Stung by mounting criticism, the Centre is considering a revamp of the stressed asset guarantee scheme for small businesses a year after it was announced as part of the government’s Aatmanirbhar Bharat package.

As part of the government’s ~20-trillion economic stimulus package in May last year, Union Finance Minister Nirmala Sitharaman had announced the Credit Guarantee Scheme for Subordinate Debt, under which personal loans are given to promoters of stressed micro, small, and medium enterprises (MSMEs). The money is infused by the promoter as equity into the business unit.

Towards this the government is facilitating a provision of ~20,000 crore as subordinate debt.

The scheme was launched to benefit 200,000 small and medium businesses. It received Cabinet approval on June 1, 2020, and was operationalised in August last year.

As of May 14, guarantees of only ~68.39 crore had been issued, benefiting 632 businesses, a senior government official told Business Standard. “There aren’t many takers for the scheme. The response has been low. People are not coming forward to opt for it. Banks have started reaching out to companies where accounts are likely to become non-performing assets (NPAs),” the official cited above said.

The demand for the scheme has remained tepid owing to eligibility constraints, cumbersome processes laid down by banks, and promoters’ reluctance to avail themselves of it.

The MSME ministry has asked banks and the Indian Banks’ Association (IBA) to suggest how to make the scheme attractive. Thereafter, the proposed changes will be discussed with the finance ministry’s Department of Financial Services, the official said. Sanjay Aggarwal, president, PHD Chamber of Commerce and Industry, told Business Standard the scheme could prove helpful, but due to lack of awareness, it had little impact.

“One more reason for the weak response to the scheme is its complex model. A circuitous route is required to regularise distressed accounts instead of banks providing loans directly to distressed MSMEs on the guarantee of owners. This would have made the scheme more attractive and extend the intended benefits to the distressed MSMEs,” Aggarwal said.

“One of the key reasons for a low response (towards the scheme) is that loans are being given to promoters and not to enterprises. Promoters are not willing to take the risk in their personal capacity,” the official cited above added. The promoters are required to bring in 10 per cent of the sub-debt amount as collateral, which is an issue, another official said.

According to the guidelines, subordinate debt is provided by banks and guaranteed through the Credit Guarantee Trust for Medium and Small Enterprises (CGTMSE). The promoters are given a loan equal to 15 per cent of their stake in the company or ~75 lakh, whichever is lower. The MSME ministry is offering ~4,000 crore support to the CGTMSE.

The scheme is applicable to the MSMEs whose accounts were standard on March 31, 2018, and have been in regular operations.