

CREDIT GUARANTEE SCHEME FOR STARTUPS (CGSS) EXPANSION – ECONOMY

NEWS: The Government of India has notified the expansion of the Credit Guarantee Scheme for Startups (CGSS) to enhance capital access and boost innovation-driven entrepreneurship.

WHAT'S IN THE NEWS?

Overview and Launch of the Scheme

- The Credit Guarantee Scheme for Startups (CGSS) is a government-backed initiative aimed at improving the availability of collateral-free credit for startups.
- It was approved in 2022 as a part of the government's broader efforts under the Startup India initiative, which was originally launched on 16th January 2016.
- The scheme is designed to boost financial access for early-stage, innovative startups, particularly those with limited assets for collateral.

Nodal Ministry and Administrative Structure

- The Ministry of Commerce and Industry is the nodal ministry responsible for the implementation of CGSS.
- The scheme is aligned with the startup development strategy led by the Department for Promotion of Industry and Internal Trade (DPIIT).
- The National Credit Guarantee Trustee Company Ltd (NCGTC) acts as the trustee institution responsible for managing and extending guarantee cover.

Primary Objective and Functional Purpose

- The main aim of CGSS is to facilitate collateral-free debt funding to eligible startups through various forms of credit instruments such as:
 - Working capital loans,
 - Term loans, and
 - Venture debt.
- By offering credit guarantees to lenders, the scheme reduces the perceived credit risk, thereby incentivising financial institutions to extend loans to startups.

Eligibility and Recognition

- Only startups recognised by DPIIT are eligible to avail of credit guarantees under CGSS.
- The scheme specifically targets innovation-driven and early-stage startups, which often face funding constraints due to their unproven business models or lack of assets for traditional collateral-backed loans.

Credit Guarantee Mechanism

- The scheme functions through a multi-tier structure:
 - NCGTC provides credit guarantees to Member Institutions (MIs), which include scheduled banks, NBFCs, and others.
 - These MIs then extend collateral-free loans to startups, knowing that a substantial portion of the loan is covered under CGSS in case of default.
- This mechanism builds confidence in the lending ecosystem, thereby expanding access to credit for high-potential startups.

Lending Institutions Involved

- Credit support under CGSS can be provided by a diverse set of financial players, including:
 - Scheduled Commercial Banks,
 - All India Financial Institutions (AIFIs) such as SIDBI,
 - Registered Non-Banking Financial Companies (NBFCs), and
 - SEBI-registered Alternative Investment Funds (AIFs).
- This inclusive lending ecosystem ensures that startups can approach multiple channels for financing based on their specific capital needs.

Focus on Early-Stage Startups and Risk Mitigation

- The scheme gives special attention to early-stage startups, which typically have limited financial history or credit rating.
- It aims to catalyse entrepreneurship by encouraging banks and other lenders to support startups despite higher perceived risks.
- This is crucial for nurturing innovation, job creation, and economic diversification, especially in tech-driven sectors.

Key Features Introduced in the Scheme's Expansion

a. Doubling of Maximum Guarantee Cover Limit

- The maximum guarantee cover per borrower has been increased from ₹10 crore to ₹20 crore.
- This expansion allows startups to access larger loans, enabling scaling of operations, investment in R&D, and market expansion.

b. Enhanced Guarantee Coverage Rates

- For loans up to ₹10 crore, the scheme now offers 85% guarantee coverage on the defaulted amount — a substantial increase from earlier, lower coverage.
- For loans above ₹10 crore, the guarantee coverage has been enhanced to 75%.
- These improved coverage ratios de-risk lenders further, making startup lending more attractive and feasible.

c. Reduction in Annual Guarantee Fee (AGF)

- The Annual Guarantee Fee (AGF), which is a charge paid for availing the credit guarantee, has been reduced from 2% to 1% per annum for certain sectors.
- This reduced rate applies to startups in the 27 Champion Sectors identified under the 'Make in India' programme, such as:
 - Electronics manufacturing,
 - Textiles,
 - Automobile and auto components,
 - Renewable energy,
 - Food processing, etc.
- The fee reduction makes credit more affordable, particularly for startups in strategic and high-potential sectors.

Broader Impact and Alignment with National Goals

- The CGSS complements key national objectives, including:
 - Promoting self-reliance (Aatmanirbhar Bharat),
 - Strengthening innovation ecosystems, and
 - Expanding access to formal credit for the startup sector.

- It aims to bridge the financing gap in the startup ecosystem, thus fostering a culture of entrepreneurship, innovation, and employment generation across India.

Source: <https://www.livemint.com/companies/start-ups/govt-expands-credit-guarantee-scheme-to-give-startups-a-bigger-financial-runway-11746797439805.html>