

## CHAPTER XII : MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

### 12.1 Inadequate follow-up of loans in Khadi and Village Industries Commission, Mumbai

**Inadequate follow-up of loans by KVIC resulted in non-recovery of ₹ 551.46 crore and funds amounting to ₹ 226.70 crore, meant for development through execution of Schemes and Programmes, were diverted to service the loans of institutions.**

KVIC, under the administrative control of the Ministry of Micro, Small and Medium Enterprises (the Ministry) was established for promotion and development of Khadi and Village Industries (KVI) sector. The 'KVIC Loan Rules, 1958' empowered it to extend financial assistance in the form of loans to the various Institutions registered with it or with Khadi and Village Industries Boards (KVIBs) of State Governments. This financing was facilitated through budgetary sources of Government of India (GOI) in the form of loan to KVIC. KVIC, also disbursed funds to KVI Institutions under the Consortium Bank Credit (CBC) arrangement with State Bank of India (SBI) during 1995-96 to 2001-02. KVIC used to draw funds from SBI and was directly engaged in disbursements to beneficiaries (KVIBs and Institutions) and was responsible for recovery of due amounts of principal and interest from the beneficiaries for repayment to SBI.

As on 31.03.2015, the total loans outstanding was ₹ 1008.30 crore (GOI) and ₹ 509.30 crore (CBC) and an amount of ₹ 272.48 crore and ₹ 278.98 crore respectively was overdue with beneficiaries in respect of loans from KVIC funds and CBC funds (excluding loan for WC which was not refundable).

It was noted that KVIC did not have any system in place to pursue recovery of the outstanding loans amounting to ₹ 272.48 crore overdue (March 2015). KVIC is also incurring interest liability on the outstanding GOI loan year after year (around 11 *per cent*) but the same is being serviced only to the extent of actual realization. Recovery of principal from beneficiaries against loans from CBC funds was also poor and the outstanding of overdue principal on loans from CBC funds with the beneficiaries stood at ₹ 278.98 crore (March 2015).

To meet repayment to SBI under the CBC arrangements, it was seen that KVIC had diverted funds meant for development through execution of Schemes and

Programmes. An amount of ₹ 226.70 crore had been diverted for payment to SBI (principal) upto 31 March 2015.

Management stated (November 2015) that action has been initiated for recovery of interest dues from institutions and that there were no demands from the Ministry for repayment of loan. Management further stated (December 2015) that KVIC did not have any alternative but to utilize the available fund balance and interest earned on such fund to discharge its liability of repayment to SBI to save the loan account of KVIC from being declared as non-performing asset. Management stated (January 2016) that due to non-consolidation of state-wise schedules and manpower constraint, the consolidated statement of outstanding loans in respect of loan from 'KVIC fund' was not prepared and the exercise of rigorous follow-up of outstanding loans from KVIC funds would be taken up after preparation of same.

The reply of the management only confirm the diversion of funds meant for development to meet the liability of repayment to SBI. Such diversion and such an arrangement did not have the explicit approval of the Ministry.

Thus, the failure of KVIC to follow-up and monitor the realization of loans has resulted in non-recovery of ₹ 551.46 crore and diversion of funds amounting to ₹ 226.70 crore meant for development through execution of Schemes and Programmes.

## **12.2 Implementation of SFURTI by KVIC**

### **Inadequate controls and monitoring and Lack of transparency in implementation of SFURTI by KVIC**

#### **12.2.1 Scheme of Fund for Regeneration of Traditional Industries**

**12.2.1.1 Introduction:** The Scheme of Fund for Regeneration of Traditional Industries (SFURTI), to produce marketable products using locally available raw material, skills and indigenous technology was approved by the Government of India in October 2005, to develop clusters in Khadi and Village Industries (KVI) and Coir Sector all over the country over a period of five years. The objectives inter-alia included providing sustained employment through these clusters to traditional industry artisans and entrepreneurs, strengthening the local governance of the industry clusters, building up of improved technologies, processes, market intelligence and new models of

public-private partnerships. Though the scheme was scheduled to be completed by 2009-10, it was extended up to March 2013.

