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Implementation of Emergency Credit Line Guarantee Scheme (ECLGS) in Punjab: An Assessment of Performance of Scheduled Commercial Banks

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CDEIS Policy Brief Series on Punjab Economy

The COVID-19 pandemic has shaken the economies globally and added to the existing problems and their intensity like climate change, poverty, unemployment, migration, education, and of course, health. Developing economies have suffered even more due to their vulnerabilities to such sudden and large shocks. India is no exception to this trend and has regional variations in the impact of COVID-19 as there is much disparity and specificity in the levels of development of state economies. Punjab being an agriculturally grown state though still highly dependent on its agriculture and rural non-farm economy for significant proportion of its population and their livelihoods in the presence of public resource crunch has also faced this COVID-19 onslaught while being in economic, social and environmental crisis.

In this context, it was thought fit to get an independent set of policy directions from scholars in their respective domains based in Punjab, outside Punjab and even overseas to encourage public policy debate in and outside the state about the nature and magnitude of Punjab's economic and developmental crisis and the COVID-19 implications for it and explore possible ways forward to make the economic and social systems of the state move out of the situation of economic and policy inertia.

The policy briefs in this series numbering more than 20 examine issues ranging from agricultural sustainability, environmental and market aspects of the agricultural systems to allied sector and informal and small-scale sector livelihoods including dairy and MSMEs. The marginalised group livelihoods like women, schedule castes, and farm labour and other rural and migrant workers also get adequate attention. The sectors of health and education are also examined. On the fiscal front, institutional credit for recovery and revenue of the state post-GST are analysed. The larger aspects of governance, federalism and diaspora also get a coverage as contextual and overarching themes.

We hope that these briefs would serve to encourage more informed debate and discussion in the interest of the betterment of the state economy and society to aid post-COVID recovery and medium and long-term sustainable development policy making.

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ABSTRACT

The impact of Covid-19 has been devastating across all the sectors in the economy. The over-arching financial stimulus of over Rs. 20 lakh crores announced to infuse liquidity into the system, and to incentivize banks as well as the institutional players, is intended to enable them revive the stressed sectors. Of the various measures, the most significant is the Emergency Credit Line Guarantee Scheme (ECLGS), announced on May 13, 2020 by the Union Finance Minister, Nirmala Sitharaman, to help the strapped micro, small and medium enterprises (MSMEs). It is an ambitious scheme which has been provided to the financial institutions and the non-banking financial companies (NBFCs). ECLGS may have issues including those related to the way it has been announced, but more importantly, its success depends on how it is implemented by the banks. For instance, loans offered under the scheme are neither collateral free nor these are default risk free for banks. Broadly, the brief concludes that the RBI should permit restructuring of NPA loans in such a manner that the units, which stand excluded because of the retrospective implementation of the scheme, could become eligible for loans under it, restart and revive. Office of the State Level Bankers' Committee (SLBC), Punjab is the data source for this brief, and the analysis pertains to the Covid period.

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1. Introduction:

While expressing the concern that the economy is passing through "tough times due to closure of most of the economic activities", the SLBC (Punjab) has called upon the banks to play a major role in financing of "agriculture, MSMEs and other sectors to uplift the economy of the state" (SLBC, 152nd meeting, p.2). Banking in Punjab has been slowing down since long and dipped sharply starting later half of March 2020 when the curfew/lockdown in the state was imposed (March 22nd). A perusal of banking trends in the state would indicate that the impact of the Covid starting from nearly mid-March 2020 in the state was so devastating that it overwhelmingly wiped out the gains, if any, achieved in the first two and half months of the quarter ending March 2020. The key sectors in the state like industry, trade, banking, hospitality, transport, tourism etc suffered slowdown/contraction in flow of credit reflecting distressed state of the economy during the Covid. In this period, credit-deposit ratio declined across the board in the state; proportion of advances to weaker sections fell; number and amount of Kisan Credit Card (KCC) loans shrank; number of accounts and the loan amount to Micro, Small and Medium Enterprises (MSMEs) contracted, and the flow of loans to MSMEs, retail and other sectors under Covid-19 Emergency Line of Credit (ELC) scheme remained subdued.

