EVALUATION STUDY REPORT OF CREDIT ENHANCEMENT GUARANTEE SCHEME FOR SCHEDULED CASTES (CEGS-SC)

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MINISTRY OF SOCIAL JUSTICE AND EMPOWERMENT

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

As per the Census 2011, the Scheduled caste population stands at around 20.13 crore which roughly amounts to 16.63% of India's total population. This stands as testimony to the massive existing potential of the SC population to play a role in the nation's participatory growth process. With an objective to unleash the entrepreneurship potential among the young and start-up entrepreneurs belonging to the Scheduled Castes, the Credit Enhancement Guarantee Scheme was announced on July 18, 2014. The underlying objective of the scheme was to boost entrepreneurship among the Scheduled Caste population of the country by supporting the banks and financial institutions in the form of Credit Enhancement Guarantee, which shall therefore ensure effective financial assistance to the SC entrepreneurs. The estimates of the Dalit Chamber of Commerce and Industry (DICCI) suggest that there exist around 1000 Dalit entrepreneurs with a combined turnover of Rs. 60,000 Crore and around 50 companies with turnover of Rs. 10 Crore and above.

As far as the fund allocation is concerned, the scheme as announced during the Union Budget speech 2014-15 had proposed allocation of Rs. 200 Crore to enhance credit facilities for the young and start-up entrepreneurs, with a maximum guarantee cover of Rs. 5 crores. The fund has been structured to be placed with the IFCI Ltd following which the Credit Enhancement Guarantee is extended to the Member lending institutions (deducting guarantee cover already issued by IFCI). The fund plays the role of a guarantee provided to the Member Lending Institutions (MLIs), which subsequently encourages the MLIs to finance the SC entrepreneurs at reasonable rates to ensure the creation of profitable ventures and at the same time enhance the contribution of the capital formation in the country.

The scheme also enlists concrete eligibility criteria to be considered by the Member lending institutions for seeking a guarantee cover, which are: a) Enterprises, projects that are established, promoted, and run by Scheduled castes in primary, manufacturing, and services sector with an underlying objective of asset creation under any State/central/Grant scheme deserves consideration, b) Registered companies and societies/registered partnership firms/Sole partnership firms/Individual SC entrepreneurs, having more than 51% shareholding by SC entrepreneurs/promoters/members with membership control for the past 6 months, c) SC entrepreneur for Start-up is also considered for extending credit guarantee, d) The Scheme also states that the Individual SC entrepreneurs are eligible for a guarantee cover of a loan amount of up to RS. 1,000 Crore, and e) The documentary proofs confirming SC status is to be submitted by the entrepreneurs/promoters/partners, etc. at the time of submission of the proposals.

The credit enhancement guarantee shall be extended out of this fund to the Member Lending institutions. The MLIs (Member Lending Institutions) will then undertake the process of loan financing to the SC entrepreneurs at reasonable rates. Under the Scheme, Sole proprietorships, Companies, registered Partnerships, and Societies belonging to SC are eligible for loans from Rs. 15 Lakh and above, subject to a maximum guarantee cover of Rs. 5 Crore. As of now, 31 banks have been registered under the Scheme. The finds of the evaluation study are as follows:

1. The sectors covered under the scheme include borrowers engaged in Primary, services, and manufacturing sectors who will be considered for assistance by the Member Lending Institutions. The Standing committee on social justice and empowerment noted that only 13 candidates have been extended credit under this scheme since its inception in 2016-17 till 30th of September, 2019.

2. The credit enhancement Guarantee Scheme assumes significant importance in the light of the 2030 agenda for Sustainable Development. This is because the SDG with its universal vision adopted a pledge that no one is left behind with a specific focus on the vulnerable and less represented section of the society. The SDG 8 which aims at promoting sustained, inclusive and sustainable economic growth also closely aligns with the objective of the Credit enhancement guarantee scheme.

