Extension of ECLGS

Why in news?

In the Budget 2022 the Emergency Credit Line Guarantee Scheme (ECLGS) was extended to cover the next fiscal as well, with expanded guarantee cover of Rs 5 lakh crore.

What is ECLGS?

- This Scheme was announced as part of the Atma Nirbhar Bharat Package in 2020
- **Objective -** To help businesses including MSMEs to meet their operational liabilities and resume businesses after the COVID-19 crisis.
- Under the scheme, borrowers could avail additional credit of up to 20% of their overall outstanding credit as on February 29, 2020.
- Government provides Member Lending Institutions (MLIs), 100% guarantee against any losses suffered by them due to non-repayment of the ECLGS funding by borrowers.
- **Target Group And Eligibility Criteria -** The eligibility criteria for availing credit under ECLGS are,

Scheme	Target Group	Eligibility Criteria
ECLGS 1.0	• MSME units • Business Enterprises, • Mudra Borrower • Individual loans for business purpose	Loan having credit facility • outstanding upto Rs.50 crore • days past due upto 60 days as on 29.02.2020.
ECLGS 2.0	Borrower belonging to • 26 stressed sectors identified by Kamath Committee • Healthcare sector	Loan having credit facility • outstanding above Rs.50 crore and upto Rs.500 crore • 30 days past due. • Not classified as SMA1, SMA2 and NPA
ECLGS 3.0	Borrower belonging to • Hospitality • Travel & Tourism • Leisure & Sporting • Civil Aviation sector	Loan having credit facility • days past due upto 60 days.
ECLGS 4.0	• Hospitals/Nursing Homes/Clinics • Medical Colleges • units engaged in manufacturing of liquid oxygen,	Loans having credit facility with • days past due upto 90 days.

- ECLGS is a demand driven scheme. So sanctions/disbursements are made by lending institutions based on assessment of borrower's requirement and their eligibility.
- The overall ceiling initially announced for ECLGS was Rs 3 lakh crore which was later enhanced to Rs 4.5 lakh crore.

- ECLGS is under the Department of Financial Services (DFS), the operational domain of Ministry of Finance.
- **Interest -** To ensure easy repayment Government has capped the interest rate under ECLGS scheme at
    - 9.25% for Banks and Financial Institutions and
    - 14% for Non-Banking Financial Institutions.
- This scheme also offers a one year moratorium on payment of principle component.

What is a Special mention Account (SMA)?

- In order to manage bad loans RBI classified the debt owed to customer groups into three categories under SMAs or Special Mention Accounts.
- SMA-0 is category of loan where principal and interest has remained outstanding for a period of 30 days after the payment due date.
- SMA-1 is a category in which overdue is for a period of more than 30 days to 60 days.
- SMA-2 is where the overdue tenure is between 61 days to less than 90 days.

Why ECLGS has been extended?

- Recently ECLGS for small businesses has been extended for one more year, up to March 2023.
- Its guarantee cover will be expanded by Rs. 50,000 crore (500 billion) to Rs 5 lakh crores (5.0 trillion).
- The additional amount is being earmarked exclusively for the hospitality and related enterprises.
- So far the ECLGS has provided much-needed additional credit to more than 130 lakh MSMEs.
- This has helped them mitigate the adverse impact of the pandemic.
- The extension has been made since the hospitality and related services, especially those by micro and small enterprises, are yet to regain their pre-pandemic level of business.

What will be the benefits?

- Banks can provide additional loans to existing borrowers without asking for extra collateral.
- MSMEs impacted by intermittent lockdowns in states get funding to stay afloat.
- Sanctions and disbursements under the facility are relatively faster due to fully guaranteed by the government against credit losses.
- Companies from hospitality, travel and tourism as well as leisure and sporting sectors are expected to benefit from the relaxation in the scheme.
- Hotels, restaurants, canteens, caterers, marriage halls, tour operators, as well as amusement parks and theatres can avail the facility.

Reference

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