CHAPTER XVI : MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES'

16.1 Implementation of Prime Minister's Employment Generation Programme (PMEGP)

The success of PMEGP was hampered by various structural gaps in the implementation of the Programme. Funds released for implementation of the scheme remained idle with several agencies. Monitoring and control of the programme activities was poor. There were backlogs in physical verification. Even where physical verifications were done, the results were not followed up.

The Ministry of Micro, Small and Medium Enterprises (Ministry), Government of India (GoI), launched (August 2008) a credit linked subsidy programme called 'Prime Minister's Employment Generation Programme' (PMEGP) to empower first generation entrepreneurs to setup micro enterprises across the country. PMEGP merged two schemes *viz.*,'Prime Minister's Rojgar Yojna' (PMRY) and 'Rural Employment Generation Programme' (REGP).The Ministry administers PMEGP as a Central Sector Programme, with three categories of Implementing Agencies (IAs), *viz.*, Khadi and Village Industries Commission (KVIC), various State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs), in coordination with banks at the State level. KVIC is the 'National Nodal Agency' and routes funds to other IAs.

PMEGP has the following objectives:

- To generate employment opportunities, in rural as well as urban areas, through setting up of new self-employment projects/ micro enterprises;

- To provide continuous and sustainable employment to a large segment of rural and urban unemployed youth at their place and thereby increase their earning capacity, while contributing to the overall growth of rural and urban employment.

Beneficiaries who get their new project funded through bank loans are provided with a percentage subsidy called Margin Money (MM) towards funding part of their project cost. The funds for facilitating activities of the Programme are provided to the three IAs under the head of Backward and

Forward Linkages (BFL)[1], through KVIC. The salient features of the Programme and its process flow are elaborated in **Annex-VII**.

The Programme was approved by GoI for continuation in the XII plan period (2012-2017). Since inception in August 2008 and upto March 2016, 3,65,168 projects have been funded involving government subsidy of ₹ 7,367.40 crore. Targets *vis-a-vis* achievement of the Programme for the period is indicated at **Annex-VIII**. Till March 2016, PMEGP reported achievement of 67 *per cent* of its target in respect of employment generated, 70 *per cent* in respect of number of projects supported and 95.7 *per cent* in respect of Margin Money released. This performance reporting with regard to employment was, however, worked out as per an approved formulae and does not reflect the actual performance on ground.

The audit objectives were to assess whether the funds provided for the Programme were utilised judiciously, efficiently and transparently, whether gaps exist in the Programme framework and its implementation and whether the intended objectives of the Programme were achieved through creation of continuous and sustainable employment. The audit covered the period from inception of the Programme i.e. from August 2008 to March 2016. The audit was conducted during April-May 2016 and November-December 2016. The records of the 'KVIC-HQ- Programme Directorate' were scrutinised in Audit for policy guidelines, monitoring mechanism and for overall Programme implementation and co-ordination. In addition, two field offices of KVIC - *viz*. the State Office Maharashtra (SOM) and the State Office of Karnataka were selected for detailed field level inspection. The systems prevalent in nodal banks and financing branches were also test checked through visits to two[2] nodal banks and fourteen[3] financing branches.

[1] BFL refers to the facilitating activities of the programme like awareness camps, workshops e-tracking , web management, Publicity, physical verification, EDP training, exhibitions etc.

[2] Bank of Baroda and Bank of India at Mumbai, Maharastra.

[3] Oriental Bank of Commerce-Vasai west, UCO Bank-Kandivili west, Dena Bank-Sapahle, SBI-Dahanu and Palghar, Bank of Maharashtra-Navli and Dahanu, Dena bank-chinchani branches at Maharashtra and Vijaya Bank-Sanjaya Nagar, Canara Bank-Sanjaya Nagar, Krishnarajapuram and DG Halli, UCO bank-Frazer town IOB at H.R.B.R. layout at Bengaluru, Karnataka.

