Report of the Working Group to Review the Credit Guarantee Scheme of the Credit Guarantee Fund Trust for Micro and Small Enterprises

RESERVE BANK OF INDIA

MUMBAI

MARCH 2010

Report of the

Working Group to Review the

Credit Guarantee Scheme of

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

RESERVE BANK OF INDIA
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LETTER OF TRANSMITTAL

Chairman

Working Group to Review the
Credit Guarantee Scheme of
Credit Guarantee Fund Trust
for Micro and Small Enterprises
Reserve Bank of India
Central Office
Mumbai – 400 001

March 2, 2010

Dr. K. C. Chakrabarty
Deputy Governor
Reserve Bank of India
Mumbai

Dear Sir,

I have great pleasure in submitting the Report of the Working Group to Review the Credit Guarantee Scheme of the Credit Guarantee Fund Trust for Micro and Small Enterprises. In making its recommendations for enhancing the Scheme's acceptability and usage with a view to facilitating increased flow of collateral free credit to the Micro and Small Enterprises, the Working Group has taken into account the concerns of all relevant stakeholders.

On behalf of the Members of the Working Group, and on my behalf, I sincerely thank you for entrusting this responsibility.

With regards,

Yours sincerely,
(V. K. Sharma)

Report of the Working Group to Review the Credit Guarantee Scheme of the Credit Guarantee Fund Trust for Micro and Small Enterprises

V.K.Sharma
(Chairman)

R.M.Malla
(Member)

Praveen Mahto
(Member)

B.S.Bhasin
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S.Sen
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R.C.Sarangi
(Member Secretary)

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Acknowledgements

The Working Group acknowledges with gratitude the guidance provided by Smt. Usha Thorat and Dr. K. C. Chakrabarty, Deputy Governors.

The Group also places on record its appreciation of the contribution of Shri H.N. Prasad, Chief Executive Officer, DICGC, a Special Invitee, who enriched the quality of its deliberations. The Group also acknowledges very useful inputs provided by Shri O. S. Vinod, Chief Executive Officer, CGTMSE and Shri N. Ramani, General Manager, Bank of Baroda and the various banks for their valuable suggestions. The Group also acknowledges and appreciates the various suggestions and inputs received from various MSE Associations.

The Group would like to place on record its appreciation of the secretarial assistance provided by Smt. Lily Vadera, General Manager, Shri Rajesh Bansal, Deputy General Manager, Smt. Sonali Das, Asst. General Manager, and Shri B.S. Wagh, Assistant Manager, RPCD, Central Office, Mumbai.

ABBREVIATIONS

ASF	Annual Service Fee
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
DICGC	Deposit Insurance and Credit Guarantee Corporation
ECGC	Export Credit Guarantee Corporation
MLI	Member Lending Institution
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
MSMED Act	Micro, Small and Medium Enterprises Development Act
NPAs	Non-Performing Assets
SAC	Standing Advisory Committee on MSEs
SHGs	Self Help Groups
SMEs	Small and Medium Enterprise
SIDBI	Small Industries Development Bank of India
WTG	Whole Turnover Guarantee
WT	Whole Turnover

EXECUTIVE SUMMARY

Background

Having regard to the imperative of accelerating the flow of credit to the Micro and Small Enterprises (MSEs) sector, which is very critical for inclusive and equitable growth and larger economic empowerment, it was announced in the paragraph 114 of the Annual Policy statement for 2009-10 " to ask the Standing Advisory Committee on MSEs to review the Credit Guarantee Scheme so as to make it more effective." As a sequel to this announcement, a Working Group was constituted under the Chairmanship of Shri V.K. Sharma, Executive Director, Reserve Bank of India. The terms of reference assigned to the Group were i) to review the working of the Credit Guarantee Scheme and suggest measures to enhance its usage and facilitate increased flow of collateral free loans to MSEs; ii) to make suggestions to simplify the existing procedures and requirements for obtaining cover and invoking guarantee claims under CGTMSE Scheme; iii) to examine the feasibility of a whole turnover guarantee for the MSE portfolio; and iv) any other issues. The main recommendations of the Group are summarized below:

1. Collateral free loans

The Group recommends that the limit for collateral free loans to the MSE sector be increased from the present level of Rs. 5 lakh to Rs.10 lakh and it be made mandatory for banks. Banks, in turn, can take cover for collateral free credit facilities under the Credit Guarantee Scheme.

2. Awareness about the Scheme

In order to upscale the CGS, it is necessary to create widespread awareness about the key features and benefits of the Scheme. As the branch level functionaries have a predilection to lend against collaterals, the Group recommends that the Chief Executive Officers (CEOs) of banks assume complete and total ownership in the matter of strongly encouraging the branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.

3. Guarantee Fee

a) The matter of introduction of risk-based guarantee fee was deliberated by the Group. However, the Group recommends that a uniform guarantee fee would be most appropriate as being levied hitherto.

b) The Group recommends that the CGTMSE may charge composite, all-in guarantee fee of 1% p.a. which is almost the same as the composite annual fee now being charged by CGTMSE and appropriately realign downwards the guarantee fees chargeable to women entrepreneurs, Micro enterprises and units located in NE Region including Sikkim. Further, the Trust may each year review the Guarantee Fee to be charged on the basis of the model of dynamically evolving distribution of claims.

c) The Group strongly recommends that the Government consider exempting both guarantee fee and the income on investments of the Trust from Income Tax.

d) The Group strongly recommends that the guarantee fee for collateral free loans upto Rs.10 lakh to Micro Enterprises be borne/ absorbed by the CGTMSE subject to the proviso that the Trust be free to adjust guarantee fee both downwards and upwards based on the modelling of the dynamically evolving distribution of claims. This will ensure that while the stakeholders like MLIs and their MSE clients benefit from the potentially lower guarantee fee, the CGTMSE also remains self-financing and self-sustaining in the long-term. Besides, asking MLIs to bear the guarantee fee, might be counter-productive for the reasons adduced in paragraph 4.3 (b) (iii) on page 26 of the Report.

4. Extent of the Guarantee Cover

a) Extent of cover

Consistent with the recommendation for enhancement of the collateral free loan limit to Rs. 10 lakh, the Group recommends that guarantee cover upto 85% of the amount in default be made applicable to credit facilities to Micro Enterprises upto Rs 10 lakh.

b) Whole Turnover Cover

As the Scheme is yet to gain acceptability by banks and it needs to attain critical mass of traction, and stabilize, the Group recommends that introduction of Whole Turnover guarantee can wait until later.

5. Corpus of the Guarantee Fund

If the CGTMSE uses the conceptually rigorous and technically robust model suggested by the Group, there is only 0.1% chance that the Fund will be touched. However, as and when required, Government of India may contribute to the Fund's corpus

6. Simplification of Procedure

a) The Working Group, recommends that with a view to simplifying the procedure for filing claims in respect of small loan accounts, initiation of legal proceedings as a pre-condition for invoking of guarantees could be waived for credit facilities upto Rs.50,000/-. The Group also recommends that for all such cases, where the filing of legal proceedings is waived, an Executive Committee of the lending institution headed by an Officer not below the rank of General Manager should examine all such accounts and take a decision for not initiating legal action and filing claim under the Scheme.

b) The Group recommends that the present requirement of a lock-in period of 18 months is reasonable and may continue.

c) The Group recommends that MLIs may be allowed to invoke guarantee within a period of two years from the date of classification of the account as NPA instead of the present prescription of within one year.

d) The Group recommends that the final claim be paid by the Trust to the MLIs after three years of obtention of decree of recovery instead of the present procedure of releasing the final claim by the Trust only after the decree of recovery becomes time barred.

7. Factoring Services without Recourse

The Group felt that as most buyers of the goods from MSE units are large corporates, extending guarantee to factors will effectively lead to guaranteeing the defaults of large corporates and CGS of CGTMSE is not meant for that purpose. There may be few cases where both the sellers and buyers are MSE units. However, as the loans extended to both the MSE units are covered under CGS, the Group does not recommend bringing factors under the guarantee scheme of CGTMSE as it would encourage another level of intermediation and resultant additional costs to MSEs.

8. Cover of loans under the CGS with partial secondary collateral

The Group recommends that the issue of covering advances with partial collateral by enhancing the limit to Rs. 2 crore may not be considered.

9. Definition of collateral

The Group does not recommend any change in the present definition of the Scheme. The Scheme may cover the credit facilities which are secured by primary collateral as well as secondary collateral which belongs to the unit and are directly connected to the business activity of the unit.

I. INTRODUCTION

1.1 The critical role and place of the MSE sector in the Indian economy cannot be overemphasised in employment generation, exports and economic empowerment of a vast section of the population. As per data released by the Ministry of Micro, Small and Medium Enterprises (MSME), there are about 2.6 crore enterprises in this sector. The sector accounts for 45 per cent of manufactured output and 8 per cent of the Gross Domestic Product (GDP). MSMEs contributed close to 40 per cent of all exports from the country and employed nearly 6 crore people which is next only to the agricultural sector.

1.2 It was, therefore, only appropriate that the Government of India enacted the Micro, Small and Medium Enterprises Development Act, 2006. Public Policy has rightly accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. Advances extended to the MSE sector are treated as priority sector advances and as per the extant Reserve Bank guidelines, banks are required to extend at least 60% of their advances to the MSE sector to Micro Enterprises.

1.3 An increasingly globalised world, marked by competition and innovation, is posing newer and varied challenges to the MSEs. Because of their small size, individual MSEs are handicapped in achieving economies of scale in procuring equipment, raw materials, finance and consulting services. Often they are unable to identify potential markets to take advantage of market opportunities, which require large volumes, consistent quality, homogenous standards and assured supply. In today's globalised economy, improvements in product, processes, technology and organizational functions such as design, logistics and marketing have become key drivers in delivering competitiveness, including for MSEs.

