



Nothing is more important than the issue of adequate financial cushion for enterprises. Availing credit for first time entrepreneurs is one of the most challenging aspects of business activity in India. Although there are a number of banks, venture capitals and angel investors taking care of initial seed capital for many small and medium enterprises (SME's), it's not a smooth ride for a majority of start ups.

The government of India on its part has tried to work around the problem with the introduction of a central credit guarantee agency in 2000 aimed to provide credit and loan facilitations for entrepreneurs. The brainchild of Ministry of MSMEs, the CGTMSE scheme is aimed at providing collateral-free loans to small businesses. The loan procurement under this scheme is open to all SMEs in both the start-up as well as existent phases.

The Functioning of CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises commonly known as CGTMSE guarantees collateral free credit for small and medium scale enterprises up to a maximum of Rs.1 Crore. The guarantee cover for loans procured under the credit guarantee scheme is usually up to 75 to 80 per cent of the sanctioned amount and fixed at 80% for women entrepreneurs and citizens living in North East India.

CGTMSE provides the facilitation of loans through various member lending institutions or MFI's. Almost all of the scheduled commercial banks including public sector as well as the private sector banks are registered as MFI's with CGTMSE. The complete list of authorized MFI's is available on the CGTMSE website but with the addition of Small Industries Development Bank of India (SIDBI), National Small Industries Corporation Ltd (NSIC) and North Eastern Development Finance Corporation Ltd (NEDFI) as eligible institutions, the spectrum of lending institutions is wide enough covering entrepreneurs pan India.

Advantages of CGTMSE Credit Guarantee Scheme: MSEs in India contribute roughly 10%

to the country's GDP and give employment to more than 70 million people. MSE's are an intrinsic nature of Indian entrepreneurship but the hurdles remain in procuring finances and loans. The biggest fears of all lending institutions are high non-performing assets (NPA) rates of small time industry owners and organization. CGTMSE has worked on the issue by sharing the risk factor with the lending institutes.

Since the CGTMSE scheme hedges the collateral risk in financing MSEs, banks are now appraising credit needs on the basis of viability of the project without stressing on availability of any collateral security and third party guarantee's. Another big advantage for the borrowers under CGTMSE scheme is the subsidized rate of interest. As per the CGTMSE scheme, the rate of interest charged on the credit facility should not exceed 3% over and above the Prime Lending Rate (PLR) of the lender. Thus the borrowers get the benefit of better pricing & lower interest costs on the loan.

Loan Procurement Effectiveness of CGTMSE: The CGTMSE collateral free loan scheme is a very effective tool for young entrepreneurs to raise adequate credit facilities. If you are a young entrepreneur seeking facilitating a loan from CGTSME scheme, make sure that your company fits all the eligibility criteria. CGTMSE has been introduced to reduce the financial bottlenecks faced by almost all small and medium enterprises.

Downside and Preconditions and CGTMSE Loan Approvals: There is no doubt that most financial Institutions are more comfortable in lending against collaterals due to the uncertainty of financial decisions of first time entrepreneurs and the fear of NPA. One of the most important preconditions for CGTMSE loan is that the company should not have any loan secured by a collateral or a third party guarantee or both.

Having a healthy financial conduct without any history of bounced or dishonoring cheques and bad credit reports can be a helpful tool in making the bank or other MFI interested in your loan application. Remember to be fully prepared while approaching any MFI for loans under the CGTMSE scheme. Making a good professional project report with a good presentation with adequate related documentation can make a big difference and help your cause.

Credit Guarantee Fund Trust Scheme (CGFTS) for MSME Sector

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Sunday, 05 May 2013 13:12 -

Even with all the hedging facilitations of possible losses of member lending institutions (MFI), banks are still reluctant to admit loans under the CGTMSE scheme. The Reserve Bank of India has however directed all banks that all collateral free loans sanctioned to MSE units up to Rs 5 lakh must be upheld for both the manufacturing sector as well as service enterprise industry.