

Credit Link Capital Subsidy Scheme for Technology Upgradation

Summary of the Scheme:-

The Scheme was launched in October, 2000 and revised w.e.f. 29.09.2005. The revised scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of Plant and Machinery. Maximum limit of eligible loan for calculation of subsidy under the revised scheme is also been raised Rs.40 Lakhs to Rs. 100 lakhs w.e.f. 29-09.2005. The scheme has been continues 10th five year plan to 11th five year plan.

Background

The Ministry of Small Scale Industries (SSI) is operating a scheme for technology upgradation of Small Scale Industries (SSI) called the Credit Linked Capital Subsidy Scheme (CLCSS). The Scheme aims at facilitating technology upgradation by providing upfront capital subsidy to SSI units, including tiny, khadi, village and coir industrial units, on institutional finance (credit) availed of by them for modernisation of their production equipment (plant and machinery) and techniques. The Scheme (pre-revised) provided for 12 per cent capital subsidy to SSI units, including tiny units, on institutional finance availed of by them for induction of well established and improved technology in selected sub-sectors/products approved under the Scheme. The eligible amount of subsidy calculated under the pre-revised scheme was based on the actual loan amount not exceeding Rs.40 lakh.

Due to insufficient investment and lack of awareness of both the quality standards and access to modern technologies, a large percentage of SSI units continue with outdated technology and plant & machinery. With increasing competition due to liberalisation of the economy, the survival and growth of the SSI units are critically dependent on their modernisation and technological upgradation. Upgradation of both the process of manufacture and corresponding plant and machinery is necessary for the small enterprises to reduce the cost of production and remain price competitive at a time when cheaper products are easily available in the global market.

It is in this background that the Finance Minister made an announcement in the Budget Speech of 2004-05 to raise the ceiling for loans under the Scheme from Rs. 40 lakh to Rs. 1 crore and rate of subsidy from 12 per cent to 15 per cent. Further, in the light of the experience gathered in implementing the Scheme, certain other modifications were also required to make it more useful to the SSI units, including tiny, khadi, village and coir industrial units, in taking up technology upgradation on a larger scale.

After considering these issues, the CLCSS has been amended as follows :

- a) the ceiling on loans under the Scheme has been raised from Rs. 40 lakh to Rs. 1 crore;
- b) the rate of subsidy has been enhanced from 12 per cent to 15 per cent;
- c) the admissible capital subsidy is to be calculated with reference to the purchase price of plant and machinery, instead of the term loan disbursed to the beneficiary unit;

- d) the practice of categorisation of SSI units in different slabs on the basis of their present investment for determining the eligible subsidy has been done away with ; and
- e) the operation of the Scheme has been extended upto 31 st March, 2007

The above amendments are effective from September 29, 2005.

Objective

The revised scheme aims at facilitating technology upgradation by providing 15 per cent upfront capital subsidy with effect from the 29 th September, 2005 (12 per cent prior to 29.09.2005) to SSI units, including tiny, khadi, village and coir industrial units (hereinafter referred to as SSI units), on institutional finance availed of by them for induction of well established and improved technologies in the specified sub-sectors / products approved under the scheme.

Scope of the Scheme

The scheme would cover the following technology needs / products/sub - sectors:

- i) Bio-tech Industry
- ii) Common Effluent Treatment Plant
- iii) Corrugated Boxes
- iv) Drugs and Pharmaceuticals
- v) Dyes and Intermediates
- vi) Industry based on Medicinal and Aromatic plants
- vii) Plastic Moulded/ Extruded Products and Parts/ Components
- viii) Rubber Processing including Cycle/ Rickshaw Tyres
- ix) Food Processing (including Ice Cream manufacturing)
- x) Poultry Hatchery & Cattle Feed Industry
- xi) Dimensional Stone Industry (excluding Quarrying and Mining)
- xii) Glass and Ceramic Items including Tiles
- xiii) Leather and Leather Products including Footwear and Garments
- xiv) Electronic equipment viz test, measuring and assembly/ manufacturing, Industrial process
- xv) control; Analytical, Medical, Electronic Consumer & Communication equipment etc
- xvi) Fans & Motors Industry
- xvii) General Light Service(GLS) lamps
- xviii) Information Technology (Hardware)
- xix) Mineral Filled Sheathed Heating Elements
- xx) Transformer/ Electrical Stampings/ Laminations /Coils/Chokes including Solenoid coils
- xxi) Wires & Cable Industry
- xxii) Auto Parts and Components
- xxiii) Bicycle Parts
- xxiv) Combustion Devices/ Appliances
- xxv) Forging & Hand Tools
- xxvi) Foundries – Steel and Cast Iron
- xxvii) General Engineering Works
- xxviii) Gold Plating and Jewellery
- xxix) Locks
- xxx) Steel Furniture
- xxxi) Toys

- xxxii) Non-Ferrous Foundry
- xxxiii) Sport Goods
- xxxiv) Cosmetics
- xxxv) Readymade Garments
- xxxvi) Wooden Furniture
- xxxvii) Mineral Water Bottle
- xxxviii) Paints, Varnishes, Alkyds and Alkyd products
- xxxix) Agricultural Implements and Post Harvest Equipment
- xl) Beneficiation of Graphite and Phosphate
- xli) Khadi and Village Industries
- xl ii) Coir and Coir Products
- xl iii) Steel Re-rolling and /or Pencil Ingot making Industries
- xl iv) Zinc Sulphate
- xl v) Welding Electrodes
- xl vi) Sewing Machine Industry
- xl vii) Industrial Gases
- xl viii) Printing Industry
- xl ix) Machine Tools

A list of Well Established and Improved Technologies is enclosed at Appendix-I. The cost of plant and machinery mentioned in Appendix – I is only indicative. Actual cost may be taken for the purpose of calculation of subsidy

As the Scheme progresses, the list of products / sub-sectors may be expanded by inducting new technologies / products / sub-sectors with the approval of the Competent Authority, i.e. the Governing and Technology Approval Board (GTAB) / Technical Sub-Committee (TSC) of the CLCSS

Nodal Agencies

The Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) will continue to act as the Nodal Agencies for the implementation of this scheme.

As decided in the 5 th meeting of the Governing and Technology Approval Board (GTAB) of the Credit Linked Capital Subsidy Scheme (CLCSS) held on February 17, 2006 the following nine Public Sector Banks/ Government Agencies have also been inducted as nodal banks/agencies for implementation and release of capital subsidy under the CLCSS:

S. No.	Name of Bank/Agencies
1.	State Bank of India
2.	Canara Bank
3.	Bank of Baroda
4.	Punjab National Bank
5.	Bank of India
6.	Andhra Bank
7.	State Bank of Bikaner & Jaipur
8.	Tamil Nadu Industrial Investment Corporation
9.	The National Small Industries Corporation Ltd.

The inclusion of above-mentioned nodal banks/agencies will be in addition to the existing nodal agencies, namely, the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) under

the CLCSS. These nodal banks/ agencies would consider proposals only in respect of credit approved by their respective branches, whereas, for other Primary Lending Institutions (PLI), the SIDBI and the NABARD would continue to be the nodal agencies for release of subsidy under this scheme.

The cut-off date for implementing the above decision is **April 04, 2006**. No proposals after this cut off date will be sent to the SIDBI or the NABARD, as the case may be, by these banks/agencies and the new nodal banks/agencies would start processing proposals directly after this cut-off date for release of subsidy under the CLCSS.

Other modalities for implementing the above decision will remain the same as are currently in practice in the case of the SIDBI and the NABARD.

Eligible Primary Lending Institutions (PLI)

All Scheduled Commercial Banks , Scheduled Cooperative Banks [including the urban cooperative banks co-opted by the SIDBI under the Technological Upgradation Fund Scheme(TUFS) of the Ministry of Textiles], Regional Rural Banks (RRBs), State Financial Corporations (SFCs) and North Eastern Development Financial Institution (NEDFi) are eligible as PLI under this scheme after they execute a General Agreement (GA) with any of the nodal agencies, i.e., the Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD).

