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Report of the Comptroller and Auditor General of India on Departmental Trading Units including Supply Chain Management in Khadi and Village Industries Commission

SUPREME AUDIT INSTITUTION OF INDIA

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

Union Government
Ministry of Micro, Small & Medium Enterprises
No. 9 of 2023
(Compliance Audit)

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Comptroller and Auditor General of India
on
Departmental Trading Units including Supply Chain Management in Khadi and Village Industries Commission

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Laid on the table of Lok Sabha and Rajya Sabha on………………

Index

Preface

This Report of the Comptroller and Auditor General of India has been prepared for submission to the President of India under Article 151 of the Constitution of India for being laid before the Parliament. The Report has been prepared in accordance with the Compliance Auditing Guidelines 2016 and Regulation on Audit and Accounts, 2007 (amended in August 2020) of the Comptroller and Auditor General of India.

The Khadi and Village Industries Commission (KVIC) was formed by the Government of India, under an Act of Parliament viz. 'Khadi and Village Industries Commission Act' of 1956 to plan, promote, facilitate, organise and assist in the establishment and development of Khadi and Village Industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. KVIC established 92 Departmental Trading Units over the years for carrying out the production and sales activity of Khadi and Village Industries products.

The Compliance Audit evaluated the operation of functional Departmental Trading Units and Supply Chain Management during the period from 2017-18 to 2020-21.

Executive Summary

Executive Summary

The Khadi and Village Industries Commission (KVIC) was formed by the Government of India (GoI), under an Act of Parliament *viz*., 'Khadi and Village Industries Commission Act' of 1956 to plan, promote, facilitate, organise and assist in the establishment and development of Khadi and Village Industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. KVIC is under the administrative control of the Ministry of Micro, Small & Medium Enterprises (MSME). KVIC has three main objectives, which guide its functioning (i) the social objective - providing employment in rural areas; (ii) the economic objective - providing saleable articles; and (iii) the wider objective - creating self-reliance amongst people and building up a strong rural community spirit.

The Departmental Trading Units were established by KVIC for carrying out the production and sales activities of Khadi and Village Industries products. The Departmental Trading Units include the Central Sliver Plants, Departmental Sales Outlets named as Khadi Gramodyog Bhavans and other trading units. KVIC had established 92 Departmental Trading Units over the years. Of these, only 18 Departmental Trading Units were functional as on 31 March 2021 and 74 Departmental Trading Units have become defunct over a period of time (73 Departmental Trading Units became defunct during the period 1962-2016 and one Departmental Trading Unit was closed in 2019).

The Compliance Audit evaluated the operations of 18 functional Departmental Trading Units and Supply Chain Management during the period from 2017-18 to 2020-21. Audit also conducted general scrutiny of 25 defunct Departmental Trading Units to ascertain reasons and impact of closure.

The objectives of the Compliance Audit were to assess:

i) reasons and impact of closure of Departmental Trading Units for lessons to be learnt for future.

ii) whether the procurement of goods from Khadi Institutions and Village Industries and also the procurement of cotton and production of sliver was done as per prescribed procedure and the supply chain management was maintained economically, efficiently and effectively;

iii) whether marketing and sales of the Khadi and Village Industries products and sliver was done efficiently and effectively; and

iv) whether adequate financial management, internal control and monitoring mechanism were in place to ensure the functioning of the Departmental Trading Units as per the rules, regulations and procedures.

Significant Audit findings

During the period of audit from 2017-18 to 2020-21, KVIC has initiated many well intentioned measures for the improvement of procurement and marketing practices in the Departmental Trading Units. During Audit, it was observed that these initiatives could not meet the desired degree of success as there were many challenges and weakness in implementation. Audit has also made 26 recommendations which will aid the Management of KVIC in better implementation in future. The significant audit findings and recommendations are given as below:

Defunct Departmental Trading Units

In spite of the fact that only less than 20 *per cent* of Departmental Trading Units were able to continue operations, KVIC has not done any analysis to identify the reasons for the Departmental Trading Units becoming defunct. The reason for closure were not available in case of 11 out of 25 Departmental Trading Units. In case of three Departmental Trading Units, the reasons and justifications of closure were not fully convincing and more efforts by KVIC could have prevented their closure. In case of another two Departmental Trading Units, private parties were generating considerable revenue through unauthorised sales of Khadi products indicating scope for revenue generation through these Departmental Trading Units. Though the deficiencies are being identified and corrective action initiated by KVIC, there was delay in disposal of assets, realisation of dues, settlement of accounts and re-deployment of staff of some of the defunct units.

