 ISSN: 2349-6002

# A Study of the Economic Impact of the Emergency Credit Line Guarantee Scheme (ECLGS) on Select MSMEs of Gujarat State distressed due to the Pandemic

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doi.org/10.64643/IJIRTV12I8-190268-459

**Abstract: The MSME sector is considered to be the backbone of the Indian economy. It contributes significantly to employment generation, industrialization, and exports, fostering inclusive growth and promoting entrepreneurship. The role of MSMEs in the Indian economy is crucial for several reasons. They serve as a significant source of employment, particularly in economically disadvantaged regions, contributing to poverty alleviation and inclusive growth. MSMEs bolster the country's export potential, fostering international trade and economic stability. They promote entrepreneurship and innovation, driving competitiveness and productivity within the economy. Through initiatives and support from the government, the MSME sector continues to thrive, making substantial contributions to India's GDP and overall economic development.**

**MSME sector contributes close to 40% of the total industrial output, provides 50% of jobs in the manufacturing sector, employ 40 million people and is adding 1 million jobs every year. The contribution of MSMEs is 34% of the total exports. It is estimated that MSMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. MSME sector contributes to approx. 8-10% to the country's GDP. These figures underline the significant importance this sector has for the Indian Economy.**

**MSMEs are crucial to Gujarat's economic growth, playing a vital role in employment, entrepreneurship, and overall economic development. Gujarat boasts a strong MSME sector, with over 11.26 lakh registered MSMEs, contributing significantly to the state's GDP and employment. Gujarat is known as the powerhouse of the economy of our country. The Pandemic induced distress in the economy necessitated the introduction of a slew of measures by the Government to not just salvage them but to ensure that they manage to survive this difficult period and also not falter financially post this difficult time. One of the important steps taken by the Union Government to address the issue of preventing the MSME sector from going bust, was the introduction of Emergency Credit Life Guarantee Scheme (ECLGS).**

**The main objective of this study was to find out the precise economic impact of this scheme on the MSMEs of Gujarat state distressed due to the Pandemic. Central to this study was the effort to determine the exact economic impact of this scheme through the various economic parameters that have been influenced by the ECLGS on the financial improvement of the MSMEs of Gujarat state which had been severely distressed by the Pandemic. By delving into different parameters and analysing them comprehensively and thoroughly the study aims to unravel the varied layers of the economic impact of this scheme on the MSMEs of Gujarat state. The method to be used to study and determine the economic impact would be through a Questionnaire. The data for this study was gathered from many related research papers, periodicals, government publications and so on. The data was tested against the null hypothesis and then was analysed to derive the conclusion and recommendations as to what was the economic impact of the scheme on the MSMEs which were severely distressed by the Pandemic.**

## I. INTRODUCTION

The Government of India through its Finance Ministry / Department of Financial Services had launched the Emergency Credit Line Guarantee Scheme (ECLGS) in May 2020 to help and recover the pandemic hit economy. This scheme had aimed to provide Rs. 3 lakh crores of unsecured loans to MSMEs and business enterprises to mitigate the distress caused by the coronavirus-induced lockdown. This scheme was introduced specifically for MSMEs and Business Enterprises. This additional loan came with a 100%

guarantee and was aimed to provide the much needed boost to reignite the MSMEs distressed by the Pandemic.

The ECLGS provided 100% guarantee coverage by NCGTC to MLIs on ECLGS of up to Rs. 5 lakh crore to eligible MSMEs. MSMEs for the purpose of this Scheme will include MSMEs/ Business Enterprises which are constituted as Individuals, Proprietorships, Partnerships, Registered Companies, Trusts & Ltd Liability Partnerships (LLPs), and also interested borrowers under PMMY. This study aims to bring out the economic impact this scheme has had on select MSMEs of Gujarat state which were distressed by the Pandemic.

## II. REVIEW OF LITERATURE

The literature review for this study has been carried out by the various sources like newspapers, books, various blogs websites, and also the reference from reputed journals. This information aided in comprehending the impact of the Emergency Credit Line Guarantee Scheme (ECLGS) on Select MSMEs of Gujarat State distressed due to the Pandemic. As a result the study is a descriptive research. The researcher did a review of the below stated literature to discover the impact of ECLGS on the MSMEs distressed due to the Pandemic.

- RBI Financial Stability Report of December 2022

The report confirmed that the ECLGS was pivotal in providing support and additional liquidity for business entities to tide over the effects of the Pandemic. The major sectors availing the ECLGS were services and traders, which were among the most impacted by the pandemic. The PVBs disbursed funds under the ECLGS more than the PSBs, with the amount disbursed to repeat borrowers of PVBs almost double that of PSBs. The analysis of borrowers availing the ECLGS indicated that the majority of the smaller borrowers belonged to the micro enterprises category. In terms of quantum of disbursal, more than two thirds of the total funds were availed by businesses belonging to the micro, small and medium enterprises, indicating the utilisation of this scheme mainly by the MSMEs.

- First Chapter of World Development Report 2022 published by World Bank

This chapter of the report stated that although a large spike in insolvencies and loan defaults had been averted thanks to the Indian Government’s ambitious policy response, the inequality had unfortunately increased. While agricultural incomes had been remarkably resilient, the 40 percent of India's informal workforce outside the agriculture sector had suffered the brunt of the economic distress caused by the pandemic.

- Report by SIDBI & CIBIL in August 2022 showing MSMEs to be the biggest beneficiaries of the scheme

The report prepared in collaboration by SIDBI and CIBIL, stated that improving the credit flow to MSMEs was very essential to accelerate economic growth. The Pandemic and the various measures taken in the aftermath of the Pandemic impacted MSMEs the most. Timely intervention by the Central Government and the regulator had ensured that the MSMEs could face these difficult challenges to a large extent. The report also mentioned that for a sustainable growth to be achieved by the MSMEs, they need to be provided timely credit to resilient MSME borrowers so that the portfolio of the MLIs could also be protected.

- Working Paper on Impact of Covid-19 Packages on MSME Financing in India

The paper stated that the demand for credit picked up in MSME sector following announcement of the ECLGS. In the subsequent periods, credit growth significantly increased in the MSME sector. Most of the funding was disbursed to borrowers with loan size below 10 lakhs. Credit growth to the borrowers already having relationships with the MLIs sharply increased following the scheme’s announcement. More than 88% of the loans given were standard assets which also proved that the scheme did not dilute the quality or standard of the assets disbursed by the MLIs. The scheme truly benefitted the MSME sector and also saved many MSMEs by making them access to external funds with less transaction costs. This also resulted in the economic value being added to the MSME sector and employment generation. The overall objective of the Central Government was definitely achieved by the introduction of this scheme.

- National Institute of MSME observations on the RBI Study which claimed that Covid Period Credit Guarantee Scheme helping the MSME achieve higher net profit

The study pointed to a trend of increasing formalisation among MSMEs, saying that registrations to avail of government schemes helped this trend. However, the study also noted that despite formalisation, most firms dipped into internal sources for financing, like retained profits, rather than relying on bank loans and long-term financial institutions. The study also found that rent and electricity were the primary factors affecting profitability of MSMEs, followed by debt servicing and employee costs. Therefore, government incentives targeting these areas tend to help MSMEs more. It further observed that the pressure to reduce output prices amidst rising input prices was the major economic issue faced by the MSME borrowers during both pre- and post-COVID periods.

