

CHAPTER X : MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

10.1 Poor implementation of the Scheme of Integrated Infrastructure Development for Small Scale Industries.

The Ministry of Micro, Small and Medium Enterprises launched the Scheme of Integrated Infrastructural Development (IID Scheme) for small scale industries in rural/ backward areas in 1993-94 for setting up of IID centres with suitable infrastructural facilities to promote clusters of small scale and tiny units. The scheme was subsumed in the Micro Small Enterprises-Cluster Development Programme (MSE-CDP) from 2007-08. The Ministry released an amount of Rs 124.59 crore upto 2007-08 to various implementing agencies for 84 IID projects with an estimated cost of Rs 400 crore.

Audit reviewed the status of the implementation of the scheme and found that 42 out of 79 IID projects, which were due for completion by January 2008, remained incomplete. Delays in completion of projects ranged between one month and twelve years. Further, detailed field level audit of 10 centres in Assam, Haryana, Madhya Pradesh, Orissa and Uttar Pradesh revealed that many infrastructural facilities at the centres were incomplete. Also, by creating large plots and allocating plots to large units, the small scale and tiny units, which formed the target group for the scheme, were deprived of its benefits. There were also instances of deficient financial management and inadequate monitoring.

10.1.1 IID Scheme – An Overview

The Scheme of Integrated Infrastructure Development for small scale industries in rural/ backward areas (IID Scheme) was launched in March 1994 by the Ministry of Micro, Small and Medium Enterprises (MSME)¹. The IID Scheme envisaged setting up of IID centres in backward districts and rural areas², with creation/ upgradation of infrastructural facilities like power, water supply, communication etc. and provision of common service facilities and technological back-up services. The scheme was intended to promote clusters of small scale and tiny units, with a view to creating employment opportunities and developing exports, and also promote stronger linkages between agriculture and industry.

The salient features of the IID Scheme were as follows:

¹ The erstwhile Ministry of Small Scale Industries (SSI)

² Excluding districts covered under the Scheme of Growth Centres.

- The scheme envisaged that in an area of 15-20 hectares for establishing an IID Centre, about 450 plots of 200 to 300 sq. metre sizes would be allocated to individual units.
- The IID Centres were to be selected by a comprehensive industrial potential survey of the area. The location of the centres was to be close to district/ block/ taluka headquarters or other developing centres, with access to basic infrastructural facilities. Land was to be made available by the State / UT Governments for the centres.
- The IID Scheme was a Central Sector Scheme, and the Government of India (GoI) and the Small Industries Development Bank of India (SIDBI) were to contribute a maximum amount of Rs. five crore in the ratio of 2:3³ to each Centre, with costs exceeding Rs. five crore to be borne by the State/ UT Governments.
- Funding would be available for specified activities and work items. SIDBI would advance funds to the extent of Rs 5 crore to the implementing agencies in installments and claim simultaneously 40 *per cent* thereof, subject to a maximum of Rs 2 crores, from the Development Commissioner (DC-MSME)⁴ as grant.
- The State/ UT Governments were to prepare bankable projects and send them to SIDBI, who would conduct techno-economic appraisals of the projects and send the appraised projects to the DC(MSME), who was responsible for co-ordinating and overseeing progress of projects. The projects were to be approved by a High Powered Committee (HPC) before release of funds by SIDBI.
- The projects were to be implemented by the State Governments through appropriate agencies having good track record. Such agencies could be a public sector corporation or a corporate body or a good NGO having a sound financial position.
- A State Level Committee headed by the Secretary (Industries), and including representatives of DC (MSME), SIDBI and the lead bank, was to closely supervise and monitor the project.

³ 4:1 for the North Eastern Region

⁴ Erstwhile Development Commissioner (SSI)

- In the new centres, SC/ ST/ women entrepreneurs were to be encouraged. Where necessary, an Entrepreneurship Development Programme would be conducted to ensure sound and viable units.

Upto 2006-07, 87 projects were sanctioned by the Government of India, out of which three projects were cancelled in 2008. The remaining 84 IID centres involved a total cost of Rs. 400.18 crore. From 2007-08, the IID Scheme was subsumed in the Micro Small Enterprises Cluster Development Programme (MSE-CDP).

