + \alpha_2 D + \beta_1 \ln(DBR) + \beta_2 D \ln(DBR) + \beta_3 (Empl) + \beta_4 (size) + \beta_5 (Dsize) \text{ ..... (1)}$$

Let us explain the equation step by step. On the left hand side, we take projected sales turnover as a dependent variable. The figures are from 31st March 2020. It would have been ideal if we had got the sales figures, at the time the GECL was disbursed. Since such data is not available, we use the values as on 31st March 2020 (provided in the sample) as a proxy. There are two ways to justify this assumption. First, if the GECL was disbursed on 31st March itself, instead of a lag, what impact would it have on future sales? Second, the sales figures are annual and would change little in less than quarter. In particular, during the Covid-19 pandemic, it is not possible to predict whether business will increase or decrease. Hence, we assume that sales do not change, on the date of disbursement of GECL, from the level as on 31st March 2020.

The variable *D* is a dummy. It takes a value of 1 for those who said **Yes**, when asked whether GECL would increase business volume, and a value of 0, for those who said **No**. If its coefficient is positive, we infer that those who said **Yes** can expect business growth, relative to those who said **No**. The variable *DBR* captures the disbursed amount. The variable *Empl* captures the number of employees. The variable *size* captures the ratio of DBR to turnover. We expect the coefficients of *DBR*, *Empl* and *size* to be positive, i.e. an increase in any of these quantities should increases sales. If the coefficients of the interaction terms are positive, it means that those firms who said **Yes** can expect higher business volumes, relative to the reference group (who said No), when DBR or size increases.

The natural logarithmic (ln) form captures percentage changes. Since we compare various types of firms with different sizes, the results are comparable when expressed in terms of percentage changes. In particular, the relationship between ln(sales) and ln (DBR) [or ln(size)] reflect the elasticity of sales w.r.t the two explanatory variables – the percentage change in sales for a 1% change in DBR or size.

The results of the regression are as follows:

lsales	Coeff.	P>|t|
D	1.576466	0.003
ldbr	0.5200683	0.000
empl	0.0179119	0.000
size	-4.09E-07	0.000
DLDBR	-0.1300221	0.007
dsize	-3.14E-06	0.000
_cons	8.54481	0.000

Table 5.1

ANOVA						
					Number of obs	1362
Source	SS	DF	MS		F(6, 1355)	109.98
Model	1829.31	6	304.885		Prob > F	0
Residual	3756.343	1355	2.772209		R-squared	0.3275
Total	5585.653	1361	4.10408		Adj R-squared	0.3245
					Root MSE	1.665

Table 5.2: ANOVA

All the coefficients are statistically significant and the R^2 is also satisfactory. It means that the model has predictive power. Since the coefficient of D is positive, it means that those who said **Yes** can expect 1.58% higher business volume vis-à-vis the reference group. The positive coefficient of LDBR implies that a 1% increase in DBR will lead to a 0.52% increase in future sales. However, the coefficient of DLDBR is negative. It means that, those who said **Yes** can expect a 0.13% fall in sales, relative to the reference group, with a 1% rise in DBR. The alternative interpretation is that an increase in DBR is likely to increase business for those borrowers who feel that their business volumes will not grow. As we saw, in Chapter III, these are likely to be the smallest firms and those most severely hit by the lockdown. Hence, the net impact on sales, for those who said YES, is relative business growth of 1.45% (= 1.58 - 0.13). In a similar vein, the net impact of a 1% rise in DBR is a 0.39% (= 0.52 – 0.13) growth in sales, for those who said **YES**. If one more person is employed, sales will increase by 0.01%. The coefficients of size and Dsize are miniscule and do not affect our analysis or results.

Model 2

This is a probit model, through which we want to know whether an increase in DBR increases the probability of saying YES to a rise in business volumes. Or whether those who feel that the GECL solves financial (i.e. liquidity) problems are also more likely to concur that it will help increase sales in future. The dummy for the dependent variable (Yes to sales growth) is DB while the dummy for the independent variable (Yes to ease of liquidity) is DF. The results are as follows:

Probit without Financial Dummy		
DB	Coef.	P>z*
ldbr	0.0434032	0.051
INT	-0.0659087	0.275
Emp	0.00402	0.231
lsales	0.0250875	0.209
_cons	-0.2746496	0.569
Sensitivity	Pr(+| D)	76.56%
Specificity	Pr(-|~D)	33.87%
Note:	Robust Standard Error adjusted	
	Goodness of fit is tested with Person Chi2(1266)	

Table 5.3: Probit Model

The table shows that a 1% increase in DBR increases the probability of saying Yes to Business Growth. The sensitivity value implies that 76.56% of those who believe that higher DBR will increase business have been correctly identified by the model. In contrast, the specificity value means that almost 34% of those who don't believe in a positive relationship between DBR and business volume have been correctly identified. The inclusion of the Financial dummy (DF) improves model performance.

