

Credit Guarantee Fund Scheme for Small Industries

Rationale:

SSI units particularly the first generation of entrepreneurs faced difficulties in accessing bank credit because of their inability to provide adequate collateral security for loans. Considering this, the Government launched the Credit Guarantee Fund Scheme for Small Industries on 30th August, 2000 with a view to alleviating the problem of collateral security and impediment to flow of credit to Small Scale Industries (SSI) sector.

Background:

The Government approved Credit Guarantee Fund Scheme for Small Industries on 19th May, 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 10 lakhs without collateral/third party guarantees. The Scheme is being operated by the Credit Guarantee Trust Fund for Small Industries (CGTSI) set-up by Government of India and SIDBI. The Trust was incorporated on 27.7.2000. The Scheme has been operationalised with effect from 1st January, 2001. Subsequently, the Government decided to increase the eligibility limit of loans to be guaranteed from Rs. 10 lakhs to Rs. 25 lakhs. Necessary modifications have been carried out in the indenture of the Trust to enable CGTSI to guarantee loans up to Rs. 25 lakhs and to provide for counter guarantees to other institutions.

Salient Features of the Scheme:

A. Eligibility and Coverage

Any collateral free credit facility (both in terms of loan as well as working capital) extended by lending institutions on or after 1st June, 2000 to new as well as existing manufacturing SSI units, including Information Technology and Software Industry, particularly in the tiny sector, with a credit cap of Rs. 25 lakhs per operating unit, can be extended guarantee cover. With effect from September 1, 2003, the credit facilities up to Rs. 25 lakhs sanctioned without collateral security and/or third party guarantee by the lending institutions to the new and existing Small Scale Service and Business (Industry Related) Enterprises (SSSBs) have also been made eligible for coverage under the scheme. Any credit facility which has been sanctioned by the lending institution against collateral security and/ or third party guarantee, however, is not eligible for guarantee cover under the scheme. The guarantee cover available is up to 75% of the loans extended by the lending institutions. The Guarantee cap per borrower is Rs. 18.75 lakh. The rate of interest that can be charged to the borrower by the lending

institution shall not be more than 3% over the prime lending rate of the lending institution.

B. Guarantee and Annual Service Fee

The lending institutions availing guarantee from the Trust have to pay one time guarantee fee of 2.5% of the credit facility sanctioned and the service charges of 1% per annum on the outstanding loan amount as on 31st March each year.

C. Commencement of guarantee cover

The guarantee cover will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the term credit in respect of term credit/composite credit. Where working capital alone is extended to the eligible borrower, the guarantee cover shall be 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.

D. Invocation of guarantee

- i. The lending institution may invoke the guarantee in respect of eligible credit facility if the following conditions are satisfied:
 - a. The guarantee in respect of that credit facility is in force;
 - b. The lock-in period of 24 months from either the date of last disbursement of the loan to the borrower or the date of payment of the guarantee fee in respect of credit facility to the borrower, whichever is later, has elapsed;
 - c. The amount due and payable to the lending institution in respect of the credit facility has not been paid and the dues have been classified by the lending institution as Non Performing Assets. Provided that the lending institution shall not make or be entitled to make any claim on the Trust in respect of the said credit facility if the loss in respect of the said credit facility has occurred owing to action/decisions taken contrary to or in contravention of the guidelines issued by the Trust;
 - d. The loan facility has been recalled and the recovery proceedings have been initiated under due process of law.

ii. The trust shall pay 75 per cent of the guaranteed amount on preferring of eligible claim by the lending institution, within 30 days, subject to the claim being otherwise found in order and complete in all respects. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the lending institution.

E. Eligible Institutions

All scheduled commercial banks and Regional Rural Banks (categorized under “sustainable viability”) or such of those institutions as may be directed by GOI. As on 31st March 2004, 45 eligible institutions comprising 26 Public Sector Banks, 10 Private Sector Banks, 6 Regional Rural Banks and 3 other institutions viz. National Small Industries Corporation Ltd. (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi) and Small Industries Development Bank of India (SIDBI) have become Member Lending Institutions (MLIs) of CGTSI for participating under the Credit Guarantee Scheme.

F. Contribution to the Corpus Fund of CGTSI

The Government of India and SIDBI contribute towards the corpus fund of the CGTSI in the ratio of 4: 1. The Trust was set-up with an initial corpus of Rs.125 crore, which was enhanced to Rs. 250 crore by the end of FY 2001-02 and to Rs.427.02 crore by the end of FY 2002-03. The corpus fund was further raised to Rs. 686.19 crore during the FY 2003-04. With a view to augment the corpus so as to make the scheme self-sustaining, a budgetary provision of Rs.196.29 crore has been made by the Government during the current FY 2004-05. At present, the corpus fund is of Rs.767.44 crore