Till January 2008, funds amounting to Rs. 124.59 crore were released for the IID centres, as summarized below:

Table 1: Funds Released for IID Centres

(Rupees in crore)

Period	No. of IID Centres	Total Cost	Funds Released by GOI
Upto 2000-01	40	203.62	63.65
2001-02 to 2005-06	38	177.24	56.00
2006-07 and 2007-08	6	19.32	4.94
Total	84	400.18	124.59

According to DC (MSME) the Implementing agencies incurred an expenditure of Rs 330.12 crore on these projects till January 2008.

10.1.2 Audit Objectives and Methodology

The objectives of the audit of the IID Scheme were to assess whether:

- The proposed IID centres had been completed with necessary infrastructural facilities, and were being utilized effectively by small scale and tiny units;
- Funds provided for the Centres were utilized economically and effectively; and
- The guidelines of the IID scheme were being complied with.

The records of the Ministry of MSME relating to the IID Scheme were scrutinized in audit. In addition, out of the 84 IID centres, a sample of 10 centres in the States of Assam (Rangia, Malinibeel and Dalgaon), Madhya Pradesh (Lamtara, Nadantola, and Nimrani), Orissa (Somnathpur and Khurda), Haryana (Barhi) and Uttar Pradesh (Ramnagar) were selected for detailed field level audit and inspection.

10.1.3 Audit Findings

10.1.3.1 Overall Status of Completion of Projects

Audit scrutiny revealed that out of 79 projects⁵ sanctioned by GoI, which were due for completion on or before January 2008:

- 37 projects were completed as of January 2008; and
- 42 projects, which were required to be completed by December 2007 were still incomplete, out of which no funds had been released for two projects at Sandiya, Neemuch (MP) and Somnathpur, Balasore (Orissa).

An analysis of the delays in respect of the 42 incomplete projects is given below:

Table 2: Profile of Delay in Completion of IID Projects.

Period of delay in completion	No. of projects	Funds released (in Rs. crore)
More than 10 years	1	0.92
5 to 10 years	7	10.16
2 to 5 years	21	27.23
Upto 2 years	13	18.76
Total	42	57.07

The Ministry (October 2009) stated that 50 IID projects had been completed, and they attributed financial crunch, disturbed conditions, law and order problems, market conditions, overall industrial scenario, natural calamities like floods, tsunami, earthquake etc. in different states as the main reasons for delay in completion of the projects. The fact, however, remains that the Ministry failed to ensure completion of IID Centres, consequently, adversely affecting the scheme's objective of promoting clusters of small scale and tiny units through development of IID Centres.

10.1.3.2 Status of Implementation of Test-checked Projects

(i) Allotment to SSI and tiny units

The IID Scheme was intended to promote clusters of SSI and tiny units, and plot sizes of 200 to 300 sq. metres, appropriate for SSI and tiny units, were envisaged in the scheme guidelines. However, field audit scrutiny revealed that in 6 out of 10 test checked centres, SSI and tiny units were deprived of the

⁵ Of the 87 projects sanctioned upto 2006-07, five projects were due for completion after January 2008, and three projects were cancelled; hence, these projects have been excluded from the analysis.

intended benefits, as the plots allotted were much larger in size. The details are discussed below:

- In Rangia and Dalgaon centres in Assam, against the plot sizes of 616 and 401 sq. metre proposed in the Draft Project Reports, much larger plots of sizes ranging from 800 to 13,378 sq. metre were allotted and no allotments were made to tiny units. According to the implementing agency, this was because of non-receipt of any applications from tiny units.
- In Barhi centre in Haryana, plots of larger sizes of 450 to 4,050 sq. metre had already been carved out before approval of the centre under the IID Scheme. Consequently, no plot was available for allotment to SSI units. The Ministry / Implementing agency in its reply of October 2009 stated that only 17 plots were allotted to tiny units and 78 to small scale units. This shows that the focus of the scheme was not retained on the small and tiny units.
- In Ramnagar centre in Uttar Pradesh, against the original 150 plots of 200 sq. metre size and 239 plots of 300 sq. metre size envisaged in the DPR, 279 plots of sizes ranging from 450 to 1,800 sq. metre were actually developed. In response to an audit enquiry, the implementing agency stated that it was decided to develop the plot sizes as per actual requirements, to minimize long term development and maintenance costs and optimize better use of land; further, demand for small plots was negligible. The reply is not tenable, as no allotments had been made as of October 2009 and hence the benefits of the scheme could not be passed on to small entrepreneurs.
- In Khurda centre in Orissa, 15 acres of developed land was irregularly allotted to two educational institutions. The implementing agency stated that allotment to technical institutions for developing skilled manpower was permitted under the State's industry policy resolutions; however, this was violative of the IID Scheme guidelines. Further, in two IID centres in Khurda and Somnathpur, two plots totaling 58.15 acres of land were irregularly allotted to major industrial units.

