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FUNCTIONING OF CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

PUBLIC ACCOUNTS COMMITTEE (2021-22)

FORTY-FOURTH REPORT

SEVENTEENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

PAC NO. 2272

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Presented to Lok Sabha on: 16-03-2022

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LOK SABHA SECRETARIAT
NEW DELHI

March, 2022 /Phalguna, 1943 (Saka)

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* Elected w.e.f. 29.07.2021 *vice* Smt. Darshana Jardosh, MP appointed as Minister of State w.e.f. 07.07.2021.
† Elected w.e.f. 29.07.2021 *vice* Shri Ajay Kumar Mishra, MP appointed as Minister of State w.e.f. 07.07.2021.
‡ Elected w.e.f. 09.08.2021 *vice* Shri Rajeev Chandrasekhar, MP appointed as Minister of State w.e.f. 07.07.2021.
§ Elected w.e.f. 09.08.2021 *vice* Shri Bhupender Yadav, MP appointed as Union Minister w.e.f. 07.07.2021.

INTRODUCTION

I, the Chairman, Public Accounts Committee (2021-22) having been authorised by the Committee, do present this Forty-Fourth Report (Seventeenth Lok Sabha) on **'Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises'** based on Para 4.1 of C&AG Report No. 10 of 2020 related to the Ministry of Micro, Small and Medium Enterprises.

2. The above-mentioned Report of the Comptroller and Auditor General of India was laid on the Table of the House on 23rd September, 2020.

3. The Public Accounts Committee (2020-21) took up the subject for detailed examination and report. The Committee took evidence of the representatives of the Ministry of Micro, Small and Medium Enterprises on the subject at their sitting held on 4th January, 2021. Accordingly, a Draft Report was prepared and placed before the Public Accounts Committee (2021-22) for their consideration. The Committee considered and adopted this Draft Report at their sitting held on 10th February, 2022. The Minutes of the Sittings are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold and form Part- II of the Report.

5. The Committee would like to express their thanks to the representatives of the Ministry of Micro, Small and Medium Enterprises for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

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

NEW DELHI;
___ March, 2022
Phalguna, 1943 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

REPORT
PART- I
CHAPTER - I

I. INTRODUCTORY

1. Small and Medium Enterprises (SMEs) are a growth engine of economy for any nation across the world. The importance of this sector lies not only in its positive contribution towards economy and GDP, but also in providing employment in a wider geographical space and thus SMEs play a very crucial role in India. As per the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium industries have been categorized on the basis of investment in either manufacturing or in service sector. Recognising the significant contribution of this sector in economic growth and also in employment generation in our country, Government of India has taken a number of initiatives to develop the sector.

2. A major problem faced by SMEs is that they do not have a strong capital base and lack of collateral etc. to offer for securing loans, which posed problems for bankability of their firms. Although SMEs are considered to be movers of the growing economy and sustainable for development, seeking collateral free loans is observed to be one of the major impediments for Micro, Small & Medium Enterprises (MSMEs) sector. The Government and policy makers have introduced policy incentives which signify concern and importance of the sector in economy. These policy measures are key drivers of MSME finance. One such policy measure which has a profound and definitive impact on the financing of MSME sector is **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**.

3. The Ministry of Micro, Small & Medium Enterprises (MSME) and Small Industries Development Bank of India (SIDBI), established in July 2000 a Trust named 'Credit Guarantee Fund Trust for Micro and Small Enterprises' (CGTMSE/ Trust) to provide guarantee in respect of the credit facilities (term loan and/ or working capital assistance), extended by the lending institutions without any collateral security and/ or third party guarantees to the new or existing Micro & Small Enterprises and to levy guarantee fee/ annual service fee/ other charges on the lending institutions. The purpose of formation of the Trust was more socio-economic as against a commercial activity.

4. Following two schemes are being implemented to provide guarantee against loans extended by the financial institutions:

(i) Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I) for banks and financial institutions; (The Scheme came into force from 1 August, 2000)

(ii) Credit Guarantee Fund Scheme for Non-Banking Financial Companies (CGS-II) (The Scheme was launched on 25 January, 2017)

5. The C&AG Report No. 10 of 2020, wherein Chapter IV dealt exclusively with CGTMSE and its functioning was laid on the Table of Lok Sabha on 23.09.2020 and the present report is largely based on the response of the Ministry of Micro, Small and Medium Enterprises on the findings of the Audit as detailed in the above said C&AG Report.

II. ORGANISATIONAL STRUCTURE

i. Establishment and Manpower

6. As per the Annual Report of CGTMSE the Management and organization of the Trust during FY 2020, comprise of the Board of Trustees viz. Chairman & Managing Director of SIDBI as ex-officio Chairman, Additional Secretary & Development Commissioner (MSME), Ministry of Micro, Small and Medium enterprises (MSME), Government of India as ex-officio Vice-Chairman, the Chairman, Indian Banks' Association (IBA) as ex-officio Member and Chief Executive Officer of CGTMSE as Member Secretary. As on March 31, 2020 four officers including the CEO were on deputation with CGTMSE from SIDBI.

7. In contrast with other countries, CGTMSE is operating Pan India through only one office with only 45 staff members. All the higher management personnel (Chief Executive Officer, General Manager, and Deputy General Manager) are on deputation from SIDBI, while the rest are on contact basis and this has made direct outreach of CGTMSE difficult for MLIs and has posed the risk of inefficient management of the scheme. In contrast, the Committee found that a similar organization in Korea (KODIT) has 2381 staff, Japan which has two such organizations namely JFC & JFG has 7364 and 6211 Staff Members. So far as fund size is concerned, in comparison with similar

organisations of other countries, the CGTMSE's corpus fund (US$ 1.5 billion) is much smaller than the fund size of other countries such as Japan and South Korea. The fund size in Korean organization is US$ 4.1billion, in JFC US$16.37billion, and in JFG, USD$16.69 billion. Another aspect of the operating mechanism is there is no direct contact between CGTMSE and the MSE unit requiring funds.

8. In this regard, the U.K. Sinha Committee on MSME *inter-alia* observed as follows:-

> "It is necessary that the top management of CGTMSE are professionalised and sourced from a wider pool. It would also be appropriate that SIDBI disengages itself from day to day management and board of CGTMSE".

9. To a query regarding disengagement of SIDBI from CGTMSE, as suggested by the U.K. Sinha Committee, the Ministry in a written reply mentioned as under:

> " .... having people on deputation from SIDBI actually helps the Trust as the staff on the one hand understands credit/lending and on the other hand have understanding of guarantee operations.... Engagement of SIDBI in managing the affairs of CGTMSE also helps the Trust in utilizing the former's platform for popularsing the Schemes as well as business efforts."

10. On this issue, the Ministry in their post evidence written reply stated as under:-

> "CGTMSE has successfully completed 20 years of its operation under the overall supervision of Ministry of MSME and management of operations of the Trust by SIDBI. It may be mentioned that having people on deputation from SIDBI actually helps the Trust as the staff on the one hand understands credit / lending and on the other hand have understanding of guarantee operations. It is evident from the growth history of CGTMSE in respect of its guarantee operations viz. cumulatively, as on March 31, 2020, a total of over 43 lakh guarantees have been accorded approvals for ₹2.22 lakh crore. Further, during FY 2020, the amount of guarantees approved increased to ₹45,852 crore from ₹30,168 crore during the previous year registering a growth of 52%. The number of guarantees has increased from 4.36 lakh in FY 2019 to 8.47 lakh in FY 2020 registering a growth of over 94%. This was highest ever growth in guarantee approvals. Engagement of SIDBI in managing the affairs of CGTMSE also helps the Trust in utilising the former's platform for popularising the Schemes as well as business development efforts. Accordingly, we are sanguine that the role played by SIDBI in promoting CGTMSE as an enabler in the financial ecosystem will continue to benefit the new generation entrepreneurs in their entrepreneurial journey."

11. The Committee specifically questioned about the availability of a nodal officer at the State level for interaction and resolving problems as MSMEs primarily are located at

the district level. In this regard, the Ministry in their post evidence written reply stated as under:-

> "The guarantee is being extended by the MLIs in coordination with CGTMSE. Most of the MLIs have exclusive branches at District Level to facilitate the credit needs of the SMEs. This network of MLIs branches provides assistance to MSEs for availing the benefit of various government Schemes including CGTMSE. Therefore, a Nodal person at the State level from the Trust would be superfluous."

12. In a written note the Ministry have stated that MSEs requiring guidance can use a dedicated free telephone service of CGTMSE. Further, all occasions of meeting with Industries Associations and other relevant bodies are utilized by both the Trust (CGTMSE) and SIDBI to popularize the Guarantee Scheme and guide interested entrepreneurs.

ii. **<u>CGTMSE –Comparison with other organizations</u>**

13. Asked for a comparative account of Credit Guarantee Fund for Medium and Small Enterprises with similar organizations of other countries, the Ministry informed as under:

> "As on March 31, 2020 the corpus of CGTSME was ₹8,682 crore and the total fund size was₹12,848 crore. The present leverage of CGTMSE considering the corpus is at around 8 times which is in line with the international best practices as opined by a professional agency engaged by the Trust to review the Enterprise Risk Management of the Trust."

14. Elaborating on the functioning of the guarantee instrument of the Trust vis-à-vis other such schemes being operated by other countries across the globe, the Ministry stated as under:

> "CGTMSE is a member of Asian Credit Supplementation Institutions Confederation (ACSIC). The ACSIC is the largest Asian Corporative body for the Small & Medium Enterprises (SMEs) consisting of 16 member institutions from 11 countries. The current member countries of the ACSIC are India, Indonesia, Japan, Korea, Malaysia, Mongolia, Nepal, Philippines, Sri Lanka, Taiwan and Thailand. The ACSIC was established in 1987 with the objective of promoting and developing sound credit supplementation systems. Every year each member country hosts conference of the members in their respective country by rotation. The Conference is attended by participants and it serves an opportunity for knowledge sharing on credit supplementation. It also paves way to deepen relationships among members, while creating a positive image about the country contributing to a sustainable development in the future. Each member country operates Credit Guarantee Programmes in their respective countries which operate within the scope and requirement of their respective economies. During the annual conferences the participants, based on the theme of the conference,

exchange their views by giving presentations and this brings greater degree of cooperation among the existing guarantee organisations in Asian Region and the guarantee organisations benefit by the experience gathered. However, there are no exact parallel guarantee instruments being run to enable comparison on best practices, as pointed out by Audit, as the guarantee programmes are being run by each country as per the requirement of their respective economies. However, based on experience gained during these conferences/interactions, CGTMSE has modified its guarantee scheme from time to time. Further, to increase the expertise at the top level, CGTMSE has appointed Chief Operating Officer and Chief IT Officer from the open market."

15. In response to a query of the Committee about the status of India vis-à-vis the other Asian countries in so far as credit guarantee facilities are concerned, the Ministry stated as under:

"....It is felt that there is no institution in existence which is similar to CGTMSE not only in terms of type of business but also in terms of variety of services offered, size, availability of funds etc."

16. Asked about the views of the Ministry about the need for structural reforms in the CGTMSE, the Ministry in a reply stated as follows:

"CGTMSE had engaged the services of consultants by carrying out Business Process Reengineering and Enterprise Risk Management Framework. The consultants have submitted their report and the same is being implemented. Further, a Chief Risk Officer has been appointed and a Risk Management committee has been constituted. These are expected to guide the Trust in managing the risk related issues. Further, Trust is also in the process of engaging an HR Consultant to guide it for HR Organisational structure related matters."

III. OPERATIONAL FRAMEWORK OF THE TRUST

(i) Business Model of the Trust

17. The Credit Guarantee Scheme (CGS) of CGTMSE is a government intervention Scheme with an objective of fulfilling the credit needs of Micro & Small Enterprises. The main objective of the scheme is smooth flow of credit to the MSME sector in which the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The other objective is that lender availing guarantee facility should endeavor to give composite credit (term loan and working capital facilities from single agency) to the borrowers under Micro & Small Enterprises Sector.

18. The representative of the Ministry of Micro, Small & Medium Enterprises also submitted that presently, the projects upto Rs. 200 lakh were being guaranteed by CGTMSE on a web based digital platform. The Ministry of Micro, Small and Medium Enterprises in a written reply to the Committee has informed that the present corpus of the CGTMSE, to be Rs. 8682 crore and the total fund size to be Rs. 12848 crore.

19. As per 73rd round of National Sample Survey (NSS) (July 2015- June 2016) conducted by Ministry of Statistics & Programme Implementation (MoSPI), the estimated employed persons in MSME sector is about 11.10 Crore. As per the information of Central Statistics office, Ministry of Statistics & Programme Implementation (MoSPI), MSME sector contributed 30.30 % in all India GDP and 37.30 % of manufacturing output in all India Manufacturing output during 2018-19, and export share of MSME related products in all India exports during 2019-20 was 49.80%.On the data furnished, the Audit has observed that the impact of CGTMSE in terms of turnover, exports and employment figures of MSEs were all estimated based on the information furnished by MLIs at the time of lodging application for seeking guarantee cover.

