

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

STARRED QUESTION NO:71

ANSWERED ON:21.02.2003

INTEREST RATES ON LOAN TAKEN BY SSI AND MIU

CHANDRA NATH SINGH;RAM RAGHUNATH CHAUDHARY

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) the details of loan facilities provided by banks to small and medium industrial units at present;
- (b) whether the Reserve Bank of India has suggested a cut in rate of interest on loan provided to these industrial units;
- (c) if so, the details of the suggestions made by the RBI and the reaction of the Union Government thereto; and
- (d) the other steps taken by the banks to provide better loan facilities to these industrial units?

Answer

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH):

(a) Banks provide financial assistance to Small Scale Industrial (SSI) Units based on the viability of the units. The working` capital requirement of SSI Units are computed on the basis of simplified method of minimum 20% of the projected annual turnover of the unit for borrowal limits upto Rs.5 crore. Banks also provide composite loan upto Rs.25 lakhs to the SSI Units.

(b) and (c) Reserve Bank of India has not suggested any cut in rate of interest on loans provided to SSIs. RBI has, however, advised the Banks to set the interest rate on advances to SSI Sector keeping in view the prevailing declining trend in interest rates and that SSI Units with good track record may be accorded lower spreads over Prime Lending Rate (PLR).

(d) Many policy measures have been taken to improve the credit delivery system to the SSI Sector, These are:

1) Banks to ensure that out of their total funds lent to SSI Sector, at least 40% should be made available to the units with investment in plant and machinery upto Rs.5 lakh and 20% should be made available to units with investment in plant and machinery between Rs.5 lakhs and Rs.25 lakhs. Thus 60% of the funds earmarked for SSI Sector should go to small units in tiny sector.

2) Increase in the borrowal limit for collateral free loan to tiny sector from Rs.1 lakh to Rs.5 lakh. In order to further improve the flow of credit to SSIs, RBI has announced that Banks may on the basis of good track record and the financial position of the units increase the limit of dispensation of collateral requirement for loans from the existing Rs.5 lakhs to Rs. 15 lakhs.

3) Banks have been advised to open atleast one Specialised SSI Branch in each district. Further Banks have been permitted to categorise their general banking branches having 60% or more of their advances to SSI Sector as specialized SSI Branches for providing better service to this sector as a whole.

4) Raising of the Composite loan limit from Rs. 10 lakh to Rs.25 lakh;

5) Raising the borrowal limit to Rs.5 crores for computation of working capital on the basis of minimum 20% of the projected annual turnover.

6). To increase the outreach of banks to tiny sector, inclusion of credit provided to NBFCs or other financial institutions for on-lending to tiny sector under priority sector lending.

7) Launching of a New Credit Guarantee Scheme by SIDBI under which collateral free loans upto Rs.25 lakh are covered for guarantee under the scheme.

8) Raising the limit of the projects to Rs.50 lakhs for providing assistance under the National Equity Fund Scheme.

9) The individual credit limit to artisans, village and cottage industries for reckoning under advance to weaker sections is increased to Rs.50,000/- from the present limit of Rs.25,000/-

10) Earmarking of 30% of the Investment under NEF Scheme for the tiny Sector.