



Are Flagship MSME Schemes Benefitting the States Uniformly ? An Analysis of the Distribution of Benefits/ Funds Across States

Mr. Kuntal Sensarma

Economic Adviser, Department of Investment & Public Asset Management (DIPAM)
Ministry of Finance, Government of India

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of a nation. The contribution¹⁰ and share of MSMEs in India's GDP and employment are significant. In 2014-15, the share of MSME manufacturing in India's total manufacturing output was 33.4 per cent while the contribution of the MSME sector as a whole to India's GDP during the same year was 30.74 per cent at 2011-12 prices.

Performance of Major Schemes/Programmes for MSMEs in India

The latest data available from the Ministry of MSME covers primarily the registered segment of the industry. With effect from 18th September, 2015, the Ministry of MSME launched the Udyog Aadhaar Memorandum (UAM) system which is a one-page registration form wherein the MSME are required to self-certify its existence, bank account details, promoter/ owner's Aadhaar details and other basic information including the social category of the entrepreneur or owner. The registration can be done at the Udyog Aadhaar website (www.udyogaadhaar.gov.in). The UAM registration will enable the unit to apply online for various services/schemes being offered by the Ministry.

Major Schemes for MSMEs

Two of the most popular schemes being implemented by the Ministry of Micro, Small and Medium Enterprises, Government of India are the Credit Linked Capital Subsidy Scheme (CLCSS) and Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE). Both these schemes are implemented by the Office of the Development Commissioner (MSME) and were launched in the year 2000-01 and targeted at the micro and small enterprises only.

1. Credit Linked Capital Subsidy Scheme (CLCSS)

The objective of the Scheme is to facilitate technology up-gradation in Micro and Small Enterprises (MSEs) by providing an upfront capital subsidy of 15 per cent

(on institutional finance of upto Rs 1 crore availed by them) for induction of well-established and improved technology in the specified 51 subsectors/ products approved. In other words, the major objective is to upgrade their plant & machinery with state-of-the-art technology, with or without expansion and also for new MSEs which have set up their facilities with appropriate eligible and proven technology duly approved under scheme guidelines. MSEs having a valid Udyog Aadhaar Memorandum (UAM) number are eligible to avail of benefits under this scheme.

At present, the Scheme is being implemented by 12 nodal banks/agencies including Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD). Except for SIDBI and NABARD, all the nodal banks/agencies would consider proposals only in respect of credit approved by their respective branches. In respect of other Primary Lending Institutions (PLIs) approved under the guidelines, SIDBI and NABARD are the nodal agencies for release of subsidy under this Scheme. Online application and tracking system has been introduced w.e.f. 1.10.2013 and the SME units need to upload their subsidy claim application through their PLIs.

2. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Scheme

Availability of bank loan without any collateral is a major requirement for boosting first generation entrepreneurship in India. In order to help millions of first generation entrepreneurs start their business with a bank loan (without the hassles of collateral), the Ministry of Micro, Small & Medium Enterprises (MSME) had launched the CGTMSE Scheme in the year 2000. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is operationalized by SIDBI and the Government of India.

The main objective of the CGTMSE scheme is that banks should give importance to project viability or business model validation and secure the loan facility only based on

¹⁰ Annual Report 2016-17, Ministry of MSME

the assets financed by the bank loan. In the event a Micro or Small Enterprise (MSE), which availed loan under the CGTMSE scheme, fails to repay the loan commitment to the bank, the CGTMSE organization would make good the loss incurred by the bank. The limit of guarantee provided is to the extent of 75 per cent / 80 per cent of the sanctioned amount of the credit facility for credit facilities upto Rs. 50 lakh. For credit amount upto Rs. 5 lakh to micro enterprises, the guarantee cover is 85 per cent. The 80 per cent limit for loan amount upto Rs. 50 lakh is applicable for (i) micro & small enterprises owned by women and (ii) for North East Region. The extent of guarantee reduces to 50 per cent for loans above Rs. 50 lakh and upto Rs. 2 crore. A credit facility which has already become NPA is not covered.