20. Having underlined the importance of MSMEs and the role of CGTMSE in promoting the sector, it is pertinent to detail the business model of CGTMSE, the salient features of which are as follows:-

a) Corpus fund is contributed by GoI and SIDBI, which is also a GoI Undertaking.

b) CGTMSE is registered as a Trust and its operations are limited to the provisions of the Trust deed executed between GoI and SIDBI. CGTMSE indirectly supports funds flow to the Micro and Small Enterprises (MSEs).

c) The sanction and disbursement of loans to MSEs is done by the Financial Institutions (FIs). There is no relationship between CGTMSE and borrower MSEs. CGTMSE does not in any way provide supporting facilities to MSEs for availing credit from the FIs.

d) The eligible FIs known as Member Lending Institutions (MLIs) have to register themselves for availing guarantee from CGTMSE against the credit extended to MSEs. The MLIs have to execute an agreement with CGTMSE for this purpose.

e) The MLIs can obtain guarantee cover from CGTMSE for credit extended upto Rs.2 crore only. The credit facility should be free from any collateral security or third party guarantee for availing guarantee from CGTMSE.

f) The appraisal of loan applications or appraisal of proposed business is the sole responsibility of the MLIs. Credit rating of loans above Rs. 50 lakh is mandatory for the MLIs.

g) CGTMSE approves guarantee once the scheme parameters are fulfilled. CGTMSE issues guarantee on payment of prescribed fees by the MLIs.

h) The guarantee instrument of CGTMSE covers 50/ 75/ 80/ 85 per cent (as per various categories of products/ entrepreneurs/ region) of the loan amount.

21. The Ministry of Micro, Small and Medium Enterprises in their Background note furnished to the Committee gave the following details in regard to the Member Lending Institutions:

> "All scheduled commercial banks and specified Regional Rural Banks, NSIC, NEDFI, SIDBI, SFCs, Non-Banking Financial Companies (NBFCs), Small Finance Banks (SFBs) & Cooperative Banks which have entered into an agreement with the Trust (CGTMSE) for the purpose are the eligible lending institutions for Credit Guarantee Scheme. The eligible lending Institutions, upon entering into an agreement with CGTMSE, become Member Lending Institutions (MLIs) of CGTMSE. Presently, there are 145 registered MLIs of CGTMSE availing the benefit of Credit Guarantee Scheme (CGS)."

(ii) Regulatory Framework

22. The Trust does not come under/have a regulatory authority like RBI in case of banking sector and Securities and Exchange Board of India in case of financial sector and stock markets. The Government of India/Trust has not fixed any norms/benchmarks with regard to minimum liquidity requirements for the Trust vis-à-vis guarantees approved/issued and also, it has been observed that there were no laws to regulate many aspects of the Trust like scope of its operations, governance, capital and operating requirements as well as access to the State owned funds etc.

23. The Trust is not involved in facilitating credit to the unfunded MSEs as appraisal, sanction, disbursement and recovery proceedings are entirely the responsibility of the MLIs as per the approved schemes.

24. As per the information made available the trust has not also established/framed Audit Committee, Risk Management Committee, Human Resource Policy etc. Also there is no Chief Risk Officer for ensuring that risks relating to credit, market, operations and liquidity of the corpus fund are identified, assessed, managed, monitored and reported to the senior management and Board.

25. On the issue of absence of a proper regulatory framework, the representative of MSME while disposing before the Committee stated as under:-

> ".... The only issue is that during our own internal discussion, two to three views have emerged. One is that whether there should be two separate regulators for these two mechanisms, namely NCGTSE and CGTMSE. The second view is that there should be a joint regulator so that they know what is happening in each of these so that they can fill the gaps and if any gap is arising in one whether the same can be filled up by the second mechanism. The third view is that the role can be played by some existing regulator. It could be RBI, it could be IRDA etc. These are the three views. On this also we have been discussing. We will go back to Government with your direction and guidance. We will take a view."

26. At the time of formation of CGTMSE a representative from RBI (ED Level functionary) was part of the Board of Trustees. However, subsequently on the specific request of RBI, the said representation was withdrawn by GOI and Chairman of IBA was inducted in the Board of Trustees as a replacement. On a query in regard to the regulatory framework, the Ministry in a written reply stated as under:-

> "CGTMSE has been functioning for over 20 years and has never faced any issues related to liquidity/erosion of corpus. The Trust has been self-sustaining with capital seeded by Settlors (Ministry of MSME and SIDBI). Till now there has not been a single instance where the trust has experienced depletion of its corpus. CGTMSE's primary role is to facilitate credit to MSEs through Lending Institutions. As could be seen from the guarantee operations, CGTMSE is achieving its objective in facilitating credit to MSE borrowers who may not otherwise access required credit from the formal lenders. Further, it may also be noted that the Lending Institutions (through which the scheme operates) are regulated by RBI and their operational guidelines for resource raising, lending, recovery, investment, and risk mitigation policies with regard to above operations, etc. are framed by their respective Boards/Managements which are framed within the overall framework of RBI guidelines. CGTMSE has put in place Board approved guidelines for its entire operations viz. guarantee operations, investments, etc. It may be mentioned that CGTMSE is providing guarantee services only to the Lending Institutions which are regulated by RBI. Further, such Lending Institutions have their board level committees viz. Audit Committee, Risk Management Committee, etc. for taking care of, inter alia, risk arising out of lending to MSE borrowers. Hence, as CGTMSE is having direct dealing only with Institutions regulated by RBI, setting up of Audit Committee, etc. may not be required. Further, CGTMSE has also framed Enterprise Risk Management Policy through a professional agency and the same is being implemented. Moreover, a Risk Officer has been appointed and a Risk Committee has been constituted which takes care of risk arising out of guarantee operations, investments, etc."

27. In response to a query regarding the constitution of a Credit guarantee Authority, the Ministry in their post evidence written reply, stated that it would be difficult to indicate a time frame within which the same would be fructified.

28. The main recommendation in the Report of the Expert Committee on Micro, Small and Medium Enterprise chaired by Shri U.K. Sinha, is that all credit guarantee schemes should be subject to the regulation and supervision of RBI. These guidelines could draw upon the well acknowledged principles for design implementation and evaluation of public credit guarantee schemes for SMEs, which has been evolved by the World Bank Group.

29. Further, when probed about whether the lack of regulatory framework and supervisory authority has impaired the functioning and control of the Trust, the Ministry in their written reply, stated as under:-

> "It may be mentioned that CGTMSE is providing guarantee services to the Lending Institutions which are regulated by RBI. Since CGTMSE is dealing with RBI regulated institutions, lack of a separate regulator has not impaired the functioning and control of the Trust. As could be seen from the guarantee operations, CGTMSE during its 20 years of operations, has facilitated cumulative credit worth Rs. 2.22 lakh crore in respect of more than 43 lakh beneficiary accounts."

30. In response to a further query in this regard, the Ministry, in their reply stated as under:

> "CGTMSE is monitored by its Board and the Settlors (Ministry of MSME, GOI and SIDBI).It may be mentioned that at the time of formation of CGTMSE, a representative from RBI (ED Level functionary) was part of the Board of Trustee. However, subsequently on the specific request of RBI, the said representation was withdrawn by GOI and Chairman of IBA was inducted in the Board of Trustees as a replacement.CGTMSE has been functioning for over 20 years and has never faced any issues related to liquidity/erosion of corpus. The Trust has been self-sustaining with capital seeded by Settlors (Ministry of MSME and SIDBI). Till now there has not been a single instance where the trust has experienced depletion of its corpus.
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> CGTMSE's primary role is to facilitate credit to MSEs through Lending Institutions. As could be seen from the guarantee operations, CGTMSE during its 20 years of operations, has facilitated cumulative credit worth ₹2.22 lakh crore in respect of more than 43 lakh beneficiary accounts. Thus, CGTMSE has played an important role as an enabler in the financial ecosystem and has benefited the entrepreneurs including new generation in their entrepreneurial journey. Hence, it may be seen that CGTMSE is achieving its objective in facilitating credit to MSE

borrowers who may not otherwise access required credit from the formal lenders. CGTMSE has put in place duly approved by the Board the requisite guidelines for its entire range of operations viz. guarantee operations, investments, etc. It may be noted that CGTMSE only provides guarantee services to the Lending Institutions and these institutions are regulated by RBI. The operational guidelines for resource raising, lending, recovery, investment, and risk mitigation policies with regard to above operations are framed by their respective Boards/Managements within the overall framework of RBI guidelines.

Further, such Lending Institutions have their board level committees viz. Audit Committee, Risk Management Committee, etc. for taking care of, inter alia, risk arising out of lending to MSE borrowers. It is submitted that CGTMSE has direct dealing only with Institutions regulated by RBI and has only a single mandated product, viz. providing guarantee. Therefore, setting up of Audit Committee, etc. would not serve any useful purpose and may not be required. Further, CGTMSE has already framed Enterprise Risk Management Policy through a professional agency and the same is being implemented. Also, a Risk Officer has been appointed and a Risk Committee has been constituted which takes care of risk arising out of guarantee operations, investments, etc."

31. The Board of Trustees (BoT) had in November, 2015 approved a proposal for formulation of regulatory guidelines for the Trust by a Consultant firm. The firm has submitted a report in May, 2017 suggesting an accounting framework for CGTMSE, fixing minimum parameters like solvency and capital adequacy, exposure norms, leverage ratio and establishment of regulatory authority for the Trust. However, the report of the Consultant was not placed before the BoT.

32. The Ministry in their reply submitted that CGTMSE has again hired a Consultant for carrying out the Business Process Reengineering (BPR) and Enterprise Risk Management (ERM) Framework which was underway when the audit submitted the report. The Audit has observed that this report would be placed before the Board/Settlors for their consideration.

33. While tendering oral evidence, the Secretary, Ministry of MSME mentioned that a Regulator should be there for the Trust but in what shape and in "what manner, that is the only issue that is to be decided by the Government".

(iii) <u>Overlap of Functions - NCGTC and CGTMSE</u>

34. The National Credit Guarantee Trustee Company (NCGTC) was incorporated in March, 2014 to manage and operate various credit guarantee Trust funds. One of the funds of NCGTC, Credit Guarantee Fund for Micro Units (CGFMU) provides guarantee

for loans up to Rs.10 lakh sanctioned by banks, NBFCs/MFIs and other financial intermediaries engaged in similar business. Ministry of Finance notified on 18 April, 2016 CGFMU for providing guarantees to loans extended under Pradhan Mantri Mudra Yojana (PMMY)

35. The Board of CGTMSE in its meeting held on 5 August, 2015 resolved that no fresh guarantees would be approved by the Trust to its MLIs for loans up to Rs. 10 lakh once the guarantee scheme under PMMY/ MUDRA was made operational by NCGTC. Further a decision was taken on 5.1.2017, during the meeting of the Banks, SIDBI and CGTMSE under the Chairmanship of Secretary, Ministry of Micro, Small and Medium Enterprises, that loans upto Rs.10 lakh should not be covered under CGTMSE and should be covered under Pradhan Mantri MUDRA Yojana (PMMY)/MUDRA.

36. The Trust, however, did not implement the directions of the Ministry and continued to provide guarantee against loans, which were eligible for guarantee cover under the Credit Guarantee Fund for Micro Units (CGFMU) of National Credit Guarantee Trustee Company Limited (NCGTC). Thus, both NCGTC (National Credit Guarantee Trustee Company limited) and CGTMSE have been issuing guarantees against loans upto Rs. 10 lakh for same type of projects.

37. Audit has objected to the CGTMSE continuing to extend credit guarantee for loans upto Rs. 10 lakh though the Ministry had directed to discontinue them, as these guarantees were covered by NCGTC. Audit has found that the Trust on its own decided that the MLIs should be given option from which agency they want to take guarantee. Facility of guarantee for the same type projects from two different Government backed institutions not only results in overlapping of functions of the institutions but also hampers the growth of both the institutions as time, manpower, and other resources are invested in promoting the same product. There was no coordination between CGTMSE and NCGTC and different MLIs to identify and prevent cases of overlap of guarantee. The MLIs who obtained guarantee from both the institutions have no responsibility to ensure mutual exclusion. This has concentrated funds with some entrepreneurs and has prevented horizontal spread of credit funds. The Audit has found that the Trust, while violating the direction of the Ministry has issued 3,70,391 number of guarantees

amounting to Rs. 10,743.65 crore against loans up to Rs. 10 lakh during 6 January, 2017 and 30 September, 2018.

38. The Committee also take note of the Recommendations of the Expert Committee on Micro, Small and Medium Enterprises chaired by Shri U.K. Sinha which recommended that NCGTC has been set up as a Government Company while CGTMSE is predominantly owned by Government with SIDBI holding a minority share. It has been felt necessary that the top management of both these institutions are professionalised and sourced from a wider pool. Further, it has been felt that it would also be appropriate that SIDBI disengage itself from day to day management and Boards of both NCGTC and CGTMSE.

