

# MSMEs' credit subsidy scheme extended

Hemamalini Venkatraman &  
Chandra Ranganathan  
CHENNAI

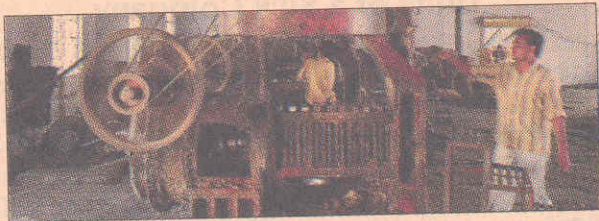
MICRO, small and medium enterprises (MSMEs) in India got a shot in the arm with the government approving the continuation of the credit linked capital subsidy scheme (CLCSS) for them through the 11th Plan period. Technically, the scheme expired on March 31, last year, coinciding with the end of the 10th Five-Year Plan period.

"The extension will help in creating more small enterprises and be a boost to the existing ones," said National Confederation of Small Industry president D E Ramakrishnan. He said the measures would help the enterprises enhance their competitiveness as they would be able to upgrade their technologies and modernise their plant & machinery.

The scheme, introduced in 2000, originally had a loan ceiling of Rs 40 lakh, for which the rate of subsidy was 12%. In September 2005, the rate of subsidy was raised from 12% to 15%, and the ceiling of the loan from Rs 40 lakh to Rs 1 crore.

Micro, small and medium enterprises are defined based on the investment in plant and machinery. Micro enterprises cover investments up to Rs 25 lakh, small enterprises involve investment between Rs 25 lakh to Rs 5 crore and medium enterprises investments between Rs 5 crore to Rs 10 crore. Going by industry estimates, there are roughly 123 lakh micro and small units in the country.

According to industry estimates, between September 2005 and March 2007, more than 2,400 units availed of the CLCSS subsidy. Also, an additional 2,400 units have obtained financial assistance of over Rs 830 crore from term lending institutions and banks since the CLCSS ended and up till now, involving a subsidy element of around Rs 115 crore under the CLCSS. "Because the scheme ended last year, the units that availed loans after that haven't received their subsidy grant. The release of Rs 115 crore is awaited," Mr Ramakrishnan said.



Apart from the continuation of the CLCSS, the small enterprises have frequently raised concerns about the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, which empowers banks to recover bad loans by taking control of the borrower's collateral. In this context, Mr Ramakrishnan, who is also the president of the Industrial and Financial Reconstruction Association for Small and

Tiny Enterprises (IFRASTE), said the MSME sector is seeking a draft code that will replace the existing fair practices code of the Reserve Bank of India (RBI).

The sector's demands include a mandatory credit guarantee scheme and a waiver of collateral for loans up to Rs 5 lakh. Under the credit guarantee scheme, the loans of the borrowers are underwritten by a credit guarantee trust, which would reimburse a bank, in case of loan defaults.