

The Credit Guarantee Scheme for Start-ups

On **October 06, 2022**, the Department for Promotion of Industry and Internal Trade (DPIIT), under the Ministry of Commerce and Industry, notified **the Credit Guarantee Scheme for Start-ups** (CGSS) to provide them collateral-free loans up to a specified limit.

The broad objective of the Credit Guarantee Scheme for Start-ups (CGSS) is to provide guarantee up to a specified limit against credit instruments extended by Member Institutions (MIs) to finance eligible Start-ups. This scheme would help provide much-needed collateral-free debt funding to Start-ups.

1. The Scheme defines certain terms as mentioned below

- (a) Trust or Fund** means the Credit Guarantee Fund for Start-ups (CGFS) proposed to be set up by the Government of India with the purpose of guaranteeing payment against default in loans or debt extended to eligible borrowers by eligible Member Institutions, managed by the Board of National Credit Guarantee Trustee Company Limited as the Trustee of the Fund.
- (b) NCGTC** means National Credit Guarantee Trustee Company Limited set up on March 28, 2014 by Government of India under the Companies Act 1956 to act as the Trustee to operate various Credit Guarantee Funds/Trusts, set up/to be set up by Government of India from time to time.
- (c) Primary security** in respect of a credit facility shall mean the assets (tangible and intangible) created out of the credit facility so extended and/or existing unencumbered assets (tangible and intangible) which are directly associated with the project or business for which the credit facility has been extended.
- (d) Collateral security** means the security provided in addition to primary security.
- (e) Member Institutions (MIs)** means a financial intermediary (Banks, FIs, NBFCs, AIFs) engaged in lending/investing and conforming to the eligibility criteria duly approved under the scheme and as modified by the Trust, from time to time, and who have entered into an agreement with/submitted Undertaking to the Trust for availing the guarantee.

2. Eligible Borrower

The eligibility criteria for an entity to borrow under the CGSS shall be as follows:

- (a) Start-up as recognized by DPIIT,
- (b) Start-ups that have reached the stage of stable revenue stream, as assessed from audited monthly statements over a 12-month period, amenable to debt financing, and
- (c) Start-up not in default to any lending/investing institution and not classified as NPA as per RBI Guidelines, and
- (d) Start-up whose eligibility is certified by MI for the purpose of guarantee cover.

3. Eligible lending/investing institutions

The eligibility criteria for the lending/investing institutions under the CGSS is as follows:

- (a) Scheduled Commercial Banks and Financial Institutions,
- (b) RBI-registered Non-Banking Financial Companies (NBFCs) having a rating of BBB and above as rated by external credit rating agencies accredited by RBI and having a minimum net worth of Rs. 100 crores. However, it may be noted that in case an NBFC subsequently becomes ineligible, due to a downgrade in the credit rating below BBB, the NBFC shall not be eligible for further guarantee cover till upgradation again to the eligible category.
- (c) SEBI-registered Alternative Investment Funds (AIFs)

4. Agreement/undertaking to be executed/furnished by the lending/investing institution

A lending/investing institution shall not be entitled to a guarantee in respect of eligible loan/ venture debt facilities granted by it unless it has entered into an agreement with the Trustee/submitted an undertaking to the Trustee in such form as may be required by the Trustee. Trustee means NCGTC.

5. Responsibility of MI under the Scheme

- (a) The MI shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.
- (b) The MI shall closely monitor the borrower account, safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition and ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust.\
- (c) The MI shall exercise all the necessary precautions and maintain its recourse to the borrower for the entire amount of credit facility owed by it.
- (d) The MI shall comply with such directions as may be issued by the Trust/Trustee.
- (e) The MI shall, in particular, refrain from any act of omission or commission, either before or subsequent to the invocation of the guarantee, which may adversely affect the interest of the Trust as the guarantor.
- (f) The MI shall also ensure that the borrower shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust.

6. Ceiling on guarantee cover

Maximum guarantee cover per borrower shall not exceed Rs.10 crore.

7. Extent of the guarantee

The Trust shall provide guarantee cover, subject to a maximum of Rs.10 crore per borrower, as per the details given below:

For transaction-based guarantee cover	For umbrella-based guarantee cover
to the extent of 80% of the amount in default if the original loan sanction amount is up to Rs.3 crore	Guarantee cover of actual losses or up to a maximum of 5% of Pooled Investment on which cover is being taken from the fund in Start-ups, whichever is lower, subject to a maximum of Rs.10 crore per borrower. Losses are defined as the aggregate of principal investments of written-off assets along with three months of accrued interest from the date of default. In the case of partially written-off assets, only the principal portion written off along with three months accrued interest thereon from the date of default will be accounted for the lost assets. The umbrella-based guarantee cover will run through the life of the venture debt fund.
to the extent of 75% of the amount in default if the original loan sanction amount is above Rs. 3 crore and up to Rs. 5 crores	
to the extent of 65% of the amount in default if the original loan sanction amount is above Rs. 5 crore.	

8. Process of invocation of Guarantee and Claim Settlement

The process is given under the Scheme for Transaction-based and Umbrella-based Guarantee cover.

9. **No subrogation of rights and recoveries by Trust**

The Trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including the takeover of assets, sale of assets, etc., shall rest with the MI.

10. **Management**

DPIIT shall constitute Management Committee (MC) to oversee the affairs of the Trust.

- (a) The MC shall be responsible for reviewing, supervising and monitoring the functioning of the Trust.
- (b) The structure of the MC shall be as under:
 - a. Secretary, DPIIT, Chairperson
 - b. Additional Secretary & Financial Advisor, DPIIT, Member
 - c. Additional Secretary / Joint Secretary (Startups), DPIIT, Member
 - d. Joint Secretary, Department of Financial Services, Member
 - e. Chief Executive Officer (CEO), NCGTC, Member Secretary
 - f. Experts from the ecosystem as may be nominated by the Secretary, DPIIT from time to time.

11. **Risk Evaluation Committee**

Risk Evaluation Committee (REC) shall be constituted by DPIIT, which would report to the MC. The REC will have an arms' length relationship with the Trustee to address conflict of interest issues.

12. **Other monitoring mechanisms**

A surveillance mechanism shall be evolved to deal with investments from the countries sharing land border with India in Venture Debt Funds

The link for the above-mentioned is as below:

[239375.pdf \(egazette.nic.in\)](#)