



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

Boost to Micro and Small Enterprises (MSEs) in India

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ABSTRACT:-

The purpose of this paper is study how the CGTMSE scheme is boosting the entrepreneurs for their financial requirement of business. Availability of bank credit without collateral/third party guarantee would be a major source of support to the first generation entrepreneurs to realize dream of setting up a unit of their own Micro, Small Enterprises (MSE). The government of India and SIDBI set up this scheme to empower the entrepreneurs. The scheme will be improve competitiveness of MSE Entrepreneurs. The past 13 years the Performance of this scheme is increasingly every year.

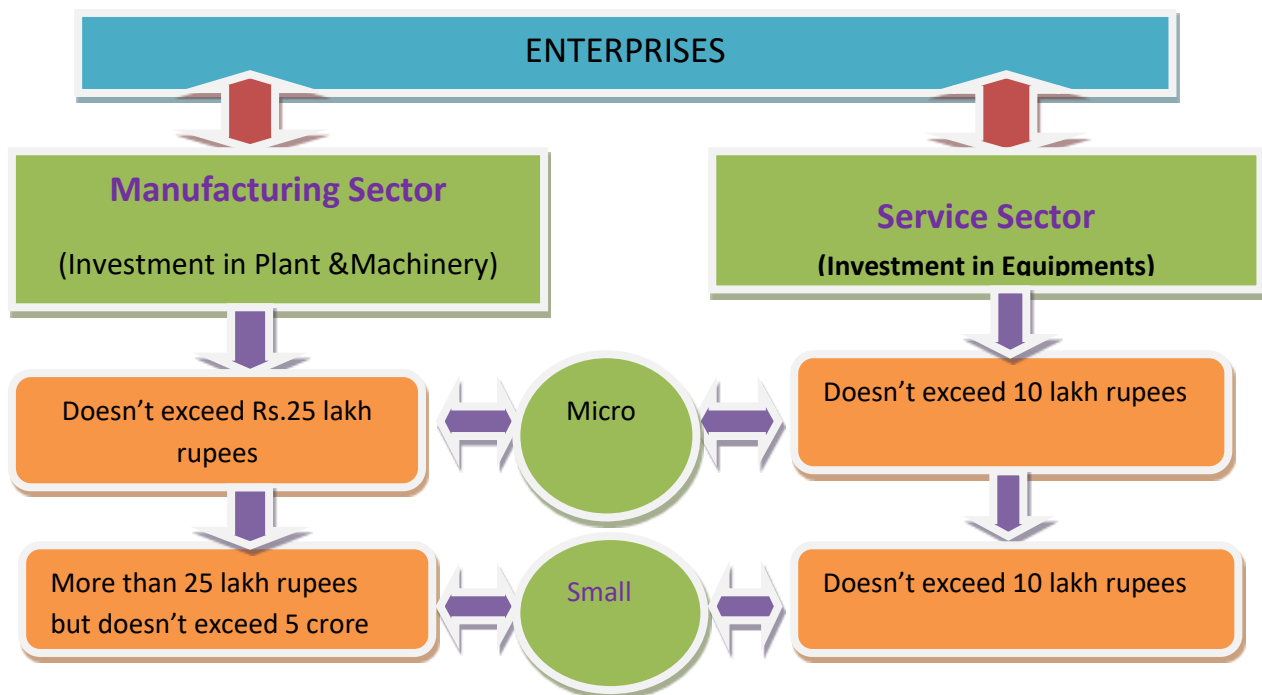
The MSE Units are boon for the rural people and it will also create new enterprises to develop the nations. In this scheme many public sector banks, private sector banks, foreign banks, Financial Institutions will grant the loans to MSE Sector. This study knows the overall performance of CGTMSE scheme in India.

Key Words: - CGTMSE, Entrepreneurs, GDP, MSEs, Performance, Banks, SIDBI, India.

