

SME credit fund corpus gets bigger

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THE government has decided to raise the corpus of the credit guarantee fund from Rs 1,584 crore to Rs 2,500 crore to facilitate collateral-free loans to micro and small enterprises. As banks have been refraining to extend collateral-free loans to such units due to high non-performing assets (NPAs), the government provides guarantee up to 75% of the total loan amount.

The move has been taken after banks ignored several advisories from the Reserve Bank of India (RBI) and the finance ministry in this regard. Banks prefer to lend to retail and housing compared to micro and small enterprises.

"The enhanced amount will increase our target coverage significantly. As guarantee is extended on 75% of loan value, we can leverage the corpus four to five times when it comes to the total loan amount that can be credited against Rs 2,500 crore," a senior government official said. In fact, with the existing corpus the ministry has already

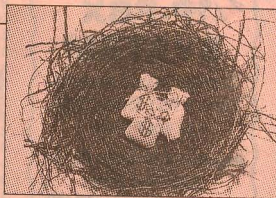
covered more than one lakh borrowers.

The move has been taken with due consultation from ministry of finance as a move to step up accessibility of credit under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). The finance ministry has also given its go ahead to increase the loan limit, on which guarantee is given, from Rs 25 lakh to Rs 50 lakh of the small unit's working capital requirements.

With the enhanced amount, the government will be able to guarantee loans worth Rs 5,000 crore. Under the scheme, the ministry gives guarantee against 75% of the value of the loan that makes it Rs 37.50 lakh per borrower. For loans up to Rs 5 lakh to micro units operated or owned by women and units in the northeastern region, the

coverage is 80% of loan amount.

Most banks, except SBI, continue to have a low key role in small scale credit due to the incidence of NPAs in the micro, small and medium enterprises. Banks continue to ignore advisories from the RBI and MoF to advance credit to the sector.



HELP AT HAND

The move was taken after banks ignored advisories from the RBI and the finance ministry in this regard. Banks prefer lending to retail and housing instead of SMEs