

Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

[Action Taken by the Government on the Observations/Recommendations of the Committee
contained in their 44th Report (17th Lok Sabha)]

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

HUNDRED AND FIRST REPORT

SEVENTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

HUNDRED AND NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (2023-24)

(SEVENTEENTH LOK SABHA)

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MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

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LOK SABHA SECRETARIAT
NEW DELHI

February 2024/ Pausha 1945 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2023-24)

Shri Adhir Ranjan Chowdhury

- Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Thalikkottai Rajuthevar Baalu
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Pratap Chandra Sarangi
7. Shri Vishnu Dayal Ram
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Dr. Satya Pal Singh
11. Shri Brijendra Singh
12. Shri Rajiv Ranjan Singh alias Lalan Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Dr. K Laxman
18. Shri Derek O'Brien
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Shri Sanjeev Sharma - Joint Secretary
2. Smt. Bharti S. Tuteja - Director
3. Shri Alok Mani Tripathi - Deputy Secretary

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24) having been authorised by the Committee, do present this 101st Report (Seventeenth Lok Sabha) on Action Taken by the Government on the Observations/Recommendations of the Public Accounts Committee contained in their 44th Report (Seventeenth Lok Sabha) on "Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)" relating to Ministry of MICRO, SMALL AND MEDIUM ENTERPRISES.

2. The Fourty-fourth Report was presented to Lok Sabha/laid in Rajya Sabha on 16th March, 2022. Replies of the Government to all the Observations/Recommendations contained in the Report were received. The Public Accounts Committee considered and adopted the draft Report at their Sitting held on 5th February, 2024. Minutes of the Sitting are given at Appendix I.

3. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold in the body of the Report.

4. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the Office of the Comptroller and Auditor General of India.

5. An analysis of the action taken by the Government on the Observations/Recommendations contained in the Fourty-fourth Report (Seventeenth Lok Sabha) is given at Appendix-II

NEW DELHI

February, 2024
Magha, 1945 (Saka)

ADHIR RANJAN CHOWDHUR

Chairperson,
Public Accounts Committee

CHAPTER-I

REPORT

This Report of the Public Accounts Committee deals with the Action Taken by the Government on the Observations and Recommendations of the Committee contained in their Forty-fourth Report (17th Lok Sabha) on "Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)".

2. The Forty-fourth was presented to Lok Sabha/laid in Rajya Sabha on 16.03.2022. It contained thirty Observations/Recommendations. The Action Taken Notes on all the Observations/Recommendations have been received from the Ministry of Micro, Small & Medium Enterprises (MSME) are categorized as under:

- (i) Observations/Recommendations which have been accepted by the Government:

Para Nos. 1,5,6,7,8,9,10,11,12,13,14,16,17,18,19,20,21,23,24,28

Total:20
Chapter - II

- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

Para No. NIL

Total: NIL
Chapter - III

- (iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Para No.

Total: NIL
Chapter - IV

- (iv) Observations/Recommendations in respect of which Government have furnished interim replies/no replies:

Para No.2, 3,4,15,22,25,26,27,29,30

Total: 10
Chapter - V

3. The Action Taken Notes furnished by the Ministry of Micro, Small & Medium Enterprises (MSME) on each of the Observations/Recommendations of the Committee contained in their Forty-fourth Report have been reproduced in the relevant Chapters of this Report. The Committee will now deal with the action taken by the Government, on some of their Observations/Recommendations which either need reiteration or merit comments.

4. The Committee have found that a sizeable number of replies are interim in nature and to be precise there are ten recommendations in respect of which the replies of the Government have been categorized as interim. Therefore, the Committee recommend that complete and comprehensive replies may be furnished to them in respect of the ten observations/recommendations as brought out in para No. 2 (iv) above at the earliest and definitely at the time of furnishing Action Taken Statements.

Recommendation (Para 5)

5. The Committee's examination of the subject reveals that the Trust, for most of the lacunae that came to light in the system, hold the MLIs to be responsible. While the MLIs work under the regulation of RBI and have, their own Boards and other monitoring units within their system, the Guarantee Scheme by itself had ample provisions for monitoring, regulating through verification of documents and questioning the officers concerned with a view to preventing fraud and implementing the scheme effectively. The Trust seem to have failed in discharging this oversight function by way of ensuring that the rules that are within its mandate are followed. The Committee therefore, urged the Ministry to consider revamping the CGTMSE, ensure that the rules are followed, and in cases of default on the part of MLIs or the officials of the Trust, suitable remedial action is taken. Details of action taken in this regard may be intimated to the Committee.

