

ECLGS for Individuals

August 3, 2020

Aiming to jumpstart the economy in the middle of a Covid slump, the government expanded the Emergency Credit Line Guarantee Scheme (ECLGS) to cover individual entrepreneurs, who run a large chunk of the over 6.3 crore Micro, Small and Medium Enterprises (MSMEs) across the country, and larger companies.

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The scheme, which provides additional 20% collateral-free credit, will now cover individual loans given for business purposes. Besides, **companies with outstanding loans of up to Rs 50 crore and annual turnover of up to Rs 250 crore, as on February 29, 2020, can avail additional financing** – the earlier limit was Rs 25 crore and Rs 100 crore, respectively. This means that the maximum loan a unit can avail will rise to around Rs 10 crore as against Rs 5 crore earlier.

A total of around Rs 1.37 lakh crore has been sanctioned under the scheme by member lending institutions to around 40 lakh accounts, of which around Rs 87,000 crore has been disbursed. **The changes in the ECLGS scheme are likely to make an additional Rs 1 lakh crore eligible. Under the scheme, banks offer up to Rs 3 lakh crore of government-guaranteed loans.** Various MSME associations and industry chambers had earlier suggested that the government should make individual entrepreneurs eligible under the scheme, and bankers now expect disbursements to rise significantly. However, **first-time borrowers and NPA accounts cannot raise funds under the scheme.**

Since a large number of borrowers – almost 80-90%, in the case of Non Banking Financial Companies (NBFCs) for equipment and vehicles – take loans in their individual names, they had so

far been ineligible. **The changes will now cover, for instance, truck drivers, small shopkeepers, taxi drivers, lawyers, agriculture equipment owners, and doctors and engineers with loans on equipment.**

The **National Credit Guarantee Trustee Company Ltd** (NCGTC), which runs the ECLGS under which the government **provides 100% credit guarantee against loan losses**, will amend the scheme to reflect these changes. Under the ECLGS scheme, interest rates of banks and financial institutions have been capped at 9.25% per annum, while NBFCs can lend at a maximum of 14% per annum. Launched on May 23, the scheme is open until October 31 or until Rs 3 lakh crore has been sanctioned. Sources indicated that the government is open to extend the scheme beyond October 31 if the funds have not been exhausted.