

## **An Assessment of the Economic Impact of the ECLGS on MSMEs of Gujarat**

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**Acceptance : 29/04/2026 | Published : 09/05/2026**

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### **ABSTRACT:-**

- MSMEs are widely accepted as the lifeline of any economy especially of a state like Gujarat which is known as the economic powerhouse 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.
- The assessment of the economic impact of the ECLGS on the MSMEs of Gujarat was determined through the use of a Questionnaire-based study. The study was carried out on a sample of 100 select MSMEs representing varied regions and sectors of Gujarat. The data for this study was gathered from many related research papers, periodicals, government publications and so on. The findings of the study gave the definite conclusion that the scheme had immensely benefitted the MSMEs. The one clear takeaway of the study was that such schemes are very effective in providing the necessary economic impact and the authorities should ensure that they become more impactful in future when the need arises.

### **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 pandemic distressed MSMEs.

- The ECLGS provided 100% guarantee coverage by NCGTC to MLIs on ECLGS of up to Rs. 5 lakh crore to eligible MSMEs. This study had aimed to bring out the economic impact this scheme has had on select MSMEs of Gujarat state which were distressed by the Pandemic.
- The biggest gap this study is trying to fill is the gap in perception by borrowers, authorities and policy makers who generally perceive and believe that such emergency credit assistance is not effective or impactful in providing the timely financial support during crisis situation. The state of Gujarat was chosen for the sample because Gujarat is considered one of the most economically developed state and one which is representative in nature of the MSME sector which is present in abundance in Gujarat.
- The study would also be able to gauge the effectiveness of policy making by the authorities and the level of recovery by the MSME, post the pandemic induced distress.

**REVIEW OF LITERATURE:-**

The source of the formation is 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 different aspects of the impact of ECLGS on 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 disbursement, 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 be 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.

The ELCGS was necessitated due to a once in a millennium type emergency so such situations don't get repeated very often. Thus the biggest research gap was to find out whether the scheme had delivered on its objectives and purpose which was to not just provide the financial support required by the MSMEs but also ensure that they were able to come out of that phase stronger and financially secured.

**RESEARCH METHODOLOGY:-**

The word Research broken into two parts – 'Re' signifies *Again* and 'Search' means *to discover*. A research is a careful consideration of study regarding a particular concern or a problem. It is a known 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. Since the total number of MSMEs in the state of Gujarat is in lakhs, a convenience sample of 100 MSMEs was taken to carry out the study in a convenient manner.

**Size of sample:** 100 for convenience. The sample was kept as representative as it can be to the different sectors and regions of Gujarat.

**•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.

**NULL HYPOTHESIS (H0) AND ALTERNATE HYPOTHESIS (H1):-**

- The null hypothesis in any research 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

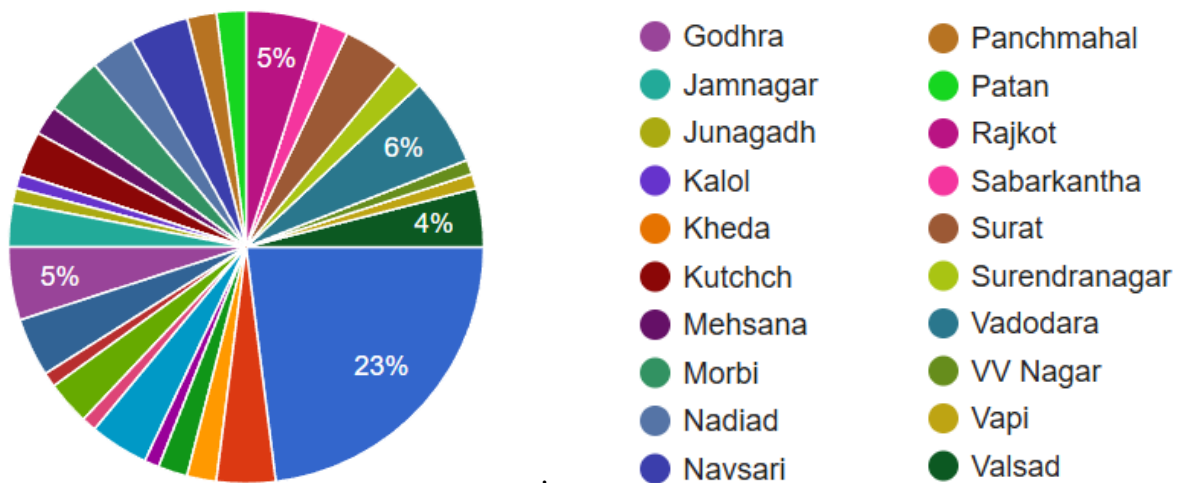
reject or accept the basic assumption of the research question. It is never proven true. If the null hypothesis is rejected than it provides evidence for the alternative hypothesis which states that there is a significant impact or relationship. It also proposes that any observed impact is due to chance and hence the research study is undertaken to confirm if there is enough proof to reject it in favour of an alternative hypothesis.

- The null hypothesis (H0) and alternative hypothesis (H1) are opposing, mutually exclusive statements tested against each other in statistical analysis. H0 assumes no effect, difference or relationship exists (status quo), while H1 suggests that a significant effect or relationship is present, challenging H0. Any researcher would try to aim to reject H0 if the evidence is strong enough and as a result accept H1.
- 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 majority of the parameters that there had 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.
- Statistical test using the simple correlation method was also used to determine whether there was any positive impact of the scheme on the performance of the MSMEs. If there was a positive move due to the use of the scheme’s funds on the operations of the MSMEs then the alternate hypothesis would be accepted.

**RESEARCH FINDINGS:-**

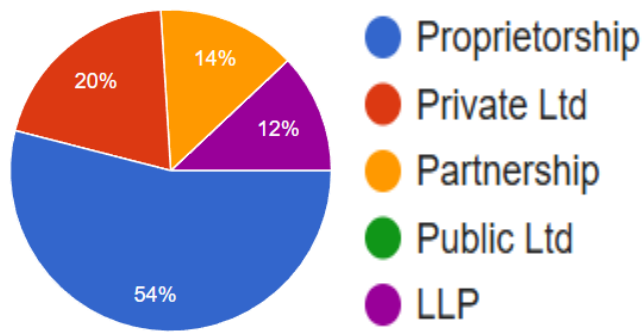
The 100 select MSMEs who acted as respondents, were asked to fill up a questionnaire covering most aspects of their experience while they had obtained the ECLGS funding. The answers obtained from them have been presented below in the form of pie and bar charts:-

➤ Location Situated



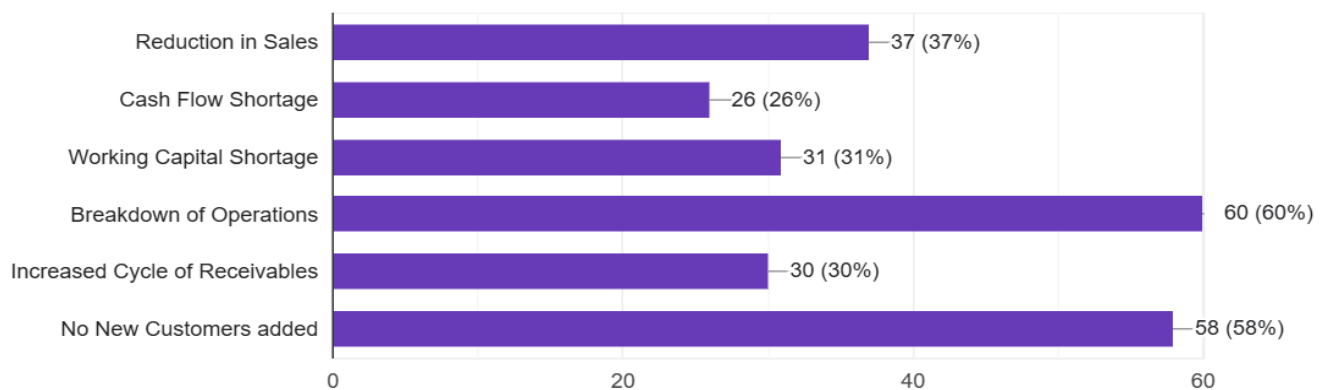
The 100 MSME units selected belonged to no less than 30 locations of Gujarat state. These locations covered almost all regions and districts of the state including those places where there is a larger concentration of MSME units. The maximum respondents were from Ahmedabad city (23) which is the biggest 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.

