

CGTMSE and CIBIL: A brief background and their roles in supporting the Indian Economy



Credit Guarantee Fund Scheme for Micro and Small Enterprises is specially formulated to cater to the needs of Micro and Small Enterprises (MSME). MSMEs are considered as the engine of economic growth and play an important role in the equitable economic development of the country. Credit Information Bureau (India) Limited (CIBIL) being India's first credit information bureau is a repository of information pooled in by all Banks and lending Institutions operating in India, which contains the credit history of commercial and consumer borrowers. Today when Indian economy needs MSE sector, they are not getting full support from credit grantors because there is lack of co-ordination between credit grantors and CIBIL.



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CGTMSE

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is set up by the Government of India and SIDBI. Credit Guarantee Fund Scheme for Micro and Small Enterprises (the Scheme) is specially formulated to cater to the needs of Micro and Small Enterprises (MSME). The reasons for this are obvious:

- 1) The Micro Small and Medium enterprises (MSMEs) are considered as the engine of

economic growth and play an important role in the equitable economic development of the country.

- 2) The major advantage of the sector is its employment potential at low capital cost. It is much more labour intensive as compared to large enterprise.
- 3) The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.
- 4) MSMEs have been established in almost all major sectors in the Indian industry such as:
 - a. Food processing
 - b. Agricultural inputs
 - c. Chemicals & pharmaceuticals
 - d. Engineering; Electrical, Electronics
 - e. Electro-medical equipment
 - f. Textiles and garments
 - g. Leather and leather goods
 - h. Meat products
 - i. Bio-engineering
 - j. Sports goods
 - k. Plastics products
 - l. Computer software, etc

Importance of MSME sector

The importance of this sector can be judged from the following statement:

As per available statistics (4th Census of MSME Sector), this sector employs an Estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of total export of the country. (http://www.centralbankofindia.co.in/upload/obc/MainMenuEnglishLevel-2_BRIEF_ON_MSE_ROI_ETC.pdf)

So to promote the development of MSE sector CGTMSE scheme has been formed. It allows single window disposal of Term Loan and working capital facilities (both fund and non fund based) to the eligible borrower without any need for collateral security or third party guarantee.

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Salient features of the scheme

1) Member Lending Institutions (MLI)

Particulars	MLI
Eligibility	1) All Scheduled Commercial Banks (PSU, Private or Foreign), Selected Regional Rural Bank, SIDBI, NSIC, NEDFI or other institutions as directed by GOI.
Guarantee cover	1) Eligible Lending Institutions should enter one time agreement with CGTMSE and become MLI of the trust. 2) MLI can apply for guarantee cover for credit proposals sanctioned in the quarter before the expiry of following quarter.
Re-appraisals by trust	1) CGTMSE will not re-evaluate the proposal. MLI should perform required Due Diligence.

(http://www.centralbankofindia.co.in/upload/obc/MainMenuEnglishLevel-2_FAQ_CGTMSE.pdf)

2) Eligible Borrowers

Particular	Borrowers
Eligibility	New and Existing Micro & Small Enterprises engaged in Manufacturing & Service activity (As per RBI guidelines on lending to priority sector under MSMED Act, 2006 except <i>Retail Trade</i> . http://www.cgtsi.org.in/FAQs.aspx?artid=115)
It-pan	Mandatory at the time of obtaining guarantee cover if loan amount is over ₹ 10 lakh.
Miscellaneous	1) Credit facilities by more than one bank and/or financial institutions jointly and/or separately upto ₹ 100 lakh per borrower is possible. 2) SHG (Self Help Group) is not eligible.

3) Credit Facilities

Particulars	Credit Facilities
Credit limit	Fund and Non Fund based Limit upto ₹100 lakh per borrower provided there is no collateral security or third party guarantee.
Ceiling on interest	Not to exceed 3% over and above Prime Lending Rate of the lender.(Excludes fee payable to trust)
NPA	Cannot be covered.

4) Securities

Particulars	Securities
Primary security	Asset created/directly associated with business/project for which credit facility is granted.
Collateral security	Security other than primary security. Eg: Hypothecation of Jewellery, Mortgage of House.
Third party guarantee	Personal guarantee of proprietor and partner in case of proprietorship and partnership firm: No disqualification Personal guarantee of director in case of company: Disqualification

5) Credit Guarantee Cover

Category	Maximum Guarantee Cover		
	Upto ₹5.00 lakh	Above ₹5 lakh upto ₹50 lakh	Above ₹50 lakh upto ₹100 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of ₹4.25 lakh	75% of the amount in default subject to a maximum of ₹37.50 lakh	₹37.50 lakh plus 50% of amount in default above ₹50 lakh subject to overall ceiling of ₹62.50 lakh
Women entrepreneurs/ Units located in North East Region (including Sikkim) (other than credit facility upto ₹5 lakh to micro enterprises)	80% of the amount in default subject to a maximum of ₹40 lakh		₹40 lakh plus 50% of amount in default above ₹50 lakh subject to overall ceiling of ₹65 lakh
All other category of borrowers	75% of the amount in default subject to a maximum of ₹37.50 lakh		₹37.50 lakh plus 50% of amount in default above ₹50 lakh subject to overall ceiling of ₹62.50 lakh
Initiation and Duration of cover	1) Cover starts when Guarantee Fee is credited to bank account of trust. 2) Duration is for the tenure of Term Loan and for five years or block of five years in case of working capital facilities.		

