

**GOVERNMENT OF INDIA
MICRO, SMALL AND MEDIUM ENTERPRISES
LOK SABHA**

UNSTARRED QUESTION NO:40
ANSWERED ON:09.11.2010
INTEREST SUBSIDY ELIGIBILITY CERTIFICATE SCHEME
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Will the Minister of MICRO, SMALL AND MEDIUM ENTERPRISES be pleased to state:

- (a) whether the Khadi and Village Industries Commission (KVIC) has launched a Interest Subsidy Eligibility Certificate (ISEC) scheme;
- (b) if so, the details thereof;
- (c) whether the scheme has failed to achieve the objectives;
- (d) if so, the details thereof and the reasons therefor;
- (e) whether the Government has conducted any study on the functioning of the said scheme;
- (f) if so, the details and recommendations made therein alongwith the steps taken thereon; and
- (g) the time by which a steady credit flow from banks to the implementing agencies of KVIC is likely to be achieved?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) FOR MICRO, SMALL AND MEDIUM ENTERPRISES (SHRI DINSHA PATEL)

(a) & (b): Khadi and Village Industries Commission (KVIC) has been implementing the Interest Subsidy Eligibility Certificate (ISEC) Scheme since 1977-78 to mobilize funds from banks at subsidized cost to meet the working capital requirement of the registered khadi and village industries institutions producing khadi and polyvastra items. Under the ISEC scheme loans at the concessional rate of interest of 4 per cent per annum on the working capital assessed are made available by banks to registered institutions producing khadi and polyvastra items. The difference between the actual interest rate of the bank and 4 per cent is paid by the Central Government through KVIC to the lending bank. Initially, the entire khadi and village industries sector was covered under the ISEC Scheme, but with effect from 01.04.1995, the ISEC scheme generally supports only the khadi and the polyvastra sector with the exception that the village industry institutions / units (VI) which were availing the credit facilities under the ISEC scheme as on 31 March 1995, have been allowed to avail of this facility for the amount of bank finance availed as on that date or actuals, whichever is less. New VI units are provided benefits under other credit-linked subsidy schemes, namely, Rural Employment Generation Programme (implemented during 1995-96 to 2007-08) / Prime Minister's Employment Generation Programme (PMEGP) (2008-09 onwards).

(c) & (d): During 2007-08, loans estimated at Rs.227.62 crore have been provided by the Banks under the ISEC Scheme. The flow of credit under ISEC has been more or less steady although the quantum of eligibility of working capital as assessed by the banks is lower than KVIC assessment.

(e), (f) & (g): An independent evaluation of ISEC Scheme was carried out by KVIC in 2008. The main findings of evaluation study of the scheme include:-

(i) KVIC should take up the issue of adequate institutional finance with the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) on a priority basis and ensure that the Khadi and Village Industries (KVI) sector get the credit as per requirement.

(ii) Banks should be impressed upon to follow the guidelines of RBI in letter and spirit for the calculation of the credit requirement of the khadi institutions.

(iii) KVIC should start a special campaign and encourage its implementing agencies to obtain credit rating from the renowned agencies

(iv) Banks and financial institutions should interact with Khadi units and study their activities so as to clear their doubt towards the cycle of utilization as well as productivity and performance of khadi and polyvastra units.

The ISEC Scheme has been continued for implementation till the end of XI Five Year Plan, with approval of competent authority after taking into consideration the recommendations to the extent possible.

KVIC has undertaken awareness programmes from time to time and during the annual exhibitions at various levels so that appropriate awareness is built up and khadi and village industries institutions are in a better position to avail benefits under the KVI schemes, including ISEC. The credit linked subsidy programme of the PMEGP also provides attractive subsidy on setting up of new micro enterprises which includes subsidy on capital expenditure as well as working capital. Also recent guideline of the Reserve Bank of India provide for collateral-free credit upto Rs.10 lakh which is expected to further contribute to steady credit flow to the sector.