

Performance Of Credit Guarantee Scheme For Micro And Small Enterprises In North East India

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Abstract: Micro and Small sector enterprises have a multi-dimensional role in the economic growth of a developing nation like India. In the overall value chain of different industries these firms are placed in critical positions. One of the major obstacles in the growth of MSEs is the credit constraints. Credit Guarantee Schemes (CGS) is globally accepted as an instrument of credit flow to ease financial constraints for MSEs without any secondary collateral / third party guarantee. Government of India (GOI), Small Industrial development Bank of India (SIDBI) and Ministry of MSME set up Credit Guarantee Fund Trust for Micro and small Enterprises in 2000-01. As per the report of the RBI (2010), the CGTMSE coverage out of total MSE's borrowing accounts at the end of March 2009 is very low (2.64%) in India. North East found as under-served areas for CGTMSE coverage (Annual Report of SIDBI, 2011-12). Therefore, an attempt has been made to study the overall performance of credit guarantee scheme in North East India and to evaluate the CGTMSE coverage by Regional Rural Bank in North East India. The study is analytical and descriptive in nature and based on secondary data only. It is concluded that the overall performance of the CGTMSE in North East India is very poor and the progress rate is not constant whereas Assam registered higher CGTMSE coverage among the other states in North East. Assam Gramin Vikash Bank is only RRB in North East who registered higher growth rate in CGTMSE coverage.

Keywords: CGTMSE, RRBs, MSEs, CGS, MLIs

I. INTRODUCTION

Micro and Small sector enterprises have a multi-dimensional role in the economic growth of a developing nation like India. India is a developing country and emerging as a largest global market in the world. Since 1991 the government has taken many initiatives for the growth and development of MSMEs but still MSMEs are struggling to survive in a competitive environment. It is, therefore, imperative to focus on the issues which impact the creation, survival and growth of the firms in this sector. One of the major obstacles in the growth of MSEs is the credit constraints. Credit Guarantee Schemes (CGS) is globally accepted as an instrument of credit flow to ease financial constraints for MSEs without any secondary collateral / third party guarantee. In India, with large efforts by RBI, the CGS came into existence in August 2001. Credit Guarantee Fund Scheme for Small Industries (CGTFSI) was established with

collateral free credit limits upto Rs. 25 lakh jointly by the Government of India and Small Industries Development Bank of India (SIDBI). After MSMEs Act 2006, the scheme was renamed as Credit Guarantee Fund Trust for Micro and Small Enterprises in India (CGTMSE) with the credit limit upto Rs.50 lakh. Later Credit Guarantee Scheme (CGS) coverage extended from Rs. 50 lakhs to Rs. 100 lakhs with the introduction of Economic Stimulus Package announced by Government of India on December 07, 2008. At the end of March 31, 2015, 133 eligible financial institutions (27 Public sector banks, 20 Private sector banks, 4 foreign banks, 73 Regional rural banks and 9 Lending Institutions) registered as Member Lending Institutions (MLIs) of CGTMSE. Regional Rural Banks registered as a highest numbers (55%) out of 133 MLIs. Wherever, the services of RRBs are not available in the states like Delhi, Goa, Sikkim and all the Union Territories. Scheduled commercial banks (top performer) automatically

extend the benefit of the CGS through their respective branch jurisdiction in NE India.

Given the natural, forest, demographic and socio cultural resources of the region the efforts to provide credit facility to the existing and potential entrepreneurs is not only undermined (Goswami & Borolo, 2012) but also attributable to lower degree of industrialization in the entire region. The North East States are surrounded by China, Bangladesh, Myanmar, Nepal and Bhutan. In fact, the region has long international border, which is 99 percent of its total geographical boundary. In spite of resource fullness the entire region is regarded as underdeveloped and backward area. In this age of globalization and increased international cooperation, however, the border areas also signify some new opportunities (Dibrugarh University, 2009). With these natural resources and opportunities, a prospect of entrepreneurship development in North-East India is very high (Ram, Singh and Prasad, 2012). With the different prospects and opportunities of industrialization, credit service and sufficient number of MLIs, the north east region is regarded as the appropriate study area, if one has to study the performance of CGTMSE.