**12.2.1.2 Implementation Framework:** The scheme framework stipulated that policy co-ordination support would be provided by the Ministry of Micro, Small and Medium Enterprises. Scheme Steering Committee (SSC) with Secretary of the Ministry as Chairman and representative members from Planning Commission, Coir Sector, KVI Sector, Banking and Financial Institutions, etc would be constituted. The SSC would identify Technical Agencies (TA) having requisite expertise for providing technical support to Nodal Agency (NA). KVIC was to be the Nodal Agency (NA) in KVI sector and 'Coir Board' for coir sector. The clusters were to be selected on the basis of their geographical concentration, potential for growth in production and generation of employment opportunities.

NA would identify the prospective clusters and Implementing Agencies (IAs) based on pre diagnostic study and verification of credentials of IA. The IA would be Government/semi-government institutions/NGOs with suitable expertise to undertake cluster development.

On obtaining in-principle approval of SSC, each IA would identify and appoint a Cluster Development Executive (CDE) exclusively for each cluster. The IA would enter into an agreement with NA, TA was to sign Memorandum of Understanding with NA and CDE would enter into an agreement with IA.

**12.2.1.3 The Support measures/Intervention measures:** The Support measures/Intervention measures consisted of replacement of charkas and looms by new models, establishment of Common Facility Centres(CFC), intervention in Product Design and Development to enable development of new products, new designs and improved packaging of products, market promotion and capacity building activities etc.

**12.2.1.4 Funding pattern:** The scheme envisaged a maximum government grant of ₹ 104.75 lakh for each khadi cluster and ₹ 78.50 lakh for each Village Industries (VI) cluster with 25 *per cent* matching contribution by IA under select components.

### 12.2.2 Audit Methodology, Objective and Scope

Audit examined the implementation of the Scheme in KVI sector by KVIC since inception of SFURTI scheme to 2012-13 (first phase) and its way forward to the XII plan period (second phase). KVIC had developed 29 clusters in khadi sector and 47 clusters in VI sector during the first phase of SFURTI. Audit selected a sample of eight clusters for detailed examination (as listed in **Annex-I**) The Audit sample represents approximately 10 *per cent* of each sector (i.e. 3 out of 29 khadi clusters and 5 out of 47 clusters of VI) and also 10 *per cent* of the overall population of 76 clusters promoted.

Audit was conducted through review of records maintained at the Directorate of SFURTI (i.e. the Programme Directorate) at Central Office of KVIC at Mumbai and examination of 8 clusters through visit to the selected clusters and their respective field offices of KVIC. The audit was conducted to derive an assurance as to the proper and transparent implementation of the scheme by KVIC and to ensure that the scheme had been effective/successful in achieving its intended objectives.

### 12.2.3 Audit Findings

KVIC had received ₹ 62.94 crore during the years 2005-06 to 2010-11 for implementation of the scheme; had developed 29 clusters in Khadi and 47 clusters in VI sector, expending a sum of ₹ 56.26 crore, unspent balances of ₹ 3.69 crore was refunded during 2012-13. Remaining sum of ₹ 2.99 crore was carried forward for utilization in implementation of 'Revamped SFURTI scheme' in the Twelfth Plan Period. As of 31 March 2015, KVIC was having an unspent balance of ₹ 2.33 crore.

The production of records in respect of two of the selected clusters viz. Horn & Bone product (HAB) cluster, Moradabad, Uttar Pradesh and Tikarmafi Woolen & Cotton Khadi (TW&CK) cluster, Sultanpur, Uttar Pradesh by the Field Office/IA was grossly incomplete. In respect of Singhbhum Beekeeping (SBK) cluster, Jharkhand, the records was stated to be under CBI custody. Hence, no meaningful examination could be conducted to vouchsafe proper and effective utilisation of funds amounting to ₹ 199.83 lakh in respect of these three clusters.

In view of foregoing, Audit observations regarding the output delivered by the other five clusters (out of 8 clusters selected) in specific and the overall

effectiveness of implementation of SFURTI scheme in KVIC are discussed in the subsequent paragraphs.