- Asian Development Bank Report in March 2022 on Credit Guarantee Schemes for MSMEs in Asia-Pacific Regions

The report stated that the credit guarantee schemes played a crucial role in providing access to finance for MSMEs in the Asia-Pacific region. These schemes helped mitigate financial risks for the lenders, allowing them to extend more loans to MSMEs, especially those lacking collateral. The report also highlighted the importance of tailoring these schemes to the specific needs and circumstances of different countries and regions within the Asia-Pacific, considering factors like macroeconomic conditions and government policies.

- ECLGS Insights Report by CIBIL of December 2021 Analysing the Flow of Credit and Borrower Behaviour

The report stated the liquidity provided under the scheme resulted in reduction in average credit balances for the MSMEs. This reduction was observed across all MSME segments. The performance of loans extended under the scheme was also found to better. The NPA levels of those MSME borrowers who availed this scheme were lower than those who did not. More than 65% of the respondents had said that the scheme helped their business tide through financial troubles and 68% were confident about a future positive outlook. The only worrying finding of the report was that more than 57% of the respondents had not found it easy to access the scheme.

- Study on Impact of ECLGS (Supplementary Report) for NCGTC of September 2020 submitted at NIBM, Pune

The report mentioned that the funds were mostly used to restart operations and clear the dues to the suppliers. While restarting the operations using the scheme funds post the Pandemic lockdown was a uniform concern across activities and borrower size, clearing supplier's dues and payment of salaries were of increasingly relevance and importance for the borrowers who had obtained large funds under the scheme and for manufacturing units. Since the manufacturing units were also likely to be more labour intensive, the payment of salaries were necessary for restart of operations. In contrast, since service firms were less dependent on the suppliers and workers by their design, their focus was more on restart of their business operations.

- Study on Impact of ECLGS (Final Report) for NCGTC of March 2023 submitted at NIBM, Pune

The report stated that the scheme had accelerated the credit flow to the eligible borrowers since the total amount disbursed under the scheme was more than 25% of the total credit disbursed by the scheduled commercial banks between Dec 2019 and Jan 2023. The scheme had also reduced the cost of credit to the borrowers since more than 82% of the loans disbursed were at a rate of 8% or below. The NPAs too were the lowest in this category. The report further mentioned that most guarantees were given to micro and small borrowers and that the states which had a higher proportion of such borrowers had received more such guarantees. Most NPA claims had been settled for these borrowers as well.

## III. RESEARCH METHODOLOGY

A research is a careful consideration of study regarding a particular concern or a problem. It is an established fact that, any research has to be validated based on the systematic collection and analysing of this collected data. For this study, the questionnaire method was adopted to collect primary information from the respondents using a well-structured pre tested questionnaire. The primary data was collected from select 100 MSMEs belonging to varied sectors of the economy and operational in different parts of the state of Gujarat. The secondary data was collected from various external sources.

• Research Design:
Descriptive research design has been used in this study.

• Sources of Data:
i) Primary data: Primary data was collected with help of a structured questionnaire for the purpose of the study.
ii) Secondary data: Secondary data was collected from external sources like television, radio, internet, magazines, books and newspaper. This data might have been previously collected for different purposes.

• Sample Design:
Considering the time factor and the cost involved in going for random sampling, convenience sampling was used for selecting the 100 respondents. In order to have a wider group of respondents suitable for study, the respondents were chosen from those operational in varied sectors and those belonging to different regions and areas of Gujarat state. Sample design includes the following:

Nature of population: Population of finite MSMEs of Gujarat state.
Sample unit: 100 select MSMEs of Gujarat state.
Method of sampling: Convenience Sampling.
Size of sample: 100 for convenience.

• Data Analysis:
Data was transformed in the form of Tabulation, Graphs and Charts for further analysis and interpretation.

• Statement of the Study:
The study aimed at understanding the economic impact the ECLGS had on the select MSMEs of Gujarat state distressed by the Pandemic. This study had also analysed the perception of the MSMEs towards ECLGS and the benefits it had accrued on the financial health of the MSMEs of Gujarat state, which had been severely distressed by the Pandemic.

• Scope of the Study:
The study is focusing on analysing the economic impact the ECLGS had on the MSMEs of Gujarat state distressed by the Pandemic and hence it will be helpful to confirm whether such schemes introduced by the Government are actually beneficial to their targeted sector so that in the advent of any such eventuality it would guide the Government as to what it needs to do to support and help the distressed sectors.

• Objectives of the Study:
- To assess & analyse the economic impact on the business class particularly the MSME sector of Gujarat.
- To assess whether the purpose of the scheme per se had been achieved or not.
- To assess the financial well-being of the MSMEs post the implementation of the scheme.
- To assess the response of the MLIs with regards to the guarantee of the Govt. in case of default by the borrowers of these loans.
- To assess whether the scheme was helpful in preventing increase in NPAs of Commercial Bank amongst their MSME clients.

• Limitations of the Study:
- The study is restricted to select MSMEs of Gujarat state.
- The findings of the study cannot be generalized to the entire MSME sector of Gujarat state or the country.
- The study is limited to 100 respondents.
- The study has been conducted in a limited time period.
- The study is based on the responses given by the MSMEs.
- Chances of researcher’s bias might have crept up during collection of data and while handling the questionnaire.

## IV. NULL HYPOTHESIS (H0) AND ALTERNATE HYPOTHESIS (H1)

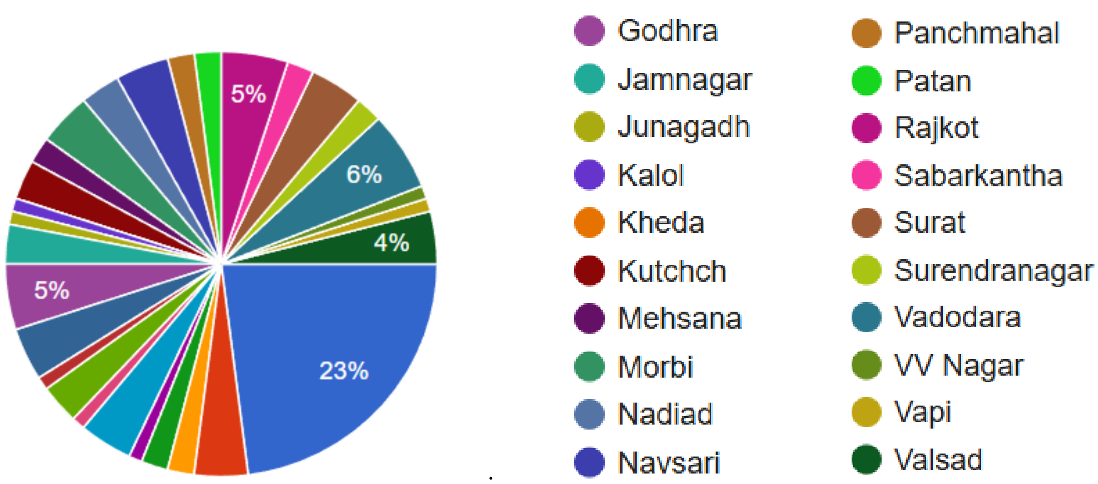
- The null hypothesis is the starting point or a baseline against which the collected data is weighed. It is a test to determine if the data so collected is strong enough to reject or not reject the basic assumption of the research question. It is never proven true. If the null hypothesis is rejected than it provides evidence for the alternative hypothesis which states that there is a significant impact or relationship. It also proposes that any observed impact is due to chance and hence the research study is undertaken to confirm if there is enough proof to reject it in favour of an alternative hypothesis.