II. REVIEW OF LITERATURES

Access to bank finance is a major issue and challenge for SMEs. Before granting credit, bank finds difficult to classify 'good' and 'bad' borrowers due to informational asymmetries. As a solution to this problem credit guarantee scheme may be an effective step towards access to finance without collateral security and consistent financial information (Mazanai & Fatoki, 2012). Keasey & McGuinness, (1990) found, using univariate statistics and correlation matrix, the rate of return to be high for the firm using bank loan than other sources of finance, though bank loan is expensive comparatively and on the other hand bank only provides loan to higher return enjoying firms. Conducting a study on 74 developed and developing countries using baseline regression for country level data on banks and firms, Beck, Demirguc-kunt & Maksimovic (2004) found that the financial obstacles not only vary across the firms within a country but also vary across the countries. Steijvers, Voordeckers & Vanhoof (2010) in their study found that business collateral is sufficient for bank credit than personal collateral in family business. The empirical results found by Carpenter and Petersen (2002) support that the growth of the small firms is constrained by the internal finance. To reduce the financing gap in SMEs, the promotion of the mutual guarantee may be used as a measure (Hughes, 1997). A credit guarantee scheme is designed to operate within the formal financial system where the Guarantee given to a bank acts as an incentive to lend to enterprises that would otherwise not have been funded (Mthimkhulu & Aziakpono, 2012).

The CGS is recognized as a vital part of the SMEs all over the world (Tunahan & Dizkirici, 2012). Because credit guarantee scheme encouraged the better performance of SMEs. Guaranteed entrepreneurs have developed and expanded into many different types of business (Devinaga & Tan, 2012). Public supported entrepreneurs with good idea and well managed projects materialized higher return than the

groups of the companies with long term external financing without public support. On the other hand the public supported groups of companies gained in terms of operating margin, value added per employee and turnovers. Therefore public support is relevant at economic, financial and business efficiency level (Garcia-Tabuenca & Crespo-Espert, 2010). The study, by using data set of 6888 Kafalat loan guarantee applications from 2000 to 2009, reveals that repeated customers are continuously increasing their loan size and simultaneously resulting their expansion of the business activities with a better financial position to borrow bigger loan (Canaan, 2011). On the other hand Oh, Lee, heshmati and Choi, (2009), by using propensity score matching model, have compared the performances of guaranteed and non-guaranteed firms which infer that the guaranteed firms are better performers in terms of growth in sales, employment, wages level and survival rate. Propensity score estimations of the effectiveness of CGS confirm that CGS users have a good effect of loan availability than non-users (Uesugi, Sakai & Yamashiro, 2008).

Meghalaya Rural Bank is utilizing efficiently the resources that they mobilized and which results higher productivity of Meghalaya rural bank than the productivity of RRBs in North Eastern Region (Ahmed, 2014). The rapid expansion of RRB has helped to increase banking facilities in India. The effort of RRB in terms of branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas has improved significantly. Impact of investment is positive on profit making RRBs and operating expenses affect negatively on both profit making RRBs and loss making RRBs. Loan and advances implies impact on the financial health of the profit making RRBs only (Misra, 2006).