6) Guarantee/Service Fee

Particulars	Guarantee/Service Fee
Quantum	Guarantee Fee: 1.50% of coverage (0.75% in North East region including State of Sikkim) Service Fee: 0.75% of coverage (Maximum cover limit is ₹100 lakh in both cases)
Incidence of fees	MLI to decide. However Public Sector Banks are encouraged to absorb Annual Fee in excess of 0.25%p.a from below borrowers: a) All Loans upto ₹2.00 lakh b) All eligible women entrepreneurs c) All eligible borrowers located in the North Eastern Region (including State of Sikkim) and Jammu & Kashmir.
Rate changes	Guarantee Fees: Payable one time so any change in rates has to be made prospectively. Service Fees: Its payable as on 31 st March on Pro-rata basis so the rate prevailing on that date shall apply.

Source: CGTMSE website

CIBIL

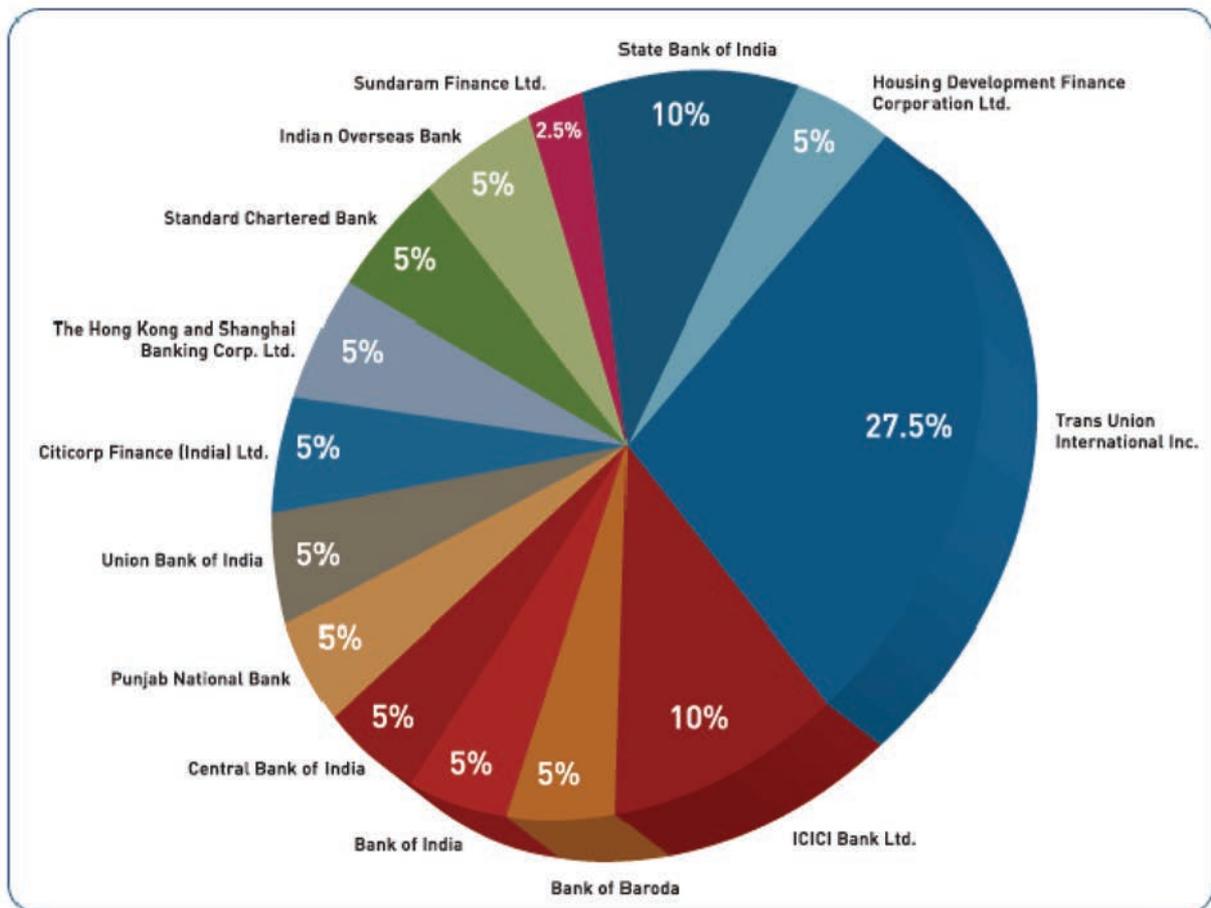
Credit Information Bureau (India) Limited (CIBIL) is an effort made by the Government of India and the Reserve Bank of India to improve the functionality and stability of the Indian Financial System by containing

Non Performing Assets(NPAs) while improving credit grantor's portfolio quality. (http://en.wikipedia.org/wiki/Credit_bureau)

The various credit grantors are Banks, Financial Institutions, State Financial Corporations, Non-Banking Financial Companies, Housing Finance Companies and Credit Card Companies.