### **12.2.3.1 Intervention & Support measures and their effectiveness**

#### **(i) Replacement of charkhas & looms**

The maximum financial assistance under the SFURTI scheme to a Khadi cluster for replacement of equipments was ₹ 37.50 lakhs (36 *per cent* of maximum permissible assistance). In the two Khadi clusters selected in audit, Swami Ramanand Tirth (SRT) and Surendranagar Cotton Khadi Cluster (SCK), it was observed that there was no system of monitoring the equipment-wise production turnout in respect of distributed charkhas and looms. Audit further observed that there was no monitoring of assets by means of allocation of unique ID and systematic physical verification. In SRT cluster, the signatures of the beneficiary artisans to whom the charkhas were distributed were not found available on record. The effectiveness of the expenditure of ₹ 71.95 lakh (38 *per cent of actual assistance*) on the replacement of charkhas/looms in the two clusters could therefore not be ascertained in audit.

Management stated in its reply (March 2015) that the concerned field offices have done the verification of charkhas and looms distributed to the artisans. At SRT cluster, all the Charkhas and looms procured under SFURTI are placed in Production centers of IA and are being utilized by artisans.

In the absence of physical verification reports and details of production output from each of the replaced equipments, audit was unable to confirm physical availability or utilization of equipments replaced.

#### **(ii) Setting up of CFC and its utilisation**

The scheme guidelines envisaged that the Common Facility Centres (CFC) would consist of machinery and work shed, which would be made available for the common use by artisans. The maximum assistance under the SFURTI scheme for CFC for each cluster was ₹ 11.25 lakhs (11 *per cent*) in Khadi sector and ₹ 22.50 lakh (29 *per cent*) in VI sector. In the five clusters examined by audit, total grant of ₹ 87.93 lakh (21 *per cent* of the total assistance) was for CFC.

Audit observed the following:

- Only in two of the clusters (viz. Barpeta Cane and Bamboo Craft (BCB) Cluster and partly in Siddha and Ayurveda(S&A) cluster) the CFC was being utilised by the artisans independently; in others it was being utilised by the artisans attached and working under the implementing agencies. As in majority of clusters, CFC did not have a separate entity independent of implementing agencies, the artisans continued to remain piece-rated workers of the IAs, they did not stand to gain directly by this expenditure.
- In respect of Horn and Bone (HAB) product cluster, the CFC was set up on agricultural land and as the clearance from the State Pollution Control Board could not be obtained, the cluster is non-operational.
- No exit policy was put in place by the Ministry to ensure sustainability of the clusters developed under SFURTI, to ensure that the benefits would accrue to all the beneficiaries beyond the project period.

Management replied (March 2015, July 2015) that SFURTI guidelines did not insist on a separate entity of CFC independent of implementing agency and that there was no aspect of sustainability envisaged in the original scheme. Also, in respect of HAB cluster, despite the fact that regular meetings of the Cluster Development Coordination Group (CDCG) under the chairmanship of the District Collector were held, the environmental pollution certificate could not be obtained.

The reply of the Management is not tenable as although the scheme did not explicitly envisage an entity of the CFC independent of the IA, but the objective of the scheme was to strengthen the local governance systems of clusters through active participation of stakeholders so that they were able to undertake development initiatives by themselves. This objective would not be implemented unless separate identity of CFC was ensured. Besides, two clusters (BCB and S&A) could ensure that the CFC was being utilized independently by the artisans. The direct control of the IA over the CFC would result in augmentation of capacity and earnings of IA, rendering the artisans only like piece rated workers, as they were prior to SFURTI.

### **(iii) Market Promotion**

The intervention of Market promotion assistance (MPA) envisaged undertaking activities which could directly increase sales like organizing fairs, exhibitions, linkages with big buyers, exports, upgradation/computerization of marketing

outlets, opening of new outlets, bar coding, advertisement, ISO/Agmark certification etc. Budgetary grant of ₹ 15 lakh per cluster (being 14 *per cent* in Khadi and 19 *per cent* in VI) was envisaged in the scheme. Total expenditure of ₹ 70.3 lakhs (17 *per cent* of total assistance) in the five clusters examined by Audit was for MPA.