III. RESEARCH PROBLEMS

According to the advisory committee (RBI Rural Planning and Credit department, 2012) report, Schedule commercial bank's NPA in MSE has increased from 4.37% to 4.98% during 2011-12. On the other hand, the total number of sick MSEs during that period has increased by around 16% (Chakrabarty, 2012). One of the major causes of small industrial sickness is attributable to problem of finance (Panda, 1989). While looking at the viciousness of the cycle "Low rate of credit – Credit constraint- Poor performance – Small Industrial Sickness- Higher NPA- Higher Risk – Higher transaction cost (creditworthiness appraisal Cost) – Low rate of Credit" one finds a remedial measure in the CGS. But data collected from the ground reality suggest a very poor penetration of the scheme, the CGS covered lending to MSEs while expressed as a percentage to total bank lending to MSEs stands at only 2.64% (RBI, 2010). The performance of CGS is slow in north East and Jammu and Kashmir (Annual Report SIDBI, 2011-12). Divergence in guidelines between CGTMSE, RBI and MLIs is one of the factors responsible for poor performance of the scheme (Rahiman, 2010). CGS must be evaluated from time to time from different aspect to know the efficacy of the scheme. Therefore an attempt has been made to study the performance of the Credit Guarantee

Scheme in North East India and to evaluate the performance of RRBs (MLIs) in terms CGTMSE coverage in North East India.

IV. OBJECTIVES OF THE STUDY

The objectives of the study are to assess the overall performance of the Credit Guarantee Scheme in North East India and evaluate the performance of Regional Rural Banks in terms of CGTMSE coverage in North East India.

V. RESEARCH METHODOLOGY

The study is analytical and descriptive based on secondary data which are collected from CGTMSE Annual Report, SIDBI Annual Report, RRBs Annual Report, Reports of Reserve Bank of India, relevant sources and websites. Data are analyzed by tabular form and percentage methods at least for ten years upto 2014-2015. The study includes all the states and all the Regional Rural Banks (MLI) in North East India. The year wise and state wise progress of RRBs and CGTMSE has been analyzed in different possible way to show the present status of the credit guarantee scheme in North East India.

VI. ANALYSIS OF THE STUDY

Table No-1 interpret that initially there was 9 (nine) active MLIs registered and it is increased to 119 by 2014-15. The amount of guarantee coverage increased continuously at increasing rate with the increasing number of approved proposals. In 2011-12, the number of proposals decreased by 3.94% but the amount of coverage is increased by 9.49. It is found that in the last 15 years of service, the CGTMSE registered remarkable achievements by 2014-15.

Growth and Development of Credit Guarantee Scheme in India					
YEAR	No of Active MLIs	No of Credit facilities Approved / Percentage	Amt. of Guarantees Approved / Percentage (Rs. In Crore)	Cumulative No of Credit facilities Approved	Cumulative Amt. of Guarantees Approved (Rs. In Crore)
2000-01	9	951	6.06	951	6.06
2001-02	16	2296 +141.43	29.52 +387.13	3247	35.58
2002-03	22	4955 +115.81	58.67 +98.75	8202	94.25
2003-04	29	6603 +33.25	117.6 +100.44	14805	211.85
2004-05	32	8451 +27.98	267.46 +127.43	23256	538.62
2005-06	36	16284 +92.68	461.91 +72.70	39540	1000.53
2006-07	40	27457 +68.61	704.53 +52.53	66997	1705.06
2007-08	47	30285 +10.30	1055.84 +49.86	97282	2701.59
2008-09	57	53708 +77.34	2199.4 +108.31	150990	4824.34
2009-10	85	151387 +181.87	6875.11 +212.59	302377	11559.69
2010-11	106	254000 +67.78	12589.22 +83.11	556377	23846.01
2011-12	109	243981 -3.94	13783.98 +9.49	800358	37139.31
2012-13	117	288537 +18.26	16062.48 +16.53	1088895	52600.07
2013-14	117	348475 +20.77	18188.12 +13.23	1437370	70026.28
2014-15	119	403422 +15.77	21274.82 16.97	1840792	90,445.90

Source: Compiled from CGTMSE Annual Report 2014-15

Table 1

Table No-2 shows that North East India contributes 5.45% in terms of number of approved proposals and 3.95% in terms of amount of the guarantees coverage by 2014-15. Only

Assam registered highest CGTMSE coverage in North East India by 2014-15 and all other states registered less than 0.45%.

