

ROLE OF CREDIT GUARANTEE FUND FOR MSME SECTOR

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ABSTRACT

Finance is the most essential requirement for any business and the need for the same for a micro or a small enterprise cannot be stressed enough. On one hand large source of finance can make a business blossom while a constrained one can make a business struggle. Many business entities failed because of lack of finances, which is a big disappointment. According to Mr Uday Kumar Varma Secretary, Ministry of MSME “bankers have maintained that MSME lending is growing 20-22% year-on-year, even though the overall demand for credit appears to far outstrip the credit flow” on the flip side authorities seem to be working overtime to get the situation better for all concerned. One must understand as to why MSMEs have to struggle with finances considering that there are many sources available for availing finance. Sources include banks, large organisations and small merchants amongst others. MSMEs generally have no or very little track record which acts as a bottleneck in their way to getting reasonable access to credit. The banks while looking to lend to MSMEs are looking for collaterals to safeguard against a possibility of Non Performing Assets (NPA), which is not always possible for MSMEs to provide. After a long journey since independence it was felt to cater such vibrant entrepreneurs who have capability, competency, strength, technically sound but no security to offer to banker to safeguard their investment. Keeping this objective in view, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as 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). So in the paper we have discussed about the CGTMSE as a ray of hope for the genuine entrepreneurs lacking of security and guarantee.

Keywords:

CGS,MSME,CGTMSE,SIDBI,Government,Bank,Financial institutions,Guarantee.

INTRODUCTION

Finance is the most essential requirement for any business and the need for the same for a micro or a small enterprise cannot be stressed enough. On one hand large source of finance can make a business blossom while a constrained one can make a business struggle. Many business entities failed because of lack of finances, which is a big disappointment. One must understand as to why MSMEs have to struggle with finances considering that there are many sources available for availing finance. Sources include banks, large organizations and small merchants amongst others. MSMEs generally have no or very little track record which acts as a bottleneck in their way to getting reasonable access to credit. The banks while looking to lend to MSMEs are looking for collaterals to safeguard against a possibility of Non Performing Assets (NPA), which is not always possible for MSMEs to provide.

In the paper series by Charan Singh and Kishinchand Poornima Wasdani it is mentioned that entrepreneurs at start up stage, survival stage or at growth stage, major challenges are in accessing finance reported by enterprises in this stage included the difficulty in providing collateral or a guarantee, processing time for loan applications, lack of knowledge about available schemes, and procedural complications, in that order. Enterprises also felt that high service fees for loan requests and difficulty in completing required documentation were challenges. Enterprises in the start-up stage may not be able to provide collateral for a loan and they lack knowledge about available schemes, which may hinder them from choosing the most effective option for financial assistance. Survival stage: The major challenges encountered by enterprises at this stage were similar to those reported by enterprises in the start-up stage, though the order was different. The difficulty in providing collateral or a guarantee and procedural complications were jointly rated the highest.

After a long journey since independence it was felt to cater such vibrant entrepreneurs who have capability, competency, strength, technically sound but no security to offer to banker to safeguard their investment. 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). Keeping this objective in view, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as 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). CGTMSE is one of the subsidiaries of SIDBI for assisting to MSME sector.

As mentioned above to secure the investment of money landing institutions given to MME sector, Government of India (GoI) and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in July, 2000 to provide credit guarantee support to collateral free / third-party guarantee free loans up to Rs. 200lakh. This is the only credit guarantee institution in the country exclusively set up for the benefit of small / tiny enterprises in the country. The corpus of CGTMSE is contributed by Government of India and SIDBI in the ratio of 4:1. The scheme was formally launched on August 30, 2000. Under the scheme, credit facilities, which are extended without third party guarantee on collateral security by eligible lending banks/Financial Institutions, are covered. Numerous initiatives have been taken by the Government to enhance the coverage of credit guarantee to incentivize collateral-free lending to MSE sector.

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 50/75/80/85 per cent of the credit facility.

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, with a maximum credit cap of 200lakh (Rupees Two Hundred lakh only) are eligible to be covered.

CGTMSE Logo

The logo itself speaks about the objective and purpose of the CGTMSE.

Three light blue stripes connecting the word CGTMSE indicate sources of 'comfort', 'hope' and 'inspiration' the Trust provides and the Flame indicates the continuous support being provided by the Trust to the entrepreneurs in realizing their dream of setting up units of their own.

Yellow color around flame indicates source of energy given by the Trust to the entrepreneurs for setting up units in the MSE sector without having to worry about providing collateral security and / or third party guarantees.

The blue triangular shape resting on the word CGTMSE indicates the shed of an industrial unit and growth of MSEs in upward direction.

All above things lead to believe that both the word CGTMSE & its LOGO ensure assured help for the entrepreneurs to set up MSE units.