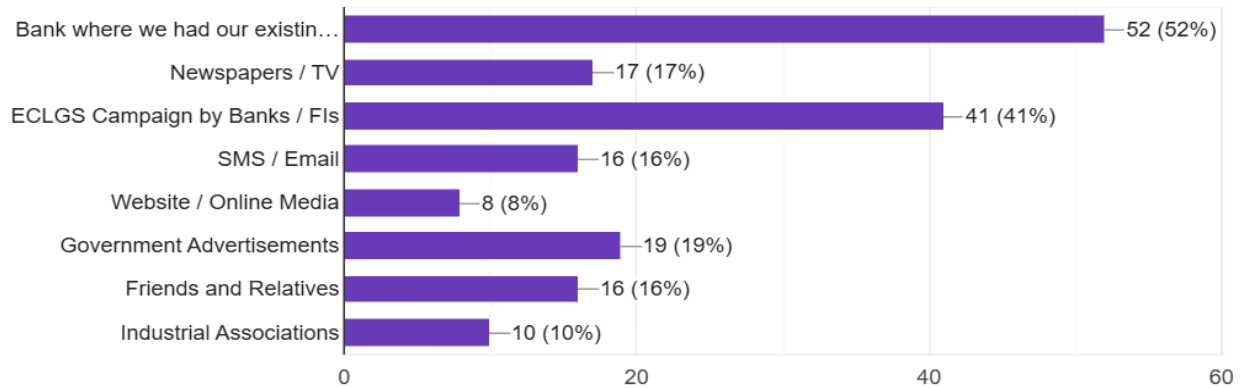
➤ What were the different negative impacts of the Pandemic on your Unit?



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%),

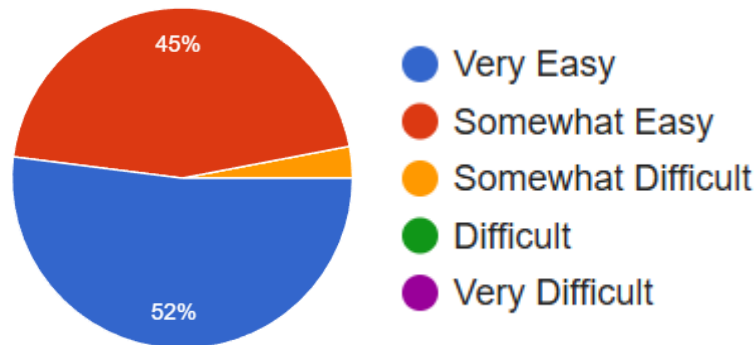
Increased Cycle of Receivables (30%) and Cash Flow Shortage (26%) were also quite prominent if not in majority. This also proved that the Pandemic had a lot of negative impacts on the MSMEs.

➤ How did you got to know about the ECLGS?



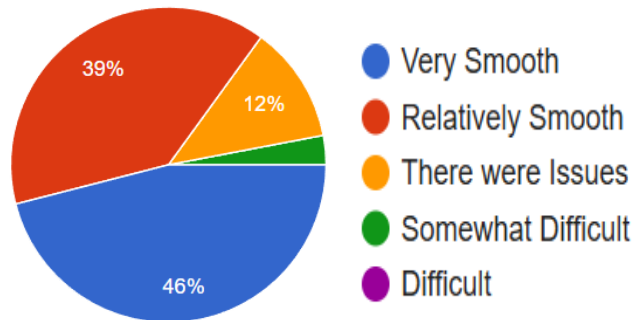
Majority of the respondents came to know about the scheme from their banks where they had their existing limits (52%), a close second was the ECLGS campaigns run by Banks / FIs (41%). The other options did not get much selection by the respondents. This also confirmed that the Government had to increase 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?



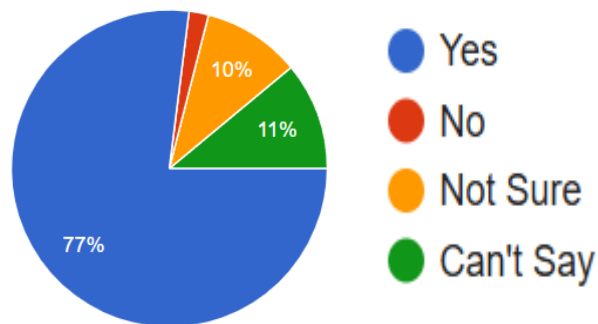
More than 95% of the respondents found that it was either Very Easy (52%) or Somewhat Easy (45%) to acquire the ECLGS funds. This means that the funds under the scheme were easily available for the MSMEs to acquire. The banks and the financial institutions too ensured that the borrowers did not face 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?



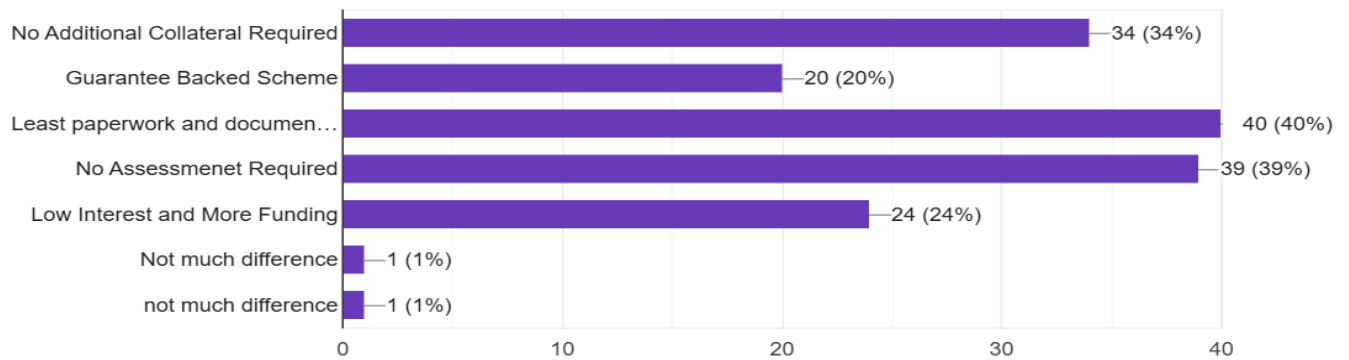
46% of the respondents found that their experience with regards to the processing of the ECLGS at different FIs and banks was Very Smooth whereas another 39% of the respondents found it relatively smooth. This confirmed the fact that the processing of the ECLGS was kept very borrower friendly and there 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?



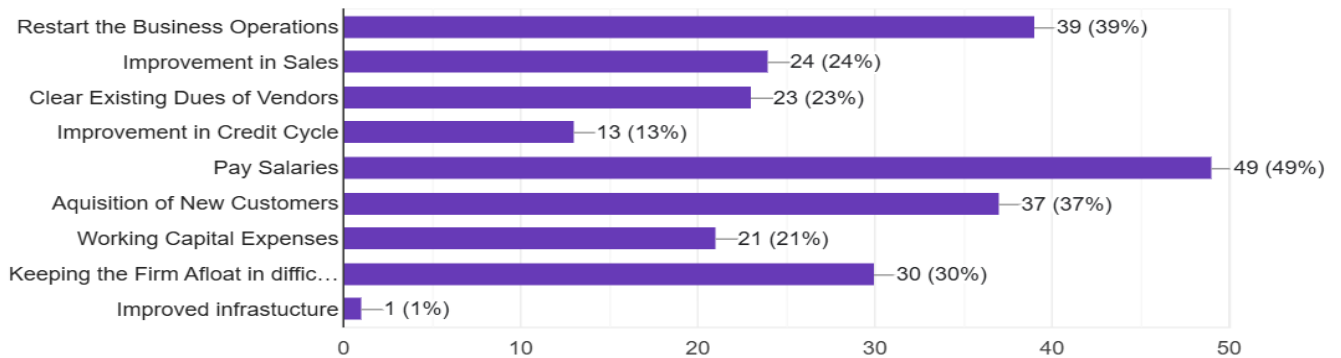
77% of the respondents confirmed that the funds received through the scheme did help them to ease their financial problems they had faced during and post the Pandemic. This statistic has put a seal of approval on the scheme with regards to its economic impact on the MSMEs which were distressed due to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



