



ABSTRACT

Micro, Small and Medium Enterprises - Budget Announcement - Launching of the Tamil Nadu Credit Guarantee Scheme (TNCGS) in partnership with Central Government Fund Trust for Micro and Small Enterprise (CGTMSE), and to implement innovative scheme by loan restructuring through TIIC as a pilot phase of the Tamil Nadu Credit Guarantee Scheme (TNCGS)- Orders issued.

MICRO, SMALL AND MEDIUM ENTERPRISES [D(2)] DEPARTMENT

G.O. (Ms.) No.3

Dated: 04.01.2022

திருவள்ளூர் ஆண்டு 2052
பிலவ வருடம், மார்கழி-20

Read:

1. Announcement made by the Hon'ble Minister (Finance and Human Resources Management) on 02.09.2021 on the floor of the Assembly.
2. From the Industries Commissioner and Director of Industries and Commerce letter Rc. No.27796/PDK2/2021, dated 12.11.2021.

ORDER:

The Hon'ble Minister for Finance and HRM has made the following announcements on 13.08.2021 during the Budget Speech for the year 2021-2022.

- i) "This Government recognizing that access to credit from banks and Financial Institutions (FIs) is a critical issue will launch a State Level Credit Guarantee Scheme to enable more MSMEs, particularly micro enterprises to access credit. A digital data driven credit rating system for MSMEs will be established to

enable FIs and new age fintech companies to lend more to MSMEs based on their business potential”.

- ii) “The Government, based on advice received from the Economic Advisory Council to the Hon’ble Chief Minister, will launch an innovative scheme wherein MSMEs and their creditors, will be facilitated to reach agreement on restructuring their liabilities through tripartite forums at the district level. On reaching such agreement such units will be linked to top-up loans by financial institutions with support from Government credit guarantee”.

2. Based on the above Announcements, the Industries Commissioner and Director of Industries and Commerce has submitted a proposal for Tamil Nadu Credit Guarantee Scheme (TNCGS), based on discussions with Central Government Fund Trust for Micro and Small Enterprises (CGTMSE), a draft MoU delineating operational aspects for TNCGS and for phased implementation with the pilot scheme.

The salient features of the TNCGS

The salient features of the TNCGS is as follows:

- (i) It will be implemented in partnership with CGTMSE, operationally. As in the case of credit guarantee currently extended by CGTMSE, the TNCGS scheme credit guarantee coverage will be direct, explicit, unconditional, irrevocable, incontrovertible, documented and will cover all elements of credit risk associated with the claim being guaranteed.
- (ii) The coverage under TNCGS is not automatic. The State aims to guarantee loans to good customers. TNCGS may ask further details from customers and / or mandate application for guarantee cover through TNCGS electronic platform for due diligence. The beneficiaries of TNCGS will be selected carefully by all financial institutions following the prudential norms used for credit rating and appraisal by the institutions. Guidelines, if any, in this regard will be issued by the Industries Commissioner and Director of Industries & Commerce and will be electronically filtered through a platform setup for TNCGS.
- (iii) For loans less than Rs. 40 lakh to MSMEs, TNCGS will give a credit guarantee coverage in collaboration with CGTMSE

upto 90% of loss in an individual guaranteed account such that the overall default of one Member Lending Institution (MLI) does not exceed 8% of the annual portfolio of MLI with TNCGS, provided the MLI makes good the first loss of 2%.

