Chapter 1 - Introduction

1.1 Background

Indian textile industry occupied a unique position in the Indian economy in terms of its contribution to industrial production, employment and exports. In spite of a strong fibre and production base, for various historical reasons, this industry suffered from severe technological obsolescence and lack of economies of scale[1].

Thus, it was felt by the Government to introduce a focussed and time-bound Technology Upgradation Fund Scheme (TUFS), hereinafter referred to as 'scheme', to provide a focal point for modernization efforts through technology upgradation in the industry. Hence, the scheme was launched in 1999-2000 by the Ministry of Textiles, hereinafter referred to as 'Ministry'. The scheme was subsequently revised in 2007, 2011 and 2013. The Ministry released ₹ 18,580.45[2] crore as subsidy for the TUFS during 1999-2000 to 2013-14.

1.2 Salient features of TUFS

1.2.1 Technology Upgradation Fund Scheme

The scheme was introduced in 1999 to catalyze investments in all the sectors[3]/segments[4] of textile and jute industry by way of Interest Reimbursement (IR)[5]/ Capital Subsidy (CS)[6] on purchase of scheme eligible machineries/items [7] as identified by the Ministry, on loans obtained from approved Nodal Agencies and Nodal Banks, hereinafter referred to as 'Financial Institutions' (FIs). The scheme was implemented with interest reimbursement on the interest actually charged by the approved financial institutions or/and Capital Subsidy at rates prescribed for different sectors/segments. Details of the scheme eligible machineries/items were published by the Ministry through Government Resolution (GR) and

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1 By which average cost of production falls as the volume of output increases

2 ₹ 2,315.18 crore released from April 1999 to March 2007 and ₹ 16,265.27 crore released from April 2007 to March 2014

3 Small Scale Industry (SSI) and Non-SSI

4 Spinning, Weaving, Knitting, Processing, Garmenting etc.

5 A part of interest reimbursed by GoI out of the interest charged by approved FIs on loan obtained by beneficiary for purchase of TUFS eligible items

6 Subsidy paid as a percentage of cost of machinery and for which both SSI and Non-SSI units are eligible

7 Captive Power Plant, Effluent Treatment Plant, Energy Saving Devices etc.

subsequent circulars issued by the office of the Textile Commissioner, Mumbai, hereinafter referred to as 'TxC'[8].

The scheme was initially approved for a period of five years from 01 April 1999 to 31 March 2004, which was subsequently extended upto 31 March 2007. The main feature of the scheme was allowing five *per cent* interest reimbursement for a maximum period of 10 years. Since the Ministry takes the responsibility of disbursing TUFS eligible subsidy for a maximum period of 10 years, this is referred to as 'committed liability' by the Ministry.

The Government observed that the scheme witnessed varied benefits to the various segments of the textiles sector. The spinning and composite segments of the textiles sector had derived maximum benefits whereas the segments like processing, garmenting, powerlooms etc. which were the weak links in the textiles value chain, had not realized the potential for modernization.

1.2.2 Modified Technology Upgradation Fund Scheme (M-TUFS)

In order to provide scheme benefit to weak sectors and on recognizing the potential of garmenting and technical textiles[9], the Government modified the scheme for continuation in the XI Five Year Plan (2007-2012). Additional support in the form of 10 *per cent* CS (besides 5 *per cent* IR) was provided to garmenting and technical textiles segments in M-TUFS. Further, some more changes[10] in the scheme were also made and a component i.e. Margin Money Subsidy (MMS)[11] was introduced in the modified scheme (M-TUFS). M-TUFS remained in operation during the period from 01 April 2007 to 28 June 2010.

1.2.3 Black Out period

On the direction of the Ministry, an evaluation study of the M-TUFS was carried out by M/s CRISIL Research in July 2010. The study revealed that the benefits were still not uniform across the segments, with the processing and powerloom segments emerging as major areas of concern. The evaluation study recommended that TUFS may be completely restructured. Accordingly, Government took a policy decision to restructure the scheme. Thus, the M-TUFS was discontinued till approval of modification in it and process of

[8] A subordinate office under Ministry of Textiles

[9] Technical textiles are functional fabrics that have applications across various industries including automobiles, civil engineering and construction, agriculture, healthcare, industrial safety, personal protection etc.

[10] The rate of IR on spinning machinery reduced to 4 *per cent* from earlier *5 per cent*, all other segments under the existing scheme continued to get 5 *per cent* IR; CS and IR to be paid only on basic value of machineries excluding taxes and duties etc.

[11] Subsidy paid as a percentage of cost of machinery and for which only SSI units are eligible

issuance of new sanctions under the scheme was stopped from 29 June 2010. The scheme remained discontinued upto 27 April 2011. This 10 months period is known as 'Black Out' period.