- In this study the Null Hypothesis (H0) is that *"There is no economic impact of the ECLGS on the MSMEs of Gujarat state which had been distressed by the Pandemic"* while the Alternate Hypothesis (H1) is that *"There is significant and substantial economic impact of the ECLGS on the MSMEs of Gujarat state which had been distressed by the Pandemic"*
- If the research findings suggest on most of the parameters that there has been a substantial economic impact on the MSMEs than the Null Hypothesis would be rejected and an alternate hypothesis would be accepted that the ECLGS were indeed successful in providing the much needed economic impact on the MSMEs of Gujarat state distressed by the Pandemic.
- More than 50% of the respondents would have to provide favourable responses on the above mentioned questions so as to prove that the null hypothesis is rejected out rightly and that the alternate hypothesis is accepted.

## V. RESEARCH FINDINGS

The 100 select MSMEs who acted as respondents, were asked to fill up a questionnaire covering most aspects of their experience while they had obtained the ECLGS funding. The answers obtained from them have been presented below in the form of pie and bar charts:-

- Location Situated

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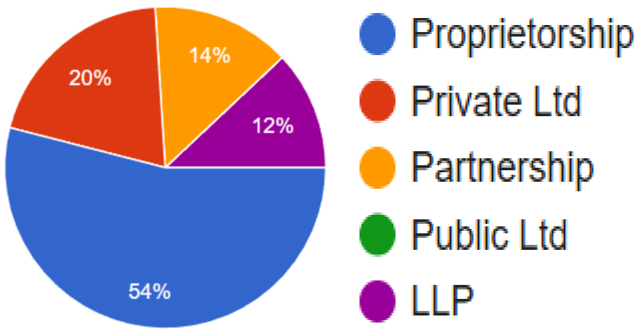
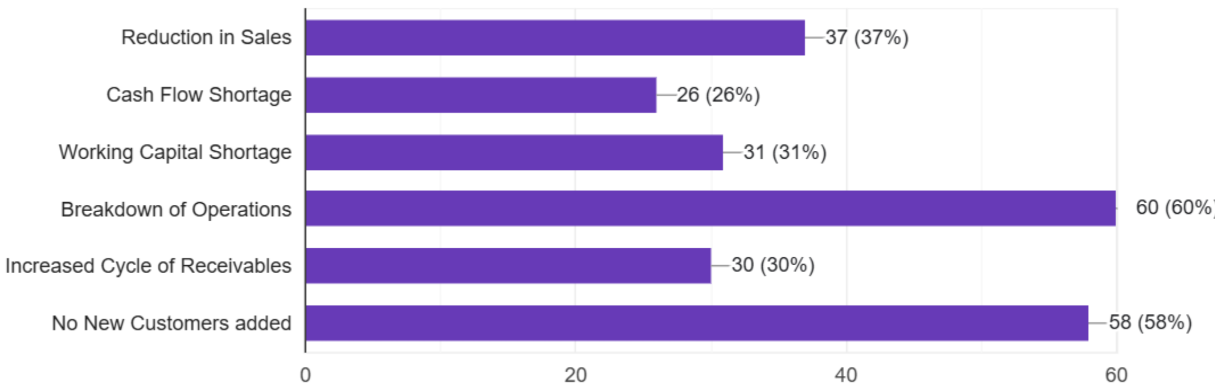
The 100 MSME units selected belonged to no less than 30 locations of Gujarat state. These locations covered almost all regions and districts of the state including those places where there is a larger concentration of MSME units. The maximum respondents were from Ahmedabad city (23) which is the biggest city of Gujarat along with other prominent MSME centres like Vadodara, Surat, Rajkot, Morbi, Bhavnagar, etc. To make the sample as representative as possible, MSME units from smaller centres like Amreli, Navsari, Nadiad, Patan, Deesa, Chota Udepur, Bodeli, Anand, Godhra, etc. were also taken. Some of the locations which have prominent industrial sectors and strong presence of MSME units like Vapi, Bharuch, Kutch, Mehsana, etc. were also taken. The units selected were also representing almost all the prominent sectors of Gujarat namely textile, Pharmaceuticals, chemicals, Agri, Food Manufacturing, Transport, Tourism, etc.

➢ Type of Ownership



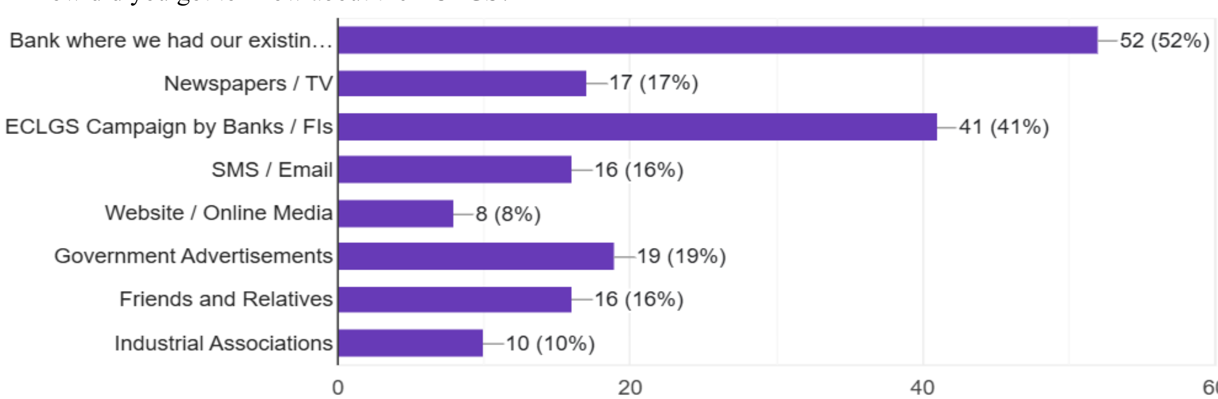

The units selected were of mainly four types as show above. Almost 54% of the units were having Proprietorship as their ownership while the remaining 46% comprised of Pvt. Ltd, Partnership and LLP.

➢ What were the different negative impacts of the Pandemic on your Unit?



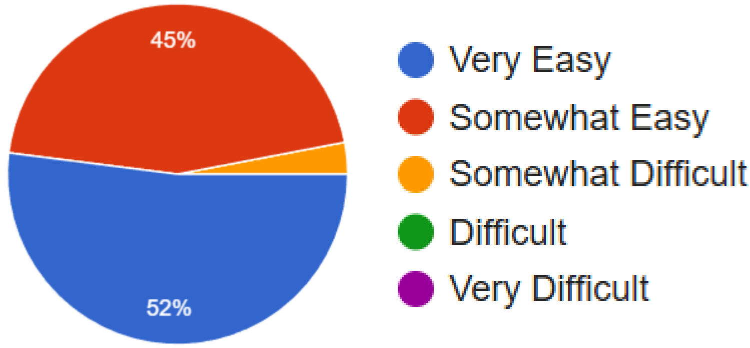

The most common negative impact of the Pandemic on the unit of the respondents as Breakdown of Operations which was selected by 60% of them. A close second is the impact of No New customers added. Other impacts like Reduction in Sales (37%), Working Capital Shortage (31%), Increased Cycle of Receivables (30%) and Cash Flow Shortage (26%) were also quite prominent if not in majority. This also proved that the Pandemic had a lot of negative impacts on the MSMEs.