(Paragraph 3.1, 3.2 & 3.3)

Reasons for Departmental Trading Units becoming defunct may be analysed in depth and action may be taken on the lessons learnt to ensure that the remaining functional Departmental Trading Units especially those engaged in marketing activities are managed efficiently to achieve their objectives. The assets/ liabilities of defunct units may be disposed off/ settled promptly.

(Recommendation No. 1)

Procurement and Production by Departmental Trading Units

KVIC had issued elaborate guidelines from time to time in respect of procurement of products from Khadi Institutions and Village Industries Institutions by the Departmental Trading Units to ensure transparency and salability. Deficiency on the part of Departmental Trading Units to follow the prescribed procurement procedures led to gaps in planning and dilution of objectivity in procurements whereby equal opportunity to all suppliers was not ensured.

Even though KVIC had developed Khadi Institution Management Information System for the khadi sector, containing a module for uploading purchase/sales data of Khadi

Gramodyog Bhavans, this data was not compiled into item-wise, supplier-wise information to obtain inputs on procurement plans and analyse market trends.

(Paragraph 4.1)

KVIC may ensure that the Departmental Trading Units follow prescribed procedures for effective monitoring of procurement and production such as regular meeting of procurement committee, analysis of market trends, publication of procurement plans on website etc.

(Recommendation No. 2)

The Departmental Trading Units may introduce a system of procurement of products which is based on analysis of demand in the market substantiated by past sales and anticipated demand. Further, Khadi Institution Management Information System may be revamped to ensure that the KVIC is able to extract item-wise/supplier-wise data on procurement and sales so as to enable the procurement committees to identify the market trends and thus prepare realistic and effective procurement plans and also enable the Directorate of Marketing to dynamically monitor the procurement.

(Recommendation No. 3)

In order to make the procurement process more efficient, KVIC should provide equal opportunity to all registered Khadi Institutions to sell their products through Khadi Gramodyog Bhavans, give opportunity to new suppliers to register with KVIC and enforce the instructions regarding entering into agreements for supply of goods. KVIC should also ensure that the directions of the Government regarding timely payment to suppliers are duly followed.

(Recommendation No. 4)

The Khadi Gramodyog Bhavans of KVIC were collecting excess share of production subsidy due (Modified Market Development Assistance) from the Khadi Institutions whose products were being sold through them.

(Paragraph 4.3.1)

KVIC may review, on a case to case basis, the share of Modified Market Development Assistance passed on to the Khadi Gramodyog Bhavans by the Khadi Institutions and refund the Modified Market Development Assistance share received in excess of prescribed limit.

(Recommendation No. 6)

Delay in implementation of project for refurbishment of Central Sliver Plants under Khadi Reform and Development Programme financed by Asian Development Bank resulted in time and cost overrun, payment of idle wages (₹89 lakh) and production loss (₹11.15 crore per annum).

(Paragraph 4.4.2.2)

The refurbishment project needs to be implemented at the earliest to arrest the cost escalations and production losses.

(Recommendation No. 7)

KVIC management could not ensure through effective monitoring that all Departmental Trading Units and Khadi Institutions got their products tested at the Central Sliver Plants so as to fully utilise the installed capacity and to guarantee the authenticity of khadi fabric.

(Paragraph 4.4.3)

KVIC may ensure that Khadi Institutions supplying khadi products to KVIC get test certificates from the Central Sliver Plants as per the norms prescribed so as to ensure quality as well as to utilise the testing capacity available.

(Recommendation No. 9)

Marketing and Sales by Departmental Trading Units

During the period 2017-18 to 2020-21, KVIC attempted to implement a number of well-intentioned marketing initiatives, such as, e-commerce, market surveys, development of product catalogue and swatch book, hiring of marketing consultants, implementation of franchisee scheme and creation of Khadi Korners, construction of Khadi Plazas, registration of Khadi Trademarks, etc. These initiatives implemented by KVIC, that could benefit the entire Khadi and Village Industries sector, met with varying degrees of success.

KVIC did not effectively utilise the information garnered by domestic/international market surveys for enhancing the domestic and export sales of Khadi and Village Industry products and also needed to develop comprehensive product catalogue.

(Paragraph 5.1, 5.1.2 & 5.1.3)

KVIC may review the findings/recommendations of the market surveys keeping in view the changes in the market ecosystem in the period following the surveys and initiate appropriate actions to implement the recommendations especially in areas such as introducing variety and innovation in design, pricing, visibility and availability etc. Efforts may be made to increase KVIC's footprint in the export sector by effectively utilising the deemed Export Promotion Council status.