Under the CGTMSE scheme, a bank loan of upto Rs.2 crore (limit raised from Rs. 1 crore to Rs. 2 crore in January 2017) provided to a startup or an existing business in the form of term loan or working capital or both can be covered. Businesses in the manufacturing sector and service sector are eligible. However, retail trade,

educational institutions, agriculture, Self Help Groups (SHGs) and training institutions will not be eligible to obtain a loan under CGTMSE Scheme. Recently, the guarantee coverage has been extended to loans from NBFCs. Also, the corpus of CGTMSE has been increased significantly from Rs. 2500 crore to Rs. 7500 crore.

The present study covers 28 States¹¹ /UT.

A. Performance of CLCSS

Table 1 below brings out the cumulative inter-state share of MSE units supported by CLCSS and subsidy provided by the government under the scheme (from inception of the scheme till 30.6.2017).

J &K, Punjab, Haryana, H.P., Delhi & Rajasthan (North zone), Goa, Gujarat & Maharashtra (West zone), Telangana, Andhra Pradesh, Karnataka, Kerala & Tamil Nadu (South zone), Chhattisgarh, M.P. & U.P. (Central zone), Bihar, Odisha, Jharkhand & West Bengal (East zone) and 7 Northeastern States.

Table 1: State-wise Share of Units covered & CLCSS Subsidy since 2000-01 (inception year) till 30.6.2017

States	Share in Number of Units Covered (in per cent)	Share in CLCSS Subsidy (in per cent)
North Zone		
Delhi	0.99	1.18
Haryana	5.16	6.05
Himachal Pradesh	0.06	0.07
Jammu & Kashmir	0.00	0.00
Punjab	8.65	8.73
Rajasthan	5.40	5.91
West Zone		
Goa	0.10	0.09
Gujarat	31.13	30.78
Maharashtra	14.31	14.88
South Zone		
Andhra Pradesh	3.88	5.12
Karnataka	9.14	7.76
Kerala	0.49	0.61
Tamil Nadu	13.92	10.77
Telangana	0.44	0.67
East Zone		
Bihar	0.06	0.09
Jharkhand	0.34	0.41
Odisha	0.71	0.73
West Bengal	0.49	0.77
Central Zone		
Chhattisgarh	0.72	0.82
Madhya Pradesh	0.78	0.92
Uttar Pradesh	2.08	2.39
North Eastern States	0.04	0.06

Source: Calculated from cumulative data

¹¹ J &K, Punjab, Haryana, H.P., Delhi & Rajasthan (North zone), Goa, Gujarat & Maharashtra (West zone), Telangana, Andhra Pradesh, Karnataka, Kerala & Tamil Nadu (South zone), Chhattisgarh, M.P. & U.P. (Central zone), Bihar, Odisha, Jharkhand & West Bengal (East zone) and 7 Northeastern States.

[Focus of the Month]

It is evident from Table 1 that five States- Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Punjab together had a share of over 77 per cent of the total MSE units covered under CLCSS for grant of subsidy. These five States together had also more than 73 per cent of the share of subsidy released over the last 17 years since the inception of the scheme in 2000-01. The four States of East zone taken together received only 2 per cent of the subsidy as also Chhattisgarh & Madhya Pradesh in the Central zone which received less than 1 per cent of the subsidy. If one considers, the Northeastern States (NES), the status is appalling (coverage was not even 0.1 per cent both in terms of share in proposals and subsidy released). Jammu & Kashmir poses a pathetic picture with only 0 per cent share (actually only 1 unit availed of subsidy during this entire period of 17 years). The status of coverage in Bihar is almost similar with not even 0.1 per cent share in coverage.