Features of the scheme

1. Micro & Small Enterprises as per MSMED Act eligible
2. Credit guarantee for MSE loans up to 2crore, without collateral and third party guarantee.
3. Both Manufacturing and Service sectors covered.
4. Credit for retail trade, educational / training institutions and SHGs are not eligible for coverage.
5. All fund / non-fund based facility covered.
6. Maximum Guarantee Cover of up to 85% of credit facility covered under CGS.
7. Guarantee coverage is 50% for credit facility covered under CGS above 50Lakh.
8. 106 lending institutions registered as MLIs with GTMSE (21 PSU Banks, 20Pvt. Banks, 51 RRBs, 9 Financial Institutions and 5 Foreign Banks).

Benefits to MSME

1. Scheme is for MSME. The industry can feel the benefit of being registered MSME.
2. As today service sector is growing at rapid speed, so the entrepreneurs engaged in service activity can avail benefit.
3. The limit of loan which is covered under the scheme is quite huge ie 200Lakh.
4. A large number of financial institutions are given coverage under the scheme. Even rural banks are also covered. So the businesses located in backward area can also take benefit of the scheme.
5. The guarantee fee is also very minimum. Also payable within 2 months of demand.
6. Now the entrepreneur need not run to arrange the collateral security and guarantee.

7. This scheme covers the composite finances. It means the finances can be availed for building, machinery and working capital under one roof.
8. The facility can be availed for letter of credit and bank guarantee also.

Guarantee fees

Credit Facility	Annual Guarantee Fee (%) Per Annuam	
	Women,& MSME units located in North East Region(incl.Sikkim)	Annual Service Fee (%)
Upto Rs.5 lakh	0.75	1.00
Above Rs.5 lakh to Rs.200 lakh	0.85	1.00

Annual Guarantee Coverage

Category	Maximum extent of Guarantee where credit facility is		
	Upto Rs.5 lakh	Above Rs.5 lakh upto Rs.50 lakh	Above Rs.50 lakh upto Rs.200 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	
Women entrepreneurs / Units located in North East Region (incl. Sikkim) (other than credit facility upto Rs.5 lakh to micro enterprises)		80% of the amount in default subject to a maximum of Rs.40 lakh	50% of the Amount in default subject to a maximum of 100 Lakh
All other category of borrowers	75% of the amount in default subject to a maximum of Rs.37.50 lakh		

The guarantee cover available under the scheme is to the extent of 75% / 80% of the sanctioned amount of the credit facility, with a maximum guarantee cap of 62.50 lakh / 65 lakh for credit facilities upto 50 lakh. The extent of guarantee cover is 85% for micro enterprises for credit up to 5 lakh. The extent of guarantee cover is 50% of the sanctioned amount of the credit facility for credit above 50 lakh with a maximum guarantee cap of 100 lakh.

The extent of guarantee cover is 80% (i) Micro and Small Enterprises operated and/or owned by women; and (ii) all credits/loans in the North East Region (NER) for credit facilities upto 50 lakh. In case of default, Trust settles the claim up to 75% (or 80%) of the amount in default of the credit facility extended by the lending institution for credit facilities upto 50 lakh. The extent of guarantee would reduce to 50% for the loans above 50 lakh upto 200 lakh.

Lender's responsibilities

1. Evaluation of loan application on the predefined parameter. Necessary banking prudence and discretion should be applied while selecting viable project.
2. The lender should cover the credit facility as soon as it is sanctioned. Maximum time allowed is by the end of subsequent calendar quarter. The guarantee covers from the date of payment of guarantee fees.
3. The term of loan should be fixed at the time of sanctioning loan it may be for 5 years or as fixed.
4. Continuous monitoring of the account.
5. Safeguarding of primary property like insurance coverage, regular visits and continuous inspection, regular interaction with borrower.
6. Regular payment of CGTMSE fees. Time limit is 2 months from the date of demand.

7. Filing of case within prescribed time limit. Timely notification about defaulted borrower. Lock in period use to be 18 month
8. By filing the case with CGTMSE does not take away responsibility of lender to recover the amount.
9. The lender should exercise all right to recover the amount as if it is not covered by CGTMSE.
10. Also follow procedure to recover the outstanding amount as suggested by CGTMSE from time to time.

Appropriation of Residual Recovery

As mentioned in responsibility of the landing institution that in case of default the lender should exercise all his rights as if not covered by the CGTMSE. In case of any realization the trust will have the primary right before making the final settlement of the claim. Therefore, the amount realized from the sale of assets (residual recovery) must first be credited in full by the lenders to the Trust before they can finally claim the remaining 25 per cent of the default / guaranteed cap amount.

CONCLUSION

From the above discussion we can conclude

1. MSME has great opportunity specially those genuine entrepreneurs who are lacking with security arrangement.
2. The security arrangement at a very low cost.
3. The landing of Banker and other financial institutions is quite secured.
4. Promotion to the start up projects.
5. Arrangement of building, machinery and working capital under one roof.
6. Banker and other financial institutions should take due precaution to finance under this scheme.
7. Growth of MSME sector.

IF SCHEME IS PROPERLY CIRCULATED AND AWARENESS IS CREATED THIS SCHEME WILL BE PROVED AS BACK BONE OF MSME SECTOR.

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