

# **CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES**

## **CHAPTER I**

### **INTRODUCTION**

The Board of Trustees of Credit Guarantee Fund Trust for Small Industries, having decided to frame a Scheme for the purpose of providing guarantees to a substantial extent in respect of credit facilities to borrowers in Micro and Small Enterprises, hereby make the following Scheme:

1. Title and date of commencement

- (i) The Scheme shall be known as the Credit Guarantee Fund Scheme for Small Industries (CGFSI)
- (ii) It shall come into force from August 1, 2000.
- (iii) It shall cover eligible credit facility extended by the lending institutions to eligible borrowers effective June 1, 2000.

Subsequent to the enactment of MSMED Act-2006 the Trust was renamed as Credit Guarantee Fund Trust for Micro and Small Enterprises and scheme as Credit Guarantee Scheme for Micro and Small Enterprises.

2. Definitions

For the purposes of this Scheme -

- (i) "Amount in Default" means the principal and interest amount outstanding in the account(s) of the borrower in respect of term loan and amount of outstanding working capital facilities (including interest), as on the date of the account becoming NPA, or the date of lodgement of claim application whichever is lower or such of the date as may be specified by CGTMSE for preferring any claim against the guarantee cover subject to a maximum of amount Guaranteed.
- (ii) "Collateral security" means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution to a borrower.
- (iii) "Credit facility" means any financial assistance by way of term loan and / or fund based and non-fund based working capital (e.g. Bank Guarantee, Letter of credit etc.) facilities extended by the lending institution to the eligible borrower. For the purpose of calculation of guarantee fee, the "credit facility extended" shall mean the amount of financial assistance committed by the lending institution to the borrower, whether disbursed or not. For the purpose of the calculation of service fee, the credit facility extended shall mean the credit facilities (both fund and non-fund based) covered under CGS and for which guarantee fee has been paid, as at March 31, of the relevant year.
- (iv) "Eligible borrower" means new or existing Micro and Small Enterprises to which credit facility has been provided by the lending institution without any collateral security and/or third party guarantees.
- (v) 'Guarantee Cover' means maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution.
- (vi) "Lending institution(s)" means a commercial bank for the time being included in the second Schedule to the Reserve Bank of India Act, 1934 and Regional Rural Banks as may be specified by the Trust from time to time, or any other institution (s) as may be directed by the Govt. of India from time to time. The Trust may, on review of performance, remove any of the lending institution from the list of eligible institution.
- (vii) "Material date" means the date on which the guarantee fee on the amount covered in respect of eligible borrower becomes payable by the eligible institution to the Trust.
- (viii) "Non-Performing Assets" means an asset classified as a non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.

- (ix) "Primary security" in respect of a credit facility shall mean the assets created out of the credit facility so extended and/or **existing unencumbered assets** which are directly associated with the project or business for which the credit facility has been extended.
- (x) "Prime Lending Rate" for a lending institution means the rate so declared by that lending institution for the relevant time period / duration for which the credit facility has been extended.
- (xi) "Scheme" means the Credit Guarantee Fund Scheme for Micro and Small Enterprises
- (xii) "SIDBI" means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).
- (xiii) 'Micro and Small Enterprises' As per the MSMED Act, 2006 an "enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services; and "Micro and Small Enterprises" are defined in 7.1.a.i) and ii) & in 7.1.b.i) and ii) of the said Act .
- (xiv) "Tenure of guarantee cover" means the maximum period of guarantee cover **from Guarantee start date** which shall run through the agreed tenure of the term credit and for a period of 5 years or block of a 5 years where working capital facilities alone are extended or **loan termination date**, whichever is earlier or such period as may be specified by the Trust.
- (xv) "Trust" means the Credit Guarantee Fund Trust for Micro and Small Enterprises set up by Government of India and SIDBI with the purpose of guaranteeing credit facility (ies), extended by the lending institution(s) to the eligible borrowers.

## CHAPTER II

### SCOPE AND EXTENT OF THE SCHEME

3. Guarantees by the Trust
  - (i.) Subject to the other provisions of the Scheme, the Trust undertakes, in relation to credit facilities extended to an eligible borrower from time to time by an eligible institution which has entered into the necessary agreement for this purpose with the Trust, to provide a guarantee on account of the said credit facilities.
  - (ii.) The Trust reserves the discretion to accept or reject any proposal referred by the lending institution which otherwise satisfies the norms of the Scheme.
  
