

ANALYSIS OF MSME FINANCE IN CONTEXT OF PMEGP: LAW AND ECONOMICS APPROACH TO PROSPECTIVE NPA

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Abstract

In practice and in some cases, it has been observed that the *Prime Minister Employment Generation Programme (PMEGP)* is being utilized to avail subsidy amounts. On the other side, Government agencies like Khadi and Village Industries Commission (KVIC) and banks both institutions are both working to achieve targets provided by the GOVT. Therefore, the effectiveness of this programme depends not on target achievement but also on how far public funds/subsidies are utilized and benefitted to the targeted *MSMEs*. Also, in practice, there are concerns about free rider and rent-seeking activities, which may be due to inappropriate incentives being in place and costs/liabilities not being correctly placed. Even this programme lacks infrastructure bottlenecks and enforcement bottlenecks. On other side, year-on-year data and reports are published and seem impressive, but if it is verified and evaluated, how many MSME units have existed since the scheme came into force? The data will be thought-provoking that a significant percentage of such units were closed and do not have existence presently. Provision to finance extra funds to firms, if needed, there is the loan tenure in KVIC. Regular joint follow-up, interest subsidy, ease of compliance guidelines, increasing and implementing digital compliance tools, the introduction of geolocation marking for the financed firm and ensuring the proper utilization of public funds with employment generation are the keys to fulfilling PMEGP scheme objectives and development of the MSME sector. From the point of view of banking and financial institutions, the rent-seeking subsidy/incentive will not produce/contribute to ground-level outputs or employment generation. Because of it, the enterprise/manufacturing unit may become prospective insolvent or bankrupt at a later stage or post-subsidy period, which may create a problem of *Non-Performing Assets (NPAs)*. However, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide credit guarantees up to 50%, 75%, 80% and 85% depending upon different types of categories, which in fact, provide confidence to Banks and Financial Institutions to give loans and complete their set target loans. On the other side, there are chances of efficient/inefficient insolvency and bankruptcy cases in the MSMEs with the back plan of fund recovery through a credit grantor in case of genuine default. Therefore, the *law and economics approach* of PMEGP needs to be evaluated in the context of behaviour response from the stakeholders in the MSMEs.

Keywords: Prime Minister Employment Generation Programme (PMEGP); MSMEs; Rent Seeking Activities; Incentives; Insolvency And Bankruptcy; Non-Performing Assets (NPAs); Law And Economics Approach.

BACKGROUND NOTE

PMEGS, Prime Minister Employment Generation Scheme came into existence since 2008 with the integration of both programmes, namely, “Prime Minister RojgarYojna (PMRY) and Rural Employment Generation Programme (REGP). It is a major credit-linked subsidy programme implemented to provide jobs for unemployed youth by generating self-employment opportunities via establishing micro-industries in the non-agricultural sector.” Under this

programme provides loans for self-employment by public sector banks, selected private sector and Cooperative banks by providing subsidies from MSME.¹ The upper limit of the unit/project permitted in the manufacturing sector is limited to Rs.25 lakh, while the limit for the service/business sector is set at Rs.10 lakh. Banks will offer the remaining amount of the overall project cost as working capital and term loan.

Table 1: The beneficiary’s subsidy rate categories under the programme

Types	Beneficiary’s share of total project	Urban - Subsidy	Rural Subsidy
General	10%	15%	25%
Special*	5%	25%	35%

