

Credit Guarantee Scheme for Startups (CGSS)

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In news- The Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry has recently notified the establishment of the Credit Guarantee Scheme for Startups (CGSS).

Key features of the scheme-

- It seeks to provide credit guarantees to loans extended by Scheduled Commercial Banks, Non-Banking Financial Companies and Securities and Exchange Board of India (SEBI) registered Alternative Investment Funds (AIFs).
- CGSS is aimed at **providing credit guarantee up to a specified limit against loans extended by Member Institutions (MIs)** to finance eligible borrowers viz. Startups as defined in the Gazette Notification issued by DPIIT and amended from time to time.
- The credit guarantee cover under the Scheme would be transaction based and umbrella based.
- **The exposure to individual cases would be capped at Rs. 10 crore per case** or the actual outstanding credit amount, whichever is less.
- In respect of transaction-based guarantee cover, the guarantee cover is obtained by the MIs on single eligible borrower basis.
- Transaction based guarantees will promote lending by Banks/ NBFCs to eligible startups.
- **The extent of transaction-based cover will be 80% of the amount in default** if the original loan sanction amount is up to Rs. 3 crore, 75% of the amount in default if the original loan sanction amount is above Rs. 3 crore, and up to Rs. 5 crore, and 65% of the amount in default if the original loan sanction amount is above Rs. 5

crore (up to Rs. 10 crore per borrower).

- **The umbrella-based guarantee cover will provide guarantee to Venture Debt Funds (VDF) registered under AIF regulations of SEBI** (a growing segment of funding in Indian startup ecosystem), in view of the nature of funds raised by them and debt funding provided by them.
- Along with institutional mechanisms for operationalizing the Scheme, **DPIIT will be constituting a Management Committee (MC) and a Risk Evaluation Committee (REC)** for reviewing, supervising and operational oversight of the Scheme.
- **The National Credit Guarantee Trustee Company Limited (NCGTC) will be operating the Scheme.**
- **Prime Minister of India launched Startup India Action Plan on 16th January 2016 to lay the foundation of Government support, schemes and incentives** envisaged to create a vibrant startup ecosystem in the country.
- The Action Plan envisaged a Credit Guarantee Scheme to catalyze entrepreneurship through credit to innovators and encourage banks and other member institutions in the ecosystem for providing venture debt to startups.