4. Credit facilities eligible under the Scheme:
 

The Trust shall cover credit facilities (Fund based and/or Non fund based) extended by Member Lending Institution(s) to a single eligible borrower in the Micro and Small Enterprises sector for credit facility (i) not exceeding Rs. 50 lakh (Regional Rural Banks/Financial Institutions) and (ii) not exceeding Rs.100 lakh (Scheduled Commercial Banks and select Financial Institutions) by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees **or such amount as may be decided by the Trust from time to time.**

Provided that the lending institution applies for guarantee cover in respect of credit proposals sanctioned in the quarter April-June, July-September, October-December and January-March prior to expiry of the following quarter viz. July-September, October-December, January-March and April-June respectively

Provided further that, as on the material date

- (i) The dues to the lending institution have not become bad or doubtful of recovery; and / or
- (ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or
- (iii) The credit facility has not wholly or partly been utilised for adjustment of any debts deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

Credit facilities extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower up to a maximum up to Rs.100 lakh per borrower subject to ceiling amount of individual MLI or such amount as may be specified by the Trust.

5. Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme: -

- (i) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.
- (ii) Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.
- (iii) Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.
- (iv) Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii) and (iii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.
- (v) Any credit facility which has been sanctioned by the lending institution against collateral security and / or third party guarantee.
- (vi) Any credit facility which has been sanctioned by the lending institution with interest rate more than 3% over the Prime Lending Rate (PLR) of the lending institution.

6. Agreement to be executed by the lending institution

A lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Trust in such form as may be required by the Trust for covering by way of guarantee, under the Scheme all the eligible credit facilities granted by the lending institution, for which provision has been made in the Scheme.

7. Responsibilities of lending institution under the scheme:

- (i) The lending institution shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.
- (ii) The lending institution shall closely monitor the borrower account.
- (iii) The lending institution shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.

- (iv) The lending institution shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims.
- (v) The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.
- (vi) The lending institution shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit and the lending institution shall be bound to comply with such directions.
- (vii) The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust. The lending institution shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor. In particular, the lending institution should intimate the Trust while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security. The lending institution shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust. Further the lending institution shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust

### CHAPTER III

#### GUARANTEE FEE

##### 8. Guarantee Fee and Annual Service Fee

- (i) One-time guarantee fee at specified rate ((a)currently 1.00% in the case of credit facility up to Rs. 5 Lakh and 1.5% in the case of credit facility above Rs. 5 Lakh (b) 0.75%, in case of credit facilities up to Rs.50 lakh sanctioned to units in North Eastern Region including State of Sikkim) of the credit facility sanctioned (comprising term loan and / or working capital facility) shall be paid upfront to the Trust by the institution availing of the guarantee within 30 days from the date of first disbursement of credit facility (**not applicable for Working capital**) or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is later **or such date as specified by the Trust.**
- (ii) The annual service fee at specified rate (currently 0.50% in the case of credit facility up to Rs. 5 Lakh and 0.75% in the case of credit facility above Rs. 5 Lakh) **on pro-rata basis for the first and last year and in full for the intervening years** on the credit facility sanctioned (comprising term loan and / or working capital facility) shall be paid by the lending institution within 60 days i.e. on or before May 31, of every year. In the event of non-payment of annual service fee by May 31 of that year or any other specified date, the guarantee under the scheme shall not be available to the lending institution unless the Trust agrees for continuance of guarantee and the

lending institution pays penal interest on the service fee due and unpaid, with effect from the subsequent June 01, at four per cent over Bank Rate, per annum, or at such rates specified by the Trust from time to time, for the period of delay.

- 1 Provided further that in the event of non-payment of annual service fee within the stipulated time or such extended time that may be agreed to by the Trust on such terms, liability of the Trust to guarantee such credit facility would lapse in respect of those credit facility against which the service charges are due and not paid,
  - 1 Provided further that, the Trust may consider renewal of guarantee cover for such of the credit facility upon such terms and conditions as the Trust may decide.
  - 1 In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee / annual service fee, such deficiency / shortfall shall be paid by the eligible lending institution to the Trust together with interest on such amount at a rate of four per cent over and above the Bank Rate, or as may be prescribed by the Trust from time to time. Any amount found to have been paid in excess would be refunded by the Trust. In the event of any representation made by the lending institution in this regard, the Trust shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.
- (iii) The amount equivalent to the guarantee fee and / or the service fee payable by the eligible lending institution may be recovered by it, at its discretion from the eligible borrower.