1.4 MSEs primarily rely on bank finance for a variety of purposes including purchase of land, building, plant and machinery as also for working capital and exports receivables financing, etc. Ensuring timely and adequate flow of credit to MSEs has been an overriding public policy objective, and as a result, over the years there has been a significant increase in credit extended to this sector by banks. As at the end of March 2009, the total outstanding credit provided by all Scheduled Commercial Banks (SCBs) to the MSE sector was Rs. 2,57,361 crore, constituting 11.4 percent of the Net Bank Credit. The outstanding credit to the sector by Scheduled Commercial Banks (SCBs) for the last three years is furnished below:

Table 1 - Bank credit to MSEs (Amount in Rs. crore)					
Year ended March	**Public Sector Banks**	**Private Sector Banks**	**Foreign Banks**	**All SCBs**	**% of MSE Credit to Adjusted Net Bank Credit for SCBs**
2007	1,02,550	13,136	11,637	1,27,323	7.2
2008	1,51,137	46,912	15,489	2,13,538	11.6
2009 *	1,91,307	47,916	18,138	2,57,361	11.4

*provisional

Source: RBI

1.5 However, not withstanding various measures taken by the Government of India and Reserve Bank of India for facilitating the growth of the MSE sector, there have been widespread complaints from the MSE sector that many of them, particularly technocrats and first generation entrepreneurs in the Micro and Small enterprises sector, find themselves handicapped in accessing credit from the banking system primarily for want of secondary collateral and/ or third party guarantee. Banks generally insist on secondary collateral, particularly in the form of immovable property as also third party guarantee, in order to hedge against default in the small loan segment. As availability of timely and adequate bank credit without the hassles of collateral and third party guarantees is of essence to small first generation entrepreneurs to realise their dream of setting up their own MSEs, the Reserve Bank of India had enjoined upon banks not to take secondary collateral from MSE units with credit limits upto Rs. 5 lakh.

1.6 The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set up by the Ministry of Micro, Small & Medium Enterprises (MSME), Government of India (GOI) and Small Industries Development Bank of India (SIDBI) in August 2000..The GOI and SIDBI as settlors of the Trust have committed a corpus of Rs.2,500 crore in the ratio of 4:1 to the CGTMSE, out of which Rs. 1,906 crore has been contributed till date. CGTMSE operates the “Credit Guarantee Scheme” (CGS) which guarantees grant of collateral-free and/or third party guarantee-free credit facilities to Micro and Small Enterprises by Member Lending Institutions (MLIs). It thus encourages MLIs to appraise credit proposals on the basis of viability of projects rather than merely on the basis of availability of adequate collateral.

1.7 Although the CGS became operational in 2000-01, the trends in its operations indicate that during the initial years, the cover was low. From the year 2005-06 onwards, there has been a steady growth in guarantee cover and as of January 31, 2010, cumulatively 2,61,987 guarantee approvals have been accorded involving an amount of Rs.9,822.50 crore. However, the present cover is still much below the desired level as the MLIs have not opted for guarantee cover in large number of cases. Having regard to the imperative of accelerating the flow of timely and adequate credit to the MSEs sector, so critical for inclusive and equitable growth and a broad-based economic empowerment, it was announced in the paragraph 114 of the Annual Policy statement for 2009-10 "to ask the Standing Advisory Committee on MSEs to review the Credit Guarantee Scheme so as to make it more effective." As a sequel to this announcement, a Working Group was constituted under the Chairmanship of Shri V. K. Sharma, Executive Director, Reserve Bank of India with the following terms of reference :

- To review the working of the Credit Guarantee Scheme and suggest measures to enhance the usage and facilitate increased flow of collateral free loans to MSEs
- To make suggestions to simplify the existing procedures and requirements for obtaining cover and lodging/invoking guarantee claims under CGTMSE Scheme
- To examine the feasibility of a whole turnover guarantee for the MSE portfolio and
- Any other issues.

1.8 The Working Group comprised the following:

Shri V. K. Sharma Executive Director Reserve Bank of India	Chairman
Shri R.M. Malla Chairman and Managing Director Small Industries Development Bank of India	Member
Shri. Praveen Mahto Additional Economic Adviser, Ministry of Micro, Small and Medium Enterprises, Government of India	Member
Shri B.S. Bhasin Chief General Manager State Bank of India	Member
Shri V. H. Thatte General Manager (SME) Bank of Baroda	Member

Shri K. Unnikrishnan Dy. Chief Executive Officer Indian Banks Association	Member
Shri S. Sen Chief General Manager Department of Banking Supervision Reserve Bank of India	Member
Shri H.N. Prasad Chief Executive Officer Deposit Insurance and Credit Guarantee Corporation	Special Invitee
Shri R.C. Sarangi Chief General Manager Rural Planning and Credit Department Reserve Bank of India	Member Secretary

1.9 The Working Group met on four occasions i.e. on June 23, 2009; November 6, 2009; February 9, 2010 and February 25, 2010 and reviewed the working of the Credit Guarantee Scheme. The Chairman and Managing Director, SIDBI made a detailed presentation on the Scheme and various steps taken by CGTMSE to popularise it. He mentioned that the loans covered under the CGS had increased sharply during the last two years and the trend is expected to continue in the future. The two banker members of the Working Group shared their sense and take on the reasons for low level of guarantee cover availed of under the CGS as also the low number of guarantees invoked. Views on working of the Scheme, difficulties faced by them in taking the guarantee cover and invoking guarantees and suggestions for improving the Scheme were elicited from all public sector banks and select private sector banks. Responses were received from 19 public sector banks and 5 private sector banks. The Group also took into account the suggestions and views received from various MSME Associations.

1.10 The Report is organized as follows:

Chapter II reviews the performance of the CGS of CGTMSE and provides a backdrop to the subsequent Chapters.

Chapter III discusses the various issues relating to the Scheme and

Chapter IV contains the Summary of Observations and Recommendations of the Working Group.

II. CREDIT GUARANTEE SCHEME OF CGTMSE

Objective

2.1 Credit Guarantee Schemes are globally treated as instruments of credit enhancement for targeted sections. A snapshot of the international practices and experience in CGS for SMEs is given in the Appendix. As internationally, so also in India, the main public policy purpose of the CGS for MSEs is to catalyse flow of bank credit to first generation entrepreneurs for setting up their MSE units without the hassles of secondary collateral/ third party guarantee. The Scheme is intended to encourage Member Lending Institutions to rely in their appraisal essentially on the viability of the project and the security of primary collateral of assets financed. The other objective is to encourage lenders availing of guarantee facility to extend composite credit facilities to borrowers comprising both working capital and term loans. The CGS seeks to reassure lenders that, in the event of a default by MSE unit covered by the guarantee, the Guarantee Trust would meet the loss incurred by the lender upto 85 per cent of the outstanding amount in default.

Eligible MLIs

2.2 The CGTMSE operates the CGS through Member Lending Institutions (MLIs). All commercial banks included in the Second Schedule to the RBI Act, 1934, and such other institution(s) as may be notified by the Government of India from time to time are eligible to become MLIs. As of January 31, 2010, there were 110 MLIs registered with CGTMSE. Of this, 27 are Public Sector Banks, 16 Private Sector Banks, 59 Regional Rural Banks, 6 financial institutions and 2 foreign banks.

Eligible Borrowers

2.3 All new and existing MSEs, which have been extended credit facilities by MLIs without any collateral security and / or third party guarantees, are eligible for guarantee cover under the Scheme.

The MSEs are enterprises as defined under the MSMED Act, 2006, as given below:

Sector	Micro Enterprises	Small Enterprises
Manufacturing or Production	Investment in plant and machinery does not exceed Rs.25 lakh	Investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore
Services	Investment in equipment does not exceed Rs.10 lakh	Investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore

Extent of Guarantee Cover

2.4 Any secondary collateral / third party guarantee free credit facility (both fund and non-fund based) extended by MLIs, to new as well as existing MSEs with a maximum credit limit of Rs.100 lakh are eligible for cover. The extent of the guarantee cover admissible is shown below:

Borrower Category	Maximum extent of Guarantee where credit facility is		
	upto Rs.5 lakh	above Rs.5 lakh upto Rs.50 lakh	above Rs.50 lakh upto Rs.100 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% of the amount in default subject to maximum of 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 (including Sikkim) other than credit facility upto Rs.5 lakh to micro enterprises	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% of the amount in default subject to maximum of 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

Tenure of Guarantee

2.5 The guarantee cover commences from the date of payment of guarantee fee and runs through the agreed tenure in respect of term credit. In case of working capital, the guarantee cover is available 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. Units covered under CGTMSE and becoming sick due to factors beyond the control of management, assistance for rehabilitation extended by the MLIs is also covered under the scheme provided the overall assistance is within the credit cap of Rs.100 lakh.

Guarantee Fee and Annual Service Fee

2.6 A one-time Guarantee fee at the rate of 1% of the credit limit for credit facility upto Rs. 5 lakh and 1.5% in the case of credit facility above Rs. 5 lakh is charged. In case of credit facilities upto Rs.50 lakh sanctioned to units in North Eastern Region (including State of Sikkim) the Guarantee fee is 0.75% of the credit facility sanctioned. The guarantee fee is to be paid upfront to the Trust by the lending institution.

An annual service fee at specified rate (currently 0.50% in the case of credit facility upto Rs. 5 Lakh and 0.75% in the case of credit facility above Rs. 5 Lakh) of the credit facility sanctioned (comprising term loan and / or working capital facility) is charged to the MLIs. The rates of guarantee and annual fees charged on the basis of the credit facility sanctioned are furnished in the Table-2 below:

Table 2- CGS - Cost of Cover

Credit facility	Upfront one time guarantee fee		Annual Service Fee
	North East Region (including Sikkim)	Others	
Upto Rs. 5 lakh	0.75%	1.00%	0.50%
Above Rs.5 lakh to Rs.50 lakh	0.75%	1.50%	0.75%
Above Rs. 50 lakh to Rs. 100 lakh	1.50%	1.50%	0.75%

2.7 **The existing procedure for Invocation of Guarantee and Settlement of claims**

i) The MLIs can invoke the guarantee within a maximum period of one year from date of account becoming NPA, if the date of classification as NPA is after the lock-in period of 18 months from the date of guarantee, or within one year after lock-in period, if date of classification as 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. The lending institution shall not make or be entitled to make any claim on the Trust in respect of the 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 the purpose of preferment of claim under CGS. MLIs are advised to take further action as contained in Section 13 (4) of the said 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 installment of guaranteed amount. In case the MLI is not in a position to take any of the actions indicated in Section 13(4) of the aforesaid Act, it may initiate fresh recovery proceeding under any other applicable law and seek the claim for first installment from the Trust.

ii) 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.

iii) 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 MLI to the Trust before it claims the remaining 25 per cent of the guaranteed amount.

iv) 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 the part of the MLIs 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.

