

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

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is a joint initiative by the Ministry of Micro, Small & Medium Enterprises (MSME), Government of India, and the Small Industries Development Bank of India (SIDBI). Established over two decades ago, CGTMSE plays a crucial role in strengthening the credit delivery system and facilitating the flow of credit to the Micro and Small Enterprise (MSE) sector without the need for collateral.

### Core Objectives

The primary aims of the CGTMSE scheme are to:

- Enhance the credit delivery system and encourage lenders to provide loans to MSEs.
- Provide access to finance for new-age, unserved, and under-served entrepreneurs. •
- Eliminate the need for collateral security or third-party guarantees for MSEs.
- Foster the growth and sustainability of MSEs across various sectors.

### Key Features of the Scheme

- **Loan Amount:** Provides a guarantee for credit facilities up to **₹10 crore** per borrower. •
- **Collateral:** No collateral or third-party guarantee is required for the guaranteed loan amount. •
- **Sectors Covered:** Supports new and existing enterprises in manufacturing and service activities.
- **Guarantee Coverage:** Offers a substantial guarantee cover of 75% to 90% of the credit facility.

### Benefits of the Scheme

The CGTMSE scheme offers significant advantages to both borrowers and lending institutions.

#### For Borrowers (MSEs)

- **Collateral-Free Loans:** Access credit facilities up to ₹5 crore without pledging any collateral

or security.

- **No Third-Party Guarantee:** Eliminates the dependency on external guarantors.

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- **Wide Coverage:** Supports both new and existing businesses across the manufacturing and service sectors.
- **Flexible Loan Types:** The guarantee covers term loans, working capital, and composite loans.
- **Cost-Effective:** The annual guarantee fee is nominal, ranging from 0.37% to 2% based on the loan amount.
- **Increased Access to Credit:** Lenders are more willing to extend credit due to the risk mitigation provided by the guarantee.

### For Lenders (Banks and Financial Institutions)

- **Risk Mitigation:** The scheme guarantees 75% to 85% of the defaulted principal amount, significantly reducing credit risk.
- **Zero Risk Weight:** The CGTMSE-guaranteed portion of the loan is assigned a zero-risk weight as per RBI guidelines, freeing up capital.
- **Simplified Process:** A streamlined online portal for application, approval, and claim management.
- **Quick Guarantee Approval:** Guarantees are typically approved within 24 hours of application submission by the lender.
- **Recovery Support:** CGTMSE shares the responsibility in recovery proceedings for defaulted accounts.

Lenders receive an additional **10% discount** on the guarantee fee for loans extended to Women entrepreneurs, SC/ST, Persons with Disability (PwD), Agniveers, Transgenders, and units in NER, Aspirational Districts, or those with ZED certification.

## Eligibility Criteria

### Borrower Eligibility

- **Eligible Entities:** New and existing Micro and Small Enterprises (MSEs), including Individuals, Proprietorships, Partnerships, LLPs, and Private Limited Companies.
- **Sector Requirements:** The scheme covers manufacturing, service activities, retail/wholesale trade, and small road/water transport operators.
- **Mandatory Requirements:**

- A valid Udyam Registration Number is compulsory.
- An IT PAN is necessary for loans exceeding ₹5 lakh.
- GST registration is required, if applicable.

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### Loan Qualification

- **Maximum Credit Limit:** Up to **₹10 crore** per borrower across all lending institutions.
- **Types of Credit Facilities:** Term loans, working capital loans, and composite loans.

### Exclusions

The following are not eligible for CGTMSE coverage:

- **Excluded Activities:** Agriculture, educational/training institutions, Self-Help Groups (SHGs), and Joint Liability Groups (JLGs).
- **Excluded Borrowers:** Units that have defaulted on previous CGTMSE-covered loans, are marked as fraudulent, or are already covered by other guarantee schemes.

### Application Process

The application process is initiated by the borrower and completed by the Member Lending Institution (MLI).

#### Step 1: Pre-Application Preparation

The borrower must confirm their eligibility, obtain a Udyam Registration Number, and prepare a comprehensive business plan or project report.

#### Step 2: Approach a Lending Institution

The borrower approaches a registered MLI (bank or financial institution) with their business plan and loan application.

#### Step 3: Loan Processing by the MLI

The MLI conducts a thorough credit appraisal, risk assessment, and technical evaluation of the project to determine its viability.

#### Step 4: Guarantee Application by the MLI

Once the loan is approved internally, the MLI applies for guarantee coverage on the CGTMSE online portal and pays the applicable guarantee fee.

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### Step 5: Loan Disbursement

After CGTMSE approves the guarantee, the MLI issues the final loan sanction letter and disburses the loan amount to the borrower. The guarantee becomes active upon payment of the fee.

## Fee Structure

The Annual Guarantee Fee (AGF) is charged on the outstanding loan amount. The following rates are effective from April 1, 2025:

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| Loan Amount Slab | Standard Rate (% per annum) |
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|               |       |
|---------------|-------|
| ₹0 - ₹10 lakh | 0.37% |
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| > ₹10 lakh - ₹50 lakh | 0.55% |
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| > ₹50 lakh - ₹1 crore | 0.60% |
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| > ₹1 crore - ₹2 crore | 0.85% |
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| > ₹2 crore - ₹5 crore | 1.00% |
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| > ₹5 crore - ₹8 crore | 1.10% |
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| > ₹8 crore - ₹10 | 1.20% |
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### Concessions and Adjustments

- **Discounts:** A **10% discount** is available for specified social categories (Women, SC/ST, etc.), geographic locations (NER), and ZED Certified MSEs, with a maximum combined discount of 30%.
- **Performance-based Adjustments:** MLIs with better performance may receive up to a 10% discount, while high-risk MLIs may be charged a premium of up to 70%.

# Key Scheme Provisions and Conditions

- **Lock-in Period:** A claim can only be invoked after a lock-in period of 18 months from the guarantee start date or the last disbursement date, whichever is later.
- **Claim Settlement:** CGTMSE pays 75% of the guaranteed amount as the first installment upon claim invocation. The remaining 25% is paid after 3 years or upon conclusion of recovery proceedings.
- **Recovery Sharing:** Any amount recovered from the defaulted borrower after the claim settlement is shared with CGTMSE.
- **Inspection Rights:** CGTMSE reserves the right to inspect the assets and records of the accounts covered under the scheme.

## Contact Information

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*Disclaimer: This information is based on the most recent published guidelines. For the latest updates, please visit the official CGTMSE website or contact a Member Lending Institution.*