39. To a query as to why CGTMSE did not follow the above recommendations and tried to widen the guarantee cases to cover up unfunded loans, the representative of the Ministry of Small, Micro and Medium Enterprises while tendering evidence before the Committee stated as under:-

> "The Board of CGTMSE has decided that option of choosing the guarantee scheme operated by CGTMSE and NCGTC Ltd. may be left to the concerned MLIs while applying for the guarantee cover for eligible loans. Further, a suitable mechanism to ensure that the same credit facility does not get covered by both guarantee organisations has been put in place. It may be mentioned that NCGTC can cover only MUDRA loans upto Rs.10 lakh. Further, all loans upto Rs.10 lakh are not MUDRA loans and hence option should be given to MLIs for taking guarantee cover from CGTMSE. A number of MLIs have given a feedback that they favour guarantee cover of CGTMSE over *Credit Guarantee Fund for Micro Units* (*CGFMU*) in the segment of loans below Rs.10 lakh and want the CGTMSE Scheme to continue. It may be mentioned that the portfolio of CGTMSE for loans below Rs. 20 lakh is more than 50% of its total portfolio. It is therefore proposed that CGTMSE may be allowed to continue to provide credit guarantees for loans upto Rs. 10 lakh."

40. During oral evidence the representative of the Ministry/Trust clarified on the point as follows:-

> "But our own view is that this issue may not be insisted upon because it gives more options to the MLIs, it gives more options to the small units.... This is an issue for consideration of the august Committee. Based on your guidance obviously we will go to the Government for final verdict on the matter."

(iv) Coverage and Impact of the Guarantee Scheme

41. CGTMSE's participation in total outstanding credit to MSE sector as on 31st March, 2019 was only 5.66%. Asked about the number of guarantees advanced during the last five years, the Ministry of Micro, Small and Medium Enterprises in their written reply stated as under:-

The number of guarantees furnished by CGTMSE

Financial Year	No.	Amount in Crores
16-17	452127	19931.49
17-18	263195	19065.90
18-19	435520	30168.57
19-20	846650	45851.22

42. While furnishing details of the changes in policy it has been informed that CGTMSE has witnessed exponential growth in last three years. During FY 2020, the amount of guarantees approved increased to Rs. 45,852 crore from Rs. 30,168 crore during the previous year registering a growth of 52%. Further, the number of guarantees has increased from 4.26 lakh in FY 2019 to 8.47 lakh in FY 2020 registering a growth of 94%.

43. The Committee also noted that the recommendation of the K.V. Kamath Committee for credit to MSME sector from CGTMSE emphasis on coverage of 15% of credit extended under CGTMSE. Asked as to how the Ministry proposed to enhance the level of participation, the Ministry, in the first instance in a written reply mentioned as under:

> "The guarantee scheme being run by CGTMSE is an MLI driven scheme and the option to take guarantee was wholly with the MLIs. MLIs are neither mandated to cover all their MSE loans under the scheme nor all such loans are eligible for coverage."

44. On further enquiry in the matter the Ministry informed the Committee that position of low coverage was analysed and major policy changes in the Credit guarantee products in the recent past such as hybrid security model, inclusion of retail trade activity, increase in the extent of guarantee coverage to 75%, charging guarantee fees on outstanding amount, inclusion of NBFCs, SFBs, Cooperative Banks etc. which made the Credit Guarantee Scheme attractive to the MLIs as well as to the MSE borrowers.

45. In view of the fact that two schemes were operational for providing credit Guarantee, the Ministry was posed with the query regarding means by way which universal credit guarantee could be ideally provided. In this regard, the Ministry in their written reply stated as under:-

> "Each country operates Credit Guarantee Programmes in their respective countries which operate within the scope and requirement of their respective economies. The guarantee coverage generally ranges between 50% to 100%. Further, within CGTMSE's Scheme, differential coverage/fee is prescribed for extending some benefits to the needy segment of the MSE Sector as well to ring fence Trust's financial viability from the risk perspective."

v. Provision for weaker sections

46. On being asked about the details of credit guarantee advanced to weaker sections of society, the MSME in a post evidence written reply, stated as under:-

> "As per data submitted by MLIs to CGTMSE, the percentage of SCs/STs is around 3%. It may be mentioned that MLIs, while applying for guarantee with CGTMSE, update the data available with them at the time of sanction of credit facilities. Further, it is not mandatory for the borrower to declare the category as SC/ST at the time of applying for loan with the bank. Further, in respect of Partnership firms and Limited companies obtaining social categorization may be difficult by the MLIs.
>
> Credit Guarantee is a demand driven scheme implemented through MLIs/Banks. The Credit facilities sanctioned by MLIs/Banks are guaranteed by CGTMSE. Lending Institutions/Banks have their own target to cover enterprises run by Women and SC/ST entrepreneurs as per the Government directive. CGTMSE provides credit guarantees to all such eligible credit facilities sanctioned by MLIs/Banks. CGTMSE, however, provides benefits to MSEs run by Women entrepreneurs by providing additional guarantee coverage and also by charging concessional guarantee fee."

vi. Impact of COVID 19 Pandemic

47. Elaborating the impact of Covid-19 and demonetization on the guarantees given to the small units, the MSME in their post evidence written reply stated as under:-

> "A professional agency has been assigned by Credit Guarantee Trust for Micro & Small Enterprises to assess the impact of CGTMSE on economy. The agency will interact with the CGTMSE's beneficiary units and also counterfactuals and will submit its report. The agency has already commenced the survey. However, due to COVID pandemic the survey is put on hold temporarily, which is expected to re-start. The agency would be covering impact of COVID-19 and demonetization on MSEs covered under CGTMSE guarantee. It is pertinent to mention that CGTMSE has settled claims to the tune of ₹967 crore, ₹817 crore and ₹1002 crore during the financial years 2018, 2019 and 2020 respectively.

This implies that demonetisation did not have any adverse impact on the guarantees given by the Trust."

48. Asked about the steps taken by the Government 'Post-Covid' for the MSME sector the representatives of the Ministry while tendering oral evidence mentioned that Government has taken number of initiatives under Atma Nirbhar Bharat Abhiyan to support the MSME sector. Some of these are as follows:

i. Rs. 3 lakh crore Collateral Free automatic Loan for businesses including MSMEs;
ii. Rs. 20,000 crore Subordinate Debt for Stressed MSMEs;
iii. Rs. 50,000 crore equity infusion through MSME Fund of Funds
iv. New Revised criteria for classification of MSMEs;
v. New Registration of MSMEs through "Udyam Registration" for ease of doing Business' and
vi. No Global tenders for procurement up to Rs. 200 crores, this will help MSME.

49. Further, an online portal "Champion" has been lunched from 1 June, 2020 which includes many aspects of governance and grievance redressal and hand holding of MSMEs.

50. When asked about extra efforts being made by CGTMSE to help sustain SMEs, whose businesses were affected due to the disruption caused by the pandemic and exogenous shock due to Lockdown, the Ministry, in their reply stated as under:-

"CGTMSE is implementing the Credit Guarantee Scheme for Subordinate Debt for supporting the stressed SMEs affected due to the disruption caused by the pandemic and exogenous shock due to lockdown. Further, CGTMSE is also allowing need based relaxation in the time limit for submission of application for availment of Guarantee. Trust has also allowed guarantee for additional loan sanctioned by MLIs due to COVID to the borrowers within the overall cap of ₹ 200 lakh per borrower on outstanding basis.

51. The following key changes were announced/introduced during the last two years:

- Charging Annual Guarantee Fees (AGF) on Outstanding Loan Amount rather than sanction amount under CGTMSE.
- Expanding the Coverage of the Credit Guarantee Scheme (CGS) to cover MSE Retail Traders segment.
- Allowing loans with Partial Collateral Security under Credit Guarantee Scheme. This has brought a large chunk of loans under the ambit of credit guarantees.
- Extent of guarantee for loans above Rs. 40 lakh has been increased from 50% to 75%.

- Introducing new product for NBFCs to enable them to avail loan guarantees under the credit guarantee scheme. Allowing NBFCs to avail benefits of credit guarantee would increase the scheme coverage as NBFCs have become an integral part of financial system in meeting credit demand of MSE sector.
- Small Finance Banks, Cooperative Banks and Fin-tech NBFCs have played a major role in lending MSEs. Therefore, CGTMSE has included Small Finance Banks, Fin-tech NBFCs registered with RBI and Cooperative Banks as Member Lending Institutions (MLIs) under CGTMSE.
- CGTMSE has removed one-time cap of Rs. 200 lakh and now the MSEs can avail credit guarantee on the incremental credit facilities subject to a maximum cap of Rs. 200 lakh on the outstanding basis.

vii. <u>Decline in number of Guarantee cases</u>

52. The business of the Trust was showing a declining trend as the number of guarantee covers issued to the MLIs for collateral free credit allowed to MSE sector drastically declined (61%) from 4.63 lakh to 1.79 lakh during 2016-2019. The corresponding amount of guarantees issued declined (17%) from Rs. 18,416.62 crore to Rs. 15,241.57 crore during this period.

53. When asked about the reasons for steady decline in amount and drastic decline in number of guarantees issued from 2016 and 2019, the Ministry admitted to the decline and replied as under:

> "..., on observing that the business of the Trust was stagnant during FY 2015-2018, the Trust analyzed the causes and accordingly introduced major policy changes in the existing guarantee product during rebooting of CGTMSE. The changes sought to make the credit guarantee product attractive to the MLIs as well as to the MSE borrowers. With these policy changes the portfolio of CGTMSE started growing with effect from FY 2019. During FY 2018 the amount of guarantees approved were to the tune of Rs.19,066 crore. During FY 2020, the amount of Guarantees approved increased to Rs. 45,851 crore from Rs. 30,169 crore during the previous year registering a growth of 52%.Further, the number of guarantees has increased from 4.36 lakh in FY 2019 to 8.47 lakh in FY 2020 registering a growth of over 94%. This was highest ever growth in guarantee approvals.
>
> Cumulatively, as on March 31, 2020, a total of over 43 lakh guarantees have been accorded approvals for Rs. 2.22 lakh crore.

54. Noting that the Ministry has not specifically mentioned the reasons for steady decline in the amount and in the number of guarantees granted during 2016-2019, the Committee felt that one of the reasons may be due to incorporation of NCGTC which

started providing guarantee for loans upto Rs.10 lakh under CGFMU. Thus, the amount in case of CGMSE Trust declined for loans upto Rs.10 lakh. The Audit has mentioned that the Ministry and the Management did not provide any reply to Audit observations in this respect. In this regard, the Committee have been informed:

> "As per the overall architecture of CGTMSE guarantee scheme, the appraisal and due diligence of the borrower is the responsibility of the MLIs. MLIs also submit an undertaking that they have carried out proper due diligence.
>
> In case an account is declared fraud by the lending institution, the same is not eligible for claim settlement by CGTMSE. CGTMSE has the right to withdraw guarantee/reject claim if major discrepancies noticed subsequent to issue of guarantee. Further, Lending Institutions, regulated by RBI, are required to follow RBI's guidelines on declaring an account as fraud. Therefore, Lending Institution has to take action in accordance with the RBI's guidelines issued in this regard."

55. During oral evidence, the Ministry was posed with the question on the ground situation where the MLIs have rejected loans of MSMEs due to lack of collateral or third party guarantee and whether in such case(s) it was possible for the Trust to extend guarantee to the applicant and ask the MLI to extend loans. The Ministry, in their written reply in this regard mentioned that banks have their own internal guidelines for giving loans and CGTMSE does not interfere in that process. Such guidelines can be issued by RBI.

IV. PERFORMANCE OF THE TRUST

i. <u>Financial performance</u>

56. During 2015-16 to 2018-19 the Trust has reported excess of income over expenditure. This was due to interest on refund of Income Tax of Rs. 62.47 crore. The Corpus fund of the Trust was increased vide modification made in the Trust deed in the year 2017. It was increased to Rs. 7500 crore out of which the share of Government of India is Rs. 7000 crore and share of SIDBI is Rs. 500 crore.

57. Government of India has contributed 57.68% and 11.15% of its share in the year 2017-18 and 2018-2019 respectively. Regarding leveraging of fund with the Trust, as per the information furnished, guaranteeing collateral free credit was five times of the corpus fund in the year 2001 and it was increased to 10 times in 2010. The leverage benchmark on the basis of guarantee approvals does not exhibit a correct picture as Trust is liable to pay only the guaranteed portion and the share of MLIs is excluded. The

Trust does not estimate the outgo towards first claims rejected on technical grounds and also second claims expected to be lodged by the MLIs. Also, as seen from the information furnished applications are rejected on technical grounds and Information Education Campaign (IEC) is not being implemented with full measures.

ii. Operational Problems relating to Data

58. Under CGS-I Scheme, MLIs are required to upload the borrower's information in the prescribed format for obtaining guarantee cover from the Trust. The MLIs are not required to upload the financial details of the primary security created by the borrowers after disbursement of loan. These details are uploaded at the time of marking NPA and lodgment of the first claim. As per the Scheme the Trust approves/ issues guarantees on the basis of mandatory details filled by the MLIs like type of activity, nature of industry, interest rate charged by the bank and the amount of loan, type of loan, details of borrowers/ MSE unit, etc.