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

<u>Subrogation of rights and recoveries on account of claims paid</u>

(i) The Member 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 Member 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 take over of assets, sale of assets, etc., shall rest with the Member Lending Institution.

(ii) In the event of a borrower owing several distinct and separate debts to the Member 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 MLI 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 4% above Bank Rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

Operational Highlights of CGTMSE

2.8 CGTMSE has adopted multi-channel approach for creating awareness about the Credit Guarantee Scheme (CGS) amongst all the stake holders including banks, Industry Associations, Entrepreneurs, etc. through various fora like print and electronic media, conducting workshops / seminars etc. CGTMSE's website has been reconstructed to make it more user-friendly and informative with hyperlink to websites of its Member Lending Institutions / other development institutions / agencies. Cumulatively, by January 31, 2010, more than 1,010 workshops and seminars had been conducted on Credit Guarantee Scheme. Recently, CGTMSE has launched advertisement campaign in Hindi, English, and regional languages. These advertisements are issued in newspapers across the country at periodic intervals as also in leading magazines and periodicals.

2.9 Of the 110 MLIs registered with the Trust as of January 31, 2010, 82 MLIs availed of the guarantee cover. The trend in availment of guarantee cover under the CGS since inception is given in Table 3 and the Chart I below:

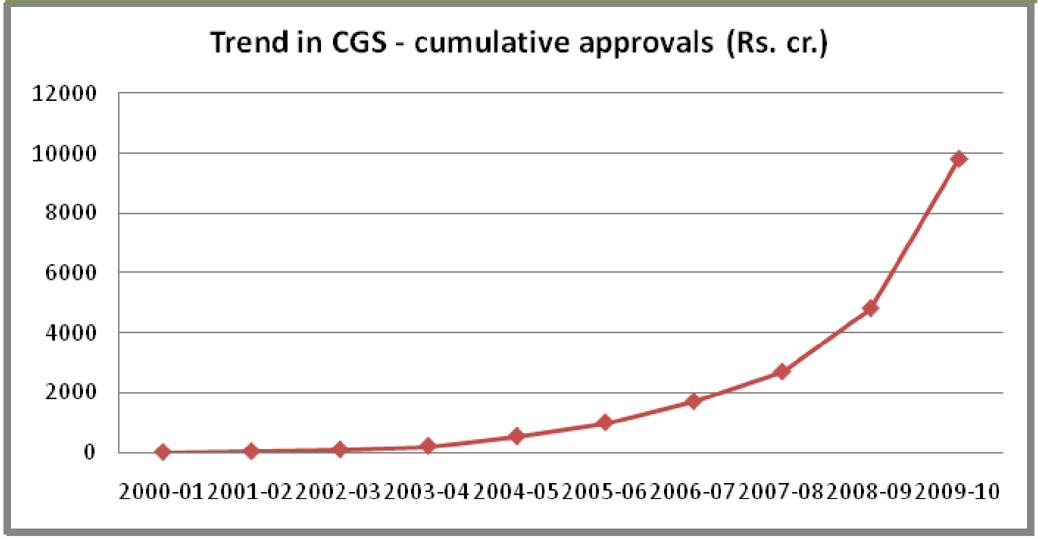
Table 3 - Trend in availment of cover under CGS since inception

Period	No. of Active MLIs	No. of Credit Facilities Approved	Amount of Guarantees Approved (Rs. Crore)	Cumulative Guarantees Approved (Rs. Crore)
FY 2000-01	9	951	6.06	6.00
FY 2001-02	16	2,296	29.52	35.00
FY 2002-03	22	4,955	58.67	94.00
FY 2003-04	29	6,603	117.60	212.00
FY 2004-05	32	8,451	267.46	538.00
FY 2005-06	36	16,284	461.91	1,000.00
FY 2006-07	40	27,457	704.53	1,705.00
FY 2007-08	47	30,285	1,055.84	2,701.00
FY 2008-09	57	53,708	2,199.40	4,824.00
FY 2009-10*	82	1,13,029	5,110.09	9,822.50

Data Source: CGTMSE **** Till January 31, 2010***

N.B.: Actuals may vary due to intervening cancellations/ modifications

Chart I – Trend in CGS cumulative approvals (Rs. Crore)



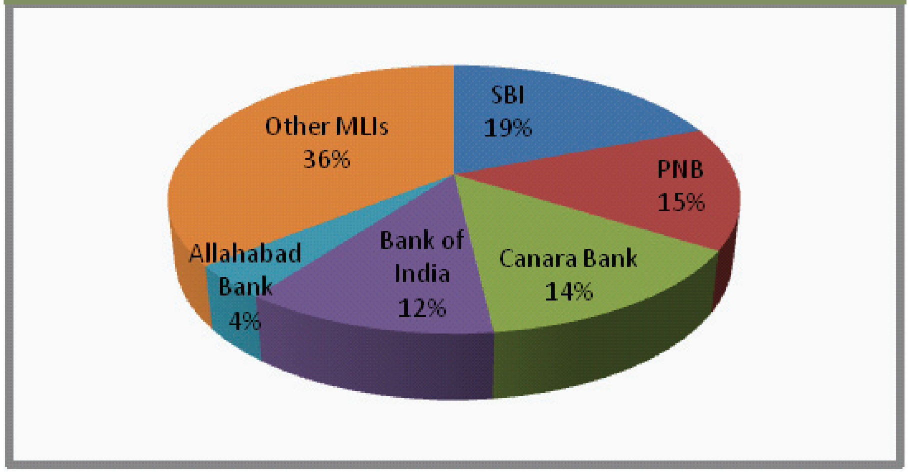
Data Source: CGTMSE (Status as of January 31, 2010)

2.10 The Scheme was slow in taking off in the initial years and the cover availed of remained below 10,000 proposals during the first five years. However, since 2005-06, there has been a steady growth in the issue of guarantees and the same has increased exponentially from 16,284 proposals involving Rs.461.91 crore in the year 2005-06 to 53,708 proposals involving Rs.2,199.40 crore in the year 2008-09. During the ten month period ending on January 31, 2010, 1,13,029 guarantee proposals for Rs. 5,110.09 crore were approved. Cumulatively, as of January 31, 2010, 2,61,987 guarantee proposals have been approved involving an aggregate amount of Rs.9,822.50 crore.

2.11 **The MLI-wise classification of CGS cover**

As of January 31, 2010, State Bank of India topped the list in terms of number of proposals covered with 49,594 proposals involving guarantee amount of Rs.1,517.65 crore accounting for 18.93 % of the total proposals in terms of number and 15.45% of the guaranteed amount approved cumulatively as of January 31, 2010. Punjab National Bank (38,517 proposals involving Rs. 1,062.65 crore), Canara Bank (35,892 proposals involving Rs. 881.04 crore), Bank of India (31,614 proposals involving Rs. 1,694.64 crore) and Allahabad Bank (10,785 proposals involving Rs. 288.67 crore) were the other leading MLIs as shown in Chart II below:

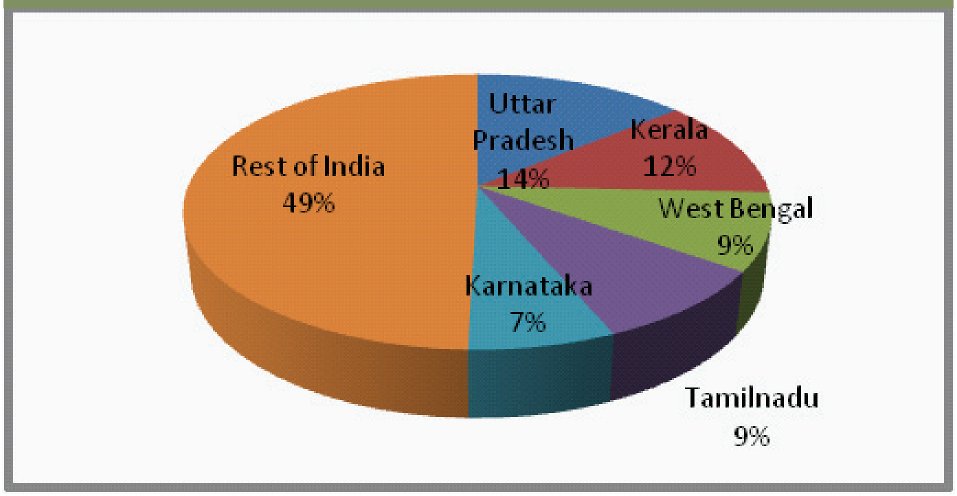
Chart II – MLI-wise number of guarantees approved (%)



Data Source: CGTMSE (Status as of January 31, 2010)

2.12 **State-wise classification** of the cumulative cover under CGS as of January 31, 2010 indicates that Uttar Pradesh was the leading beneficiary with guarantee cover for 36,583 proposals involving an aggregate credit of Rs. 877.66 crore, followed by Kerala (30,250 proposals involving Rs. 577.52 crore), West Bengal (24,272 proposals involving Rs.898.93 crore), Tamilnadu (22,832 proposals involving Rs.917.20 crore) and Karnataka (17,642 proposals involving Rs. 969.70 crore) as shown in Chart III below.

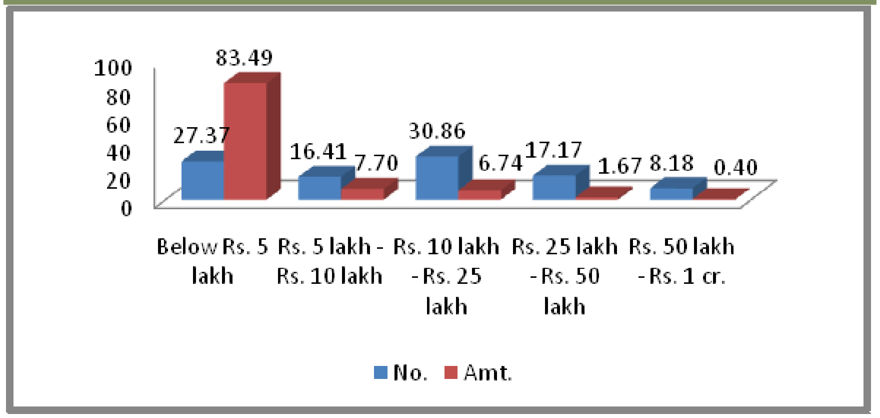
Chart III – State-wise number of Guarantees approved (%)



Data Source : CGTMSE (Status as of January 31, 2010)

2.13 **Loan size-wise analysis** of the cumulative guarantees approved as of January 31, 2010 reveals that 27.37% of the amount guaranteed pertains to loan size below Rs.5 lakh (by numbers 83.49%), 16.41% of the amount guaranteed belongs to loan size between Rs.5 lakh to Rs.10 lakh (by numbers 7.70%), 30.86% of loans belongs to loan size between Rs.10 lakh to Rs. 25 lakh (by numbers 6.74%), 17.17% of loans belongs to loan size between Rs.25 lakh to Rs.50 lakh (by numbers 1.67%), 8.18% in terms of amount guaranteed belongs to loan size between Rs.50 lakh to Rs.100 lakh (by numbers 0.40%) as shown in Chart IV below.