I. INTRODUCTION:-

The Micro and Small Enterprises are the back bone of the Indian economy. Micro and Small enterprises is the major contributor to the Indian economy as well as contributing exports and employment of the country. It also recognized as engine of economic growth. There are 30 million enterprises in various industries, employing 69 million people, together these accounts for 45% of the industrial output and 40% of the exports. However, lack of adequate and timely access to credit has continued to be the biggest challenge. Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. Finance is the life- blood of every organization. MSMEs are consider that accessing finance is the biggest constraint their growth. Any type of business activity depends up on the finance. Whether the business concerns are big or small, they need finance to fulfill their business activities in the world. Keeping this point of view ministry of Micro Small and Medium enterprises (MSMEs), Government of India launched Credit Guarantee Scheme (CGS) to strengthen credit delivery system and facilitate flow of credit to the MSE sector.

Definition of MSE according to MSME acts 2006:



Source:-Ministry of Micro, Small and Medium Enterprises Govt of India.



II. REVIEW OF LITERATURE:-

A brief review of literature relating to the objectives of the present study. The review of literature is as follows:

Small Industrial Development Bank of India (SIDBI):-

Micro and Small Enterprise (MSE) segment experience challenges in accessing credit from banks due to the lack of adequate secondary collateral or third-party guarantees. In order to catalyze the flow of credit to the MSE sector without the burden of collateral, the government and SIDBI set up the credit guarantee scheme (CGS) for the micro and small enterprise segments. The CGS provides default cover for MSE credits in case of enterprise default. The scheme encourages member financial institutions of the trust to finance credit applications based on the viability of enterprise and a primary security.

International Finance Corporation (IFC), (November, 2002):-

Credit to micro and small enterprises sector is generally perceived as high risk lending, more so, when there is absence of any collateral. In order to encourage banks to lend more to this sector, Government of India and SIDBI have set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in July 2000, to provide credit guarantee support to collateral free / third-party guarantee free loans up to Rs. 100 lakh extended by banks and lending institutions for micro and small enterprise (MSEs) under its Credit Guarantee Scheme (CGS).

Fait Fanis (FAO) (2013):- Four case studies on credit guarantee funds for agriculture is an in-depth analysis of different models of guarantee system. An assessment of these cases, together with a review of the global industry of agricultural guarantee systems, was published as Credit guarantee systems for agriculture and rural enterprise development. Worldwide, credit guarantee systems (CGS) are used as instruments for enhancing credit in targeted sectors. Of recoveries in claims paid accounts. During the 1990s, there was growing interest in CGS as an instrument to increase SMEs' access to the various loan instruments of financial institutions. Many countries around the world have Made CGS as the most common and



effective government support programme for SME lending, ahead of direct credit and interest rate or regulatory subsidies.

CGTMSE Annual Report (2011-12):- CGTMSE operations had a positive impact on the economy in terms of turnover, exports and encouraging entrepreneurs of the country.

III. OBJECTIVES OF THE STUDY:

1. To study how the CGTMSE scheme is boosting the entrepreneurs for their financial requirement of their business.
2. To study the performance of CGTMSE Scheme in India.

IV. RESEARCH METHODOLOGY:

The period of the study is 2000-2013 and based on secondary information. The secondary data collected from the relevant publications of Ministry of Micro Small and Medium Enterprises (MSMEs), Reserve bank of India (RBI), Annual reports of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and different Articles, journals, books etc.

V. CGTMSE SCHEME ESTABLISHMENT & CORPUS:-

Today our Indian economy is the third largest in the world by Gross Domestic Product behind America and china, MSE are essential part of the contributing GDP in the Indian economy contributing GDP 8-9% every year they are also key contributor of the GDP and more than 6000 products heterogeneous in the world .this sector is the second largest employment generating sector after the agriculture. Indian MSE is bedrocks for innovation, but every MSE are challenging accessing to institutional credit, collateral requirements, equity capital. The CGTMSE is against for these problems. Set up as a Trust in August, 2000 and administered by Board of Trustees Government of India and Small Industries Development Bank of India (SIDBI) the Contribution ratio 4:1, The fund contributed by the government of India Rs 2,500 crore and SIDBI contributed by Rs 500 Crore.

During the financial year 2012, Rs 2.23 crore contributed by the Government of India and Rs 1.23 crore contributed by SIDBI respectively.