1.2.4 Restructured Technology Upgradation Fund Scheme (R-TUFS)

As mentioned in Para 1.2.3 above, the scheme (M-TUFS) was restructured and the period of restructured scheme i.e. R-TUFS was from 28 April 2011 to 31 March 2012[12] with an overall subsidy cap[13] of ₹ 1,972 crore for new sanctions. With a view to ensure that all segments get their due share in TUFS benefits, share of subsidy for different segments was fixed i.e. 26 *per cent* for spinning, 13 *per cent* for weaving, 21 *per cent* for processing, 8 *per cent* for garmenting and 32 *per cent* for others. The major features of R-TUFS were as follows:

- providing 5 *per cent* IR except for standalone spinning machinery where the IR was 4 *per cent*;
- reducing the repayment period of loan for the purpose of subsidy under TUFS to 7 years from 10 years (in M-TUFS); and
- enhancing the capital ceiling for powerloom segment for MMS.

The scheme in its R-TUFS form was extended for the first year of the XII Five Year Plan[14] i.e. upto 31 March 2013.

1.2.5 Revised Restructured Technology Upgradation Fund Scheme (RR-TUFS)

The Government decided to further continue the scheme for the textiles and jute industries as RR-TUFS with effect from 01 April 2013 to 31 March 2017. However, Audit did not cover this scheme as no releases were made under this scheme upto March 2014.

Salient features of M-TUFS & R-TUFS have been given in ***Annexure 1***.

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[12] Which was further extended upto 31 March 2013

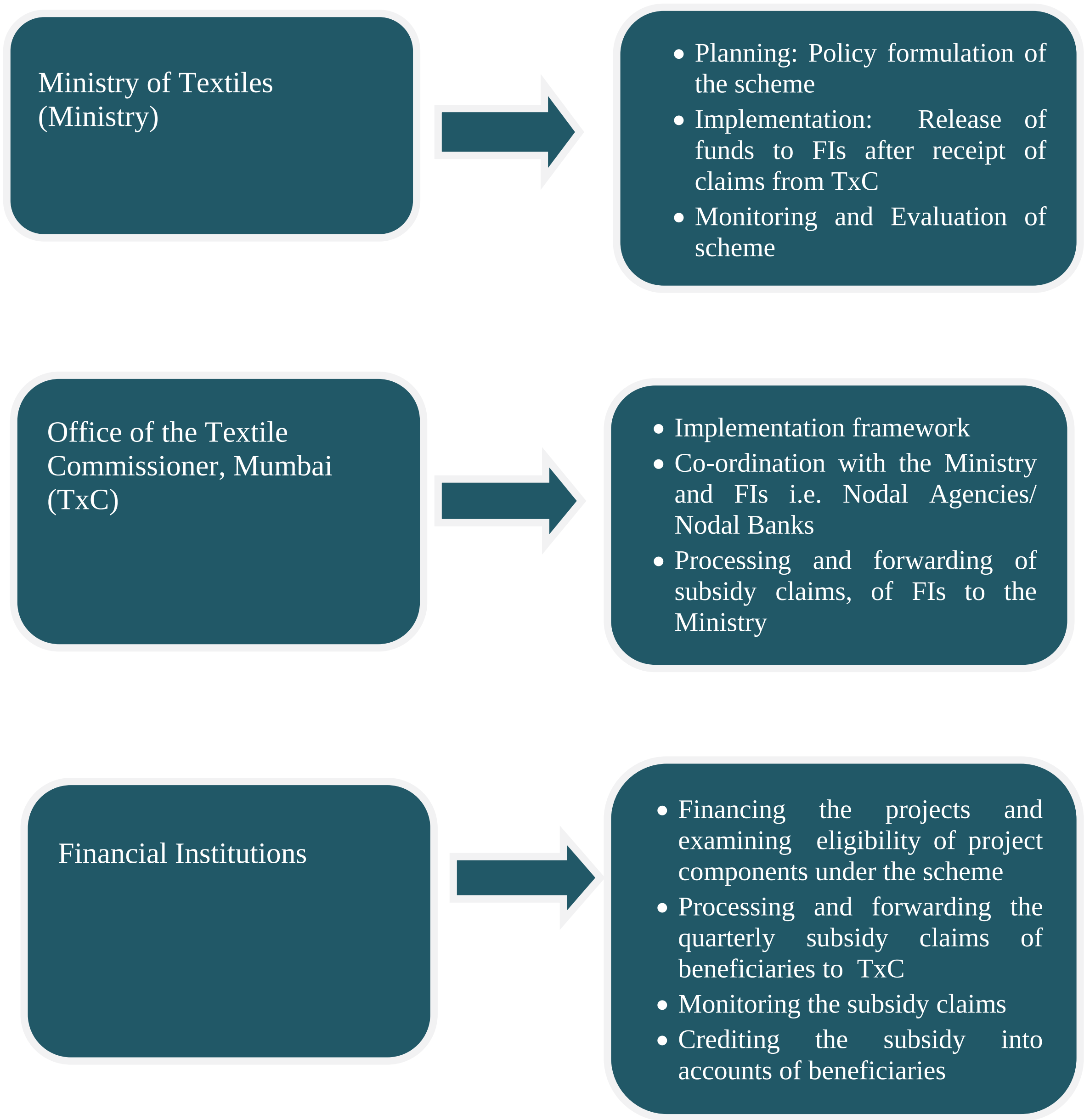
[13] Ministry decided to put an overall subsidy cap for new sanctions to address the problem of open ended nature of the existing scheme as no mechanism existed to control future committed liabilities.