Chart IV – Loan size-wise cover (%)



Data Source: CGTMSE (Status as of January 31, 2010)

III. ISSUES FOR CONSIDERATION

3.1 Extent of Cover

As mentioned in para 2.4 (page 6) earlier, any secondary collateral/ third party guarantee free credit facility extended by MLIs to MSEs upto the credit limit of Rs. 1 crore are eligible for guarantee cover by CGTMSE. An analysis of the data on collateral free loans upto credit limit of Rs. 25 lakh each extended by all public sector banks as indicated in the Table 4 below was carried out as a sample and the data revealed that only 8.46% of such accounts were covered under the CGS as at the end of March 2008. In terms of the amount outstanding, 13.95% of the total loans were covered under the CGS. The position improved in the year 2008-09 and as at the end of March 2009, 9.77% of such accounts and 21.97 % of the total amount was covered under CGS as shown in Table 4 and Charts V and VI below:

Table 4 - Extent of cover of collateral free loans of Public Sector Banks under CGTMSE

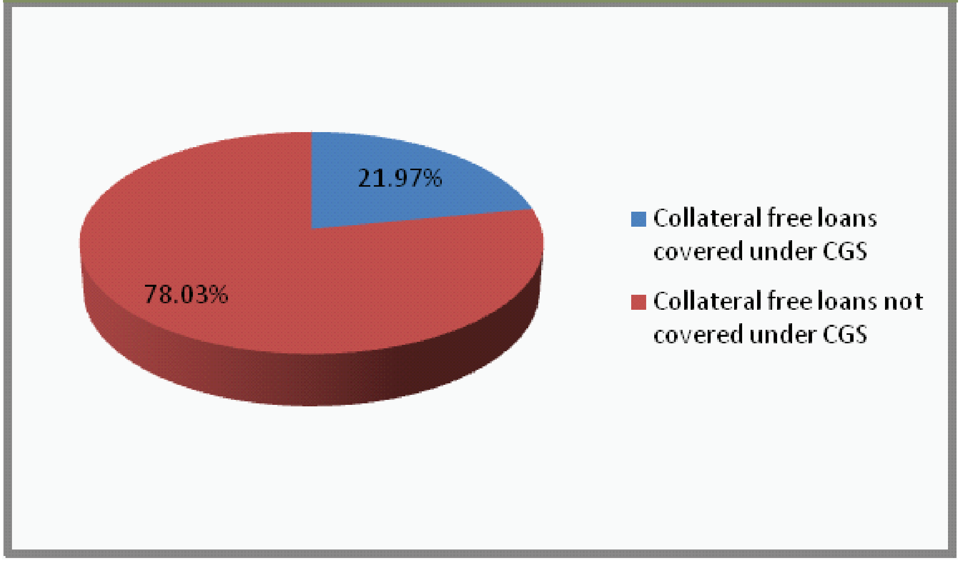
As on March 31,	Position of collateral free loans upto Rs.25 lakh		Collateral free loans covered under CGTMSE	
	No. of accounts	Amount O/s (in Rs. in crore)	No. of accounts	Amount O/s (in Rs. lakh)
2008	12,04,478	17,336.97	1,01,902 (8.46%)	2,419.21 (13.95%)
2009	13,13,247	18,136.30	1,28,305 (9.77%)	3,985.57 (21.97%)

Note: Figs. in parenthesis show percentage of cover under CGTMSE of the total collateral free loans upto Rs. 25 lakh.

Source: Data as reported by banks to RBI

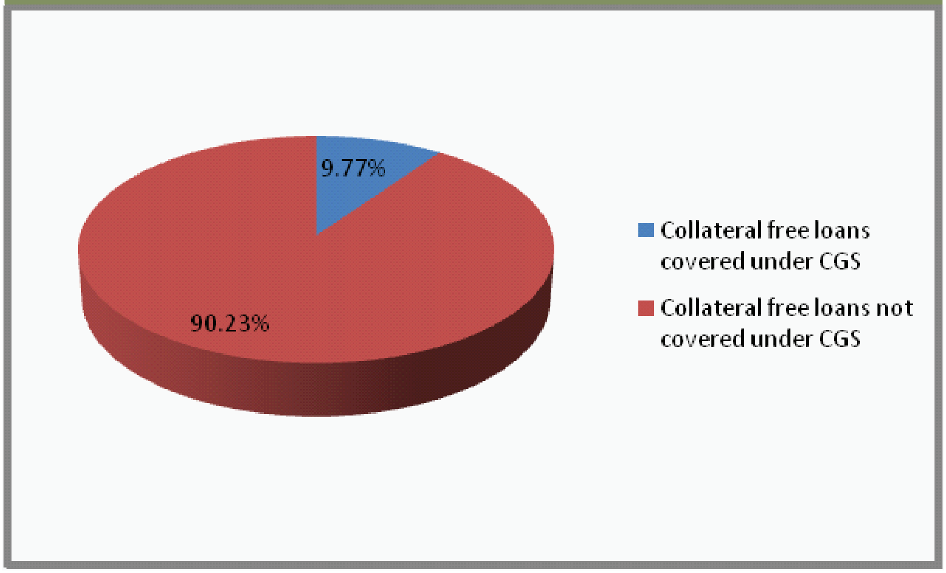
The collateral free loan accounts increased by 1,08,769 in number from the year 2007-08 to 2008-09 for credit limits upto Rs. 25 lakh extended by public sector banks. Significantly, of these incremental accounts, 26,403 (24.7%) were covered under the CGS.

Chart V – The share of cover of collateral free loans of Public Sector Banks upto Rs. 25 lakhs under CGS by amount (%)



Source: Data reported by banks (Status as of March 31, 2009)

Chart VI – The share of cover of collateral free loans of Public Sector Banks upto Rs. 25 lakhs under CGS by number of accounts (%)



Source: Data reported by banks (Status as of March 31, 2009)

Data on total loans to MSE sector, extent of guarantee cover taken, claims lodged and settled received from 19 public sector banks and five private sector banks is furnished in Annex-I. The data revealed that the guarantee cover taken by banks for their MSE advances was very low. As at the end of March, 2009, out of 21.8 lakh MSE borrowal accounts, only 57,552 accounts, constituting 2.64% of total accounts, were covered under the CGS. In terms of the amount outstanding, guarantee cover was taken only for 3.01 % of the total advances to MSEs. Further, of the approximately 17.5 lakh accounts with credit limit of up to Rs. 5 lakh each, only 46,280 (2.64 %) accounts were covered under the guarantee scheme. In terms of amount outstanding, guarantee cover taken in respect of accounts with credit facility up to Rs 5 lakh constituted 2.75% of the total advances to such borrowers.

The above analysis clearly illustrates that the CGS has not been attractive enough to MLIs.

3.2 Invocation of Guarantee and Settlement of Claims

As may be seen from Annex-I, the claims lodged were very low. Only 470 claims with aggregate amount of Rs. 39.15 crore were lodged during 2008-09. The position in respect of major public sector banks which lodged higher number of claims were analysed (Table 5). The data revealed that by June 30, 2009, of the total number of 4116 NPA accounts, claims were lodged only in 649 accounts which constituted 15.8% of these accounts. The reasons cited by banks for low level of invocation of guarantees were procedural hassle of filing suit in all cases as a precondition for lodging claims and due to the prescription of lock-in period of 18 months.

Table 5 - Extent of claims lodged

Bank	No. of accounts covered under CGTMSE	No. of NPA accounts (of col. 2)	Claims lodged (of the NPA accounts) (in col. 3)	No. of accounts of Col. 3 where claims were not lodged (col. 3- col. 4)
1	2	3	4	5
State Bank of India	25649	1668	99	1569
Bank of Baroda	2616	93	16	77
Canara Bank	21085	1983	425	1558
Bank of India	18400	372	109	263
Total	**67750**	**4116**	**649**	**3467**

(Cumulative up to June 30, 2009)
(Source: CGTMSE)

3.3 Issues raised by various stakeholders

The effectiveness of the CGS was reviewed by the Standing Advisory Committee (SAC) on credit flow to Micro and Small enterprises in its meeting held on February 3, 2009. Various MSE Associations in their representations and submissions to Reserve Bank of India had also expressed concern over the unsatisfactory performance of CGS mainly due to the reluctance of banks to avail of guarantee cover under the Scheme and the guarantee fee being high. The Working Group also received comments from a number of banks on the working of the Scheme and suggestions for further improvement. The issues raised by various stakeholders are summarised below:

A. Scope of Cover under the Scheme

a. Loans to all service activities as specified in the MSMED Act, 2006 (such as loans granted to educational institutions, SHGs, Retail Trade) should be eligible for cover under CGS. The CGS may be amended suitably to align it with the MSMED Act, 2006.

b. More often than not, the branch level functionaries prefer to lend against secondary collaterals rather than take guarantee cover from CGTMSE on the assumption that it would be easier for them to recover the dues by liquidation of collaterals. Further, the branch managers were not delegated powers to take the CGTMSE cover for the loans sanctioned by them. The power is normally given to the Controlling Offices. This policy delays taking of guarantee cover. The eligible accounts which the branch fails to report to the controlling offices remain uncovered and there is no monitoring mechanism in this regard. These deficiencies needed to be removed. At present, non-obtention of secondary collateral in all loans upto Rs. 5 lakh to the MSE sector is mandatory. This limit may be enhanced for the first generation entrepreneurs for establishing industries in industrially backward areas to Rs. 10 lakh as recommended by the Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C. Chakrabarty).

c. Mandatory cover under the Credit Guarantee Scheme be considered for loans upto a limit of say, Rs. 25 lakh, and the guarantee fee/ Annual Service Fees (ASF) may be borne by the Government. This would have the effect of bringing under guarantee cover the entire Micro enterprises segment. The reduction in cost due to economy of scale should enable CGTMSE to bring down the guarantee fee to 0.5%.

d. Guarantee cover for loans with limits higher than Rs.100 lakh to the extent of the unsecured portion of these loans with a ceiling of Rs. 100 lakh may be provided.

e. The extent of guarantee cover should be made uniform at 75% of the amount in default for all credit facilities upto Rs.1 crore.

f. Borrowers having credit facility under multiple banking arrangements may also be brought under the ambit of CGTMSE scheme.

g. Existing loans (both term loans and working capital) backed by secondary collateral/ third party guarantee may be covered under CGS if lending institution releases collaterals at any time during the currency of the loan.

h. CGTMSE should assign reasons for rejection of the applications for guarantee cover under the scheme. This will enable the branches for correct submission of applications, or resubmission of the proposals.

i. A whole turnover policy could be considered, where the entire MSE portfolio of the bank may be covered as against the present system of covering each borrowal account individually.

j. The following two clauses of the Scheme are major hurdles in the implementation of the scheme and need to be removed:

- The Credit Guarantee Trust reserves the discretion to accept or reject any proposal referred to it by MLIs which otherwise satisfies the norms of the Scheme.
- Credit facility with interest rate of more than 3 per cent over Prime Lending Rate, is not eligible for being guaranteed under the scheme.

