



## Government of Karnataka

**Subject:** The extension of Collateral Security from the state government to the Scheduled Caste entrepreneurs for the loans from the nationalized banks/RRBs upto Rs.2.00 crores on the same lines of KSFC- Issue of G.O regarding.

**Reference:** Government order No: SWD 210 SLP 2017, dated: 12-12-2017.

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Considering the difficulties faced by the Scheduled Caste entrepreneurs in furnishing collateral security to KSFC for availing the term loans, the Government issued the order at reference (1) extending the Collateral Security. In the same way, in the year 2023-24 the budget announcement is made to extend Collateral Security to Nationalised Banks also.(Para 144)

The Government also extended the 4% Interest Subsidy Scheme to the term loans upto /Rs.10.00 Crores including the working capital of Rs.50.00 Lakhs for SC/ST entrepreneurs from Nationalised Banks/ Apex/DCC Banks vide Government Order NO: SWD 158 SLP 2016, DATED: 12.07.2016. Similarly, another Government order issued for loans for commercial activities under 4% Interest upto Rs.1.00 Crore from Scheduled Commercial Banks vide Government Order No: SWD 157 SLP 2021, DATED: 25-08-2021.

Regarding implementation of the **Budget para 144 i.e., "A Government Guarantee is provided to Scheduled Caste and Scheduled Tribes entrepreneurs for availing a loan upto Rs.2.00 crores from KSFC. This Scheme will now be extended for loans availed from Nationalized Banks as well"**. A meeting was held with the SLBC and other Major Nationalised Banks like SBI, Canara Bank, Bank of Baroda, Union Bank of India, Punjab National Bank, Karnataka Grameena Bank etc., on two occasions.

**The Following points are emerged during the discussion.**

1. The Banks have expressed that, there is a scheme called Credit Guarantee Fund Scheme for micro and small enterprises for the purpose of providing Guarantees in respect of credit facilities extended by the lending institutions to the borrowers of the micro and small enterprises including SC/STs.
2. The Nationalized Banks are also the lending institutions under the above said scheme.

3. The Credit Guarantee Fund Trust shall cover credit facilities extended by member lending institutions to a single eligible borrower in the Micro and Small Enterprise sector for credit facility, for not exceeding Rs.500.00 Lakhs (By way of Term Loan/ Working Capital) irrespective of the Caste.

Thus, particularly the Nationalized Banks expressed that there is no need for another Collateral Security for the loans for Micro and Small Enterprises from the State Government, as the loans extended by the Nationalized Banks to SC/STs are also covered under the Credit Guarantee Trust Scheme for Micro and Small Enterprises (CGTMSE).

Further, in case any specific loan transaction is not covered under CGTMSE Scheme, the banks have to refer to the Social Welfare Department for extending Collateral Security case by case.

4. During the meeting, the representatives of Regional Rural Banks expressed that though they are eligible to the members of CGFT, they are not the members at present due to certain criteria to be met. They require Collateral Security from the State Government for the loans given to the SC/ST Entrepreneurs. There are two RRBs (1. Karnataka Grameen Bank & 2. Karnataka Vikas Grameen Bank) and these two banks also come under the Central Government. Therefore, the Collateral Security from the State Government may be extended to these two Regional Rural Banks also.

Considering the proposal as explained in the above said Paras the Government issue the following order.

**Government order No:SWD 142 PKV 2023, BANGALORE,**  
**DATED:18.11.2023**

As explained in the preamble it is hereby, ordered that as announced in the Budget at para 144, the issue of collateral security is as under,

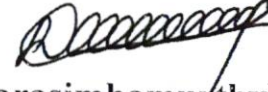
1. The collateral security to the extent of Rs.2.00 crores will be given by the State Government to Scheduled Caste entrepreneurs for enabling them to raise the loans from Nationalised Banks, in case of any credit facility is not covered under the Central Government scheme of 'Credit Guarantee Fund Scheme'
2. The collateral security to the extent of Rs.2.00 crores will be issued by the State Government to Scheduled Caste entrepreneurs for enabling them to raise the loans from the two Regional Rural Banks that is Karnataka Grameen Bank & Karnataka Vikas Grameen Bank.



