

# Larger credit cover for MSMEs likely

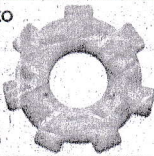
PRASANTA SAHU  
New Delhi, January 14

**THE CREDIT GUARANTEE** scheme for micro, small and medium enterprises (MSMEs), announced in July last year, will take form in the upcoming Budget, with a focus on facilitating capital investments by the manufacturing sector units.

The scheme will be largely modelled on the successful Emergency Credit Line Guarantee Scheme (ECLGS) for small businesses which was unveiled in 2020 amid the pandemic, but

## CAPITAL BOOST

■ New scheme to be largely modelled on ECLGS for small businesses unveiled in 2020



■ Focus to be on facilitating capital investments by manufacturing sector units

To cover larger loans with a guarantee of up to ₹100 crore

MSME credit penetration is just 14% in India compared with 50% in US and 37% in China

will cover larger loans, with a guarantee of up to ₹100 crore. It will be structured in a way that beneficiary units can use the credit for scaling up, sources

said. The upper threshold for loan eligibility would be higher.

The scheme, designed to provide guarantee to MSME loans for capital equipment

purchase without collateral or third-party guarantee, will let pooling of credit risks of the firms. While the guarantee will be limited to ₹100 crore, the loan amounts could be even higher.

The scheme is expected to address the issue of tepid investments by MSMEs in recent years, even as public capex has been robust, and to a certain extent, investments by large corporate groups, too, have picked up.

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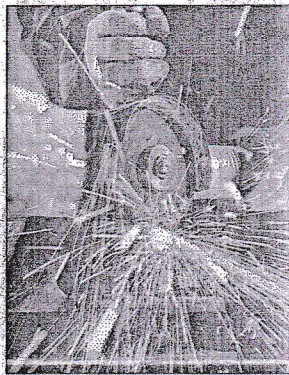
# Larger credit cover for MSMEs likely

**THE INTENT IS** to raise the investment rate to a higher level.

While the ECLGS format will be used, the government may also tweak norms to facilitate MSMEs to scale up, the sources said.

The ECLGS was introduced in May 2020 with a guarantee corpus of ₹3 lakh crore to support the MSME sector. Over the years, the scheme has been extended to more sectors like hospitality, civil aviation and healthcare. The guarantee corpus was also enhanced to ₹5 lakh crore. The scheme was valid till March 31, 2023. Under the scheme, 11.9 million guarantees worth ₹3.68 lakh crore were issued to MSMEs and other businesses.

ECLGS provided collateral-free loans to existing eligible borrowers with a 100% guarantee in respect of the eligible



amount, as per the scheme guidelines. As per the State Bank of India's research report on ECLGS, almost 146,000 MSME accounts, of which about 93.8% were in MSE categories, were saved. "MSMEs will be a big focus area in the budget to boost job creation," an official said.

In the FY25 Budget speech,

finance minister Nirmala Sitharaman had said: "A separately constituted self-financing guarantee fund will provide, to each applicant, guarantee cover up to ₹100 crore, while the loan amount may be larger. The borrower will have to provide an upfront guarantee fee and an annual guarantee fee on the reducing loan balance."

The credit outstanding of scheduled commercial banks (SCBs) and non-banking financial companies (NBFCs) to the MSME sector has increased from ₹18.48 lakh crore as of March 31, 2020, to ₹31.7 lakh crore as of March 31, 2024.

According to an EY report, MSME credit penetration is just 14% in India compared with 50% in the US and 37% in China. There is a credit gap of ₹25 trillion for the Indian MSME sector, reflecting the

large untapped credit market.

MSMEs contribute 27% of India's GDP, account for 38.4% of the total manufacturing output and contribute 45% of the country's total exports.

The government may also tweak the incentive structure for MSMEs, which is linked to the turnover of entities, thereby limiting them to a certain size threshold set in a different era to keep getting official incentives instead of growing big.

Currently, firms with investments of less than ₹1 crore and a turnover of less than ₹5 crore are termed 'micro', investments of less than ₹10 crore and a turnover of less than ₹50 crore are 'small', and investments of less than ₹50 crore and a turnover of less than ₹250 crore are known as 'medium' enterprises.