STATE WISE PERFORMANCE OF CGS IN NORTH EAST INDIA FROM 2000-01 TO 2014-15				
North East India	Proposals Approved Amount in numbers	Guarantees Coverage Rs. In Lakh	Share of N E state in India	
			Proposals(%)	Guarantees(%)
Arunachal Pradesh	4456	21792.40	0.25	0.24
Assam	68339	234792.03	3.76	2.60
Manipur	4587	14094.19	0.25	0.16
Meghalaya	5943	28087.92	0.33	0.31
Mizoram	2788	11110.20	0.15	0.12
Nagaland	3442	13507.92	0.19	0.15
Sikkim	1462	5771.11	0.08	0.06
Tripura	7923	28239.82	0.44	0.31
NORTH EAST INDIA (GROSS FIGURE)	98940	357395.59	5.45	3.95
India	1817245	9044590.58	100	100

Source: Compiled from CGTMSE Annual Report and report downloaded (<http://www.indiastat.com>)

Table 2

Table No-3 represents the year wise share of North East India out of total CGTMSE coverage in India from 2006-07 to 2014-15. The total coverage of credit guarantee scheme in north East India falls from 2005-06 to 2009-10 and again it started to rise from 2009-10 to 2013-14 and again falls in 2014-15. It is concluded that the overall progress of North East is not consistent over the year and it is very slow and low in comparison to India.

Year Wise Performance of Credit Guarantee Scheme in North East India						
YEAR	NORTH EAST INDIA		INDIA		SHARE OF NE in INDIA	
	NUMBER OF PROPOSALS APPROVED	AMOUNT OF GUARANTEES (Rs. In Crore)	NUMBER OF PROPOSALS APPROVED	GUARANTEE COVERED (Rs. In Crore)	PROPOSAL (%)	GUARANTEE (%)
2005-06	554	9.40	16284	461.91	3.40	2.04
2006-07	1934	33.92	27457	704.53	7.04	4.81
2007-08	1332	33.47	30285	1055.84	4.40	3.17
2008-09	1562	39.8	53708	2199.4	2.90	1.81
2009-10	4415	135.84	151387	6875.11	2.92	1.97
2010-11	12737	416.43	254000	12589.22	5.01	3.31
2011-12	16967	631.03	243981	13783.98	6.95	4.58
2012-13	15673	655.44	288537	16062.48	5.43	4.08
2013-14	21665	851.14	348475	18188.12	6.21	4.68
2014-15	21926	779.60	403422	21274.82	5.44	3.66

Source: Compiled from CGTMSE Annual Report and report downloaded (<http://www.indiastat.com>)

Table 3

Growth and Development of the Credit Guarantee Scheme in North East India																				
NORTH EAST STATE	2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12		2012-13		2013-14		2014-15	
	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)	Number of Proposals Approved	Amount of Guarantees (Rs. In Lakh)
Arunachal Pradesh	22	17.1	105	180.71	31	76.05	45	73.7	154	736.6	374	1704	574	2709.85	383	3621.87	830	5189.72	1749	7275.51
Assam	356	6603.86	1252	247.52	943	2541.9	1129	2851.75	3411	9863.81	9530	25640.08	13070	41880.12	10656	39654.86	14476	59903.57	14405	51228.96
Manipur	48	59.23	24	53.76	1	1.97	18	50.47	8	19.79	166	487.06	394	1705.85	712	3444	1788	5140	1389	3144.3
Meghalaya	12	74.55	28	54.95	66	142.23	130	142.23	305	129.62	973	3899.32	1070	5766.35	989	5656.51	1308	6208.77	1000	4231.53
Mizoram	41	45.85	189	287.74	67	193.21	53	117.43	26	130.35	148	539.35	301	1588.21	401	2027.16	785	3487.13	717	2729.95
Nagaland	8	10.58	47	75.58	65	139.55	112	286.35	51	92.9	163	1012.48	534	2256.69	454	2882.61	749	2805.51	1252	3545.79
Sikkim	14	39.54	21	51.13	42	91.55	15	38.86	113	484.4	178	949.32	128	676.02	343	1188.75	280	881.42	304	1566.78
Tripura	43	22.37	73	123.99	117	185.27	60	251.9	294	925.47	1215	3586.62	1836	6779.04	1615	6708.68	1589	5523.95	1111	4548.29
Total	544	940.08	1954	3392.38	1332	3747	1562	3880.79	4415	13584.80	12737	41663.83	16967	63011.11	15673	65544.4	21665	85140.07	21926	77960.01