- (iv) Beyond Rs. 40 lakh upto Rs. 2 crore, TNCGS will give a guarantee coverage upto 80% subject to all the conditions stated above.
- (v) When implemented in collaboration with CGTMSE, CGTMSE will cover upto 75% of the eligible amount according to their CGS-I scheme for loans up to Rs.2 crores and TNCGS will contribute the balance (15%) to take the coverage to 90% of the loan for loans upto Rs.40 lakhs and the balance to take the coverage to 80% of the loan for loans more than Rs.40 lakhs and upto Rs.2 crore.
- (vi) When TNCGS is operating alone, then TNCGS will bear the entire guarantee burden. This will apply to cases where MLIs or loanees are not eligible under CGS – I norms. (For eg: TAICO Bank) and also to TIIC where TNCGS will fill in the gap (caused by the upper ceiling prescribed by CGS – I (2 times AGF credited) and the ceiling of 8% of annual portfolio of TIIC with TNCGS).
- (vii) In the first phase, in view of the pandemic, there is no Annual Guarantee Fee (AGF) for TNCGS, for full coverage or additional coverage given along with CGTMSE.
- (viii) In the pilot phase, TNCGS will cover an innovative scheme through Tamil Nadu Industrial Investment Corporation (TIIC) with the following salient features:
 - a. Working with PSU banks across the districts of Tamil Nadu.
 - b. Identification of good customers who are likely to move to SMA2 status as on 31.12.2021 (or such date fixed by TIIC) due to cash flow issues caused by the pandemic. Eligible SMA 0 and SMA 1 customers not eligible for ECLGS, could also be considered.
 - c. TIIC, after its appraisal will extend loans upto Rs. 40 lakhs to eligible customers after taking second charge of the collateral from banks.

- d. These loans will help to kick start the TN economy to a certain extent.
 - e. Details will be worked out by TIIC in close collaboration with IC&DIC.
- (ix) The innovative scheme for the pilot phase will be implemented by Tamil Nadu Industrial Investment Corporation (TIIC) which is a deemed State Financial Corporation operating in Tamil Nadu for the past 72 years.
- (x) Timelines:
The pilot phase of TNCGS is expected to be run in 2021-22. The full-fledged TNCGS will be launched in April 2022. This will continue till 31.03.2027 or till the TNCGS portfolio reaches a disbursed value of Rs. 10,000 crores, whichever is earliest, subject to availability of funds in GoTN corpus with CGTMSE. The scheme is extendable on mutual agreement with CGTMSE.

Financial aspects:

- (xi) The upfront corpus required to be committed with CGTMSE for the TNCGS is at least Rs. 100 Crores and the same can be spread over two financial years with a minimum of 15 crores to be credited in December 2021 and the rest Rs.85 crores by April 2022.
- (xii) In view of the urgency in kick starting the economy, TNCGS will be implemented in collaboration with CGTMSE. The institutional structure for TNCGS will be finalized in due course by the Industries Commissioner & Director of Industries and Commerce with the approval of the competent authority. Till such institutional structure is in place, the corpus of Rs.100 crores may be accounted as advance equity to TNCGS by Tamil Nadu Government.
- (xiii) Recurring Cost from the Corpus:
CGTMSE shall operate and administer the scheme on behalf of GoTN, for a fee of 0.75% p.a. of the Corpus or actual annual costs, whichever is higher. From April 2022, 0.75% p.a. of the Corpus as on April 1st of each year shall be enabled to be transferred to CGTMSE by means of an electronic debit facility within 15 days of every new FY. If the actual costs incurred in a year are higher than

0.75% p.a. of the Corpus in any one year, the accounts for the same shall be mutually agreed to by the parties within one month of the next FY and the payment effected within the first quarter of the same FY. If there are certain IT facilities being given to CGTMSE by GoTN eventually for their own scheme the cost (one time / recurring) of the same will be adjusted against the 0.75% per annum due to CGTMSE.

(xiv) This being a year burdened with the pandemic, the AGF or annual guarantee fee for the TNCGS is kept nil. The IC&DIC may be delegated powers to decide on the quantum of AGF on the scheme under information to the Government, giving all reasons for this or any other change in future along with justification for the rate fixed.

(xv) The sustainability of the corpus is hinged on three aspects:

- a) The AGF rates when ever levied, which has to be in keeping with industry practices
- b) The financial discipline possible from having the information about the land holding of the individual borrowers as ascertained electronically from 'Tamil Nilam' and other such software, of the Revenue Department through Application Programming Interface (APIs). TNCGS may collect land ownership details from Revenue Department as a pre-condition for considering guarantee, in order to bring in this discipline.
- c) Other innovative methods of financing: Once the MSME Database and credit rating becomes operational, there could be other innovative methods of maintaining the corpus of the TNCGS, not excluding further Government financing.
- d) The IC&DIC may also be delegated powers to work out modalities of the same and the inter-se prioritization of the three, with information to Government.