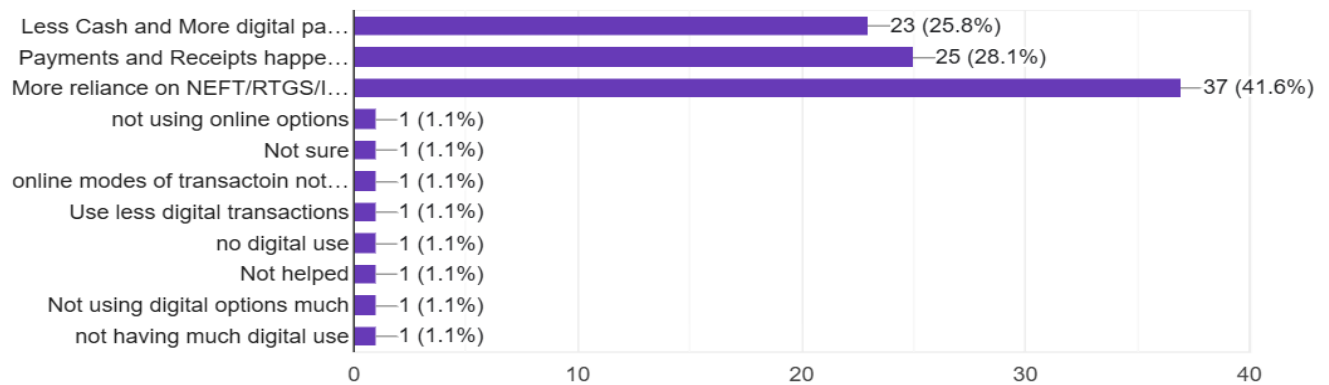
40% of the respondents felt that the main reason that the funds received through the scheme were different from the other fund based loans taken by them in the past was that it involved least paperwork and documentation. A closed second came the benefit of no assessment required (39%) while 34% felt 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)



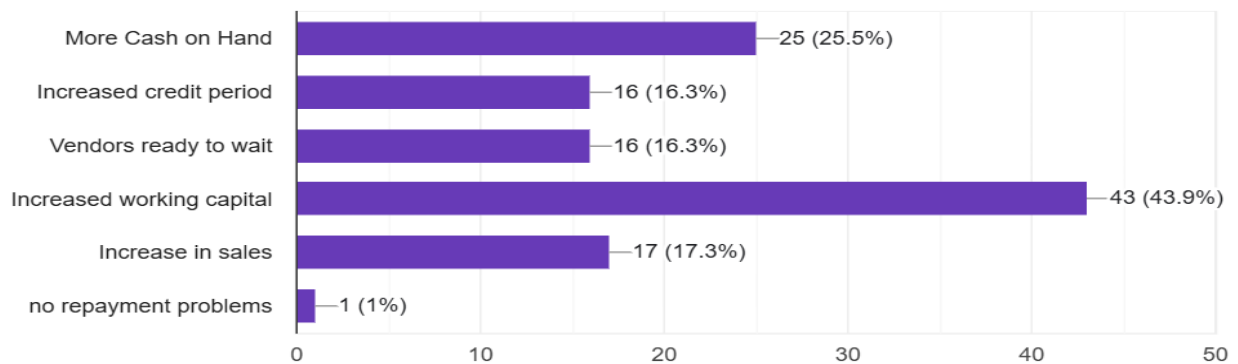
49% of the respondents paid of pending salaries while 35% restarted their business operations. 37% of the respondents acquired new customers while 30% kept their firm afloat duo the pandemic. Improving their sales (24%) and clearing existing dues of vendors (23%) were the other prominent ways to utilise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

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



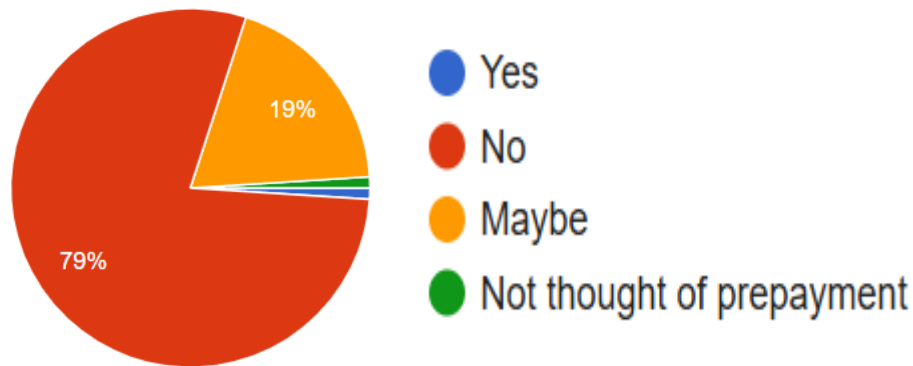
37% of the respondents mentioned that they relied more on online options than cash after receiving the funds from the scheme and the subsequent shift towards digital transactions instead of the traditional ones.

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



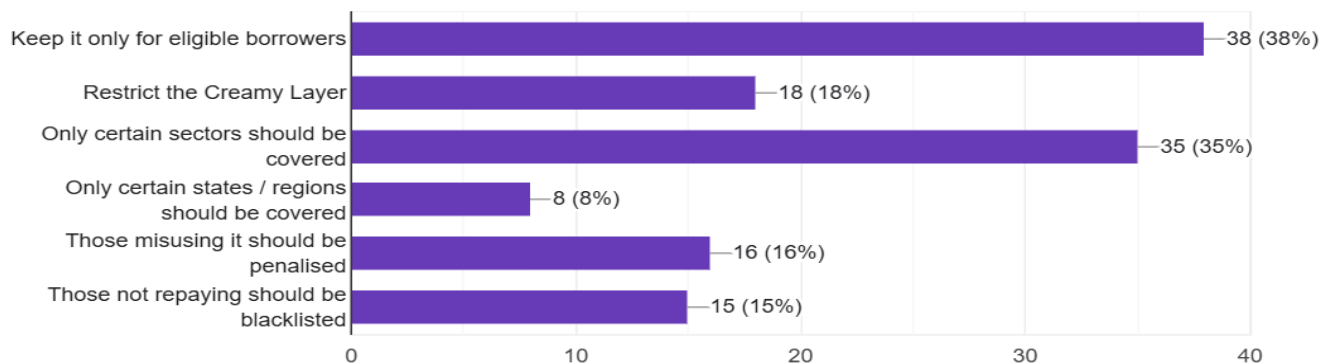
43% of the respondents mentioned that they managed to increase their working capital through the funds received by the scheme which helped them to mitigate their repayment problems. The other options like more cash on hand (25%), increase in sales (17%), increased credit period (16%) and vendors ready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



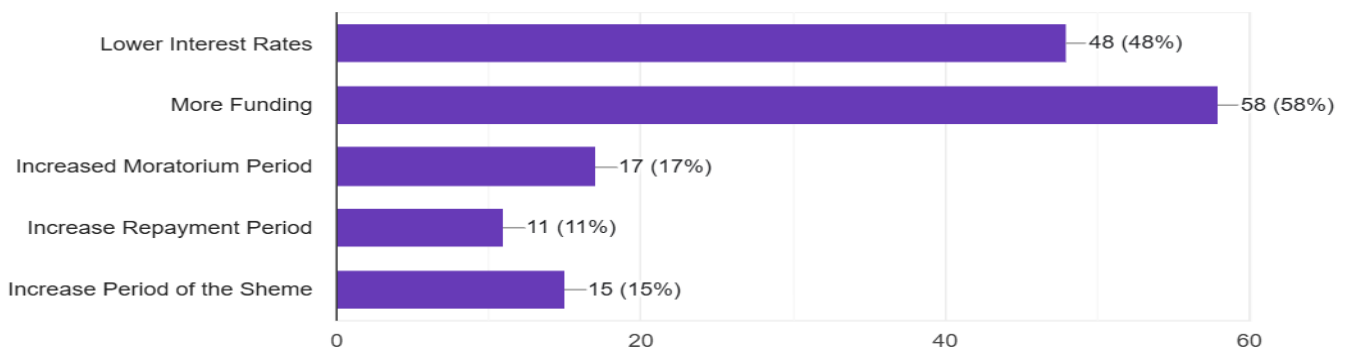
79% of the respondents mentioned that they did not feel any necessity to prepay the funding received during the scheme.