To tide over the disruptions and revive the economy, the government announced a number of regulatory and liquidity measures to enable borrowers to overcome financial stresses due to Covid-19, maintain liquidity in the system, facilitate and incentivize bank credit flows and ensure normal functioning of the business, trade, manufacturing etc. Of the over Rs. 20 lakh crore Covid stimulus package, the most significant is the Emergency Credit Line Guarantee Scheme (ECLGS) that provides for the fully guaranteed Rs 3 lakh crore collateral free additional working capital term loans facility to standard small businesses and MSME units as on February 29, 2019 that have combined outstanding loan of up to Rs 25 crore and turnover Rs 100 crore[1]. The additional working capital term loan facility, which is 20 percent of the outstanding as on ending February 2020, is a pre-approved sanctioned limit with a provision to opt out. However, prior approval of the National Credit Guarantee Trustee Company (NCGTC) is necessary for disbursal of loan. The scheme, announced on May 13, 2020, is operational from May 23 till end October 2020.In this brief, an attempt has been made to evaluate the performance of scheduled commercial banks in implementing the Scheme in Punjab over June 22, 2020 and July 18, 2020.

2. Progress of Scheduled Commercial Banks in implementation of Emergency Credit Line Guarantee Scheme (ECLGS) in Punjab:

Table 1 presents a comparative picture of performance of public sector and private sector group of banks in implementing the scheme as on June 22 and July 18, 2020.The public sector banks until July18 though had sanctioned loans to more than three-fourth (77.64 percent) of their net eligible borrowers, but the accounts disbursed as proportion of the sanctioned was merely 50.55 percent. Besides, the amount disbursed as proportion of the sanctioned was also less at 49.08 percent (Table 1). In growth terms also, it was found that disbursals by public sector banks (accounts 51.70 percent and amount 47.35 percent) were lagging behind the sanctioned (accounts 64.26 percent and the amount 70.63 percent) over this period.

Table 1: Bank category-wise performance of Scheduled Commercial Banks in implementing ECLGS in Punjab as on June 22, 2020 and July 18, 2020

Bank Category	**Number of accounts disbursed as % of net eligible borrowers**		**Number of accounts disbursed as % of the sanctioned**		**Amount disbursed as % of the sanctioned**	
	1		**2**		**3**	
	June 22, 2020	**July 18, 2020**	**June 22, 2020**	**July 18, 2020**	**June 22, 2020**	**July 18, 2020**
Public Sector Banks	27.32	77.64	54.74	50.55	56.83	49.08
Private and Small Finance Banks	12.25	14.34	92.83	82.69	96.23	84.55
Total	**24.93**	**64.20**	**56.55**	**5208**	**69.74**	**60.14**

Source: Office of the State Level Bankers' Committee, Punjab, Chandigarh. Author's calculations.
Note: Regional Rural Banks have been permitted late, but have not reported any data till date.
Cooperative banks have not been permitted to provide the loan facility.

On the other hand, the private banks' performance in relation to the accounts disbursed as proportion of the net eligible as on July 18 was poor (merely 14.34 percent). But the number of accounts as well as the amount disbursed as proportion of the sanctioned was very high (82.69 percent and 84.55 percent respectively). These proportions, however, are misleading as these involve a very small number of the accounts sanctioned. Thus, the private banks' performance at the first stage of implementing the scheme, i.e. sanctioning the account (14.34 percent), has been distressing. In incremental terms also, their disbursals were found to have grown at relatively a slower pace. Over June 22-July 18, the private banks' disbursal of accounts grew by 51.23 percent and loan amount by 43.71 percent, while the corresponding figures for public sector banks were higher at 70.63 percent and 47.35 percent respectively. Thus, in disbursals too, the public sector banks have recorded relatively a higher growth. Yet, a perusal of Table 1 indicates that the accounts as well as the loan amount disbursed as proportion of the sanctioned by the public sector banks on July 18 has been less than that almost a month ago (June 22). Overall speaking, whereas the public sector banks should ramp up their disbursals, the private banks' response, on the other hand, has been utterly lukewarm at the very first stage of implementing the scheme.

The data (not reported here to save space) reveals that, as on July 18, the share of private sector banks in accounts sanctioned in the state was less than 5 percent, while in loan amount sanctioned was 31 percent. Moreover, the loan amount sanctioned per account by private banks worked out to Rs 19.04 lakh and a mere Rs 2.09 lakh by public sector banks. It means that the private banks extended loans mainly to large borrowers. They shirk giving loans to small and financially stressed borrowers. The SLBC must proactively take up the matter with these banks.

