CREDIT GUARANTEE TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE) SCHEME

INTRODUCTION:

CGTMSE is an initiative of the Government of India in collaboration with the Ministry of Micro, Small and Medium Enterprises (MSME) and the Small Industries Development Bank of India (SIDBI) launched on 30th August 2000. The **CGTMSE full form** is Credit Guarantee Fund Trust for Micro and Small Enterprises, and as is evident from the name, it is a Trust which provides the financial institutions with credit guarantee to provide loans to SMEs and MSMEs.

The basic aim of CGTMSE is to encourage first-time entrepreneurs to establish SME and MSME, considered being the bulwark of the Indian economy by availing of collateral free loans from the eligible financial institutions. The guarantee covers default by the borrower to repay the advance. Thus, the CGTMSE scheme primarily envisages the provision of loans to first generation entrepreneurs so that they can flourish in the competitive environment without the burden of security or third-party guarantees. In turn the financial institutions are provided cover for the absence of security to fund SMEs and MSMEs promoted by small Indian businessmen up to a certain limit.

FEATURES OF THE CREDIT GUARANTEE SCHEME:

One of the key objectives of CGTMSE coverage is the focus towards the creation of a robust credit relief system that promotes better credit flow to SME and the MSME sector. The stand out features of the CGTMSE scheme is:

- Guaranteed repayment of 75% or 85% in some cases for the defaulted principal loan amount up to Rs.50 lakh.

- The maximum guarantee is 50% for loan amount greater Rs.50 lakh but under Rs.1 crore.

- Provides for 85% repayment for loans up to Rs.5 lakhs to micro-enterprises.

- The guarantee amount for repayment is 80% of the loan amount in case the MSME is promoted by a woman or the location of the unit is in the North East Region (NER).

- The repayment procedure or **CGTMSE loan recovery** covers the entire loan amount inclusive of the interest component for a period of 3 months and/ or the entire outstanding loan amount along with the accrued interest from the suit filed date or the day when the loan turns into an NPA, whichever is lower.

- Rehabilitation of business units if the failure is beyond the control of the management to the extent of Rs.1 crore as support to the lender for assistance in resuscitating the enterprise.

- As per circular no.166 dated 06.12.2019, the CGTMSE (Trust) clarified that one time cap of Rs. 200.00 lakhs is removed and the borrowers can avail incremental credit facilities under Credit Guarantee Scheme of CGTMSE, subject to maximum cap of Rs. 200.00 lakhs.

- **Maximum Guarantee Cover:**

<table>
<tr><th rowspan="2">Category</th><th colspan="3">The maximum amount of credit facility</th></tr>
<tr><th>Up to Rs. 5 lakh</th><th>More than Rs. 5 lakh to Rs. 50 lakh</th><th>More than Rs.50 lakh to Rs. 2 crores</th></tr>
<tr><td>Micro Enterprises</td><td>85 percent of the default amount maximum of Rs. 4.25 lakhs.</td><td>75 percent of the default amount maximum of Rs. 37.50 lakhs.</td><td>75 percent of the default amount maximum Rs.1.50 crores</td></tr>
<tr><td>Women and Units in NER</td><td colspan="2">80 percent of the default amount maximum Rs.40 lakhs for credit facility up to Rs.50 lakhs.</td><td>75 percent of the default amount maximum Rs.1.50 crores</td></tr>
<tr><td>All others</td><td colspan="3">75% of the amount in default subject to a maximum of Rs. 150 lakh.</td></tr>
</table>

Business activity	Credit from Rs.10 lakhs to Rs. 1 crore
MSE Retail Trade	50% of the default amount maximum of Rs.50 lakhs.

CGTMSE Scheme Eligibility Criteria:

As per the CGTMSE guidelines, credit guarantee is deemed to back a borrower with a collateral and third party guarantee free advance. Under the scheme, the member lending institution which can be an NBFC also, who lend to the SME and MSME sector as per criteria below:

(i) not exceeding ₹50 lakh (Regional Rural Banks/Financial Institutions);
(ii) not exceeding ₹200 lakh (Scheduled Commercial Banks, select Financial Institutions and Non Banking Financial Companies (NBFCs);
(iii)not exceeding ₹50 lakh for Small Finance Banks (SFBs)

By way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees or such amount as may be decided by the Trust from time to time. Provided that the lending institution applies for guarantee cover in respect of credit proposals sanctioned in the quarter April-June, July-September, October-December and January-March prior to expiry of the following quarter viz. July-September, October-December, January-March and April-June respectively.