3. The Guidelines of the collateral security scheme are enclosed in Annexure-1.

This issues with the concurrence of Finance Department vide No.FD 592 Expenditure -3/2023, dated:27-09-2023 and the concurrence of Department of Planning, Programming and Statistics vide No:PDS 41 IMM 2023, dated: 27-07-2023

By order and in the name of the  
Governor of Karnataka.

 18/11

(L. Narasimhamurthy)

Under Secretary to Government -1  
Social Welfare Department.

18/11/2023

**Copy to:**

1. Accountant General, Audit-1&2, , Bengaluru,Karnataka
2. Commissioner, Social Welfare department, Bengaluru.
3. Convener, SLBC c/o Canara Bank, Gandhi Nagar, Bengaluru (The SLBC is requested to circulate the Government order to other member banks).
4. State Bank of India, Local Head Office, Bengaluru.
5. Chief Manager, Punjab National Bank, Regional office Bengaluru.
6. Union Bank of India, Regional/Zonal office, Bengaluru.
7. Bank of Baroda, Regional/Zonal office, M.G.Road, Bengaluru.
8. Bank of India, Regional/Zonal office, Bengaluru.
9. Karnataka Grameen Bank, Bengaluru.
- 10.Karnataka Vikas Grameen Bank, Bengaluru.
- 11.Other Nationalised Banks in Karnataka.
- 12.MD, KSFC , Bengaluru.
- 13.Joint Director/Deputy Director, Social Welfare Department (through the Commissioner, Social Welfare Department, Bangalore)
- 14.Welfare Centre, 24/7 Helpdesk, Department of Social Welfare, Yavanika Premises, Nripatunga Road, Dr|| BR Ambedkar Street, Bangalore.
- 15.Office copy.

**Copy for information to:**

1. PS to Social Welfare Minister, Vidhana Soudha, Bengaluru.
2. PS to Principal Secretary, Social Welfare Department, Vikasa Soudha, Bengaluru.

## Annexure-1

### Guidelines for Extension of Collateral Security Scheme for Nationalized Banks

The details of Collateral Security Guarantee Fund Scheme for Scheduled Caste Entrepreneurs, applicable to Nationalized Banks are as under:-

#### 1. Title of the Scheme

- a) The scheme is called the Karnataka State Collateral Security Guarantee Fund Scheme for Micro and Small Enterprises of Scheduled Castes for borrowing loans from Nationalized Banks including RRBs.

#### 2. Definitions:

For the purposes of this scheme:-

- i. **“Collateral Security”** means the security in addition to the primary security to be given by the borrowers at prescribed percentages of loan sanctioned for assets like plant and machinery, equipment etc., other than land and building as per the lending policy in force at the time of sanction of loan by Nationalized Banks.
- ii. **“Primary Security”** means the assets created from the Credit facility (Term loan/ working capital) which are directly associated with the project or business for which the credit facility has been sanctioned.
- iii. **“Banks”** means Nationalised Banks and RRBs
- iv. **“RRBs”** Means 1. Karnataka Grameen Bank & 2. Karnataka Vikas Grameen Bank.
- v. **“Amount of Default”** Means the Principle and interest amount outstanding in the account of the borrower in respect of term loan and working capital as on the date of considering the loan as NPA- Doubtful loan account as defined under the Asset Classification guidelines issued by Reserve Bank of India.
- vi. **“Collateral Security Guarantee Cover”(CSGC)** means the maximum cover available per eligible borrower to the extent of the collateral security guarantee amount or non recoverable amount out of outstanding amount whichever is less.
- vii. **“Eligible Borrower”** means the enterprises from Scheduled castes of Karnataka to which credit facility has been provided by the Nationalized/RRBs, which could be proprietary concern, partnership firm formed under Indian Partnership Act, Limited liability partnership firm established under limited liability partnership act, Joint-stock company Incorporated under the Companies Act 1956 or a trust registered under the Indian Trusts Act.