59. The Approval/ issue of guarantees on this basis did not take into consideration the management of the borrower unit, technical feasibility of the project and financial capacity of the borrower/ promoters. Even the system/ portal is not adequate enough to verify the accuracy of the details filled by the MLIs.

60. The scheme framed by the Trust does not provide for any mechanism for appraisal of loan applications/projects of the borrowers. The responsibility of appraisal lies with the MLIs.

61. Thus, the present system of guarantee merely verifies the mandatory details of borrowers as filled by MLIs. This process did not take into consideration the management of the borrower unit, technical feasibility of the project and financial capacity of borrowers/promoters. This has resulted in accounts becoming NPA.

62. It has been observed by Audit that there is lack of control of CGTMSE so far as filling up of data by MLIs in the CGTMSE portal is concerned. MLIs did not fill up non-mandatory data and quality of data filled were also of poor quality. In 99.84% cases there was no legal ID and type of Chief Promoter of MSE, year of birth of Chief Promoter was mentioned as 1794, 1657, 1690, 1653, 1904 etc. and year of sanction of term credit mentioned as 2020, 2023, 2022, 2097 and 2098. PIN code of location of

MSE was mentioned as 000000. CGTMSE has not been insisting on PAN Card while extending guarantee. In about 1852 cases examined by audit the number of employees has not been mentioned. In 6007 cases, it was found that project sales turnover was either zero or was blank or it is only Rs. 1000/-. In 94% cases Mobile number of Chief Promoter was either missing or found to be not correct. The above mentioned cases are only illustrative as observed by Audit.

63. These serious discrepancies have been accepted by the Ministry and it has mentioned that Business Process Reengineering (BPR) exercise is being done and there was no reply in regard to verification prior to extending guarantee.

64. MLIs are required to make online applications on the CGTMSE portal in the prescribed format for obtaining cover. It has been found that MLIs are applying for guarantee cover more than once on same application. Trust has issued guarantee amounting to Rs.17.15 crore (indicative only) to such cases. Issue of duplicate guarantee questions the efficacy of online guarantee system. The issue of duplicate guarantees compromises the financial interest of the Trust and is reflective of lack of business prudence. The Trust and the Ministry have accepted the audit observations.

65. During oral evidence, when asked about filling of data by MLIs and remedial measures taken, the Ministry in a written reply, mentioned as follows:

> " ...the responsibility of feeding correct data lies with the MLIs as they only have the primary source of data to verify the correctness. Nevertheless, to enhance the correctness of data, logical validation of various fields have been introduced. Further, drop down box option has been given to MLIs from selecting from the list of values for the important data fields. These data fields are made mandatory and such fields cannot be left blank. Provisions of pop up at the time of filling the details have also been introduced. Further, MLIs are being strictly instructed to ensure correctness of data."

iii. **Business Operations**

66. Inadequate system of approval of guarantees had jeopardised the financial interests and business viability of the Trust as can be seen from the fact that income from core business activities was not adequate to meet the claims which resulted in deferment of the claims and high level of NPAs. The Trust guarantees major portion of the amount in default (50 per cent to 85 per cent of the loan amount guaranteed) which

further underlines the requirement of an adequate system to minimise NPAs and claims on account of above reasons.

67. The Management stated (March 2019) that CGTMSE has implemented a system of basic scrutiny of guarantee applications above Rs. 1 crore on certain key parameters at the time of approval of guarantee. Further, the Trust has recently formulated guidelines for online capture of financial data such as operating income, Profit After Tax (PAT), debt-equity ratio, net-worth, current ratio, CIBIL score of the chief promoters, total assets, etc. in guarantee application form based on the ticket size of the guarantee amount. In case of any deviations in the appraisal process before sanctioning of the loan on account of delinquencies in the due diligence on the part of the MLI, the Trust is not liable to pay the defaulted amount in respect of such accounts.

68. The Ministry added (September 2019) that CGTMSE has proved its viability by way of successful operation over 18 years. The guidelines, as mentioned by the Management, were introduced (13 November 2018) and made applicable from 1 December 2018 after being pointed out by Audit. Details, as mentioned by the Management were not applicable for loan size upto ₹10 lakh despite the Trust having business of around 90 per cent in this ticket size. Further, there were no guidelines for decision-making based upon the information collected. Also, the online module did not provide any platform for decision-making based on these details. As regards rejection of claims on account of delinquencies in appraisal by MLIs, the inspections carried out by the Trust were meagre to find out the delinquencies on the part of MLIs.

69. Audit has concluded that the reply of the Ministry does not hold good in the light of the deficiencies pointed out by the Trust itself during inspections of MLIs.

iv. Investment grading, credit rating & its Impact

70. As per clause 9 of CGS-I all proposals for sanction of guarantee approvals for credit facilities above Rs. 50 lakh and upto Rs.200 lakh will have to be rated internally by the MLI and should be of investment grade. If there is no rating for loans upto Rs. 50 lakh, MLIs have to indicate NA (not available) in the format prescribed by the trust. The Trust has not defined the term 'Investment Grade'. Therefore, MLIs are free to decide the investment grade on their own.

71. Analysis by Audit has disclosed that the column 'internal rating' was either left blank by the MLIs or mentioned as NA/NIL. In 4495 cases, the guarantee amount was more than ₹ 50 lakh. In only 567 cases, the ratings were having symbols prescribed under the performance and credit rating scheme for micro and small enterprises. In about 1.18 lakh cases MLIs indicated symbols like A,B,B+, B++ etc. Since there was no rating structure MLIs had liberty to put any character, numeral/symbol in the internal rating column. There was no uniformity in rating structure and the Trust has not put in place any mechanism to evaluate or assess the adequacy of the ratings done by the MLIs as the physical document was not required to be uploaded in the system.

72. The rating column was to be filled in online as per the system prevalent upto 25 May, 2016. Subsequently the system was weakened by allowing indication of only either 'Yes' or 'No' in the 'rating column' & in the column meant for marking 'investment grade'.

73. Both the Ministry and the Management have argued that MLIs are regulated by RBI and they were required to comply with the risk management guidelines stipulated by RBI. The Ministry also argued that scrutinizing the rating report alone at CGTMSE would not add value. The Trust has not got any assurance from the MLIs that they have been following RBI guidelines. Further, the Trust was required to issue guarantee only for those proposals, which are properly rated by the MLIs. Further, the RBI, in its 2015 report titled "Report on the functioning of CGTMSE and the Credit Guarantee System in India" has stated as follows:

> "On account of substantial moral hazard inherent in such schemes and in absence of a robust oversight mechanism from the CGTMSE, the present scheme has got reduced to one that incentivises lax credit processing by banks and reduced credit discipline on the part of the borrowers. This problem has the potential to play havoc with our financial system and must be addressed by the CGTMSE on priority basis."

74. Explaining the reasons for not attempting to define 'Investment Grade' and details of the connotations ascribed to the term, the Ministry replied as under:

> "All MLIs assess / rate the proposals based on their internal guidelines, due diligence and judgement of the promoters/projects. Further, all the lending institutions are having their own rating/score models for classification of the loan proposals as investment grade or otherwise. Investment Grade is a benchmark based on which any lending institution takes a call for providing credit facility or otherwise. Banks sanction the loans only to the proposals meeting the benchmark

of investment grade. Proposals sanctioned after passing through this criteria are lodged for guarantee coverage.

It may therefore be seen that undertaking for proper due diligence is already obtained by the Trust and considering that each MLI follows its own guidelines for due diligence, it may not be feasible for CGTMSE to define universal investment grade."

75. On the impact of CGTMSE guarantee instrument, it is observed that the figures given on turnover, exports and employment were all estimated based on the information furnished by MLIs at the time of lodging application with the Trust for seeking guarantee cover and the data were not realistic or actual. The Trust also did not call for the details or get the details uploaded from the MLIs in its portal after commencement of business by the MSEs or close of a MSE unit after default.

76. The Management has accepted this observation and stated (to audit) that efforts would be made to measure the realistic impact of the guarantees on a sample basis. This would be done with verifiable data and not just projected estimations.

77. The Ministry informed (September 2019) that CGTMSE has initiated process for pan India impact assessment study by a professional agency.

v. Collaterals

78. The primary objective of establishing the Trust by the Settlors was to provide guarantee against loans not secured by collateral or third party guarantees. Clause 4 of the Scheme also stipulates that the Trust would cover credit facilities extended by MLIs to a single eligible borrower in MSE sector for credit facilities (term loan and/ or working capital) without any collateral security and/ or third party guarantees.

79. Audit has observed that the MLIs, while applying for guarantee cover had to mark 'Yes' or 'No' options in the columns indicating 'Collateral Security Taken' and 'Third Party Guarantee'. The column indicating 'Collateral Security Taken' was a mandatory field while column indicating 'Third Party Guarantee Taken' was not marked as mandatory even though the Scheme did not allow acceptance of third party guarantees.

80. The Trust introduced (28 February 2018) a 'Hybrid Security' product wherein the MLIs were allowed to obtain collateral security for a part of the credit facility whereas the remaining part of the credit facility upto a maximum of Rs. 200 lakh could be covered under Scheme. Accordingly, a new field was inserted in the online portal with the name 'Application Under Hybrid Security Model'. The MLIs obtaining guarantee cover under

hybrid security model have to click 'Yes' or 'No' in this column. Review of the data of live guarantees (guarantee started prior to 28 February 2018) disclosed that the MLIs took collateral security from the borrowers in 314 cases (Rs. 42.50 crore), third party guarantees in 391 cases (Rs. 45.59 crore) and both collateral and third party guarantee in 28 cases (Rs.3.68 crore). The Trust provided sanction letters of HDFC Bank out of the above mentioned cases. The sanction letters mentioned 'Nil' collateral security but there was no mention of third party guarantees. Thus, the Trust did not implement adequate checks in the system to prima facie reject those applications where the MLIs had indicated acceptance of collateral and third party guarantees from the borrowers. Further, the approver of the guarantee applications had also ignored these vital facts. This is indicative that the MLIs had doubly secured themselves by accepting collateral or third party guarantees as CGTMSE was not required to issue guarantee cover to these MLIs where they had accepted collateral and third party guarantees from the MSEs. The Ministry did not reply to the Audit observation made in this regard. The Management, however, stated (March 2019) that filling the status of 'collateral security' and 'third party guarantee' was mandatory for the MLI with 'yes' or 'no' option. The system rejects the application if the MLI clicks 'yes' for collateral security or third party guarantee taken. The fields were made optional after introduction of 'hybrid security' product.

81. Asked to explain the basis of the hybrid security model, the Ministry, in a written reply, stated as under:-

> "CGTMSE guarantees credit facilities sanctioned by its Member Lending Institutions without any collateral security. "Hybrid Security" model allows guarantee cover for the portion of credit facility not covered by collateral security. It may be mentioned that when a borrower, having collateral security with lesser value than the loan requirement approaches bank for a loan, he/she was denied the credit facility. With the introduction of Hybrid Security model, such borrowers will also be eligible to get higher value loan and cover the portion of loan under credit guarantee. Accordingly, this model supplements the stated objective of CGTMSE to facilitate flow of credit to such cases where either the collateral security is not available or not available in sufficient value, to the extent of satisfaction of the lender."

82. When asked whether banks insist on collaterals, the representative of the Ministry submitted as under:-

> "Banks take the decision to provide loan on the basis of their internal guidelines and CGTMSE does not interfere in the process. Banks furnish approval to loans on the basis of internal credit guidelines issued by RBI, included in the

comprehensive guidelines of RBI and then take action. RBI regulates Banks/Lending Institutions. Therefore, RBI/Government of India can issue directives to CGTMSE for collateral free loans. As per the extant guidelines of RBI, collateral security cannot be insisted on loans less than Rs.10 lakh. But Trust do not require guarantee on such loans."

V. NPAS, CLAIMS AND RECOVERIES

i. Inspection and Recovery from MLIs

83. As per stipulations pertaining to CGS-1, the responsibility and accountability in regard to sanction, monitoring and remittance of recoveries to the Trust lies with MLIs. Clause 15(ii) of the Scheme provides the Trust right to inspection or call for copies of the books of account and other records of the lending institutions. As per the provision every officer or other employee of the lending institution or the borrower who is in a position to do so shall make available the documents to the officers of the Trust or SIDBI or the person appointed for the inspection as the case may be.

84. The Trust did not plan the inspections of MLIs as no criterion was fixed for selection of MLIs, targets and achievements in respect of MLIs and accounts to be covered and regions to be focused upon. During 2016-17 and 2017-18, the Trust carried out inspections on sample basis where claims settled was more than Rs. 10 lakh. The inspections were not commensurate with the guarantees issued, NPAs reported, claims lodged by the MLIs and shortcomings noticed in the inspection reports.

