

## **Credit Guarantee Scheme for Micro & Small Enterprise**

### **A. Introduction**

The MSME (Micro, Small and Medium Enterprises) sometimes fail to get easy credit from banks/financial institutions as the banks generally ask for collaterals and third party guarantee. To support MSME, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To operationalise the scheme, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

Availability of bank credit without the hassles of collaterals / third party guarantees would be a major source of support to the first generation entrepreneurs to realize their dream of setting up a unit of their own Micro and Small Enterprise (MSE).

The main objective is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The other objective is that the lender availing guarantee facility should endeavor to give composite credit to the borrowers so that the borrowers obtain both term loan and working capital facilities from a single agency. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 75 / 80/ 85 per cent of the credit facility.

### **B. Credit Guarantee Scheme**

Any collateral / third party guarantee free credit facility (both fund as well as non fund based) extended by eligible institutions, to new as well as existing Micro and Small Enterprise, including Service Enterprises (excluding retail trade), with a maximum credit cap of Rs.100 lakh (Rupees Hundred lakh only) are eligible to be covered.

Guarantee cap available to the lender per eligible borrower:

<b>Category</b>	<b>Maximum extent of Guarantee where credit facility is</b>		
	Upto Rs.5 lakh	Above Rs.5 lakh upto Rs.50 lakh	Above Rs.50 lakh upto Rs.100 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% of the amount in default subject to a maximum of Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh

Women entrepreneurs/ Units located in North East Region (incl. Sikkim) ( <b>other than credit facility upto Rs.5 lakh to micro enterprises</b> )	80% of the amount in default subject to a maximum of Rs.40 lakh	Rs.40 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.65 lakh
All other category of borrowers	75% of the amount in default subject to a maximum of Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh

**Note:**

- Only Micro and Small Enterprises engaged in manufacturing activities and those in service sector excluding retail trade are eligible to be covered under the Scheme.
- The lender should cover the eligible credit facilities as soon as they are sanctioned. In any case, the lender should apply for guarantee cover in respect of eligible credits sanctioned in one calendar quarter latest by end of subsequent calendar quarter.
- Guarantee will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the term credit in case of term loans / composite loans and for a period of 5 years where working capital facilities alone are extended to borrowers, or for such period as may be specified by the Guarantee Trust in this behalf.
- The tenure for coverage of working capital facilities is 5 years, where working capital alone is covered under the scheme. In case term credit and working capital both are covered under the scheme, the tenure relating to working capital facility *would match the normal repayment period of term credit*. The reason for keeping a limit of 5 years wherever working capital alone are covered are that the period for which the same are extended by the lending institutions are not time bound. The same are reviewed periodically for increase/ decrease in the limit sanctioned, and are expected to continue for a time frame much longer than 5 years. CGTMSE welcomes any renewal of guarantee cover beyond 5 years on a payment of applicable guarantee fee.
- In case of existing units, additional credit facilities in the form of term loan or renewal of working capital facilities can be covered as and when the facilities are extended, provided no collateral security and/ or third party guarantee is obtained. Part of the credit facility with collateral and part of the facility without collateral for guarantee cover would not be entertained if it is considered as a composite credit.
- Credit facilities can be extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower upto a maximum upto Rs.100 lakh per borrower subject to ceiling amount of individual MLI (Member Lending Institutions) or such amount as may be specified by the Trust.
- Guarantee cover is available for the second term loan provided the aggregate credit does not exceed Rs. 100 lakh. Where working capital is sanctioned along with the term loan facility, the tenure of such working capital facility shall be co-terminus with that of term loan facility and shall

run concurrently with the scheduled repayment period of the term loan facility. Subsequent to the repayment of the term loan along with which working capital was sanctioned, the guarantee cover in respect of working capital can be got renewed by paying applicable guarantee fee on the sanctioned working capital facility or the renewal of working capital may also be clubbed with the second term loan facility so that both are sanctioned together, thus getting guarantee cover for both the facilities for a period equal to the repayment period of second term loan, on payment of guarantee fee on the sanctioned (term loan + working capital) account.

- As per scheme the entire credit facility has to be given without collateral and/or third party guarantee. Loans may be secured against the primary security which has been defined under the Scheme to include assets created out of the credit facility extended to the borrowers and / or which are directly associated with the business/project of the borrower for which the credit facility has been extended. In those cases where MLIs have already obtained collateral security from the borrowing units to secure existing credit facilities, the collateral security needs to be released before covering under the Scheme any additional credit facility sanctioned to the same borrowing unit.
- The rate of interest charged to the unit should not exceed 3% above the Prime Lending Rate (PLR) of the lending institution.

### **C. Circumstances when the guarantee cover obtained by the lender in respect of particular borrower will lapse**

The guarantee cover given by the Trust to the lender in respect of credit facility to a particular borrower will lapse if

1. It is subsequently brought to the knowledge of the Trust that the lender has obtained collateral / third party guarantee from the borrower while sanctioning the particular credit facility which has been covered under the guarantee,
2. It is subsequently gathered that the lender has advanced second / subsequent credit facility to the borrower with collateral / third party guarantee and extended the scope of collateral / third party guarantee to the existing credit facility for which guarantee cover has been obtained from the Trust,
3. Annual service charge is not paid to the Trust by the specified period or such extended time limit as may be granted by the Trust,
4. The tenure of guarantee cover has expired