16.1.2 Audit findings

16.1.3 Fund management

16.1.3.1 Utilisation of Margin Money (MM) subsidy and Backward and Forward Linkages (BFL) Fund

Funds were transferred under the Programme from the Ministry to KVIC-HQ, from KVIC-HQ to field offices and from field offices to nodal banks, without corresponding demand for funds or without immediate scope for utilisation of fund which resulted in idling of funds in savings bank accounts. A test check of transfer of funds revealed the following:

- During 2015-16, the budget for the PMEGP was revised as late as February 2016. An amount of ₹ 85.82 crore was released by Ministry on 16 February 2016 and another ₹ 318.46 crore was received between 22 March 2016 to 31 March 2016. Such delayed receipt in the fag end of the year led to parking of funds to the extent of ₹ 481.75 crore in the bank accounts at year end at headquarters and field offices.

- At State Office of Maharashtra (SOM), ₹ 22 crore to ₹ 39 crore, transferred from KVIC-HQ remained idle for over two to six months on four occasions[4] (April 2009 to March 2015) in the PMEGP-Main account. Funds were transferred from the main account to various nodal bank accounts without corresponding demand for allocation of MM funds which then remained idle for long periods and were subsequently called back.

- State Office of Karnataka had sums of ₹ 18 crore to ₹ 26 crore idling in their main account for over 15 days (July 2012 to September 2013). Further, Syndicate Bank had sums of ₹ 5.67 crore idling (July 2012 to September 2012) in the nodal bank accounts of the three IAs in Karnataka for over 40 days without a single disbursement. The nodal bank account of DIC (one of the IAs) at Bank of Baroda had a balance of ₹ 0.91 crore for over 40 days (September 2013 to November 2013).

- At field office of Nagaland, a sum of ₹ 12.65 crore remained unspent for five months (from June 2014 to October 2014), without a single

[4] ₹ 39.19 crore remained idle from 26 July 2013 to 01 January 2014; ₹ 33.26 crore remained idle from 11 November 2008 to 6 May 2009; ₹ 28.33 crore from 13 April 2009 to 06 June 2009; ₹ 22 crore from 14 November 2014 to 16 March 2015

disbursement. The field office of Pondicherry received ₹ 4.84 crore in March 2014 as against a target of ₹ 2.83 crore for the year 2013-14. The target was revised to ₹ one crore in 2014-15. However, the excess funds were retained for over one to two years and were refunded to the extent of ₹ 0.97 crore in March 2015, ₹ 0.73 crore in February 2016 and balance ₹ 1.34 crore during 2016-17, on closure of nodal bank accounts.

- Lakshadweep field office received a sum of ₹ 2.58 crore in November 2014 as per target for the year, though performance of the field office had been poor (less than ₹ 0.50 crore had been spent since inception of PMEGP), which resulted in idling and subsequent refund of funds during March 2015 (₹ 1.08 crore), February 2016 (₹ 0.27 crore) and July 2016 (₹ 0.75 crore).

- BFL funds of ₹ 16.23 crore, received from the Ministry at KVIC-HQ in March 2014 towards publicity campaign of PMEGP, remained deposited in flexi term deposits at KVIC-HQ from time to time without any utilisation. As on January 2016, ₹ 11.47 crore remained unspent with KVIC-HQ.

- Bihar field office of KVIC had an opening balance of ₹ 3.28 crore under BFL in April 2013, which was utilised only to the extent of ₹ 0.49 crore till March 2016 with refunds to HQ being ₹ 1.17 crore in 2013-14 and ₹ 0.50 crore in 2014-15 and ₹ 0.90 crore in 2015-16.

Management in reply (August 2016 and November 2016) stated that the bank sanctions are at a higher pace during the last two quarters of the year; and that the outstanding bank sanctions had led to release of additional funds during 2015-16, which could not be utilised due to delay in MM settlement at nodal bank level. As regards non-utilisation of BFL funds at KVIC-HQ in a timely manner, the Management stated that they could not utilise the same, despite detailed action plan drawn up due to code of conduct imposed preceeding elections policy changes due to the new Commission and the minimum lead time involved in such activities. The fund transfers to Pondicherry, Nagaland and Lakshadweep States had been as per targets and funds were called back (July 2016) with closure of nodal bank accounts.

