CHAPTER III : MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTRIES

3 Khadi and Village Industries Commission

Over the years, KVIC[1] moved towards a greater reliance on grants from Government of India and credit facilities from a consortium of banks. Its claims about its contribution to employment generation were not credible. Its performance in employment generation under CBC[2], DSEP[3] and BDP[4] schemes was extremely poor. Though fully responsible for effecting recovery of loans met from bank finances, KVIC fared poorly in establishing systems to watch recoveries. There were several irregularities in implementing CBC scheme. It diverted funds from Plan to Non-plan and changed the target group of beneficiaries under DSEP and BDP without approval of Government of India in either case. No proper system exists either in the Commission's Head Office or at various State Offices for appraisals of projects and institutions for loaning purposes and watching recoveries. KVIC also did very little to implement any marketing strategy recommended by expert committees. It continued to incur huge losses due to unsold stocks and lack of credit policies.

The claims of KVIC regarding achievement of targets are suspect on account of the facts revealed in the review. They are also doubtful due to the disaggregated picture that emerges from a scheme-wise analysis at the facts.

Highlights

- **Targets for DSEP and 125 BDP were not achieved; targets for employment under CBC Scheme were also not achieved.**

- **Loans recovery was very poor and failure of KVIC to recover loan repayment instalments totalling Rs 108.77 crore and interest amounting to Rs 236.88 crore from the loanees under the CBC scheme resulted in KVIC drawing on its budgetary resources (loan account and REGP account) to repay Rs 345.65 crore to the banks.**

- **Loans for working capital amounting to Rs 272.27 crore, instead of term or composite loans as envisaged by the CBC scheme, were granted by KVIC.**

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[1] Khadi and Village Industries Commission
[2] Consortium Bank Credit
[3] District Special Employment Programme
[4] Blocks Development Programme

- **KVIC failed to install an effective system to evaluate projects and institutions for loans to be given and watching recoveries. Of the loans amounting to Rs 2260.86 crore disbursed upto March 1999, Rs 1752 crore (78 *per cent*) was pending recovery as on March 2000.**

- **Mounting unsold stocks increased from 30.96 crore in 1994-95 to 49.02 crore by the end of March 2000; KVIC was unable to furnish age/itemwise break-up of closing stocks.**

- **The recommendations of expert committees to strengthen its marketing strategy were not acted on; trading units of KVIC involving an investment of Rs 89.57 crore were running in losses.**

- **KVIC relied increasingly on grants instead of loans from Government of India for its programme of providing credit to implementing institutions.**

- **The administrative expenditure exceeded sanctioned amounts by 118 *per cent*; KVIC diverted Rs 135.21 crore from Plan to Non Plan funds without prior approval from the Ministry.**

- **Interest and penal interest recoverable on loan amount of Rs 2315.51 crore disbursed as on March 2000 was not worked out by KVIC.**

- **Funds to the tune of Rs 11.91 crore in 381 defunct institutions financed directly by KVIC and Rs 217.24 crore in 41714 defunct institutions financed by State Boards were not accounted for.**

- **Rs 4.48 crore released to 34 institutions were misutilised.**

- **Expenditure of Rs 5.55 crore on four sliver and roving production plants proved infructuous.**

3.1 Introduction

KVIC with its head quarters at Mumbai was set up on first April, 1957 under the Khadi and Village Industries Commission Act, 1956.

The programme for development of khadi and village industries is implemented by the KVIC through its directly aided institutions and State Khadi and Village Industries Boards.

For executing the programme, the Commission advances loans and grants to the State Boards and to the directly aided institutions/Co-operative societies subject to the prescribed terms/conditions and loan rules. The State Boards in turn advance loans and grants to the institutions and cooperative societies, which execute the activities. The accounts of the State Boards are not subject to direct scrutiny by the Commission. The State Boards are accountable to the respective State Governments and State Legislatures.

The aims and objectives of KVIC are:

- the social objective of providing employment;
- the economic objective of production of saleable articles;
- the wider objective of creating self-reliance among the people and building up of a strong rural community spirit;
- rural industrialisation;
- skill improvement;
- transfer of technology etc.

3.2 Scope of Audit

The working of the Commission for the period 1994-1995 to 1999-2000 was reviewed by test check of records maintained at the Central Office and at various State /Regional Offices conducted during the period July to September 2000.