If data tweeted by the Finance Minister, Nirmala Sitharaman, on July 17, 2020, is taken as the indicator, then it appears that Punjab has put up a better performance in regard to the accounts and amount sanctioned/disbursed under the scheme by public sector banks in 71 industrial hub cities across the country. Following the data, Punjab ranks fifth in number of accounts and amount sanctioned (after Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh) and fourth in the accounts and amount disbursed (excluding Uttar Pradesh among the above states) (Sitharaman, 2020). Moreover, whereas the accounts and the loan amount disbursed as proportion of the sanctioned by public sector banks across the country worked out to 57.14 percent and 65.44 percent, the corresponding proportions for Punjab were higher at 67.28 percent and 67.54 percent respectively. Thus, for the selected four industrial hub cities in Punjab[2], the proportions were higher than the all-India. However, the data is partial for only the selected industrial hub cities, and excludes the private sector banks as well.

3. Spatial performance of ECLGS in Punjab:

With number of eligible borrowers as well as the loan amount pegged under ECLGS to the status as on February 29, 2020, the proportions of the number of accounts sanctioned and disbursed, therefore, become the performance indicators. Columns 1 & 2 in Table 2 show the proportion of the accounts sanctioned out of net eligible, while Columns 3 & 4 depict accounts disbursed as proportion of the sanctioned as on June 22 and July 18 respectively.

Table 2: District-wise performance of ECLGS in Punjab as on June 22, 2020 & July 18, 2020

District	No. of Accounts Sanctioned as % of Net Eligible		No. of Accounts Disbursed as % of the Sanctioned	
	22.6.2020	**18.7.2020**	**22.6.2020**	**18.7.2020**
	1	**2**	**3**	**4**
Amritsar	44.61	55.04	55.07	58.92
Barnala	39.97	66.64	60.96	41.29
Bathinda	51.54	64.92	66.15	63.17
Faridkot	53.71	68.42	62.76	62.96
Fatehgarh Sahib	55.93	65.58	51.50	62.31
Fazilka	56.68	76.41	46.49	46.38
Ferozepur	47.49	64.94	68.86	62.70
Gurdaspur	45.10	56.05	62.61	74.00
Hoshiarpur	57.56	72.04	51.12	53.60
Jalandhar	38.66	74.06	51.23	41.95
Kapurthala	44.86	73.92	54.19	48.07
Ludhiana	36.28	52.35	57.37	49.94
Mansa	58.03	95.42	60.27	55.30
Moga	48.74	62.64	69.64	63.58
Mukatsar	50.01	68.83	60.75	58.07
Pathankot	45.00	68.88	55.00	74.15
Patiala	43.77	65.59	62.23	40.42
Rupnagar	43.48	68.22	59.97	69.16
Sangrur	46.14	63.70	53.01	46.21
SAS Nagar	47.11	66.95	57.40	46.61
SBS Nagar	44.94	67.58	57.87	56.75
Tarn Taran	45.96	66.81	41.80	41.44
Punjab	**44.08**	**64.20**	**56.55**	**52.08**

Source: Office of the State Level Bankers' Committee, Punjab, Chandigarh. Author's calculations.

The scheme seems progressing satisfactorily as nearly two-third (64.20 percent) of the eligible borrowers in the state had been sanctioned loan as on July 18, 2020 against 44 percent on June 22 (Table 2). Moreover, this proportion improved in all the districts over the period under consideration. District Mansa with over 95 percent tops the list, while the next best performers with nearly three-fourth proportions were Fazilka, Hoshiarpur, Jalandhar and Kapurthala. At the bottom are the two major industrial districts-Amritsar (55.04 percent) and Ludhiana (52.35 percent)- which is worrisome. Indeed, Ludhiana has consistently ranked at the bottom (22nd), whereas Amritsar's rank worsened from 17th to 21st over this period.

Disbursal of accounts by scheduled commercial banks in the state is the grey area, that as proportion of the sanctioned dropped from 56.55 percent to 52.08 percent over the period (Table 2). Unfortunately, 16 districts (nearly three-fourth) reported a decline in the ratio-largest by Patiala, Barnala, SAS Nagar, Jalandhar and Ludhiana. Unfortunately, Jalandhar and Ludhiana districts stuck to their ranks-19th and about 14threspectively-on both the dates. Thus, the three major MSME and business hub districts in Punjab (Amritsar, Jalandhar and Ludhiana) have utterly lagged behind in one or the other indicator of implementation of the scheme. Ludhiana is the worst performer in respect of the both. These three districts together account for 42 percent of the eligible borrowers in the state. District Tarn Taran, however, has lowest proportion of the accounts disbursed in the state (ranked 22nd).