Table 2 below attempts to capture the relation between CLCSS Subsidy released to MSE units in different States and the contribution of the manufacturing sector in the

gross domestic product of the State (GSDP). It is evident that for each of the 3 years – 2012-13, 2013-14 and 2014-15, the contribution of manufacturing sector to GSDP was highest in Maharashtra, followed by Gujarat, Tamil Nadu, and Karnataka. A high positive correlation between subsidy released and size of GSDP from manufacturing is on expected lines. Better technology is the key to higher productivity and higher output. Although the correlation coefficient does not per se imply any causation between the variables, however, the high positive correlation (varying from 0.73 to 0.78 for each of these years) implies a strong positive association which means that micro and small enterprises in the more industrialised States are availing of CLCSS subsidy for technology upgradation and thereby contributing to higher manufacturing output. This is amply reflected by the fact that the two highly industrialised States of Gujarat and Maharashtra cornered the maximum benefits under CLCSS. Incidentally, the correlation coefficient remains similar if instead of subsidy amount, the number of units assisted is considered.

Table 2: State-wise Distribution of CLCSS Subsidy and GSDP from Manufacturing (in Rs. Lakh)

States	CLCSS Subsidy 2012-13	GSDP (M) 2012-13	CLCSS Subsidy 2013-14	GSDP (M) 2013-14	CLCSS Subsidy 2014-15	GSDP (M) 2014-15
Delhi	494	22,24,419	611	23,15,186	366	24,52,498
Haryana	2,020	63,49,760	2,545	67,65,323	3,413	69,87,402
Himachal Pradesh	33	19,24,071	36	20,52,197	73	22,38,899
Jammu & Kashmir	0	7,43,851	0	7,60,705	0	7,89,800
Punjab	4,095	38,92,533	4,003	40,72,839	3,255	42,61,467
Rajasthan	1,952	53,62,722	3,003	55,49,813	2,489	58,82,925
Goa	22	13,89,382	29	10,16,189	37	10,69,516
Gujarat	10,909	1,93,38,449	13,175	1,98,38,758	18,023	2,13,26,664
Maharashtra	4,652	2,66,67,940	7,868	2,81,80,094	7,328	2,94,72,034
Andhra Pradesh	1,653	40,18,820	2,194	3,85,748	1,221	41,64,888
Karnataka	2,604	1,03,55,690	2,422	1,08,79,255	2,549	1,17,13,701
Kerala	274	38,46,915	243	36,68,087	214	37,58,140
Tamil Nadu	3,603	1,70,07,020	3,181	1,67,96,887	2,323	1,70,94,248
Telangana	0	52,98,254	0	52,89,860	271	57,25,215
Bihar	4	9,71,402	28	18,89,284	0	19,01,006
Jharkhand	167	36,14,824	125	33,56,361	99	37,16,292
Odisha	217	39,99,269	231	47,97,958	141	52,97,939
West Bengal	198		279		314	
Chhattisgarh	216	26,60,179	313	35,88,922	463	40,65,674
Madhya Pradesh	291	39,67,354	565	37,01,507	358	39,16,538
Uttar Pradesh	710	91,44,724	767	1,04,18,284	1,275	1,09,68,287
North Eastern States	15	20,76,268	15	22,44,870	15	23,39,250
Correlation coefficient	0.75		0.78		0.73	

Source: (a) GSDP(M), Handbook of Statistics on Indian States 2017, RBI;
(b) CLCSS Subsidy, Office of DC(MSME)

B. Performance of CGTMSE Scheme

In respect of the CGTMSE scheme, it is essential to point out that there is no direct flow of funds to micro and small units, however, distribution of benefits can be gauged from the coverage of units under credit guarantee (for availing of collateral-free loans from banks) and the amount of guarantee cover provided against such loans.