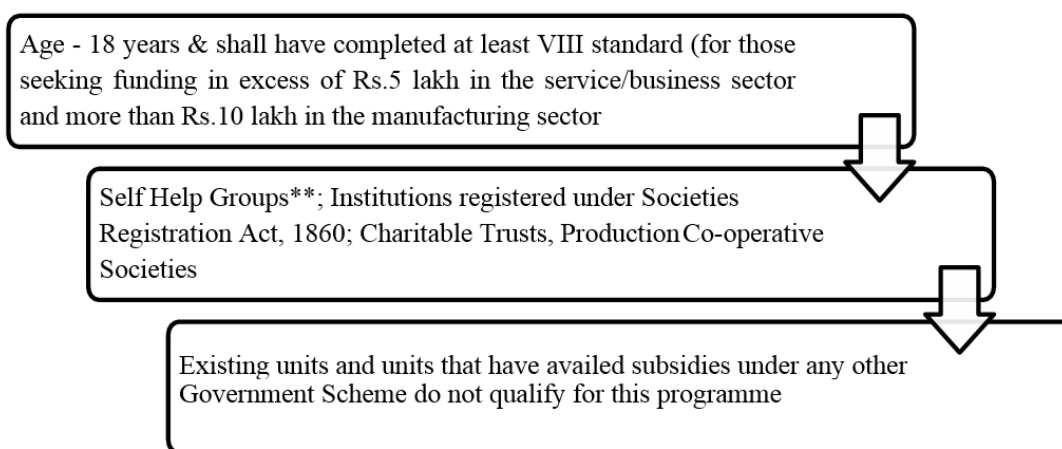


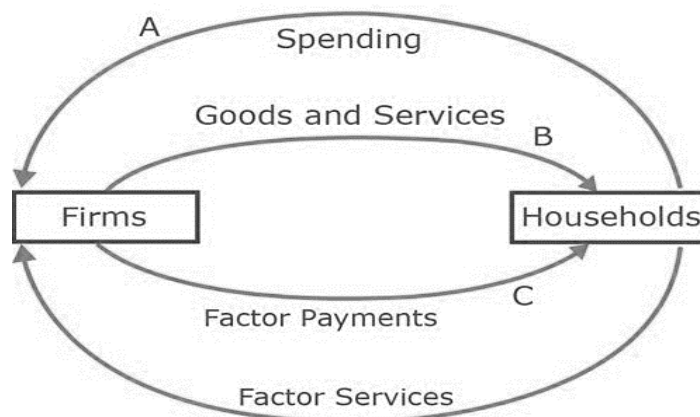
Figure 1: The eligibility criteria for new enterprises (units) that wish to avail of the PMEGS

*Special category (inclusive of minorities, SC/ST, ex-servicemen, OBC, NER, physically handicapped, hill and border regions, etc.): 25% for urban and 35% for rural.

** SHGs inclusive of those that fall Below Poverty Line provided they have not received any benefits from any other scheme.

Unemployment is a major problem in India, and it is especially problematic for the country's young educated population, many of whom are unable to find gainful job and hence grow discouraged and unmotivated. Employment opportunities in the small-scale and other sector, which includes the rural and urban industries, have been identified as the most effective response to the rising unemployment rate. In order to combat unemployment, working for oneself is the best option. Lahiri, Ashok (2002).

Circular Flow of Income



Through the basic principle of economic development and diagram, it is guided that the production of goods and services is very important to generate income for households which means it helps in employment generation also. Investment at low cost is mandatory for new and existing firms to increase the production of goods and services. PMEGP scheme facilitates this employment generation objective through the capital market (Indian Banking System).

“This defines entrepreneur and entrepreneurship - the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” Peter F. Drucker.

According to Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation.

REVIEW OF LITERATURE

Pandey Ashutosh, Sarita Pandey, and Priyank Mishra in their study "Role Of PMEGP Scheme in Rural Non-Form Sector-Problems and Measures (2021)" says that Prime Minister Employment Generation Programme (PMEGP) can be used to create employment in rural areas and thus we can stop rural migration to urban areas in search of employment. In rural areas people are dependent on agriculture activities only, they suffer mainly from lack of funds and investment. This scheme is very useful to remove such hurdles in the economy. Bansal, S., Yadav, A., & Garg, I. (2019) said in their study that economic development is directly linked with employment generation programs in a country. Prime Minister Employment Generation Programme (PMEGP) is a very good scheme by the government to create employment in various sectors of the economy. In their empirical study they suggested that people should be educated about the scheme and banks should develop such a system which facilitates the scheme.

J. Suresh Kumar and Imnaonen Ozukum in their study "Impact of PMEGP on Tribal Beneficiaries' Entrepreneurial Development: A Study in the Kohima District, Nagaland." (2022) found that the scheme is very useful for the upliftment of tribes and promotion of entrepreneurship among the community. In their empirical study they found that tribal

community is unaware about the scheme and many of them are unknown about the scheme benefits, if the benefits of schemes are popularized among the tribal communities we may uplift their standard of living (Refer, IB, C., & DG, P. K., 2019). Acharya, Govind Prakash, "Government Schemes and Effects of Women Empowerment" (2023) advocate that Prime Minister Employment Generation Programme (PMEGP) is very helpful in woman empowerment. It may new woman entrepreneur by providing subsidized loans. PMEGP also prefers woman entrepreneur and helps them by giving priority in sanction of application. But it needs to be more popularized than the present awareness in the society.

Vijaykumar A and Kanagarathinam. M. (2023) "Revitalization Opportunities for MSME's Post Covid-19, TAMILNADU (AN ICSSR SPONSORED PROJECT) says that its very crucial phase for MSME units in India after post Covid-19 period to get back on track. PMEGP scheme of the government may help to rebuild the MSME sector more robust and it can compensate the loss incurred during the covid-19 period. Demand and supply were affected during the pandemic situation and now it needs a good investment push which can be done through PMEGP scheme (See also, Aslam, M., 2022). Kumar Pankaj "An Analysis of Some Poverty Alleviation and Employment Generation Programmes in India (2022)" provides detailed study that Prime Minister Employment Generation Programme (PMEGP) is a very good scheme by government to create employment in various sectors of the economy. It can be used as a tool for poverty alleviation program also. In the rural area PMEGP scheme can induce investment and we may generate employment at rural areas and thus income of the rural people can be increased.