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



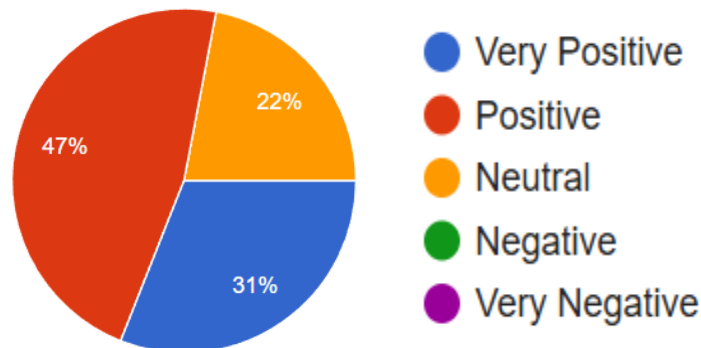
38% of the respondents felt that the scheme should be kept only for eligible borrowers while 35% felt that only certain sectors should be covered as safeguards which the government can have in such schemes so that only the deserving firms could take its benefit and the funds reach the right borrowers 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)



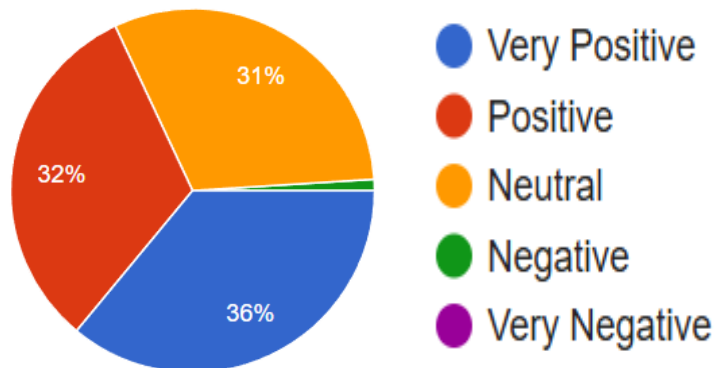
58% of the respondents want more funding while 48% of the respondents want the funding at lower interest rates as the main changes which they want the government to make in such schemes in the future.

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



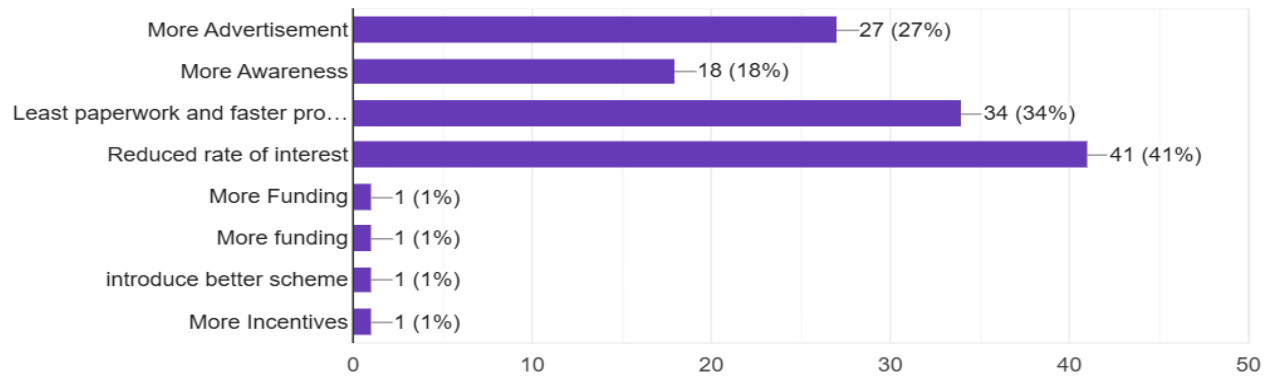
47% of the respondents found their experience of such economic packages in the past to be positive while 31% found it very positive. This confirms that the borrowers have had a positive experience of such scheme.

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



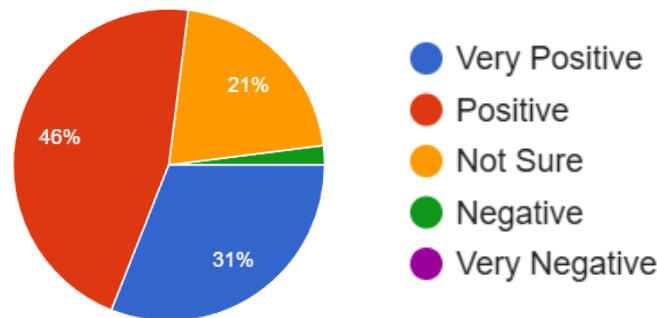
68% of the respondents had a very positive (36%) or positive (32%) perspective towards such government introduced and guarantee backed funding scheme like the ECLGS after they had repaid the funds obtained under the scheme.

- 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.

**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 and clear picture of the economic impact the ECLGS has had on the MSMEs which were distressed due to the Pandemic. Majority of the respondents have given very positive responses to the different questions asked with regards to the varied aspects of the scheme. The responses obtained have been analysed in detail with regards to each question being asked in the questionnaire as below:-

➤ **Type of Ownership :**

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. This selection also aptly represents the MSME sector which is dominated by proprietorship concerns running micro or small units.

➤ **Location Situated:**

The units selected 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 as varied as a sample of this size can be. The sample was dominated by bigger centres like Ahmedabad, Surat, Vadodara and Rajkot but there was sizeable representation of other smaller but prominent centres having MSME clusters like Morbi, Vapi, Bharuch, etc. The sample had respondents from all over the state of Gujarat since the MSMEs too are quite spread out in the state and not concentrated in only certain pockets or Tier I centres.

➤ **Negative Impact of the Pandemic on the Unit:**

Breakdown of Operations and No new customers added were the top two negative impacts of the Pandemic on the units. This showed that many MSME units faced the possibility of a complete shutdown of their operations or they 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 and had experienced multiple negative impacts on the functioning of their units. The findings of the negative impacts on the MSME proved that the Pandemic had a very serious back breaking effect on the financials of the MSME and hence the ECLGS was very much essential to initially revive them and in many cases ensure their survival.

➤ **Intimation about the Scheme:**

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. Most of the banks themselves carried out an extensive effort to inform all their eligible borrowers so that the utilisation levels of the scheme was optimum and its benefits were obtained by as many of their existing borrowers as they could reach out to. 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. The government did make some effort to spread the news of the introduction of the scheme and its details but they could improve on these efforts in future.

➤ **Amount of Funding Obtained:**

Since 20% of their fund based outstanding was the max that the borrowers could receive under this scheme and since most of the respondents were either in the small or micro sub-category who were not having very large fund based outstanding with their banks, the average funding obtained by the units was in the range of 15-25 lakhs. Some of the bigger or medium units though were able to obtain a higher funding but by and large the quantum of loan obtained was not on the higher side. The fixed criteria of the scheme did not allow much scope for any increase in the funding which could be obtained by the borrower.

➤ **Ease of Acquiring Funding under the Scheme:-**

More than majority of the 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. One of the major general challenge for any MSME is to get financial support from the MLIs, thus it was a big necessity for this scheme to not have that initial barrier or hurdle. All efforts had been made by all those involved to ensure that the borrower could very easily avail of the funding as the units were facing lot many other challenges in other area of operations. By providing easy and fast access to funds under this scheme the borrowers were atleast guaranteed to take the initial steps very quickly and then maximise their energy and efforts to ensure proper utilisation and allocation of those funds for the wellbeing of their units.

➤ **Experience regarding Processing of the Scheme:**

Few of the major concerns for any MSME borrower in normal circumstances is the time taken, documents required, time for assessment, etc. These concerns act as a major bottleneck in the firms being able to obtain timely and hassle free financial assistance. Since the situation here was akin to a financial emergency, all efforts were done to ensure that borrowers faced almost next to zero problems with regards to the processing of the scheme. Majority of the respondents stated that the processing of the funding under this scheme was very smooth. In this scheme the processing was deliberately kept very quick and smooth so as to facilitate the financial reviving of the units quickly. All the MLIs too contributed from their side to ensure that the average time taken for processing and the documents required well all well below the normal time it took for them to process their loans.

➤ **Help in Reducing the Financial Issues faced due to the Pandemic:**

The question that whether the funds received through this scheme had 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 almost all the ill effects of the distress and ensured that the units withstood the economic storm caused by the Pandemic and its subsequent measures including a complete lockdown. The financial stress was one of the major distress caused by the Pandemic on the MSMEs hence it was of paramount interest and purpose that the funding

received by the units would reduce that stress and provide necessary support for them to tide over the financial obstacles faced during that period.