B. Guarantee fee

a. The upfront guarantee fee may be charged at uniform rate of 0.75 % of the sanctioned amount. Risk-based guarantee fee may be introduced according to the risk factor in the industrial/ service sector.

b. As the cost of credit to MSE sector is already very high, the rate of guarantee fee and annual service charge should be reduced by at least 50 percent across the board.

C. Annual service fees (ASF)

a. Once the account turns Non Performing Asset (NPA), the borrower stops servicing the account. However, ASF is paid by the bank even after the account becomes NPA till settlement of the claim. It would be appropriate to discontinue collection of ASF from the date the account turns NPA.

b. At present, the ASF is charged on the sanctioned limit. The ASF may be charged on the outstanding amount rather than on the sanctioned limit.

c. ASF should not be collected for the accounts closed during the year.

d. In case of working capital loans, only ASF should be charged, instead of one-time guarantee fee and ASF.

e. The MSEs enjoying credit limit upto Rs. 5 lakh may be exempted from payment of ASF and Guarantee fee. Appropriate Corpus may be created by CGTMSE to bear the charges for the small borrowers.

D. The Procedure for Invoking Guarantees

a. The mandatory provision of filing of legal suit before lodgement of claim may be waived for loan amount up to Rs.50.00 lakh. Alternatively, a system of sharing legal expenses between MLIs and the Trust may be devised. Issue of legal notice recalling the loan amount should be sufficient for invoking claims instead of filing of legal suit.

b. The lock-in period for lodging of claims may be reduced to 12 months from 18 months as at present. Further, in case of small business loans under the Government sponsored schemes, normally there is no realizable value of assets. In such cases there should not be any lock-in period for lodging claim.

E. Settlement of claims

a. Some MLIs felt that there is a need to ensure prompt settlement of claims under the CGTMSE scheme to foster confidence amongst bankers.

b. As per the extant guidelines, final instalment of claim is paid by the Trust only after the decree of recovery becomes time barred i.e. 12 years after the decree is passed by the courts. This provision of the scheme poses serious difficulty for banks.

c. MLIs are required to take the permission of the Trust before adjusting the claim amount to the account of the borrower. This may be done away with as MLIs furnish an undertaking that they would take all possible steps for recovery including legal action. The MLIs should be permitted to adjust the settled amount to the borrower’s account without seeking permission from CGTMSE.

d. In the claims settled accounts, the MLI is required to remit the full amount to the CGTMSE in case of recoveries. The Trust then appropriates 75% of the recovered amount and refund the balance amount to the MLI. This procedure is cumbersome and the MLIs should be allowed to remit the proportionate share of the recovery to the Trust.

e. Existing software put in place by CGTMSE for covering/claiming under the CGS may be improved further to make it more user friendly.

IV. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

4.1 One of the terms of reference of the Working Group was to review the working of the CGTMSE Scheme and recommend measures which would result in its enhanced usage and consequential increased flow of collateral free loans to the MSE sector. The Working Group noted that the year-wise performance of the CGS has exhibited steady improvement since 2006-07. While 27,457 accounts with aggregate amount of Rs.704.53 crore were approved for guarantee cover in 2006-07, 53,708 accounts with aggregate amount of Rs.2,199.40 crore were approved in 2008-09 which has further improved to 1,13,029 approvals amounting to Rs. 5,110.09 crore by January 31, 2010 during the current year 2009-10. However, the extent of guarantee cover of the credit facilities to MSE sector remained far below its potential. As per the data furnished by 24 banks (public sector and private sector banks), out of total number of MSE accounts at 21,80,036 as on March 31, 2009, the accounts covered under the CGS of CGTMSE were 57,552 which constituted only 2.64% of total accounts as shown in the Annex-I. Further, only about 10% accounts representing collateral free loans upto Rs 25 lakh extended by public sector banks were covered under Credit Guarantee Scheme as shown in Table 4. In terms of amount outstanding, 22% of credit limits upto Rs.25 lakh each were covered under the guarantee scheme. With a view to encouraging MLIs to avail themselves of guarantee cover under the CGS of CGTMSE for most of the collateral free loans to MSE sector with credit limit upto Rs.1 crore, the Working Group makes the following recommendations duly supported by rationale:

4.2 Collateral free loans

As per the extant Reserve Bank guidelines, banks must not obtain collateral security in the case of loans upto Rs.5 lakh extended to all units in the MSE sector. The Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K. C. Chakrabarty) had recommended that the present limit of Rs. 5 lakh for collateral free lending to SMEs be enhanced to Rs.10 lakh for first generation entrepreneurs for setting up units in industrially backward areas. As the analysis of the extent of the present cover indicates, majority of the loans continue to be in the below Rs.5 lakh category, and, therefore, it would be only appropriate, and reasonable, to enhance the existing mandatory limit for collateral free loans by banks from Rs. 5 lakh to Rs. 10 lakh, so as to benefit larger number of MSE units. In accordance with the recommendations of the S.L. Kapur Committee, the exemption limit for obtention of collateral security/ third party guarantee was raised from Rs. 25,000 to Rs. 1 lakh in October 1999. Banks were advised in January 2002, to extend the benefit of collateral-free loans upto Rs. 5 lakh to all SSI units, (now described as MSEs) so as to ensure flow of adequate and timely credit to this sector. As over seven years have elapsed since the limit was fixed at Rs.5 lakh, there is a strong case for enhancing the said credit limit from Rs. 5 lakh to Rs.10 lakh, as incidentally, also recommended by the Chakrabarty Committee.

The Group, therefore, recommends that the limit for collateral free loans to the MSE sector be increased from the present level of Rs. 5 lakh to Rs.10 lakh and it be made mandatory for banks. Banks, in turn, can take cover for the collateral free credit facilities under CGS. In order to upscale the CGS, it is necessary to create widespread awareness about the key features and benefits of the Scheme. As the branch level functionaries have a predilection to lend against collaterals, the Group recommends that the Chief Executive Officers (CEOs) of banks assume complete and total ownership in the matter of strongly encouraging the branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.

4.3 Guarantee Fee

a) Risk- based guarantee fee

The matter of introduction of risk-based guarantee fee was deliberated by the Group. It was suggested that instead of the uniform rate of fee presently charged to cover the MSE loans under CGTMSE, the guarantee fees could be charged based on the risk profile of the loan portfolio of the bank concerned. For a risk-based fee, it was suggested that an audit by a third party of the portfolio by sampling could be taken for each bank in order to decide the risk level of the portfolio and appropriate guarantee fee. The other alternative is to get the portfolio rated by an external agency which would however be a time consuming and costly process. Another suggestion was to decide the guarantee fee on the basis of gross NPAs in that portfolio. However, the Group was of the opinion that this could result in a higher guarantee fee for MLIs with larger MSE loan portfolio. More so, a differentiated risk-based fee structure would be inconsistent with the public policy purpose of providing CGS cover to the MSE sector which is considered more risky but contributes significantly to employment generation, exports and inclusive growth more generally as mentioned in paragraph 1.1 of Chapter I. The feedback of the member banks was also such that banks were not very favourably disposed to differentiated rates of guarantee fee. Besides, the case for risk-based guarantee fee is typically sought to be made out on the analogy of similar case for deposit insurance globally. But the Group noted that there is a need to carefully nuance between risk-based premium for deposit insurance and risk-based guarantee fee under CGTMSE because in the former case, deposits insured of different banks are subjected to individually voluntarily differing risk profiles of banks' assets, whereas in the latter, MSE loans are conferred a priority status by public policy and, therefore, individual banks have no control over generic risk inherent in MSE loan portfolios i.e. the risks assumed in MSE lending are involuntary. **The Group, therefore, recommends that a uniform guarantee fee would be most appropriate as being levied hitherto.**

b) Recovery of Guarantee Fee

i) Fair Value of Guarantee Fee

On the issue of fair value of guarantee fee charged by the Trust, the Group noted that as of today there is no conceptually rigorous and technically robust methodology adopted by CGTMSE to compute the fair value of guarantee fee to be charged to MLIs. Accordingly, in order to add conceptual and technical rigour to determination of fair value of annual guarantee fee, the Group recommends a conceptually rigorous and technically robust methodology for computing fair value of annual guarantee fee which simulates/models the dynamically evolving distribution of claims settled such that if the model-generated fair value guarantee fee per annum is charged, there will be, at 99.9% one-tailed confidence interval, only 0.1% probability that the claims settled will exceed the guarantee fees collected. In other words, there will be only 0.1% chance that the corpus/fund will be touched.

Based on the above methodology, in working out the most realistic and reliable annual guarantee fee, the potential claims likely to devolve during the year 2010-11 were also simulated by assuming the worst case scenario of the entire unclaimed portion of NPAs devolving. This is deemed to be likely scenario what with the implementation of the Group's recommendations for rationalisation/simplification of procedures, if accepted. To simulate this, the data shown in Table 5 of Chapter III was made use of. It will be observed that of the total number of NPA accounts covered under CGTMSE which stood at 4116, claims were lodged only for 649 accounts. This meant that potential devolvement on the Trust could theoretically be for the balance 3467 accounts, in the worst case scenario, which is approximately 5 times the claims actually lodged.