The Ministry in reply (November 2016) stated first installment of subsidy is released during the first quarter of financial year and second installment is released subsequent to and after utilisation of 60 *per cent* of first installment;

the late receipt of approval of Finance Ministry was the reason for late release and that the funds would be utilised during 2016-17. The new online portal and direct benefit transfer to financing branch introduced (July 2016) would avoid blocking of funds at nodal bank level.

The reply of Management/Ministry indicated structural gaps in fund release process and coordination between the operating units. Funds were released against prescribed targets and not against verified claims which would enable early release and settlement. Such alignment of release of funds to targets instead of actual achievements could result in rush of loan sanctioning without due diligence. The reply of Management that the banks could not utilise funds due to delay in MM settlement at nodal bank level is not tenable, as banks could not have utilised the funds released on the last two working days of March within the same year. It is pertinent to note that funds to the extent of ₹ 276 crore to ₹ 507 crore are also lying with KVIC-HQ in flexi term deposits since July 2016 (i.e. after closure of nodal bank accounts) to October 2016 awaiting utilisation through the single nodal account under the new guidelines.

With regard to BFL funds, the fact remains that unduly long time has been taken for their utilisation/refund.

16.1.3.2 Utilisation of REGP funds

REGP, which was implemented through two IAs *viz.* KVIC and KVIB, ceased to exist with effect from 31 March 2008, as the same was subsumed into PMEGP along with PMRY. KVIC submitted (September 2009) a proposal for release of funds for settlement of pending claims under REGP amounting to ₹ 72.95 crore. The Ministry *inter-alia,* obtained (November 2011) final approval of Expenditure Finance Committee and Cabinet Committee on Economic Affairs (CCEA) for sanction of ₹ 72.95 crore. Of this ₹ 36.82 crore was received by KVIC-HQ during December 2011 to February 2012.

- As against the sum released by the Ministry, funds amounting to ₹ 30.03 crore were disbursed during 2011-12 to 2015-16 to various field offices for settlement of pending claims. The field offices could utilise only ₹ 23.95 crore and ₹ 6.08 crore was refunded during March 2014 to September 2016. The balance amount of ₹ 6.79 crore received by KVIC laid unspent with KVIC-HQ, since receipt (i.e. December 2011 to February 2012). Thus a total sum of ₹ 12.87 crore is still (November

2016) lying unutilised with KVIC, four years after CCEA approval and fund release.

- Besides, of the funds released by KVIC-HQ to field offices, the field offices of KVIC had unspent balances of REGP in their nodal bank accounts to the extent of ₹ 7.69 crore, which were refunded to KVIC-HQ after June 2016, i.e. after a time lag of eight years since closure of the Programme. Thus, the field offices of KVIC and KVIBs of respective states were allowed to retain huge unspent balances for over eight years despite closure of Scheme.

Management stated (August 2016) that the money was released by the Ministry to enable settlement of residual claims with a stipulation that the funds were to be released only after physical verification (PV) to ensure that the unit was working; and that due to the stipulation of the Ministry, MM subsidy could not be utilised fully; there were considerable problems in PV; the balance of funds after final assessment would be refunded or utilised under PMEGP, as per Ministry's direction. The Management further replied in November 2016 that, 17 of their offices have closed REGP accounts and remitted their nodal bank balances while confirmation was awaited in respect of remaining 23 offices. The Ministry (November 2016) reaffirmed the reply of Management.

16.1.4 Programme implementation modalities

16.1.4.1 Programme implementation by financing branches

Audit test checked records of fourteen financing branches having 54 cases of sanctions under PMEGP and observed the following:

(i) Charging of Interest on entire project loan

As per the Programme guidelines, there should be no levy of interest on loan amount to the extent of MM. Audit noticed that in 14 cases, three financing branches of banks had charged interest on the entire project loan amount (i.e. including MM subsidy) which placed additional burden on the beneficiary and changed the nature of subsidy to that of a loan. Management did not respond (December 2016) whether all such cases under the Programme were reviewed and whether any control mechanism was put in place to prevent its recurrence.

(ii) Excess disbursement of MM over and above eligibility:

MM is given as a *per cent* of project cost and thus, when the actual disbursements are short of initial sanctions, only the stipulated *per cent* (as per framework) of actual disbursement, as per eligibility category of the beneficiary under the Programme, needs to be adjusted by the financing branch.