➤ **Difference from other Financial Assistance:**

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. This difference was inevitable as the scheme was formulated in the first place with a clear mandate to not have the characteristics of any other existing financial assistance options available with the borrowers. 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 similar issues, hassles, etc. which would have reduced the required economic impact of the scheme which was the central to the introduction of this scheme. The MLIs too were onboarded to ensure that their borrowers did not consider this scheme as similar to the existing lending products as then the purpose of it being emergent in nature and guarantee backed would have been completely defeated.

➤ **Utilisation of the Funds Obtained from the 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. Since the Pandemic had a very multi-pronged economic impact on the MSMEs, it was expected that the units would be utilising these funds in multiple ways but ultimately they were being used to in the correct direction of them coming out of the strong stranglehold of the distress caused by the Pandemic measures. Some of the units which actually did not require these funds but were obtained as they were available on easier terms, did not utilise them for the purpose they were meant to but by and large the borrowers did utilise these funds for the very purpose they were meant for.

➤ **Help in Becoming more Digital in their Operations :**

One of the few positives to have come out of the Pandemic induced stress in the economy was the shift and subsequent increase towards digital mode of transactions than the existing modes being more prevalent before the Pandemic. Since the lockdown measures completely restricted the physical movement, the users had no choice but to shift towards digital options. The Government too had envisaged a move towards a digital economy and the Pandemic behaved like a boon for the digital transformation of the economy. Most respondents stated that post the Pandemic they relied less on cash and more on digital transactions and most of their receipts and payments too shifted to online options. Digital payment options like NEFT, RTGS, IMPS, etc. were already in use by them but post the Pandemic their use substantially improved and had almost replaced the traditional methods in many sectors. The authorities

too were pushing for a digital push and the introduction of UPI based transactions also provided more comfort and ease of transactions to the users.

➤ **Help in Mitigating Repayment Problems:**

Significant improvement in their Working Capital was the most favoured response of many respondents as the best help they could get in mitigating the repayment issues they had faced due to the distress. More cash was also available as a result of the scheme's funding which meant that they need not worry about their payment obligations. Some of the respondents also felt that there was an increase in credit period allowing them some more time to fulfil their payment obligations. Vendors and contractors were also ready to wait a bit longer than the usual as they were aware that the borrowers were able to raise funds and would soon be able to meet their financial commitments. Some of the respondents also mentioned increase in sales due to gradual easing of the lockdown measures and the economy slowly opening up to pre-pandemic levels as the outcome of the funding which eventually helped them in mitigating their payment issues. These responses confirmed that the scheme was surely able to mitigate one of the most vital challenges being faced by the MSME units during the Pandemic period and met its objectives for which it was set up.

➤ **Necessity to Prepay the Funding Received from the Scheme:**

As there were no major benefits or advantages for the units to prepay the funding received through the scheme most did not feel any necessity to do that. Many of the units required this funding very desperately and were able to stabilize their economic condition after a long time, hence it was actually not necessary or even necessary to prepay the funding. Some of the units also had other simultaneous loans existing so their comparatively lesser repayment capacity also did allow them to have the luxury of prepaying this 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. Very few of the firms who were in a comparatively better position than the others or had some extra reserve funds at their disposal 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. One of the reason why some were tempted to prepay was that there was no prepayment penalty if the borrower wanted to do so.

➤ **Safeguards to be added in Future Schemes:**

In order to make such schemes more effective or impactful and that its benefits are utilised by only those it was meant for, 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 actually did not require any kind of such emergency 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 difficult task would be to decipher the correct eligibility norms. The government and the MLIs would also have learnt the lessons by this scheme so that they provide more relief and support to only those who were actually more distressed and not to all those who just met the criteria. More screening or focussing more on the badly affected units would enable them to have more safeguards which could make this scheme even more impactful.

➤ **Modifications / Changes to be made in Scheme:**

In spite 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. This also proved that there was a lot of scope for credit offtake to happen in this sector especially after the Pandemic. There was an insatiable level of demand for increased in funding and that too on lower interest rates amongst the MSMEs. The other options of increased repayment period, increased moratorium period and increased period of the scheme found only few takers which meant that raising capital at low costs remained the most common challenge for most respondents. This confirmed that the ROI which was already low in this scheme needed to be further low and that the amount of funding (which was 20% of their then outstanding) could still be increased. This also meant 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. As they say that there is always room for improvement and the graph can only go up, in this scheme too there was still ample room for positive changes and modifications which would help its beneficiaries even more than what it had already provided.

➤ **Previous Experience of Such Financial Assistance:**

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. This also showed that in spite of the best efforts of the authorities and the MLIs the borrowers were still not completely happy. They had more expectations and wanted even more benefits from it. The general experience of the respondents of such schemes though positive, their hunger for obtaining more benefits and assistance in varied ways remained and this provided a lot of scope for further improvement which can be introduced in future such schemes making them even more impactful in nature. A slow but gradual shift towards more positive feeling or experience from previous such schemes was definitely observed proving that such schemes would definitely not lose their value and would in fact be in more demand in the future advent of such an emergency situation.

➤ **Perspective Towards Such Government Schemes:**

Most of the respondents had either positive or a very positive outlook towards such government schemes. Some of them did accept that like others they too were either skeptical or were not having much hope from this scheme. They mirrored the oft repeated perception that such schemes were more of an eyewash and were actually more of a gimmick or an advertising tool for the political parties to cater to their vote banks. But after they had availed the real benefits of this scheme, most of the respondents had vouched for the efficacy of it and its ability to provide the necessary financial support to the units when they most needed it. The respondents approach towards such schemes definitely improved in the course of the scheme and in the post Pandemic period once the restrictions and measures were eased. They realised that not only measures by the government are only on paper but some of them actually

provide the on-ground aid and support resulting in the salvaging of the most critical sector of the economy.

➤ **What More could have the Government Done through this Scheme:**

With respect to what the government or the MLIs could have done more through this scheme to provide the necessary economic impact, most respondents felt that they could still reduce the rate of interest further or they could have ensured least paperwork and even faster processing. They did acknowledge that the scheme already had a lower ROI and comparative ease of processing than the existing products of the MLIs but they still expected better offerings and wanted the authorities to try and see if there was still scope for improvement in certain aspects of the scheme. 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. The distress caused by the Pandemic was so huge that inspite of the many benefits that this scheme was able to provide, the respondents hunger for more support and aid was evident from their urge to expect still more from the governments side to provide them more support.

➤ **Future Outlook of the Economy:**

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. Since the nation's economy was also on the upswing and it is one of the few major economies of the world which has shown consistent growth in its GDP, the overall future outlook was very encouraging and one which showed faith in the nation's economy. A younger population, innovative minds, creative spirit bundled with having one of biggest markets there is no reason why the units would not have positive outlook for the economy's future. The government's push for the nation to become a developed nation by 2047 by which it would be 100 years since our independence, also provides a lot of opportunities for the units to flourish and grow even further scaling their operations to newer heights.

The exhaustive and comprehensive analysis of the research findings stated above give a clear picture as to what was the economic impact of the ECLGS on the MSMEs distressed by the Pandemic. It give out clear and definite answers to all the questions probed to the respondents. The responses given by the borrowers give a very detailed answer as to what was their experience, what would be their further requirements, what more can be done to make such schemes more impactful and effective. The research findings have completely rejected the null hypothesis and proved the alternately hypothesis to be correct.

**OBSERVATIONS AND CONCLUSION:-**

The research findings and its subsequent analysis have also resulted in the derivation of certain observations and conclusions about the scheme and its components. The conclusions have been

derived from the way the respondents have given their responses and after concrete confirmations of many facets of this scheme. The observations have been derived out of the opinions and remarks of the respondents as well as field functionaries who have very closely observed the scheme and its working. They are as below:-

➤ **Confirmation of Positive Economic Impact of the Scheme:**

Through the research findings and analysis of the findings of the research it has been 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 positive in nature and very substantial. 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 during and post the Pandemic. The scheme had a multi-faceted effect on the operations of the MSME and was instrumental specifically in stabilizing the financial conditions of the MSMEs who were on the verge of a collapse due to the Pandemic and its subsequent lockdown. The proving of the null hypothesis being rejected and the acceptance of the alternative hypothesis has sealed the confirmation certificate that the scheme was able to provide the required economic impact to the MSME borrowers.

