

CGTMSE's Collaboration with the State Government of Haryana

1. About CGTMSE

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been set up jointly by Ministry of Micro, Small & Medium Enterprises (MSME), Government of India and Small Industries Development Bank of India (SIDBI) to catalyse flow of institutional credit to Micro & Small Enterprises (MSEs). The Credit Guarantee Scheme (CGS) of CGTMSE was launched to strengthen credit delivery system and to facilitate flow of credit to the MSE sector, create access to finance for unserved, underserved and underprivileged, making availability of finance from conventional lenders to new generation entrepreneurs. Since its inception in 2000, CGTMSE has been instrumental in providing guarantee cover to collateral and/or third party guarantee free credit facilities extended by eligible Member Lending Institution [MLIs] to MSEs.

The main objective of the scheme is that 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 lender availing guarantee facility should endeavour to give credit to the borrowers. Presently, the loans upto ₹500 lakh are being guaranteed by CGTMSE.

2. CGTMSE's Performance and Impact

On a cumulative basis, CGTMSE has approved 70.25 lakh guarantees covering loans amounting to over ₹4.19 lakh crore as on March 31, 2023. The units supported by CGTMSE have generated employment to the tune of 181 lakh and contributed ₹24,441 crores towards exports. It has so far settled claims for more than ₹10,300 crore since inception. The NPA percentage is slightly above 9%.

FY 2023 has been a special year for CGTMSE as it has created a new landmark by approving guarantees for more than ₹1 lakh crore indicating 87% growth on YoY basis. This financial achievement has been an outcome of various key initiative implemented during the financial year.

This feat of CGTMSE has even been acknowledged by Hon'ble Prime Minister, who, while expressing his happiness on the occasion, has said, "We are betting on the entrepreneurial zeal of our youth to propel our economy to even greater heights."

As part of on going revamp of the Scheme, CGTMSE has introduced many modifications w.e.f. April 1, 2023 which again has been noted by Hon'ble Prime Minister who tweeted ***" This is a part of our Government's efforts to strengthen the MSME Sector"***.

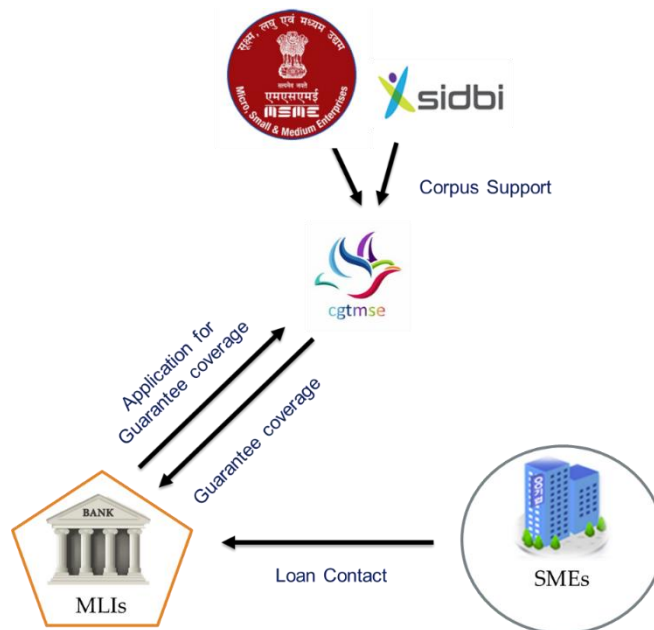
It is, therefore, apparent that CGTMSE with its untiring efforts, unflinching commitment and several key initiatives to contribute towards a USD 5 Tn economy, as set out by the Hon'ble Prime Minister, has assumed a greater role of the enabler in the financial eco-system and have fostered an entrepreneurial mindset across the nation.

3. Scheme Details and Mechanism

CGTMSE provides guarantee coverage to collateral and / or third party guarantee free credit facility to all new as well as existing Micro and Small Enterprises for credit facilities extended by Lending Institutions. The guarantee cover available under the scheme varies from 75% to 85% based on the category of the borrower.

CGTMSE has been spreading its wings to include different categories of lending institution as eligible under CGS. Apart from scheduled commercial banks and specified Regional Rural Banks, CGTMSE has included Scheduled Urban Co-operative Banks/ Non-Scheduled Urban Co-operative Banks / StCBs, DCCBs, Microfinance Institutions (MFIs) as its eligible Member lending Institutions (MLIs).

