

# 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.