➤ **Guarantee Backed & Borrower Friendly Nature of the Scheme:**

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. The guarantee backed nature of the scheme was also very much endeared to the MLIs who are otherwise a bit averse to supporting any such initiative or program of the government fearing increase in bad loans which is the outcome of some if not all government assisted schemes.

➤ **Providing Capacity and Ability to Face Challenges caused by the Pandemic :**

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. Availability of financial assistance and its accessibility were both difficult for the MSMEs. The pandemic has intensified their troubles specially the financial ones exponentially. 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 (ECLGS) was one such medicine which provided required emergency relief measure in the form of financial support to these affected units.

➤ **Scheme not being able to Cover many MSME borrowers:**

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 or meet the criteria 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.

➤ **Increase in Financial Burden for the MSME borrowers:**

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 overall debt burden of the units. This might result in their not able to meet their repayment schedules and may force them to either increase their production costs or face the eventuality of a default which would mean the loans becoming bad for the MLIs.

➤ **Challenge in the Delivery of the Scheme:**

In spite of the multi-faceted benefits of the scheme, there was a serious challenge in the delivery of this scheme. Structural design of the scheme required sharing of collateral on the original loan with that under the scheme on Pari Passu basis. Thus, the assumption of this funding being completely collateral free loan was not fully true. 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 disbursement. 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 banks also had to share the default risk and had to bear the burden of such loans turning NPA.

➤ **Performance of the Private Sector Banks:**

Despite clear directions, some Private 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 (PSBs). Their role in providing loans should have been reviewed much more vigorously by the SLBC.

➤ **Performance of the Banking Sector:**

The PSBs had initially been slow in disbursements whereas the private banks had been lukewarm in sanctioning the accounts. The banks should have expedited the disbursement 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.

➤ **Performance of the Scheme in Gujarat:**

If the performance of other states is compared with Gujarat then it can be said with surety that Gujarat performed quite well and it was in the top three in terms of the funding provided to the MSMEs. But there were other smaller states like Punjab which also had put up a comparatively better performance. This meant that though the 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. The scheme did performed well in Gujarat but there was a lot of room for further improvement considering the scope and potential of the state which is known as the powerhouse of the Indian economy.

➤ **Resurgence of the MSME Sector:**

The Pandemic induced distress had resulted in the almost complete devastation of the MSME sector. The units were demoralised, broken, shattered and were facing the eventuality of a closure of not just their operations but the unit itself. The ECLGS not only helped them survive this difficult phase but supported in their resurgence journey which was arduous and requiring lots of efforts from everyone involved. The MSME sector is known to bear the maximum brunt of any natural calamity, policy change, global conflicts, etc. But here was a situation which was unparalleled and one which they just did not have any idea or experienced. It is in these critical circumstances that this scheme provided much needed support to this sector ensuring that they not just survived but were reinvigorated to take on any challenge or obstacle facing them.

➤ **Future Research Scope:**

The study though attempted to be exhaustive in nature, there is still scope for further research on the subject. Once the tenure of the loans expires, the true performance of the MSMEs in terms of their repayment of the funding will be obtained. The authorities will be able to provide more insights as to what still needs to be done. This will provide further scope for future research to be done on this subject so as to get even better results and answers as to what was the economic impact and what still needs to be done in future such schemes.

➤ **Measures Announced in the Union Budget for the F.Y. 2026-27 for the MSME Sector:**

In the recent Union Budget speech the Finance Minister Nirmala Sitaraman announced a three-pronged approach to help the MSMEs grow as 'Champions'. This approach of the Government includes providing:-

Equity Support - Through a 10,000 crore dedicated SME Growth Fund,

The Union Budget also proposed to top up the Self-Reliant India Fund set up in 2021, with Rs 2,000 crore to continue support to micro enterprises and maintain their access to risk capital.

Professional Support - Government to facilitate Professional Institutions to develop 'Corporate Mitras' especially in Tier-II and Tier-III towns, to help MSMEs meet compliance requirements at affordable costs.

Liquidity Support to TReDS (Trades Receivables Discounting System) –

> Mandate TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs (Central Public Enterprises), serving as a benchmark for other corporates.

> Introduce a credit guarantee support mechanism through CGTMSE for the MSMEs for invoice discounting on the TReDS platform.

> Linking GeM with TReDS to encourage cheaper and quicker financing. > TReDS receivables as asset backed securities, to develop a secondary market and enhance liquidity and settlement of transactions.

- The TReDS platform, introduced as a concept by the Reserve Bank of India (RBI) in 2014 and later becoming operational in 2018, is used by MSMEs to discount invoices and cash-in on trade receivables. This helps the smaller companies with limited cash flows to improve liquidity and cope against issues such as delayed payments from buyers without the requirement of a collateral.
- The Budget announcement would link the Government E-marketplace with the TReDS platform for information sharing with financiers about government purchases from MSMEs, in turn encouraging cheaper and quicker financing, and introducing TReDS receivables as tradeable asset-backed securities.
- Most of the pronouncements in the recent Union Budget were pointed interventions aimed at alleviating the economic stress in India's manufacturing, especially in the micro, small and medium enterprises sector and in tier 2 and tier 3 cities. It is this landscape that was the worst affected, not just by domestic events since 2016 — such as demonetisation, the adoption of GST, the MSME financial crisis, and the Pandemic induced Lockdowns — but also by Trump's tariffs and associated disruptions in global supply chains.
- The Government by its various measures has accepted that the MSMEs have long borne the brunt of excessive regulatory requirements, and that this burden reduces the competitiveness of these smaller units. There is an urgent need for a 4-pronged strategy of Simplification, Digitalization, Decriminalization, and Elimination of redundant laws—all of which are highly relevant for MSMEs.
- The Government has sharpened its focus on expanding India's exports and wants to enable small units to participate more in the global trade without heavy logistics burden. These steps clearly indicate that the Central Government realises the importance of the MSME sector and in spite of the Pandemic now being more 5 years old, it is still focussing its attention on this critical sector and is introducing even more schemes and measures so that they can ensure not just growth for this sector but they envisage this sector becoming the real Champions of the Economy ultimately helping our nation achieving the goal of becoming a developed nation having a developed economy in which the MSMEs play the most significant role.

➤ **Challenges currently being faced by the MSME Sector:**

Other than the general challenges being faced by the MSME sector, there are some other challenges being faced by this sector in the current global scenario. They are mentioned in detail as below:-

• **Global Market Turbulence –**

MSMEs are facing severe challenges during ongoing global market turbulence, including severe shortages of working capital, high-interest rates, and constrained access to finance. Disruptions cause supply chain bottlenecks, rising input costs, and declining demand, while technological obsolescence and regulatory compliance burdens limit their ability to pivot or compete globally.

• **Supply Chain Disruption –**

Many MSMEs are facing severe supply chain disruptions due to limited capital, reliance on single suppliers, and lack of technology, leading to high vulnerability. Major challenges

include acute raw material shortages, rising freight costs, poor last-mile delivery, and lack of real-time visibility in transit. These issues cause production delays, financial strain, and reduced market competitiveness.

• **Ongoing Conflicts in different parts of the World –**

Ongoing global conflicts, such as the Russia-Ukraine war, Israel-Hamas war and the US-Iran war have severely impacted the MSMEs by disrupting the supply chains, increasing raw material costs, and creating financial instability. Key hurdles and obstacles include shipping delays, soaring energy prices, restricted access to international markets, and decreased demand, which have hit small, resource-constrained businesses in the MSME sector much more than the larger competitors.

• **Inflationary Trends in many World Economies –**

MSMEs are severely impacted by global inflationary trends, primarily facing surging raw material costs, higher logistics expenses, and increased borrowing costs due to interest rate hikes. These pressures squeeze profit margins, limit working capital, and hinder technological adoption, making it difficult for smaller, less-capitalized firms to compete with the larger enterprises.

• **Bank Failures and their spill-overs to Domestic Businesses –**

Bank failures and collapses have triggered severe MSME sector challenges by causing abrupt credit freezes, higher borrowing costs, and, in some cases, the freezing of operational cash deposits. These disruptions hinder day-to-day operations, limit working capital, and severely constrain the ability to invest in new technology or manage inventory.

• **45-Day MSME Payment Rule –**

The recent 45-day MSME payment rule (Section 43B (h) of the Income Tax Act) has created significant challenges for the MSME sector, despite its intent to aid cash flow, primarily by causing strained buyer-supplier relationships, order cancellations, and a trend of large firms avoiding registered MSME vendors. Many MSMEs are facing pressure to reduce credit periods, which disrupts established industry practices, particularly in sectors with longer working capital cycles like textiles.

