



Expansion of Emergency Credit Line Guarantee Scheme

For Prelims: Emergency Credit Line Guarantee Scheme, Hospitality Sector, Aatmanirbhar package, Covid-19, NBFC, MSME.

For Mains: Need for Emergency Credit Line Guarantee Scheme in Hospitality and Related Sectors.

Why in News?

Recently, the government approved an enhancement in the **Emergency Credit Line Guarantee Scheme (ECLGS) to enterprises in hospitality and related sectors** as the pandemic disrupted these sectors.

- The government has increased the amount by Rs 50,000 crore from Rs. 4.5 Lakh crore to Rs. 5 Lakh crore for these sectors which will valid till 31st March, 2023.

What is an Emergency Credit Line Guarantee Scheme?

▪ About:

- ECLGS was **rolled out in 2020** as part of the Centre's [Aatmanirbhar package](#) in response to the [Covid-19 crisis](#).
- The objective was **to support small businesses struggling to meet their operational liabilities** due to the imposition of a nationwide lockdown.
- **A 100% guarantee is provided by the National Credit Guarantee Trustee Company (NCGTC)** to Member Lending Institutions (MLIs) - banks, financial institutions and [Non-Banking Financial Companies \(NBFCs\)](#).
- **The credit product for which guarantee would be provided under the Scheme shall be named as 'Guaranteed Emergency Credit Line (GECL)'**.

▪ ECLGS 1.0:

- To provide fully guaranteed and collateral free additional credit to [MSMEs](#), **business enterprises**, [MUDRA borrowers](#) and individual loans for business purposes to the extent of **20% of their credit outstanding as on 29th February, 2020**.
- MSMEs with up to **Rs 25. crore outstanding and Rs. 100 crore turnovers were eligible**.

- However, the turnover cap was removed post amendment to ECLGS 2.0 in November 2020.

▪ ECLGS 2.0:

- The amended version focused on entities in **26 stressed sectors** identified by the [Kamath Committee](#) along with the healthcare sector with credit outstanding of more than Rs. 50 crore and up to Rs. 500 crores as of 29th February, 2020.
- The scheme also mandated borrower accounts to be less than or equal to 30 days past due as of 29th February, 2020, that is, they should not have been classified as [SMA 1, SMA 2, or NPA](#) by any of the lenders as of 29th February 2020.
 - **SMAs are special mention accounts**, which show signs of incipient stress, that lead to the borrower defaulting in servicing the debt.

- While **SMA-0 accounts** have payments partially or wholly overdue for **1-30 days**, **SMA-1** and **SMA-2** accounts have payments overdue for **31-60 days and 61-90 days** respectively.
- The revised scheme also has a five-year repayment window up from four years in ECLGS 1.0.
- **ECLGS 3.0:**
 - It involves extending credit of up to 40% of total credit outstanding across all lending institutions as of 29th February 2020.
 - The tenor of loans granted under ECLGS 3.0 would be 6 years, including a moratorium period of 2 years.
 - Covers business enterprises **in Hospitality, Travel & Tourism, Leisure & Sporting** sectors, which had, as on 29th february 2020,
 - Total credit outstanding not exceeding Rs. 500 crore and overdue, if any, were for 60 days or less.
- **ECLGS 4.0:**
 - A 100 % guarantee to cover **loans up to Rs 2 crore to hospitals, nursing homes, clinics, medical colleges** for setting up on-site oxygen generation plants with the interest rate capped at 7.5 %.

What is National Credit Guarantee Trustee Company Ltd?

- NCGTC is a **private limited company incorporated under the Companies Act, 1956** in 2014, established by the Department of Financial Services, Ministry of Finance, as a wholly owned company of the **Government of India**, to act as a common trustee company for multiple credit guarantee funds.
 - Credit guarantee programmes are **designed to share the lending risk of the lenders and in turn, facilitate access to finance** for the prospective borrowers.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Pradhan Mantri MUDRA Yojana is aimed at (2016)

- (a) bringing the small entrepreneurs into formal financial system
- (b) providing loans to poor farmers for cultivating particular crops
- (c) providing pensions to old and destitute persons
- (d) funding the voluntary organizations involved in the promotion of skill development and employment generation

Ans: (a)

Exp:

- Pradhan Mantri MUDRA Yojana (PMMY) is a scheme launched by the GoI in 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises.
- These loans are given by Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Cooperative Banks, Micro Finance Institutions (MFIs) and Non Banking Financial Companies (NBFCs).
- Under the aegis of PMMY, MUDRA has created three products, namely 'Shishu', 'Kishore' and 'Tarun' to signify the stage of growth/development and funding needs of the beneficiary micro unit/ entrepreneur and also provide a reference point for the next phase of graduation/growth.
 - Shishu: loans upto 50,000,
 - Kishor: loans above 50,000 and upto 5 lakh,
 - Tarun: loans above 5 lakh and upto 10 lakh.
- The funding support from MUDRA are of four types:
 - Micro Credit Scheme (MCS) for loans upto 1 lakh finance through MFIs,

- Refinance Scheme for Commercial Banks/
- Regional Rural Banks (RRBs)/Scheduled Cooperative Banks,
- Women Enterprise programme,
- Securitization of loan portfolio.

▪ **Therefore, option (a) is the correct answer**

Q. With reference to the Non-banking Financial Companies (NBFCs) in India, consider the following statements: (2010)

1. They cannot engage in the acquisition of securities issued by the government.
2. They cannot accept demand deposits like Savings Account.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)

Exp:

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/ securities issued by the Government or local authority. **Hence, statement 1 is not correct.**
- NBFCs lend and make investments and hence, their activities are akin to that of banks. However, there are a few differences like NBFC do not form part of the payment and settlement system, they cannot accept demand deposits, and they cannot issue cheques drawn on itself. **Hence, statement 2 is correct.**
- **Therefore, option (b) is the correct answer.**

Source: PIB

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