➢ How did you got to know about the ECLGS?



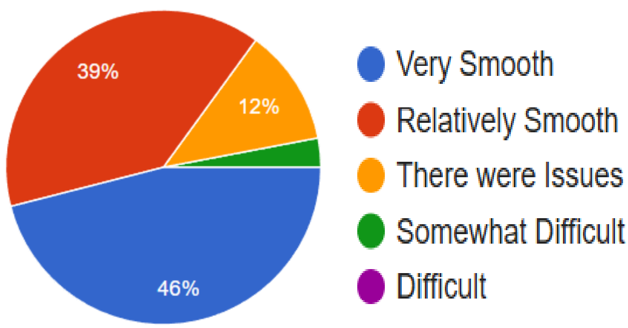

Majority of the respondents came to know about the scheme from their banks where they had their existing limits (52%), a close second was the ECLGS campaigns run by Banks / FIs (41%). The other options did not get much selection by the respondents. This also confirmed that the Government had to increase their advertisements or awareness efforts about such schemes if at all there is a requirement of such in the future.

➢ How easy was it to acquire the ECLGS Funds?



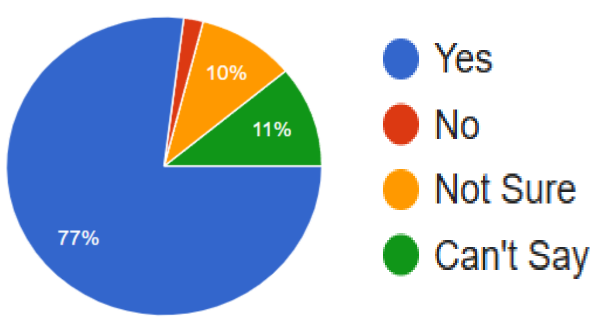

More than 95% of the respondents found that it was either Very Easy (52%) or Somewhat Easy (45%) to acquire the ECLGS funds. This means that the funds under the scheme were easily available for the MSMEs to acquire. The banks and the financial institutions too ensured that the borrowers did not face any problems or issue when they really required funding under this scheme post the Pandemic.

➢ How has been your experience with regards to the processing of the ECLGS at different financial institutions and banks?



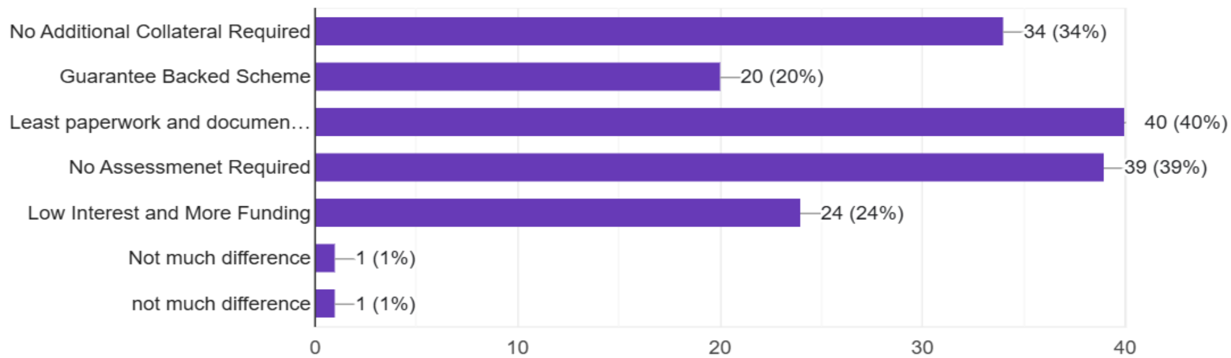

46% of the respondents found that their experience with regards to the processing of the ECLGS at different FIs and banks was Very Smooth whereas another 39% of the respondents found it relatively smooth. This confirmed the fact that the processing of the ECLGS was kept very borrower friendly and there were very few instances of the MSMEs facing any issues or finding it difficult to process the funds.

➢ Did the funds received through the ECLGS help you in easing the financial problems you had to face during and post the Pandemic?



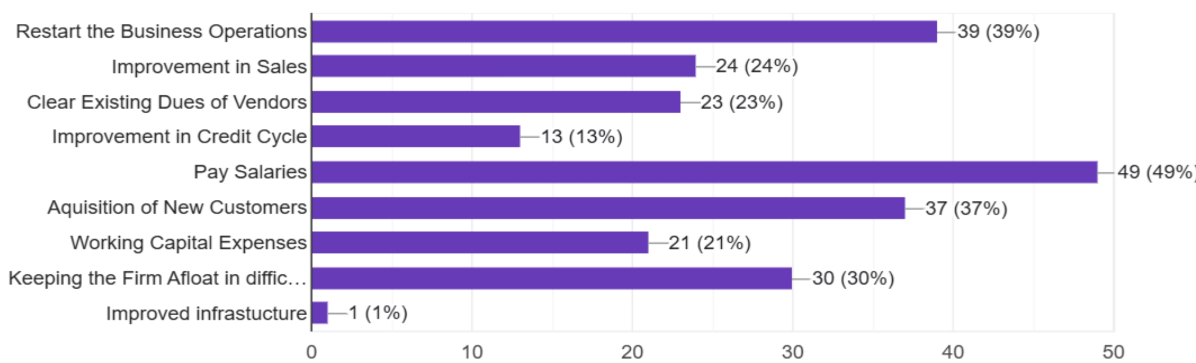

A staggering 77% of the respondents confirmed that the funds received through the scheme did help them to ease their financial problems they had faced during and post the Pandemic. This statistic has put a seal of approval on the scheme with regards to its economic impact on the MSMEs which were distressed due to the Pandemic. This confirmation of the scheme easing their financial issues is a big thumbs up to the scheme.

➢ How have the funds received through ECLGS different from the other fund based loans taken by your firm in the past? (select any more or more)



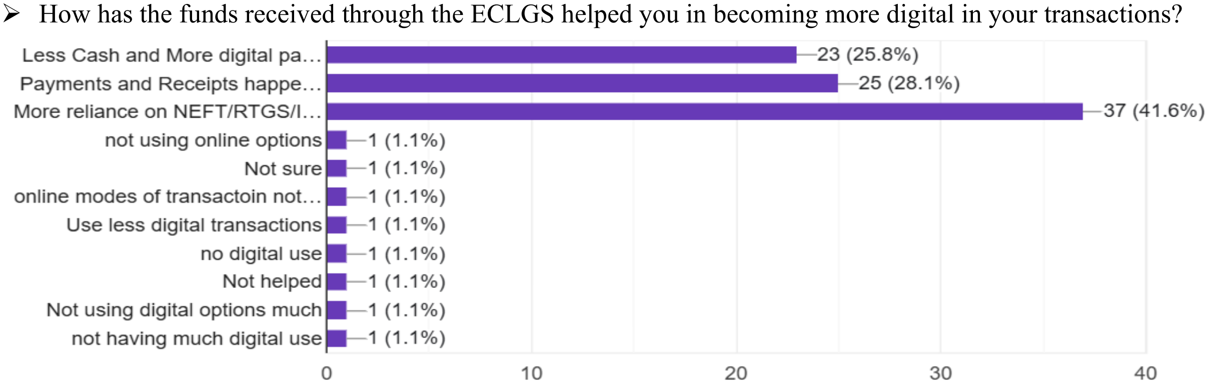

40% of the respondents felt that the main reason that the funds received through the scheme were different from the other fund based loans taken by them in the past was that it involved least paperwork and documentation. A closed second came the benefit of no assessment required (39%) while 34% felt that the benefit of no additional collateral required was the main difference. The scheme having low interest and low funding (24%) and it being a Guarantee backed scheme (20%) were the other two main differences.