• **Increased competition from domestic players as well as Upcoming International Economies –**

MSMEs are facing severe competitive pressure from large domestic firms and international players, resulting in diminished market share, price wars, and reduced profitability. Key challenges include limited access to affordable credit, technological obsolescence, high compliance burdens, and inadequate infrastructure. These factors hinder their ability to upgrade quality, achieve economies of scale, and compete with technologically advanced, lower-cost imports.

• **Availability of Bank Finance without Security and backed by Guarantee of NCGTC –**

MSMEs face significant challenges securing collateral-free loans, even with NCGTC guarantees, primarily due to high interest rates, lengthy documentation, and lender hesitation. Despite increased policy support, there are still issues like poor credit history, lack of financial literacy, and administrative bottlenecks in CGTMSE schemes which limit access and timely availability of institutional credit for the MSMEs.

• **Hike in US Tariffs –**

US tariffs, including substantial hikes announced by President Donald Trump in 2025, have

severely impacted MSMEs especially those which are more export oriented. They have impacted these units by reducing their export competitiveness, raising input costs, and squeezing profit margins. Key challenges also include increased logistical costs, working capital shortages, and reduced orders in sectors like textiles and gems, forcing firms to navigate high compliance costs and seek diversification. Though the recent Indo-US trade deal is expected to soften this impact to a great extent, it is yet to be seen how this deal would work on ground and actually shield or even benefit the MSME sector from the invasion of the large American MNCs in many sectors in India which they were hitherto prevented in the earlier order.

The observations and the conclusions mentioned above in details which have been derived out of the research findings and its analysis give out a very comprehensive and exhaustive picture of the scheme. It pinpoints the areas of strength and also doesn't back off from showing the areas of concern. As with all such schemes and policies, there are a lot of strong points as well as limitations. The authorities concerned should take every effort to ensure that they maximise the benefits and make them even better but at the same time they should also be concerned about the drawbacks of the scheme and work even more on them to elevate the scheme to newer heights.

#### **RECOMMENDATIONS AND SUGGESTIONS:-**

The research findings also resulted in the formation of a lot of recommendations with regards to the different aspects of the scheme. These recommendations if properly implemented in future such schemes then they would make these schemes even more impactful and effective. The recommendations have been stated not with the intent of simply modifying the scheme or just carrying out cosmetic changes but for the eventual benefit of the borrowers, MLIs and the government which would result in a win-win situation for all the stakeholders. Some of the recommendations are mentioned as below:-

➤ **Requirement of Providing Regular Support to the MSME Sector:**

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.

➤ **Performance of the MLIs:**

The performance of the MLIs specially the Public Sector Banks had 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 looked into 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.

➤ **Provide Assistance to only Deserving Beneficiaries:**

The research and its subsequent findings also provided many suggestions and recommendations 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 less 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.

➤ **Additional Measures along with the main Assistance to be provided by the Scheme:**

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 could have been suitably restructured. As the scheme progressed gradually and its different versions were introduced, the authorities should have also introduced varied additional measures so that the efficacy of this scheme would have kept on improving. These additional measures would have made the economic impact even more effective for the MSME borrowers.

➤ **Recommendations to RBI:**

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 had been excluded because of the retrospective implementation of the scheme, could have become eligible for funding assistance 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 excluded fresh spending, investment and job creation in the sector. The RBI should have brainstormed with all the MLIs and come up with more measures especially for those units which could not become eligible under this scheme as they had to target to provide assistance not just to the units which were in good financial health before the Pandemic but to most if not all the MSME units.

➤ **Timely Course Correction to be done in the Scheme:**

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. Timely monitoring by the concerned authorities and required course correction of the scheme would have resulted

in a significant increase in the expected impact on the MSMEs. Changes done past the period when they would have been more effective are of not much use, hence timely course correction is very much essential.

➤ **Expand Target Audience to Micro Enterprises:**

A prominent and regular criticism of the scheme is that it often benefits only the larger and more established MSMEs, while genuine micro-enterprises with limited or no credit history are excluded from its benefits. Future iterations should focus more on informal micro-enterprises using alternative data, such as Udyam Assist Platform data and incorporate measures to ensure that it substantially expands its base amongst the smaller micro enterprises as they form the bulk of the MSME sector and are supposedly the most affected by any adverse situation. The micro enterprises are the one which provide the most scope for aspiring entrepreneurs to venture out on their own. This sub-sector has lack of entry barriers but also has challenges and hurdles which needed assistance from the MLIs.

➤ **Increase Funded Assistance to Severely Impacted Sectors / Units:**

For highly impacted sectors like hospitality, travel and tourism, the 20% limit (or higher depending on the version) of outstanding credit was often insufficient to cover their operational losses. These sectors required additional support as the distress was affecting them the maximum. Recommendations from many field functionaries and industry experts suggest increasing the maximum loan limits for these specific sectors to ensure the scheme's viability and necessary impact. Sector specific limits could be thought of while preparing the operational guidelines. Some of the sectors which were hardly impacted could be given lesser limits to balance those who required higher limits.

➤ **Address Bank Risk Aversion:**

Despite the presence and assurance of a 100% government guarantee, some MLIs were behaving very cautiously while loans to high-risk borrowers. The MLIs were a bit conservative in their approach and wanted to ensure their interest was protected and served before they could embark on a disbursement spree under the scheme. The need of the hour for the MLIs is to have a more robust, mandatory, or even quicker, automated, and streamlined approval process in place at the MLIs so that it could result in the reduction of the hesitation in loan disbursements thus ensuring more and timely credit for the impacted borrowers. The MLIs need to be taken into confidence by the government and RBI and have to be assured that the scheme is not just meant for the benefit of the borrowers but would also protect the MLIs from any eventuality or adverse situation.

➤ **Strengthen Awareness in Smaller Centres:**

Many small businesses in rural and semi-urban regions remained either unaware of the scheme or had struggled with the digital / English-language application processes. Many units in tier II and tier III centres too were not able to be a part of this entire exercise. The authorities concerned can definitely explore the possibility of expanding the scheme's outreach through regional language support, rural branch networks, and local, simplified digital tools. This would result in the scheme being well-represented and providing assistance also to the smaller centres who were actually more impacted by the distress and required comparatively more financial assistance than those in the Metro and bigger centres. The government and the MLIs could also explore investing in a bit of advertisement and marketing campaigns so that the coverage area of the scheme is increased benefitting a bigger share of the intended beneficiaries.

➤ **Revamp Long-Term Credit Structure:**

The funds provided under the ECLGS was a loan and not a one-time grant. This financial assistance results in the increase of the debt burden on the small businesses who were already struggling with repayment issues. There were multiple sectors which were already under a lot of stress before the advent of the Pandemic and were just able to manage their loan repayment obligations. The subsequent increase in the debit burden would make it even more difficult for these units to not just come out of the distress successfully but also embark on a growth path. They would be caught in the vicious cycle of debt and its repayment commitments. Many industry observers and field functionaries recommended to extend the repayment period of the loan or providing interest subsidies for specifically distressed, labor-intensive industries to ensure they do not become NPAs. This was also the need of the hour for the MLIs as the absence of these measures would result in an increase in bad loans further aggravating the burden of provisions on them. The authorities should use their experience from this scheme to completely revamp or overhaul the existing long-term credit structure in the economy which would go a long way in making the financial sector more robust.

➤ **Enhance Coverage to Women Entrepreneurs:**

Entrepreneurship amongst Women is on the rise everywhere and specially in the state of Gujarat. It is one of the most potent weapon to fight gender inequalities and encourage women empowerment. To foster inclusivity in the scheme, an increase in the guarantee coverage for businesses having women as promoters has been suggested by community leaders, society representatives and those working in the social sectors advocating more prominent role of the women in the society as a whole. Boosting women entrepreneurship has also been recommended in many evaluations of this scheme as a measure to provide much needed balance in the society. Many states including Gujarat have already provided additional benefits for units headed by women. Some more initiatives, discounts and waivers could be introduced to further augment the ratio of women promoters. At the same time the authorities should also ensure that the women is not just the figurehead in the unit but is actually heading the enterprise on ground as well as many a times she is only heading the unit on paper and the entire operations and day to day activities is handled by her husband, father or any other male of the family.