[14] 2012-2017

1.3 Organizational set up for the scheme

The organizational set up for planning, implementation and monitoring of the scheme is shown in Figure 1.

Figure 1



1.4 Roles of various entities in the scheme

1.4.1 Ministry of Textiles

The Ministry of Textiles is the administrative Ministry for implementation of the scheme. It formulates policies, issues sanctions, releases the subsidy and monitors the scheme.

1.4.2 Office of the Textile Commissioner (TxC)

TxC acts as the principal technical advisor to the Ministry. TxC also implements and monitors various developmental and promotional schemes of Ministry. It is the nodal agency for implementing the TUFS. All claims (i.e. for IR, CS and MMS) for the scheme, processed by Financial Institutions, are routed through TxC. TxC collates and forwards these claims to the Ministry for issue of sanction and release of funds. In respect of MMS cases where beneficiary directly approaches TxC, it also processes (in M-TUFS and R-TUFS) their claims, issues sanctions and releases the subsidy.

1.4.3 Financial Institutions: Nodal Agencies and Nodal Banks

Nodal agencies finance the project, examine the eligibility of cases from TUFS angle and act as link between the beneficiary units and the Ministry for availing benefits under the scheme. The approved nodal agencies under the scheme for different segments are as follows:

Segments	Nodal Agencies
Textile Industry (excluding Small Scale Industries Sector)	Industrial Development Bank of India Limited (IDBI)
Small Scale Industries (SSI) Textile Sectors	Small Industries Development Bank of India (SIDBI)
Jute Industry	Industrial Finance Corporation of India (IFCI)

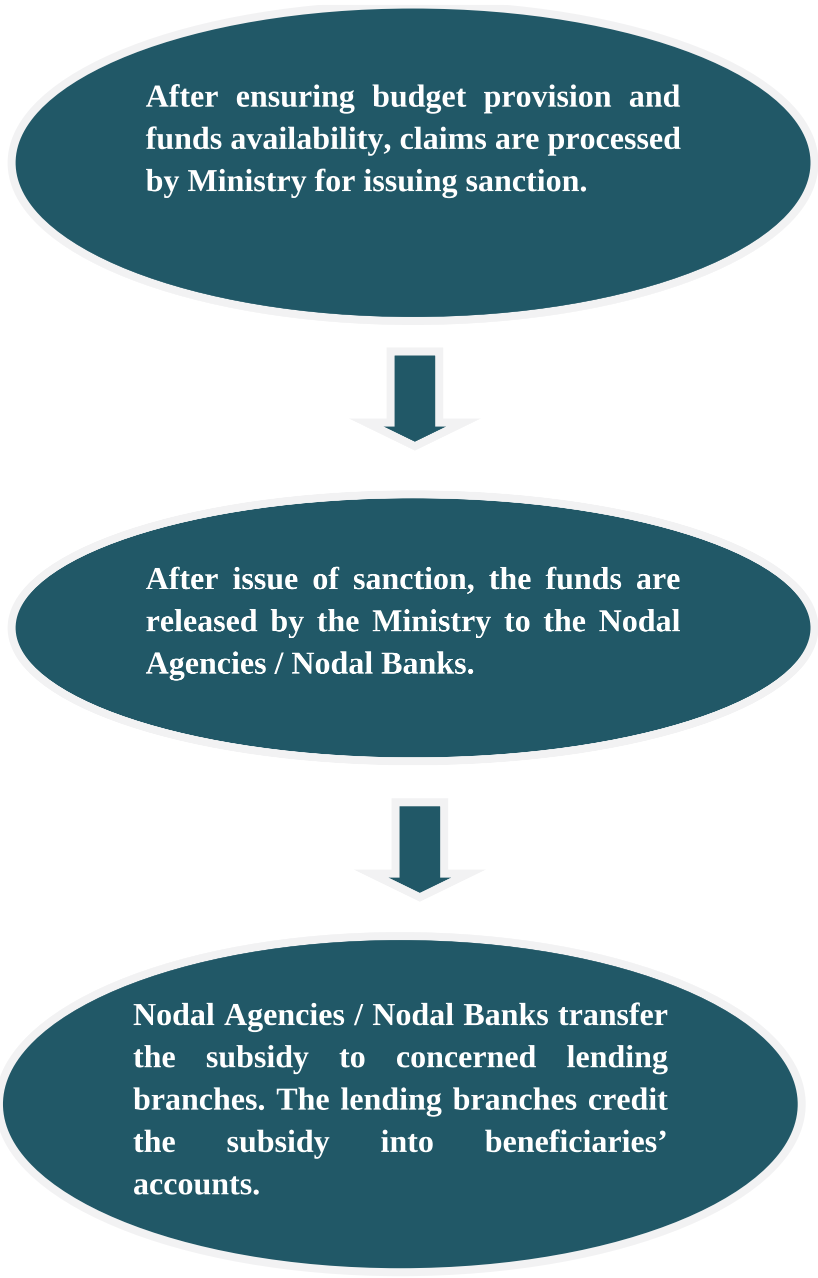
The nodal agencies also appoint other Institutions / State Financial Corporations / State Industrial Development Corporations and Commercial / Cooperative Banks in the scheme for sanction and disbursement of loan so as to have a better reach.