3.3 Organisational set up

- As required by sections 4 and 5 of the KVIC Act, 1956 as amended in July 1987, KVIC comprises 10 members including eight non official members with voting rights and two ex-officio members, namely Chief Executive Officer and Financial Adviser/Chief Accounts Officer of the KVIC, without voting rights. KVIC implements its programme through Zonal Office/State Office & sub offices as well assistance routed through State Boards. There are 22 departmental training centres & 27 marketing bhavans.

3.4 Financial sources

The Commission receives funds through various sources for financing its development programme. The major sources are budgetary support from Government of India, credit from a consortium of banks and institutional finance by commercial banks under an Interest Subsidy Scheme.

3.5 Targets and achievements

As per the guidelines issued by the Commission all the units financed by KVIC or by State Boards have to furnish a quarterly and annual performance report indicating target and achievement in respect of production, employment which are further compiled after due scrutiny by the respective State Offices/State Boards and Industry Directorates. The PAC[5] in its 52nd report of 1980-81 directed KVIC to strengthen its machinery for collection of quarterly reports and set up monitoring boards

[5] Public Accounts Committee

in each State to evaluate the progress of the programme. The Monitoring Boards was to review the progress quarterly.

The financial target and achievement for the last five year from 1994-95 to 1998-99 as reflected in the Annual Report of the commission were as follows:

Table 3.5: Financial target and achievement

Year	Production (Rs in crore)		Employment (persons in lakh)	
	Target	Achievement	Target	Achievement
1994-95	3645.00	3624.06	57.55	53.46
1995-96	4585.00	4026.45	61.30	56.72
1996-97	4880.00	4516.25	60.22	58.17
1997-98	6091.32	4519.31	65.72	56.50
1998-99	5763.00	5112.37	65.50	58.29

Annual Report of the commission did not depict true and correct picture.

A detailed scrutiny revealed that the targets and achievements figures indicated above did not depict the true and correct picture of the performance of KVIC. The position tabulated above did not include performance of all the institutions financed and/or all the institutions working.

No physical verification/survey carried out by the commission.

A test check of annual progress report in respect of 24 industries indicated that out of 8.51 lakh institutions financed by KVIC only 5.81 lakh institutions were reported as working and the status of the remaining 2.70 lakh institutions was not reflected in the Annual Progress Reports. Out of 5.81 lakh institutions reported as working, information from 1.24 lakh institution was not forthcoming and only estimated figures were taken in such cases. Further, target and achievement which was finalised on the basis of annual progress reports received from various institutions were accepted as such without any physical verification/survey by the Commission. A cross check of the details of target and achievement under various programmes maintained by the KVIC headquarters with that of some of the field offices revealed the following inconsistencies:

- In Karnataka, the actual employment generated during the period 1994-95 to 1998-99 was 4275 persons as against 8551 reported to KVIC;
- The State Office in Bihar did not maintain any records regarding performance of institutions for enabling them to send periodical reports to the Commission;
- Though Monitoring Boards were set up in various States, they were not functioning effectively as no regular meetings were held to monitor or evaluate the progress made and to report the progress to the Commission.

Targets to create employment under various employment generation schemes ranged from 0.89 *per cent* to 13 *per cent* only.

Under the CBC scheme, as against the target of 20 lakh persons, the total additional employment generated by March 1999 was 1.79 lakh persons only. Under the DSEP, against a target of creating employment of 7.10 lakh persons in 71 districts, the actual achievement was only 10826 persons in 45 districts only which was two *per cent* of the target fixed. Similarly, under BDP, against a target of 1.25 lakh persons in 125 blocks the achievement was 15831 persons from 97 blocks after spending Rs 23.87 crore which was only 13 *per cent* of the target fixed.

Thus, KVIC continued to project a highly exaggerated picture of its contribution to employment generation in the country.