Thus, by creating large plots and allocating them to large units, the SSI and tiny units which formed the target group for the IID Scheme, were deprived of the benefits of the scheme.

(ii) Status of completion of test checked projects

Out of 10 test checked projects which were sanctioned during June 1996 to October 2006, no projects were completed as of July to November 2008. However, the Ministry's status report of March 2009 indicated that three projects (Rangia and Dalgaon in Assam and Lamtara in Madhya Pradesh) had been completed.

**Table 3 : Extent of delay in completion of 10 test checked projects
(Status as of January 2008)**

Sl. No.	Project	Project cost (Rs in Lakh)	Amount released (Rs. in Lakh)	Date of Start/ release of funds by GOI	Due date of completion	Delay
1.	IID-Rangia, Assam	493.61	380.00	05/2003	05/2006	1 year 8 months
2.	IID-Malinibeel, Assam	510.00	344.00	06/2002	10/2004	3 years 3 months
3.	IID-Dalgaon, Assam	418.00	334.40	04/2000	04/2002	5 years 9 months
4.	IID-Lamtara, MP	186.25	55.39	07/2003	07/2005	2 years 6 months
5.	IID-Nadantola, MP	502.96	133.11	05/1997	06/1999	8 years 7 months
6.	IID-Nimrani, MP	511.00	40.90	09/2000	12/2004	3 years 1 month
7.	IID-Somnathpur, Orissa	436.53	-	10/2006	05/2008	-
8.	IID- Khurda, Orissa	493.40	98.68	06/1996	06/1998	9 years 7 months
9.	IID- Barhi, Haryana	460.86	173.27	11/2003	11/2005	2 years 2 months
10.	IID- Ramnagar, UP	567.15	100.00	06/2001	12/2003	4 years 1 month



**IID Centre at Khurda, Orissa
Sanctioned at a cost of Rs 4.93 crore in June 1996**



IID Centre at Barhi, Haryana
Sanctioned at a cost of Rs 4.61 crore in November 2003



IID Centre at Nimrani, Madhya Pradesh
Sanctioned at a cost of Rs 5.11 crore in September 2000



IID Centre at Rangia, Assam
Sanctioned at a cost of Rs 4.94 crore in May 2003

Audit scrutiny revealed that:

- In Assam, the delay in completion of projects was due to delay of 4 to 80 months in release of central and state share in all three projects. The Ministry, in its reply of October 2009, stated that Assam and other North Eastern States were facing shortage of funds, and that the working season was very short in the case of Assam.
- In Haryana, the IID centre was still incomplete even after a lapse of more than five years since its commencement.
- In Orissa, the delay in completion of three IID centres ranged from three months to ten years. Further, Rs. 1.06 crore was spent on an IID centre at Pitamahal, Rayagada till December 2005, after which investment was stopped due to low potential and lack of demand by the entrepreneurs. Development of another IID centre planned at Paradip, Jagatsinghpur district could not commence due to a land dispute and resulting court case. The unspent balance of Rs. 1.58 crore on account of these two centres was transferred to the IID centre at Somnathpur, which also remained incomplete.

This indicated improper selection of centres and lack of effective monitoring at the Ministry level, due to which the objectives of the scheme could not be achieved.