VI. CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE):- INDIA

MSE are mostly depending up on bank finance for a variety purpose such as purchase of land, building, plant and machinery, working capital requirements. But lack of collateral requirements banks are not granting loans to this sector the government of India realized that to overcome these issue the ministry of CGTMSE scheme is the opportunity for young entrepreneurs in MSE sector. The MSE is the providing employment opportunities to a large no. of people availability of bank credit without the hassles of collaterals/third party guarantee would be a major source of support to the first generation entrepreneurs to realize their dream of setting up a unit of their own Micro and Small Enterprises.

Ministry of Micro, Small and Medium Enterprises (MSMEs) and government of India launched credit guarantee scheme (CGS) so as strengthen credit delivery system and facilitate Flow of credit to the MSE sector. The Government of India and Small industries Bank of India both are set up this scheme and granting this scheme money sharing basis. This scheme was started year 2000 and came into force on August 1, 2000.

OBJECTIVES OF THIS SCHEME:-

The major objectives of this scheme are given below

- Encouraging entrepreneurs both new and existing.
- Giving a boost to MSE sector via credit guarantee scheme.
- Facilitating credit without collateral Requirements.
- To minimize credit risk in MSE lending.

MAJOR FEATURES OF CGTMS SCHEME:-

- All Micro and Small Enterprises are eligible.
- Assist both Manufacturing and Service sector.
- Credit facility up to Rs 100 lakh.
- Fund/non fund base facility covered.
- Without collateral requirement credit will be available.

CGTMSE Logo - What does it depict?



❖ **LIGHT BLUE:-**

Three light blue stripes connecting the word CGTMSE indicate sources of 'comfort', 'hope' and 'Inspiration' the Trust provides and the Flame indicates the continuous support being provided by the trust to the entrepreneurs in realizing their dream of setting up units of their

❖ **YELLOW COLOUR:-**

Yellow color around flame indicates source of energy given by the Trust to the entrepreneurs for setting up units in the MSE sector without having to worry about providing collateral security and / or third party guarantees.

❖ **BLUE TRIANGULAR:-**

The blue triangular shape resting on the word CGTMSE indicates the shed of an industrial unit and growth of MSEs in upward direction.

All above things lead to believe that both the word CGTMSE & its LOGO ensure assured help for the entrepreneurs to set up MSE units.

ABOUT CGTMSE SCHEME:-

- **Scheme Purpose:** - CGMSE provides credit guarantee cover to the collateral free credit provided to Micro & Small Enterprises by the banks.
- **Eligible Lending Institutions:-** All scheduled commercial banks and specified Regional Rural Banks, NSIC, NEDFI, SIDBI, which have entered into an agreement with the Trust for the purpose. The eligible lending Institutions, on entering with an agreement with CGTMSE, become Member Lending Institutions (MLIs) of CGTMSE.



- **Eligible Borrowers:-** New as well as existing Micro and Small Enterprises. Both New and Existing Micro and Small Enterprises the scheme facilitating credit up to Rs.100.00 lakh without any collateral security and or third party guarantee.
- **Security:-**Assets created out of credit facility granted and associated with the business of the unit.
- **Tenure:-**Period of term loan in case of Term Loans and 5 years in case of working capital facility.
- **Annual Guarantee Fee (AGF) :-**Composite all in one guarantee fee@ 1.00% of the credit facility sanctions is payable annually to CGTMSE. In case of women Micro Enterprises and units in North eastern region it is 0.75% for loans up to Rs. 5.00 lack and 0.85% for loans above Rs 10.00
- **Extent of guarantee cover (subject to maximum ceilings):-**
 - A). for loans up to Rs.50.00 lakh**
 - i) 85% of the amount in default for loans up to Rs.5.00 lakh granted to Micro Enterprise.
 - ii) 80% of the amount in default for loans granted to Women Enterprises/Units located in North Eastern Regions (other than (i) above) 75% of the amount in default for Other category of borrower.
 - B). For loans above Rs.50.00 lakh:** - As per 'A' above plus 50% of amount in default Above Rs.50.00 lakh.
- **Lock-in-period:-**Lock in period of 18 months from either the date of last disbursement or date of payment of guarantee fee whichever is later,.
- **Interest rate payable by borrower:-**The MLI shall follow the guidelines issued by RBI. However, interest rate shall not exceed 3 per cent over and above the Prime Lending Rate of the MLI, excluding the annual service fee.