Institutional Framework



Corpus and Sustainability

The initial corpus fund of ₹2,500 crore of the Trust was contributed by the Government of India (GoI) and SIDBI in the ratio of 4:1. The committed corpus of the Trust was enhanced to ₹7,500 crore in 2018. Recognising the contribution made by CGTMSE so far, the Hon'ble Union Finance Minister, while presenting the Union Budget for FY 2023-24, has announced additional corpus support of ₹9000 crore to CGTMSE, to enable revamping of Credit Guarantee Scheme. This augmentation of corpus by the Govt. of India by increasing the committed corpus of the Trust from present ₹7,500 crore to ₹16,500 crore could be viewed as acknowledgment of the contribution of the Trust to the growth of MSEs. Further, the additional corpus would further help the Trust in deleveraging its present position.

It is worth mentioning that CGTMSE in its 22 years of operations has never faced any shortage of funds, even with increase in the guarantee application. With the strong backing of corpus and over 2 decades of existence has made the Trust self – sustaining.

4. CGTMSE bridging the Credit Gap

MSEs find it difficult to be a part of the formal credit system due to lack of, appropriate accounting records, information asymmetry etc. As a result, Banks rely on collateral security. However, most of the MSEs are incapable of fulfilling the Banks requirement of collateral. CGTMSE here plays an important role by giving comfort to the lending institutions by providing sovereign guarantee thereby increasing their risk appetite and including the MSE in the formal credit system.

However, it may be seen that collateral free lending covered under CGTMSE's Scheme still constitute a small percentage (approx. 7%) of total credit flow to Micro and Small Enterprises in the country. This could be, amongst others, due to the fact that even with such coverage banks may perceive their portion of risk at 25% as high and are hesitant to cover the credit facility under CGTMSE. This is explained by the type of primary security generally available for such loans which have very less realisable value. This hesitancy of banks can be overcome by additional guarantee coverage.

CGTMSE, on its part, has gradually increased the coverage for 50% to 75% in general and upto 85% for specific categories. To provide guarantee coverage in excess of this, it has entered into collaboration with State Governments of Tamil Nadu, Assam, Manipur and Meghalaya, for special State Specific Credit Guarantee Scheme, where the respective State Government undertake to provide additional coverage, along with stipulated coverage by CGTMSE, to take the overall coverage to about 95%. This can be achieved by small contribution by the State Government concerned initially and balance amount will be contributed through budget allocation over a period.

5. CGTMSE's proposed collaboration with State Government of Haryana

Guarantee Statistics and total credit to the MSE segment in Haryana:

Below is the approved guarantee data for last 3 years for CGTMSE as a whole viz a viz State of Haryana.

CGTMSE - Guarantee coverage for Haryana						
Amt. in ₹ crore						
Particulars	Guarantee Approved for Haryana		All India Guarantee Approved		%age of Guarantees approved in Haryana vis a vis All India	
	No.	Amount	No.	Amount	No.	Amount
FY 2020	25916	1583	846650	45851	3%	3%
FY 2021	18499	1218	835592	36899	2%	3%
FY 2022	22285	2707	717020	56172	3%	5%
FY 2023	30343	5025	1165786	104781	3%	5%
Cumulative as on 31/03/2023	143110	14232	7025480	419665	2%	3%

Haryana data on credit outstanding to the MSE sector by Scheduled Commercial Banks & CGTMSE coverage in Haryana			
Amt. in ₹ crore			
State / UT Name	Total Credit to MSE	Guarantees in Haryana	%age
	Amount	Amount	Amount
Haryana	51260	3678	7%
Source: As per RBI data as on as on March 31, 2021			

- It may be seen that only 7% of credit going to MSE segment has been covered under CGTMSE which indicates that Bank still prefer collateral security over CGTMSE. In a way, this is also an indication about loan / credit not being extended for want of collateral security which never gets reflected in credit data.
- Moreover, lending institutions have been hesitant to provide credit to this sector majorly because of non-availability of realisable asset and high risk perception of banks to lending the MSEs. As indicated above, the coverage under credit Guarantee Scheme for Haryana, when viewed in the context of other States, is also low at 3% of the total guarantee approved by CGTMSE.
- Among other things, the low coverage of credit under the Credit Guarantee mechanism, even when RBI mandates that for loans upto ₹10 lakh no collateral to be taken, could be attributed to the fact that even

with 75% coverage, banks may not be comfortable to lend due to nature of security made available by this segment which is inadequate to ensure recovery in the event of default.

- Accordingly, in light of low guarantee coverage in Haryana, it is felt that higher guarantee coverage may encourage banks to lend to units without being bothered about the recovery aspect based on security. This is also borne out by the fact that credit delivery under Emergency Line of Credit, which provided 100% guarantee, has been very robust.

