Government introduces Credit Guarantee Scheme for Microfinance Institutions-2.0 (CGSMFI-2.0)

Scheme aims to provide credit guarantee support through NCGTC to strengthen lending to MFIs, Facilitates increased credit flow of up to ₹20,000 crore to the NBFC- MFIs

Approximately 36 lakh MFI borrowers estimated to benefit from the scheme

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The Government of India has introduced Credit Guarantee Scheme for Microfinance Institutions-2.0 (CGSMFI-2.0). The scheme aims to provide guarantee cover to Banks/ FIs through National Credit Guarantee Trustee Company Limited (NCGTC) against expected losses on the financial assistance extended by them to Non-Banking Financial Company-Microfinance Institutions (NBFC-MFIs) and MFIs for on lending to small borrowers.

Salient features of the scheme:

- Eligible borrowers: Existing or new small borrowers within the regulatory definition of micro finance as prescribed by RBI from time to time.
- Guarantee coverage: 80% of amount in default for small, 75% for medium and 70% for large NBFC-MFIs/ MFIs.
- Guarantee Fee: 0.50% p.a., on sanctioned amount (1st year) & outstanding amount (thereafter).
- Interest Rate: Capped at EBLR or MCLR + 2% p.a., on loans by MLIs to NBFC-MFIs or MFIs. While on-lending to small borrowers, these lenders shall cap the interest rate at 1% below the average rate of lending in past 6 months.
- Valid till 30.06.2026 or loans till Rs. 20,000 crores are guaranteed, whichever is earlier.

Impact:

The scheme will facilitate increased credit flow to the MFI sector. It is estimated that the scheme will facilitate on-lending by NBFC-MFIs/ MFIs to approximately 36 lakh small borrowers.

Background:

Microfinance plays a key role in Financial Inclusion by delivering credit to people at the bottom of the economic pyramid. NBFC-MFIs and MFIs are the key participants in the microfinance lending business. In view of ongoing financial stress in the microfinance sector, there has been a slowdown in lending by banks to MFIs due to which smaller MFIs are struggling to get loans. The scheme aims to encourage lending institutions to provide funding to NBFC-MFIs or MFIs for on lending to small borrowers within the regulatory definition of micro finance as prescribed by the Reserve Bank of India.

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