VII. CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE): BOOST TO MICRO AND SMALL ENTERPRISES

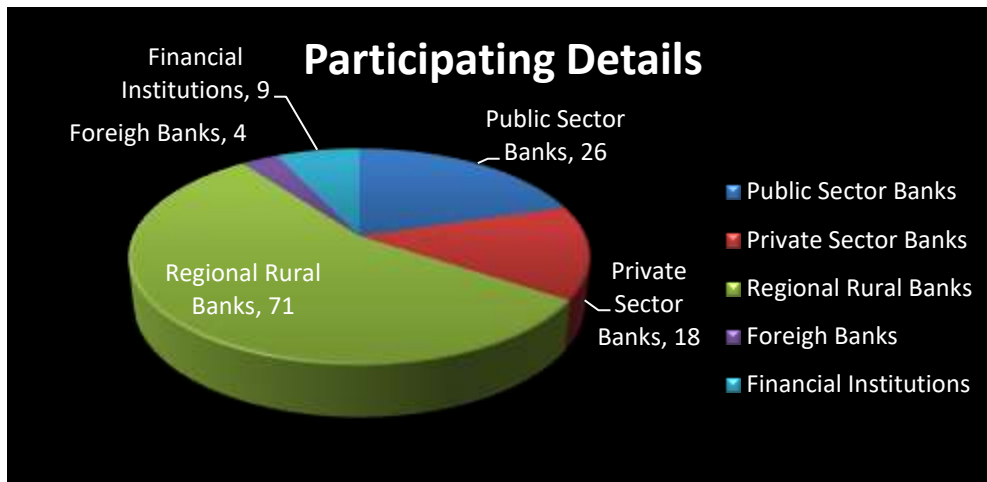
Finance is the life- blood of every organization. MSEs consider that challenges in access to adequate finance is one of the biggest constraints in growth adequate credit flow to MSMEs helps to growth of economy. MSMEs are the back bone of the Indian economy it also recognized as engine of the economic growth Surveys found that due to the financing



problems every day 79 MSE enterprises are falling in sickness constrained the growth of the sector. However, lack of adequate and timely access to finance is the biggest challenge all kind of business enterprises require sufficient funds in order to meet their fixed as well as working capital requirements. Finance is also life line of business. A business firm requires finance to commence its operations, to continue its operations and for its expansion and growth. Availability of bank credit without collateral/third party guarantee would be a major source of support to the first generation entrepreneurs to realize dream of setting up a unit of their own Micro, Small Enterprises (MSE). The government of India and SIDBI set up this scheme to empower the entrepreneurs. The scheme will be improve competitiveness of MSE Entrepreneurs. The MSE Units are boon for the rural people and it will also create new enterprises to develop nations. The scheme it will also helps to growth and development of existing enterprises. In this scheme number of public sector banks, private sector banks, foreign banks, and financial institution. They will grant the loans under the CGTMSE scheme.

Credit Guarantee Schemes are globally treated as instruments of credit enhancement for targeted sections. Worldwide, credit guarantee systems (CGS) are used as instruments for enhancing credit in targeted sectors India was the second country in the world to introduce such a scheme, after the United States of America in 1933. In 1971, RBI established the Credit Guarantee Corporation of India (CGCI) these schemes seek to increase lending to SMEs, CGS as the most common and effective government support programmed for SME lending, ahead of direct credit and interest rate or regulatory subsidies. In response to this need, the Ministry of Micro, Small and Medium Enterprises, the Government of India and the Small Industries Development Bank of India (SIDBI) set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) on 27 July 2000 CGTMSE operates a CGS that guarantees the loans extended by member lending institutions (MLIs) to Micro and Small enterprises without collateral security and/or third-party guarantees