85. No inspection was carried out in respect of accounts where claim has not been lodged by the MLI. The scrutiny of inspection reports disclosed the following shortcomings:

(i) Stock statements not submitted by the borrowers timely to the MLI;

(iii) internal reports of the MLIs indicating the borrower as willful defaulter but not reported to the RBI

(iv) non-availability of staff accountability reports;

(v) one-time settlement done by the MLIs but recoveries not remitted to the Trust;

(vi) non-availability of end-use reports of the funds;

(vii) legal action taken by the MLIs after lodgement of the claims;

(viii) recoveries post-NPA date not mentioned by MLIs in the claim form;

(ix) recoveries not remitted to the Trust after payment of claim by the Trust;

(x) inspection not carried out by the MLIs as per norms;

(xi) mismatch of NPA date recorded in the CGTMSE's portal with actual record;

(xii) serious lapses on the part of MLI staff as per staff accountability report;

(xiii) end use of fund not found satisfactory;

(xiv) pre-sanction due diligence not observed by the MLIs

(xv) project financials and estimates and sales tax return not obtained from the borrowers;

(xvi) KYC documents not signed by the borrowers at the time of sanction;

(xvii) Sanction of loan before receipt of pre-sanction reports;

(xviii) Forged balance sheet and profit and loss statement submitted by the borrower, etc.

86. As per Clause 10 (v) of the scheme the lending institution would be liable to refund the claim released by the Trust together with penal interest of the rate of four per cent per annum above the prevailing bank rate, if a recall is made by the Trust in the event of serious deficiencies having existed in the matter of appraisal/renewal/follow up/conduct of the credit facility or where there existed suppression of any material information on the part of the lending institutions for the settlement of claims. It was found that out of 1749 accounts inspected by the Trust during 2015-16 to 2017-18, there were recoveries in 507 accounts amounting to Rs.71.41 crore and MLIs deposited the amount with delays ranging between 4 to 722 days. The Trust however, did not charge any interest on account of delay of remittance of the amount.

87. In 2015, RBI made several suggestions: (i) to put in place suitable incentives and penalties framework to enable the MLIs to undertake the same rigorous credit discipline and post disbursement follow up in collateral free loans as in the case of collateral backed loans, (ii) mandatory internal rating of all the collateral free loans irrespective of the loan amount, (iii) to put in place a strong data analytics team and a robust oversight mechanism over the MLIs, (iv) to revamp the IT infrastructure etc. It has been observed that the Trust had not implemented the suggestions and recommendations made by RBI. The Management has accepted the facts and has informed the Audit that a systemic approach to improve the effectiveness of inspection would be put in place as a part of the policy.

ii. Recoveries from MLIs post settlement of claim

88. As per Clause 13 of the Scheme, the lending institutions are required to deposit money recovered post settlement of claims with the Trust after adjusting legal cost of recovery incurred by the MLIs. As per the scheme, the Trust is also required to appropriate the recoveries firstly towards the pending annual service fee/annual guarantee fee, penal interest and other charges to the Trust, and the balance, if any shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between the Trust and the lending institutions are in the proportion of the risk shared.

89. It has been observed that MLIs were not remitting the recoveries made by them post-settlement of claims. Though the Trust has directed in March 2014 to submit a certificate from the Statutory Auditors stating that recoveries made by the MLIs post settlement of claims by the CGTMSE in respect of guarantee covered under the CGS have been duly passed on to the CGTMSE as per the provisions of the CGS, it was found that only a few (around 10) MLIs submitted such certificate and in some cases in ambiguous language. The Trust, on its part, did not lay stress on submission of certificate of the Statutory Auditors and started accepting online declaration and undertaking from MLIs before lodging claims in contradiction of its own direction. This gave an opportunity to MLIs to retain exchequer's money as the certificates created a legal binding of fulfilment of duties on the Statutory Auditors while the undertakings or declaration allow MLIs to take one or another plea for not remitting recoveries. Such cases were observed in the inspection report.

90. As per the information furnished, the Ministry did not reply to the Audit observation and the Management, while accepting the facts stated that most MLIs were finding it very difficult to get the Statutory Auditors certificate, since it was not possible for the Auditors to verify the transactions at the Branch level. The Trust, therefore, started accepting online declarations and undertakings from the MLIs.

91. Asked how the Ministry proposed to ensure responsibility and accountability on the part of Money Lending Institutions, the Ministry in their written reply stated as under:-

> "CGTMSE is carrying out inspections of MLIs based on the parameters like guarantees issued, level of NPAs and claims, etc. Inspections are a regular exercise conducted throughout the year for all MLIs based on the above criteria.

Trust is also in the process of standardization of the inspection by formulating Inspection Policy."

iii. Issue of NPAs

92. As per RBI's Master Circular, MLIs should mark the account as NPA in CGTMSE's portal within one month once classified as NPA in their own system. This would enable CGTMSE to assess the correct position of NPAs in its system and likely claims on this account.

93. The Trust has, however, allowed the MLIs to mark NPAs in a particular calendar quarter by end of subsequent quarter which is in contradiction of the direction of RBI. Also MLIs did not mark NPAs even during the prescribed time set by the Trust and the delay has been condoned by the Trust. It has been observed that the Trust admitted that delay in marking NPAs was condoned when huge numbers of requests were received from the MLIs.

94. It has been observed that MLIs have taken a time period up to 3352 days in marking these cases as NPAs in the CGTMSE portal. In some cases it was found that NPA date is the date of guarantee or even prior to that. Some accounts became NPAs just after guarantee date which reflects lack of appraisal or internal control and checks within the Trust. Management of the Trustee agreed to look into cases where accounts became NPA within 90 days of issue of guarantee and first claim was released.

95. As per the information furnished, the reasons for accounts becoming NPA as mentioned by the MLIs are, low generation of income due to downtrend and mismanagement, business failure/ closure, diversion of funds, business not able to compete in market, incompetent management, etc. The reasons indicate, inadequate appraisal of projects by the MLIs as well as failure of the Trust in ensuring proper assessment of applications before approving/ issuing guarantees. The inspection reports of the MLIs disclosed major discrepancies like non-verification of Credit Information Bureau (India) Limited (CIBIL) report of the borrower, CIBIL report showing overdue but not taken into account by the MLIs, appraisal note not signed by the officials, non-availability of pre-sanction reports with the MLIs, pre-sanction due diligence not carried out properly, non-availability of credit information report of the

borrowers, etc. Besides, the Trust had detected fraudulent loans **(12 cases)** during inspections of MLIs (2016-18).

96. The shortcomings are indicative of lack of responsibility and accountability of the MLIs in appraisal of loan applications prior to sanction and disbursement of loans.

iv. Delays in submission of application

97. As per Clause 4 of CGS-I, MLIs are required to submit application for guarantee cover in the next quarter from the quarter in which the credit proposals were sanctioned. If the proposal was sanctioned in the April-June quarter, the application is to be submitted within July-September quarter. In this context, it has been observed that guarantees have been given even though applications were submitted after 3809 days (about 10.5 years). About 39,456 cases involving about Rs.1260.92 crore applications were submitted within 181 to 3809 days. There was no system to validate the data fed by MLIs regarding date of application on the on-line system. The approver of the application did not take into consideration the date of sanction while issuing guarantee.

98. The decision on Condoning of delay in submission of application for guarantee upto three months has been delegated to an officer of the rank of Deputy General Manager. In July, 2018 on the request of MLIs the Trust provided a further time period of three months on standard accounts, thus allowing all MLIs an additional period of three months which is apparently in contravention of the scheme provisions and that too without the approval of the Board.

99. While the Ministry has not replied to the queries raised by Audit in this regard, the Management informed that most of the MLIs represented to the Trust that application could not be lodged due to some unavoidable circumstances viz. natural calamities, amalgation of MLIs, technical errors etc. and CGTMSE regulated delay on the request of MLIs.

v. Guarantee to 'non-micro'/small category units

100. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 defines MSEs as manufacturing and service enterprises based upon the investment in the plant and machinery and investment in equipment. As per the Act the limit for micro enterprises in manufacturing and service sector is Rs. 25 lakh and Rs. 10 lakh

respectively in plant and machinery. Similarly, in case of Small Enterprises manufacturing sector has a limit of Rs. 25 lakh to Rs. 5 crore and Service Sector has a limit of Rs. 10 lakh and Rs. 2 crore. This does not include expenditure on pollution control, research and development, industrial safety devices and such other items.

101. While a unit is marked as a micro unit, the term credit from MLI as well as guarantee from the Trust was more than Rs. 25 lakh and upto Rs. 2 crore. As per the definition, these units could not be treated as micro enterprises. As per information made available, however, in 15 cases, where the investment on equipment was more than Rs. 2 crore and the unit was not to be considered as MSE, the Trust had issued guarantee.

102. The Trust had also, in 3055 cases, considered some units as micro enterprises and received guarantee fee 0.15 percent to 0.25 percent less than the standard rate.

103. Clause 15 (ii) of the Scheme empowers the Trust to inspect or call for the copies of the books of accounts and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the lending institution and of any borrowers from the lending institution. Any officer of lending institution or the borrower are to place records before the officer of the Trust or SIDBI. CGTMSE carried out inspection in 1749 number of accounts during 2015-2016 and 2017-2018. Audit observed that the Trust did not plan the inspections as no criterion was fixed for selection of MLI, targets and achievements in respect of MLIs and accounts to be covered and regions to be focused upon. No inspection was carried out in respect of accounts where claim has not been lodged by the concerned MLI.

vi. Extending Credit on Personal Guarantee

104. As per the Audit findings the Trust issued guarantees on the basis of personal guarantees of the borrowers without creation of primary security which was against the approved scheme guidelines {Clause 7 (iii) of the scheme}. In the year 2013 the Board had decided that credit facilities which do not envisage creation of assets would not be eligible for guarantee under the scheme. Trust did not implement checks in the online system to ensure that the credit facility extended by the MLIs created primary security out of the credit facility extended to a borrower. The relevant column in the online

system viz. 'APP IS PRIMARY SECURITY' was left blank in 100 per cent cases by the MLIs.

105. In one case, it was found that a Bank had accepted personal guarantee of promoter of one MSE as primary security while the MSE had already hypothecated all stock and book debts to their main banker and further the promoter was not creating any primary security and funds were needed for opening a new office wherein the main expenses like salary, rent etc. were required to be paid. Audit scrutiny disclosed that the Trust received a letter dated 8 March 2017 from a private bank regarding acceptance of personal guarantees as primary securities, based on discussion and confirmation by the Trust on acceptance of personal security vide email dated 28 January, 2009. The Trust, on the basis of an email communication on 28 January, 2009 extended guarantee upto April 2017 to avoid inconvenience to the client. This was done without the approval of Board of the Trust (BOT). After issuing the guarantee, the Trust suggested to the Bank to carry out changes in its business module. Entire guarantee cover obtained by the Bank was based on personal guarantee of promoters.

106. While the Ministry did not reply to the audit query, the Management of the Trust mentioned that these credit facilities complement the existing credit facilities from the regular bankers of MSEs and are significant for MSEs. It further mentioned that depriving MSEs of the guarantee cover due to non-availability of primary security would affect the viability of the unit and slowdown the flow of credit to MSEs.

vii. Irregular Loans

107. Asked to furnish details of all cases of loans advanced irregularly by all lending institutions, the Ministry stated as under:

> "In case an account is declared fraud by the lending institution as per RBI's guidelines in this regard, the guarantee is not eligible for claim settlement by CGTMSE. Hence, such claim applications are rejected by CGTMSE. Lending institutions are required to report the cases declared as fraud to RBI, the regulator of MLIs, as per RBI's extant guidelines. However, CGTMSE does not have details of cases of fraudulent loans advanced by all lending institutions. It is worthwhile to mention that the MLIs are regulated by RBI who inspects the entire functioning of MLIs not limiting to their CGTMSE portfolio. In addition, they are also subject to Statutory Audit, internal audit and other mechanism as prescribed by their statute / guidelines."

108. Queried about whether CGTMSE can withdraw its guarantee at any stage if there are major discrepancies noticed subsequently, the Ministry in their reply stated as under:

> "Yes. In case an account is declared fraud by the lending institution, the same is not eligible for claim settlement by CGTMSE. CGTMSE has the right to withdraw guarantee/reject claim if major discrepancies noticed subsequent to issue of guarantee. Further, Lending Institutions, regulated by RBI, are required to follow RBI's guidelines on declaring an account as fraud. Therefore, Lending Institution has to take action in accordance with the RBI's guidelines issued in this regard."

109. When asked whether action has been taken against management of lending institutions as well as management of CGTMSE for advancing loans in such cases where appraisal note has not been signed by officials, the Ministry stated as under:

> "Taking action in the captioned scenario is the prerogative of the Member Lending Institutions who take such action as per their respective policy guidelines. It is worthwhile to mention that the MLIs are regulated by RBI who inspects the entire functioning of MLIs not limiting to their CGTMSE portfolio. In addition, they are also subject to Statutory Audit, internal audit and other mechanism as prescribed by their statute/guidelines. However, as per CGTMSE's guidelines, the cases declared as fraud by MLIs are cancelled and claims are not settled. In case of such declaration being put in place post settlement of claim, the claim amount is recalled."

110. Further, explaining the regulatory powers to ensure responsibility and accountability as part of money lending institutions, the Ministry replied as under:

> "As they are board managed entities, corporate governance is the responsibility of the respective boards. CGTMSE carries out inspections of MLIs based on the parameters like guarantees issued level of NPAs and claims, etc. Inspections are conducted regularly throughout the year for all MLIs based on the above criteria."