Source: Compiled from CGTMSE Annual Report and Report downloaded (<http://www.indiastat.com>)

Table 4

Table-4 represents the year wise performance of the North East State for the last ten years from 2005-06 to 2014-15. In 2006-07, CGTMSE coverage increases in all the north east state except Manipur. In 2007-08, CGTMSE coverage decreases in Arunachal Pradesh, Manipur, Meghalaya, Mizoram and increases in Nagaland, Sikkim and Tripura. In 2008-09, Assam, Manipur, Meghalaya and Nagaland found

improvements and Mizoram and Sikkim found deprovement in CGTMSE coverage. In 2009-10, CGTMSE coverage increases in Arunachal Assam, Meghalaya, Sikkim and Tripura and decreases in Manipur and Nagaland. In 2010-11, all the North East States maintain progress rate simultaneously. The same situation continued in 2011-12 except Sikkim. In 2012-13, CGTMSE coverage rises in Arunachal Pradesh, Manipur, Mizoram and Sikkim against falls in Assam, Meghalaya and Tripura. Again in 2013-14, CGTMSE coverage increases in all the state except Sikkim and Tripura. Finally in 2014-15, only Arunachal Pradesh, Nagaland and Sikkim found positive results. In spite of all the above coverage, the north east state experienced the CGTMSE coverage differently in the year 2007-08, 2008-09, 2009-10 and 2012-13 where the number of proposals decreases against the increases in the amount of coverage in the state of Assam, Tripura, Mizoram and Nagaland respectively and vice-versa in the state of Arunachal Pradesh in 2008-09 and Nagaland in 2013-14.

Table-5 reflects the performance of CGTSE coverage of the Regional rural banks operates in NE. Assam Gramin Vikash Bank (AGVB), Langpi Dehangi Rural Bank (LDRB), Meghalaya Rural Bank (MRB), Mizoram Rural Bank (MRB) and Tripura Gramin Bank (TGB) are MLIs out of eight RRBs operating in North East India. However Arunachal Pradesh Gramin Bank (APGB), Manipur Rural Bank (MRB) and Nagaland Rural Bank (NRB) are not yet registered as MLIs. AGVB started CGTMSE coverage early in 2008-09 than any other RRBs from north east. The rate of CGTMSE coverage of AGVB increases from 2008-09 to 2014-15 except in the year 2012-13 and 2014-15. LDRB has positive performance in 2011-12 and 2012-13 and negative performance in 2013-14 and 2014-15. In 2011-12, the number of proposals of MRB and TRB increases against the decreases in the amount of CGTMSE coverage. Again in 2012-13, the number of proposals decreases in MRB against the increases in the amount of CGTMSE coverage. The CGTMSE coverage of MRB increases in 2013-14 and reaches zero level in 2014-15. The rate of CGTMSE coverage of TRB increases in 2012-13 and come down to zero from 2013-14 to 2014-15. It is found that there is very pathetic condition of CGTMSE coverage by all RRBs in 2014-15.

