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# A study on Impact of CGTMSE (Credit Guarantee Fund Trust for Micro & Small Enterprises) on the economy of Bihar with special reference to Patna

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**Abstract :** *Worldwide, the Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth for promoting equitable development. Collateral free and third party guarantee free loan up to Rs. 100 lakhs under CGTMSE, not only boosts the credit viability of the MSEs, but also encourages efficiency of the MSEs and plays an important role in the economic growth.*

*During the course of study, we found that: (i) CGTMSE is a good scheme for small entrepreneurs who suffer due to absence of collateral or third party guarantee. (ii) The time*

*usually taken to grant loan: (a) 2 weeks for loan up to 10 lakhs. (b) 3 weeks for loan up to 100 lakhs. (iii) Satisfaction level of the sample units was 90%, mainly due to timely sanction of loan. (iv) The popularity of CGTMSE is average in Patna. (v) There is a positive impact of CGTMSE on the economy: (a) 50% increase in income level of beneficiaries. (b) 200% in employment generation. The study is also an approach to find out the impact of CGTMSE on the economy of Patna with regard to factors such as employment generation and income growth. We have tried to know and analyze the level of impact it has on the economy through the MSEs and how popular this scheme is among the MSEs. Based on the feedback received by the respondents who were the target entrepreneurs (micro and small), following was the outcome about 90% micro and small entrepreneurs were satisfied with this scheme. But many enterprises, especially those of the manufacturing sector, are closed down and those existing were unaware of this scheme. This shows that despite being so helpful CGTMSE has not penetrated much in the economy of Patna. Among the enterprises interviewed, most of them were from the service sector.*

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**Key words:** *MSEs, CGTMSE, collateral free loan, impact on the economy, income, employment, service sector and manufacturing sector.*

## **Introduction :**

Micro, small and medium enterprises are the backbone of any developing economy. This sector nurtures budding entrepreneurs and incubates innovation at its most rudimentary level.

Because capital and finance are scarce in India, Government of India has encouraged alternatives to agriculture and large scale industries like small scale industries which can operate on limited resources. Micro, small and medium enterprises operate on limited capital investment, without the need for sophisticated machinery. Hence, the micro, small and medium enterprises have gained much popularity and are more suitable in a developing country like India.

In recent years, this MSME sector has emerged as a progressive and decentralised sector on its own, with its remarkable contribution to employment generation, export market, and GDP of the country (dcmsme.gov.in).

Talking about Bihar, apart from the agricultural sector, the small scale industrial sector has a significant contribution in the economic growth of the state, as the economic structure of the state lacks presence of large scale enterprises.

Apart from the valuable contribution made by these enterprises to the economy, their efficiency and performance level is lagging behind due to the problem of funding or credit availability. To solve this problem, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched a Credit Guarantee Scheme (CGS). To implement the scheme, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in the year 2000. Under this scheme, loan up to Rs. 100 lakhs without any collateral security and 3<sup>rd</sup> party guarantee is extended to new as well as existing MSEs. This scheme is very helpful for the development of the micro and small enterprises.

Hence, a study was conducted to see the effectiveness and penetration of CGTMSE in the economy of Patna. In Patna, there is a good number of micro and small enterprises, which, if not facing the problem of credit, will contribute a lot in the economic growth of Patna and henceforth Bihar ([www.Bihartimes.in](http://www.Bihartimes.in)).

While conducting the study, micro and small enterprises both availing and not availing loan under CGTMSE were considered and a comparative study of their income and employment was done, before and after availing loan under CGTMSE. With these in mind, a structured questionnaire was prepared and the data collected was analyzed, tabulated and interpreted. Thus, it can be said that CGTMSE is making a good impact on the economy and if all MSEs properly utilize this scheme, the economic growth will be boosted.

## **Objectives :**

The main objective of this research work is to have an in-depth study of CGTMSE scheme and its prospects, and to analyse its popularity in Patna. The objectives are as follows:

1. To develop a fundamental understanding of the CGTMSE scheme.
2. To study the procedure of banks in granting loan under CGTMSE.
3. To ascertain the level of satisfaction of borrowers under CGTMSE.
4. To ascertain the impact and popularity of CGTMSE in Patna.

## **Hypotheses of the Research :**

The main hypothesis of the research work is, CGTMSE is a very good scheme for small entrepreneurs who suffer due to lack of collaterals. The hypotheses are as follows:

1. CGTMSE is a beneficial scheme for Micro and Small Enterprises.

2. The procedure of getting credit facility under CGTMSE is simple.
3. Most of the MSEs are satisfied with this scheme.
4. CGTMSE has a good impact on the economy.

**Methodology :**

There are two types of methodologies of collecting data which were followed :

1. **Primary Sources :** In the survey, the primary instruments used for data collection were-

(a) Interview of small scale entrepreneurs through structured questionnaire.

Micro & small enterprises located in:

- Patliputra Industrial area
- Boring Road
- Kankarbagh

Service sectors include pathology services and manufacturing sector includes leather factories.