3. The scheme best serves the spirit of Article 338 of the Indian constitution which outlines that the safeguard of the interests of the SC population in the country is of primary importance. Moreover, article 46 of the Directive Principles of State Policy (DPSP) also outlines the responsibility of the states to promote the socio-economic interests of the SC/ST communities to implement schemes to empower their communities. In this light, the scheme richly conforms to the true essence of Article 46 of DPSP.

4. As far as the budgeted allocation and expenditure pattern of the scheme is concerned, the secondary data tends to suggest that there exists uniformity in the past 5 years wherein the budgeted expenditure has ended up being spent as the actual expenditure figures suggest. However, there has been a significant slowdown in terms of financial expansion and coverage of the scheme as evident by a sudden drop of budgeted expenditure of 0.01 Crore in FY16 from a budgeted expenditure of 200 Crore in FY15.

5. As stated by the Department when asked about reasons of low allocation of funds as RE under the scheme, it was notified that "the scheme envisages guarantee for loans obtained by

the SC entrepreneurs from Banks and the utilization of the funds largely depends on the sanction of loans and invocation of guarantee by the banks. So far the outstanding guarantee commitment is Rs. 28.01 Crore and the funds available with IFCI are Rs. 265 Crore as on 30.09.2019 (i.e. corpus of Rs. 200.04 Crore and interest thereon). Hence, Rs. 1 Lakh for each year was sought. More funds may be required in future as per need depending on the sanction of loans by the Banks."

6. The objectives of the evaluation study were: (a) to examine the problems, challenges, and constraints in the implementation of the scheme, (b) to study the criteria adopted for the identification of eligible SC entrepreneurs, their selection criteria, and method applied for motivating them to undertake financial inclusion, (c) to obtain feedback from the SC beneficiaries and impact of the scheme for furthering the growth of SC communities on the Scheme, (d) to analyze the payback capacity of the beneficiaries, (e) to examine if the Scheme has resulted in generating employment, (f) to conduct the strengths, weaknesses opportunities and threat analysis of the Scheme, (g) key findings based on the data collected from the field on the objectives of the study, (h) shortcomings identified in the design of the existing scheme if any, and (i) recommendations/suggestions for necessary restructuring to be carried in the Scheme to achieve desired results and need for its continuation.

7. To get responsive feedback on the objectives, the approach adopted for the evaluation of the scheme under study was goal-based, process-based, and outcome-based. The goal-based approach measured if the objectives of the scheme were duly met. The process-based approach studied the strengths and weaknesses of the scheme and finally the outcome-based approach evaluated if the outcomes aligned with the pre-specified objectives of the scheme. In this light, the evaluation strategy relied on information derived from primary and secondary data.

8. The secondary information on Budget estimates, revised estimates, and actual expenditure were collected from the reports of the Department of Social Justice and empowerment. Primary data was collected through Questionnaires. The questionnaires were made applicable to the SC entrepreneurs (the beneficiaries) and other key stakeholders. To gauge the impact of the scheme, questions were framed including before and after coverage under the scheme. Scheme implementation-related questions were integrated with questionnaires administered to the SC entrepreneurs, which provided a concise idea about the awareness of the participants with regard to the scheme as well as regarding the businesses they dealt with. The Questionnaire pertaining to the entrepreneurs was further extended to get an idea about the entrepreneurs' perception of the scheme.

9. A before and after the approach was adopted in terms of changes in the socio-economic conditions of the SC population to courtesy the scheme. The questionnaire contained process-related questions, and multiple issues-related questions provided the basis for a robust framework to critically examine the sustainability of the scheme under the study. Four companies were selected from four states, as prescribed by the Ministry for the evaluation study. The companies were: 1) M/s. PJS Construction Pvt. Ltd. Basti Gorakhpur (Uttar Pradesh), 2) M/s. Laxmi Barter Pvt. Ltd. (Bihar), 3) M/s. Siva Sai Seeds-Munagala (Telangana), and 4) M/s. 20th March Ventures Pvt. Ltd. (Maharashtra).

