

Measuring the Soundness and Key Performance Indicator (KPI) of Credit Guarantee Corporation

A Case Study – CGTMSE, India

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By Dr. Kshatrapati Shivaji, Chairman, CGTMSE

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01

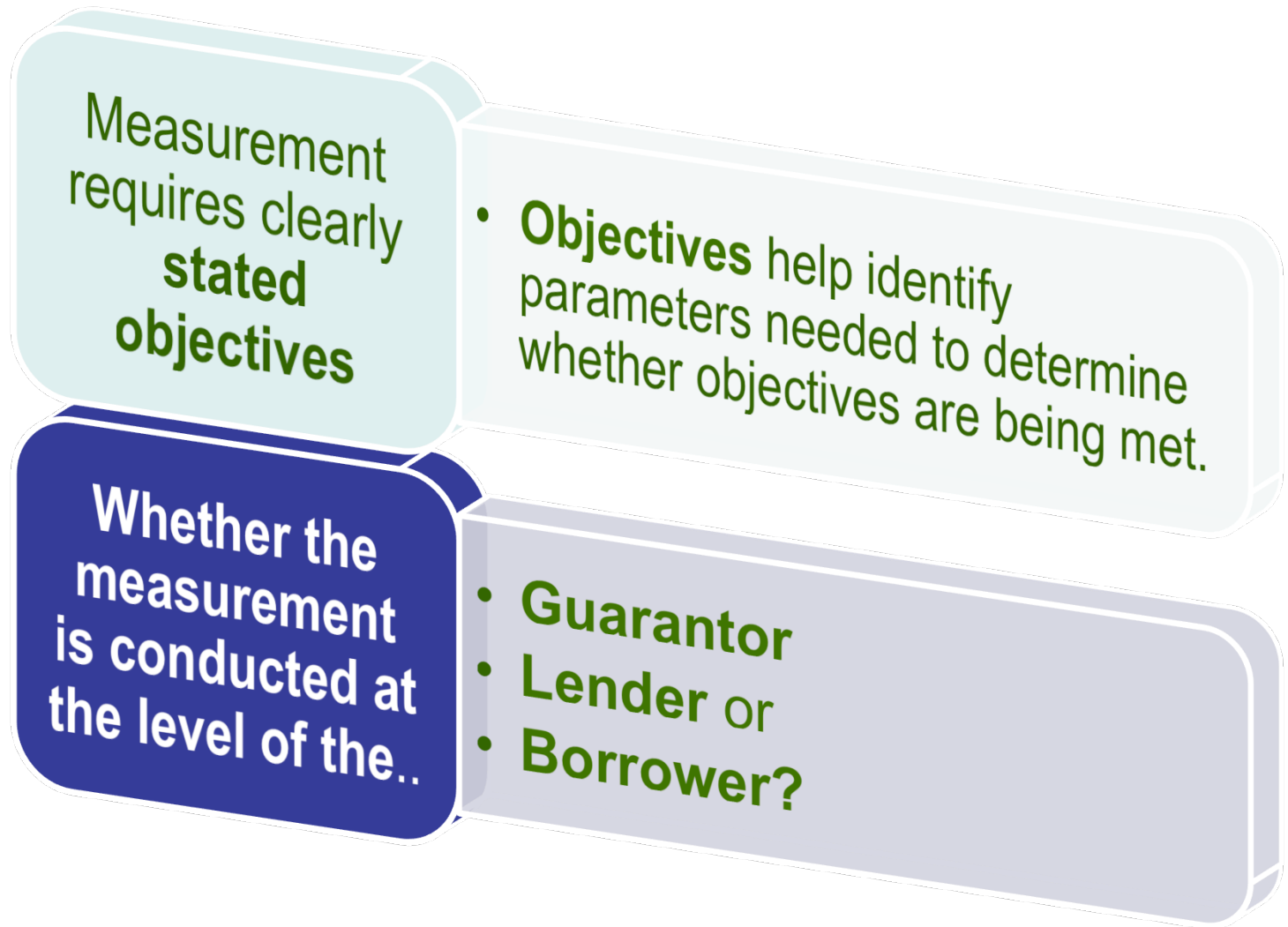
KPIs – Measuring & Evaluating

Why Credit Guarantee?

