

**CHAPTER XIV : MINISTRY OF SMALL SCALE INDUSTRY AND  
AGRO RURAL INDUSTRIES**

**Khadi and Village Industries Commission**

**14.1 Avoidable excess payment of interest subsidy**

**Khadi and Village Industries Commission paid an additional interest subsidy of Rs. 1.03 crore for bank finance availed by a directly aided institution due to its failure to revise the provision of the Interest Subsidy Scheme.**

The Government of India approved (May 1977) a Comprehensive Interest Subsidy Scheme (Scheme) for institutional financing of the Khadi and Village Industries Programme. Under the Scheme, interest subsidy would be admissible to prescribed entities<sup>#</sup> for funds raised from certain financial institutions.

According to the Scheme, the Commission issued Interest Subsidy Eligibility Certificates with reference to limits of bank finance approved by the Standing Finance Committee. The entities thereafter negotiated with the bankers for the required finance. The quantum of interest subsidy would be limited to the actual rate of interest reduced by four *per cent*. The four *per cent* component would be borne by the borrower.

The Reserve Bank of India made significant changes in the administration of the interest rates, which covered the interest rates applicable to these loans. Lending rates of commercial banks were deregulated with effect from October 1994 which allowed the banks to vary their actual lending rates to creditworthy borrowers. Hence, borrowers were in a position to negotiate competitive borrowing rates. However, no corresponding changes in the Scheme were made by the Khadi and Village Industries Commission (KVIC) to provide an incentive for borrowers to negotiate competitive rates or disincentive for failing to obtain such rates.

Audit ascertained (December 2003) that the Commission had issued Interest Subsidy Eligibility Certificates to Shri Mahila Griha Udyog Lijjat Papad, which allowed the entity to avail bank finance of Rs. 5.90 crore during 1998-

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<sup>#</sup> KVIC, its aided agencies, State/Union Territories, KVIC Boards and its aided agencies engaged in Khadi and Village Industries activities.

99 and 1999-2000 and Rs. 7.90 crore during the period 2000-01 to 2003-04 from three banks at varying rates of interest.

The rates charged by the three banks namely Bank of Baroda, Bank of India and Dena Bank for the period April 2002 to March 2004 were 0.5 *per cent* to 2 *per cent*, 1.36 *per cent* to 2.6 *per cent*, 3.06 *per cent* to 4 *per cent* higher than the prime lending rates fixed by the respective Banks. Hence, Commission had to bear excess interest liability of Rs. 38.70 lakh for the period 2002-03 and 2003-04. Further, considering the average difference in rates of interest, the excess payment of interest subsidy for the period 1998-99 to 2001-02 worked out approximately to Rs. 64.47 lakh. Thus, failure of the Commission to harmonise the Scheme with the deregulated interest rate regime resulted in excess payment of interest subsidy amounting to Rs. 1.03 crore for the period up to March 2004 on account of bank finance provided to only one institution.

The matter was referred to Ministry in September 2004, its reply was awaited as of December 2004.

#### **14.2 Loss due to non-revision of Licence fee**

**Failure by Khadi and Village Industry Commission to revise licence fee and service charges in respect of 274 staff quarters located in Mumbai resulted in loss of Rs. 20.60 lakh.**

Fundamental Rule 45A IV(C)(ii), stipulates recovery of flat rate of monthly licence fee based on the cost of construction and plinth area and living area of the type of accommodation allotted to the employees, subject to the condition that the amount taken from any officer shall not exceed 10 per cent of his monthly emoluments. Further, according to the provision under S.R. 324, licence fee has to be recalculated on expiry of five years or three years as the case may be, from the date of last calculation.

KVIC follows rules and regulations as applicable to Central Government employees for pay and allowance and other administrative matters. The commission has 274 quarters at different locations at Mumbai allotted to eligible employees for which licence fee is recovered. Audit ascertained that licence fee of KVIC staff quarters had not been revised since August 1994. During this period, pay scales for staff and officers were revised in line with Pay Commission recommendations, the licence fee of Central Government employees was also revised in July 1996, July 1999 and April 2001. Due to

non-revision of licence fee, KVIC suffered a loss of Rs. 8.38 lakh (approx) for the period from July 1996 to March 2004.

Further, KVIC did not recover water charges separately but collected service charges from its allottees in lieu of water charges at the rate fixed in October 1986 with reference to the type of quarters.

Audit further ascertained that the concerned local authority (Brihan Mumbai Municipal Corporation) regularly revised the rate of water charges. However, KVIC failed to correspondingly revise service charges. As a result, KVIC paid water charges amounting to Rs. 13.51 lakh for the period February 2002 to September 2004, for the staff quarters located in Mumbai, whereas service charges recovered amounted to Rs. 1.29 lakh only. Hence KVIC had borne Rs. 12.22 lakh from its own budgetary sources.

In response, KVIC stated (May 2004) that due to non-receipt of Government circulars regarding revision of licence fee, the same was not revised and the licence fee had since been revised from April 2004. KVIC also stated that it was making all possible efforts to review the issue of water charges by constituting a high level committee.

However, KVIC's reply is not tenable because rules clearly prescribe recalculation of licence fee after a stipulated period. Moreover, the Commission should have exercised due care to ensure that it obtained copies of relevant orders from Government of India or the Ministry. KVIC should have also revised the rate of service charge with reference to the revised increased rate of water charges fixed by local authority.

Hence, non-revision of licence fee and service charges resulted in loss of Rs. 20.60 lakh to KVIC. The details of such losses incurred by KVIC for quarters located in different states were not available.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.