



**भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA**

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**Report of Working Group to Review the Credit Guarantee Scheme of the
Credit Guarantee Fund Trust for MSEs released**

Photograph

Mandatory doubling of the limit for collateral free loans to micro and small enterprises (MSEs) sector to Rs. 10 lakh from the present Rs. 5 lakh, increase in the extent of guarantee cover, absorption of guarantee fees for the collateral free loans by CGTMSE subject to certain conditions, lower guarantee fees for women entrepreneurs and enterprises in the North-East, simplification of procedure for filing claims with CGTMSE and increasing awareness about the scheme are some of the recommendations of the Working Group set up to review the Credit Guarantee Scheme of the Credit Guarantee Fund Trust. The setting up of the Working Group was announced in the (paragraph 114) Annual Policy statement for 2009-10. [The Report](#) was released by the Hon'ble Finance Minister Shri Pranab Mukherjee on March 6, 2010 as part of the Platinum Jubilee celebrations of the Reserve Bank.

The main recommendations of the Group are:

1. Collateral free loans

The limit for collateral free loans to the MSE sector to be increased from the present level of Rs. 5 lakh to Rs.10 lakh and it be made mandatory for banks.

2. Guarantee Fee

a) The guarantee fee for collateral free loans upto Rs.10 lakh to Micro Enterprises to be borne/ absorbed by the CGTMSE subject to the proviso that the Trust be free to adjust the guarantee fee both downwards and upwards based on the modelling of the dynamically evolving distribution of claims. This will ensure that the CGTMSE remains self-financing and self-sustaining in the long-term.

b) CGTMSE may charge composite, all-in guarantee fee of 1% p.a. and appropriately realign downwards the guarantee fees chargeable to women entrepreneurs, Micro enterprises and units located in North-Eastern Region including Sikkim. The Trust may also annually review the Guarantee Fee to be charged on the basis of the pricing/valuation model suggested by the Group.

c) The Government of India to consider exempting both guarantee fee and the income on investments of the Trust from Income Tax, as is the practice internationally for such non-profit credit guarantee organisations.

3. Extent of the Guarantee Cover

Consistent with the recommendation for enhancement of the collateral free loan limit from Rs. 5 lakh to Rs. 10 lakh, the guarantee cover upto 85% of the amount in default to be made applicable to credit facilities to Micro Enterprises upto Rs 10 lakh. However, the extent of guarantee cover for credit facilities above Rs.10 lakh upto Rs.50 lakh will be 75% and for credit facilities in excess of Rs.50 lakh upto Rs.1 crore will be 75% upto

Rs. 50 lakh and 50% of the amount in excess of Rs. 50 lakh, as per the extant provisions of the Scheme.

4. Corpus of the Guarantee Trust

If the CGTMSE uses the conceptually rigorous and technically robust model suggested by the Group, there is only 0.1 per cent chance that the Fund will be touched. However, as and when required, the Government of India may contribute to the Fund's corpus.

5. Simplification of Procedure

a) At present banks have to initiate legal action in all cases before filing claim with the Guarantee Trust. With a view to simplifying the procedure for filing claims in respect of small loan accounts, initiation of legal proceedings as a pre-condition for invoking of guarantees to be waived for credit facilities upto Rs.50,000-.

b) Member Lending Institutions (MLIs) of the Trust may be allowed to invoke guarantee within a period of two years from the date of classification of the account as NPA instead of the present prescription of within one year.

c) The final claim to be paid by the Trust to the MLIs after three years of obtention of decree of recovery instead of the present procedure of releasing the final claim by the Trust only after the decree of recovery becomes time barred i.e. 12 years after obtaining decree.

6. Awareness about the Scheme

The Chief Executive Officers (CEOs) of banks should assume complete and total ownership in the matter of strongly encouraging the branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.

The implementation of the Recommendations of the Working Group should result in enhanced usage of the Guarantee Scheme and facilitate increase in quality and quantity of credit to the presently included, as well as excluded, MSEs, leading eventually, to sustainable inclusive growth.

Background

Having regard to the imperative of accelerating the flow of credit to the Micro and Small Enterprises (MSEs) sector, which is very critical for inclusive and equitable growth and larger economic empowerment, it was announced in the (paragraph 114) Annual Policy statement for 2009-10 "to ask the Standing Advisory Committee on MSEs to review the Credit Guarantee Scheme so as to make it more effective." Following this announcement, a working group was constituted under the Chairmanship of Shri V.K. Sharma, Executive Director, Reserve Bank of India. The terms of reference of the Group were: i) to review the working of the Credit Guarantee Scheme and to suggest measures to enhance its usage and facilitate increased flow of collateral free loans to MSEs; ii) to make suggestions to simplify the existing procedures and requirements for obtaining cover and invoking guarantee claims under CGTMSE Scheme; iii) to examine the feasibility of a whole turnover guarantee for the MSE portfolio; and iv) any other issues. Chairman and Managing Director of SIDBI, representatives of the Government of India, banks and IBA were Members of the Working Group and the Chief Executive Officer of DICGC was a Special Invitee.

Alpana Killawala
Chief General Manager