Credit Guarantee Scheme - A tool for

- ❖ Financial Inclusion. Access to Credit for economically weaker sections
- ❖ Better Risk Management & Credit Enhancement
- ❖ Improves Risk Profile of the Customers
- ❖ Supports First generation Entrepreneur
- ❖ Faster Recovery of Institutional dues
- ❖ Less Provisions for Member Lending Institutions (MLIs) for their Bad Loans
- ❖ Zero Risk Weight allows more capital leverage for MLIs
- ❖ A Good tool/ intervention as compared to Direct subsidies with wider and bigger impact with less capital

Note on KPIs



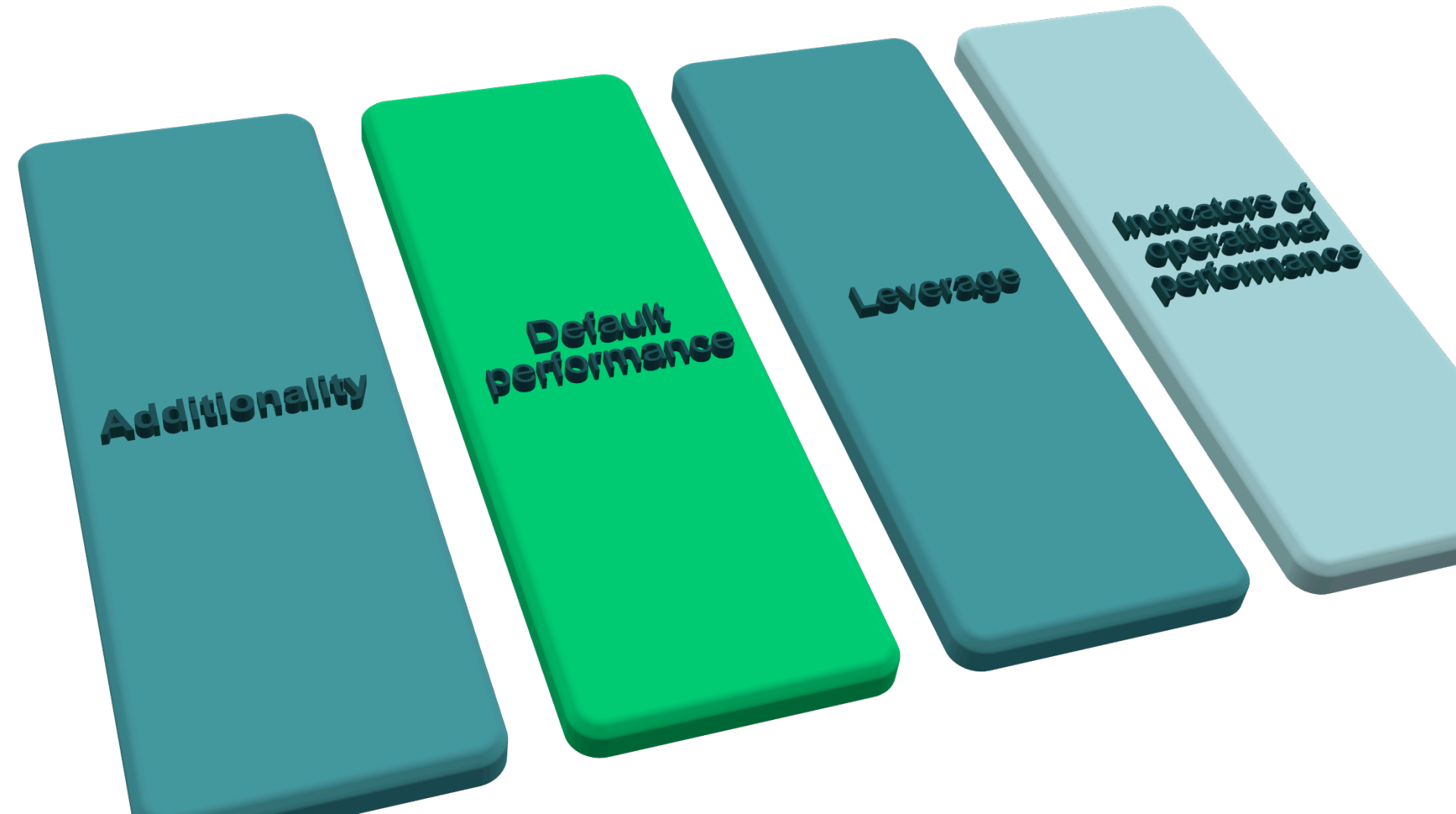
Measuring KPIs – A Bird's Eye View

Additionality

**Default
performance**

Leverage

**Indicators of
operational
performance**



Note on KPIs

1 Additionality

- ❖ Determines to what extent the beneficiaries of the scheme have been able to access loans that would not have been available in the absence of a scheme.
 - ❖ Difficult to measure because of absence of
 - ❖ proper baseline data..
 - ❖ rejection data at the level of the MLIs