3.6 Finance and accounts

KVIC is predominantly financed by loans and grants from Ministry of Industry. The grants and loans released to KVIC and expenditure incurred are shown below :

Table 3.6: Grants and loans released and expenditure incurred

(Rs in crore)

Year	Amount sanctioned				Expenditure incurred			
	Plan		Non plan		Plan		Non plan	
	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan
1994-95	109.27	85.00	43.00	0.30	91.21	102.67	52.60	0.23
1995-96	283.82	45.00	43.00	0.30	106.22	70.98	57.96	0.21
1996-97	278.61	25.00	37.86	0.30	264.87	41.87	59.98	0.23
1997-98	405.62	29.98	48.00	0.30	312.83	11.28	68.89	0.18
1998-99	318.67	29.98	49.60	0.30	318.76	34.33	84.10	0.99
1999-00	180.15	29.98	48.10	0.30	307.41	67.83	81.24	0.48
Total	**1576.14**	**244.94**	**269.56**	**1.80**	**1401.30**	**328.96**	**404.77**	**2.32**

An analysis of the above indicated the following :

Commission relied more and more on grants from the Government.

a) The proportion of grants to loans kept increasing every year, indicating that the activities undertaken were not financially viable. Up to 1997-98, even the plan grants sanctioned could not be spent by the Commission. On the other hand, Non Plan expenditure from grants was persistently higher than the sanctioned amount.

b) Irregular diversion from Plan to Non-Plan Fund :

Unauthorised diversion of funds from Plan to Non-plan head.

The entire budgetary support of Rs 269.56 crore under Non Plan head was for meeting administrative overheads and for payment of rebates. The actual expenditure under Non Plan was Rs 404.77 crore which exceeded the budgetary allocation by 50 *per cent*. The shortfall was met by diverting plan funds to non-plan funds without Government approval violating conditions of the grants. An analysis of administrative expenditure alone for the period from 1995 to 2000 revealed that as against the budget allocation of Rs 106.56 crore, the actual expenditure incurred was Rs 232.17 crore, 118 *per cent* excess expenditure over the actual amount sanctioned. A test check of records revealed that an amount of Rs 23 lakh was incurred between 1995 and 2000 on air fare to non-entitled staff which was sanctioned in a routine manner regardless of conditions laid down in travelling allowance rules.

3.7 Irregular funding and diversion of funds under CBC scheme

With a view to increase employment in rural areas, a High Power Committee in 1994 recommended that by the end of eighth five year plan, additional employment for two million persons should be generated by KVIC and to achieve this KVIC should obtain financial support from the banking sector. Accordingly in 1995 a new scheme was framed by Government of India to take online credit facility of Rs 1000 crore from a consortium of banks. Out of Rs 1000 crore on line credit facility, KVIC disbursed only Rs 718 crore upto March 2000 to its various beneficiaries implementing Khadi and Village Industry Programme.

A scrutiny of records revealed that :

(i) Though, the scheme envisaged the loan to be given to new viable projects as a term loan or composite loan and not purely working capital loan, an amount of Rs 272.27 crore was disbursed as purely working capital loan, during 1995 to 1997 to its existing Khadi institutions.

(ii) Though an amount of Rs 295.35 crore was disbursed in 1995-96 itself, a recovery cell was setup as late as in 1997.

Due to weak financial and administrative control commission could recover only 10 *per cent* of the total loan disbursed.

(iii) Due to inadequate action, KVIC could recover from various Khadi and VI agencies an amount of Rs 77.31 crore which was only 10 *per cent* of the total loans disbursed amounting to Rs 718 crore.

(iv) Failure of the KVIC to recover loan instalments of Rs 108.77 crore and interest of Rs 236.88 crore from the loanees forced it to divert its own budgetary resources namely K&VI loan account and from REGP grant account, and pay to the banks during 1995 to 2000.

Institution wise details of interest and penal interest recoverable was not available with the commission.

(v) KVIC was yet to work out institution-wise details of interest and penal interest recover on the above loans.

Thus, the achievement of the CBC scheme was abysmally low in regard to generation of employment due to misdirected funding coupled with weak financial and administrative control.

3.8 Non-implementation of special employment scheme

Government decided to launch intensive employment generation programme during 1994-95 formulated two schemes, viz. (i) DSEP and (ii) BDP in selected backward areas.

Under DSEP 71 backward districts were to be identified for giving employment to 10000 persons per district. For BDP 125 blocks were to be selected from the Revamped Public Distribution System (RPDS) block list

Deviation from the guidelines laid by the Government.

giving employment to 1000 persons per block, by the end of eighth five year plan. An amount of Rs 358.85 crore as grant was allocated by Government during 1994-95 to 1998-1999. As per Government of India guidelines (1994) beneficiaries under the above scheme should necessarily belong to BPL[6] households. However, KVIC while issuing instructions (1995) decided that stipulation of beneficiaries BPL was not essential and mandatory.

