

## **Credit Guarantee Fund Scheme for Micro and Small Enterprises**

### **Introduction**

1. Of all the problems faced by the MSEs, non-availability of timely and adequate credit at reasonable interest rate is one of the most important. One of the major causes for low availability of bank finance to this sector is the high risk perception of the banks in lending to MSEs and consequent insistence on collaterals which are not easily available with these enterprises. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs.

2. The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India (GoI) to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000. The corpus of CGTMSE is being contributed by the GoI and SIDBI in the ratio of 4:1 respectively and has contributed Rs. 2295.30 crore to the corpus of the Trust up to August 31, 2014. As announced in the Package for MSEs, the corpus was to be raised to Rs.2500 crore by the end of 11th Plan.

### **Eligible Lending Institutions**

3. The Banks / Financial Institutions, which are eligible under the scheme, are scheduled commercial banks (Public Sector Banks/Private Sector Banks/Foreign Banks) and select Regional Rural Banks (which have been classified under 'Sustainable Viable' category by NABARD). As on August 31, 2014, there were 133 eligible Lending Institutions registered as MLIs of the Trust, comprising of 26 Public Sector Banks, 21 Private Sector Banks, 73 Regional Rural Banks (RRBs), 4 Foreign Banks and 9 other institutions i.e. Delhi Financial Corporation, Kerala Financial Corporation, Jammu & Kashmir Development Finance Corporation Ltd, Andhra Pradesh State Financial Corporation, Export Import Bank of India, The Tamil Nadu Industrial Investment Corporation Ltd., National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFI) and Small Industries Development Bank of India (SIDBI)

### **Eligible Credit Facility**

4. The credit facilities which are eligible to be covered under the scheme are both term loans and/or working capital facility up to Rs.100 lakh per borrowing unit, extended without any collateral security and/or third party guarantee, to a new or existing micro and small enterprise. For those units covered under the guarantee

scheme, which may become sick owing to factors beyond the control of management, rehabilitation assistance extended by the lender could also be covered under the guarantee scheme. Any credit facility in respect of which risks are additionally covered under a scheme, operated by Government or other agencies, will not be eligible for coverage under the scheme.

### **Guarantee Cover**

5. The guarantee cover available under the scheme is to the extent of maximum 85% of the sanctioned amount of the credit facility. The guarantee cover provided is up to 75% of the credit facility up to Rs.50 lakh (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned/ operated by women and all loans to NER including Sikkim) with a uniform guarantee at 50% for the entire amount if the credit exposure is above Rs.50 lakh and up to Rs.100 lakh. In case of default, Trust settles the claim up to 75% (or 85%/80%/50% wherever applicable) of the amount in default of the credit facility extended by the lending institution. For this purpose the amount in default is reckoned as the principal amount outstanding in the account of the borrower, in respect of term loan, and amount of outstanding working capital facilities, including interest, as on the date of the account turning Non-Performing Asset (NPA).

### **Tenure of Guarantee**

6. The Guarantee cover under the scheme is for the agreed tenure of the term loan/composite credit. In case of working capital, the guarantee cover is of 5 years or block of 5 years.

### **Fee for Guarantee**

7. A composite all-in Annual Guarantee Fee of 1.0 % p.a. of the credit facility sanctioned (0.75% for credit facility upto Rs. 5 lakh and 0.85% for above Rs. 5 lakh and upto 100 lakh for Woman, Micro Enterprises and units in NER including Sikkim) is now being charged.

### **Website/ Circulars**

8. Details of the scheme along with latest circulars are available in the website of CGTMSE at [www.cgtmse.in](http://www.cgtmse.in).

### **Scheme Awareness Programmes**

9.1 CGTMSE has adopted multi-channel approach for creating awareness of the CGS amongst banks, MSE industry associations, MSE sector, etc. through print and press media, conducting workshops / seminars, attending the programmes organized at various district / state / national fora, etc. During the year, CGTMSE participated in various seminars / workshops organized by MLIs and

Industry Associations, exhibitions and meetings organized by RBI / Govt. in connection with MSE sector, across the country to create awareness about CGS. CGTMSE officials also held business development meetings with its Member Lending Institutions. Sustained print media campaigns were carried out across the country throughout the year to improve visibility and create awareness about the scheme. Information dissemination campaigns were vigorously carried out amongst various stakeholders.

9.2 During FY 2014, CGTMSE participated in 39 Seminars/ Workshops/ Bankers' meet/ Business Development Meetings, and also made presentations to sensitize bank officials/ small enterprises on the various aspects of the Credit Guarantee Scheme. The workshops/ programmes were generally arranged by the member banks / SIDBI / CGTMSE / Industry Associations, etc.

### **Operational Highlights of CGTMSE**

10. As on August 31, 2014, cumulatively 1599128 proposals from micro and small enterprises have been approved for guarantee cover for aggregate credit of Rs.79,647.15 crore, extended by 118 active MLIs. A year-wise guarantee approved growth position is indicated in the table below:

<b>Period</b>	<b>No. of Active MLIs</b>	<b>Number of Proposals Approved</b>	<b>Credit Amount Approved (Rs. in Crore)</b>
<b>FY 2000-01</b>	9	951	6.06
<b>FY 2001-02</b>	16	2296	29.52
<b>FY 2002-03</b>	22	4955	58.67
<b>FY 2003-04</b>	29	6603	117.60
<b>FY 2004-05</b>	32	9516	326.77
<b>FY 2005-06</b>	36	16284	461.91
<b>FY 2006-07</b>	40	27457	704.53
<b>FY 2007-08</b>	47	30825	1055.84
<b>FY 2008-09</b>	57	53708	2199.40
<b>FY 2009-10</b>	85	151387	6875.11
<b>FY 2010-11</b>	106	254000	12589.22
<b>FY 2011-12</b>	109	243981	13783.98
<b>FY 2012-13</b>	117	288537	16062.48
<b>FY 2013-14</b>	117	348475	18188.12
<b>FY 2014-15*</b>	118	181875	10001.33

\* As on August 31, 2014