Note on KPIs

2 Default Performance of a CGS

- ❖ Low default rates may imply limited activity & high risk aversion.
- ❖ Alternatively, high default rates raises questions on inefficiencies in the scheme that incentivize its use for poor credit propositions.
 - ❖ Therefore, a certain level of **default is desirable** as a proof that the scheme is fulfilling its mission of delivering additionality.

Note on KPIs

3 Leverage of the Corpus

- ❖ The higher the leverage, the greater the achievement of the guarantee fund.
- ❖ However, the default rate has to be taken into account before determining the most appropriate and negotiable level of leverage.
- ❖ Leverage provided by credit guarantee schemes make these programs largely preferable to regular grants or direct subsidy schemes of the State.

Note on KPIs

4 Indicators of Operational Performance

- ❖ Such indicators are of interest for the day to day management of the CGS - constitutes the core of any progress report to the Management/Board of Trustees.
- ❖ Another vital role played by these in situations where Reinsurance/ Counter-guarantee agencies decide on financial support in the form of counter guarantees, etc.
 - ❖ Cost per INR of guarantee issued
 - ❖ Claim pay-out rate,
 - ❖ Net loss rate,
 - ❖ Recovery rate,
 - ❖ Guarantee portfolio at risk,
 - ❖ Average number of days taken to issue a guarantee,
 - ❖ Average number of days to pay out a claim etc.

02

CGTMSE – An Overview

Conception of CGTMSE

MSMEs despite holding a key position in Indian economy, continue to face challenges with regard to access to institutional credit, collateral requirements, equity / risk capital etc.

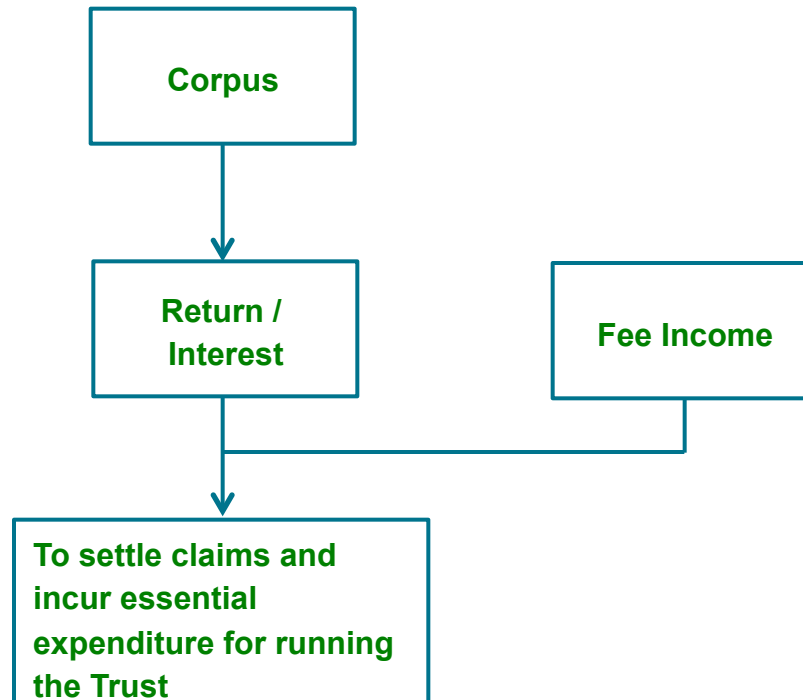
In this back drop, CGTMSE was established with the objective of guaranteeing collateral and/or third party guarantee free credit facilities so as to enable enhanced flow of credit to the Micro and Small Enterprises (MSEs) in India.