Details of eligible Scheduled Commercial Banks, SFC, Cooperative Banks [including urban cooperative banks co-opted by the SIDBI under the Technological Upgradation Fund Scheme(TUFS) of the Ministry of Textiles]/ and RRBs under this scheme are provided at **Appendix II**

Eligible Beneficiaries

The eligible beneficiaries include sole Proprietorships, Partnerships, Co-operative societies, Private and Public limited companies in the SSI sector. Priority shall be given to Women entrepreneurs.

Types of units to be covered under the Scheme

- i) Existing SSI units registered with the State Directorate of Industries, which upgrade their existing plant and machinery with the state- of -the -art technology, with or without expansion
- ii) New SSI units which are registered with the State Directorate of Industries and which have set up their facilities only with the appropriate eligible and proven technology duly approved by the GTAB/TSC

Eligibility Criteria

- i) Capital subsidy at the revised rate of 15 per cent of the eligible investment in plant and machinery under the Scheme shall be available only for such projects, where terms loans have been sanctioned by the eligible PLI **on or after September 29, 2005** . Machinery purchased under Hire Purchase Scheme of the NSIC are also eligible for subsidy under this Scheme.
- ii) Industry graduating from small scale to medium scale on account of sanction of additional loan under CLCSS shall be eligible for assistance.
- iii) Eligibility for capital subsidy under the Scheme is not linked to any refinance Scheme of the Nodal Agency (ies). Hence, it is not necessary

that the PLI will have to seek refinance in respect of the term loans sanctioned by them from any of the refinancing Nodal Agencies.

- iv) Labour intensive and/or export oriented new sectors/ activities will be considered for inclusion under the scheme.

Definition of Technology Upgradation

- i) Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology. In the varying mosaic of technology obtaining in more than 7500 products in the Indian small scale sector, technology upgradation would mean a significant step up from the present technology level to a substantially higher one involving improved productivity, and/or improvement in the quality of products and/or improved environmental conditions including work environment for the unit. It would also include installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery. Further, the units in need of introducing facilities for in-house testing and on-line quality control would qualify for assistance, as the same is a case of technology upgradation.
- ii) **Replacement of existing equipment/technology with the same equipment/technology will not qualify for subsidy under this scheme, nor would the scheme be applicable to units upgrading with second hand machinery.**

Duration of the Scheme

Presently, the scheme is in operation up to March 31, 2007 or till the time sanctions of aggregate capital subsidy disbursed by the Nodal Agencies reaches Rs.600 crore, **whichever is earlier**.

Ceiling on eligible loan amount and capital subsidy

The maximum limit of eligible loan under the revised scheme is Rs. 100 lakh. Accordingly, the ceiling on subsidy would be Rs.15 lakh or 15 per cent of the investment in eligible plant and machinery, whichever is lower.

- i) In calculating the value of plant & machinery, the following shall be excluded, namely:
- the cost of equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;
 - the cost of installation of plant & machinery;
 - the cost of research & development equipment and pollution control equipment (except where these have been approved for specific product/ sub sector by the GTAB ;
 - the cost of generation sets and extra transformer installed by the undertaking as per the regulations of the State Electricity Board; (except where gas based generation sets have been approved for specific product/sub- sector by the GTAB).
 - the bank charges and service charges paid to the National Small Industries Corporation Ltd or the State Small Industries Corporation;