111. Insisting on conducting regular inspections of Member Lending institutions (MLIs), the Ministry in their reply stated as under:

> "Yes. CGTMSE is carrying out inspections of MLIs based on the parameters like guarantees issued level of NPAs and claims, etc. Inspection is a regular exercise conducted throughout the year for all MLIs based on the above criteria. During the audit period CGTMSE conducted inspections in respect of around 2000 cases and recovered an amount of ₹ 19 crore approximately. Conducting Inspections is a continuous exercise."

PART -II

Observations/Recommendations

Introduction:

1. The Micro, Small and Medium Enterprises (MSME) represent a significant part of the Indian Economy and are one of the strongest drivers of economic development, innovation and employment. In order to give the MSME sector an impetus, the Ministry of Micro, Small & Medium Enterprises (MSME) and Small Industries Development Bank of India (SIDBI) established, in July 2000, the Credit Guarantee Fund Trust for Micro and Small Enterprises' (CGTMSE/ Trust). The mandate of the Trust is to provide guarantee in respect of the credit facilities (term loans and/ or working capital assistance) extended by the lending institutions without any collateral security and/ or third party guarantees to the new or existing Micro and Small Enterprises and to levy guarantee fee/ annual service fee/ other charges on the lending institutions. CGTMSE implements two schemes viz. (a) Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I, for banks and financial institutions); and (b) Credit Guarantee Fund Scheme for Non-Banking Financial Companies (CGS-II). The C&AG of India audited the performance of the guarantee schemes (primarily CGS-I) of the period, 2015-16 to 2018-19 (30 September 2018). Audit found *inter-alia* that the norms/ benchmarks with regard to minimum liquidity requirement for the Trust were not fixed; Credit by way of loans up to Rs.10 lakh was extended by the two organizations for similar type of business projects; authentic data on the turnover, exports and employment generation was not available with the Trust; benchmark leverage on the corpus fund was not fixed; system/ portal was not geared up to verify the accuracy of the details filled in by the MLIs; inspections were not planned as no criterion was fixed for selection of MLIs; and the policy of the Trust to allow a time period up to the end of next quarter following the release of the loan (s) for identifying NPAs was not in consonance with RBI's directions. The Committee's examination of the subject and their observations/ recommendations on the issues pointed out by Audit and related matters are detailed in the succeeding paragraphs.

Organisational Structure:

2. The MSME Sector has huge potential for growth and for creating employment across the country. The Government is giving due importance to this sector by way of extending various financial incentives as well as policy measures. CGTMSE was established 21 years ago to facilitate MSME Sector to get funds without collateral & Third Party guarantee. The Committee are distressed to note that no professionalism has been developed in the area and the institution has not been strengthened even after a long period of 21 years and a lot of money being pushed into the lending institutions for providing easy credit to the MSME Sector. The CGTMSE is continuing to work with only one office and an employee strength of 45 Officers/Staff for taking care of its Pan - India activities. Most of the officers at the senior level are inducted on deputation or are engaged on contract basis. All the higher management personnel (Chief Executive Officer, General Manager and Deputy General Manager) of CGTMSE are drawn on deputation from SIDBI and the rest are engaged on contract basis. The Committee, in this regard, have taken note of the recommendations made in the U.K. Sinha Committee Report on MSMEs where-in it has been emphasized *inter-alia* that it would be necessary that the top management of CGTMSE is professionalized and sourced from a wider pool, and SIDBI disengage itself from day-to-day management and the Board of CGTMSE. Audit has pointed out that such factors have made the outreach of CGTMSE to MLIs difficult and has posed the risk of inefficiency in the management of the Scheme. As on March 31, 2020, four high ranking officers including the CEO were drawn on deputation from SIDBI to CGTMSE. It is perplexing to note that while on the one hand, the U.K. Sinha Committee had recommended disengaging SIDBI from the administration of the Trust, on the contrary, the Ministry has favored continuing with the system of drawing officers from SIDBI on the plea that SIDBI's association has purportedly helped the organisation by virtue of the understanding the officers have on credit/lending and guarantee operations. The Committee are of the strong opinion that while the Government is undertaking serious measures for promoting the sector and increasing the financial allocation, it would not only be appropriate but also a necessity to adequately strengthen CGTMSE so as to

enable fulfilling the objectives set by the Government and those envisaged under the scheme. Undertaking credit/lending and guarantee operations mainly by drawing officers from SIDBI would possibly not be appropriate as substantial expertise exists in the field outside SIDBI too and tapping such expertise would contribute in improving the efficiency and contribute towards transparency of the credit system as a whole. The Committee are of the opinion that the organisational structure of the Trust needs to be revamped to this end. The Human Resource Management of the Trust should ensure *inter-alia* that there is no scope for vested interests to grow; and provide for fixing accountability in case of serious lapses. Action taken to this end may be reported to the Committee within three months of the presentation of this report to Parliament.

3. The Committee are of the opinion that CGTMSE, with only one office in India is obviously not in a position to reach out to 6.3 crore SMEs and expand the enlisted MLIs, as its lending partners so as to maximize coverage under the Scheme. Geographically smaller countries like Japan and Korea have stronger institutions for this sector with substantial corpus and staff in enabling monitoring of development programmes. With a view to effectively meeting the mandated tasks, the Committee recommend that the number of offices of the CGTMSE be appropriately increased.

4. The Committee also fail to understand the reasons for not enabling the Trust to evolve and grow as a professional body as is the case with Institutions in the Financial Sector. The Committee strongly feel that at a time when the Government is putting in a significant amount of money in the 'guarantee programme', for ensuring effectiveness of the Trust in a wider area, and enabling proper monitoring and transparency, strengthening the human resources of the organisation is an absolute necessity. The Committee, accordingly, recommend that CGTMSE engage dedicated personnel and do away with the policy of ad - hocism in drawing personnel on deputation or fixed term basis to the organization.

Operational Framework

5. The Committee's examination of the subject reveals that the Trust, for most of the lacunae that come 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 has 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 seems 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, urge 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. The Committee, while deliberating on the issue also noted the fact that MSME units mostly function at the District level, but there is no mechanism available even at the State level to look into the proposals as also grievances of MLIs. MLI units at these levels take decisions which are considered appropriate and suitable to them. The Committee desire that the Ministry should look into the matter and take appropriate action towards evolving an appropriate and feasible mechanism for enabling co-ordination with different parties and also help in addressing the grievances at the ground level.

Coverage of the Scheme

7. The Committee are disappointed to find that the credit extended to the MSME Sector by way of providing guarantee from CGTMSE constitutes only 5.66% of the total credit as on 31st March, 2019. The Kamath Committee had recommended 'guaranteeing' upto a level of 15% of the credit extended to be ideal for the Sector. As per the information furnished at first, the guarantee scheme run by the CGTMSE is an MLI driven scheme and the option for seeking guarantee is up to MLIs. MLIs are not mandated to cover all their MSE Loans under the scheme. In a subsequent reply however, the Committee have been informed that the Ministry had undertaken an exercise for analyzing and addressing the problem of low coverage following which certain policy changes have been undertaken *viz.* permitting a hybrid security model, inclusion of retail trade activity for extension of loans, increasing the extent of guarantee coverage

to 75%, charging guarantee fees for outstanding amounts of NBFCs, SFBs, Cooperative Banks etc. As per the information furnished to the Committee, following the policy changes, the number of guarantees extended has increased from 4.36 lakh in FY 2019 to 8.47 Lakh in FY 2020 which amounts to a growth of 94%. The Committee, in this regard, desire that the scheme be appropriately moulded to attract potential entrepreneurs in the MSME sector, and widening the coverage to larger areas of the country to include players who are in a position to generate employment in the country and also compete at the international level.

8. The Committee appreciate the initiatives taken for promoting MSME sector under Atmanirbhar Bharat Abhiyan and recommend that the impact of all the guarantees extended through these new initiatives may be analysed regularly so that loopholes can be identified and removed promptly. The Committee find 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 desire that the Agency complete the project at the earliest and the result thereof conveyed. The Committee also desire that the Ministry may give suitable publicity to "Udyam Registration" and "Champion Portal" so as to attract more units from the MSME sector. The Committee also stress the importance of MLIs at the ground level to whom the applicants could have easier access. The number of MLIs which presently stands at 145 is very small given the size of the country. The Committee, accordingly, recommend that more MLIs may be enrolled under the credit guarantee scheme so as to widen the reach for entrepreneurs.

9. The Committee note that CGTMSE provides benefits to women entrepreneurs under the scheme in the form of additional guarantee coverage and concessional guarantee fee. As for the socially and economically weaker sections of the society, it is seen from the information furnished to the Committee that only 3% of the beneficiaries are from the weaker sections. As there is scope for promoting entrepreneurs from the weaker sections under the scheme, the Committee express the need for taking appropriate measures in this direction.

10. As per the Annual Report, 2020-21 of the Ministry, during the period 2015-16, a total of 633.88 lakh unincorporated non-agriculture SMEs were engaged in different economic activities which account for an estimated employed persons of about 11.10 Crore in MSME sector. The Committee also note from the Background note of the Ministry that as per National Sample Survey (NSS) 73rd round, conducted by the National Sample Survey Office, Ministry of Statistics and Programme Implementation, during the period 2015-16, MSME Sector contributed to 30.30% of all India GDP and 37.30% of manufacturing during 2018-19, and share of exports of MSME related products during 2019-20 was to the extent of 49.80%. The Committee, however, note from the Background Note of the Ministry of Micro, Small and Medium Enterprises that only 12,79,768 Enterprises have got themselves registered in the 'Udyam' registration portal developed by the Ministry. The Committee further note that, as per the Udyam Portal, the aggregate of the classified and unclassified SMEs is 2136337. The Committee find that despite their tremendous potential for employment generation, manufacturing and export etc., the number of registrations of enterprises on the Udyam Portal launched by the Ministry remained at a miniscule level. The Committee are of the view that the low level of registration of the enterprises on the Udyam/Udyog Aadhar Portal of the Ministry is indicative of poor outreach efforts. The Committee, therefore, recommend that efforts be made by the Ministry for increasing awareness amongst the SMEs. The Committee are of the opinion that registering with the Udyam Portal is the first step to engage the SMEs for helping them in getting benefits of various schemes of the Ministry. The Committee also recommend that the Ministry of MSME may, in co-ordination with the other Ministries/Departments like Ministry of Labour and Employment and Ministry of Finance etc. dealing with MSME Sector, explore ways to get the enterprises register their units on the Udyam/Udyog Aadhar Portal.

11. The Committee note that the Ministry had, on 27.6.2017, notified activities not covered under MSMED Act, 2006 for registration under Udyog Aadhaar Memorandum (UAM). The Committee note that this had led to debarment of retail traders, except for those engaged in motor vehicles and motor cycle activities to be classified for registration under Udyog Aadhaar Memorandum (UAM). The

Committee note that retailers were not able to avail the benefits of the MSME schemes including lending schemes as they were not registered as MSMEs under Udyog Aadhaar Memorandum (UAM). The classification has since been reconsidered and retail traders have now been included as part of the MSME sector. The Committee trust that this will help the retail traders in availing the benefits available to SMEs and will go a long way in helping them in these pandemic ridden times.

Corpus of the Credit Guarantee Scheme

12. The Committee note that the Credit Guarantee Scheme (CGS) was launched primarily for extending credit benefit without the hassles of collateral / third party guarantee to MSME sector specially to the first generation entrepreneurs in setting up their own enterprises. Further, to operationalize the scheme, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in July 2000 with a committed corpus of Rs.2500 crore to be contributed by Government of India and Small Industries Development Bank of India (SIDBI). The Committee note from the reply of the Ministry that the present corpus of the CGTMSE is Rs 8682 crores and the total size of the fund is Rs.12,848 crore. The Committee further note that the present leverage of CGTMSE corpus is about 8 times, which, as per the Ministry, is in line with the international best practices. The Committee also note the submission of the Ministry that there has not been a single instance where the Trust has experienced depletion of its corpus. On the contrary, however, the Committee also find that CGTMSE has been furnishing guarantees only to a small number of enterprises as most of the SMEs are not registered. The Committee, in this regard, also note that as per the revised definition, the Micro, Small and Medium Enterprises are now classified as units having investment of less than Rs.1 crore, Rs.10 crores and Rs.50 crores and a turnover of less than Rs.5 crores, Rs.50 crores and Rs.250 crores respectively, per annum. The Committee desire that the impact of the overall revision in the definition / classification of the enterprises in the MSME sector should be analysed and the Committee apprised thereof. Further, the Committee feel concerned to note that a large number of SMEs are not included in the scheme and desire that the Ministry should give due publicity

to the scheme among potential entrepreneurs and groups and increase the efforts to reach out to the potential borrowers needing credit guarantee. The Ministry should also strive towards increasing the fund size of the scheme which should be comparable to that of other countries and adequately meet the potential domestic demand.