10. The questionnaires were designed for respondents across 3 categories in the context of the scheme namely: a) SC entrepreneurs, b) Member Lending Institutions (banks), and c) employees/workers engaging in the business units run or managed by the SC entrepreneurs (through focus related discussions). In-depth interview was conducted with the representative of IFCI Limited. Comprehensive details pertaining to the objective, structure, implementation, challenges, concerns, and existing opportunities of the scheme were obtained during the discussion.

11. Key observations were made during incorporating the responses in the Questionnaire of the beneficiaries, banks, and workers. The observations drawn from the responses provided deep insights into the implementation and the benefits experienced by the demand side stakeholders namely the beneficiaries and the workers. The in-depth interview and focus group discussion enhanced the qualitative and quantitative findings.

12. The beneficiaries under the credit enhancement guarantee scheme seem to have expanded their businesses in terms of involving in an increasing number of activities. The transition of one of the beneficiaries (M/s. Siva Sai Seeds- Munagala) from a micro-level entrepreneur to the manufacturer is a positive sign which hints towards the capacity creation of the guaranteed loans. This transition is also reflected in the change in annual turnover of the business (as tabulated below) which notices a change from 4 Lakh to 10 Crore.

13. The guarantee cover provided by the IFCI is theoretically perceived to be greater than equal to the amount of loan sanctioned by the banks. However, banks can sanction loans over and above the guarantee cover provided by the IFCI, if the creditworthiness of the borrowers is high. This is reflected in the case of three beneficiaries in the sample under study namely M/s. Siva Sai Seeds- Munagala, M/s Laxmi Barter Pvt. Ltd. and M/s. 20th March Ventures Pvt. Ltd.

14. M/s. PJS Construction Pvt. Ltd. Basti Gorakhpur is the only beneficiary wherein the sanctioned amount by the bank doesn’t exceed the eligible guarantee cover provided by IFCI.

This also depicts the fact that under the credit enhancement guarantee scheme, the member lending institutions have been extending loans over and above the guarantee cover which also puts them at high risk in situations of default by the borrowers.

15. The sample beneficiaries have been sanctioned 695.05 Lakhs for borrowing purposes ranging from term loans, working capital enhancement, and for availing of other non-fund facilities. Moreover, on an average basis, the MLIs have sanctioned Rs. 173.8 Lakhs to the sample beneficiaries with a range of Rs. 387 Lakhs. The range provides the extent of variability in the sanctioned facility amount which indicates the heterogeneity of the size of the companies/ sample beneficiaries under the scheme.

16. As of 20th February, 2020 a total of Rs. 2,898 lakh has been reported to have been sanctioned by the MLIs to the SC beneficiaries under the scheme, with a total of 13 beneficiaries having availed the facility amount under the scheme. The sample under study comprising of 4 such SC beneficiaries comprises around 24% of the total facility amount that has been sanctioned by the MLIs.

17. The sample under study has been provided with an eligible guarantee cover of 534.25 lakhs which forms about 25% of the total eligible guarantee cover as provided by IFCI until 20th February, 2020. The maximum guarantee cover amongst the sample beneficiaries cover has been availed by M/s. Laxmi Barter Pvt. Ltd. which also has been sanctioned with the highest credit facility.

18. In specifically analyzing the changes in the income-expenditure pattern of M/s. PJS Construction Pvt. Ltd., the primary data as obtained suggests that although the income of the entrepreneur has gone up by 20% after availing of the credit guarantee scheme, the monthly expenditure has increased by 67%. This also implies that around 13% of the 20% rise in income is exhausted in domestic, health, and education expenditure. In the case of this beneficiary, the basic purpose of the scheme stands defeated wherein not much changes are observed in the creation of employment opportunities which tends to suggest that existing businesses haven’t grown and new businesses haven’t gained momentum.

19. Generating employment opportunities is one of the key performance indicators of the scheme. Full-time employment opportunities have gone up post the beneficiaries availing the scheme. This hints towards the potential of the credit guarantee provided by the MLIs to finance the SC entrepreneurs which aren’t reflected in the primary data as obtained from the beneficiaries. While the overall employment generated has gone up for most of the beneficiaries as compared to the period before the credit guarantee scheme, it’s pertinent to

look at the broad categorization of the employment generation in terms of full-time, part-time, and seasonal employment opportunities.