DB	Coef.	P>z*
DF	1.267	0.000
ldbr	0.037	0.097
INT	-0.054	0.380
Emp	0.007	0.059
lsales	0.032	0.120
_cons	-1.523	0.003
Sensitivity	Pr(+| D)	92.14%
Specificity	Pr(-|~D)	26.68%
Note:	Robust Standard Error Adjusted	
	Goodness of fit is tested with Person Chi2(1273)	

Table 5.4

In this model, DBR and Employment have a positive impact, at the 10% level of significance. The sensitivity value shows that 92.14% of those who thought that GECL would ease liquidity problems and improve business have been identified by the model. However, 26.68% of those who do not believe that better liquidity will lead to business growth have been identified by the model.

Furthermore, the probit model may also be used to estimate the Probability of saying YES to business growth, for given values of DBR, employment and sales. We illustrate with a few examples below:

pprobit_df	pprobit	DBR
0.490363	0.43389	1000
0.494909	0.441877	2000
0.49751	0.444648	4000
0.519676	0.466118	5000
0.535397	0.479806	5600
0.540545	0.488895	6000

Table 5.5

In column 1, if the DBR is Rs. 1000 (ceteris paribus, i.e. other things remaining the same), there is a 49.03% chance for the respondent to feel that business will grow. But, when the DBR rises to Rs. 5000, the respondent feels more confident of business growth and the probability increases to 51.96%. Both these examples assume that liquidity will be eased by GECL, i.e. the financial dummy has been taken into account. Even without the short-term liquidity impact, column 2 shows that a positive outlook on business growth is more probable when DBR is higher.

In short, this chapter shows that the marginal benefits of GECL are higher for smaller borrowers and they increase with the quantum of DBR. Hence, there may be a case for differential rates of disbursement, under GECL, depending on firm size.

CHAPTER VI

SUGGESTIONS FROM STAKEHOLDERS

Field officers of banks have expressed following about the GECL.

The GECL has been well received by the MSMEs and it has helped them immensely for restarting the business post lock down and for paying salaries to their employees/workers, settling the bills to the suppliers and so on. The loan offered under the scheme has thus helped in keeping their business afloat and retain their employees/workers to a great extent. However, the field officers have faced certain issues in dispensing the GECL. Though under the ECLGS the banks are not supposed to take any collateral from the borrowers it allows extension of charge on security for the existing loans to the GECL. This involves documentation and applicable costs of registration/stamp duty. Completing the formalities of documentation was quite difficult due to the fact that the customers had to visit the bank branches for execution of documents and banks had to visit the sub-registrar's office which led to delay in disbursing the loan and in some cases the customers did not want to avail the GECL due to this.

Suggestions offered by Field Officers

1. Bank branches should be enabled to submit the details of GECL for ECLGS online.
2. Access through GST or UDYOG AADHAAR Website: The ECLGS portal should be accessible through GST or Udyog AADHAR websites.
3. Loan documentation should be dispensed with: Second charge on the security is available to the NCGTC and banks getting 100% guarantee cover for the GECL. Therefore, extension of mortgage on existing security may be dispensed with. Government of India may issue a GO in this regard.
4. Digital Documentation: If extending the charge on security to GECL cannot be dispensed with execution of digital documentation should be made feasible.
5. The amount of GECL to be sanctioned may be 20% of the loan outstanding or the sanctioned working capital limit whichever is higher
6. Online verification of eligibility of borrowers: An online portal could have been created for checking the eligibility of the MSMEs for the GECL. Probably NCGTC or the Ministry of MSMEs could have enabled this.

Views and suggestions offered by the beneficiaries of ECLGS

In general, MSMEs have expressed happiness about the scheme. They have observed that the GECL has helped them immensely by providing timely funding support which has enabled them to restart their business, to pay salaries to employees/workers, settling dues to suppliers and so on. However, some MSMEs have not utilized the loan amount. The reasons given by them for not utilizing the loan summarized below.

Reasons for not utilizing the GECL sanctioned

- GECL amount of too small: Large number of beneficiaries of the ECLGS has said that the amount of loan offered under the scheme is too small.
- Documentation: Banks demanded documents which could not be submitted. Some MSMEs found that the stamp duty payable is substantial and hence did not want to use the loan. Also few customers did not want to go through the formalities involved in documentation.
- Business was not operational: Many customers did not avail the GECL because their business had been shut down and hence there was no need for the loan. In some cases the workers of the unit went to their native places and had not returned. Therefore, the business could not be restarted
- Presently not in need of the loan: At present some MSMEs were not in need of the loan. However, they may utilize it when need arises.
- Another reason for not utilizing the loan under the ECLGS was due to the bank branch remained closed or the entrepreneur could not go to the bank due to the restrictions on travel/mobility due to the Covid-19.
- Due to the apprehension that the bank may use the GECL for recovering existing loans some customers have not availed the loan under the scheme.

Suggestions given by MSMEs

The following suggestions have been offered by the MSMEs to make the ECLGS more beneficial to them.