VII. CONCLUSIONS

In the last 15 years, the scheme registered a higher percentage of growth in CGTMSE coverage as a whole but the coverage is very poor in North East India. However this study is remain silent about the percentage of CGTMSE coverage to the total MSEs listed in the priority sector lending by banks. Meghalaya Rural bank has not yet taken part in CGTMSE coverage though it is registered as MLI. The share of CGTMSE coverage by RRBs is very poor in north east India. This rate of CGTMSE coverage would have been more in North East India if all RRBs had been taken part in CGTMSE coverage actively. Assam registered a higher percentage of CGTMSE coverage in North East India. On the other hand Assam Gramin Vikash Bank registered a higher percentage of CGTMSE coverage amongst all the RRBs in North East India. Even 15 years after implementing the scheme, north eastern parts of India (except Assam) is almost absent from the benefits of the Credit Guarantee Scheme. So it is suggested that all MLIs should come forward to use Credit Guarantee Scheme widely and bank level awareness program should be conducted to create more and more awareness amongst the entrepreneurs about the benefits and utility of the CGS.

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CGTMSE Coverage by Regional Rural Banks in North East India

YEAR	(In Lakhs)												SHARE IN PERCENTAGE											
	CGTMSE COVERAGE OF BRR-MLI OPERATIONS NORTH EAST INDIA						CGTMSE COVERAGE OF ALL MLI OPERATIONS NORTH EAST INDIA						SHARE OF BRR-MLI OPERATIONS NORTH EAST INDIA											
	ASSAM		MIZORAM		TRIPURA		ASSAM		MIZORAM		TRIPURA		ASSAM		MIZORAM		TRIPURA							
Number of Proposals Approved	Amount of Guarantee	Number of Proposals Approved	Amount of Guarantee	Number of Proposals Approved	Amount of Guarantee	Number of Proposals Approved	Amount of Guarantee	Number of Proposals Approved	Amount of Guarantee	Number of Proposals Approved	Amount of Guarantee	Proposals Approved	Amount of Guarantee	Proposals Approved	Amount of Guarantee	Proposals Approved	Amount of Guarantee							
2007-08	NA	NA	NA	NA	NA	NA	356	660.00	41	43.95	43	52.57	0	0	0	0	0	0						
2008-09	NA	NA	NA	NA	NA	NA	3252	2147.52	199	207.74	73	523.99	0	0	0	0	0	0						
2009-10	NA	NA	NA	NA	NA	NA	947	2544.00	87	203.51	137	109.27	0	0	0	0	0	0						
2010-11	17	17.62	NA	NA	NA	NA	1176	2451.75	57	177.57	80	275.90	0.78	0.62	0	0	0	0						
2011-12	181	487.08	NA	NA	NA	NA	67	203.00	3421	1960.45	20	100.05	2.61	0.72	0	0	0	18.29						
2012-13	257	424.87	127	248.69	87	313.80	111	279.51	9520	2294.48	148	570.35	12.15	30.62	17.64	14.04	1.33	0.91						
2013-14	310	512.09	151	278	127	224	171	307.03	10779	4198.12	561	159.20	18.96	47.84	17.77	15.74	1.25	0.87						
2014-15	284	494.87	196	412.2	141	222.9	142	270.95	10974	2764.49	661	207.14	19.97	49.09	19.35	12.41	1.94	1.09						
2015-16	243	390.89	141	222.8	100	180.03	87	169.85	10474	2764.49	661	207.14	19.97	49.09	19.35	12.41	1.94	1.09						
2014-15	11	11.81	7	15.05	0	0	0	0	14465	3128.94	717	2720.05	11.11	4248.20	0.08	0.02	0.02	0.03						
2014-15	6732	99721	10164	17161	4710	8000.00	2100.00	2100.00	28999.07	2788	11335.58	7923	39355.58	12.44	8.63	0.79	0.47	25.37						

Source: Compiled from CGTMSE & RRBs Annual Report and Report downloaded (<http://www.indiastat.com>)

Table 5

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