➤ **Leverage Digital Platforms for Faster Disbursements:**

To reduce red tape and delays, full digitalization of the application-to-disbursement process is crucial, reducing the need for physical documentation. Though there were some issues with the process being digital at smaller centres, they could have been resolved with more awareness campaigns and hand holding of the units by the authorities and MLIs. At bigger and metro centres the digital platform could have been used right from the application stage to the final disbursement of the funds making it even faster and smoother. The MLIs which have physical documentation and disbursement processes are notorious for delaying the delivery of the financial assistance. The borrowers too have become complacent as if these processes can't be improved. It is here that the scheme implementation could have been done completely digital so that it would have moved quicker and provided the emergency support at the correct time ensuring that the units were not only salvaged from further devastation but were provided with a new digital process which would be convenient for them too.

➤ **Improve Behaviour and Efficiency of the MLIs:**

The MLIs were expected to be more aggressive and more efficient in the delivery of the scheme. But in spite of the scheme being backed by 100% government guarantees, some banks had shown a lot of aversion to lending to high-risk, distressed, or micro-borrowers. Stricter monitoring of the performance of the MLIs was to be implemented in order to prevent conservative underwriting of the scheme. The authorities could have streamlined the "PSB loans in 59 minutes" portal and other channels to reduce the time between application and disbursement which was very crucial when the scheme was first implemented post the first wave of the Pandemic. The MLIs can also explore and invent establishing more accessible and faster grievance redressal mechanisms to address the borrower complaints about any instance of denial or unnecessary delays by the MLIs. Once there is sufficient monitoring and necessary rectification steps taken against a few MLIs whose behaviour is not upto satisfactory or expected levels, the entire financial sector would improve their performance and ensure that the delivery systems are working completely in sync with the expectations of the beneficiaries and the authorities.

➤ **Enhancing Accessibility for Micro & Small Enterprises :**

A significant challenge is that many micro-enterprises operate informally, lacking the formal credit history (UDYAM registration) required to qualify. Expanding the criteria to include more informally run, unregistered, or small businesses is necessary for broader reach. While overall adoption is high, there is a need to focus on rural and semi-urban areas to ensure better, more equitable distribution of funds. Reducing paperwork and simplifying the digital application process would help smaller businesses navigate the system, as many face language barriers and digital illiteracy. Though it was practically difficult to provide support to these units which are unregistered, very small in size and are existing only in an informal manner, they are still an integral if not very important part of the economy and due to their unusual nature they are hardly provided any structured support which they could have well received especially when it was tough going for them too.

➤ **Structural and Policy Improvements:**

There are a few structural and policy changes which can be done by the authorities to provide a more long term impact. By continuously updating the cut-off dates for SMA-2 (Special Mention Accounts) or NPA (Non-Performing Assets) status would have allowed many more struggling units to have qualified for relief under this scheme, particularly as the economic challenges were evolving due to the constantly changing economic scenario. There is a strong need for shifting of this scheme from just being emergency measure intended to provide a short term relief. The authorities and the MLIs should introspect on the requirement of graduating from providing short-term liquidity to providing long-term structural reforms in the way financing is done to small units, such as enhancing the formalization process, improving credit management, and first identifying, focusing & then trying to address the root causes of the financial stress in the MSMEs.

➤ **Risk Management and Future Planning:**

The scheme has helped reduce NPAs by supporting business survival, but with the high volume of loans, there is a big risk of future defaults as the repayment moratorium ends. Enhanced monitoring is necessary to prevent a surge in bad loans. As the immediate pandemic crisis has eased, transitioning the ECLGS framework into a permanent, flexible credit support system for future economic shocks would be beneficial. The scheme has fulfilled its objectives in the

short run but its performance could be taken as an example and inspiration to work out something similar for the MSME sector into a broader and more structured platform which could be converted into a long term assistance providing credit support not just for an emergency but on a continuous or consistent basis.

➤ **Opportunity in an Adversity:**

The pandemic was one of the greatest adversity to have ever affected not just the economy but the entire human race. There were large scale disruptions, breakdowns, closures and all sorts of distress that one could imagine. But it was also an opportunity to become self-reliant. Just as the world and its order completely changed after the World Wars, the pandemic too had the capacity to initiate a change in the mindset and approach of the whole economy. The government realising the opportunity proposed and announced Atmanirbhar Bharat Abhiyan (Self-Reliant India Mission) economic package. This was aimed at India become self-reliant and be self-sufficient in a number of sectors resulting in many parameters of our economy improving with indigenous efforts rather than being over dependent on other nations for our major needs and wants. Since the Independence India had been a net importer of goods and relied heavily on other countries like China, US and the Middle East for its energy and other requirements. This needed to change if it wanted to become a developed economy. Annually Indian imports 6.4 trillion Rupees of goods from China alone and its certain sectors of the economy are over-reliant on China. Being self-reliant does not mean we cut off from the rest of the world or isolate away from the world. The government affirmed that Foreign Direct Investment was welcome so was the technology, but India needs to envisage a day when it would be a bigger and more important part of the global economy.

➤ **Changing the Mindset towards Government introduced Schemes and Policies:**

It is a general perception that the schemes and policies introduced by the government do not meet its objectives or reach their targeted audience. The government and the authorities behind the introduction of these schemes are often considered as non-serious and the expected results out of their efforts to provide support to the affected borrowers are often very low. Many a times it is alleged that these schemes have been introduced due to media pressure, opinions of the experts or due to a survey / research being done by some international watchdog which has pointed out the lack of effort by the government to help the affected sectors. But when such a scheme actually delivers and performs well above the expectations of everyone who is linked with it, then it really works as the catalyst to entirely change the mindset of everyone concerned towards such schemes and give it the due importance and value it deserves. Not all in the government or the authorities concerned are only interested in getting credit or gaining mileage for the effort they have invested in actually providing the required support to the beleaguered units. Many are really concerned about the situation and have the interest of these units at the core of their efforts to provide real on-ground help through these schemes. The MLIs too who consider themselves as the one who are always used by the government to exploit them for introduction and operationalizing such schemes, do realise on its successful implementation that not all schemes and policies are a political gimmick or a tool to gather more votes but sometimes or rather one should stay many a times the authorities are genuinely concerned and bothered about the distress caused to the units and had put in their heart and soul to ensure that they are not only revived but also nurtured to come back on the path of growth.

➤ **Opportunity to push through long pending Reforms:**

Many reports and field experts expected stated that the economic package and the measures announced by the government did not address short term demand concerns, which would have in fact further pull down the economy even more; with most of the announcements being related to supply. It was also reported by certain economists, that long pending politically sensitive reforms had been pushed through along with this package. While the economic package was criticised on various fronts, it was also given neutral to positive responses by many on other fronts such as for the necessary caution the government showed in its spending. When there was the Gulf War crisis in the early 90s the government took the opportunity to push through reforms and changed the whole economic structure, similarly the pandemic induced distress was also an opportunity to push through many long pending but necessary and vital reforms aimed at helping the MSMEs over a longer period of time. As they say that every calamity is also an opportunity, the authorities also made the most of this pandemic induced opportunity to introduce much awaited reforms and steps, which would immensely help the MSME sector in the long run.

The recommendations mentioned above are suggestive in nature and are only meant to provide insight over how this scheme can be further improved so that it is able to succeed in its objective of providing the financial assistance to the beleaguered units. These suggestions should not be taken as a sort of criticism or a fault finding mission but only as a means to make this scheme better.

#### **POINTS FOR DISCUSSION:-**

- The research findings give out a very clear answer as what worked for the scheme and what did not. There were a lot of positives in the scheme, which were clearly reflected in the performance of the MSMEs. The scheme's aspects like quick processing, less documentation, guarantee backed nature, support to the MLIs and many other factors worked immensely in favour of the MSMEs and had a very positive economic impact on them.
- But there were some areas of concerns also. There is a lot which still needs to be done and there was ample room for further improvement in the scheme so that even more positive economic impact could be derived to the MSMEs. The scheme did not impacted the MSMEs in some sectors as much as it did to the others.
- The major areas of concern for the scheme were – the need to include the non-performing MSMEs, timely course correction in the scheme, expanding the target base, increasing the funded assistance to severely impacted units/sectors, increasing the risk bearing capacities of the MLI's, etc.
- This study in comparison with earlier studies on this subject has tried to cover as many aspects as it could. The study though not very exhaustive, has tried its level best to be comprehensive in its nature so that a full review of the scheme and its economic impact could be obtained for all the stake holders concerned.

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