Furthermore, the provision for claims made by the Trust in its Balance Sheet for the year ended 31,March 2009, based on the actuarial valuation of liability of the Trust for the year 2008-09 was Rs.32.53 crore against claims paid to the extent of Rs. 8.38 crore for the same year. Thus the provision for claims was approximately 4 times the actual claims settled. The Group, therefore, considered the worst case scenario of all the potential claims devolving on the Trust and it was worked out that the potential pay-out could be approximately Rs.195 crore (5.34 times the claims which have devolved on the Trust till date as shown in Table 5, Chapter III – Page 16). From this the net surplus of Rs.123 crore which the Trust has accumulated (GF/ASF received from 2000-01 to 2009-10 till January 31, 2010 net of tax at 33% but including interest income earned @ say 8% p.a. minus the cumulative claims settled. cf Annex- II), was subtracted as this amount is already available with the Trust as a cushion for any pay outs in 2010-11. Based on this worst case assumption, the fair value of guarantee fee worked out to 1.14% per annum at 99.9% one-tailed confidence level as shown below:

Calculation of Fair Value of Guarantee Fee				
Year	**Claims settled**	**Cumulative guarantees approved**	**Claims settled to cumulative guarantees outstanding (%)**	
2000-01	0	6.06	0.00%	
2001-02	0	35.58	0.00%	
2002-03	0	94.25	0.00%	
2003-04	0.03	211.85	0.01%	
2004-05	0.52	479.31	0.11%	
2005-06	1.10	941.22	0.12%	
2006-07	1.40	1645.75	0.09%	
2007-08	7.15	2701.59	0.26%	
2008-09	8.38	4900.99	0.17%	
2009-10	17.85	10011.08	0.18%	
2010-11	108	10011.08	1.08%	
				fair price
		average	0.18%	
		standard deviation	0.31%	
		value at 99.9% confidence one-tailed	0.96%	1.14%
		value at 99% confidence one-tailed	0.72%	0.90%
		value at 95% level one-tailed	0.51%	0.69%

Currently, the Trust also charges Annual Service Fee, ranging from 0.50% to 0.75% p.a., in addition to the normal one-time upfront guarantee fee of 1.0 % to 1.5% of the amount of guaranteed MSE loans. Generally, the average period of cover is about 5 years and, therefore, the per annum guarantee fee for say, credit facility above Rs. 5 lakh, works out to 0.30% (1.5% divided by 5) which gives a composite all-in-fee of roughly 1.05% per annum (0.30% plus 0.75%). This is very close to the more rigorously worked out annual guarantee fee of 1.14% p.a. **The Group, therefore, recommends that the CGTMSE may charge composite, all-in guarantee fee of 1% p.a. which is almost the same as the composite annual fee now being charged by CGTMSE and appropriately realign downwards the guarantee fees chargeable to women entrepreneurs, Micro enterprises and units located in NE Region including Sikkim. Further, as discussed above, the Trust may each year review the Guarantee Fee to be charged on the basis of the model of dynamically evolving distribution of claims.**

ii) Exemption from Income Tax

As CGTMSE is a not-for-profit organisation, it was exempted from payment of Income -Tax for the first five years of its operations and its income has since been subject to tax thereafter. DICGC, which used to provide Credit Guarantee earlier, was exempt from tax for 15 years, and subsequently exemption period was extended by the Government for another 5 years. The Working Group felt that the Ministry of Finance may also consider exempting the Trust from Income Tax as was done in the case of DICGC. The Trust was established with the explicit high public policy priority of providing impetus to the MSE sector. Thus, the case for exemption from income tax of the guarantee fee and income on investment of any surplus is not only justified by the underlying high public policy purpose but equally by the fact that the guarantee fee is not ‘income’ in the first place as it is in the nature of ‘revenue’ and meant to cover existing and potential claims as indeed so is income on investment of any surplus as ultimately that income will also be potentially used for meeting potential guarantee claims. Besides, the income on investment of corpus of the Trust increases the size of the Trust Fund and only furthers the public policy purpose of guaranteeing more MSE loans and/or reducing the guarantee fees thus ultimately benefiting only the MSE sector. So, it is only appropriate that fee income and income on investments may be exempted from Income Tax as indeed is the practice internationally vide page 33 of cross-country practices. More so, as the Government is the major contributor to the corpus, in the extreme case of shortfall, the Government may have to replenish the same. Hence, it may not be appropriate to levy income tax on its own income. **In view of the rationale stated above, the Group strongly**

recommends that the Government consider exempting both guarantee fee and the income on investments of the Trust from Income Tax.

iii) Guarantee fee for credit limits upto Rs. 10 lakh

As regards, the practice of recovery of the guarantee fee/ ASF from the MSE customers under the Scheme, the Working Group noted that there were divergent practices amongst banks. In some cases, banks and borrowers share the fee equally. While some banks recover the entire fee from borrowers, in some cases banks refund the fees to borrowers at the time of final repayment of loans by the latter. The decision to charge fees to borrowers, or otherwise, is left to individual banks. In the erstwhile Credit Guarantee Scheme of DICGC, banks had the discretion to recover the guarantee fee from the borrowers, other than those belonging to the 'weaker sections'. Since the guarantee scheme is primarily a safety net for MSEs, the Group was of the opinion that the small borrowers should not be burdened with the cost of the guarantee and Government should bear the same. Micro enterprises generally have a weak financial structure and banks are generally reluctant to finance them for this reason. The need for credit enhancement either by secondary collateral security or by a third party guarantee gets accentuated in these accounts. However, most such entrepreneurs, being very small, have little or no secondary collateral security to offer. In this context, the Working Group on Rehabilitation of sick SMEs (Chairman: Dr. K. C. Chakrabarty), had also suggested that the government might bear the entire credit guarantee fees for micro enterprises in order to encourage financial inclusion in the sector. In this context, the Group noted that Government of India had made initial contribution to the Guarantee Fund. Thus, the Government has already taken the burden for the MSE borrowers. The Group is of the opinion that it may not be appropriate to ask banks, which are commercial entities, to bear the guarantee fee as any scheme for banks has to be a reasonable business proposition for it to be readily acceptable. Further, the Working Group felt that if banks were made to bear the fee, they would somehow either discourage lending to MSEs, especially Micro Enterprises, or somehow indirectly load the same on the customer by charging a higher rate of interest on the facility provided thereby defeating the very purpose of fostering and developing the MSE sector. Considering the special dispensation of collateral free loans to Micro Enterprises upto the limit of Rs.10 lakhs recommended both by the K.C. Chakrabarty Committee and this Group, **the Group strongly recommends that the guarantee fee for collateral free loans upto Rs.10 lakh to Micro Enterprises be borne/absorbed by the CGTMSE subject to the proviso that the Trust be free to adjust Guarantee Fee both downwards and upwards, based on the modelling of the dynamically evolving distribution of claims. This will ensure that while the stakeholders**

like MLIs and their MSE clients benefit from the potentially lower guarantee fee, the CGTMSE also remains self-financing and self-sustaining in the long-term. Besides, asking MLIs to bear the guarantee fee, might be counter-productive for the reasons adduced in para 4.3 (b) (iii) on page 26 of the Report.

4.4 The Extent of the Guarantee Cover

At present, taking guarantee cover under CGS is not mandatory and MLIs have the freedom to take, or not to take, guarantee cover for MSE advances extended by them. The Group felt that the decision to take cover under the Guarantee Scheme should be left to the MLIs and no compulsion should be made in this regard. As the Working Group has recommended enhancement of the limit of collateral free loans from the present limit of Rs.5 lakh to Rs.10 lakh for Micro enterprises and payment of guarantee fees by the Trust in these cases, it is expected that MLIs would be incentivised enough to take guarantee cover at least for all the accounts with credit limits upto Rs.10 lakh. At present, the extent of guarantee cover for Micro enterprises is 85% of the amount in default for credit limits upto Rs.5 lakh. For credit limits above Rs.5 lakh, the guarantee cover is 50% to 80 % of the amount in default. As a logical sequel to the recommendation of the Group to increase the credit limit from Rs 5 lakh to Rs. 10 lakh for collateral free lending by banks to Micro enterprises, the Group recognised that there was also a need to enhance the extent of cover of 85% for credit facilities now available upto Rs. 5 lakh to Rs.10 lakh for Micro enterprises. This would help both small entrepreneurs as well as lenders. **The Group, therefore, recommends that guarantee cover upto 85% of the amount in default be made applicable to credit facilities to Micro Enterprises upto Rs. 10 lakh.**

4.5 Whole Turnover Guarantee

The issue of providing cover on a whole turnover basis was examined by the Group. The Group noted that the Export Credit Guarantee Corporation (ECGC) provided Whole Turnover guarantee to banks on an annual basis for packing credit /post shipment credit extended to all exporters. Such guarantee stipulates a minimum number of 25 accounts and minimum assured premium of Rs. 5 lakh per annum per bank as a precondition for issue of Whole Turnover Cover for Pre and Post-shipment credit. The extent of cover is a certain percentage of the loss depending on the average claim to premium ratio of the bank for preceding five years in respect of packing credit. The maximum liability of ECGC under Packing credit is fixed for each bank on the basis of aggregate outstanding as at the end of March each year and for Post-shipment credit an overall limit is fixed for banks up to which claims can be paid. A differential rate of premium is charged under whole turnover policy of ECGC for Packing credit. For a new bank, the premium rate for packing credit is different from that for a bank that is already holding ECGC whole turnover cover. The premium rate for member banks is decided on the basis of claim to premium Ratio for the preceding 5 years. The Group made a comparative study of the ECGC Scheme with the extant CGTMSE Scheme. On a comparative assessment, the Group felt that the CGS of CGTMSE has not yet become popular and covering of all the eligible accounts would take few more years. Introduction of Whole Turnover Guarantee (WTG) for the MSE sector may complicate the Scheme and is not appropriate at this stage. The CGTMSE Scheme provides cover for both Working capital and Term loans to the MSE sector and tenure of the cover is for the full term of the credit and block of 5 years respectively which is more suited for this sector than an annual cover prescribed under the ECGC Scheme. The extent of cover may also have to be varied depending on the track record of a bank. However, under the CGTMSE Scheme, there is uniform cover for all banks. **As the Scheme is yet to gain acceptability by banks and it needs to attain critical mass of traction, and stabilize, the Group recommends that introduction of Whole Turnover guarantee can wait until later.**

4.6 Corpus of the Guarantee Fund

If the CGTMSE uses the conceptually rigorous, and technically robust, Model suggested by the Group, there is only 0.1% i.e. only 1 in 1000 chance that the CGTMSE fund will be touched. In other words, this is as close as it can get to capturing a ‘black swan’ event! **However, as and when required, the Government of India may contribute to the Fund’s corpus.**

4.7 Simplification of the Procedures

a) Filing of suit for Invocation of Guarantees

One of the terms of reference of the Working Group was to offer suggestions to simplify the existing procedures and requirements for obtaining cover and invoking claims under the CGS of CGTMSE. The data on invocation of guarantees in respect of four major public sector banks has been analysed in this regard.