(iii) Status of completion of infrastructural facilities

The status of completion of different infrastructural facilities at the 10 selected IID centres is summarized below (as of October 2009):

Table-4

	Facilities Completed	Facilities incomplete	Information not available with audit	Total projects
Development of land	06	01	03	10
Construction of roads	07	-	03	10
Water supply / drainage/ Effluent treatment	08	02	-	10
Internal Power Distribution	07	02	01	10
Telecom Facilities	07	03	-	10
Common facilities & amenities (Bank, Post office)	03	07	-	10
Raw material depot	01	04	05	10

Further, audit scrutiny revealed that:

- The Administrative Building at IID centre at Malinibeel (Assam) was not constructed, even after a lapse of more than four years after the scheduled completion date. The Ministry stated that construction of administrative building for this centre was under progress since the financial year 2008-09.
- Unauthorised expenditure of Rs. 3.17 crore was incurred on the three centres in Assam on inadmissible components – construction of boundary wall, pre-operative expenditure and contingencies, greenery and beautification etc. – at the expense of other activities like effluent treatment and disposal system, raw material depot and marketing outlets, common services centre (including technological backup services), and first aid centre.
- Despite incurring expenditure upto 89 *per cent* of approved project cost, the infrastructural facilities were yet to be completed by the implementing agency in Uttar Pradesh in respect of IID Centre Ramnagar.

10.1.3.3 Financial Management

Audit scrutiny revealed the following cases of deficient/ irregular financial management in Assam:

- **Short release of Central and State share**

As against the Central share of Rs 8.03 crore due for the IID centres at Rangia and Malinibeel, only Rs 7.24 crore were released, resulting in short release of Rs 0.79 crore as of March 2008. The State Government also released Rs 0.94 crore less against the due amount of Rs 2.01 crore. Thus, there was a total short release of Rs 1.73 crore. Also, although the State Government sanctioned Rs 0.58 crore in November-December 2007 as its matching share for IID centres at Rangia and Malinibeel, the Director of Industries released the funds to the implementing agency in March 2008 and the units received the amount only in September 2008, with a delay of almost 9-10 months.

- **Short accountal of lease money/ development charges of Rs. 1.19 crore by Rangia and Malinibeel centres**

The sanction letters for funds issued by the Government of India stipulated that the implementing agencies would operate a separate account for each IID centre. Audit scrutiny revealed that the implementing agency received

Rs 2.69 crore as development charges from 19 entrepreneurs against developed land for the IID centre at Rangia, but only Rs 1.91 crore was accounted for in the cash book of the centre, and the balance amount of Rs 0.78 crore was irregularly retained in the General Fund of the implementing agency, outside the IID centre's account. Similarly, the implementing agency received Rs 0.41 crore as lease / development charges from nine entrepreneurs against the allotment of developed land at the IID centre at Malinibeel. This amount was not accounted for in the cash book of the centre.

- **Diversion of funds**

The GOI had specially instructed that no administrative expenditure be incurred out of the funds allocated for the projects. However, Rs 9 lakh was irregularly incurred on administrative expenditure by the implementing agencies in the Dalgaon and Malinibeel centres. The Ministry stated that the amount of Rs 9 lakh would be transferred from these two IIDs to AIDC Ltd.

- **Unadjusted advance**

The approved project cost of the IID centre at Rangia included provision of Rs 0.97 crore for power arrangement / electrification. The implementing agency incurred an expenditure of Rs 0.68 crore which included an advance payment of Rs 0.48 crore to Lower Assam Electricity Distribution Company Ltd. in June 2007 for electrification purpose. The payment was made to the company without entering into any contract agreement / Memorandum of Understanding (MOU). The company failed to start the work and the amount of advance paid to the company remained unadjusted.

- **Non-payment of cost of land to State Government**

As per the guidelines of the scheme, the land for the IID centres was to be made available by the State Government and the cost of the same was to be paid by the implementing agencies. The State Government allotted and handed over land to the implementing agency for setting up of the IID centres at Rangia, Dalgaon and Malinibeel. However, no payment was made to the State Government, though an amount of Rs. 3.69 crore was realized as lease money by the implementing agency from the entrepreneurs.

10.1.3.4 Entrepreneurship Development Programme

In 6 out of 10 centres (Malinibeel and Dalgaon in Assam; Khurda and Somnathpur in Orissa; Nadantola in MP; Ramnagar in UP), there was no evidence of encouragement of participation of SC/ ST/ women entrepreneurs.

10.1.3.5 Monitoring and Evaluation

State Level Committees (SLCs) were to be constituted for supervising and monitoring the project. However, in 9 out of 10 projects, SLCs were either not constituted or not functional, or no records of their functioning were made available to Audit. In the case of the tenth centre (Khurda, Orissa), the SLC, which was constituted in June 1994, did not convene any meeting after June 2000.

As evident from the delay in completion of centres, the status of progress/ completion of different centres was also not effectively monitored in the Ministry.