(xvi) The percentage of the corpus that is to be earmarked for exclusive coverage by TNCGS is required, for operational planning by CGTMSE. The IC&DIC may be delegated the power to decide the same under information to Government whenever there is a change. To begin with, this is kept at 10%.

3. In the light of the above proposal, the Industries Commissioner and Director of Industries and Commerce has sought approval of the Government for the following:-

- (i) To implement the Tamil Nadu Credit Guarantee Scheme (TNCGS) as proposed at para 2 above.
- (ii) To implement the innovative scheme by loan restructuring through TIIC as per the announcement in Revised Budget Estimate 2021-22. This scheme will be the pilot phase of the TNCGS scheme proposed to be approved as at para 2 above.
- (iii) To initially implement both the schemes in partnership with Union Government's Credit Guarantee Trust for Micro and Small Enterprises, using their IT infrastructure and management expertise.
- (iv) To approve the MoU to be signed between Government of Tamil Nadu and CGTMSE and to authorize Secretary, MSME Department to enter into the MoU on behalf of Government of Tamil Nadu with CGTMSE.
- (v) To sanction a sum of Rs.100 Crore as initial advance corpus for the TNCGS, which will be directly credited to CGTMSE over two financial years in 2021-22 and 2022-23. Rs.100 Crore may be released based on requirement and Rs.15 Crore may be released initially as advance to implement the pilot scheme in December, 2021.
- (vi) To delegate to IC&DIC the powers to take decisions on matters mentioned at para 2 (xiv), (xv) above that are necessary to the day-to-day operation of the scheme and for making modifications as necessary for fulfilling the purpose of the scheme.
- (vii) To provide in-principle approval for the creation of a State Government entity in the form of a trust /section 8 company/any other appropriate model to take over the scheme from CGTMSE after developing TNCGS' own IT infrastructure and human resources, in due course. Detailed orders in this regard will be obtained separately.

4. The Government after careful examination of the above proposal of the Industries Commissioner and Director of Industries and Commerce have decided to accept it and accordingly issue orders for launching the Tamil Nadu Credit Guarantee Scheme (TNCGS) in partnership with Central Government Fund Trust for Micro and Small Enterprise (CGTMSE), with guidelines at Annexure-A and to implement innovative scheme by loan restructuring through TIIC with salient

features at Annexure-B as a pilot phase of the Tamil Nadu Credit Guarantee Scheme (TNCGS) with the following modalities:-

- (i) Both the above schemes shall be initially implemented in partnership with Union Government's Credit Guarantee Trust for Micro and Small Enterprises, using their IT infrastructure and management expertise.
- (ii) A MoU will be signed between Government of Tamil Nadu and CGTMSE by the Secretary to Government, MSME Department on behalf of Government of Tamil Nadu with CGTMSE to implement the scheme.
- (iii) A corpus of Rs.100 Crore for the TNCGS will be created and funds will be directly credited to CGTMSE over two financial years in 2021-22 and 2022-23 and to implement the pilot scheme, initially Rs.15 Crore will be released as first installment and based on requirement the quantum of release in 2022-23 can be decided next year based on the performance and financial position.
- (iv) The following powers are delegated to IC&DIC to take decisions on matters that are necessary to the day-to-day operation of the scheme and for making modifications as necessary for fulfilling the purpose of the scheme.
 - a. to decide the quantum of the Annual Guarantee Fee (AGF) for TNCGS.
 - b. to decide on the modalities of three ways of sustaining / growing the corpus of TNCGS.
 - c. to decide the percentage of the corpus to be earmarked for exclusive TNCGS coverage.
 - d. to issue guidelines and operate an electronic platform, as needed for the operation of TNCGS and the innovative scheme.
 - e. to make minor changes in the Guidelines, Salient Features of Innovative scheme and MoU to facilitate finalization of the MoU with CGTMSE and the innovative scheme with TIIC to fulfill the purpose of the scheme.
- (v) In-principle approval is also issued for the creation of a State Government entity in the form of a trust / section 8 company/any other appropriate model to take over the scheme from CGTMSE after developing TNCGS' own IT infrastructure and human resources, In due course.
- (vi) Since most of the MSME loans guaranteed by the CGTMSE is less than Rs.10 lakh (46% in 2019-2020), the TNCGS shall not

be extended by default to loans sanctioned by commercial banks upto Rs.10 lakh except under exceptional circumstances. However regarding loans sanctioned by NBFCs etc., this restriction need not be applied.