CGTMSE - Establishment

- ❖ Set up as a Trust in August, 2000 and administered by a Board of Trustees
- ❖ Government of India (Ministry of MSME) and Small Industries Development Bank of India (SIDBI) – the settlors – Contribution ratio 4 : 1
- ❖ Initial Corpus – \$19.25mn ; Present Corpus – \$367.88mn ; Committed Corpus – \$384.97mn
- ❖ Completed 15 years of operations
- ❖ Managed by a Board of Trustees

1\$=64.94 ` as on 07/10/2015

Logic of Creating Corpus



Advantages:

- Inspires confidence amongst MLIs
- Reduce the cost for the borrower
- Provides Initial support to withstand any economic crisis

CGTMSE – Introduction

- ❖ Collateral free/ third party guarantor free credit to Micro and Small Enterprises
- ❖ Credit Facility upto USD \$ 0.15 mn covered
- ❖ Loan sizes gradually scaled up for coverage after running a pilot
- ❖ Total 133 MLIs registered with the Trust as on date
- ❖ Credit facility covered include term loan, working capital loan, non fund based facilities such as Letters of Credit/ Bank Guarantees etc.
- ❖ Maximum risk coverage of upto 85% of the credit facility
- ❖ Risk sharing reduced to 50% for loans above USD 75000
- ❖ Credit for Retail Trade, Educational, Training and Academic Institutions, Self Help Groups under Microfinance not covered

Extent of Guarantee cover

Borrower Category	Maximum Guarantee Cover, where Credit facility is		
	Upto USD 7500	Above USD 7500 to 75000	Above USD 75000 to 150000
Micro Enterprises	85% of the amount in default	75% of amount in default	50% of amount in default.
Women Entrepreneur / units located in North Eastern Region (Incl Sikkim)	80% of amount in Default		
All other category of borrowers	75% of amount in Default		

Operational Highlights

Particulars	As on March 31, 2015
Cumulative Number of Guarantees Approved (No in mn)	2.00
Estimated employment generation (No in mn)	7.50
Total Investment Available (\$mn)	750.00
Cumulative Impact	20 times