4. Evaluation and the way forward:

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

Moratorium on payment of installments on existing term loans and the interest on working capital loans has been extended by another three months until end August 2020. Recovery of instalments for this period has been shifted across the board and will become 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 increase the debt burden of the units. Moreover, economic activities during most of the moratorium period (March1-August 31, 2020) have remained either standstill due to curfew/lockdown or have 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 will provide the needed succor to the beleaguered units. In addition, payment of loan installments should be suitably restructured.

The stimulus package provides for interest subvention of 2 percent up to Rs 50,000/- Shishu loans, which are availed by the tiny units whose survival is under threat. It would be a great help if the Shishu loans sanctioned during the Covid period are charged at 4 percent rate as under the Differential Rate of Interest scheme. The loan of Rs 10,000/- to street vendors can also be brought under Shishu loans of Mudra scheme and be charged at 4 percent rate.

While welcoming the measures, businesses and industry cautioned that there is a challenge of delivery, i.e. the devil lies in details. Structural design of the scheme requires sharing of collateral on original loan with that under the scheme on pari passu basis (Purohit, 2020). Thus, collateral free loan does not mean absence of collateral at all. Probably, this is the reason for a significant proportion of eligible borrowers opting out/ not responding (25 percent in Punjab). Similarly, banks are insisting on intensive documentation because they, as per the scheme, would know about the status of recovery of the loan not before the expiry of one year and three months since its disbursal. But, if it turns into NPA, the NCGTC will 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” (ibid). That means, the banks also have to share default risk.

Despite clear directions, the banks are maintaining huge reverse repo deposits[3], and being risk averse, avoid lending to MSMEs (Arunachalam, 2020). In Punjab, the SLBC has expressed concern that working capital loans are available under Emergency Line of Credit (ELC) to "farmers, self-help groups, MSMEs, individuals, pensioners and corporates", but the private banks are not providing working capital facility under the scheme (SLBC,152nd meeting, p.7). Moreover, they are providing big ticket loans leaving the small loans to public sector banks. Their role in providing loans should be reviewed by the SLBC.

The businesses and industry faced tremendous disruptions and were not permitted activity during the lockdown period- the initial over one month overlapped with curfew in the state. The firms faced shortages of labour and raw materials, precipitous fall in domestic and external demand, finance problems and so on. Moreover, workers in large numbers migrated to their home states[4]. Therefore, the firms will take much longer to resume full scale operations and achieve the break-even. Moreover, they are facing double whammy financial stress and slump in demand. Whereas the government has tried to ease liquidity for the firms, the measures are supply centric. Demand, on the other hand, remains highly subdued (Sharma, 2020). Indeed, these measures exclude fresh spending, investment and hence the job creation.

Finally, net eligible borrowers under the scheme in Punjab are merely 10 percent of the MSMEs. Despite being a 100 percent government credit guarantee scheme, almost 19 percent in the state have opted out. Response of another 6 percent is still awaited. Moreover, state’s share in the Rs 3 lakh crore earmarked for the purpose comes to a miniscule 1.44 percent, and that too if the whole eligible amount is disbursed. That means the demand for credit by the small businesses and the MSMEs is very low, which is reflected in the state's declining credit-deposit ratio (currently at about 60 percent which is the minimum desirable).

Conclusions:

Banking in Punjab has been slowing down since long; but it dipped sharply during the Covid period. Among all, the worst hit are the small businesses and MSMEs in the state. The public sector banks have been slow in disbursals whereas the private banks have been lukewarm in sanctioning the accounts. The banks need to expedite disbursal of loans especially in three major districts in the state, and should also prevail upon all the potential borrowers to avail benefits of it. The private banks in the state are concentrating mostly on big ticket loans, and are not providing working capital loans under ELC, which are permitted under the scheme. They may be directed to handle small ticket loans also, besides extending all the loan facilities available under other schemes.

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

Notes:

1. Later, the eligibility for loans under the scheme was extended to "all Business Enterprises/ MSMEs/ individuals who have availed loan for business purposes with outstanding loans of up to Rs. 50 crore as on 29.02.2020, and turnover of Rs. 250 crore in FY 2019-20. The term Business Enterprises/MSMEs would also include loans covered under Pradhan Mantri Mudra Yojana (PMMY)" (Guidelines dated August 4, 2020).
2. The four industrial hub cities considered in Punjab are Barnala, Kaputhala, Jalandhar and Ludhiana.
3. According to one estimate, the banks' deposits in reverse rapo window stood at staggering Rs. 8 lakh crores in mid-May, 2020. (Major stimulus measures, May 14, 2020 by Insights editor).
4. As on May 3, 2020, over 6.52 lakh workers from Punjab had registered to return to their homes.

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