- Loan amount should be higher: Most of the respondents have suggested that the loan offered under the scheme should be higher. In this regard, many have said that the amount of GECL should offered as 20% or more of the Cash Credit Limit and not based on the amount of loan outstanding. Many have expressed that it should be significantly greater than 20%.
- Suggestions regarding Rate of Interest:
    - As the cash flow of the MSMEs have been affected very badly the GECL should have been offered interest free or should have been very low.
    - Waiver of interest during the period of lockdown: Another suggestion regarding the interest was waiver of interest during the lock down period.
    - Moratorium can be extended to payment of interest also.

- Additional Funding:
    - One more loan may be offered for scaling up the business. If the pandemic continues for a longer period the ECLGS scheme may be reviewed and another loan under the scheme may be offered.
    - Cash Credit limit should be increased.
- Suggestions regarding the operation of the Scheme:
    - The scheme should be offered online
    - More awareness about the scheme should be created
    - Customer service of the banks should improve
    - Banks should send the details regarding the loan electronically like SMS
    - Cost of availing the loan should be reduced
    - Alternative and simplified mechanism for registration of documents should be used.

Points compiled from the questionnaires

Response of Field Officers

- Customer are happy for getting hassle free credit during this tough times
- Completion of loan documentation. Due to lockdowns all the person's/signatories are not readily available. In Tamilnadu, since mortgage txn need to be registered with Sub Registrar and most of the SRO are either not working or working with reduced capacity, completion of mortgage transaction is very tough and in most cases it is pending. It also attracts additional stamp duty which further strains the liquidity situation.
- Getting Documentation done as customer has to physically visit branch or bank employee has to visit customer residence when atmosphere is not conducive for movement and meeting people
- Clarifications regarding many intricacies were communicated with some delay. E.g., Non requirement of Personal Guarantee was communicated after 1 month of Announcement of the GECL scheme.
- Customers hesitated as they need to register Memorandum of Deposit of Title Deeds (MODTD) of their existing collateral securities with Registrar office due to incurring of stamp duty.(0.50 % of loan amount in Tamil Nadu)
- Borrower with bad history are coming for the benefits.

Suggestions

7. Online submission of guarantee cover needs to be enabled at Branch level
8. Portal Access through GST OR UDYOG AADHAAR WEBSITE
9. Loan documentation needs to be simplified. Mortgage transaction need not be done for the facility as underlying second charge on the assets are available to NCGTC and for MLIs 100% guarantee coverage is available.

10. If Documentation part could be done digitally by customers using their Aadhar or any other valid KYC documents, customers could have taken loan more easily sitting at home.
11. MODTD can be waived by issuing suitable GO by central govt as GECL is govt guarantee loan.
12. 20% should be on o/s or sanctioned amt whichever is more
13. It will be helpful if there is a website providing details of eligible borrowers and by checking the eligibility according to their PAN number.

Response of MSMEs

Reasons for not utilizing the GECL sanctioned

- Bank demanded collateral
- Amount of loan is too small
- Documentation is involved
- Business is shut down and hence no need for loan at present
- Branch remained closed
- Stamp duty payable is quite significant
- Workers went back to their native places and hence the business could not be restarted
- Living in containment zone and could not go out to avail the loan
- Bank has sanctioned the loan but yet to disburse
- Presently not it need of the loan. Will utilize it when need arises.
- The bank was adjusting/balancing the amount against other existing loan of the customer,so he did not avail the loan
- Bank has asked for documents which he was unable to submit
- The bank has conveyed to the customers that higher authorities have not permitted the availment of the loan
- It is because his business is not operational since lock down
- Too much formalities
- Amount approved is very less which will not help us in any way.
- Business is down and looking for alternate employment

Suggestions given by MSMEs

- Loan amount should be increased
- Rate of interest should be reduced
- ECL amount should have been based on CC Limit

- Another loan may be given
- CC limit may be increased
- Moratorium should be extended for interest also
- Interest may be waived off
- Interest during the lockdown period may be waived off
- The loan should have been given at the time GST implementation.
- Emergency loan already given should be reviewed with overall position of Covid 19 pandemic spread in India & our Buyer Countries. If it's found later that situation of Covid 19 has still worsened, the Bank will have to review & provide the further stimulus in the form of additional financial dose as & when required for the survival of MSME units so as to save the jobs of skilled & unskilled labourers of the unit.
- Due to COVID-19 issue, If there is any alternative option like mod registration that will be helpful for all the customers.
- Banks' customer service should improve
- Awareness about the scheme should be increased
- The GECL should be offered online
- Shipments getting delayed and hence also sales. For now payment of interest also is a burden, defer interest payment
- THE LOAN AMOUNT ISN'T SUFFICIENT, LOT OF HURDLES IN GETTING SANCTION, BANK MANAGER IS ASKING FOR INSURANCE OF THE LOAN AMOUNT
- Electronic Transactions via bank portal charge a lot of fees, please reduce
- Loan related information should be sent through message by banks on regular basis
- Interest should be less or should be waived off for the moratorium period.