Such instructions from KVIC defeated the very purpose of the scheme and guidelines formulated by the Government of India and vitiated the achievement of targets of employment generation as already mentioned at para 3.5 above.

3.9 Blocking of funds due to non-implementation of programme

As per the Rules of KVIC, capital expenditure loan is released for the purpose of construction of sheds and installation of machinery. It has to be utilised within one year from the date of receipt and utilisation certificate should be submitted, otherwise the loan amount should be refunded with interest. The loan was to be repaid within 10 years in nine equal instalments.

As per the guidelines prescribed for release and disbursement of loan, it was the responsibility of organisation to conduct feasibility study and to verify the genuineness of the institution and also to physically inspect the unit for proper monitoring of the programme.

Audit scrutiny revealed that:

(i) in 284 cases test checked loans amounting to Rs 9.76 crore were released between 1972 and 1997 to various institutions. The institutions had neither submitted any utilisation certificate nor did they refund the loan installment;

(ii) in 27 cases it was reported that recovery action was under process and in remaining cases no action was taken by the Commission.

Thus, the indiscriminate release of loans without observing the laid down rules and procedures resulted in loss of Government funds and non achievement of the objectives of the schemes.

3.10 Misutilisation of funds

One of the main conditions governing payment of loans and grants is that funds should be utilised for the specific purpose for which they are sanctioned.

Loan released to bogus/fraudulent units.

A test check indicated that in case of 34 institutions an amount of Rs 448.81 lakh released between 1992 and 1997 was misutilised/diverted

[6] Below Poverty Line

for other purposes and in respect of seven cases mentioned above, no proper physical verification was done by KVIC after release of loan to the units which were later found to be bogus/fraudulent. It was stated by KVIC that legal action was being processed. In one case, the entire loan of Rs 33.70 lakh was released within a period of three months. Later on, it was found that the institution had misutilised the loan and the case is reported to be under CBI investigation.

Thus, continuous release of loan without following the laid down rules and procedures and timely follow up action by KVIC resulted in misutilisation of funds.

3.11 Amount unaccounted for by defunct units

KVIC advances loans and grants to various State Boards registered institutions, Co-operative societies and others for implementation of various Khadi and Village Industries programmes.

Loan amounting to Rs 217.24 crore stuck up with 41714 institutions reported to be defunct.

In respect of 12 States, an amount of Rs 11.91 crore remained unaccounted for with 381 directly aided institutions and Rs 217.24 crore with 41714 institutions financed by 14 State Boards, which were reported to be defunct. Scrutiny of records revealed that in some cases though the KVIC maintained the details of period since when the unit became defunct, but it did not have any records as to the details of date of release of loan and the amount if any repaid. KVIC did not conduct any investigation to verify as to why these institutions became defunct or whether they were fraudulent to begin with.

Had KVIC verified the financial condition of these institutions before release of funds and if timely action was initiated to recover the dues from the institutions before they became defunct, such blocking of Government funds could have been avoided.

3.12 Outstanding loan

According to the terms of loans given by KVIC, recovery was to commence at the end of the second year and the loans were to be repaid within a period of five to ten years. The Khadi working capital loan was not recoverable so long as a unit was in operation.

The year wise position of loans disbursed and recovery effected as on March 2000 were as follows:

Table 3.12: Position of loans disbursed and recovery effected

(Rs in crore)

Year	Disbursement				Total	Recovery				Total
	KVIC budgetary source		CBC source			KVIC budgetary source		CBC source		
	Khadi	V.I	Khadi	V.I		Khadi	V.I	Khadi	V.I	
Upto 1995-96	611.34	912.76	232.98	62.37	1819.45	131.11	195.24	Nil	Nil	326.39
1996-97	29.04	12.83	31.39	127.00	200.26	9.44	24.23	6.32	3.82	43.82
1997-98	4.77	6.51	Nil	71.14	82.42	15.15	24.21	2.10	7.29	48.75
1998-99	7.37	5.44	Nil	145.92	158.73 2260.86	6.69	11.54	5.61	28.85	52.69
1999-00	6.09	1.27	Nil	47.29	54.65	2.77	11.15	1.48	21.86	37.26
TOTAL	**658.61**	**938.81**	**264.37**	**453.72**	**2315.51**	**165.16**	**266.37**	**15.51**	**61.82**	**508.91**

No updated position of year wise and loanee wise details of outstanding dues available with the commission.