6. Ministry Micro, Small & Medium Enterprises (MSME) in their reply has stated as under:

"The Trust has introduced its maiden Inspection Policy in response to the suggestions made by the committee. As per the Inspection Policy the scope of inspection has been broadened to take care of due diligence by MLIs on sample basis. The Trust has also implemented validations in the system to ensure correctness of data submitted by MLIs. CGTMSE is also implementing new Guarantee Management System. The system has been designed to obtain data / information based on API integration with MLIs and without human intervention. This would ensure authenticity and consistency of data."

7. In response to the Ministry's reply, the Audit has in their vetting comment has stated as under:

"Inspection is still an *ex post facto* exercise as only case on which claims have been paid are covered Moral hazard would arise from MLIs becoming lax on controls over loans which are guaranteed. CGTMSE depends on diligence by MLIs till a claim arises. Preventive sample, checks of guarantees on which claims are yet to be made to ensure proper compliance are yet to be initiated. Preventive checks should avoid rejections or disputes at a later stage and also improve overall supervision of loans and advances when they are still standard assets. Hence, the para may be kept open, pending for compliance."

8. Ministry of Micro, Small & Medium Enterprises (MSME) in their final action taken reply stated as under:

"CGTMSE has initiated inspection of live cases also i.e. cases where claim has not been lodged, to ensure correctness of the due diligence of the MLIs."

9. The Committee's examination of the subject had revealed that the Trust, for most of the lacunae that came to light in the system, held the MLIs to be responsible and that the Trust failed in discharging the oversight function by way of ensuring that the rules that are within its mandate are followed. The Committee had therefore, urged the Ministry to consider revamping the CGTMSE, ensure that the rules were followed, and in cases of default on the part of MLIs or the officials of the Trust, suitable remedial action was taken. The Committee note from the reply of the Ministry that the Trust has introduced its maiden Inspection Policy in response to the suggestions made by the Committee whereby the scope of inspection has been broadened to take care of due diligence by MLIs on sample basis; implementing validations in the system to ensure correctness of data submitted by MLIs and a new Guarantee Management System. The Committee

while observing that the CGTMSE has also initiated inspection of live cases, and hence in this context, desire that CGTMSE should further develop a criteria/system, based on analysis of live and other cases, for collation of preventive samples for checking guarantees on which claims are yet to be made, to ensure proper compliance to improve overall supervision of loans and advances when they are still standard assets.

Recommendation (Para 8)

10. The Committee appreciated the initiatives taken for promoting MSME sector under Atmanirbhar Bharat Abhiyan and recommended that the impact of all the guarantees extended through these new initiatives might be analyzed regularly so that loopholes can be identified and removed promptly. The Committee found that the Trust has engaged a professional agency to assess the impact of the scheme on the economy. While interacting with the beneficiaries of the credit Scheme, the Agency would cover aspects relating to impact of demonetization and the Pandemic as well. The Committee desired that the Agency completed the project at the earliest and the result thereof conveyed. The Committee also desired that the Ministry may give suitable publicity to "Udyam Registration" and "Champions Portal" so to attract more units from the MSME sector. The Committee had also stressed the importance of MLIs at ground level to whom the applicants could have easier access. The number of MLIs which are present stands at 145 is very small given the size of the country. The Committee, accordingly, recommended that more MLIs may be enrolled under the credit guarantee scheme so as to widen the reach for entrepreneurs.

11. Ministry Micro, Small & Medium Enterprises (MSME) in their reply has stated as under:

"Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE) has been on-boarding different categories of MLIs to disseminate the benefits of the guarantee scheme pan India. The number of MLIs which presently stands at 146 who in turn have network of Regional / Zonal and Branch offices located in the nook and corner of the country. Further, CGTMSE has always been bringing new categories of MLIs under the Scheme viz. Small Finance Banks, Cooperative Banks, NBFCs and MFIs, etc. Till 2013, the coverage of Credit Guarantee scheme for Micro & Small Enterprises was in 370 districts. However, in 2021, it

has reached 714 districts." The ministry is giving utmost importance towards popularizing Udyam Registration and Champions portal."

12. In response to the Ministry's reply, the Audit has in their vetting comment has stated as under:

"The Agency's report does not spell out the impact of demonetization as expected.

As regards COVID, the report indicates that CGTMSE backed units were able to handle the adverse impact on sales and employment better than those not backed by CGTMSE.

As seen from para-No. 14, the coverage under scheduled Urban co-operative bank is proportionately low at 13 against a total in India. State and District co-operative which are in direct contact with businesses in rural, remote and local have not been covered. While coverage is expanded through the network of MLIs already onboarded, the number of MLIs themselves onboarded has not seen numeric qualitative growth.

Other matters relate to promotion of scheme at Ministry level.."

13. Ministry of Micro, Small & Medium Enterprises (MSME) in their final action taken reply stated as under:

"There are total 37 State and District co-operative Banks registered under CGTMSE.