The guarantee fee and / or annual service fee once paid by the lending institution to the Trust is non-refundable. Guarantee fee / Annual Service Fee, shall not be refunded, except under certain circumstances like -

- (i) Excess remittance,
- (ii) Remittance made more than once against the same credit application,
- (iii) Guarantee fee & / or annual service fee not due,
- (iv) Guarantee fee paid in advance but application not approved for guarantee cover under the scheme, etc.

#### **CHAPTER IV GUARANTEES**

#### 9. Extent of the guarantee

The Trust shall provide guarantee as under:

<b>Category</b>	<b>Maximum extent of Guarantee where credit facility is</b>		
	Upto Rs.5 lakh	Above Rs.5 lakh up to Rs.50 lakh	Above Rs.50 lakh up to Rs.100 lakh

Micro Enterprises	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% / Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) <b>other than credit facility up to Rs.5 lakh to micro enterprises</b>	80% of the amount in default subject to a maximum of Rs.40 lakh		Rs.40 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.65 lakh
All other category of borrowers		75% / Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh

All proposals for sanction of guarantee approvals for credit facilities above Rs. 50 lakh and up to Rs.100 lakh will have to be rated internally by the MLI and should be of investment grade. Proposals approved by the MLIs on or after December 8, 2008 will be eligible for the coverage up to Rs.100 lakh.

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.

## CHAPTER V CLAIMS

### 10. Invocation of guarantee

- (i) The lending institution may invoke the guarantee in respect of credit facility ***within a maximum period of one year from date of NPA, if NPA is after lock-in period or within one year of lock-in period, if NPA is within lock-in period***, if the following conditions are satisfied: -
  - a. The guarantee in respect of that credit facility was in force **at the time of account turning NPA.**
  - b. The lock-in period of 18 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 had occurred owing to actions / decisions taken contrary to or in contravention of the guidelines issued by the Trust
  - d. The credit facility has been recalled and the recovery proceedings have been initiated under due process of law. Mere issuance of recall notice under SARFAESI Act 2002 cannot be construed as initiation of legal proceedings for

purpose of preferment of claim under CGS. MLIs are advised to take further action as contained in Section 13 (4) of the above Act wherein a secured creditor can take recourse to any one or more of the recovery measures out of the four measures indicated therein before submitting claims for first instalment of guaranteed amount. In case the MLI is not in a position to take any of the action indicated in Section 13(4) of the aforesaid Act, they may initiate fresh recovery proceeding under any other applicable law and seek the claim for first instalment from the Trust.

- (ii) The claim should be preferred by the lending institution in such manner and within such time as may be specified by the Trust in this behalf.
- (iii) 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 Trust shall pay to the lending institution interest on the eligible claim amount at the prevailing Bank Rate for the period of delay beyond 30 days. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the lending institution. On a claim being paid, the Trust shall be deemed to have been discharged from all its liabilities on account of the guarantee in force in respect of the borrower concerned.
- (iv) In the event of default the lending institution shall exercise its rights, if any, to take over the assets of the borrowers and the amount realised, if any, from the sale of such assets or otherwise shall first be credited in full by the lending institutions to the Trust before it claims the remaining 25 per cent of the guaranteed amount.
- (v) The lending institution shall be liable to refund the claim released by the Trust together with penal interest at the rate of 4% above the prevailing Bank Rate, if such a recall is made by the Trust in the event of serious deficiencies having existed in the matter of appraisal / renewal / follow-up / conduct of the credit facility or where lodgement of the claim was more than once or where there existed suppression of any material information on part of the lending institutions for the settlement of claims. The lending institution shall pay such penal interest, when demanded by the Trust, from the date of the initial release of the claim by the Trust to the date of refund of the claim.

The Guarantee Claim received directly from the branches or offices other than respective operating offices of MLIs will not be entertained.