- the cost involved in procurement or installation of cables, wiring, bus bars, electrical control panels (not those mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant & machinery or for safety measures;
 - the cost of gas producer plants (except where these have been approved for specific product/sub sector by the GTAB) ;
 - transportation charges (excluding of sales-tax and excise) for indigenous machinery from the place of manufacturing to the site of the factory;
 - charges paid for technical know-how for erection of plant & machinery;
 - cost of such storage tanks which store raw materials, finished products only and are not linked with the manufacturing process; and
 - cost of fire fighting equipment.
- ii) The amendments to the existing CLCSS are applicable with effect from 29.9.2005. The revised rates are applicable only in cases where the loans have been sanctioned/ approved **on or after September 29, 2005**. Cases where the loans were sanctioned/ approved prior to September 29, 2005 will be governed by the pre-revised guidelines regarding ceiling on subsidy (Rs.4.80 lakh), method of calculation of subsidy, etc
- iii) Units which have already availed subsidy under the pre-revised CLCSS scheme (before 29.9.2005), cannot claim additional subsidy on account of difference in the rate of subsidy which is now permissible under the revised guidelines.

Working Capital Requirements

Since success of the technology upgradation scheme, to a large extent, depends upon the availability of adequate working capital, lending institutions would like to be assured that the borrowing units have made adequate arrangements for meeting the working capital requirements. Commercial banks should also accord priority in providing adequate working capital support to the assisted units.

Other conditions for loans

- i) Promoters' contribution, security, debt-equity ratio, up-front fee, etc. will be determined by the lending agency as per its existing norms
- ii) Units availing subsidy under the CLCSS shall not avail any other subsidy for technology upgradation from the Central/State/UT Government. However, cases covered under National Equity Fund (NEF) Scheme, which are otherwise eligible under the CLCSS can also be covered under this scheme.
- iii) **Units in the North-Eastern Region which are availing financial incentives/subsidy under any other scheme from the Government in the Region would, however, be eligible for subsidy under the CLCSS.**

- iv) One of the main requirements for sanction of assistance under the technology upgradation scheme will be availability of competent management in the unit concerned to carry out the upgradation programme and to manage the operation of the unit efficiently. Towards this end, the lending agencies may stipulate conditions as may be considered necessary.

Procedural Aspects

- i) All the eligible PLI (excluding the new nodal banks / agencies) will have to execute a General Agreement (GA) for availing capital subsidy under the scheme, irrespective of the fact whether refinance is availed by them or not.
- ii) The PLI may have the flexibility to execute the GA with either of the nodal agencies or with both the nodal agencies for providing subsidy to the eligible beneficiaries under the scheme. However, in the latter case, while claiming the subsidy from one nodal agency, the PLIs will have to give the undertaking to the nodal agency that they have not claimed subsidy under CLCSS in respect of the beneficiary unit from the other nodal agency (as the case may be).
- iii) After sanction of the assistance, the eligible PLI will get an agreement executed with the concerned SSI unit on behalf of Government of India (GoI). Format of the agreement to be executed by the eligible PLI with the SSI unit is provided in **Appendix III**.
- iv) The eligible PLI would obtain application for assistance under the CLCSS in the prescribed form provided in **Appendix – IV**.
- v) The eligible PLI shall furnish subsidy forecast on quarterly basis, through their Head Office (HO), which will act as a nodal office, to the Regional Office (RO)/Branch Office (BO) of the SIDBI or the NABARD (as the case may be) located in the region. The subsidy forecast information for every quarter on or before 1st March for April-June quarter, on or before 1st June for July-September quarter, on or before 1st September for October-December quarter and on or before 1st December for January-March quarter, may be furnished as per prescribed format.
- vi) The eligible PLI would release the subsidy amount with each installment of loan in a manner proportionate to the amount of term loan disbursed (on pro- rata basis), subject to the ceiling of the term loan/ subsidy amount as per applicable guidelines of the CLCSS.
- vii) The eligible PLI shall furnish details of release of subsidy to the beneficiary units, together with the request for replenishing advance money placed with PLI for release of subsidy, on quarterly basis on March 1, June 1, September 1 and December 1. The requests of PLI for replenishment of advance money for subsidy, however, would be entertained by the nodal agencies only on receipt of complete details of subsidy released to the beneficiary units.
- viii) The eligible PLI shall be responsible for ensuring eligibility for sanction of subsidy to the SSI units in terms of Government of India guidelines under this scheme and also for disbursement and monitoring of the assisted units.