➢ How have you utilised the funds received through ECLGS in your firm? (select any one or more)



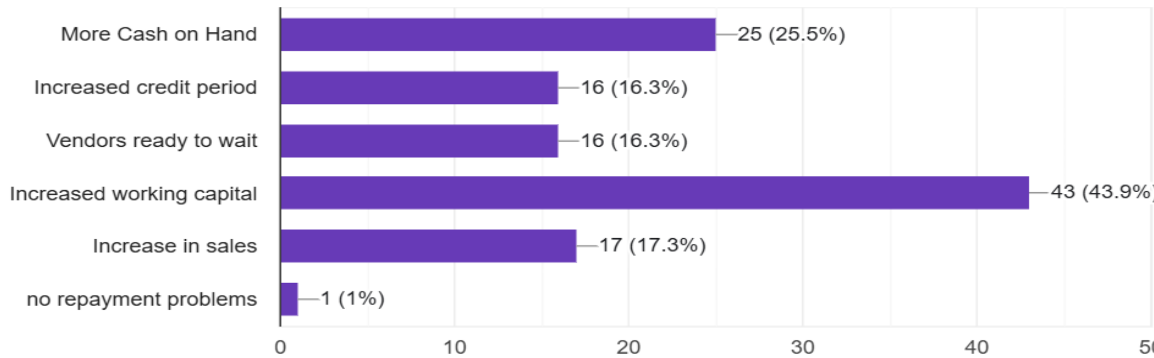

49% of the respondents paid of pending salaries while 35% restarted their business operations. 37% of the respondents acquired new customers while 30% kept their firm afloat duo the pandemic. Improving their sales (24%) and clearing existing dues of vendors (23%) were the other prominent ways to utilise the funds.

➢ How has the funds received through the ECLGS helped you in becoming more digital in your transactions?



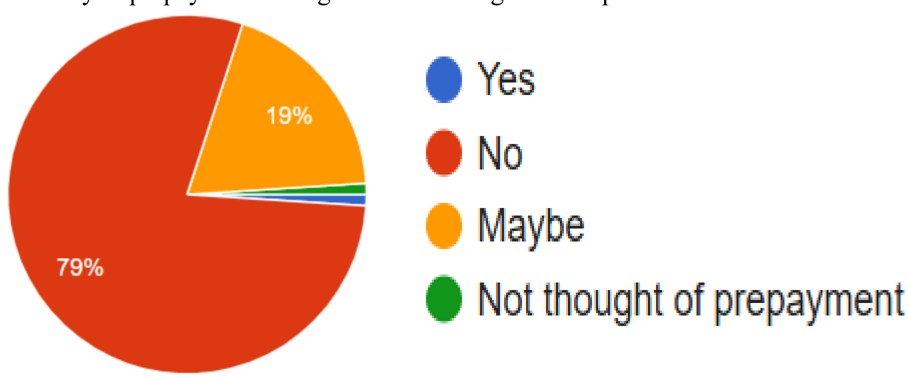
37% of the respondents mentioned that they relied more on online options than cash after receiving the funds from the scheme and the subsequent shift towards digital transactions instead of the traditional ones.

➢ How has your firm been able to mitigate the repayment problems? (select any one or more options)



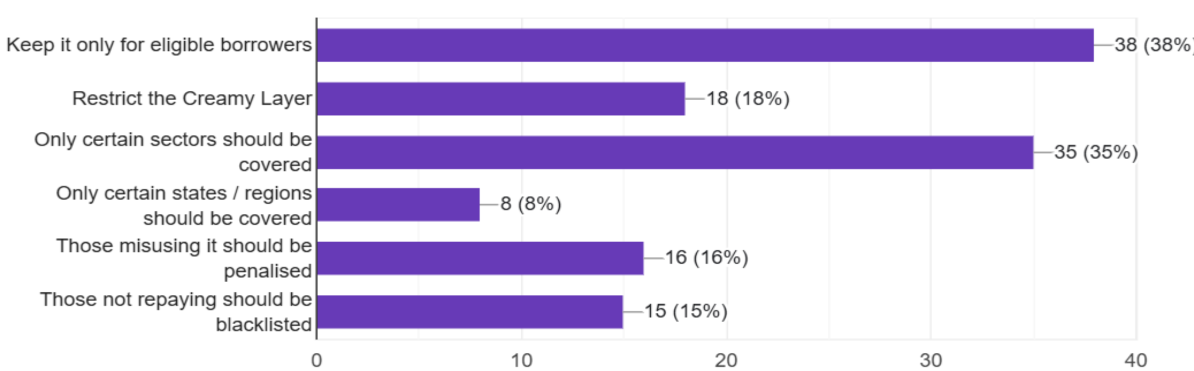

43% of the respondents mentioned that they managed to increase their working capital through the funds received by the scheme which helped them to mitigate their repayment problems. The other options like more cash on hand (25%), increase in sales (17%), increased credit period (16%) and vendors ready to wait (16%) were the other options selected by the respondents.

➢ Did you feel any necessity to prepay the funding received during the loan period?



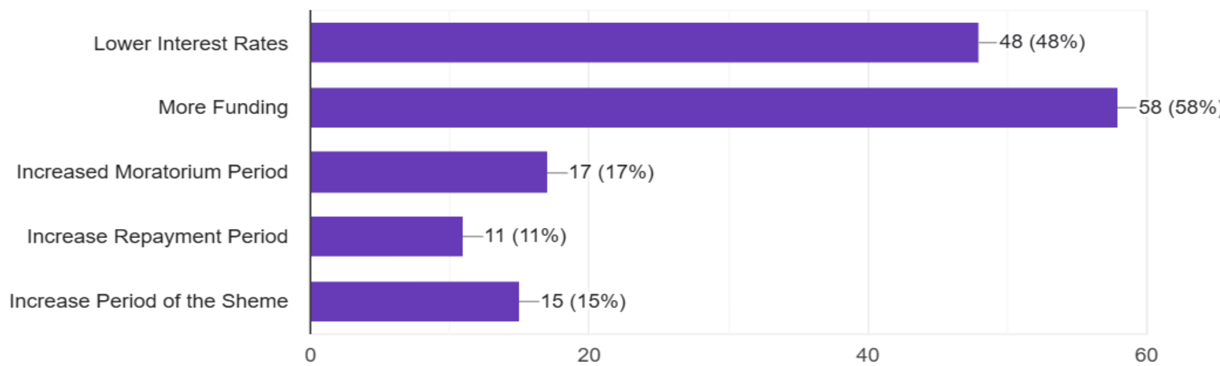

A staggering 79% of the respondents mentioned that they did not feel any necessity to prepay the funding received during the scheme.

➢ What safeguards can the government have in such schemes in the future so that only the deserving firms could take its benefit?