- (vii) The moratorium period is given as 6 months and loans disbursed to the same customer within 6 months are considered as loan splitting. To ensure the provisions of loan splitting are applied strictly, any loans offered to same customer within 9 months (6 months moratorium + SMA 2) shall be considered as loan splitting and avoided.

5. The Government also sanction and release a sum of Rs.15,00,00,000/- (Rupees Fifteen crore only) as first installment to implement the pilot scheme.

6. The expenditure sanctioned in para 5 above shall be debited into the following New Head of Account opened under D. No.44-02:-

"2852-Industries - 80 General - 102 - Industrial productivity - State's Expenditure - AA - Tamil Nadu Credit Guarantee Schemes (TNCGS) - 309 Grants-in-Aid 03 Grants for Specific Schemes".

(IFHRMS DPC: 2852 80 102 AA 309 03)

7. The expenditure sanctioned of Rs.15,00,00,000/- in para 5 above shall constitute an item of "New Service" and the approval of the Legislature shall be obtained in due course of time by an inclusion in the Supplementary Estimates for the year 2021-2022. Pending approval of the Legislature, the expenditure may be initially met by drawal of an advance from the Contingency Fund. The Industries Commissioner and Director of Industries and Commerce is directed to calculate the actual amount required for the period upto next Supplementary Estimates and apply for sanction of the same as advance from the Contingency Fund to Finance (BG.1) Department directly in Form "A" appended to the Contingency Funds Rules, 1963 along with a copy of this order. Orders for sanction of an advance from the Contingency Fund will be issued from Finance (BG.1) Department. The Industries Commissioner and Director of Industries and Commerce shall also send necessary draft explanatory notes for inclusion of this expenditure in the Supplementary Estimates for the year 2021-2022 to Finance (Industries/BG-I) Department at an appropriate time without fail.

8. The Industries Commissioner and Director of Industries and Commerce is authorized to draw and disburse the funds sanctioned in para 5 above.

9. The Industries Commissioner and Director of Industries and Commerce is the Estimating, Reconciling and Controlling Authority for the above said New Head of Account.

10. The Pay and Accounts Officer / Treasury Officer concerned are directed to open the above New Head of Account in their books.

11. This order issues with the concurrence of Finance Department vide its U.O. No.60632/ Finance (Industries)/ 2021, dated 04.01.2022 and ASL No.1348 (One thousand three hundred and forty eight).

V. ARUN ROY
SECRETARY TO GOVERNMENT

To

The Industries Commissioner and Director of Industries and Commerce,
Guindy, Chennai-32.

The Chairman and Managing Director,
Tamil Nadu Industrial Investment Corporation Limited,
No.692, Anna Salai, Nandanam, Chennai-600 035.

The Managing Director,
Small Industries Development Bank of India (SIDBI),
Mumbai-400 051.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE),
1st Floor, Swavalamban Bhawan, Plot No. C-11, G-Block,
Bandra Kurla Complex, Bandra (East), Mumbai - 400 051.

The Pay and Accounts Officer, Chennai-8.

Copy to:

The Personal Assistant to Hon'ble Minister (MS&ME), Chennai-9.

The Personal Assistant to Minister (Finance and Human Resources Management), Chennai-9.

The Chief Minister Office, Chennai-9.

The Industries Department, Secretariat, Chennai-9.

The Personal Assistant to Secretary to Government,
MSME Department, Chennai-9.

The Finance (Ind/BG-I/BG-II/WM-I) Department, Chennai-9.

The Micro, Small and Medium Enterprises (B/OP) Department,
Secretariat, Chennai-9.

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// FORWARDED BY ORDER //

Arjun
04/01/2022

SECTION OFFICER