

STUDENTS' ECONOMIC FORUM

*To kindle interest in economic affairs...
To empower the student community...*



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Theme 248

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

A monthly publication from South Indian Bank

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A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". This month, we discuss on the Credit Guarantee Scheme devised for the Micro and Small Enterprises.

What are the objectives of introducing the CGTMSE scheme?

The major purpose of the Credit Guarantee Scheme is to catalyse the flow of bank credit to the new entrepreneurs for setting up their MSE units without the hassles of collateral or third party guarantee. The scheme is intended to encourage the Member Lending Institutions (MLIs) to undertake credit appraisals based on the viability of the project and on the security of primary assets financed. The scheme also encourages lenders availing the guarantee facility to provide composite loans, comprising both working capital and term loans. CGTMSE provides reassurance to the lenders that, in the event of default by MSE unit covered under the scheme, the trust will meet the loss incurred by the lenders up to 85 per cent of the outstanding amount in default. With the active support of the Government of India, RBI, SIDBI, its Member Lending Institutions and other stakeholders, CGTMSE is committed to facilitate collateral free credit to the MSE sector across the country and works diligently towards achievement of the goals of financial inclusion. One of the major endeavours of the CGTMSE would be to facilitate securitisation of loans guaranteed by the Trust with the facility to investors for trading these securities in the secondary debt markets.

Who are the Member Lending Institutions (MLIs) of the trust?

All scheduled commercial banks and such other institution(s) as may be notified by the Government of India from time to time are eligible to become the Member Lending Institutions (MLIs) under the scheme. As of now there are almost 128 MLIs registered with CGTMSE, which includes all public sector banks, 16 Private Sector Banks, 59 Regional Rural Banks, 6 financial institutions and some foreign banks.

The Credit Guarantee Scheme is operated by the trust through these MLIs. Small Industries Development Bank of India (SIDBI), National Small Industries Corporation Ltd (NSIC) and North Eastern Development Finance Corporation Ltd (NEDFI) have been included as eligible institutions.

Who are the eligible borrowers?

CGTMSE has been set up to facilitate collateral free lending to the entrepreneurs in the MSE sector. All new and existing MSEs, which have been financed by MLIs without any collateral cover or third party guarantees are eligible for the guarantee cover under the scheme. As of now, all activities except retail trade that come under service sector, as per RBI guidelines on “Lending to Priority Sector” and MSMED Act, 2006, are eligible for coverage under the scheme.

How does the MSMED Act 2006 define Micro and Small Enterprises?

Micro Enterprises: A Micro enterprise is defined as the one in which investment in plant and machinery does not exceed Rs.25 lakhs in manufacturing / production sector and Rs.10 lakhs in the Service sector.

Small Enterprises: A small Enterprise is defined as the one in which investment in plant and machinery exceeds Rs.25 lakhs but not Rs.5 crore in the case of Manufacturing/ Production sector and exceeds Rs.10 lakhs but not Rs.2 crore in the case of Services sector.

What is the extent of guarantee cover available under the scheme?

Under the scheme all MSEs, both new and existing, with a maximum credit limit of Rs.100 lakhs are eligible for cover, provided the MLIs have provided the facilities without any collateral or third party guarantee. The borrowers are categorised into three groups based on the amount of credit facility provided. Under the Micro Enterprises, the maximum cover is 85% for borrowers with credit facility up to Rs.5.00 lakhs (Max cover: Rs.4.25 lakhs) and 75% for above Rs.5.00 lakhs up to Rs.50.00 lakhs (maximum Rs.37.50 lakhs). In the case of borrowers with credit facilities above Rs.50 lakhs up to Rs.100 lakhs, the cover available is 75% for first Rs.50 lakhs and 50% for the next Rs.50 lakhs subject to an overall ceiling of Rs.62.50 lakhs. In the case of Women entrepreneurs and units in North Eastern Region, other than credit facility up to Rs.5.00 lakhs under micro category, the cover is 80% up to Rs.50 lakhs subject to maximum Rs.40.00 lakhs. These units are eligible up to 80% for the first Rs.50 lakhs and up to 50% for the next Rs.50 lakhs subject to an overall ceiling of Rs.65.00 lakhs. All other category of borrowers, up to Rs.50 lakhs, are eligible for 75% of the amount in default subject to a maximum of Rs.37.50 lakhs. The maximum extent of guarantee available under this category, where credit facility is above Rs.50 lakhs up to Rs.100 lakhs, is Rs.37.50 lakhs plus 50% of the amount in default subject to overall ceiling of Rs.62.50 lakhs.

What is the tenure and fee of Guarantee under the scheme?