- viii. **“Government”** means Government of Karnataka represented by the Social Welfare Department.
- ix. **“Trust”** means Karnataka Collateral Security Guarantee fund Trust for Scheduled Castes covered under 4% interest subsidy scheme vide Government order stated above.

**3. Conditions of the Scheme:**

- i. The Collateral Security is to extent of Rs.2.00 Crores (Collateral Security only) excluding primary security.
- ii. The Collateral Security from the government is restricted to the loans/activities sanctioned by the banks under 4% interest subsidy schemes vide Government order No. SWD 158 SLP 2016, dt:12-07-2016 & SWD 157 SLP 2021, dt: 25-08-2021.
- iii. The Collateral Security from the government is applicable with effect from 01-08-2023.
- iv. This scheme is applicable for the loans sanctioned after 01-08-2023 either for new units or for the existing units who have not availed the collateral security facility from the Government for the purpose of expansion, modernisation and diversification.
- v. The Collateral Security will be for Rs.2.00 crores only either one time or multiple times. This will help the entrepreneurs to improve their business gradually.
- vi. The collateral security is not extendable to the loans for real estate business like layout formation/ construction of apartments/commercial complexes, agricultural activities.
- vii. The Collateral security cover will be available for a period till repayment of the loan, subject to the loan repayment period prescribed for 4% interest subsidy scheme.
- viii. The borrower(s) shall produce the Caste Certificate from the competent authorities to avail CSGC. All partners/directors of firm/company shall be from Scheduled Castes category holding 100% share capital.
- ix. The Moratorium period for recovery of instalments etc is as per policy of the Banks including RRBs. Normally the Collateral Security Guarantee shall not be invoked during the Moratorium period except in extraordinary situation.
- x. ~~The Banks may invoke the CSGC provided under this scheme by lodging the claim with the government within a period of one year after the account becomes NPA-Doubtful category after initiating recovery action against the primary assets and recalling the loans.~~



- xi. The CSGC shall be approved by the Government/Trust before disbursal of loan.
- xii. The extent of CSGC to be extended under this scheme:-
  - a) The maximum extent of CSGC is limited to fixed percentage as per prevailing Lending Policy of respective Banks for the credit facility sanction for the assets other than land and building subject to limiting the cover of maximum of Rs.2.00 crore only.
  - b) The Bank shall communicate to the trust the extent of CSGC required while sanctioning the credit facility and thereafter the required CSGC will be provided. The extent of guarantee cover is as under.

SL No	Category	Maximum guarantee cover by the government/trust for the Collateral security	Remarks
1)	Working capital and Where the term loans are only for movable assets such as borewell rig units, commercial vehicles, financing of plant and machinery including in leased premises etc.,	70% of collateral security requirements	The remaining 30% is to be offered by the promoter.
2)	In all other cases	100% of collateral security requirements	

The borrower is liable to repay the entire outstanding loan amount irrespective of collateral security guarantee amount. The liability of government /trust ceases on the payment of last instalment of loan. If, Bank recovers the full outstanding amount from the borrower after invoking and adjusting collateral security guarantee amount, in such cases, the collateral security guarantee amount, full or part thereof, shall be refunded to the government/trust.

- 4. The guarantee fee and annual renewal fee for CSGC is to be paid by Banks to the government/trust as under.
  - a. 1% of the CSGC amount as one-time fee and annual renewal fee at 0.50% of amount every year over the period of continuation of guarantee or till the account become doubtful – NPA, whichever is earlier to the head of account:0250-00-102-0-07-000.
  - b. The Banks may recover the guarantee fee/annual renewal fee from the borrower at its discretion or out of its own funds.