Table 3 indicates the relative share of individual States in total credit proposals covered and the amount of guarantee cover. Certain interesting facts that emanate from this Table are:

- (i) All the four States in the East zone had 4 to 5.5 per cent share both in total proposals covered and amount of guarantee cover;
- (ii) Although the NES as a group received nearly 5 per cent share of proposals covered, however, with the removal of data of Assam (with 95,949 proposals), the share of the remaining 6 States in the region fell to a mere 1.55 per cent;
- (iii) Apart from the 6 NES, Chhattisgarh, Goa, Himachal Pradesh and Jammu & Kashmir had low coverage;
- (iv) Kerala despite having more than 9 per cent share in total proposals covered had less than 5 per cent share in the amount of guarantee provided, possibly implying a larger share of loans of smaller size getting covered;
- (v) Punjab and Haryana which were important States in receiving benefits of CLCSS had relatively smaller shares under CGTMSE scheme implying that micro and small enterprises in Haryana and Punjab did not avail of the benefits of CGTMSE;
- (vi) 14 major States had at least 3 per cent of their micro & small enterprises' loan proposals covered under CGTMSE and about 12 States had a share of more than 3 per cent in the guaranteed amount individually; and
- (vii) Overall the benefits under CGTMSE scheme were better distributed among the States.

Table 3: State-wise Share of Loan Proposals Covered and Credit Guarantee Amount under CGTMSE (since inception till 30.6.2017)

States	Share in Loan Proposals covered under Guarantee (%)	Share in Amount of Credit Guarantee Approved (%)
North Zone		
Delhi	1.28	2.65
Haryana	1.35	2.07
Himachal Pradesh	1.74	1.95
Jammu & Kashmir	2.33	1.09
Punjab	2.24	2.51
Rajasthan	3.19	3.35
West Zone		
Goa	0.60	0.78
Gujarat	3.87	6.80
Maharashtra	8.02	11.65
South Zone		
Andhra Pradesh	3.18	1.88
Karnataka	8.90	9.58
Kerala	9.13	4.74
Tamil Nadu	10.00	8.33
Telangana	2.08	2.35
East Zone		
Bihar	4.90	4.41
Jharkhand	3.88	4.90
Odisha	4.68	4.14
West Bengal	5.53	5.57
Central Zone		
Chhattisgarh	1.38	1.47
Madhya Pradesh	3.72	4.13
Uttar Pradesh	11.15	9.76
North Eastern States		
Arunachal Pradesh	0.24	0.24
Assam	3.36	2.47
Manipur	0.24	0.17
Meghalaya	0.29	0.28
Mizoram	0.14	0.12
Nagaland	0.25	0.18
Tripura	0.37	0.27

Source: Office of CGTMSE, Mumbai

Suggestions & Way Forward for the MSME Sector in India

The state-wise analysis of data on subsidy released under CLCSS and loan proposals covered under CGTMSE clearly indicates that there is scope for improvement in the distribution of benefits under the respective schemes. In case of CLCSS, the concentration of benefits in few industrialized States is obvious. The benefits were distributed better among States in case of the other scheme, namely, CGTMSE.

Incidentally, both these schemes are demand driven and it is, therefore, often argued that there will be more demand from the industrialized States. However, ensuring a more equitable distribution in the growth of MSME units across the States along with a better spread of the benefits/ funds is a major challenge for the Government. For this purpose, the Ministry of MSME/ Office of Development Commissioner and its field offices (30 MSME Development Institutes and 28 Branch Institutes) along with SIDBI (as the main promotional agency) should play a more pro-active role.

Industry associations need to play a major role in generating awareness about these schemes for credit support and for technology upgradation. The associations should convince the member enterprises about the advantages of credit rating in facilitating bank loans. The associations must also impress upon all MSMEs including those in the unorganized sector to get themselves registered on the UdyogAadhaar portal for accessing the benefits of government measures.

There is no dearth of interventions on the part of Government of India to simultaneously address the non-financial constraints faced by the MSMEs including obsolete technology, lack of access to market, shortage of skilled labour, regulatory and taxation issues. However, such measures/ programmes need to be monitored more closely for efficacious results.

It is essential that all stake holders must address the constraints faced by the MSMEs (including the lack of finance) in a coordinated manner to ensure a greater contribution of this critical sector to India's GDP and employment in various States/ UTs.

(Views expressed are personal)