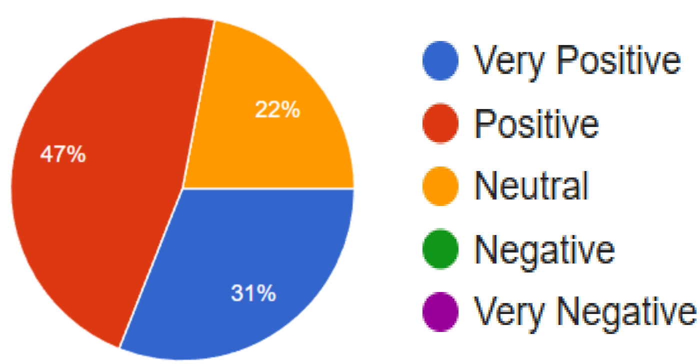
38% of the respondents felt that the scheme should be kept only for eligible borrowers while 35% felt that only certain sectors should be covered as safeguards which the government can have in such schemes so that only the deserving firms could take its benefit and the funds reach the right borrowers who were actually distressed by the Pandemic. The other safeguards were selected by only a few respondents.

➢ What change would you want the government to make in such schemes in the future if it is again necessitated? (select any one or more options)



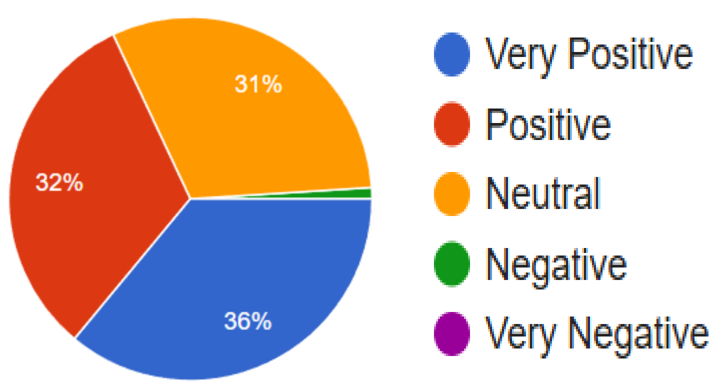

58% of the respondents want more funding while 48% of the respondents want the funding at lower interest rates as the main changes which they want the government to make in such schemes in the future.

➢ What has been your experience of such economic packages during a similar economic crisis in the past years?



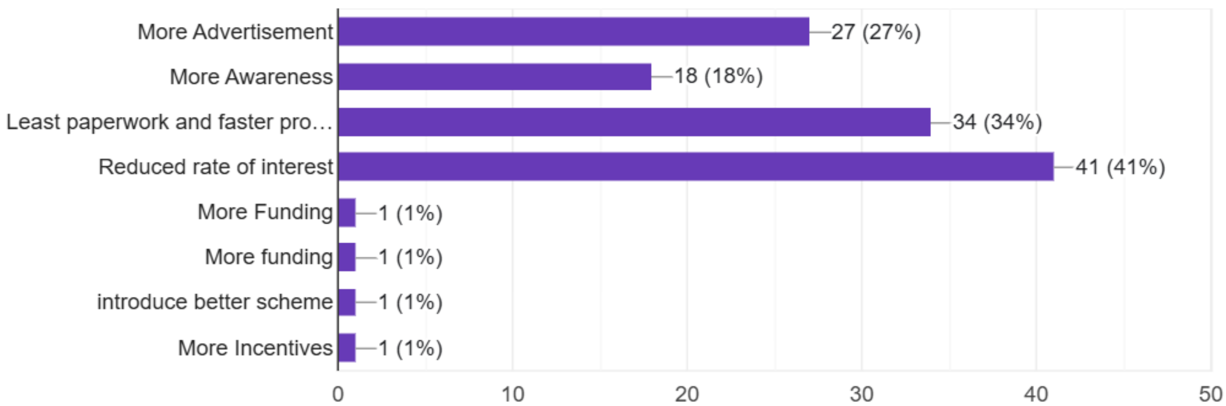

47% of the respondents found their experience of such economic packages in the past to be positive while 31% found it very positive. This confirms that the borrowers have had a positive experience of such scheme.

➢ What has been your perspective towards any government introduced & guarantee backed funding schemes like the ECLGS after you have repaid the funds?



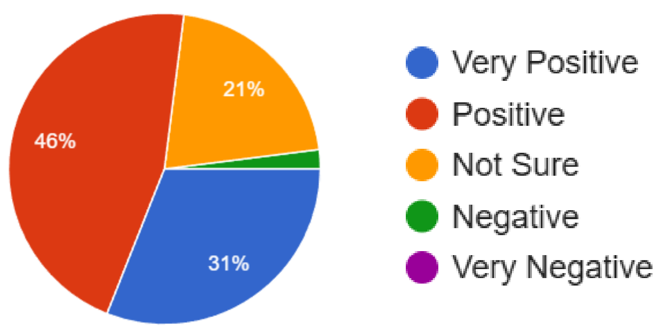
68% of the respondents had a very positive (36%) or positive (32%) perspective towards such government introduced and guarantee backed funding scheme like the ECLGS after they had repaid the funds obtained under the scheme.

➢ What more can the government or the financial institutions could have done through the ECLGS to provide the necessary economic impact to your firm? (select any one or more options)




41% of the respondents suggested that the government could have further reduced the rate of interest (41%) while 34% of the respondents felt that the paper work could have been further reduced or processing could have been done even faster. 27% of the respondents wanted the government to ensure more advertisement while 18% wanted more awareness to be done regarding the scheme amongst the affected borrowers.

➢ What is your future outlook of the economy in the overall sense and your sector in particular, post obtaining the ECLGS Facility?




77% of the respondents either had a very positive (31%) or a positive (46%) future outlook of the economy in the overall sense and their sector in particular post obtaining the funding under the scheme. 21% of the respondents were not sure about the future outlook which showed a bit of uncertainty or confusion amongst some of the respondents.

## VI. ANALYSIS OF RESEARCH FINDINGS

➢ Since more than 50% of the respondents have provided favourable responses on more than majority of the questions and parameters raised in the questionnaire, the research findings suggest that on most of the parameters there has been a substantial positive impact on the MSMEs. Hence the Null Hypothesis (H0) *"There is no economic impact of the ECLGS on the MSMEs of Gujarat state which had been distressed by the Pandemic"* has been rejected or proved wrong. This also means that the Alternate Hypothesis (H1) *"There is significant and substantial economic impact of the ECLGS on the MSMEs of Gujarat state which had been distressed by the Pandemic"* has been proved correct.

➢ The findings of the research give a very definite answer of the economic impact the ECLGS had on the MSMEs which were distressed due to the Pandemic. Out of the 100 MSME units selected, majority of them were proprietorship concerns but there was a sizeable representation of units which were Partnership, LLP or Pvt. Ltd. The units were located at 30 different locations of Gujarat which showed that the study was as representative as possible to the entire state of Gujarat and specially those centres which had a good number of MSME units. The sectors that the respondents belong were also very varied as much as possible.

- Breakdown of Operations and No new customers added were the top two negative impacts of the Pandemic on the units. This showed that the MSME units faced a complete shutdown of their operations and could not add any new customers due to the Pandemic. Shortage of Working Capital, reduction in Sales, increased cycle of receivables and cash flow shortage was faced by many if not the most of the units. Many respondents selected more than two impacts, some even choosing 3-4 which showed that the units were financially demolished by the distress caused by the Pandemic. The findings of the negative impacts on the MSME proved that the Pandemic had a serious back breaking effect on the financials of the MSME and hence the ECLGS was very essential to revive them.