20. After availing of the ‘Credit Enhancement Guarantee Scheme for SC (CEGS-SC)’, the full-time employment opportunities of all the beneficiaries have marginally gone up while the part-time employment opportunities have shown no growth. The seasonal employment opportunity of one beneficiary in the sample has shown a significant rise from no seasonal employment before the scheme to generating 200 seasonal employment opportunities after the scheme. Seasonal employment is often devoid of job security and employment benefits and therefore an increase in seasonal employment isn’t an encouraging sign.

21. The process-related issues in the questionnaire when administered to the respondents provided valuable insights into the lending purpose and threw light on the production capacity, technology used in the production process, etc. The primary data as obtained suggests that working capital financing and term loan are the two areas where the beneficiaries borrow the money for. M/s Laxmi Barter is one such beneficiary where around 4.36 Crore was availed for term loan and working capital financing. However, in the process of administering the process-related questionnaire, the entrepreneur representing M/s Laxmi Barter believed that the payback system of the credit availed under the scheme needed to be relaxed. The beneficiaries covered under the sample were of the common view that one of the major opportunities received by virtue of availing of the scheme was to scale up the existing business.

22. Training of the administrative authorities before the implementation of the scheme is a prerequisite for the smooth execution of the scheme. The credit enhancement guarantee scheme has no provisions for the training or capacity building of the administrators.

23. Under the scheme, the facility amount sanctioned by the banks and the eligible guarantee cover follows a common trend. Moreover, the total facility amounts sanctioned by the banks have remained above the eligible guarantee cover provided by the IFCI throughout the past four years. There seems to exist a high degree of correlation between the total facility amount sanctioned by the banks and the eligible guarantee cover provided by the IFCI wherein an increase(decrease) in the guarantee cover provided by the IFCI is accompanied by a rise(fall) in the amount sanctioned by the banks.

24. Taking a simple output to input ratio, a measure of input use efficiency has been computed. The low input use efficiency ratio tends to suggest that the number of beneficiaries who have been extended the guaranteed loans have been far from satisfactory. Even though the efficiency ratio marginally went up during FY17 and FY19, the rate of increase in FY18

and FY19 as compared to the previous financial year was a mere 0.08% and 0.14% respectively. This is particularly the case owing to the limited coverage of the scheme in terms of beneficiaries covered, which therefore raises concerns about the further continuation of the scheme.

25. The secondary data pertaining to the fund allocation provides a clear indication of the gradual stagnation of the scheme. This is to say that, following the budgeted expenditure of 200 Crore in FY15, there has been a significant slowdown in terms of financial expansion and coverage of the scheme as evident by a sudden drop of budgeted expenditure of 0.01 Crore in FY16 from a budgeted expenditure of 200 Crore in FY15. This also hints towards the low sanction of loans by the banks under the scheme and it’s clearly a demand-side deficiency.

26. Moreover, this indicates the low input efficiency of the scheme i.e. the initial budgeted allocation in FY15 didn’t bring about any significant change in the number of beneficiaries affected. Had the number of beneficiaries increased and the coverage of the scheme widened, the budgeted expenditure in the scheme would have gone up as against remaining stagnant throughout the last four years. The secondary data seems to also reflect the primary data, wherein the respondents echo the common problem of procedural difficulty and lack of assistance from the member lending institutions in the form of helping the beneficiaries during the application process, given the limited knowledge base of the SC individuals.

Recommendation for scheme with reasons

The Credit Enhancement Guarantee Scheme for SC was found to be a well-designed intervention under the Ministry of Social Justice &Empowerment to enhance entrepreneurial opportunities, and thereby enhance the socio-economic opportunities among SC people.