Audit observed the following:

- Renovation of the existing sales outlets was the major activity carried out by all clusters under this intervention besides organizing exhibitions, development of product catalogue and sales outlet computerization.
- SCK cluster had introduced e-marketing; Amrawati Wardha Beekeeping (AWB) and SCK clusters had launched websites; bar-coding and branding have not been carried out by any of the clusters. As regards the status of ISO/AGMARK certification, one of the clusters viz. S&A, the IA already had an ISO certification prior to introduction of SFURTI; SRT cluster obtained ISO certification in December 2011; in BCB Cluster, an application has presently been made for obtaining ISO; in AWB, an application has been made for obtaining 'Agmark' branding; no initiatives have been taken by SCK cluster in this direction till now.
- In AWB cluster, a sum of ₹ 6.26 lakh out of ₹ 10.80 lakh utilized, was deposited with Nagpur Municipal Commissioner (NMC) during October 2011 for allotment of a shop for opening of new sales outlet at Nagpur; however, neither the shop has been allotted nor refund of the amount has been obtained; thus, a major part of the grant remained idle for over four years with NMC without any benefit to the stakeholders.

Thus, in the scenario of piece rated artisans (in three out of five clusters viz. SRT, SCK and AWB) and the IAs marketing the products under its brand name, the expenditure of ₹ 40.3 lakh on MPA grant in these three clusters had not benefited the artisans in any direct way.

### 12.2.3.2 Performance evaluation of clusters and impact on artisans

The tables in **Annex-II** elaborate the performance of clusters in terms of three key parameters viz. number of artisans, artisans earnings, production and productivity from 2007-08 (pre-intervention) to 2014-15.

**(i) Cluster-wise analysis of performance:**

The artisans of BCB cluster are engaged in production and marketing of cane and bamboo artifacts. The artisans of the cluster work independently. The IA carried out capacity building measures, set up CFC for common use by all artisans and performs other coordinating activities. The artisans process their products at CFC free of cost by bearing the electricity charges and also have the option to sell their products on their own or at the collection centres set up by IA. The artisans are thus not paid workers of IA.

As per the Completion Report (CR) of the cluster, value of production had increased by 180 *per cent* and the number of artisans had increased by 56 *per cent*, between 2007-08 and 2011-12.

Audit observed that there was no unique ID for the artisans and there was no audit trail to verify the increased earning or production levels of artisans. Also, the increase in artisans strength reported in the CR at 1382 was far below the DSR target of 2500.

- SCK cluster, was engaged in khadi activities and the IA provided raw materials, machines and services to artisans. Audit observed that, although the number of artisans increased from 100 to 536 during 2007-08 to 2014-15, the production declined from 2.10 lakh meters to 1.75 lakh meters respectively. Thus there was a decline in productivity to the extent of 84 *per cent* and the artisans were not gainfully employed.
- In S&A cluster, operating in Dindigul and Theni districts of Tamil Nadu, the artisans are engaged in production of Siddha and Ayurveda medicines from herbs and roots of medicinal plants. As per field office reports, number of artisans had gone up from 242 to 665; production of all the years (excepting 2009-10) was much lower than the production of pre-intervention year of 2007-08. There was consistent declining trend of production and productivity since intervention of SFURTI. Thus, the benefits derived by the cluster and its artisans on account of SFURTI implementation could not be established.
- SRT is a Khadi cluster, with artisans mainly engaged in pre-spinning, spinning and weaving activities. The production increased by 38 *per cent* (approx) as against the increase in the number of artisans being 59 *per cent* between 2007-08 and 2014-15 respectively. Thus, the productivity of the cluster showed a negative growth of 14 *per cent* during the period.



Also, the number of artisans actually associated with the cluster was 479 as of March 2015. Thus, the DSR deliverables with regard to employment generation for 1200 artisans and production increase by 40-60 *per cent* were not achieved. Due to the absence of details in respect of wages earned per hour, the actual contribution of SFURTI for improving artisans earnings could not be ascertained.

- In AWB cluster, the tribes (artisans) of Melghat region of Maharashtra, have been trained in scientific honey collection process from wild bee colonies in the forest. The IA procures the honey collected by the artisans, processes the same in the scientific honey processing plant at CFC, undertakes packaging and labelling and markets the same in the brand name of Melghat honey. The IA trained and distributed tool kits to 510 artisans for scientific collection of honey and the artisans have the option of selling honey to the IA or engage in direct sale by themselves.