11. Subrogation of rights and recoveries on account of claims paid

- (i) The lending institution shall furnish to the Trust, the details of its efforts for recovery, realisations and such other information as may be demanded or required from time to time. The lending institution will hold lien on assets created out of the credit facility extended to the borrower, on its own behalf and on behalf of the Trust. The Trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution;
- (ii) In the event of a borrower owing several distinct and separate debts to the lending institution and making payments towards any one or more of the same, whether the account towards which the payment is made is covered by the guarantee of the Trust or not, such payments shall, for the purpose of this clause, be deemed to have been appropriated by the lending institution to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated.
- (iii) Every amount recovered and due to be paid to the Trust shall be paid without delay, and if any amount due to the Trust remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to the Trust by the lending institution at the rate which is 4% above Bank Rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

## CHAPTER VI

### MISCELLANEOUS

#### 12. Appropriation of amount received from the lending institutions

The amount received from the lending institutions shall be appropriated in the order in which the service fee, penal interest and other charges have fallen due. If the service fee and the penal interest have fallen due on the same date, then the appropriation shall be made first towards service fee and then towards the penal interest and finally towards any other charges payable in respect of the eligible credit facility.

#### 13. Appropriation of amount realised by the lending institution in respect of a credit facility after the guarantee has been invoked.

Where subsequent to the Trust having released a sum to the lending institution towards the amount in default in accordance with the provisions contained in the Section 10 of this scheme, the lending institution recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the lending institution with the Trust, after adjusting towards the cost incurred by it for recovery of the amount. The Trust shall appropriate the same first towards the pending service fee, penal interest, and other charges due to the Trust, if any, in respect of the credit facility towards which the amount has been recovered by the lending institution, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between the Trust and the lending institution are in the proportion of 75% / 80% / 85% and 25% / 20% / 15% , respectively.

#### 14. Trust's liability to be terminated in certain cases

- (i) If the liabilities of a borrower to the lending institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.
- (ii) If a borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of his activity or his activity or his undertaking ceasing to come within the definition of a MSE unit, the liability of the Trust in respect of any credit facilities granted to him by a lending institution under the Scheme shall be limited to the liability of the borrower to the lending institution as on the date on which the borrower becomes so ineligible, subject, however, to the limits on the liability of the Trust fixed under this Scheme. However, notwithstanding the death or retirement of a partner where the borrower is a partnership firm or the death of one of the joint borrowers, if the lending institution is entitled to continue the credit facilities to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the credit facilities have not already become non-performing asset, the guarantee in respect of such credit facilities shall not be deemed to be terminated as provided in this paragraph.

#### 15. Returns and Inspections

- (i) The lending institution shall submit such statements and furnish such information as the Trust may require in connection with any credit facility under this Scheme.



- (ii) The lending institution shall also furnish to the Trust all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.
- (iii) The Trust shall, insofar as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the lending institution, and of any borrower from the lending institution. Such inspection may be carried out either through the officers of the Trust or of SIDBI (except in case of Institutions other than SIDBI) or any other person appointed by the Trust for the purpose of inspection. Every officer or other employee of the lending institution or the borrower, who is in a position to do so, shall make available to the officers of the Trust or SIDBI or the person appointed for the inspection as the case may be, the books of account and other records and information which are in his possession.

16. Conditions imposed under the Scheme to be binding on the lending institution

- (i) Any guarantee given by the Trust shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.
- (ii) The lending institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other document or contract, the lending institution shall in relation to the Trust be bound by the conditions imposed under the Scheme.

17. Modifications and exemptions

- (i) The Trust reserves to itself the right to modify, cancel or replace the scheme so, however, that the rights or obligations arising out of, or accruing under a guarantee issued under the Scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.
- (ii) Notwithstanding anything herein contained, the Trust shall have a right to alter the terms and conditions of the Scheme in regard to an account in respect of which guarantee has not been invoked as on the date of such alteration.
- (iii) In the event of the Scheme being cancelled, no claim shall lie against the Trust in respect of facilities covered by the Scheme, unless the provisions contained in Clause (i) and (ii) of Section 10 of the Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

18. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith, the decision of the Trust shall be final.

19. Supplementary and general provisions

In respect of any matter not specifically provided for in this Scheme, the Trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the Scheme.

Please refer to <http://www.cgtmse.com/FAQs.aspx> for all FAQs related to the scheme.

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