

# CABINET OKAYS 3 TRILLION FUNDING SCHEME FOR MSMES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The Union Cabinet on Wednesday approved the 3 trillion emergency credit guarantee scheme for non-banking financial companies (NBFCs) and micro, small and medium enterprises (MSMEs).

The funding is a part of the 20 trillion economic package announced by finance minister Nirmala Sitharaman for the sectors hit hard by coronavirus.

Under the scheme, the entire funding in the form of a guaranteed emergency credit line (GECL) facility will be provided with a 100% credit guarantee by state-owned National Credit Guarantee Trustee Company Limited (NCGTC) to the lenders. Towards this, the Union government will provide 41,600 crore, spread over the current and the next three financial years. NCGTC will not charge any guarantee fee from lending institutions.

The scheme is expected provide an incentive to banks, NBFCs to offer additional funds to MSMEs by providing them 100% guarantee for any losses suffered by the lenders due any default. It will also provide support to small businesses struggling meet their operational liabilities due to the nationwide lockdown.

Interest rates under the scheme will be capped at 9.25% for banks and at 14% for NBFCs. The scheme will cover only existing borrowers with outstanding credit limit of up to 25 crore as on 29 February, and having a turnover of up to 100 crore. The tenor of the loan under the scheme will be four years, with a moratorium period of one year on the principal amount. It will also include borrowers with up to 60 days past dues, and cover working capital and term loan facilities.

"The amount of GECL funding to eligible MSME borrowers either in the form of additional working capital term loans (in case of banks and FIs), or additional term loans (in case of NBFCs) would be up to 20% of their entire outstanding credit up to 25 crore as on 29th February, 2020," an official statement said.

The scheme would be applicable to all loans sanctioned under GECL facility from the date of announcement of the scheme to 31 October, or till an amount of 3 trillion is sanctioned under the scheme, whichever is earlier.

"In view of the critical role of the MSME sector in the economy and in providing employment, the proposed Scheme is expected to provide much needed relief to the sector by incentivizing MLIs (member lending institutions) to provide additional credit of up to 3 trillion to the sector at low cost, thereby enabling MSMEs to meet their operational liabilities and restart their businesses," the statement added.

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