As per the field office reports, the number of artisans engaged increased from 70 to 510 during 2007-08 (pre-intervention) and 2010-15 (post intervention). Artisans were paid in cash and no unique ID was allotted to establish the number of artisans trained and consistently engaged etc. As honey collection is seasonal employment, the artisans could be employed for part time also and there was no system to capture time spent, earnings thereof etc. and thus evaluation of impact of SFURTI was not feasible.

- HAB cluster, proposed with the objective of assisting the artisans who work with animal bones and horns for making jewellery, photo frames, buttons etc. Audit observed that the cluster had engaged in production for 5 days only and remained non-functional henceforth, as KVIC could not obtain clearance of Pollution Control Board. Thus, the expenditure of ₹ 63.12 lakh in creation of cluster remained unfruitful.
- TW&CK, a woolen and cotton khadi Cluster, was non-functional since 2010-11 due to dispute regarding Management Committee which is sub-judice. As the cluster had not engaged in production activity since 2010-11, the grant of ₹ 63.81 lakh to the cluster remained unfruitful. We were unable to verify the expenditure incurred or the performance of the cluster due to non-submission of information by KVIC despite repeated reminders.

Audit observed that out of the clusters examined in audit, production increased in two of the clusters (SRT and AWB) and the number of artisans increased in all the clusters; however, there was no increase in productivity per artisan in any of the clusters. In two clusters (SCK and AWB), the IAs have been able to sustain and increase their profitability level. In SRT, the IA had come to profits since SFURTI intervention while in S&A, there had only been declining trend in operations and profitability level of cluster. Thus with the implementation of SFURTI, the operations of three of the IAs (out of 8 clusters) became more profitable and sustainable and thereby contributed to the better sustenance of artisans associated with them. Besides the above, there were no evidence to establish enhancement in artisans' earning capacity/productivity and consequent increase in their earnings. Thus, the success of implementation of SFURTI, by expending ₹ 415 lakhs, in the five clusters examined by audit, could not be established. The wages in khadi sector was far below national minimum wages.

Management stated (March 2015) that the wages of khadi artisans had increased by 40-50 *per cent* though their earnings remain below minimum wages and that the objectives of SFURTI were achieved to some extent.

**(ii) Variations between figures reported by KVIC and that reported by field offices**

Audit observed variations in the figures reported by KVIC in the booklet titled 'Success Stories from SFURTI Clusters' (SS), Completion Report (CR) of cluster and actual figures reported by field offices in respect of key performance parameters in four clusters as detailed below:

- In respect of SRT cluster, as per CR, the production for 2011-12, was ₹ 235.21 lakh and that as per Field Office report was ₹ 164.92 lakh.
- In S & A cluster, the production and sales for 2011-12 (post-intervention) was reported in the SS booklet at ₹ 291 lakh and ₹ 332 lakh respectively, whereas as per the Field Office, the same were ₹ 72.83 lakh and ₹ 113.66 lakh respectively.
- Similarly, in respect of AWB cluster, as per SS booklet, the production and sales for 2012-13 were ₹ 130.75 and ₹ 143.67 lakh respectively and as per Field Office the same were ₹ 12.05 lakh and ₹ 17.48 lakh respectively.
- In BCB cluster, the sales for 2011-12 as per SS booklet stood at ₹ 1927 lakh while as per Field office report the same was ₹ 1236.19 lakh.

Management replied (March 2015), that the differences relating to production, sales, number of artisans etc. need to be confirmed from the respective institutions through field offices and will be apprised to audit.

However, the differences remain unreconciled even after a lapse of eleven months.

**(iii) Impact on artisans**

The scheme aimed to strengthen the local governance system through consortium of SHGs and takeover of management of CFC by consortiums. Further, all artisans enrolled in the cluster were to be extended with insurance benefits and children educational scholarships under Janshree Bima Yojna (JBY). The other welfare measures envisaged included Artisans Welfare Fund Trust (AWFT) health insurance, credit linking, home loan facility, pension for artisans etc.

Audit observed that BCB cluster had provided the facility of credit linking for working capital (to 175 artisans out of 1382 artisans) and health insurance (for 382 out of 1382 artisans) during 2011-12 in the entire spell of seven years since SFURTI intervention. 509 artisans were provided with Insurance/Health/Pension benefits in HAB cluster. Medical insurance cover was provided by S&A cluster to 153 out of 665 artisans. Besides such partial provision of facilities by few clusters, there were no other benefits extended in VI clusters. JBY and AWFT were the only measures implemented in Khadi clusters.