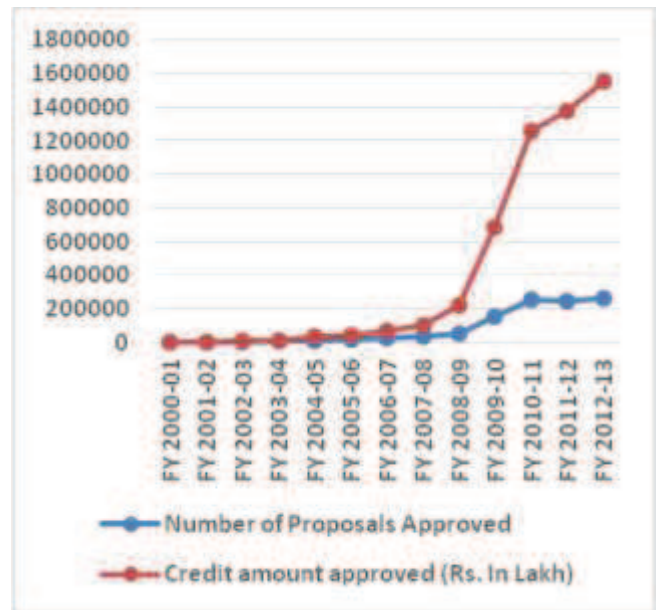
(b) Interview of Bank officials namely:

- Punjab National Bank
- Canara Bank
- Bank of Baroda

2. **Secondary sources :** The data collected from secondary sources were the set of such details which are not obtained originally. The main sources for collection of secondary data were the websites from internet.

**Findings :**

**Figure 1. Fundamental understanding of CGTMSE**



This graph shows the increasing trend regarding the number of proposals approved and amount sanctioned under this scheme. With the above graph, it is observed that progressive initiative is taken by the govt. of India regarding this scheme. Since the formation of the Trust, there has been a substantial growth in the number of proposals and credit amount disbursed under the scheme ([www.cgtsi.org.in](http://www.cgtsi.org.in)).

Our 1<sup>st</sup> hypothesis stands proved.

**Figure 2. Granting of the loan under CGTMSE**



The above pie chart illustrates the time period which banks take to sanction loan. When we asked about the time period which they take in granting loan, they follow the guidelines of RBI regarding the time limit. For loans under 10 lakhs, the loan is sanctioned by them within 2 weeks and for loans above 10 lakhs, they generally take 2 to 3 weeks (www.rbi.org.in).

Thus the 2<sup>nd</sup> hypothesis stands proved.

**Figure 3. Satisfaction level of the Micro & Small enterprises with CGTMSE**

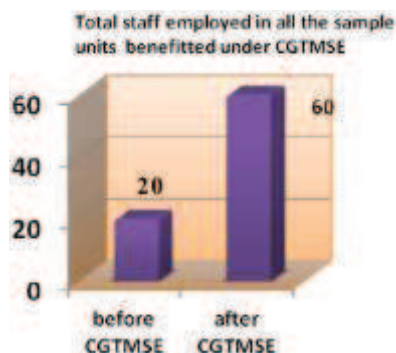


About 90% of the borrowers are satisfied with the approach. They got their loans sanctioned within appropriate time as per the guidelines of RBI. Rest 10% are not satisfied due to delay in sanction and disbursement of loan.

According to bankers, sometimes there is delay on applicant's part in providing proper documents at earliest.

Hence, 3<sup>rd</sup> hypothesis also stands proved.

**Figure 4. Impact of CGTMSE on the economy of Patna**



From the first graph it is witnessed that the total staff employed in all the 20 sample units benefitted under CGTMSE. The number increased from 20 to 60 after availing the benefit under this scheme. Hence there is an increase of 200% in employment after availing benefit under CGTMSE. From the second graph it is witnessed that there is an increase in average income per sample unit from Rs. 60,000 per month to Rs. 90,000 per month after availing the benefit under this scheme. Hence there is an increase of 50% in income level of the beneficiaries after availing the benefit (Msmedipatna.bih.nic.in).

Thus the 4<sup>th</sup> hypothesis stands proved.

**Conclusion :**

However, even though we have witnessed an increase in its popularity in recent years, sadly it has not penetrated much in Patna, especially in the manufacturing sector. Its impact on the economy of Bihar is not so remarkable. Its popularity is mostly among the service sector. Manufacturing sector is not so touched by CGTMSE.

But if awareness about CGTMSE is sincerely spread amongst the Micro and Small Enterprises which are in dire need of credit facility without many complications, then the impact of this CGTMSE scheme will be remarkable. Popularity of CGTMSE

will increase the work efficiency of the entrepreneurs; improve production capacity; increase employment opportunities; and enhance contribution of Micro and Small Enterprises in the economy leading to quick economic growth of Bihar.

**Suggestions :**

1. Whole hearted support from bankers is needed.
2. Co-operation from the borrowers is necessary for timely sanction of loan.
3. Awareness programs regarding CGTMSE for Micro and Small Enterprises must be arranged by the Government.
4. Periodical inspection and monitoring is needed from Bank's side.

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