After going through the available literature regarding PMEGP scheme we found that all the literature and research since the policy inception are centered on policy benefits through MSME investment which causes income and employment generation but no study talked about the hurdles in the banking and administrative system of government. Although so many applications have been sanctioned as per the target allotted by the government and the banks but the investment in the MSME sector is not observed as expected. Because the follow-up of a newly financed unit is not done properly by the government and banks. Thus in this study, it is explained in reality what type of problems are being faced by the PMEGP scheme objective and where we require corrections to make this employment generation program more effective (See also, Garg, S., 2010 & Prakash, B. 2020).

Table 2: PMEGP Applications Processing at Banks

Year	PMEGP Application Sanctioned by Banks	Subsidy Claimed	Subsidy Released
2016-17	36504	22056	19901
2017-18	64039	51090	43158
2018-19	55485	64205	71824
2019-20	63126	64028	65584
2020-21	92645	83365	73968
2021-22	109362	103481	102596
2022-23	151944	99822	94958

Source: Ministry of Micro, Small and Medium Enterprises, Government of India. PMEGP Portal.

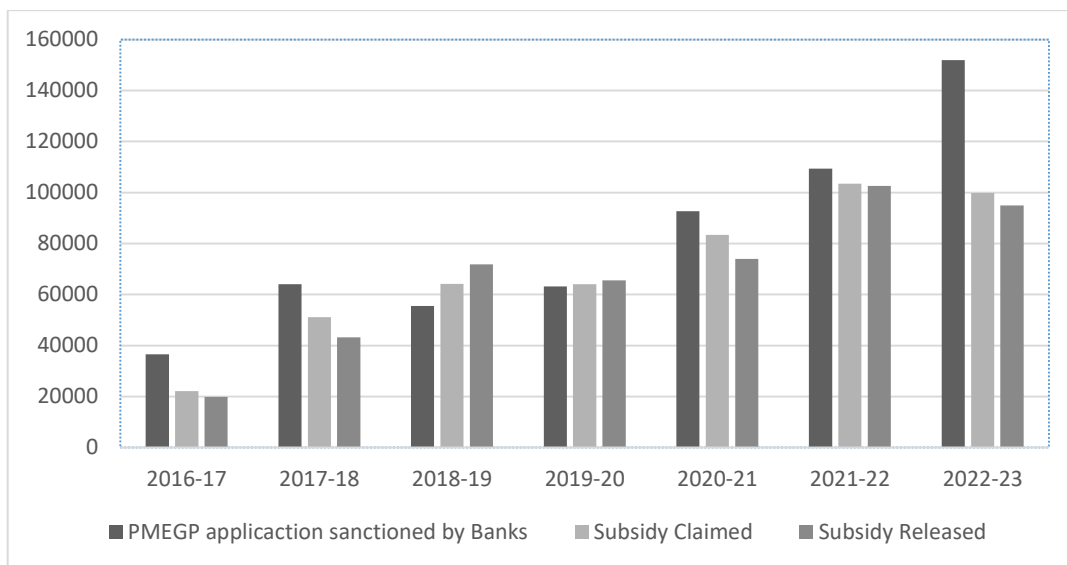


Figure 3: PMEGP Applications Processing at Banks

From the above table 2, it can be easily interpreted that the difference between application sanctioned by banks and subsidy released in the PMEGP cases is substantial and it shows that due to the inefficiency of the Government body and banking system all sanctioned PMEGP cases are not getting a subsidy. On the other hand, it can be said that many firms were closed soon after the sanction of loans from banks. It means these firms get funds from banks and soon after becoming non-performing assets for banks.

Process and execution

Project application is applied by the individual online through the KVIC portal of the related state. This application is forwarded to the Bank branch related to that particular area and desired by the applicant. Now the schemes' objectives differ for the applicant and bank in most cases.

Objective of Applicant or Beneficiary

In most cases, it has been noted that individuals are interested in a subsidy up to 35% of the project cost. Those who are already running business units, get registered with a new firm and apply for a PMEGS loan. During the unit inspection, the old running unit is provided for inspection to the officials.

Even original invoices for purchasing machinery are provided, but they do not purchase. If machinery is purchased, it is used to replace old machinery for already running units. Individuals/borrowers are interested in paying loan until or unless he gets the subsidy amount which is given after three years, called the lock-in period. After taking this subsidy amount, they closed their loan accounts. In such a way, individuals/borrowers are interested and do not care about the policy objectives.

