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

January 12, 2021

In news

- Government has increased corpus of fund from Rs 2500 crore to Rs 7500 crore

About CGTMSE

- CGTMSE is a fund which **provides guarantee for loans given to MSEs** i.e. in case borrowers fail to give back loans, banks will get their money from this fund.
- **It is a Central Government program to promote MSMEs.**
- Now loans given by NBFCs can also be covered under this fund

Benefits of these measures?

- Augmentation of the corpus of the fund will facilitate larger flow of credit to MSEs. This in turn, will lead to increased output and employment and thereby promote equity and inclusiveness.
- Start-ups will also be encouraged to set up enterprises based on innovation and new ideas as the scheme provides credit without collateral and third-party guarantee.

he Non-Banking Financial Companies (NBFCs)

- NBFC are the financial institutions that offer the banking services, but do not comply with the legal definition of a bank, i.e. it does not hold a bank license. Both banks and NBFCs are financial intermediaries. NBFCs can lend and make investments. Hence, their activities are akin to that of banks. **Few**

differences between NBFCs and banks:

  - NBFC cannot accept demand deposits;
  - Banks can maintain demand deposits (savings/current accounts) but NBFCs accept only term deposits;
  - Banks form a part of Payment and Settlement Mechanism but NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
  - Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.
- **As per the RBI Act, 1934 , a NBFC means:**– (a) "a financial institution which is a company; (b) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner; (c) such other non-banking institution or class of such institutions, as the RBI specifies". **The NBFCs are classified on the following basis:**
  - Liabilities Based Classification
  - Asset Based Classification
  - Size Based Classification
- **A NBFC has to be registered with the RBI under the RBI Act, 1934.** No Non-banking Financial company can commence or conduct business without obtaining a certificate of registration from the RBI and without having a Net Owned Funds of ₹ Two crore. However, in terms of the powers given to the Bank, to prevent cumbersome dual regulation, certain categories of NBFCs which are regulated by other regulators are exempted from the requirement of registration with RBI. **Such NBFCs are following:**
  - Venture Capital Fund/Merchant Banking companies/Stock broking companies registered with SEBI,

- Insurance Company holding a valid Certificate of Registration issued by IRDA,
- Nidhi companies as notified under Section 620A of the Companies Act, 1956,
- Chit companies as defined in clause (b) of Section 2 of the Chit Funds Act, 1982,
- Housing Finance Companies regulated by National Housing Bank.