Out of total of Rs 2260.86 crore loans disbursed up to March 1999, the total recoveries as on March 2000 was Rs 508.91 crore only, leaving a balance of Rs 1752 crore pending for recovery. No updated position of outstanding dues showing the year wise and loanee wise details were available. Thus, having disbursed the loans, the KVIC absolved itself of the responsibility of watching the recovery resulting in poor recovery, poor follow up and heavy defaulters.

3.13 Non-calculation of interest

Loans paid for implementation of Khadi programme were interest free, while those in connection with Village Industries carried interest four *per cent*. Loans under CBC scheme carried prevailing bank interest for both khadi and village industries.

Commission failed to keep its commitment to update the quantum of interest on outstanding loan.

A mention was made in Para No.26 of the Report of CAG of India for the year ended 1995 about non-calculation of interest on the outstanding loans and KVIC had also committed (1995) that necessary action would be taken to update the interest calculation. Scrutiny of records revealed that no progress was made in this regard till September 2000 for the loans amounting to Rs 2315.51 crore disbursed as on March 2000. Thus KVIC has failed to implement its own commitment made in 1995 to up-date interest calculation till September 2000.

3.14 Outstanding utilisation certificates of Rs 923.14 crore

The proper utilisation of the grant within the prescribed period, for the purpose for which it was sanctioned and the refund of the unspent balances are the conditions of every grant/loan. It was the responsibility of the sanctioning authority to ensure the fulfillment of the above condition and to procure utilisation certificates and recover unutilised amounts from the grantee/loanee within a reasonable time. PAC in its 52nd report (1981-82) Para 1.10 had recommended that KVIC should make vigorous efforts to obtain utilisation certificates and get the backlog cleared at an early date and also suggested that the Commission should discontinue assistance to State Boards and institutions which were not in a position to account for the money given to them and produce utilisation certificates.

The position of outstanding utilisation certitifcate as on 31.3.2000 was as follows:

Table 3.14 : Position of outstanding utilisation certificates

(Rs in crore)

Year	Utilisation certificates		Unutilised/objected amount pending recovery
	Outstanding	Under process	
1993-94	228.37	317.37	189.04
1994-95	48.33	35.29	4.43
1995-96	235.85	66.49	0.09
1996-97	289.31	Information not available	
1997-98	121.28	-do-	-do-
Total	**923.14**	**419.15**	**193.56**

Note : This did not include the information for the year 1998-99 for which the details were yet to be work out by the Commission.

Despite PAC's recommendations to make vigorous efforts to obtain utilisation certificates, commission continued showing laxity in watching the timely submission of utilisation certificates.

Utilisation certificates for sanctions to Rs 923.14 crore were outstanding as on March 2000, utilisation certificates for Rs 419.15 crore were yet to be processed and unutilised amount of Rs 193.53 crore were still pending recovery. Of this, Rs 148.67 crore were pending for more than 10 years. The laxity shown by the Commission in watching the timely procurement of utilisation certificate, resulted in non-recovery of huge unutilised amount.

3.15 Marketing

The Commission has created a marketing infrastructure to help the sales of Khadi and VI products. The network of sales outlets consists of 27 Bhavans and 91 Departmental Trading units spread all over the country.

From a comparative study of trading activities for the last five years the following observations emerged:

Table 3.15

(Rs in lakh)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
1.Opening Stock	3058.71	3095.56	3419.04	4542.78	4066.86	4156.24
2. Purchases	7272.19	12285.98	11995.75	8707.79	9129.11	7874.50
3. Sales	8040.04	12824.81	11909.75	10174.93	9943.53	8383.36
4. Closing Stock	3095.56	3419.04	4542.78	4066.86	4156.24	4902.37

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
5. Net profit Loss	Khadi (-) 9.33 VI (-) 6.87	(+) 13.60 (-) 13.17	(+) 36.59 (-) 8.24	(-) 47.92 (-) 17.85	(-) 124.92 (-) 34.66	(-)214.36 (-) 60.48
6. Sundry Debtors	6480.17	9892.28	11549.91	10280.74	9365.97	9860.20
7. Sundry Creditors	3493.77	3721.26	4773.57	4458.89	4402.49	5204.78
8. Estt. Expenditure	536.18	591.05	626.66	746.98	806.97	837.86