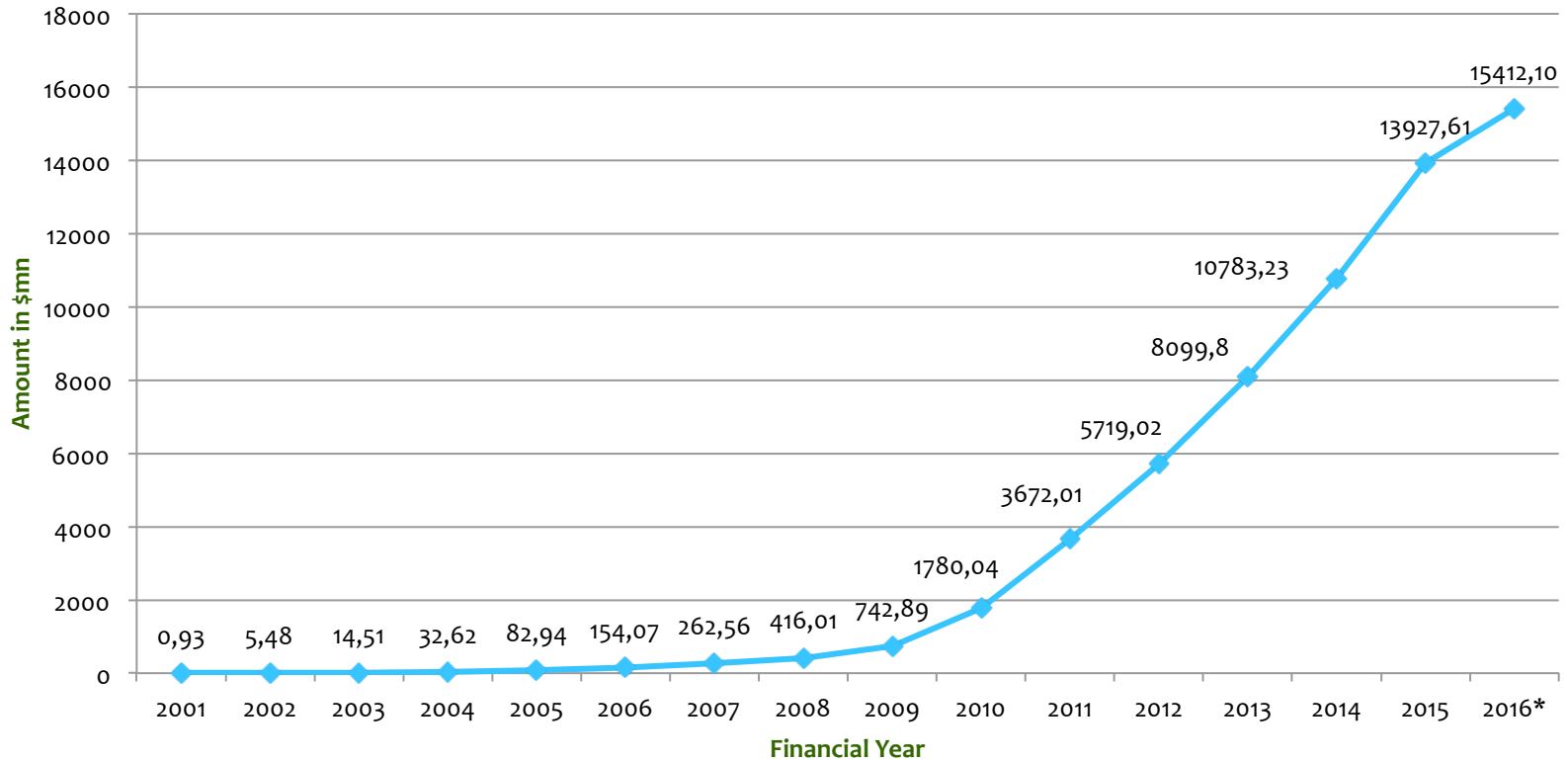
Overall Impact

Particulars	As on March 31, 2015
Cumulative Impact (Funds to total guarantees)	20 times
Estimated Turnover of Guaranteed Units (USD)	100 Billion
Estimated Exports by Guaranteed Units (USD)	1 Billion
