



## Proposed Bilateral project of Ministry of SSI with Government of Italy to be implemented by UNIDO

The “Consolidated Project for SME Development in India through establishment of Mutual Credit Guarantee Scheme, Cluster Twinning, Foreign Investment and Technology Promotion” worth 3.54 m USD (contributed by Government of Italy) is currently undergoing final stages of approval. The project duration is 3 years. The details of the three components are as follows: -

- a) **Mutual Credit Guarantee** : The objective here is to develop a Mutual Credit Guarantee system within the Indian SSI sector for enhancing flow of credit at a lower cost through mutual guarantee of the loans on the Italian model of Mutual Credit Guarantee with a nodal financial institution for the counter guarantee of the Mutual Credit Guarantee at the cluster level. The Credit Guarantee Trust of India (CGTSI) has already taken initiatives to start a Mutual Guarantee Scheme on a pilot basis and a team from CGTSI had earlier visited Italy to study the Italian mutual credit guarantee system.
- b) **Cluster Development through twinning of Italian experience** : The aim of this component is upgradation of existing but under-performing Indian clusters, with special emphasis on creation of twinning arrangements between Indian and foreign clusters to enhance the capacities of the firms within a cluster framework through cooperative linkages among the firms, between the firms and other cluster level institutions and between specific clusters in India and abroad.
- c) **Investment and Technology Promotion** : This component aims at increased international competitiveness of Indian SMEs through acquisition of foreign technology and investment. This component of the project will be implemented by a separate 'Unit' which will absorb the present India Desk of ITPO, Italy.

The Ministry has already taken some preparatory steps through the Credit Guarantee Fund Trust for Small Industries (CGTSI) set up earlier by Government of India and SIDBI, to facilitate collateral free/third party guarantee free loan to small scale industries by the eligible lending institutions. In terms of the present guarantee scheme,

the loss arising out of default is shared by the guarantor and the lender in the ratio of 3:1. Based upon the successful operations of Mutual Credit Guarantee Scheme (MCGS) in Italy, it was envisaged to replicate the scheme in India to leverage the collective strength of the small scale industrial Units for obtaining loans from the organized banking sector on much better terms and conditions as also with minimum procedural formalities and without collateral security.

A Memorandum of Understanding was earlier signed between the Ministry of Small Scale Industries, Government of India and the Ministry of Industry, Commerce and Handicrafts of the Italian Republic on the promotion of Credit Guarantee Scheme and the Institutional Capacity Building for the Development of Small and Medium Sized Enterprises in India. The Government of India has designated CGTSI as the nodal agency for pilot scale implementation of MCGS in India in around 8 – 10 industrial clusters with the dedicated participation of banks and industry associations. The Trust sought the co-operation of Indian Banks' Association (IBA) in pursuing the objectives of launching MCGS on pilot scale in India. With the co-operation of IBA, CGTSI has been successful in obtaining the consent of 11 commercial banks as well as three industry associations i.e. Karnataka Small Scale Industries Association (KASSIA), Tirupur Exporters' Association (TEA) and Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP).

Regarding the operational formalities of the proposed MCGS, CGTSI has devised and developed a set of proposed Byelaws and Statutes for the MCGS to be operationalised in association with the Industry Associations and the Banks which have shown interest. A draft copy of the Byelaws has already been forwarded to ALEAP, KASSIA and TEA for their consideration before finalizing the formation and operation of MCGS to be operated by them, respectively.

CGTSI is actively engaged in the negotiations with Associations / Banks for tripartite agreement to be entered into. They are holding Seminars/ Workshops for this purpose.