Member of Lending Institutions in (MLI) CGTMSE Scheme:-



Extent of Guarantee cover

Borrower Category	Maximum Guarantee Cover, where Credit facility is		
	Up to Rs.5lakh	Above Rs.5lakh to Rs.50lakh	Above Rs.50lakh to Rs.100lakh
Micro Enterprises	85% of the amount in default / Rs.4.25lakh	75% of amount in default / Rs.37.5lakh	Rs.37.50lakh plus 50% of amount in default above Rs.50lakh / Rs.62.50lakh
Women Entrepreneur / units located in North Eastern Region (Incl. Sikkim)	80% of amount in Default / Rs.40 lakh		Rs.40lakh plus 50% of amount in default above Rs.50lakh / Rs.65lakh
All other category of borrowers	75% of amount in Default / Rs.37.5lakh		Rs.37.50lakh plus 50% of amount in default above Rs.50lakh / Rs.62.50lakh

Source: - CGTMSE Annual report 2011-2012

Cost of Cover

Credit Facility	Upfront Guarantee Fee	Annual Service Fee



	North East Region (incl. Sikkim)	Others	
Up to Rs.5 lakh	0.75%	1.00%	0.50%
Above Rs.5 lakh & up to Rs.50 lakh	0.75%	1.50%	0.75%
Above Rs.50 lakh & up to Rs.100 lakh	1.50%	1.50%	0.75%

Source: - CGTMSE Annual report 2011-2012

VIII. PERFORMANCE OF CREDIT GUARANTEES FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE):-

the performance of CGTMS is yearly growing when the scheme started only 9 banks registered this scheme yearly many banks are coming to forward and they registered they are granting loans to many MSE entrepreneurs the below we can see the overall performance of the scheme.

A year-wise growth position is indicated in the table below.

Period	No of active MLIs	No of proposals approved	Credit amount approved (Rs. In Lakhs)
2000-01	9	951	606
2001-02	16	2296	2952
2002-03	22	4955	5867
2003-04	29	6603	11760
2004-05	32	9516	32677
2005-06	36	16284	46191
2006-07	40	27457	70453
2007-08	47	30825	105584
2008-09	57	53708	219940
2009-10	85	151387	687511
2010-11	106	254000	1258922
2011-12	109	243981	1378398
2012-13	113	60008	3576.84

**Performance of CGTMSE top 10 States as on June 30, 2012.**

S.no	State Name	proposals	Approved Amount
1.	Uttar Pradesh	116557	432620.31
2.	Kerala	81089	187852.32
3.	West Bengal	75242	301456.56
4.	Tamilnadu	69984	318762.6
5.	Karnataka	69190	342592.32
6.	Orissa	47885	189998.62
7.	Maharashtra	47042	408532.22
8.	Gujarat	42326	359221.13
9.	Rajasthan	37577	141749.12
10.	Bihar	36771	138339.9

SOURCE: - CGTMSE Annual Report 2011-2012

IX. CONCLUSION:-

The Credit Guarantee fund Trust (CGTMSE) is the boost for Micro and Small enterprises in India. Setting up a new enterprise is a big challenge. Due to the lack of financing problems many studies found that every day 79 MSMEs are falling in sickness, the enterprises is unable to getting bank loans. Whether the business concerns are big or small, they need finance to fulfill their business activities in the world. Keeping this point of view ministry of Micro Small and Medium enterprises (MSMEs), Government of India launched Credit Guarantee Scheme (CGS) to strengthen credit delivery system and facilitate flow of credit to the MSE sector. Availability of bank credit without collateral/third party guarantee would be a major source of support to the first generation entrepreneurs to realize dream of setting up a unit of their own Micro, Small Enterprises (MSE). The government of India and SIDBI set up this scheme to empower the entrepreneurs. The scheme will be improve competitiveness of MSE Entrepreneurs. Today this scheme is really encouraging the entrepreneurs and boosting to the rural and urban enterprises, the past 13 years performance is well every year this scheme is providing credit is increasing. Really this scheme is very useful to every MSE enterprise.

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