Bank's Practice in context to PMEGS

The bank is interested in advancing safe, secured, income-generating loans, which should not be turned into NPAs. Simultaneously the bank tries to achieve the targets provided by the Government. Regarding PMEGS and not taking care of the scheme objective of employment generation in practice. So, to advance safe loans and achieve policy targets, banks select the borrower/applicant who already has a sound economic background and is interested in availing only a subsidy amount with regular repayment of the loan amount.

From the bank's perspective, it is good to sanction PMEGS loans because the sanctioned loan amount increases the credit figures of the bank. On the other hand, the subsidy amount, which is locked for three years, increases deposit figures. In such a way, bank business figures increase more than the disbursed loan amount. (Example: If Rs. 25.00 lacs loan amount is disbursed and Rs. 8.00 lacs subsidy amount is received, then bank business figures will be increased by a total of both that is Rs. 33.00 lacs). So banks choose such individuals/borrowers who are already running any MSME unit or have good repayment capacity.

During MSME unit inspection, financed under PMEGS, it is observed that in some cases, a unit does not exist or another old unit is being run in the name of a new firm financed under PMEGS. Old machinery is installed, but invoices are submitted to the bank for new machinery. Generally, a good number of employees are reported in documents. In reality, this number is much less than reported. Insurance of plant, machinery and employees is not available in maximum cases. Wages/salaries are not regulated as per the guidelines. The firm does not submit quarterly/Monthly stock statements periodically to the bank.

The bank waits for completing 3 years (subsidy lock-in period) from the date of disbursement of the loan so that the subsidy amount can be adjusted in the loan account and it can be closed. In such a way, PMEGS and subsidy-linked MSME targets are compiled in the majority of cases.

Bank officials observe such above-discussed irregularities during the unit inspection, but it is not reported to KVIC/KVIB/DIC due to the fear of losing the subsidy amount. In the absence of a subsidy amount, the borrower will not repay the loan and the account will turn into an NPA. The viewpoint of bankers on PMEGS is that the bank has tremendous pressure from Government agencies and higher management to achieve PMEGP targets.

Simultaneously they have to safeguard themselves from accountability proceedings against them if the PMEGS loan turns into an NPA. On the other side, banks are business entities, so they finance safe businesses at the cost of the scheme's objectives. Thus, the loan is repaid, the applicant/borrower receives the subsidy, but the scheme's aim is lost somewhere and therefore, employment is not generated.

Working practices of KVIC in the practical scenario:

In practice, it has been observed that KVIC, KVID and DIC being Govt. agencies are not untouched by red-tapism and corruption. Thus, many mediators/consultants are working in the market to facilitate subsidy amounts. The government agencies forward PMEGS application to bank and release subsidy amount 3 years from the date of set up of the MSME unit.

External private agencies conduct an inspection of MSME units to release the subsidy amount in favour of the borrower after three years. After releasing the subsidy amount, they never look back to the MSME unit to see whether it is working or not. (See, Rao, P., 2017).

Compliance guidelines provided by KVIC to run a micro-unit are so tough in practicality that there is a possibility of some irregularities. External agency agents take advantage of these rules, avail some personal benefits from the beneficiary, and submit the report to release the subsidy amount. In many cases, the subsidy is released without confirming the existence of a financed unit.

After releasing the subsidy amount, KVIC has no follow-up for these manufacturing/service/retail units. Even banks do not have any follow-up after closing the loan account (see also, Kaur, A., 2014).

Findings and Policy Suggestions

Ultimately the subsidy amount is utilized for some other purpose, and the objective of employment generation is left behind and lost in practice in majority of cases. Although the theoretical published data are impressive.

So, it may be suggested that-

- Instead of giving a lump sum subsidy amount under the PMEGS scheme, only Interest subsidy should be provided.
- Interest subsidy should be given after running MSME unit successfully for 1 to 2 years.
- Presently available percentage share of subsidy to total loan amount should not be decreased and must be compensated by interest subsidy.
- Joint Inspection of the bank and KVIC should be there before and after the Sanction of the loan and every year thereafter.

On the basis of the above-mentioned policy suggestions, we may successfully execute the policy objective of income and employment generation. Banks will also successfully reduce their NPAs (Non-Performing Assets) problem. A huge amount of public being infused in the economy through subsidies may be utilized optimally.

Footnote

- 1) "The PMEGP Scheme is being implemented by Khadi and Village Industries Commission (KVIC) at the national level. At the State level, the Scheme is being implemented through State Khadi and Village Industries Commission Directorates, State Khadi and Village Industries Boards and District Industries Centres".

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