In two cases test checked by Audit, there were lower disbursement of loans as compared to initial sanctions, and therefore MM released (as per initial sanction) was in excess of prescribed eligibility under the Programme. However, the excess amount of MM released initially was not called back. In one of the cases, the MM was handed over to the beneficiary and the loan closed (May 2015) without physical verification having been conducted. In the second case partial amount of loan released became NPA (October 2015) and the MM amount was retained by the bank as term deposit. This led to unintended benefit accruing to the financing branch/beneficiary and steps need to be taken to call back pro-rata excess MM along with interest.

Management stated (August 2016) that the matter has been taken up with the respective banks for reversal of interest debited to the beneficiary and that Director of SOM has been instructed to convene meetings of concerned bank managers for redressal of the issue.

16.1.4.2 Backlog and deficiencies in physical verification (PV) systems

The overall backlog in conduct of PV (as of May 2016), including all three IAs, is of 44509 cases involving MM of ₹ 835 crore approximately (on the basis of average MM per project of respective years) for the years upto 2011-12. The backlog was attributed to disturbed area, change of agency and poor response to tendering at field office levels. The importance of physical verification can be appreciated from the fact that physical verification upto 2011-12 revealed that 22,446 units were non-working/non-traceable out of 1,64,283 units set up under PMEGP constituting 13 *per cent* of units promoted under PMEGP. The MM involved in respect of these non-existing/non-traceable units was ₹ 418.53 crore (approximately, based on the average cost of the respective years). Management failed to ensure timely conduct of PV and issue MM adjustment letters. In fact, Management had no mechanism in place for ensuring and tracking recovery against call back of MM, despite such high proportion of non-functional units. Test check of PVs carried out indicated the following:

- In State Office of Maharashtra, PV has not been held since 2011-12. The delay in submission of report by the PV agency (i.e. M/s Agricultural Finance Corporation Limited) for the year 2008-09 caused delay in conduct of PV for subsequent years.

- State Offices of Maharashtra and Karnataka could not provide agency-wise status of call back and recovery even in respect of the years for which PV exercise was complete. Audit noticed that there was no system of follow-up of call backs at these offices.

- In Tamil Nadu, PV agency had reported 29 beneficiaries as non-traceable in 2010-11. The status of call back and case-wise recovery of MM amounting to ₹ 33.32 lakh from these beneficiaries (DIC - 23 cases and KVIB-Tamil Nadu - 6 cases) were not provided to Audit. Similarly, the status of call back and recovery in respect of 202 cases (2011-12) of PMEGP reported as 'not existing' by PV agency in respect of Tripura State (involving MM of ₹ 3.63 crore) and 6 sanctions (having MM of ₹ 5.40 lakh) of 2012-13 of Jammu and Kashmir which were found to be 'non-working' during PV were not provided to Audit.

- One of the centres of DIC at Maharashtra (Thane centre) issued adjustment/call back letters only on it being pointed out by Audit in November 2016. KVIB-Maharashtra, one of the IAs of the Programme, had issued adjustment letter despite adverse report (i.e. non-working units as per PV report) in respect of four cases test checked by Audit, reasons for which were not made available to audit.

- The key parameters of performance were not recorded in many PV reports checked by Audit which pointed to shortcomings of the PV agencies and lack of their monitoring by KVIC.

The Management (August 2016) stated in reply that M/s Agricultural Finance Corporation delayed in submission of their report for the year 2008-09 causing delay in conduct of PV for subsequent years; agencies appointed at SOM for PV for further years had not done the work in a proper and timely manner and that PV for further years would be expedited. It was further stated that the new online system had provision for unit visits by respective IAs at least once in every six months and there would also be capturing of PV data online. For the purpose of collecting details of MM call back, an online reconciliation portal has been developed by KVIC in house, which is being updated to get latest position. The Ministry replied (November 2016) that, PV being one of the most important aspects and success indicator of the Programme, the Ministry is pressing for conduct of PV in time bound manner and the periodical visit of nodal officers under new guidelines would address the issue.