6. Proposal:

1. State Government of Haryana can rely on the experience gathered by CGTMSE over more than 2 decades of its operations. CGTMSE, an established Institutions since last 2 decade already runs Credit Guarantee schemes to support Micro & Small entrepreneurs.
2. Currently, the guarantee coverage under the scheme of CGTMSE is generally 75% / 85%.
3. As mentioned above, experience under Emergency Line of Credit is quite encouraging where 100% guarantee coverage is provided. However, one limiting factor is that guarantee cover under this Scheme is available only to existing borrowers of lending institutions, which does not support creation of new enterprises nor 1st time borrowers.
4. CGTMSE would be willing to collaborate with the State Government of Haryana where additional coverage can be extended (upto 5% - 20%) so that the entire ecosystem is benefited with 90% - 95% coverage which will also prevent the issue of moral hazard as minimum 10% - 5% stake of MLIs would also be there.
5. If desired, a ceiling of 10% of NPA may be stipulated from a particular portfolio which is in line with the NPA level under CGTMSE portfolio. Accordingly, additional guarantee from the State Government will be available only till the NPA from a particular portfolio reaches 10%, beyond which guarantee from CGTMSE would only be available as per its normal Scheme.
6. For this, the State Government of Haryana may place a small fund with CGTMSE which would be used for honoring the part of guarantee issued on behalf of the State Government. Entire commitment of the

fund / corpus may not be required immediately and initially the State Government of Haryana can contribute a small token amount to kick off the collaboration. The balance amount can come in tranches as per requirement.

7. As 90% - 95% is covered under the proposed structure, this can encourage the lending institutions, given their apprehension about lack of realisable security cover, collateral security etc.
8. It is to be noted that there will not be any additional cost of coverage i.e. CGTMSE will not be charging any additional fee for the enhanced coverage portion and would charge fee bases on its share of coverage and State Government's share shall not have any fee.
9. The interest earned on the fund placed with CGTMSE will also be credited back to the fund to for meeting claim liabilities. As per prevailing market conditions, it is expected that the fund will earn an interest income @ 4% - 5% approx.
10. Any contribution made by the Government will have a multiplier effect in supporting a portfolio. It is worked out that a contribution of ₹100 crore is expected to support a portfolio of approx. ₹6600 crore with 90% coverage and of approx. ₹5000 crore with 95% coverage. This implies that a contribution of ₹100 crore would enable creation of additional portfolio of about 10% of the outstanding MSE portfolio in the State.
11. It may also be mentioned that as per CGTMSE's portfolio, about 80% of the guarantee coverage is issued for loans upto ₹10 lakh. Accordingly, such a collaboration would be increasingly helpful for supporting the bottom of pyramid enterprises.
12. As per the table given below, it is seen that multiplier effect under the Scheme is creating leverage of about 66 - 50 times of the State Government of Haryana corpus. NPA from the portfolio is assumed to be at 10%.
13. By entering into collaboration with CGTMSE, State Government of Haryana can have multipronged approach where a special emphasis to specific industry, cluster, geographical area can be prioritized basis the Government prerogative e.g. special assistance to weaker sections of the society, Special Scheme for Women Entrepreneur, etc. The same can be covered out of the special fund contributed by the State Government of Haryana. We can also consider covering a

lending institution under this mechanism who otherwise may not be eligible under CGTMSE's normal Scheme.

14. CGTMSE would manage the State Government of Haryana fund by charging a small management fee to cover its operational costs.

Illustration of Corpus building

Assuming a NPA of 10% under the proposed mechanism, since 90% - 95% loan guarantee is proposed, the likely creation of portfolio at 5% - 20% additional coverage by State Government is given below:

The following table explains that a corpus contribution of ₹100 crore in collaboration with CGTMSE will be good enough to create a portfolio size of substantial amount.

Particulars	Overall Extent of coverage 90% with State Govt. Portion of 15%	Overall Extent of coverage 95% with State Govt. Portion of 20%
	Amt in ₹ Crore	Amt in ₹ Crore
(a) Portfolio created out of collaboration	100	100
(b) Expected NPA in Portfolio of ₹100 Cr (10%)	10	10
(c) CGTMSE portion of Loss (75%) of the Guarantee	7.5	7.5
(d) State Govt. Fund portion of Loss (15% - 20%) of the Guarantee	1.5	2.0
(e) Overall extent of guarantee coverage (CGTMSE + State Govt)	90%	95%
Since amount at (d) fund is leading to a creation of ₹100 crore of portfolio, a corpus size of ₹100 crore will create a portfolio of	6600	5,000
Impact of the Collaboration:		
Leverage creation	66	50
Considering average ticket size of ₹7 lakh of the loan, MSME borrowers supported in the State would be more than	94,000	70,000
Assuming minimum 3 employee per unit, employment opportunities would be created for over.	2.8 lakh	2 lakh
Assuming 50% new units, green field projects / new to bank MSME borrowers supported would be more than	47,000	35,000