13. The Committee recommend that the benchmark for leveraging the fund be fixed realistically. The Committee also recommend that in pursuance of the audit observation, while fixing the benchmark, the adequacy of the corpus may be analysed and the first claim, rejected claim and expected second claim of MLIs may also be taken into account. The Committee also strongly recommend that measures be taken towards minimizing cases of rejection of applications for availing credit and obtaining guarantee thereon and Information Education Campaign started effectively in this direction.

<u>Member Lending Institutions (MLIs):</u>

14. The Committee note 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 find 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 recommend that the Ministry pursue the matter with the Ministry of Finance (Department of Financial Services), so as to expand the list of Member Lending Institutions (MLIs). The Committee also recommend 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 is easily made available to the public at large.

15. The Committee observe that one inherent shortcoming in the scheme is that while MLIs are required to upload borrower's information viz. type of activity, nature of industry, interest charged by the bank, amount of loan, details of borrowers/MSE unit etc., details regarding the management of the borrower unit,

technical feasibility of the project and financial capacity of the borrower/promoters are not maintained. As the system portal has no such data, correctness of this crucial data cannot be verified. Responsibility of appraisal lies with the MLIs and the Trust has no role except for extending guarantees. The Committee are surprised to observe that in 99.84% cases (out of those examined by audit) there is no information about legal ID and type of Chief Promoter. In most cases, the year of birth of Chief Promoter, year of sanction of loan, PIN code of the location etc. are mentioned in a random, incorrect and incomprehensible manner. In 1852 cases there are no details of the number of employees of the unit, and in 6007 cases the sales turnover mentioned in the form is zero or NIL. Also, there is no mention of the contact number of Chief Promoter in 94% cases. These discrepancies have been accepted by the Ministry, and need to be remedied. The Committee may be kept apprised of the remedial action taken to this end.

16. The Committee also note that some MLIs have applied for guarantee cover more than once in respect of the same application. As per the Ministry, the MLIs have been strictly instructed to avoid such discrepancies. The Committee desire that action against MLIs concerned may be taken on this count as per the provisions of the scheme and they be informed of the details thereof.

Insistence on Collaterals

17. The Committee note that the primary objective of Credit Guarantee Scheme is to provide guarantee against loans without any collateral or third party credit guarantee. The Committee however note that the rule has been violated with impunity. MLIs, while applying for guarantee cover have been marking as either Yes/No against the column providing for whether 'collateral Security was Taken' which is mandatory, but the column pertaining to 'Third party Guarantee' was not filled as the same was not mandatory. The Committee note that MLIs have taken collateral security(314 cases) or Third Party Guarantee(391 cases) or both (in 28 cases) while approving the guarantee. The Committee desire that suitable action is taken to ensure that such acts which are violative of the objectives with which the Credit Guarantee Scheme has been formulated do not continue to recur. The

Committee wish to be apprised of the action taken in this regard within three months of the presentation of this Report to Parliament.

18. Further, the Committee also note that the reluctance of banks to offer loans without collaterals is a major reason for shortfall of funds with SMEs. The Committee endorse 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 are 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 also recommend that as a 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, may be reviewed with a view to ensuring that no borrower suffers for want of security. This would, in the long term, make the MLIs/ banks comfortably forthcoming in extending credit and thereby increase the coverage under CGTMSE.

Impact of Covid-19 Lockdown on Micro, Small and Medium Enterprises and decline in number of guarantee cases

19. The Committee note that CGTMSE has hired a professional agency to assess the impact of the Trust on the economy. The Committee also note that the said agency is to interact with CGTMSE's beneficiary units and also other agencies concerned and will submit its report. The Committee further note that due to Covid-19 pandemic the survey has been temporarily put on hold. The agency is to cover the impact of Covid-19 and demonetisation on MSMEs covered under CGTMSE guarantee. The Committee note from the reply of the Ministry that the number of guarantees extended during the year 2017-18 fell drastically to nearly half at 263195 as against the number of guarantees extended during the previous year 2016-17 which stood at 452127. This, the Committee feel, calls for a thorough analysis with a view to identifying the reasons for the drastic fall in the number of guarantees extended. The Committee recommend that the study of impact on the economy be completed at the earliest with a view to formulating

appropriate response as well as long term measures for revival of MSME sector in the wake of the effect of lockdown(s) imposed due to the pandemic. The action taken in this regard may be intimated to the Committee at the earliest.

20. Various countries have responded to the challenges thrown by the recent pandemic and lockdowns, particularly to their MSME sector. In India, the Ministry of Finance have brought forth the Emergency Credit Line Guarantee Scheme (ECLGS) as one of the solutions. The Committee note that all policy decisions regarding SMEs are taken by the respective Ministries concerned and there is no convergence of policy making at one level. In this regard, the Committee also take note of one of the recommendations of the U.K. Sinha Committee (Report of the Expert Committee on Micro, Small and Medium Enterprises, June 2019), that the Ministry of MSME should be the nodal Ministry for all interventional actions pertaining to the MSME sector, instead of having multiple schemes being run by different Ministries for promotion of MSMEs in their respective domain. The Committee, therefore, recommend that the Ministry of Micro, Small and Medium Enterprises should be made a 'convergence point' for all issues relating to SMEs, and a comprehensive proposal in this regard be mooted from the Ministry of MSME for the consideration of the Government.

21. The acute crisis of availability of medical equipment and shortage of other essential medical supplies in India during the pandemic, besides other sector specific essentials arising in the wake of the lockdown(s) have been widely reported. It would not be out of place to mention here that as a result of the initiatives and interventions taken by the Ministry, the country is now manufacturing enough Hand Sanitizer Bottle Dispensers (Pump/Flip) for meeting almost all its sharply increased demand and developing/producing auxiliary items like masks, face-shields, PPE Kits, sanitizer boxes, testing facilities etc. The Committee feel that MSME Sector in India has, time and again, proven its potential to rise up to face the challenges that emerge. They feel that if proper financial support is given to MSMEs, they can grow substantially. The Committee, therefore, recommend that similar to the targeted products launched elsewhere in the world, the Ministry of Micro, Small and Medium Enterprises should adopt sector specific approach and come out with special products especially for the

health sector, and other sectors in dire need to be revived by way of governmental intervention. This, the Committee feel would give a fillip to the SMEs, especially units which are working in the health Sector and prepare India to effectively face the economic impact of the Pandemic. The Committee recommend that Ministry of Micro, Small and Medium Enterprises and CGTMSE should come up with special credit guarantee coverage of product(s) thereby facilitating MLIs to offer loans at a much cheaper rate with flexibility of repayment incorporated in the scheme so as to help the ailing SMEs tide over the adverse financial situation posed by lockdowns in the wake of Covid-19 pandemic. Further, in these trying times, the Ministry of Micro, Small and Medium Enterprises may pitch in for relaxing NPA norms for the MSME Sector by taking this matter up with the Ministry of Finance.

Issue of Regulatory Authority:

22. The Committee note that the Trust does not have a regulatory authority. There is no benchmark prescribed by the GOI/Trust on the liquidity required vis-à-vis guarantee approved/ issued, capital adequacy, solvency requirement exposure caps for various types of MLIs, disclosure norms and accounting standards. The Committee also note that there are no specific laws for regulating many aspects of the functioning of the Trust like scope of operations, governance, capital and operating requirements and access to state owned funds. The Committee note that the Trust had, in 2015, initiated the process of framing regulatory guidelines when it's Board approved a proposal made in this regard. The Consultant firm engaged on the basis of this proposal gave a report in 2017 but the report was never placed before the BoT thereby rendering the expenditure incurred a waste.

The Committee take note of the recommendation in the U.K. Sinha Committee Report (Report of the Expert Committee on Micro, Small and Medium Enterprises, June 2019), that all Credit Guarantee Schemes should be subject to the regulation and oversight/supervision of RBI. Further, as per the recommendations, such regulatory guidelines could draw upon the well acknowledged principle for design, implementation and evaluation of public Credit guarantee Schemes for SMEs which has been evolved by the World Bank

Group. The Committee are of the view that in its present set up, monitoring by the Board and the settlors (Ministry of MSME, GoI and SIDBI) is not adequate and recommend that by giving up tentativeness of approach and without incurring further unfruitful expenditure, a proper regulatory framework needs to be put in place at the earliest so as to enable easy availability of funds to entrepreneurs in a wider area and simultaneously ensure financial discipline. The role of a Credit Guarantee Authority in the sector is very crucial when the credit scheme is expanding. Constitution of a proper regulatory framework for the Trust by way of setting up an Authority for the purpose, or bringing the Trust under the regulatory purview of RBI in unambiguous and clear terms is a matter under consideration of the government on which no conclusive decision has been taken so far. The Committee trust that effective measures would be taken to ensure proper and effective regulation of the functioning of institutions involved in providing credit guarantees.

NCGTC& CGTMSE

23. The Committee note that NCGTC was incorporated in 2014 to manage and operate various Credit Guarantee Trust Funds. One of the funds of NCGTC, is CGFMU, which is designated for providing guarantee for loans up to Rupees ten lakh sanctioned by banks, NBFCs/MLIs and other financial intermediaries engaged in similar businesses. Further, the Committee note that the Ministry of Finance had *w.e.f.* 18th April, 2016, authorized the CGFMU to extend loans under Pradhan Mantri Mudra Yojna following the launch of scheme. On account of this factor, the Board of CGTMSE decided not to approve guarantee to any loan up to ten lakh rupees following the operationalization of Pradhan Mantri Mudra Yojna (PMMY). The Committee further observe that a meeting was held on 5th January, 2017 with Banks, SIDBI and CGTMSE under the aegis of Secretary, Ministry of MSME wherein the decision not to sanction guarantee for loans up to rupees Ten Lakh by CGTMSE was once again emphasized upon. These decisions have not been followed and guarantees to loans to upto a limit of Rs.10 Lakh continued to be extended on the plea that some MLIs have favored the presence of two sources for providing guarantee so as to provide a choice of agency for providing the cover. The Committee note that there is lack of clarity and control in regard to

the functioning of the Trust. In this regard, the Committee emphasize on ensuring that the apparent overlap in the functioning of the two organizations does not work out to be detrimental to their functioning and particularly with reference to providing guarantees to credit availed by units in the MSME Sector.

INSPECTION POLICY

24. The Committee note that as per the scheme (CGS-I), sanctioning, monitoring & remittance of recoveries to the Trust is the responsibility of MLIs. Clause 15 (ii) of the Scheme gives power/right to the Trust to inspect or call for copies of the books of accounts and other records of the lending institutions. The Committee are surprised to note that despite the Trust being bestowed with the power, it has not chalked out any plan for carrying out inspection, no criteria has been formulated for inspecting MLIs and there is no inspection policy as such. The Committee also note in this regard that a sample inspection undertaken by the Trust during 2016-2017 & 2017-18 brought to light as many as 17 shortcomings. The cause of the shortcomings has been attributed solely to the MLIs. This, in the view of the Committee is inappropriate and incorrect as the Trust has not abided by the mandate of carrying out regular inspections, and there has been no criteria formulated for carrying out the inspections. Also, although the RBI had made several suggestions in 2015 for ensuring credit discipline and post disbursement follow-up, the Trust has seemingly ignored these suggestions while dealing with MLIs. Now, following the audit observation, the Management has accepted the facts and has assured that a systematic approach to improve the effectiveness of inspections would be put in place. The Committee are of the opinion that an effective inspection policy, in addition to inspecting claims, may factor in the systemic issues, compliance requirement and performance *vis-a-vis* targets in respect of credit guarantees issued by the CGTMSE. The parameters for inspection should be continuously refined, based on the inputs and feedbacks received during the inspections and reviews. The Committee desire that policy/guidelines framed in this regard be shared with the Committee.

25. The Committee also note that as per Clause 10 (v) of the scheme, lending institutions are liable to refund the claims released by the Trust together with

penal interest rate of four per cent per annum above the prevailing bank rate if a recall is made by the Trust in the event of serious deficiencies in appraisal/renewal follow-up of credit facility, suppression of material information etc. The Committee are aghast to find that despite the provisions of the Scheme being clear on this aspect, the Trust has been permitting MLIs to deposit the amount even after a lapse of two years without charging penal interest. The Committee would, apart from proposing taking action against the errant for the lapses on this count, like to be apprised of the details of such delayed deposits by MLIs in the last five years.

