

GUARANTEE OF UP TO 95% FOR SMALL, 75% FOR MEDIUM ENTITIES

New credit cover for MSME exporters by September

● Scheme to cover collateral-free loans of up to ₹20 crore

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THE CENTRE WILL prepare the draft of a new credit guarantee scheme for export-oriented MSMEs within a month. The scheme will cover collateral-free loans of up to ₹20 crore per borrower.

Under the proposed scheme, up to 95% of loans for micro and small enterprises and up to 75% for medium enterprises may be guaranteed. The guarantee fee for borrowers is expected to be around 1.5%, sources told *FE*. "The target is to roll out the scheme by September," a senior official said, adding that the scheme will remain in force for six years or until the end of the 16th Finance Commission award cycle, ending FY31.

The department of financial services has already conducted multiple rounds of consultations with MSME stakeholders and banks after finance minister Nirmala Sitharaman announced the scheme's launch "for well-run exporter MSMEs, for term loans up to ₹20 crore."

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BENEFITING SMALL BUSINESSES

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■ This would be the first of its kind scheme for MSME exporters

■ The credit facility will be offered to meet the borrower's working capital requirements for expansion projects

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■ MSMEs contribute 36% to manufacturing output and 45% of exports

exporters. The credit facility will be offered to meet the borrower's working capital requirements, as well as for expansion projects, in the form of term loans.

Currently, there is no such credit guarantee scheme catering to export-oriented MSMEs. The Export Credit Guarantee Corporation (ECGC) provides risk cover against export orders as a packing/post shipment facility.

However, these borrowers have other working capital needs also which they avail as cash credit and overdraft facilities from banks, which are not covered by ECGC. Further,

EOUs will also need term loans for expansion, modernisation or setting up new units for which credit guarantee scheme is not available.

The new scheme for EOUs is likely to be managed by the National Credit Guarantee Trustee Company (NCGTC). The credit guarantee scheme would facilitate the increase in exports, helping to earn foreign currency and strengthening the economy.

India has over 10 million registered MSMEs, employing 75 million people, contributing 36% to manufacturing output and 45% of exports. The growth and resilience of the MSME sector is critical to

strengthening India's position as a global manufacturing hub. There has been a consistent increase in both investment limits and turnover thresholds across all MSME categories—micro, small, and medium.

Interest rate on these facilities can be charged as per board-approved policies of the lender and as per regulatory guidelines. However, it is expected that the interest rates charged will be competitive to account for the reduced risk levels due to the guarantee cover offered to the credit facility.

At the initial launch stage, it is proposed to roll out the guarantee scheme for EOUs.