Besides three nodal agencies, 36 banks (detailed in ***Annexure 2***) were also appointed as nodal banks under the scheme. The nodal banks determine the eligibility and release the scheme benefit in respect of all the cases financed by them.

1.5 Mechanism for release of TUFS subsidy

1.5.1 Mechanism for release of subsidy under the scheme is given below:

Figure 2



1.5.2 Requirements for issue of sanction and release of subsidy

The scheme prescribes the following conditions which are required to be fulfilled by FIs before sanction is issued and subsidy is released by the Ministry:

- submission of UCs by FIs to the Ministry in prescribed formats before submission of their next claims;
- submission of beneficiaries' unit-wise data by the FIs in the formats prescribed by the TxC;
- maintenance of separate bank accounts by all FIs for receiving funds under the scheme;
- balance amount available with the FIs is to be indicated and the interest accrued thereon is to be credited to the account opened for the purpose; and
- interest accrued to the FIs under the scheme is to be deposited every quarter by the FIs to the Pay and Accounts Office, Ministry of Textiles.

1.6 Monitoring of scheme

Scheme is monitored through Inter-Ministerial Steering Committee and Technical Advisory cum Monitoring Committee.

1.6.1 Inter-Ministerial Steering Committee

Ministry had constituted Inter-Ministerial Steering Committee (IMSC), under the Chairmanship of Secretary[15] Ministry of Textiles, for laying down policies, norms and guidelines on a macro basis for operationalising the scheme. The functions of the IMSC were to:

- lay down norms and guidelines for operationalising the scheme, including details such as period of repayment, margin money requirements etc.;
- periodically review the functioning of the scheme to assess the direction and extent to which the objectives of the scheme had been fulfilled and provide directions for an effective implementation of the same;

[15] From RR-TUFS Minister of Textiles was the chairman of the IMSC.

- take/suggest necessary corrective measures;
- appoint ad-hoc committees to advise in the effective implementation of the scheme;
- meet at least once in a quarter during the first year of the implementation of the scheme and at least once in six months thereafter, or as often as necessary; and
- keep the Government apprised of the direction and extent of the implementation of the scheme.

1.6.2 Technical Advisory cum Monitoring Committee

For effective implementation and monitoring of the scheme, Technical Advisory cum Monitoring Committee (TAMC) was formed under the chairmanship of Textile Commissioner. Besides technical advisory functions, functions of the TAMC were to:

- review the progress of the scheme and critically analyze the operation thereof, at a macro level and sort out administrative and operational bottlenecks; and
- keep the IMSC apprised of the direction and extent of the implementation of the scheme.

1.7 Financial Outlay

During 01 April 1999 to 31 March 2007, Ministry released an amount of ₹ 2,315.18 crore to the scheme beneficiaries. Year-wise Budget Estimates, Revised Estimates and Subsidy released by Ministry for the scheme from 2007-08 to 2013-14 are given in Table 1.

Table 1 : Year-wise Budget Estimates, Revised Estimates and Subsidy released by Ministry from 2007-08 to 2013-14

(₹ in crore)

Year	Budget Estimates	Revised Estimates	Subsidy released
2007-08	945.00	1,185.37	1,143.37
2008-09	1,140.00	2,843.61	2,632.00
2009-10	3,140.00	3,073.84	2,885.98

2010-11	2,400.00	2,900.00	2,784.18
2011-12	3,100.00	3,700.00	2,937.82
2012-13	2,914.00	2,323.03	2,151.34
2013-14	2,400.00	1,952.56	1,730.58
Total	**16,039.00**	**17,978.41**	**16,265.27**