The guarantee cover commences from the date of payment of guarantee fee and runs through the agreed tenure in respect of term loans. In the case of working capital facilities, the guarantee cover is available for a period of 5 years or a block of 5 years or for such period as may be specified by the Trust in this behalf. The onetime guarantee fee is at 1% of the credit limit up to Rs.5 lakhs and 1.5% in the case of facilities above Rs.5 lakhs. In the case of credit facilities up to Rs.50 lakhs sanctioned to units in North Eastern Region (including Sikkim), the guarantee fee is 0.75%. The guarantee fee is to be paid up front, along with an annual service fee at 0.50% or 0.75% as the case may be, to the Trust by the lending institutions.

What is the procedure for invocation of Guarantee?

The invocation of guarantee is made taking into account the date of classification as NPA, whether within the lock in period of 18 months or after. The MLIs can invoke the guarantee within a maximum period of one year from date of NPA, if classification is after the lock-in period of 18 months from the date of guarantee or within one year after lock-in period, if date of classification as NPA is within lock-in period.

What are the conditions to be satisfied for invocation of Guarantee?

The lending institutions have to ensure that the following conditions are satisfied before submission of claim to the Trust.

- The guarantee in respect of the credit facility was in force at the time of account turning NPA.
- The lock-in period of 18 months, either from date of last disbursement or date of payment of guarantee fee whichever is later, has elapsed.
- The amount due and payable to the MLI are outstanding and classified as NPA.
- The MLI shall not be entitled to make any claim, if the loss in respect of the said facility had occurred owing to actions /decisions taken contrary to or in contravention of the guidelines issued by the Trust.
- The account has been recalled and recovery proceedings initiated under law.
- MLI has to take any one or more recovery measures contained in section 13(4) of SARFAESI Act 2002 before submitting claims.
- In case the MLI is not in a position to take any of the above actions under section 13(4), it may initiate fresh recovery proceeding under any other applicable law.

What is the existing procedure for settlement of claims by the Trust?

- The trust shall pay 75% of the guaranteed amount, within 30 days subject to the claim being in order and complete in all respects.
- The trust shall pay interest at the prevailing Bank Rate for any delay beyond 30 days.

- The balance 25% will be paid on conclusion of recovery proceedings.
- The MLI, on sale of assets of the borrowers, shall credit the amount realised in full to the Trust before it claims the remaining 25% of the guaranteed amount.
- The MLI shall be liable to refund the claim released by the Trust together with penal interest at the rate of 4% above the prevailing Bank Rate, if such a recall is made by the Trust in the event of serious deficiencies that had existed in appraisal/renewal /follow- up/conduct or where there existed suppression of any material information.
- The guarantee claim will not be entertained if the same is received directly from branches/offices instead of from the respective operating offices of MLIs.

Explain about the right of subrogation available to the Trust on account of claims paid?

The lending institutions have to submit the details of their recovery efforts to the Trust from time to time and hold their lien on assets created out of the loan on its own behalf and on behalf of the Trust. The Trust shall not exercise any right of subrogation and the responsibility of recovery shall rest with the MLI. In the event of a borrower owing several distinct debts to an MLI, making payments towards any one of the debts, such payments shall be appropriated by the MLI to the debt covered by the guarantee and in respect of which a claim has been preferred. All dues to the Trust shall be paid at 4% above Bank Rate if unpaid beyond a period of 30 days.

What are the operational highlights of CGTMSE?

CGTMSE has adopted multi- channel approach for creating awareness about the scheme amongst the stake holders through various media. The CGTMSE website has been made user- friendly and various seminars and advertisement campaigns have been launched. There are 128 MLIs registered with CGTMSE. The eligible lending institutions are required to enter into “one time” agreement with CGTMSE and apply for guarantee cover in respect of eligible credit facility sanctioned to any eligible borrower. MLIs are expected to support only viable proposals using their commercial discretion and due diligence. The Trust will not re-evaluate the loans sanctioned by MLIs but extend guarantee cover if the basic norms under CGS are satisfied.

CGTMSE has its Registered Office at Mumbai and Business Development cells in New Delhi and Kolkata. Since the entire operations are on line, CGTMSE is able to cater to the needs of its MLIs from Mumbai. SBI, PNB, Canara Bank, Bank of India and Allahabad Bank are the leading lending institutions. The scheme has now picked up with 7.9 lakh guarantees for an amount of Rs.37000 crore being approved by the Trust as on March 31, 2012.



CGS – COST of COVER

Credit Limit	Guarantee Fee		Annual Service Fee
	(North Eastern Region)	(Other Regions)	
Up to Rs.5.00 lakhs	0.75%	1.00%	0.50%
➤ Rs.5.00 lakhs to Rs.50.00 lakhs	0.75%	1.50%	0.75%
➤ Rs.50.00lakhs to Rs.100.00 lakhs	1.50%	1.50%	0.75%

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in

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