- The units got to know about the scheme majorly from the banks where they were already enjoying credit limits. The banks and other MLIs too had run an effective campaign on the instructions of the Union Government so that the benefits of the scheme could reach the targeted borrowers. Since the other options got a very lukewarm response, it gives a definite picture of the need for the government to spend more on their awareness and advertisement efforts in any such scheme in the future.

- Phenomenal number of respondents found it either very easy or somewhat easy to obtain the funds under the scheme confirming that the scheme was very borrower friendly in nature and that the funds were very readily and easily available under the scheme. This was very vital for the scheme to have its economic impact as the Pandemic had affected the MSMEs on a very large scale and if the funds under this scheme were not easily available than it would not have had the required impact on the MSMEs who were literally on the verge of a shutdown if they had not been supported by such a scheme.

- The processing of the scheme being smooth as selected by most of the respondents also was very necessary cause one of the main concerns of any borrower is in normal circumstances for them to obtain the funding from any MLIs, the time taken, documents required, assessment, etc. takes a lot of effort, time and money for them. In this scheme the processing was deliberately kept very quick and smooth so as to facilitate the financial reviving of the units quickly.

- Whether the funds received through the scheme helped the MSME units to ease their financial issues they had faced due to the Pandemic has been overwhelmingly given a green flag with no less than 77% of the respondents saying it did help. The scheme not only eased the varied financial problems but also helped them to reinvigorate their units which were very badly affected due to the after effects of the Pandemic. The scheme actually worked as a booster doze against the ill effects of the distress and ensured that the units withstood the economic storm caused by the Pandemic and its subsequent lockdown.

- Multiple respondents found that the scheme was very different from the other normal fund based loans taken by them in the past as there was less paperwork and documentation, no assessment, no additional collateral and it was backed by the guarantee of NCGTC. The different attributes of the scheme did have the positive impact on the borrowers which was the need of the hour during that period. The borrowers had to be given these benefits through this scheme otherwise they would have felt like any other fund based loan and would have had to face a lot of issues, hassles, etc. which would have reduced the required economic impact of the scheme which was the central to the introduction of this scheme.

- Since the units faced a lot of issues due to the distress by the Pandemic, their utilization of the funds in their units received multiple answers in the selection by the respondents with many of them mentioning Paying Salaries, addition of new customers, restarting their business operations, etc. Many also selected improvement in sales, clearing existing dues of vendors and keeping their firm afloat in difficult times. The units utilised the funds in varied ways but almost all of them used them to improve the financial condition of the firm in ways that their sectors demanded. Improvement in their working capital was the most common way the units were able to mitigate the repayment issues they had faced. Other replies like more cash on hand, increased credit period, vendors ready to wait, increase in sales were also selected by reasonable number of respondents.

- As there were no benefits or advantages for the units to prepay the funding received through the scheme most did not feel any necessity to do that. The units required the funding desperately and were able to stabilize their economic condition after a long time so it was actually not necessary to prepay the funding. Also the rate of interest on the funds received was not on a higher side which would necessitate their prepaying it to reduce the interest burden. Some of the firms who were in a comparatively better position than the others did prepay the funds which also confirmed that the scheme had been used by some units who were actually not in need of such funds but since they were available through the scheme and they were not barred from obtaining them, they did obtain these funds.

- In order to make such schemes more effective or impactful, most respondents felt that the government should have some safeguards or barriers so that only the deserving firms could avail the benefits and not those who really did not require the funding. They suggested that the scheme should be kept only for eligible borrowers who have actually been distressed by the Pandemic or for only those sectors which were more affected by the Pandemic induced lockdowns and its subsequent economic distress. The government and the MLIs would also have learnt the lessons by this scheme so that they provide the relief and support to only those for whom it was introduced and not to all.

- Inspite of the scheme providing different and varied benefits most of the respondents felt that in such schemes in the future the government could provide more funding or the interest rate to be reduced. The other options of increased repayment period, increased moratorium period and increased period of the scheme found only few takers. This confirmed that the ROI needs to be further low and that the amount of funding (which was 20% of their then outstanding) could still be increased. This also means that the units believed that more funds at low cost would be the best way this scheme could be made more impactful in the future if it was again necessitated.

- Most respondents had a very positive or positive experience of such packages during similar economic crisis which confirmed that their approach towards such schemes was more affirmative than otherwise. The general viewpoint of the borrowers was more positive but a third were neutral which means that such schemes do invoke other reactions too in the minds of the borrowers. The borrowers' perspective towards such schemes was again more positive with a third of the respondents again staying neutral. This only reaffirmed that the scheme had its naysayers too but was by and large backed by majority of the borrowers and their perspective towards such schemes was more positive than otherwise.

- With respect to what the government or the MLIs could have done through this scheme to provide the necessary economic impact, most respondents felt that they could reduce the rate of interest further or they could have ensured least paperwork and even faster processing. Some of them also felt that more advertisement and more awareness through different means of communication could have also ensured that the necessary economic impact was actually there for the units.

- Most of the respondents had either a very positive or a positive outlook for the economy of the nation in the overall sense and their sector in particular post their obtaining the funding through this scheme. This confirmed that the borrowers inspite of facing one of the most difficult periods of their and their unit's life, had not given up on the economy of the nation or their own sector and were infact seeing a lot of potential in the coming years. Some of the respondents seem to be a bit confused or were foreseeing some uncertainty which was expected as not all sectors blossomed after the Pandemic. Some had to change their course and some had to enter new sectors, but the overall feeling was more positive than negative or of confusion.

- The research findings also provided a conclusive answer to the often asked question as to whether the different schemes introduced by the government to provide financial support to the concerned sectors are actually providing the required impact. The answer is that such schemes like the ECLGS do provide the necessary economic impact to the MSMEs and are meeting the objectives for which they were initiated in the first place.

- The findings also confirm that though the scheme was impactful economically to the distressed MSMEs but there is a lot of room for improvement. A lot of modifications can still be carried out so that such schemes can be even more impactful on ground. There is a lot of fine tuning which needs to be done in certain aspects of the scheme which if done can prove to be even more effective in providing the financial support required by the concerned sectors especially when they face one of the biggest challenges in the form of a pandemic or a similar period of economic emergency.

## VII.RECOMMENDATIONS AND CONCLUSION

- Through the research findings and data analysis it is proved beyond any doubt that the economic impact of the ECLGS on the MSMEs of Gujarat state which were distressed by the Pandemic has been very substantial and positive in nature. The scheme has been able to meet its objectives and has provided the much needed economic relief and support to the MSMEs when they were desperately needing it. The scheme had a multi-faceted effect on the operations of the MSME and specifically in stabilizing the financial conditions of the MSMEs who had been almost finished due to the Pandemic and its subsequent lockdown.

- The scheme was fully guarantee backed and was very borrower friendly which ensured that it's processing was very quick and effective. The impact of this scheme was such that it enabled the MSMEs to keep themselves afloat during the difficult phase post the Pandemic which ultimately helped them to again stand up on their feet and reach those levels which they were prior to the Pandemic. The findings of the research gave out a definite answer as to how the scheme had a positive economic impact on the MSMEs. How they had utilised the funds, what was their perspective with regards to their sector and the economy, what more changes could be done in future such schemes and a lot many vital questions were answered with clear answers given by the respondents.