With a view to enlarge the group of MLIs through which the guarantee scheme is operated, it has been the endeavour of the Trust to increase the number of MLIs. Towards this, it has gradually been increasing new categories of lenders, the latest being the Micro Finance Institutions which have been made eligible recently for coverage under CGTMSE Scheme. Recently, 72nd Board Meeting of Trustees has approved the inclusion of National Cooperative Development Cooperation (NCDC) as MLI under the scheme.

It may, however, be mentioned that considering the financial health of such institutions, the Board and settlors have stipulated some minimum eligibility criteria for making these institutions eligible.

It may also be mentioned that, CGTMSE conducts workshops / seminars for the field staff of the MLIs to educate them about the guidelines and processes pertaining to the Scheme. CGTMSE has conducted training programmes for the field staff of MLIs with a view to disseminate the information about the scheme. Such 66 training programmes were conducted by CGTMSE during previous FY 2022 and 57 during current FY 2023."

14. **The Committee, in their report on the subject, had recommended that impact of all the guarantees extended through the new initiatives be analyzed**

regularly so that loopholes could be identified and removed promptly. The Committee had also noted that the Trust had engaged a professional agency to assess the impact of the scheme on the economy. The Committee had also desired that the Ministry may give suitable publicity to "Udyam Registration" and "Champions Portal" so as to attract more units from the MSME sector and had recommended that more MLIs be enrolled under the credit guarantee scheme with a view to widen the reach for entrepreneurs. The Committee note from the reply of the Ministry that the Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE) has been on-boarding different categories of MLIs to disseminate the benefits of the guarantee scheme pan India and that the coverage of credit Guarantee scheme for Micro & Small enterprises districts, in 2021, had reached 714 districts. Further, it has gradually been increasing new categories of lenders, the latest being the Micro Finance Institutions and National Cooperative Development Cooperation (NCDC). The Committee while noting from Audit that the report of the agency engaged to assess the impact of the scheme on the economy did not spell out the impact of demonetization, and therefore, desire that the CGTMSE make an analysis of its impact and submit a report to the Committee. Further, the Committee desire to be apprised of the efforts made by the CGTMSE to increase coverage of scheduled Urban co-operative banks and the impact of inclusion of National Cooperative Development Cooperation on the coverage of the entrepreneurs in rural and remote areas.

Recommendation (Para 14)

15. The Committee had noted from the background note furnished by the Ministry that presently there are 145 registered MLIs of CGTMSE availing the benefits of CGS which include, 22 private sector banks, 28 Non Banking Financial Companies, 51 Regional Rural banks, 6 Small Finance Banks, 6 Foreign Banks, 11 Scheduled Urban Cooperative Banks, 9 Financial Institutions, and 12 Public Sector Banks. The Committee found that one of the major factors' limiting the reach of the CGTMSE scheme to the potential beneficiaries is the absence of MLIs near the place of work. In view of this, the Committee had recommended that the Ministry pursue the matter with the Ministry of Finance (Department of Financial Services), so as to expand the list of Member Lending Institution (MLIs), The Committee had also recommended that

CGTMSE and the Ministry, on their own, need to have a clear assessment of potential beneficiaries of an area and MLIs implementing CGS and ensure that the information on the MLIs and the guarantee scheme are, easily made available to the public at large.

16. Ministry Micro, Small & Medium Enterprises (MSME) in their reply has stated as under:

“Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE) has been on-boarding different categories of MLIs to disseminate the benefits of the guarantee scheme pan India. The number of MLIs which presently stands at 146 who in turn have network of Regional / Zonal and Branch offices located in the nook and corner of the country. Till 2013, the coverage of Credit Guarantee scheme for Micro & Small Enterprises was in 370 districts. However, in 2021, it has reached 714 districts.”

17. In response to the Ministry's reply, the Audit has in their vetting comment has stated as under :

“As stated on Para No. 8, the coverage of the co-operative banks is proportionately lower (increased from 11 earlier) against a total in India. State and District co-operative which are in direct contact with businesses in rural, remote and local areas have not been covered. While coverage is being expanded through the network of MLIs already onboarded, the numbers of MLIs themselves onboarded has not seen numerical or qualitative growth.

18. Ministry of Micro, Small & Medium Enterprises (MSME) in their final action taken reply stated as under:

“CGTMSE has always been bringing new categories of MLIs under the Scheme viz. Small Finance Banks, Cooperative Banks, NBFCs and MFIs, etc. There are total number of 37 State and District co-operative Banks registered under CGTMSE. Recently, 72nd Board Meeting of Trustees has approved the inclusion of National Cooperative Development Cooperation (NCDC) as MLI under the scheme.