The action proposed is for prospective implementation and confirms the audit observation regarding the present weaknesses in the system.

16.1.4.3 Effectiveness of e-tracking system and other Control mechanism

The Programme guidelines considered e-governance as a vital requirement for effective monitoring and envisaged e-tracking of applications under PMEGP from submission till adjustment of subsidy, through a package developed in-house by KVIC.

- In initial years, data entry was proposed to be done through outsourced agencies. E-tracking was made mandatory from 2013-14 and all applications had to be forwarded to the financing bank by the respective IAs only after entering the application in the e-tracking system. Banks were required to enter data relating to sanction and disbursement in the system online. No margin money subsidy was to be released by the banks for applications not received through the e-tracking. It was also envisaged that entries of all disbursed cases (2008-09 to 2012-13) would be completed and backlogs cleared expeditiously. However, audit observed that the capturing of disbursements was complete only to the extent of 18, 25, 42 & 21 *per cent* for the years 2009-10 to 2012-13 respectively). For the years 2013-14 to 2015-16, the tracking of actual disbursement was complete only to the extent of 39, 45 and 54 *per cent* respectively (December 2016), notwithstanding the fact that e-tracking was mandatory during these three years.

- The e-tracking system only captured data regarding disbursement of first installment by financing branch. There was no provision for monitoring release of further installments and the total loan actually disbursed.

- It was noticed that the financing branches were not making online entries of sanctions in the e-tracking system and all entries relating to loan sanctions and release were being made through outsourced agency at IAs.

- There was no system of verification of debits to nodal bank accounts periodically in order to ensure that only selected genuine beneficiaries receive loans under PMEGP and MM assistance. Moreover, the disbursements reported in Annual performance reports (APR), Utilisation certificates and nodal bank balances were at variance necessitating reconciliation. Also, there was no case-wise tracking of credits to nodal accounts for refund of call back.

Management (August 2016) stated that the new online system introduced has various inbuilt checks to address the issues. All nodal bank accounts have since been closed and reconciliation of old balances is under process. The Ministry (November 2016) in reply stated that KVIC has been instructed to reconcile the nodal bank accounts upto 15 July 2016.

The reply of Management confirms the fact that there were gaps in the control mechanism in the implementation of PMEGP and Management's efforts to resolve the issues are underway. However the progress on resolving issues is not encouraging as the reconciliation exercise that the Ministry had directed to be completed by 15 July 2016 is still pending (December 2016) in respect of 34 out of 43 field offices.

16.1.5 Lacunae in performance reporting systems

KVIC, in May 2009, approved a formulae based reporting on key parameters of PMEGP performance. Production was to be reported at 150 *per cent* of project cost, sales at 25 *per cent* over and above production, wages/earnings at 55 *per cent* of production and employment at 9-10 persons per project (which was revised to 8 employments per project since 2012-13). Thus, all reported parameters of performance of PMEGP *viz*. production, sales, wages and employment are theoretical and are not reflective of factual position.

Management stated (August 2016) that the thumb rules of performance parameters were based on evaluation study conducted from time to time; and that based on direction of Department Related Parliamentary Standing Committee on Industry (DRPSCI), a new evaluation study is underway, which would serve the purpose of capturing performance and feedback of PMEGP units. Ministry (November 2016), while accepting the audit observation stated that there was no mechanism in place to capture realistic data of performance.

Thus, though the performance parameters highlighted the achievements of the Programme on the basis of thumb rules, the actual achievements made could not be verified accurately.

16.1.6 Conclusion

The success of PMEGP was hampered by various structural gaps in the implementation of the Programme. Funds released for implementation of the scheme remained idle with several agencies. Monitoring and control of the programme activities was poor. There were significant backlogs in physical verification and even where physical verifications were conducted, their results were not followed up.

The Ministry introduced new online systems for implementation of PMEGP with one nodal bank at national level and the same was made effective from August 2016, with signing of MOU with Corporation Bank as single nodal bank. The functional efficiency of the new system remains to be demonstrated. The way forward in implementation should be with absolute clarity, consensus of banks and transparency to ensure efficient and effective implementation of the Programme.