Losses incurred by village industries had gone up from Rs 6.87 lakh in 1994-95 to Rs 60.48 lakh in 1999-2000.

a) As on March 2000 the progressive investment in the trading units amounted to Rs 8957.27 lakh whereas, the trading activity showed marginal profit and huge losses year after year. In respect of village industries the loss had gone up from Rs 6.87 lakh in 1994-95 to Rs 60.48 lakh in 1999-2000 and in Khadi the loss suffered during 1999-2000 was Rs 214.36 lakh as against Rs 47.92 lakh in 1997-98. The main reasons for such huge losses were reported to be on account of poor sales performance and increase in overhead expenditure;

Closing stock kept piling up year after year.

b) The closing stock was mounting up year after year and the amount blocked in the closing stock was Rs 4902.37 lakh as on March 2000. The age wise and item wise breakup of closing stock was not available with the Commission. Hence a proper analysis of the closing stock could not be done in audit.

c) The position of sundry creditors and sundry debtors indicated that KVIC did not have any policy with regard to credit sales with the result that huge amounts remained outstanding to be paid to the institutions on the one hand and on the other, huge amounts were also outstanding under credit;

d) The main reasons for the deteriorating performance of trading units as observed by various expert bodies were:

(i) lack of effective co-ordination between marketing Directorate, Bhavan Manager and Programme Directorate to ascertain type of product saleable, type of product to be produced, their quality, design and texture etc.;

(ii) lack of sales strategy and marketing facilities ;

(iii) lack of display, product presentation and proper storing;

(iv) lack of quality control packaging and publicity.

Thus, although KVIC Act vide its section 15(1)(c) gives a mandate to the organisation to provide for sales, marketing of Khadi and Village Industries products, significant efforts were yet to be made by KVIC to develop its marketing base in the form of product information, market survey, product design, packaging, quality and standardization, sales promotion, HRD development of manpower deployed in sales etc. The recommendations of expert committees to streamline marketing and to overcome the above shortcomings were not implemented.

3.16(i) Irregular payment of rebate (Rs 2.52 crore)

Khadi is defined under section 2(d) of KVIC Act, 1956 as any cloth woven on handloom using cotton, silk, woolen yarn spun by hand in India or from a mixture of two or all of the above.

KVIC institutions in Tamil Nadu continued to purchase power spun raw silk from TANSILK and used it in their production though TANSILK was an uncertified institution from April 1990 and the silk manufactured out of power reeled yarn was not a khadi product. The institutions also claimed a rebate on its product.

No action was taken to recover Rs 2.52 crore.

KVIC in April 1999 decided to recover 10 *per cent* from the claims of production undertaken with TANSILK yarn by Tamil Nadu institutions and instructed State Office/KVIB accordingly. However no action to recover the amounts was taken so far by State Office/KVIB, which worked out to Rs 2.52 crore from KVIB and eight directly aided institutions of KVIC in Tamil Nadu for the period 1994-95 and 1995-96.

3.16(ii) Non-observance of guidelines prescribed for payment of rebate

In admissible rebate of Rs 2.01 crore pertaining to year 1987-99 still awaited recovery.

As per Commission's circular issued in December 1996 rebate was to be released only after adjusting outstanding dues from the institution which should be followed by spot audit within a reasonable period of time. However in respect of six States it was reported that spot audit pertaining to 1,018 institutions was pending for one to ten years. Hence the correctness of rebate claim paid amounting to Rs 52.76 crore remains to be verified and an amount of Rs 2.01 crore pointed out by spot audit as inadmissible rebate pertaining to year 1987-88 to 1998-99 was still pending recovery. In above cases it was reported that recovery register was not being maintained by the State Offices to watch the recovery of inadmissible claims.

3.17 Working of sliver plants

3.17(a) Dismal performance of six sliver plants

Introduction of New Model Charkha necessitated use of sliver and/or roving as raw material. Since institutions could not organise sliver conversion system effectively, KVIC decided to set up centralised sliver and roving production facility under its departmental trading activity. During 1986-1999 KVIC established six sliver and roving plants at a total cost of Rs 22.23 crore.