Guarantees to First Generation Entrepreneur	48%
Guarantees Issued to Women Entrepreneur	19%
Guarantees Issued to Socially Backward and Under-privileged section	7%

CGTMSE Performance

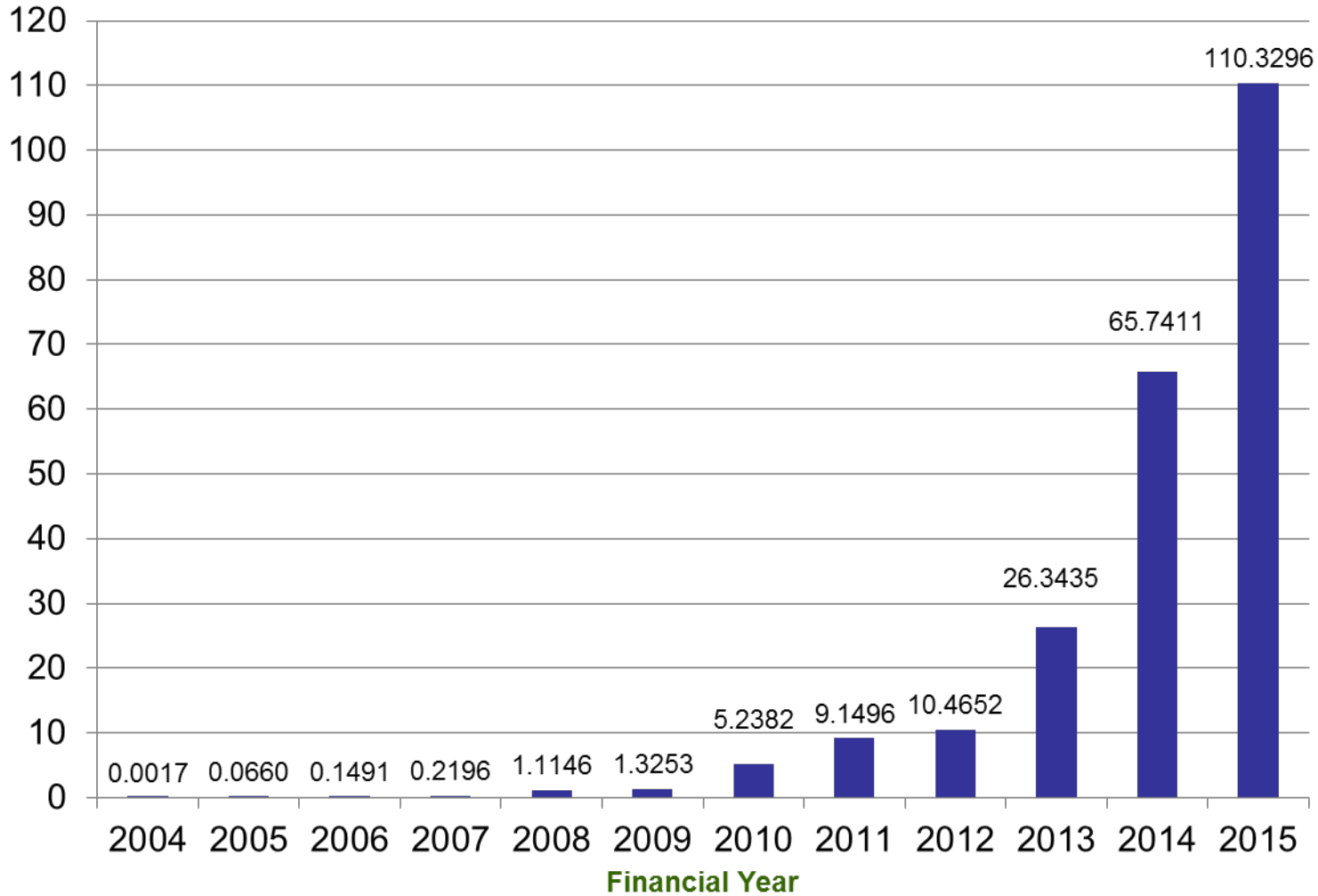
Cumulative Guarantees Approved (\$ Mn)