So CIBIL being India's first credit information bureau is a repository of information pooled in by all Banks and lending Institutions operating in India, which contains the credit history of commercial and consumer borrowers. CIBIL provides this information to its Members in the form of credit information reports. A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different credit grantors. Its purpose is to help credit grantors make informed lending decisions - quickly and objectively. (<http://property.magicbricks.com/microsite/buy/cibil/about-us.html>)

Ownership of CIBIL:



Source: CIBIL website

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Bottleneck in the System

As discussed above the major aim of CGTMSE scheme is granting of credit facilities to MSE (Priority sector) only on the basis of primary security without demanding for collateral and third party guarantees. These days all commercial banking institution refers to CIBIL report of Individual, Proprietor, Partners, Firm or Company before they decide the eligibility of project for financing under any scheme.

Case Study

A client Mr. X wants to get his project (MSE sector) financed under CGTMSE scheme. When the relevant

banking authorities (Bank A) saw his CIBIL they found that his car loan and housing loan was overdue and that his car loan was appearing twice in the CIBIL report. They rejected his project on the basis that CIBIL report which was showing very low score as his accounts were overdue and that he needs to get his account regular.

When Mr X saw his report he told the banking institution that the housing loan doesn't belong to him. Mr. X contacted CIBIL authorities and they gave him the relevant Account No. and Bank name to Mr. X for housing loan. Mr. X contacted that relevant bank (Bank B) and found the following:

- 1) That both car and housing belonged to same branch of Bank B (from where he has taken car loan).
- 2) That Bank B acknowledged that the housing loan doesn't belong to him. It belonged to certain Dr. X.

Actions taken by Mr. X

- 1) He filed complaint to CIBIL and the Bank B.
- 2) He deposited enough money in Bank B so as to make his car account regular.

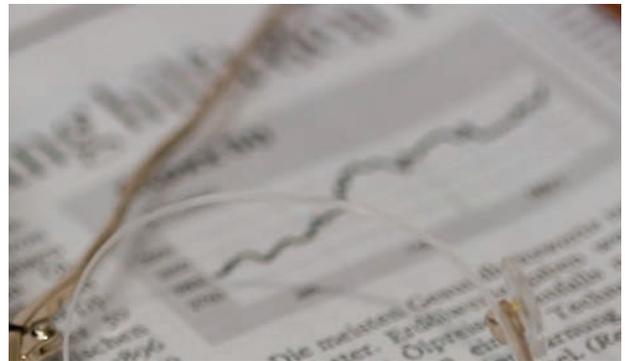
Post Action period

- 1) On filing of complaint and upon subsequent proceedings from bank the housing loan got cleared from account of Mr. X but there was no update as far as regularisation of car loan was concerned.
- 2) Mr. X again contacted CIBIL and they told him that all the banks have certain fixed date for reporting and updating all credit information to CIBIL of all consumers and commercials.
- 3) Mr. X contacted Bank B again and found out that the reporting date was at the end of quarter (in this case March 200X).
- 4) When Mr. X again presented his proposal for project financing to Bank A he found out that his CIBIL report was showing the car loan twice and that it was again running overdue (This happened in May).

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- 5) Mr. X went to Bank B and he got certificates stating that his car loan account was running regular as of today.
- 6) Mr. X took those certificates to Bank A and then they accepted his claim and agreed to finance his project.

Points to ponder

- 1) All the credit grantors are responsible for sending information to CIBIL in timely manner and if they don't and they reject the claims of borrowers on the basis that the CIBIL is showing low score then whose fault it is.
- 2) Is there appropriate control mechanism in place to prevent somebody else's account from appearing in CIBIL?
- 3) Accepting of certificate (in this case) as a valid proof is at the discretion of particular bank. What if some other bank of another borrower refuses to accept it. So we can do a lot better by having certain standards into this.
- 4) Is it necessary that the same account should appear twice? In this case the account of Mr. X was transferred to recovery cell of Bank B. So Bank B and its recovering cell have separately sent the information about Mr. X to CIBIL but neither of them updated to CIBIL.
- 5) Because of delay on part of Bank B the project of Mr. X was delayed. This in turn increased the cost of project.

Conclusions

Formulation of rules should be followed by its strict implementation. If the implementation is not absolute then that particular rule can become counter-productive. Today when Indian economy needs MSE sector, they are not getting full support from credit grantors because there is lack of co-ordination between credit grantors and CIBIL. ■