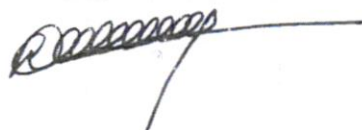
- c. The Guarantee fee shall be paid upfront to the Government /trust by Banks within 30 days from the date of first disbursement of the credit facility or such date as specified by the government/trust. The Annual Renewal fee will be paid on the due date commencing from the end of first year from the date of payment of guarantee fee.
- d. In the event of non-payment of annual renewal fee, CSGC shall not be available to Banks unless the Government /trust agree for continuance of CSGC and Bank Pays penal interest on the annual renewal fee due and unpaid with effect from with interest at 4% p.a or at such rates specified by the government /trust from time to time for the period of delay.
- e. The Guarantee fee and/or annual fee once paid by the Banks to the Government /trust is non refundable except under certain circumstances like-
  - I. Excess remittance.
  - II. Remittance made more than once against the same credit application.
  - III. Guarantee fee & /or annual service fee not due.
  - IV. Guarantee fee paid in advance but applications not approved for guarantee cover under the scheme, etc.
  - V. The CSGC will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the loan.

#### **5. Agreement to be executed by the Banks.**

The Banks shall not be entitled to a Guarantee in respect of any eligible credit facility granted by it to the eligible borrowers unless it has entered into an agreement with the government /trust in such form as may be required by the government /trust under this scheme.

#### **5. Responsibilities of Banks under the scheme**

- I. It shall evaluate credit applications by using prudent banking norms and shall use their business discretion/due diligence in selecting commercially viable proposal and conduct the account(s) of the borrowers with normal banking prudence.
- II. It shall closely monitor the borrower account
- III. It shall safeguard the primary securities taken from the borrower in respect of the credit facility by monitoring the account closely and ensure that the assets are insured for the risks of fire, riot, strikes or malicious damage and comprehensive insurance in respect of loans given to transport vehicles.
- IV. It shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the government/trust in the form and in the manner and within such time as may be specified by the government/trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the government/trust facing higher guarantee claims.



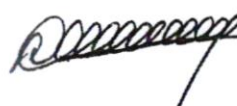


- V. The Payment of Guarantee claim by the Government/trust to the Banks does not in any way take away the responsibility of the banks to recover the entire outstanding amount of the credit from the borrower. It shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary action for recovery of the outstanding amount with interest including such action as may be advised by the Government/trust.
- VI. The Banks shall comply with such directions as may be issued by the government/trust from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Government/trust may deem fit and the Banks shall be bound to comply with such directions.
- VII. It shall in respect of any guaranteed account, exercise the same diligence in recovering the dues and safeguarding the interest of the government/trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the government/trust. The Bank Shall, in particular refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the government/trust as the guarantor. In particular, the Banks should intimate the government/trust while entering into any compromise or arrangement which may have effect of discharge and may have effect on CSGC. The Banks Shall also ensure either through a stipulation in an agreement with the borrower or otherwise that it shall not create any charge on the security held in the account covered by the Guarantee for the benefit of any account not covered by the guarantee. Further the Banks shall secure for the government/trust or its appointed agency through a stipulation in an agreement with the borrower or otherwise the right to list the defaulted borrowers names and particulars on the website of the government/trust.

## 7. CLAIMS

### Invocation of Guarantee

- I. The Banks may invoke the guarantee in respect of credit facility within a maximum period of one year from date of account becoming NPA – Doubtful Category subject to the following conditions :-
- a) The guarantee in respect of the credit facility which was in force at the time of account becoming NPA-doubtful category.
  - b) After the Moratorium period as fixed by the Banks, either from the date of last disbursement of the loan to the borrower or the date of payment of the guarantee fee in respect of credit facility whichever is later has elapsed.
  - c) The amount due and payable to the Banks in respect of the credit facility has not been paid and the account been classified as NPA doubtful category provided that the Banks Shall not make or be





entitled to make any claim on the government/trust if the loss in respect of the said credit facility had occurred owing to actions/decisions taken in contravention of the guidelines issued by the Government/trust.