The registration criteria for these MLIs have been kept considering the risk assessment which has been approved by the CGTMSE Board. Accordingly, State and District cooperative Banks meeting the criteria are being registered as MLIs of CGTMSE.”

19. **The Committee had found that one of the major factors' limiting the reach of the CGTMSE scheme to the potential beneficiaries is the absence of MLIs near the place of work. The Committee had, therefore, recommended that the Ministry**

pursue the matter with the Ministry of Finance (Department of Financial Services), so as to expand the list of Member Lending Institution (MLIs) and that the Ministry, on their own, need to have a clear assessment of potential beneficiaries of an area and MLIs implementing CGS and ensure that the information on the MLIs and the guarantee scheme are, easily made available to the public at large. The Committee note from the reply of the Ministry that CGTMSE has always been bringing new categories of MLIs under the Scheme and that the coverage of Credit Guarantee scheme for Micro & Small Enterprises has increased from 370 districts in 2013 to 714 in 2021. The Committee are of the considered opinion that the coverage of the co-operative banks is proportionately lower than other banks and while coverage is being expanded through the network of MLIs already onboarded, the numbers of MLIs themselves onboarded has not seen sizeable growth, either numerically or qualitatively. The Committee, therefore, recommend that pro-active efforts may be made by the Ministry to increase the coverage by on-boarding institutions that meet the criteria approved by the Board since all districts in the country have still not been covered.

Recommendation (Para 18)

20. The Committee had also noted that the reluctance of banks to offer loans without collaterals is a major reason for shortfall of funds with SMEs. The Committee endorsed the view of the Audit that instead of rejecting applications, vigorous Information Education Campaign need to be initiated so as to ensure that applications are submitted in the correct format. The Committee were of the view that such a measure could help in generating more confidence in MLIs on the efficacy of the guarantee instrument, provide assurance and thereby give impetus for providing larger front-end support to MSME Sector. The Committee had also recommended that as platform for providing credit guarantee, the CGTMSE, in co-ordination with Department of Financial Services, Ministry of Finance institute a mechanism whereby such applications in respect of which MLIs are reluctant to offer loans to SMEs for want of collaterals or otherwise, be reviewed with a view to ensuring that no borrower suffers for want of security. This would, in the long term, make the MLIs/ bank comfortably forthcoming in extending the credit and thereby increase the coverage under CGTMSE.

21. Ministry Micro, Small & Medium Enterprises (MSME) in their reply has stated as under.

"CGTMSE conducts workshops / seminars for the field staff of the Member Lending Institutions to educate them about the guidelines and processes pertaining to the Scheme. CGTMSE has conducted training programmes for the field staff of MLIs with a view to disseminate the information about the scheme. 66 such training programmes were conducted by CGTMSE during previous FY 2022."

22. In response to the Ministry's reply, the Audit has in their vetting comment has stated as under:

"In view of efforts made regarding Information Education Campaign the portion relating to this can be treated as complied with.

The recommendation regarding developing a mechanism for reviewing applications where MLIs are reluctant to offer loans may be kept open, as no action has been indicated thereon."

23. Ministry of Micro, Small & Medium Enterprises (MSME) in their final action taken reply stated as under:

"CGTMSE provides guarantee in respect of all the credit facilities extended by the MLIs to the MSEs, meeting the eligibility criteria under the Scheme. The applications for guarantee are lodged by the MLIs after sanction / disbursement of loan. The MLIs do not report the loan applications rejected by them to CGTMSE."

24. The Committee while noting that the reluctance of banks to offer loans without collaterals was a major reason for shortfall of funds with SMEs had recommended that instead of rejecting applications, vigorous Information Education Campaign need to be initiated so as to ensure that applications are submitted in the correct format. The Committee had also recommended that as platform for providing credit guarantee, the CGTMSE, in co-ordination with Department of Financial Services, Ministry of Finance institute a mechanism whereby such applications in respect of which MLIs are reluctant to offer loans to SMEs for want of collaterals or otherwise, be reviewed to ensure that no borrower suffers for want of security. The Committee note from the reply of the Ministry that CGTMSE conducts workshops / seminars for the field staff of the Member Lending Institutions to educate them about the guidelines and processes

pertaining to the Scheme. The Committee also note from the submission of the Ministry that the MLIs do not report the loan applications rejected by them to CGTMSE. The Committee, while observing that the primary objective of the Scheme is to provide guarantee against loans without collateral or third party credit guarantee reiterate their earlier recommendation that the CGTMSE develop a mechanism of reporting and reviewing the applications made under the scheme in respect of which the MLIs are reluctant to offer loans without collaterals so as to ensure that the primary objective of the Scheme is achieved.

NEW DELHI

February, 2024
Magha, 1945 (Saka)

ADHIR RANJAN CHOWDHURY

Chairperson,
Public Accounts Committee
