

Cabinet approves Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) and to enhance the corpus of Emergency Credit Line Guarantee Scheme (ECLGS)

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On account of the disruptions caused by the second wave of COVID 19 specially on healthcare sector, the Union Cabinet, chaired by the Prime Minister Shri Narendra Modi has approved Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) enabling funding to the tune of Rs. 50,000 crore to provide financial guarantee cover for brownfield expansion and greenfield projects related to health/ medical infrastructure.

The Cabinet has also approved introduction of a scheme for other sectors/lenders including those allied to better healthcare. Detailed modalities would be finalized in due course depending upon the evolving situation.

In addition, the Cabinet has also approved additional funding up to Rs. 1,50,000 crore under Emergency Credit Line Guarantee Scheme (ECLGS).

Targets:

LGSCAS:The Scheme would be applicable to all eligible loans sanctioned up to 31.03.2022, or till an amount of Rs. 50,000 crore is sanctioned, whichever is earlier.

ECLGS: It is a continuing scheme. The Scheme would be applicable to all eligible loans sanctioned under Guaranteed Emergency Credit Line (GECL)till 30.09.2021, or till an amount of rupees four lakh fifty thousand crore is sanctioned under the GECL, whichever is earlier.

Impact:

LGSCAS:The LGSCAS has been formulated as a specific response to an exceptional situation the country has witnessed due to lack of adequate health infrastructure in the light of second wave of Covid-19. The approved scheme is expected to help the country in shoring up its much-needed healthcare infrastructure along with creating more employment opportunities. The main objective of LGSCAS is to partially mitigate credit risk (primarily construction risk) and facilitate bank credit at lower rates of interest.

ECLGS:It is a continuing scheme and recently, on account of the disruptions caused by the second wave of COVID 19 pandemic to businesses across various sectors of the economy, Government has further enlarged the scope of ECLGS. The enhancement is expected to provide much needed relief to various sectors of the economy by incentivizing lending institutions to provide additional credit of up to Rs. 1.5 lakh crore at low cost, thereby enabling business enterprises to meet their operational liabilities and continue their businesses. Besides supporting MSMEs to continue functioning during the current unprecedented situation, the Scheme is

also expected to have a positive impact on the economy and support its revival.

Background:

LGSCAS: Government has taken various measures to combat the crisis caused due to Covid-19 pandemic which has been upended by the second wave of COVID-19. This wave has placed enormous stress on health facilities as well as livelihoods and business enterprises in many sectors. This wave has sharply brought out the need to enhance public and private investments in the health sector. This is necessary across the country, from metro cities to tier V and VI towns as well as rural areas. The requirements include additional hospital beds, ICUs, diagnostic centres, oxygen facilities, telephone or internet based medical advice and supervision, testing facilities and supplies, cold chain facilities for vaccines, modern warehousing for medicines and vaccines, isolation facilities for triage, ramping up of production of ancillary supplies such as syringes and vials etc. The proposed LGSCAS is aimed at upscaling the medical infrastructure in the country, specifically targeting underserved areas. LGSCAS would provide a guarantee of 50 percent for brownfield projects and 75 per cent to greenfield projects for loans sanctioned up to Rs.100 crore, set up at urban or rural locations other than 8 Metropolitan Tier 1 cities (Class X cities). For aspirational districts, the guarantee cover for both brownfield expansion and greenfield projects shall be 75%.

ECLGS:The resurgence of COVID-19 pandemic in India in recent weeks and the associated containment measures adopted at local/regional levels have created new uncertainties and impacted the nascent economic revival that was taking shape. In this environment the most vulnerable category of borrowers are individual borrowers, small businesses and MSMEs, for which, ECLGS, as a targeted policy response was introduced by Gol. The design of ECGLS provides flexibility to quickly respond to emerging needs, as has been evidenced by the introduction of ECLGS 2.0, 3.0 and 4.0 as well as changes announced on 30.05.2021, all of which were within available headroom of Rs 3 lakh crore. Currently, about Rs. 2.6 lakh crore of loans have been sanctioned under ECLGS. A further uptick is expected due to changes announced recently, extension of limit of one time restructuring to Rs. 50 crore by RBI on 04.06.2021 and the continuing adverse impact of COVID on businesses.

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