A detailed analysis of the working revealed the average capacity utilisation for all the six plants for the years 1997-98 was 27 *per cent*, however, the capacity utilisation of the plant at Chitradurga ranged from 9 *per cent* to 42 *per cent* during the period 1995-96 to 1997-98. Huge closing stock of roving worth Rs 122.90 lakh was found lying with the plant at Chitradurga as on March 1999; the plant at Etha was persistently running in losses for the period from 1994-95 to 1998-99.

3.17(b) Infructuous expenditure on sliver plants

Despite the poor performance of existing roving plants, commission set up four more plants at a cost of Rs 5.54 crore.

While the performance of six plants were far from satisfactory for reasons like poor capacity utilisation, persistent losses, short fall in target etc., the Commission decided to setup four more plants during 1990-91 and 1996-97 in Saharsa (Bihar), Chowdhwar (Orissa), Bahrampur (West Bengal) and Dausa (Rajasthan) and spent Rs 554.50 lakh upto 1996-97. A scrutiny of records maintained by the Commission and the field offices further revealed the following position in respect of the four plants:

(i) The Commission in September 1999 abandoned the idea of setting up of all the additional plants (except at Orissa) after incurring expenditure of Rs 316.50 lakh towards cost of land, building, machinery etc., thus rendering the expenditure infructuous;

(ii) Out of an amount of Rs 60 lakh release by the commission for the Dausa project during 1996-97, an amount of Rs 11.50 lakh only was found spent up to March 1999 mainly towards registration and establishment expenses and the balance amount remained unutilised without being refunded to the Commission. The failure of the Commission to ensure availability of freehold land before incurring sundry expenditure of Rs 11.50 lakh resulted in wasteful expenditure besides unauthorised retention of balance amount of Rs 49.50 lakh;

(iii) The project at Saharsa (Bihar) erected after incurring an expenditure of Rs 295 lakh which included advance payment of Rs 15 lakh in 1992 for procurement of machinery was dropped due to poor pick-up of Special Employment Programme;

(iv) The Director (Khadi Co-ordination) in its report of August 1999 & April 2000 brought out the non-viability of the Chowdhwar (Orissa) project expressing the apprehension that even if the entire Khadi & Polyvastra programme in Orissa sources its roving and/or sliver from this plant, the capacity utilisation of the proposed plant would be about 9.95 *per cent.* Nevertheless, the Commission went ahead with the implementation programme for the only reason that an amount of Rs 238 lakh had already been spent. The decision taken by the Commission without any valid reason bypassing the recommendation of Director (K.C) and Director (Finance) was injudicious and incorrect rendering expenditure of Rs 238 lakh wasteful.

3.18 Non-recovery of outstanding amount as pointed out by budget team/certification audit

(i) The budget team of KVIC in July 1998 instructed recovery of Rs 24.63 lakh within one month from one of the institution on account of short fall in achievement.

In July 1999 the State Office, Chandigarh informed KVIC that Rs 12.63 lakh was recovered and remitted from rebate claim of the institution for 1997-98. The recovery of balance amount of Rs 12 lakh was deferred by the State Office on their own.

The scrutiny (October 1999) of records, however, revealed that the amount of Rs 12.63 lakh was actually not recovered from the concerned institution. On being pointed out (October 1999) the Director, State Office stated that the recovery of Rs 12.63 lakh could not be effected due to oversight which shows that directorate does not have any system to watch the recoveries.

(ii) State Office, Chandigarh had started a trading unit of honey during 1991-92, which was, however, discontinued from March 1993. At the time of its closure, a sum of Rs 18.07 lakh was recoverable from various parties. Similarly a sum of Rs 7.07 lakh on account of transfer of plant and machinery of honey processing plant was also recoverable form Punjab State Bee-keepers Federation, Bassi Pathana. It was, however, noticed in audit (October 1999) that no action was taken to recover the said amount of Rs 25.14 lakh even after the lapse of seven to eight years. Besides the above recoverable amount, a sum of Rs 6.34 lakh being unspent amount was lying with the State Office and had not been refunded to the KVIC, Mumbai.

In reply (October 1999) the Director, KVIC State Office, Chandigarh stated that efforts were being made to recover the amount from the institutions.

The matter was referred to the Ministry in November 2000; their reply was awaited as of February 2001.