- The research definitely concluded that though the Covid-19 pandemic had raised the operational liabilities of the businesses, increased the issues of delayed payments and disrupted overall business activities of almost every sector of the economy and the worst affected sector amongst all was the Micro Small and Medium Enterprises (MSMEs) Sector. It availability and accessibility were both difficult for the MSMEs. The pandemic has intensified their troubles specially the financial ones exponentially. Due to the lockdown in 2020 a sudden halt to the businesses had happened. Though the activities stopped, but the costs continued. It had become essential for the governments and the financial bodies to enter the pitch with a scheme which would provide the much required financial aid to the aching enterprises. The Emergency Credit Line Guarantee Scheme (ECGLS) was one such medicine which provided required relief measure in the form of financial support.

- The research also provided suggestions as to what the government could do to ensure that only the genuine borrowers could benefit out of the scheme and those who were not affected by the distress caused by the Pandemic would not misuse the funds available through this scheme. There were a lot of respondents who mentioned that they themselves actually did not require the assistance but since it was available easily with very little documentation or without any requirement of security they had obtained the funds or they were aware of others whom like them had very little actual requirement of such financial support but had still gone ahead and obtained them since there were no restrictions to weed out those who did not actually required the support.

- The MSME sector play one of the most important role in any country's economic development; especially for a country which is on the growth curve. Therefore, a regular financial boost is essential for its continued growth. The MSMEs are widely spread across the country and provide a lot of scope for the country to boost its economic growth. Therefore, it is crucial to develop more channels and an easy mechanism to disburse the credit to the prospective beneficiaries as it has been observed that despite an extension in the scheme, the required amount still could not be disbursed. The second wave of the pandemic had hit this sector very badly, making it all the worst for the economy. Therefore, it is very essential to check the efficacy of the scheme as a relief measure for the MSMEs.

- The performance of the MLIs specially the Public Sector Banks has been exemplary and they have been found to be very supportive and aggressive in disbursing the funds to the MSMEs. On the other hand the performance of the Private Sector Banks and the Small Finance Banks were comparatively not upto the expectations of the Government. The Co-operative Banks which are very much an integral part of the banking system in the state of Gujarat were not permitted to provide this loan facility. This could be changed in the future since the inclusion of the co-operative banks in a state like Gujarat could have made the impact of this scheme even more effective especially in tier B and tier C centres which have a solid presence of co-operative banks.

- The ECLGS was a part of the over Rs. 20 lakh crores financial stimuli package announced by the government and it has been acknowledged to be one of the most significant measure intended to help the financially strapped small enterprises. But one drawback of this scheme was that many enterprises could not avail benefits of this scheme. Those units which did not have any outstanding loan or were NPA as on Feb 29, 2020, failed to qualify for obtaining the assistance from this scheme. Another reason for many of the units not availing its benefits was that the loan limit was up to 20 percent of the outstanding as on February 29, 2020, the date on which most MSME units were in bad shape because of long drawn slowdown. Its retrospective implementation proved regressive for the units that had NPA loans as on February 29, 2019. Its benefits could have been optimized had the RBI announced restructuring of the NPA loans before announcing the cut-off date. Such a step would have made them eligible to avail the collateral free loan that would have offered them an opportunity to revive and make them viable. However, for such units, a separate 90 percent credit guarantee facility called the 'Credit Guarantee Scheme for Subordinate Debt (CGSSD)' has been created that provides the promoter a personal loan of 15 percent of his stake or Rs 75 lakh, whichever is lower, for infusion as equity/quasi equity/sub debt in the business provided the unit was stressed (MSA 2 or NPA) as on 30.4 2020, was in regular operations during 2018-19 and 2019-20, was standard as on 31.3.2018 and is commercially viable.

- Moratorium on payment of installments on existing term loans and the interest on working capital loans had been extended by another three months until end August 2020. Recovery of instalments for this period had been shifted across the board and was payable monthly from September 1, 2020, with the further provision that the banks may convert the accumulated interest for the deferment period into a funded interest loan which shall be payable by end March 2021. The installments thus will multiply in the subsequent year when loans raised under ECLGS would also become due. These measures will have an effect of increasing the debt burden of the units.

- Economic activities during most of the moratorium period (March1-August 31, 2020) had remained either standstill due to curfew/lockdown or had been at their lowest ebb. With recovery not in sight, one-time interest waiver for the lock down period or interest subvention on these loans would have provided the needed succor to the beleaguered units. In addition, payment of loan installments also should have been suitably restructured.

- There was a challenge of delivery of this scheme. Structural design of the scheme required sharing of collateral on original loan with that under the scheme on Pari Passu basis. Thus, collateral free loan did not mean absence of collateral at all. Probably, this was the reason for a significant proportion of eligible borrowers opting out/ not responding to this scheme. Similarly, some of the banks if not all were insisting on intensive documentation because they, as per the scheme, would know about the status of recovery of the loan not before the expiry of one year and three months since its disbursal. But, if it had turned into NPA, the NCGTC would reimburse 75 percent of the guaranteed amount on submission of the claim and the rest on "conclusion of recovery proceedings or till the decree gets time barred whichever is earlier". That meant that the banks also had to share default risk.

- Despite clear directions, some banks were maintaining huge reverse repo deposits, and being risk averse, avoid lending to MSMEs. The SLBC had expressed concern that working capital loans were available under Emergency Line of Credit (ELC) to "farmers, self-help groups, MSMEs, individuals, pensioners and corporates", but the private banks were not providing working capital facility under the scheme. Moreover, these Private Sector Banks were providing only big ticket loans, leaving the small loans to Public Sector Banks. Their role in providing loans should have been reviewed much more vigorously by the SLBC.

- The Public Sector Banks had initially been slow in disbursals whereas the private banks had been lukewarm in sanctioning the accounts. The banks should have expedited the disbursal of loans and should have also prevailed upon all the potential borrowers to avail benefits of this scheme. Since the Private Sector Banks were concentrating mostly on big ticket loans, and were not providing working capital loans under this scheme, which was permitted under the scheme, they should have been directed to handle small ticket loans also, besides extending all the loan facilities available under other schemes.

- While several propositions had been made to improve the credit off-take, particularly by small and financially distressed and strained borrowers, the major suggestion coming from these units was that the RBI should have permitted the restructuring of NPA loans in such a manner that the units, which stand excluded because of the retrospective implementation of the scheme, could become eligible for loans under it, restart and revive. In addition, one-time interest waiver for the lockdown period or interest subvention could have also been granted, and the installments be suitably restructured. This was important because the demand was very slow to revive, and these measures were mostly supply-side centric and exclude fresh spending, investment and job creation.

- If the performance of other states is compared with Gujarat then it can be said with surety that Gujarat performed well but there were smaller states like Punjab which also had put up a

 ISSN: 2349-6002

comparatively better performance. This means that though performance of Gujarat was good it could have been much better considering it is one of the biggest hub of MSMEs and the sector is one of the most densely present in the states that too spread across the length and breadth of the state instead of being restricted to only few industrial pockets like the other bigger states like Maharashtra, Karnataka and Tamil Nadu.

- As with other schemes, this scheme too during its tenure had undergone a lot of modifications and extensions. The changes happened so that the scheme was more inclusive, the funds available were increased, situation on ground changed drastically once the distress caused by the pandemic had subsided, etc. These and other changes were welcomed by the sector but could have had more impact had they been introduced at the correct time.

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