Provided further that, as on the material date

(i) Credit facility is standard and regular (not SMA) as per RBI guidelines (refer Circular No. 151/2018-19 dated July 12, 2018); and / or

(ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or

(iii) The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

CGTMSE had included the MSE Retail Trade under its ambit for fresh credit facilities eligible for guarantee coverage by MLIs on or after February 28, 2018 for cases from □10 lakh to □100 lakh.

CGTMSE had also introduced a new “Hybrid Security” product where the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of □200 lakh, can be covered under CGS-I. CGTMSE will, however, have pari-passu charge on the primary security as well as on the collateral security provided by the borrower for the credit facilities extended. Under the hybrid security product, there is no requirement 4 for MLIs to create security / charge in favour of CGTMSE by way of legal documentation. (Refer Circular No.142A, 142B / 2017-18 dated February 28, 2018 and June 11, 2018 respectively). Credit facilities extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower up to a maximum of □200 lakh per borrower subject to ceiling amount of individual MLI or such amount as may be specified by the Trust.

Lending Institutions: It covers the whole gamut of scheduled commercial banks, specified Regional Rural Banks, SIDBI, NSIC, NEDFi, SFB and NBFCs who lend to the specific sector and have entered into an agreement with CGTMSE or the Trust for the purpose. These are designated as Member Lending Institutions (MLIs) and number 141 at present.

Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme: -

i. Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.

ii. Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

iii. Any Credit facility for loans upto □10 lakh to Micro Enterprises shall not be eligible to covered under the Scheme if the said credit facility has been covered under MUDRA Guarantee Scheme through NCGTC Ltd. while applying for the guarantee cover for such proposals.

iv. Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.

v. Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii) and (iii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.

vi. Any credit facility which has been sanctioned by the lending institution against collateral security and / or third party guarantee. However, after the introduction of Hybrid Security model MLIs can cover the unsecured part of the collateral security under CGTMSE upto to the extent of □ 200 lakh.

vii. Any credit facility which has been sanctioned by the lending institution (all scheduled commercial banks, selected financial institutions and RRBs) with the maximum interest rate not more than 14% p.a. including cost of guarantee cover would be eligible for coverage under CGS.

CGTMSE Application:

It is incumbent upon the lender to apply for eligible credit facilities as an when they are sanctioned. The accepted norms for seeking guarantee cover and applicable terms are:

- Sanctioned during the calendar quarter latest by the end of the subsequent calendar quarter.
- The guarantee will commence the date the **CGTMSE fee** is paid.
- The cover shall run for the agreed upon tenure for the Term and Composite Loans.
- If only Working Capital Loan is provided to the borrower, the period of cover shall be 5 years or any other period specified by CGTMSE.

Steps for availing Loan under CGTMSE Scheme:

Availing of a credit facility or loan from the lender entails a series of activity on the part of the borrower for a seamless experience. The major steps for **CGTMSE loan scheme** can be tabulated as under:

- **Establishment of the Business Entity:** The unit has to be incorporated a distinct business enterprise in the appropriate category like proprietorship, partnership or a limited company and necessary approvals, certificates and tax registrations are need to obtained to execute the project.

- **Business Project Report:** The components of the project must be well defined based on a thorough market study and analysis. The factors to be mandatorily covered are:
  - Business Model.
  - Promoter Profile.
  - Cost and other Financials.

- **Submission:** The project report and the **CGTMSE loan application form** is to be submitted to the lender for further processing. If the homework is proper, the first step towards a successful completion of the process is taken.

- **CGTMSE Scheme Banks Sanction:** Once the **CGTMSE application forms** are successfully submitted, the processing begins. After proper evaluation and gauging the viability of the project sanction is accorded in alignment with the lender's policy.

- **Obtaining CGTMSE Loan Cover:** After according sanction to the loan, it is responsibility off the lender to file for guarantee cover at the CGTMSE.

Interest Rate for CGTMSE Loan:

All lenders impose a certain cost to the borrower. The major component of the cost to the borrower is the interest rate for the loan. Majority of the lenders recover **CGTMSE loan interest rate** that does not exceed 14% to 18% including the guarantee cover.