*as on 15 October 2015



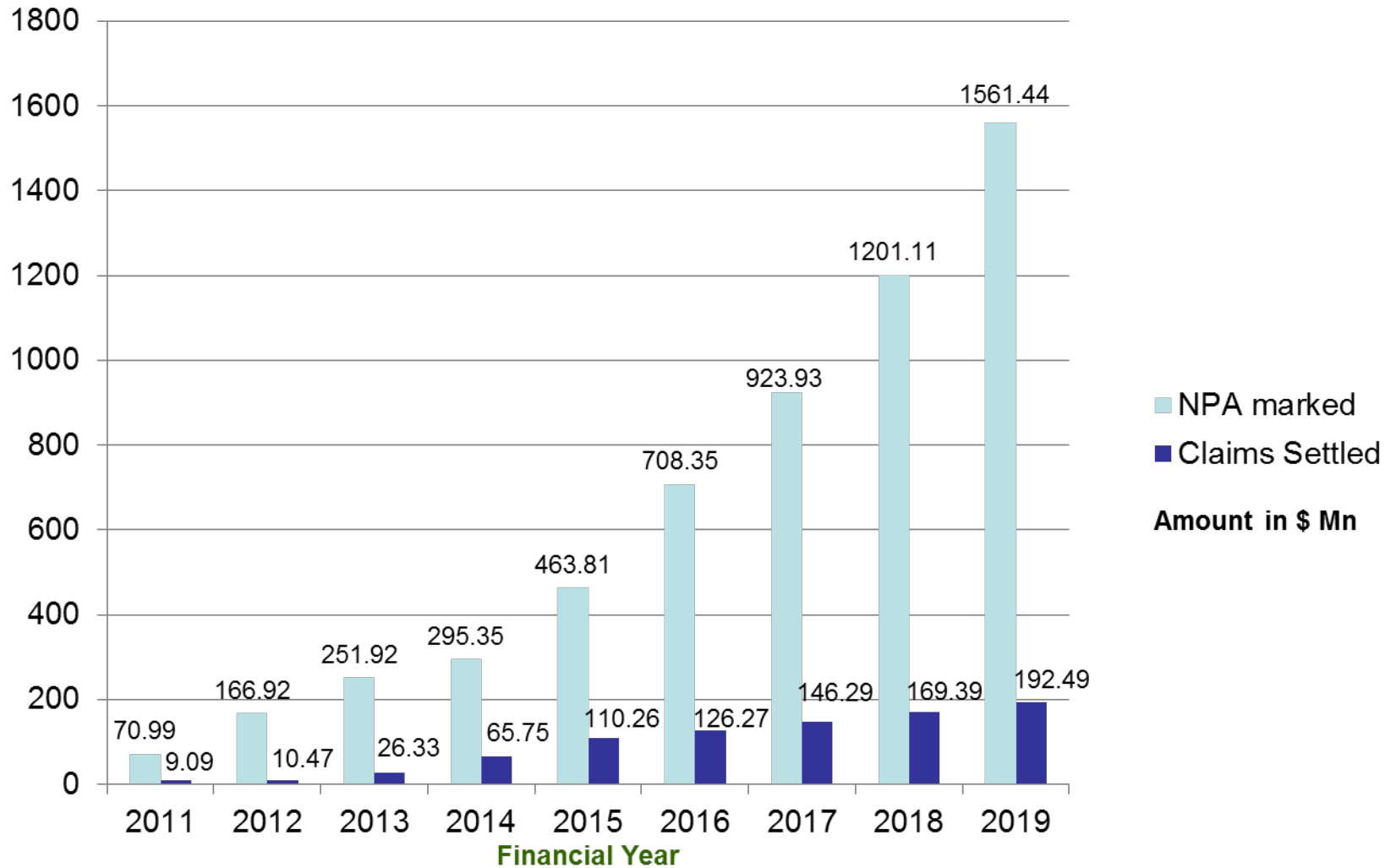
Year Wise Claims Settled

Amount in \$Mn



Cumulative Claim settled (\$ Mn)

Actual/ Expected NPA and Claims Settled/ to be Settled



03

CGTMSE – An Evaluation of KPIs

CGTMSE - Additionality

Scheme has attempted to reach out to the weaker sections of the society which were otherwise deprived of financial assistance :

- ❖ Encouragement to women entrepreneur (20% women beneficiaries) by charging lower fee and providing higher percentage of guarantee coverage
- ❖ Boost to Micro enterprises (85% of the beneficiaries) by charging concessional fee and higher guarantee coverage
- ❖ Trying to eliminate regional imbalance by having different fee structure to North Eastern Region (8% in NE Region)
- ❖ More focus on supporting economically and socially backward communities for CG cover (7%)
- ❖ Subsidy to support Handloom and Handicraft sector in clusters
- ❖ 17% of the beneficiaries state that they would not have got the loans from formal banking system in normal course
- ❖ 48% new projects or First generation entrepreneurs availed the benefits

CGTMSE - Default performance

- ❖ NPA of guarantees covered with CGTMSE are higher as compared to NPAs in MLIs' Books

This denotes:

1. Default at certain level is part of the credit business
2. CGTMSE has provided comfort to the lenders in terms of Guarantee fees and coverage and motivated them to go beyond their comfort zones for higher risk which they otherwise would not have taken in certain geographies, start-ups/ first generation/ women entrepreneurs
3. It is an indicator that the riskier projects are being guaranteed under the Scheme thereby showing more faith in the entrepreneur / success of the project
4. Access to finance to high risk perceived beneficiaries

CGTMSE - Leverage

- ❖ CGTMSE 15 years in Credit Guarantee business is a long sustenance with no subsequent contribution to corpus.
- ❖ The Trust has leveraged its fund to muster 20 times impact indicating optimum utilization of the fund and maximum benefit to the society
- ❖ Higher leverage does not necessary means high threat but high impact, high coverage and high achievements.
- ❖ High Leverage helps conserve the Fund based means of the Government or use them for alternate public good.
- ❖ The threat to sustenance will reflect from Portfolio at Risk which is about 20%.
- ❖ The probable default could be 25% of Portfolio at Risk
- ❖ Leverage up to a certain level is desirable and crossing this level urges the requirement to raise the corpus/revenue.
- ❖ Efforts are made to increase the revenue and grant from the government to reduce the leverage in order to spread the wings to bring more and more needy units under the ambit of the scheme.

CGTMSE - Indicators of operational performance

- ❖ Number of MLIs registered and reaching out to the remote customer to pass on the benefit with about 85000 branches across the country
 - 133 MLIs registered with the Trust
- ❖ Increasing number of guarantees applied for coverage
 - No. of Units covered 20 million
 - Amount of Guarantee covered \$15398.83 Mn
- ❖ B2B platform System driven guarantee approval and claim settlement making the process quick and prompt service to MLI
- ❖ With only 40 employees single office and the operational cost is less than 1% of revenue
- ❖ Strengthening Inspection and monitoring mechanism to avoid any possible moral hazards
- ❖ Strong emphasis on sustainability

THANK YOU