- d) The credit facility has been recalled and the recovery proceedings have been initiated under due process of law. Mere issuance of recovery notice cannot be construed as initiation of legal proceedings for purpose of preferment of claim under CSGC. Banks shall take further action for recovery as per the recovery procedure of the bank before submitting claims for part/full guaranteed amount as the case may be from the government /trust and continue to take measure for full recovery of the amount due.
- II. The Claim should be preferred by the Bank in such manner and within such time as may be specified by government/trust in this behalf.
- III. The Government/trust shall pay 75% of the guaranteed amount on preferring of eligible claim by the Bank within 60 days from the date of claim, subject to the Claim being otherwise found in order and complete in all respects. The government/trust shall pay to Bank interest on the eligible claim amount at rate as per agreement for the period of delay beyond 60 days. The balance 25% of the guaranteed amount will be paid on conclusion of recovery proceedings by banks. On the Claim being paid the Government/trust shall be deemed to have been discharged from all its liabilities on account of the guarantee in force in respect of the borrower concerned.
- IV. In the event of account becoming NPA-Doubtful Category, the Bank shall exercise its rights, if any, to take over the assets of the borrowers and the amount realized, if any from the sale of such assets or other wise and shall be appropriated to the dues in the account of the borrower before it claims the remains 25% of guaranteed amount. Further the Bank is liberty to proceed with further recovery action for recovery of balance dues if any after claiming remaining 25% of Guaranteed amount. However after conclusion of recovery proceedings, if there is excess amount over and above the dues of banks shall be reimbursed to the government/trust to the extent of amount paid by the Government/trust. Further if the borrowers come forward to close the account in the normal course after claim is lodged the banks shall reimburse the guaranteed amount released by government/trust if any with interest as per agreement.
- V. The Bank shall be liable to refund the amount released by the government/trust together with penal interest at the rate of 4% above the agreed the rate if such a recall is made by the government/trust in the event of serious deficiencies such as lodgment of the claim more than once or where there is suppression of material information on part of the



Bank for the settlement of Claims. The Bank shall pay such penal interest when demanded by the Government/Trust, from the date of the initial releases of the claim the Government/Trust to the date of refund of the claim.

- VI. The guarantee claim shall be submitted through the Regional/Zonal offices located within Karnataka.

**8. Subrogation of rights and recoveries on account of claims paid.**

- I. The concerned Banks shall furnish to the Government/trust, the details of its efforts for recovery, realisations and such other information as may be demanded or required from time to time. The concerned Bank will hold lien on assets created out of the credit facility extended to the borrowers, on its own behalf and on behalf of the Government/Trust. The Government/trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the concerned Bank.
- II. Every amount recovered and due to be paid to the Government/Trust shall be paid without delay, and if any amount due to the Government/Trust remains unpaid beyond a period of 60 days from the date on which it was first recovered, interest shall be payable to the Government/trust by Bank at the rate which is 4% above the agreed rate for the period for which payment remains outstanding after the expiry of period of 60 days.

**MISCELLANEOUS**

**9. Appropriation of amount received from the Bank**

The amount received from Bank shall be appropriated in the order in which the annual fee, penal interest and other charges have fallen due. If the annual fee and the penal interest have fallen due on the same date, then the appropriation shall be made first towards annual fee and then towards penal interest and finally towards any other charges payable in respect of the eligible credit facility.

**10. Government/Trust liability to be terminated in certain cases**

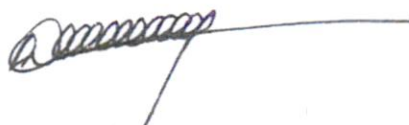
- I. If the liabilities of a borrower to the concerned Banks on account of any eligible credit facility guaranteed under this scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any subject to which the credit facility can be guaranteed under the scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.



- II. If a borrower becomes ineligible for being granted any credit facilities under the scheme by reason of cessation of his activity or his undertaking ceasing to come within the conditions of this scheme, the liability of the Government /trust in respect of any credit facilities granted to him by concerned Bank under the scheme shall be limited to the liability of the borrower to the Bank as on the date on which the borrower becomes so ineligible, subject, however to the limits on the liability of the Government/trust fixed under this scheme. However, notwithstanding the death or retirement of a partner where the borrower is a partnership firm or the death of one of the joint borrowers, if Bank is entitled to continue the credit facilities to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the credit facilities have not already become default account, the guarantee in respect of such credit facilities shall not be deemed to be terminated as provided in this paragraph.