The data in respect of major banks revealed that claims were lodged in respect of only 649 accounts against the total number of NPA accounts at 4116 (15.8%). The main reasons, as cited by MLIs, for claims filed being low were (i) non-completion of lock-in-period, (ii) non-initiation of legal proceedings against borrowers and (iii) that classification of accounts as NPA was done recently. A number of banks had suggested that the pre-condition of filing of suit for invocation of guarantee should be either removed, or at least, a suitable threshold may be fixed upto which the precondition of taking legal action could be waived. They felt that filing of suits in small accounts was not economical to the banks in view of adverse cost-benefit trade-off involved. It was clarified that under the CGS, suit could be filed with any authority such as a civil court, Debt Recovery Tribunal, Lok Adalat etc. by the banks without engaging the services of lawyers. The rationale for filing suit was that it was the last resort/option available to banks to recover dues. The issue of filing suit as a precondition to lodging claims was deliberated by the Working Group. The Group felt that as the guarantee fees would be borne by the Trust in all the cases with credit limit of Rs. 10 lakh (as recommended by the Group), the burden on banks to bear the guarantee fee would be affordable. As such, banks could file a suit for the loan account covered for lodging their claims. However, with a view to simplifying the procedures, the Group felt that there was a case for prescribing a threshold upto which the condition could be waived. While considering the threshold upto which the precondition of filing suit could be waived, the CGTMSE informed that cumulatively as on January 31, 2010 the guarantee proposals approved by CGTMSE stood at 2,61,987 of which 98,131 proposals were for an amount less than Rs.50,000 constituting approximately 37.5 per cent of the proposals approved by the Trust. Therefore, the Group suggested that to begin with, a threshold of Rs.50,000/- could be fixed upto which the banks need not file legal proceedings before invoking guarantee. Some members felt that this limit was too low and should be raised to a minimum of Rs. 1 lakh. But it was felt that to begin with, it would be appropriate to fix the limit at Rs.50,000/- initially and based on the experience gained it could be reviewed after a year. **The Group, therefore, recommends that with a view to simplifying the procedure for filing claims in respect of small loan accounts, initiation of legal proceedings as a pre-condition for invoking of guarantees could be waived for credit facilities upto Rs.50,000/-. The Group also recommends that for all such cases, where the filing of legal proceedings is waived, an Executive Committee of the lending institution headed by an Officer not below the rank of General Manager should examine all such accounts and take a decision for not initiating legal action and filing claim under the Scheme.**

b) Time period for Invocation of Guarantees

Under the Scheme, there is a lock-in period of 18 months from either the date of last disbursement of the loan, or the date of guarantee fee, whichever is later, during which guarantee cannot be invoked. MLIs can invoke the guarantee within a maximum period of one year from the date of account becoming NPA, if this date is after lock-in period, or within one year after the lock-in period, if the loan becomes non-performing within the lock-in period. There are suggestions from banks that the lock-in period may be reduced from the present 18 months to 12 months. The Group was of the opinion that the provision of a lock-in period of 18 months is reasonable as it is expected that MLIs should conduct proper due diligence in sanctioning of loans so that the credit facility does not become non-performing within a short period of sanction. Moreover, the Group was of the opinion that the Fund should be dipped into only when the account is considered reasonably doubtful of recovery. Even if a borrower defaults from the first month of sanction of the loan, it takes 16 months for the account to become a doubtful asset. **The Group, therefore, recommends that the present requirement of a lock-in period of 18 months is reasonable and may continue.** However, the Group felt that the provision of filing claim within a period of one year from the date of classification of the asset as NPA is a very short period to judge the loan as irrecoverable as there is always a chance of upgradation of the status of the account within first one year. The present position only compels MLIs to initiate premature legal action simply to meet the deadline for invoking guarantee. **The Group, therefore, recommends that MLIs may be allowed to invoke guarantee within a period of two years from the date of classification of the account as NPA.**

c) Release of Final Claim

As per the extant guidelines, final instalment of claim (25% of the total eligible amount) is paid by the Trust only after the decree of recovery becomes time barred i.e. approximately 12 years after the decree is passed by courts. The feedback received from the banks revealed that this provision of the Scheme poses serious difficulty for banks as they had to wait for a very long period for the final claim to be settled. The Group also felt that the period was too long which resulted in 25% of the remaining dues of banks with the Trust almost perpetually. The Group felt that the final claim should be paid once the lender has obtained a decree from the court. However, SIDBI opined that MLIs should take steps to execute the decree and the needed some time for the same. **The Group, therefore, recommends that the final claim should be paid by the Trust after three years of the obtention of decree of recovery.**

4.8 Factoring Services without Recourse

Though not within the terms of reference, the Working Group deliberated the issue of bringing factoring services without recourse under the purview of the guarantee scheme. The Group observed that there were few entities which provided factoring services without recourse to the MSE sector. Such service providers were not lenders and did not come under the definition of MLIs. The Group discussed the issue of bringing the factoring companies within the purview of CGS as these institutions provide liquidity to MSE sector against the receivables of the latter. After deliberations, the Group felt that as most buyers of the goods from MSE units are large corporates, extending guarantee to factors will effectively lead to guaranteeing the defaults of large corporates and CGS of CGTMSE is not meant for that purpose. There may be few cases where both the sellers and buyers are MSE units. **However, as the loans extended to both the MSE units are covered under CGS, the Group does not recommend bringing factors under the guarantee scheme of CGTMSE as it would encourage another level of intermediation and resultant additional costs to MSEs.**

4.9 Cover of loans under the CGS with partial secondary collateral

During the deliberations, the Working Group considered the suggestions of some banks that loans with partial secondary collateral could also be made eligible for the guarantee cover. It was suggested that the Group may consider recommending to cover the credit facilities above Rs. 1 crore and upto Rs. 2 crore with partial secondary collateral under CGS. The Group was of the opinion that the 'raison d'être' of the CGTMSE Scheme is to encourage collateral free lending and helping the small entrepreneurs. **The Group, therefore, recommends that the issue of covering advances with partial collateral by enhancing the limit to Rs. 2 crore may not be considered.**

4.10 Definition of Collateral

The CGTMSE Scheme provides guarantee cover for collateral-free and third- party guarantee free credit facilities extended by MLIs to MSE borrowers. As per the definition provided in the CGTMSE Scheme,' Primary security' means the assets created out of credit facility so extended and / or which are directly associated with the project, or business, for which credit facility is extended. This definition was not in sync with the international banking practice. Internationally, an asset which is acquired by utilising the bank finance is treated as the 'primary collateral' for the lender and any other additional security offered whether belonging to the borrower, or to a third party, is treated as secondary or 'supplementary collateral'. However, it was felt that the CGTMSE Scheme had been working satisfactorily and borrowers had no difficulty in offering the assets belonging to the unit as additional security to banks. **The Group, therefore, does not recommend change in the present definition of the Scheme. The Scheme may cover the credit facilities which are secured by primary collateral as well as secondary collateral which belongs to the unit and are directly connected to the business activity of the unit.**

APPENDIX

Credit Guarantee Schemes for the SMEs – Cross-country Practices

The market failure in the credit markets for SMEs has led to the formulation of more than 2,250 credit guarantee schemes in almost 100 countries internationally (ADB, 2007). The credit guarantee schemes serve the larger public policy objectives of promoting entrepreneurship in the country and to provide credit to the SMEs which commonly lack the kind of collaterals required by the banks and simultaneously reducing the credit risk of the lenders. According to ADB (2007), "it is also argued that well-designed, well-funded and well-implemented credit guarantee schemes can improve SME access to credit and their integration into formal financial markets, assist SMEs to obtain finance for working capital, fixed assets and investment at reasonable conditions, and enable smaller firms to improve their competitiveness and extend their economic activity. This will ultimately translate into improved business performance and job creation". In some countries, a high proportion of SMEs are serviced by guaranteed loans e.g. Japan 38%, South Korea 20%, and Taiwan 20%. Most national credit guarantee schemes internationally, however, have little impact on the SME sector (they service only 1-2% of SMEs).

The schemes in existence internationally are organised in various corporate or legal forms, ranging from state-operated financial institutions, state-funded companies and government-guaranteed SME loan programs and in some cases independent private corporate entities, credit guarantee foundations or associations, mutual guarantee associations etc. (ADB, 2007). One of the largest funds globally, the Korean Credit Guarantee Fund (KODIT) is owned 60% by the national government and 40% stake is owned by the financial institutions. In Taiwan, the government owns 99% stake in the Small & Medium Enterprise Credit Fund (SMEG) and the remaining 1% is owned by the financial institutions. In the Philippines, however, the Small Business Guarantee & Finance Corp (national fund) the stakeholders are - National Government 45%; 55% by 5 state banks & insurance company. In UK, the Small Firms Loan Guarantee Scheme (SFLG) - National fund is financed 100% by UK Govt. In case of France, SOFARIS *(Societe Francaise de Garantie des Financements des petites et Moyennes Entreprises)*, BDPME Bank (French Development Bank) is the main equity holder and other stakeholders include CDC & French Government.

As for the fee arrangements, most of the schemes have fixed guarantee fee arrangements in the range of 1.5 - 2 per cent per annum on the outstanding guarantee whereas some of the schemes have adopted risk-based guarantee fees where the fee structure is based on a sliding scale (e.g. Korea and Taiwan).