The budgetary allocation and expenditure pattern indicate, after exponential smoothing, that there is a large gap between actual expenditure and expenditure forecasted. The involvement of the SC communities in terms of increased entrepreneurial opportunities has been rather negligible. There has been limited growth in the full-time employment generation across the sample beneficiaries except for the beneficiary company in the name of M/s Laxmi Barter Pvt. Ltd. which witnessed growth from engaging 10 employees before availing the credit facility to 161 full-time employees after availing the credit facility under the scheme. Although business activities after availing the credit facilities have expanded across the majority of the sample beneficiaries, this has not translated into generating enough socio-economic benefits to the SC communities at large. As the standing committee under the Ministry of Social Justice and Empowerment rightly noted that there was a significant under-utilization of funds in terms of sanction of loans and invocation of guarantee. This is evident from the huge gap between the outstanding guarantee commitment (Rs 28.01 Crore) and the funds available with IFCI (Rs. 65 Crore). This suggests that there exists a significant demand-side deficiency which either stems from procedural difficulties, lack of awareness among the beneficiaries, MLI's inability to assist the SC borrowers, etc.

The particulars related to monthly income, monthly expenditure, and annual business turnover before and after the coverage of the scheme have been processed through the paired t-test. The t-test reveals that there has been a significant change in the particulars due to the intervention received. The t Critical two-tail has been computed as 4.30 against the absolute value of t-Stat as 1.01 with 2 as the degree of freedom. As such, the similarity pertaining to the particulars processed fails to accept the hypothesized mean difference of 0. The Pearson correlation coefficient value has been 0.99 which shows the higher intensity between both before and after the coverage under the scheme. The mean value before the coverage under the scheme for the particulars has been 2296111 with 15236293867963 as variance whereas, 51169444.33 as mean value with 7828095266871300 as the variance after the coverage under the scheme. The high difference between variance before and after the coverage explains that the impact of the scheme on the said particulars is uneven.

The regression analysis has estimated the impact of working capital on employment generation. The R-square has confirmed that there exists 98.04% of variation in the employment explained by working capital. The p-value of $0.026<0.05$ and the F value of 0.026 shows a higher significance level of regression analysis. It has been found that 1% change in the working capital is expected to bring about 0.374% of the change in employment. This shows an ineffective performance of working capital with regard to employment generation. The linear predictive analysis based on five years of actual expenditure pattern indicates that in the next five years i.e. 2020-24, the actual expenditure would have a negative trend.

The IFCI in collaboration with the Department should have channelized efforts towards advertising the details of the schemes so as to spread more awareness among the potential beneficiaries. As noted by the standing committee on Social Justice and Empowerment in its report (2019-20) that in order to increase the number of beneficiaries in the scheme, an extensive outreach programme should be conducted for the target population. Using other tools for publicizing the scheme such as promotional audio vans would have helped sensitizing people in rural as well as urban areas.

Efforts should have been made to publicize the scheme through electronic and print media in order to nudge the Banks and financial institutions to be supportive for the SC entrepreneurs who were the credit seekers. Moreover, camps should have been established to collectively aware of the target group regarding the scheme. Specifically, awareness regarding the scheme coupled with training before financing was required to be given due importance in order to ensure smooth implementation of the scheme.

The procedure for filling the application forms and the formalities were found to be a complex process. Moreover, the target group i.e. the SCs who belonged to the most vulnerable section of the society in terms of their socio-economic status had found it difficult to fulfill the formalities. This further prevented them from accessing the scheme. So, in order to invite more applications and subsequently increase the number of applicants under the scheme, timely simplification of the procedures should have been prioritized.

There were instances wherein the Member Lending Institutions (MLIs) showed a lack of support and cooperation in assisting the SC entrepreneurs in terms of extending credit and imparting necessary information pertaining to the procedural formalities. In this regard, there should have been Banks/Financial institutions to be supportive towards the SC entrepreneurs without compromising on its norms and required procedures. All these reasons created a major roadblock for the scheme to attain its specified objectives. **As such, the Credit Enhancement Guarantee Scheme for Scheduled Castes is recommended to be discontinued.**