#### **11. Returns and Inspections.**

- I. The Banks shall submit such statements and furnish such information as the Government/Trust may require in connection with any credit facility under this scheme.
- II. The Banks shall also furnish to the Government/trust all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the Banks or any officer thereof for anything done in good faith.
- III. The Government/trust shall, insofar as it may be necessary for the purpose of the scheme, have the right to inspect or call for copies of the books of accounts and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the Banks and of any borrower from the Banks. Such inspection may be carried out either through the officers of the Government/trust if any, or any other person appointed by the Government/Trust for the purpose of inspection. Every officer or other employee of the Banks or the borrower, who is in a position to do so, shall make available to the officers of the Government/Trust or the person appointed for the inspection as the case may be, the books of account and other record and information which are in his possession.



**12. Conditions imposed under the Scheme to be binding on the Bank:**

- I. Any guarantee given by the government /trust shall be governed by the provisions of the scheme as if the same had been written in the document evidencing such guarantee.
- II. The Bank shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the scheme are not in conflict with provisions of the scheme but not withstanding any provision in any other document or contract, the Bank shall in relation to the Government/trust be bound by the conditions imposed under the scheme.

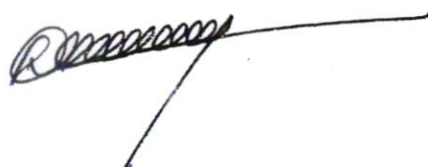
**13. Modifications and exemptions:**

- I. The government/trust reserves to itself the right to modify cancel or replace the scheme so however that the rights or obligations arising out of or accruing under a guarantee issued under the scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.
- II. Notwithstanding anything herein contained, the government/trust shall have a right to alter the terms and conditions of the scheme in regard to an account in respect of which guarantee has not been extended as on the date of such alteration.
- III. In the event of the scheme being cancelled, no claim shall lie against the Government/Trust in respect of facilities covered by the scheme, unless the provisions of the scheme are complied with by the Bank and the validity of guarantee which is in currency prior to the date on which the cancellation comes into force.

**14. Interpretation:**

If any question arises in regard to the interpretation of any of the provisions of the scheme or of any directions or instructions or clarifications given in connection therewith, the decision of the Government/trust shall be final.

- 15. Supplementary and general provisions:** In respect of any matter not specifically provided for in this scheme, the Government/trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the scheme.





16. The trust which will be formed by KSFC will also implement this scheme.

17. **Formation of the KSCSGC scheme implementation committee:**  
At present this scheme is to be implemented by the following committee at the Government level with the following members till formation of the trust:-

**KSCSGC scheme implementation committee**

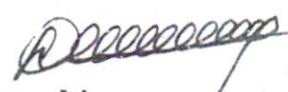
Sl. No	Name of Officer/Department	Designation
1	ACS/Principal Secretary/Secretary, Social Welfare Department	Chairperson
2	Secretary, Expenditure, finance department	Member
3	Convener of the SLBC	Member
4	Commissioner, Commerce & Industries Department	Member
5	Commissioner, Social Welfare Department/Director, ST Welfare (respectively for SC/ST)	Member Secretary


The representative of the concerned Banks to whom the collateral security to be given will be invited to attend for the meeting.

The Member Secretary of the committee shall initiate action in consultation with the concerned Banks to bring out the necessary documents/formats for implementation of scheme. He also take necessary action to maintain the records etc. pertaining to the KSCSGC scheme.

18. **Release of funds to meet the collateral security liability:**

The Government will also issue the necessary orders for release of funds to meet the collateral security liability as and when arises after implementation of the scheme.

  
(L. Narashimamurthy)  
Under Secretary to Government-1.  
Social Welfare Department

  
18/11/2023