It is also observed that almost all international major credit guarantee institutions and programs have been granted non-profit status and enjoy exemptions from paying income tax and Value-Added Tax.

In most of the countries, the SME credit guarantee institutions are subject to mandated maximum credit multiplier levels (measured as a ratio between outstanding guarantees at the end of the year and capital funds), either through legislation or by directives, in order to maintain financial discipline and manage risks.

Japan's 52 institutions have the highest (varying between 35 and 60), and Korean, Taiwan and German institutions have designated a maximum multiplier of 20. The Philippines and Thailand, both small programs with weak management, have imposed levels as low as 3 and 5 respectively (ADB, 2007).

The loss-sharing ratio is generally in the range of 70-90 per cent and the remaining 10-30 per cent risk is borne by the lending institution. However, in certain programs, 100 per cent risk sharing is undertaken as in the case of Taiwan and Thailand. On the other end of the spectrum, risk sharing can also be as low as 20-50% as in Italy, and 45-70% as in France.

In a recent survey by **Beck et. al.** (2009) of 76 Partial Credit Guarantee Schemes (PCGs) globally, the main findings were:

- ✓ 40% of the schemes are for-profit, while the remaining 60% are non-profit; 52% are subject to corporate income tax, while 48% have tax-exempt status.
- ✓ 72% of PCGs use a loan or "selective" basis, while 14% use a portfolio or "lump screening" approach and 9% use a combination of the two approaches.
- ✓ Around 40% of all schemes in the sample offer guarantees of up to 100%.
- ✓ Most PCGs guarantee at least the loan principal (74%), while fewer guarantee only interest (34%) or other costs (13%); almost 30% guarantee both principal and interest.
- ✓ In 56% of the sample, the fees are paid directly by the borrower and in 21% by the financial institution receiving the guarantee (although this cost might be passed on to the customer). 63% of schemes in the sample (48) have a per-loan fee, while 30% of the schemes levy an annual fee; 15% charge a membership fee.
- ✓ There is also variation in the basis that schemes use to compute fees: 57% base the fee on the amount guaranteed, while 26% base it on the loan amount. Further, 25% of the schemes that charge on a per-loan basis take

into account the maturity of the guaranteed loan when computing the fee, while 25% adapt the fee according to the risk of the loan or the borrower. Only 7% of the PCGs use a risk-based pricing structure and only 10% impose penalty rates for financial institutions with below-average loan performance.

✓ In 34% of the schemes in the sample, payouts are made after the borrower defaults. In 42% of the schemes, payout happens after the bank initiates recovery, while in 3% it happens after the PCG initiates recovery. In only 14% of all cases, payout has to wait until the bank writes off the loan. Schemes in more developed countries are more likely to pay out after default or after write-off, while schemes in developing countries are more likely to pay out after the bank initiates legal action.

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ANNEX- I

Amt.(Rs. in crore)

Data on coverage of the Credit Gurantee Scheme for MSEs for the year March ended 2009

(Data in respect of 24 banks)

Total Loans to the MSE sector	No of A/Cs (in actual)	Amt O/s	Accounts covered under CGS		% Col 4 to Col 2	% Col 5 to Col 3	Claims lodged by banks during the Year		Claims settled by CGTMSE during the year		Percent-age of total coverage limit-wise (Number)	Percentage of total coverage limit-wise (Amount-wise)	Percent-age of claims lodged out of the covered (Number)	Percentage of claims lodged out of the covered (Amount)
1	2	3	4	5	6	7	8	9	10	11				
Particulars			No of A/Cs (in actual)	Amt (o/s)			No of A/Cs	Amt.	No of A/Cs	Amt.				
(Credit Limit)														
Upto Rs 5.lakh	1750025	21498.23	46280	590.25	2.64	2.75	247	2.24	56	0.85	80.41	25.93	0.53	0.38
Above 5 lakh upto Rs15 lakh	234661	14667.05	7448	679.67	3.17	4.63	39	3.48	26	1.86	12.94	29.86	0.52	0.51
Above 15 lakh upto Rs 25 lakh	103202	11503.32	2570	521.21	2.49	4.53	14	2.64	9	1.5	4.47	22.90	0.54	0.51
Above 25 lakh upto Rs1 Crore	92148	27863.84	1254	485.1	1.36	1.74	9	30.79	3	0.39	2.18	21.31	0.72	6.35
Total	**2180036**	**75532.44**	**57552**	**2276.23**	**2.64**	**3.01**	**470**	**39.15**	**284**	**65.79**	**100.00**	**100.00**	**2.32**	**7.75**

Note: A few banks have not provided the amount-wise break-up of the claims lodged and settled and hence the column total may not tally with the individual row totals

Amt (Rs. in crore)

Data on coverage of the Credit Guarantee Scheme for MSEs for the year ended March 2008

Data in respect of 24 banks

Total Loans to the MSE sector	No of A/Cs (in actual)	Amt Out-standing	Accounts covered under CGS		% Col 4 to Col 2	% Col 5 to Col 3	Claims lodged by banks during the Year		Claims settled by CGTMSE during the year		Per-cent-age of total cover-age limit-wise (Num-ber)	Percent-age of total coverage limit-wise (Amount-wise)	Percent-age of claims lodged out of the covered (Num-ber)	Percent-age of claims lodged out of the covered (Amount)
1	2	3	4	5	6	7	8	9	10	11				
Particulars (Credit Limit)			No of A/Cs (in actual	Amt. O/s			No of A/Cs	Amt.	No of A/Cs	Amt.				
Upto Rs 5.lakh	1156966	15590.7	21328	258.32	1.84	1.66	136	1.31	73	0.56	80.26	27.90	0.64	0.51
Above 5 lakh upto Rs15 lakh	166496	9771.99	3493	305.17	2.10	3.12	11	0.84	10	0.18	13.14	32.96	0.31	0.28
Above 15 lakh upto Rs 25 lakh	67791	6448.69	1368	268.62	2.02	4.17	13	3.27	14	3.41	5.15	29.01	0.95	1.22
Above 25 lakh upto Rs1 Crore	59079	16520.16	386	93.85	0.65	0.57	11	1.28	11	1.2	1.45	10.14	2.85	1.36
Total	1450332	48331.54	26575	925.96	1.83	1.92	70	4.79	40	4.12	100.00	100.00	4.75	3.36

Note: A few banks have not provided the amount-wise break-up of the claims lodged and settled and hence the column total may not tally with the individual row totals

Amt. (Rs. in crore)

Data on Coverage of the Credit Guarantee Scheme for MSEs for the year ended March 2007

(Data in respect of 24 banks)

Total Loans to the MSE sector	No of A/Cs (in actual)	Amt O/s	Accounts covered under CGS		% Col 4 to Col 2	% Col 5 to Col 3	Claims lodged by banks during the Year		Claims settled by CGTMSE during the year		Per-cent-age of total cover-age limit-wise (Num-ber)	Percent-age of total coverage limit-wise (Amount-wise)	Per-cent-age of claims lodged out of the cov-ered (Num-ber)	Percent-age of claims lodged out of the covered (Amount)
1	2	3	4	5	6	7	8	9	10	11				
Particulars (Credit Limit)			No of A/Cs (in actual	Amt O/s			No of A/Cs	Amt.	No of A/ Cs	Amt.				
Upto Rs 5.lakh	602715	10774.95	23220	244.39	3.85	2.27	111	0.407	86	3.23	87.53	38.14	0.48	0.17
Above 5 lakh upto Rs15 lakh	74670	5972.66	2384	218	3.19	3.65	15	1.41	3	0.18	8.99	34.02	0.63	0.65
Above 15 lakh upto Rs 25 lakh	21191	3930.84	764	157.39	3.61	4.00	2	0.4	0	0	2.88	24.56	0.26	0.25
Above 25 lakh upto Rs1 Crore	30064	10712.93	159	21.03	0.53	0.20	7	1.45	5	0.78	0.60	3.28	4.40	6.89
Total	728640	31391.38	26527	640.81	3.64	2.04	45	2.077	6	3.28	100.00	100.00	5.77	7.96

Note: A few banks have not provided the amount-wise break-up of the claims lodged and settled and hence the column total may not tally with the individual row totals

ANNEX II

Details of CGS operations of CGTMSE					
1.Details of Year-wise Guarantee Approvals					
Period	**No. of Active MLIs**	**No. of Credit Facilities Approved**	**Amount of Guarantees Approved (Rs. Crore)**	**Cumulative No. of Credit Facilities Approved (Rs. Crore)**	**Cumulative Amount of Guarantees Approved (Rs. Crore)**
FY 2000-01	9	951	6.06	951	6.06
FY 2001-02	16	2296	29.52	3247	35.58
FY 2002-03	22	4955	58.67	8202	94.25
FY 2003-04	29	6603	117.60	14805	211.85
FY 2004-05	32	8451	267.46	24321	538.62
FY 2005-06	36	16284	461.91	40605	1000.53
FY 2006-07	40	27457	704.53	68062	1705.06
FY 2007-08	47	30285	1055.84	97282	2701.59
FY 2008-09	57	53708	2199.40	150034	4824.34
FY 2009-10*	**82**	**113029**	**5110.09**	**261987**	**9822.50**

**** As at January 31, 2010***

N.B.: Actuals may vary due to intervening cancellations / modifications

2. Details of Year-wise Claims Settled			
Year	No. of Claims Settled	Amt settled (1st instalment)	Average size
FY 2005	47	54.00	1.14
FY 2006	113	110.35	0.98
FY 2007	111	144.66	1.30
FY 2008	238	714.45	3.00
FY 2009	275	853.54	3.10
FY 2010 (till January 31, 2010)	567	1785.83	3.14
Total	**1351**	**3662.83**	**2.71**

3. Details of Year-wise Income (Guarantee Fee / Annual Service Fee)			
			(Rs. lakh)
Year	**Guarantee Fee**	**Annual Service Fee**	**Total**
2000-01	5.57	0.00	5.57
2001-02	74.48	8.08	82.56
2002-03	126.79	37.18	163.97
2003-04	233.03	87.54	320.57
2004-05	657.85	204.81	862.65
2005-06	900.21	403.04	1303.25
2006-07	953.96	0.00	953.96
2007-08	1257.75	665.99	1923.74
2008-09	2465.85	1055.82	3521.68
2009-10	6240.00	1724.00	7964.00
Total	**12915.49**	**4186.46**	**17101.95**