

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

The objective of the CGTMSE is to enable the banks to look at small and micro businesses with objectivity and give more importance to the project viability and business model validation. To cover the loan under the credit guarantee fund scheme, the borrower has to pay an additional guarantee fee and service charge in addition to the interest charged by the bank. The current CGTMSE fee is payable at the rate of 1.5%. It is payable at 0.75% for the North-Eastern region including the state of Sikkim.

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 realise 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).

### Features of CGTMSE

<b>Interest Rates</b>	As per RBI's Guidelines is eligible for coverage under CGTMSE
<b>Eligible Activities</b>	<ul style="list-style-type: none"><li>· Manufacturing and Services including Retail trade is allowed</li><li>· Educational and Training institutions, Self Help Groups (SHGs), and agriculture-related activities are not eligible</li></ul>
<b>Loan Amount</b>	<ul style="list-style-type: none"><li>· For Micro and Small Enterprises – Credit facility up to Rs. 200 lakh can be covered on an outstanding basis</li><li>· For Regional Rural Banks and Select Financial Institutions credit facility up to Rs. 50 lakh is allowed</li></ul>
<b>Guarantee Coverage</b>	From 75% – 85% (50% Coverage for retail activity)
<b>Collateral / Third Party Guarantee</b>	Not required

## **Eligibility Criteria**

Lending institutions that provide funding support to specific sectors are in agreement with the CGTMSE scheme. The entities and institutions that are eligible to avail loans under the CGTMSE scheme are as follows:

### **Borrowers**

- All Existing and New Micro and Small Enterprises (MSEs)

### **Lending Institutions**

- Scheduled Commercial Banks (SCBs)
- Regional Rural Banks (RRBs)
- Small Finance Banks (SFBs)
- Non-banking Financial Companies (NBFCs)
- Small Industrial Development Bank of India (SIDBI)
- National Small Industries Corporation (NSIC)
- North Eastern Development Finance Corporation Ltd. (NEDFi)

Small and Micro-Enterprises owned and/or operated by Women Entrepreneurs are eligible for a Guarantee Cover of 80%, whereas all the credit/loans in the North East Region (NER) for credit facilities are eligible for a guarantee of Rs. 50 lakh.

**Educational institutions, agriculture, training institutions, and Self-Help Groups (SHGs) are not eligible for guarantee cover under CGTMSE.**

The CGTMSE loan limit solely depends on the applicant's profile and business requirements.

### **CGTMSE Guarantee**

Any collateral / third party guarantee free credit facility in form of both fund-based and non-fund based) offered by eligible institutions to new and existing Micro and Small enterprises, including Service Enterprises, with a maximum credit cap of Rs. 2 crores are eligible to be covered.

### **Documents required for loan application**

Below stated are the documents required for a Loan under the CGTMSE scheme and its coverage:

- Duly filled CGTMSE loan application form with passport-sized photographs
- Business Incorporation or Company Registration Certificate

- Business Project Report
- CGTMSE Loan Coverage Letter
- Copy of loan approval from the Bank
- Any other document required by the Bank

CGTMSE also provides rehabilitation assistance to the business units. If a business unit is in a bad condition due to factors that are beyond the control of the management, then CGTMSE covers the loan for rehabilitation extended by the lender within the credit cap of Rs. 1 crore.

### **How to get Loan under the CGTMSE Scheme?**

The objective of the CGTMSE is to enable the banks to look at small and micro businesses with objectivity and give more importance to the project viability and business model validation. To cover the loan under the credit guarantee fund scheme, the borrower has to pay an additional guarantee fee and service charge in addition to the interest charged by the bank. The current CGTMSE fee is payable at the rate of 1.5%. It is payable at 0.75% for the North-Eastern region including the state of Sikkim.

### **Procedure for getting a loan under CGTMSE is as follows:**

#### Step 1. Formation of the Business Entity

Before even starting the procedure for loan approval under the CGTMSE, the borrower has to incorporate a private limited company, limited liability partnership, one-person company, or a proprietorship according to the nature of the business and obtain necessary approvals and tax registrations for executing the project.

#### Step 2. Preparing a Business Report

Borrowers need to conduct a market analysis and prepare a business plan containing relevant information, such as business model, promoter profile, projected financials, etc. The report is then presented to the credit facility and an application is filed for getting the loan under the CGTMSE scheme. However, businesses should consider that such project reports be prepared by experienced professionals. This shall increase the chances of approval.

#### Step 3. Sanctioning of Loan from the Bank

The request for a bank loan usually contains credit terms and working capital facilities. After the application and business plan are under process, banks carefully analyze the viability of the business model and process the loan application, and accord sanction, as per the bank's policy.

#### Step 4. Obtaining the Guarantee Cover

After the loan is sanctioned the bank applies to CGTMSE authority and obtains the guarantee cover. If the loan is approved by CGTMSE, the borrower will have to pay the guarantee fee and service charges. The CGTMSE loan application form can be downloaded from its official website.

The extended list of MLIs under the CGTMSE scheme contains 141 banks including all the major rural, urban, public sector, and private sector banks of India. The list contains some of the larger banks, such as the State Bank of India, United Bank of India, Punjab National Bank, etc.

Note: CGTMSE does not grant any loan, credit facilities, subsidies and nor does it have any Loan Agents, Agencies for arranging loans, or credit guarantees offered via its MLIs.

#### **Claim Settlement Procedure**

After the disbursement of the final part of the loan amount, there is a lock-in period of 18 months for a preferred claim. The lender shall prefer a claim once the defaulted account has been notified as an NPA. The commencement of recovery proceedings after the account is called an NPA is known as the CGTMSE claim settlement procedure.

<https://www.startupindia.gov.in/content/sih/en/government-schemes/cgtsme.html>

<https://sbi.co.in/web/business/sme/sme-government-schemes/cgtmse>

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