Management stated (March 2015) that all the IAs have introduced welfare measures in each cluster for the betterment of the artisans. Management further stated that SHGs have been formed.

Although 170 SHGS have been formed in 6 clusters (of the 8 clusters test checked), the same needs to be strengthened through association of SHGs in management of CFCs to make the formation of SHGs a meaningful exercise towards empowerment of artisans and strengthening of local governance.

**12.2.3.3 Role of Cluster Development Executive (CDE)**

The scheme envisaged that the CDE would be the mentor to oversee the implementation of cluster development programme successfully at ground level. It was however seen in audit that the CDEs changed frequently, defeating the purpose of his appointment. In five years span, four persons had worked as CDE in BCB; there were 3 different CDEs associated during the SFURTI

tenure in SRT and in SCK clusters as well. CDEs were trained by TA for development of cluster, but there was no system to ensure their retention for a reasonable period. Although as per the standard terms of agreement with CDE, a bond of ₹ 2 lakh had to be executed in the prescribed format and that he would work for a minimum of 3 years, no such bond was executed by CDE at the time of his appointment in any of these five clusters test checked by Audit. Management replied (March 2015) that as CDE was remunerated only ₹ 12,000 per month, they could not insist on bond of ₹ two lakh and that they had the option to quit by giving one month's notice.

The reply of Management confirms the fact that despite the critical role assigned to CDE, the scheme failed to ensure his continuity in the cluster.

#### **12.2.3.4 Monitoring mechanism**

The Monitoring mechanism of the scheme had the following control gaps:

- KVIC failed to ensure appropriate tracking system of beneficiaries by means of assignment of Artisans' enrolment number (AEN)/other unique ID.
- There was no database of key factors of implementation like number of artisans, their earnings, productivity, time devoted by the artisans, whether full time/part time artisans etc.

Non-assignment of unique ID or other system checks through introduction of online monitoring system, as envisaged in the scheme guidelines, to ensure transparency and to ensure de-duplication of artisans was a serious lapse of KVIC.

#### **12.2.4 Conclusions and Way forward for XII Plan period**

Based on the above, it can be concluded that the amount of ₹ 56.26 crore spent on implementation of SFURTI by KVIC during 2005-06 to 2010-11 has not made much headway either in making traditional industries more competitive, market driven and productive nor helped in improving artisans' conditions.

The proposals for the XII plan period, as approved by the Ministry in August 2014, proposed development of 3 types of clusters viz. 'Heritage Clusters' with a financial assistance of ₹ 8 crore, 'Major clusters' with a financial assistance of ₹ 3 crore and 'Mini clusters' with a financial assistance of ₹ 1.5 crore and promotion of 800 clusters in all under the approved revamped SFURTI guidelines. The Project Management System (PMS) was expected to manage

the project online right from inviting proposals to screening of applications, release of funds and concurrent monitoring of progress till completion. However, KVIC is yet to (September 2015) put in place the PMS system. In the absence of guidelines for online scrutiny, KVIC invited (September 2014) proposals and went ahead with scrutiny of proposals through state/zonal level committees. 35 clusters have been identified, DSRs of 10 clusters and detailed project reports (DPR) of 9 clusters have been approved (September 2015) by SSC under revamped SFURTI.

Thus, the issue of ensuring transparency through online processes, which was lacking in the first spell of SFURTI, remains to be addressed at the very beginning of its implementation during the XII Plan period as well. As the scheme envisages better governance system by involving stakeholders, efficient controls, online monitoring, internal audits etc. need to be built in the design before embarking with the scheme implementation during the XII plan period.

The Ministry replied (February 2016) that the Revamped SFURTI scheme was launched in August 2014 and guidelines issued in June 2015. Meanwhile KVIC and Coir Board sought and collected applications as the scheme had come to a grinding halt. Ministry further stated that the templates for online PMS have been designed, the development of online system was under way and that the approvals already given would also be made a part of the PMS on its completion.

Reply of the Ministry confirms the observations made by audit while highlighting the efforts being made to make online PMS operational. The transparency in execution of the Scheme in its way forward needs to be ensured by the Ministry.