Post settlement Recovery

26. The Committee note that as per Clause 13 of the Scheme, the lending institutions are required to deposit the money recovered post-settlement of claims with the Trust after adjusting the legal cost of recovery incurred by the MLIs. As per the scheme, the Trust is also required to appropriate the recoveries firstly towards the pending annual service fee/annual guarantee fee, penal interest and other charges. To this effect, the Trust had issued a direction in March 2014 to the MLIs to submit a certificate from the Statutory Auditors stating that recoveries made by the MLIs post settlement of claim by the CGTMSE in respect of guarantees covered under the CGS have been duly passed on to CGTMSE as per the provisions of the CGS. The Committee, however, observe that MLIs have not been remitting the recoveries made by them post-settlement of claims and only a few (around 10) MLIs had submitted such certificates, and in some cases, there was ambiguity in the language. Further, to the surprise of the Committee, it has also been noted that the Trust, on its part, did not lay stress on submission of certificate(s) of the Statutory Auditors. Also, the Trust was acting in contravention of its own directives by accepting on-line declarations and undertakings from MLIs before the claims were lodged. This gave an opportunity to MLIs to retain the exchequer's money as the undertakings or declaration allowed them to take one plea or the other for not remitting recoveries. Such cases were observed in the inspection report. The Committee are aghast to note that the Ministry have not responded to the observation made by Audit in this regard. The Management accepted the facts and pleaded that most MLIs were

finding it very difficult to get the Statutory Auditors certificate since it was not possible for the auditors to verify the transactions at the Branch level due to which, the Trust started accepting on-line declarations and undertakings from the MLIs. The Committee are disappointed to note that the Trust itself has not been following the rules formulated by it, and the MLIs as well as the Trust were acting in contravention of the rules. The Committee feel the need for ensuring that action is taken on the officers violating the guidelines of the Trust. The Committee also desire that changes that are required in the directives owing to the difficulties faced by the MLIs need to be suitably incorporated so as to address the problem.

Appraisal and issue of guarantees

27. The Committee note from Audit findings that the Trust issued guarantees on the basis of personal guarantees of the borrowers without creation of primary security. This was against the approved scheme guidelines {Clause 7 (iii) of the scheme}. In the year 2013, the Board had decided that credit facilities which do not envisage creation of assets would not be eligible for being considered under the Guarantee scheme. The Trust did not implement the checks in the on-line system with a view to ensuring that the credit facility extended by the MLIs created primary security out of the credit extended to a borrower. Further, the MLIs applied for guarantee covers even after the expiry of the quarter following the quarter in which the loan was sanctioned. Also, applications for guarantee covers were made more than once for the same application/credit facility and the Trust issued guarantee cover to the MLIs as per their application which was against the financial interests, and business prudence and is also indicative of poor internal controls. The Committee further note from the information furnished by the Ministry that CGTMSE does not have details of cases of irregular loans that may have been advanced by all lending institutions. The Committee, therefore, recommend that CGTMSE enhance the frequency and quality of the inspections of MLIs and undertake efforts to look into cases of irregular loans so as to arrive at a conclusive mechanism to plug the loopholes, and thereby ensure that the guarantees extended by CGTMSE are not misused. This exercise, the Committee feel, will also help the MLIs in adopting the best practices.

INVESTMENT GRADE AND RATINGS

28. Clause 9 of CGS -I provides that all proposals for sanction of guarantee approvals for credit facilities above Rs.50 lakh and upto Rs.200 lakh will have to be rated internally by the MLI and should be of 'investment grade'. The Committee note from the Audit findings that the Trust/Scheme had allowed the MLIs to consider a proposal to be of 'investment grade' as per their own parameters. The Committee also note that all the lending institutions have been following their own 'rating/score models' for classification of loan proposals as 'investment grade' or otherwise. The Committee also observe that the Scheme did not encourage 'ratings' of the proposals, as the 'ratings' were not mandatory for credit proposals upto Rs.50 lakh. It is surprising to note that upto 25 May, 2016, the applications included a column for indicating the 'rating' position. However, the Trust has, seemingly, weakened the system by modifying the format to only provide for mentioning either 'Yes' or 'No' in the relevant column relating to 'rating' and 'Investment Grade'. The Committee further note that while the Trust was required to issue 'guarantee' only in respect of such proposals which have a rating/or are rated, this has not been followed at all. The Committee recommend that CGTMSE may prescribe broad parameters/ a check list for a proposal to be treated as of 'Investment Grade' so as to ensure uniformity in assessment of the proposals for sanction of 'Guarantee'. The CGTMSE may devise a rating structure similar to rating structures prescribed by CRISIL and various other rating agencies. The Committee feel that such empirical tools would not only come handy to CGTMSE to formulate targeted guarantee products but also be of use to MLIs.

Foreign/PVT. Banks

29. The Committee note that guarantees have been extended on loans sanctioned by private and foreign banks on the basis of personal guarantee. This is in contravention of Clause 7 (iii) of the scheme as per which primary security is to be created as a matter of necessity. As per Audit observation, the data on status relating to 'primary security' has been left blank in 100 per cent of the cases in the applications. What is even more surprising to note in this regard is that the question posed by Audit has not been replied to and the plea taken is that this only compliments the existing credit facilities available from regular bankers.

The Committee find it surprising that the Trust officers, who are duty bound to keep a watch over public funds try to justify the acts which are apparently in contravention of the guidelines. The Committee strongly recommend that a thorough investigation of cases where guarantees have been issued on personal guarantee and which do not create any primary security may be carried out.

<u>Internal controls</u>

30. The Committee note from the audit observation that due to inadequacies in the system of approval of guarantees, the financial interest as well as business viability of the Trust is being jeopardized. The Committee also note in this regard that the Trust has initiated a process of scrutinizing applications for amounts above Rupees one crore at the time of approval, and has also formulated the guidelines for online capture of data relating to financial status of the business unit. In case of any deviation in the appraisal process, before sanctioning of loan, the Trust would not be liable to pay the default amount in respect of such accounts. The Committee while noting that some action appears to have been taken to protect the scheme and address the problem of misinformation of MLIs and delinquencies in the appraisal system, nevertheless, emphasise on ensuring that inadequacies in the system are adequately addressed. The Committee desire to be furnished with details of the action taken and impact of the scrutiny on the process of extending guarantees.

NEW DELHI;	SHRI ADHIR RANJAN CHOWDHURY
th March, 2022	Chairperson,
Phalguna, 1943 (*Saka*)	Public Accounts Committee

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APPENDIX-I

Confidential

MINUTES OF THE NINTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2020-21) HELD ON 4th JANUARY, 2021.

The Committee met on Monday, the 4th January 2021 from 1100 hrs. to 1320 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Bhartruhari Mahtab
4. Shri Jagdambika Pal
5. Shri Vishnu Dayal Ram
6. Shri Rahul Ramesh Shewale
7. Shri Jayant Sinha

RAJYA SABHA

8. Shri Rajeev Chandrasekhar
9. Shri Naresh Gujral
10. Shri Bhupender Yadav

LOK SABHA SECRETARIAT

1. Shri T.G Chandrashekhar - Joint Secretary
2. Shri M.L.K. Raja - Director
3. Shri Alok Mani Tripathi - Deputy Secretary

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1.	Ms. Saubha Kumar	-	Dy. C&AG (Comml.)
2.	Ms. Ritika Bhatia	-	Director General
3.	Ms. Kavita Prasad	-	Director General
4.	Sh. C. Nedunchezhian	-	Director General

REPRESENTATIVES OF THE MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

1.	Shri A.K. Sharma	-	Secretary
2.	Shri Devendra Kumar Singh	-	Additional Secretary & Development Comm.
3.	Shri Piyush Shrivastava	-	Additional Development Communication
4.	Shri Sandeep Verma	-	CEO, Credit Guarantee Fund Trust
5.	Shri Deepak Rao	-	Joint Development Comm.

2. At the outset, the Chairperson, PAC welcomed the Members and Audit Officers to the sitting of the Committee, convened to have a briefing by the Audit Officers and the representatives of the Ministry of Micro, Small and Medium Enterprises on the subject **"Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises"** based on the C&AG's Report No. 10 of 2020.

3. The Chairperson then, asked the Dy. C&AG to brief the Committee on the shortcomings pointed out and findings in their Report and suggestions made by them and elucidate on the Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises.

4. The Dy. C&AG then detailed that the C&AG has taken up audit of the Ministry of Micro, Small and Medium Enterprises (MSME) and explained the various issues concerning shortfalls in the functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which were revealed after Audit scrutiny and made a presentation on the audit findings through a Power Point Presentation (PPT) for benefit of Members.

5. Following the briefing by Audit officers on the subject, the representative of Ministry of Micro, Small and Medium Enterprises (MSME) were called in and the Chairperson welcomed them to the Sitting. Impressing upon the confidentiality of the proceedings of the Committee, the Chairperson asked the Secretary, Ministry of Micro,

Small and Medium Enterprises (MSME) to enlighten the Committee on various aspects of the subject and responses on the Audit findings/observations on the subject matter.

6. Accordingly, Secretary, Ministry of Micro, Small and Medium Enterprises (MSME) asked for permission for CEO, CGTMSE to make a Power Point Presentation (PPT) which highlighted *inter-alia* the mandate of the CGTMSE; the overlapping mandate of both CGTMSE and National Credit Guarantee Trustee Company Ltd (NCGTC) ; the UDYAM registration; the institutional Framework of SIDBI; the Member Lending institutions and the Eligible Lending Institutions ; the time limit of the Guarantee cover ; the tenure of the guarantee cover ; the extent of coverage and the fees prescribed ; and the impact of the scheme.

7. The CEO of the CGTMSE also explained the responses of the MSME on the audit observations , covering *interalia* the matters wherein the Trust had issued guarantees on the basis of the personal guarantees of the borrowers without creation of primary security which was against the approved scheme guidelines; the sanctity and accuracy of the data given by Member Lending Institutions; the case of overlapping of National Credit Guarantee Trustee Company Ltd (NCGTC) with Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE); absence of regulators; new initiatives of MSME in wake of challanges posed by Covid-19; and the simplification of the entire process of financial aid and guarantee of loans to MSME etc..

8. The Chairperson and Members of the Committee put forth specific questions mainly about the absence of regulatory framework; the duality of role of National Credit Guarantee Trustee Company Ltd (NCGTC) with Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE); percentage of guarantees to private sector banks; acceptable level of guarantee; comparison with best international practices; accuracy of data being fed by MLIS; review study to be taken up by CGTMSE to evaluate its guarantee instruments with other best practices in any other country; actual functioning of the credit guarantee scheme at the district level; ground reality of insistence on collateral by banks and MLIs; the importance and necessity of hybrid system of credit guarantee at the time, the scheme was designed for guarantee in the absence of collaterals; the issue of extending guarantees and the account subsequently turning to NPA and issue of extending guarantee cover for defaulting accounts without proper CIBIL status.

9. The Members were of the unanimous view that despite C&AG's observations on the subject, much remains to be done in this area due to which many delays persisted and there are a lot of unfinanced MSMEs which are yet to be covered under the Credit Guarantee Scheme. As a number of queries remained unanswered,

the Chairperson asked the Ministry to furnish written replies to all the queries raised by the Members during the discussion within **15** days. The Chairperson then thanked the representatives of the Ministry of Micro, Small and Medium Enterprises (MSME) and other accompanied officers for appearing before the Committee and furnishing valuable input and information on the subject.

The witnesses, then, withdrew.

A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee, then, adjourned.

MINUTES OF THE TENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2021-22) HELD ON 10th FEBRUARY, 2022.

The Public Accounts Committee sat on Thursday, the 10th February, 2022 from 1500 hrs. to 1555 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Adhir Ranjan Chowdhury - Chairperson

Members

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Bhartruhari Mahtab
4. Shri Vishnu Dayal Ram
5. Shri Rahul Ramesh Shewale
6. Dr. Satyapal Singh
7. Shri Rajiv Ranjan Singh alias Lalan Singh
8. Shri Jayant Sinha
9. Shri Ram Kripal Yadav

RAJYA SABHA

10. Shri Shaktisinh Gohil
11. Shri Bhubaneswar Kalita
12. Shri C.M.Ramesh
13. Shri V. Vijayasai Reddy
14. Dr. Sudhanshu Trivedi

LOK SABHA SECRETARIAT

1. Shri T.G. Chandrashekhar - Joint Secretary
2. Shri Tirthankar Das - Director
3. Shri S.R. Mishra - Director
4. Smt. Bharti S. Tuteja - Additional Director

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri Rakesh Mohan - Dy. C&AG
2. Shri Raj Ganesh Viswanathan - Dy C&AG
3. Smt. Ritika Bhatia - Director General

PART-A

2. At the outset, the Chairperson welcomed the Members of the Committee and the Officers of the C&AG of India to the Sitting of the Committee. He then apprised the Members of the following three agenda items before the Committee:

i. XXXX XXXX XXXX

ii. XXXX XXXX XXXX

iii. Consideration and adoption of 4 draft reports.

3. XXXX XXXX XXXX

4. XXXX XXXX XXXX

5. XXXX XXXX XXXX

6. XXXX XXXX XXXX

7. XXXX XXXX XXXX

8. Thereafter, the Committee took up for consideration the following Reports:

i. Draft Report on "Functioning of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)";
ii. XXXX XXXX XXXX
iii. XXXX XXXX XXXX
iv. XXXX XXXX XXXX

9. XXXX XXXX XXXX

10. Following some deliberations, the Committee adopted the aforesaid four Reports without any change/modification. The Committee also authorized the Chairperson to finalise the aforesaid Reports on the basis of factual verification and present the same to the Hon'ble Speaker/ Parliament.

PART-B

11. XXXX XXXX XXXX
12. XXXX XXXX XXXX
13. XXXX XXXX XXXX
14. XXXX XXXX XXXX
15. XXXX XXXX XXXX

The witnesses then withdrew.

The Committee then adjourned.

A copy of the transcript of audio recording of the proceedings of the sitting has been kept on record.