Recovery of CGTMSE Fee named Annual Guarantee Fee (AGF):

AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facilities sanctioned / renewed to MSEs on or after April 01, 2018 as detailed below:

<table>
<tr><th colspan="3">Annual Guarantee fee recovered after 1st April 2018 per annum. The fee charged is on the Guarantee amount for the 1st year and on the outstanding amount in subsequent years.</th></tr>
<tr><th>Quantum of credit facility</th><th>MEs for women and NER</th><th>Others</th></tr>
<tr><td>Up to Rs.5 lakhs</td><td colspan="2">1.00 + Risk Premium</td></tr>
<tr><td>Over Rs.5 lakhs up to Rs.50 lakhs</td><td>1.35 + Risk Premium</td><td>1.50 + Risk Premium</td></tr>
<tr><td>Over Rs.50 lakhs up to Rs.2 crores</td><td colspan="2">1.80 + Risk Premium</td></tr>
<tr><td>Retail Trade (Rs. 10 lakhs to Rs. 100 lakhs)</td><td colspan="2">2.00 + Risk Premium</td></tr>
</table>

In case of term loans, AGF would be calculated on outstanding amount as on 31st December against each guarantee account and for working capital, AGF would be calculated on maximum (peak) working capital limit availed by the borrower/enterprise during the previous calendar year. For cases covered under Hybrid Security Model Guarantee fee will be charged on the guaranteed amount for the first year and on the proportionate outstanding amount subsequently resulting in lower guarantee fee charged to MSEs. Additional risk premium of 15% will be charged on the applicable rate to MLIs who exceed the payout threshold limit of 2 times more than thrice in last 5 years. This premium will be applicable for all guarantee accounts irrespective of the sanction date.

Charging of Annual Guarantee Fee (AGF):

Considering the very high level of NPAs reported by some of the MLIs as also significantly 8 larger amount of claims settled for some of the MLIs, the Trust had introduced risk based pricing structure for cases sanctioned on or after April 01, 2016. The Trust with it's over 18 years of working in the Credit Guarantee field, has built up adequate data to support the risk bases pricing. Therefore, the Trust had introduced following risk premium structure:

Risk Premium on NPA – Guaranteed		**Risk Premium of CGTMSE claim**	
NPA Percent	**Risk Premium**	**Claim Payout**	**Risk Premium**
0-5%	SR	0-5%	SR
>5-10%	10% of SR	>5-10%	10% of SR
>10-15%	15% of SR	>10-15%	15% of SR
>15-20%	20% of SR	>15-20%	20% of SR
>20%	25% of SR	>20%	25% of SR
**** SR stands for Standard Rate**			

The above Risk premium structure would be governed by the following:

1. The risk premium, wherever applicable, would be charged with prospective effect i.e. credit facilities sanctioned by MLIs on or after April 01, 2016 and covered under the Credit Guarantee Scheme. The existing loans under credit Guarantee will continue to carry the old rates till their maturities or renewal.

2. The rates under this mechanism will be floating and will undergo changes every year based on the NPA level and payout ratios of the concerned Bank.

3. The MLIs having NPA percentage as well as claim payout ratio more than 5%, the risk premium under both the categories shall be applicable to such MLIs.

4. The risk premium structure will also be applicable to renewal cases (i.e. renewals after expiry of guarantee period) in respect of working capital limits.

5. In respect of working capital accounts covered under the Credit Guarantee Scheme where original sanctions are prior to April 01, 2016 and the subsequent enhancements in the limits are on or after April 01, 2016, the earlier fixed rate structure (i.e. pre-revised structure) would continue to apply even for the enhanced portion.

6. The review of risk premium would be an annual exercise and the revised risk premium would be applicable from the first day of each financial year. The subsequent revisions in the risk premium would be applicable to all those guarantees originally approved under differential pricing structure.

7. It is clarified here that while levying the annual guarantee fee for the first time, the fee is collected for the full 365 days from the guarantee start date (i.e. fee payment date) and the second and subsequent year onwards in respect of already issued guarantees, the fee is collected till the end of financial year excepting for the terminal year of guarantee where the fee is collected for the proportionate period. Thus, while the fee applicable for the first year would be for the entire 365 days at applicable rate, the fee at the revised rates in subsequent years, based on revisions in NPA percentage/claim pay-out ratio, would be applicable only for the broken period of the respective year