(Recommendation No. 13)

KVIC had not adequately benefitted from engaging marketing consultants due to not defining the specific tasks to be executed by them and shortfalls in monitoring the deliverables. Schemes for increasing availability and sales such as opening franchises outlets, establishment of "Khadi Korners" in retail chain stores etc., implemented on a limited scale did not get the desired response.

(Paragraph 5.1.4, 5.1.5 & 5.1.6)

While engaging external consultants, the directions contained in Manual for Procurement of Consultancy and other Services 2017, issued by the Government of India, may be strictly adhered to viz, preparing well defined scope of work/Terms of Reference, setting up consultancy monitoring committee etc.

(Recommendation No. 14)

KVIC may conduct thorough market study to identify the opportunities and threats before implementing schemes such as opening franchisee outlets and also extend marketing support and guidance to the entrepreneurs. Periodic monitoring by the management is also required for the success of such schemes.

(Recommendation No. 15)

Khadi plazas could not be established despite funds being allocated. The infrastructure of Khadi Gramodyog Bhavans was not renovated as required.

(Paragraph 5.1.7 & 5.1.8)

KVIC may consider revamping the Khadi Plaza Scheme after thorough review in view of the fact that not even a single project could be implemented under it. KVIC may also develop a system to provide technical guidance to the State Khadi Boards etc., for preparing viable proposals for utilising the fund available under the Khadi Plaza Scheme for creating marketing infrastructure in the Khadi and Village Industries sector.

(Recommendation No. 16)

Even though KVIC had managed to get the trademarks such as "Khadi" registered in order to ensure that only authorised products were sold in the sector, more stringent action was needed to be taken against firms who were using the trademarks illegally.

(Paragraph 5.1.11)

KVIC may take more stringent actions such as filing court cases against infringement and filing complaints with the Law and Order authorities in case of infringement of trademarks.

(Recommendation No. 18)

The Khadi Gramodyog Bhavans could not achieve sales targets and it was observed that there was delay in preparation and approval of annual budgets and sales targets. The sales planning process was ineffective and proper analysis of market trends was not done.

(Paragraph 5.2.1.1)

KVIC may prepare annual budget for Khadi Gramodyog Bhavans well in advance of the financial year concerned and sales targets may be drawn up after considering all relevant factors such as previous periods' sales, anticipated demand, market trends etc. Mid-term/period review of achievements against targets may be conducted and corrective action taken timely.

(Recommendation No. 19)

KVIC was unable to fulfil the demand in respect of wholesale/Government requirements due to lack of suppliers.

(Paragraph 5.2.1.2)

KVIC may take effective action to augment the capacity of existing suppliers and induct more suppliers to increase the capacity to cater to the demand in Government sector.

(Recommendation No. 20)

Financial Management and Internal Controls in Departmental Trading Units

There were deficiencies in the internal control system regarding implementation of prescribed credit policy, confirmation of debtors, reconciliation of bank accounts, conduct of physical verification of assets etc. Internal Audit of Khadi Institutions, Central Sliver Plants and Departmental Trading Units were either not conducted or were deficient in terms of units covered, period of audit and scope of observations. The observations of Internal Audit were not being acted upon or placed before top management.

(Paragraph 6.1.1, 6.1.2, 6.2.1 & 6.3)

KVIC may ensure compliance with the instruction in force regarding credit sales and realisation of debtors. Urgent action may be taken to realise the long pending debts on a case to case basis and the reasons for non-recovery may be investigated.

(Recommendation No. 22)

Since Bank reconciliations are an essential internal control tool necessary in preventing and detecting fraud, KVIC needs to urgently reconcile the balances for all bank accounts operated by various Departmental Trading Units.

(Recommendation No. 23)

Internal control system of Departmental Trading Units may be strengthened and guidelines for internal audit may be updated, considering the latest principles and practices in this regard, for expanding scope and improving methodology.

(Recommendation No. 24)

Mechanism may be developed for ensuring completion of internal audit plan, timely reporting of observations and for monitoring action taken on audit observations.

(Recommendation No. 26)

Chapter I
Introduction

Chapter I

Introduction

The Khadi and Village Industries Commission (KVIC) was formed by the Government of India (GoI), under an Act of Parliament *viz*., 'Khadi and Village Industries Commission Act' of 1956 to plan, promote, facilitate, organise and assist in the establishment and development of Khadi[1] and Village Industries[2] in the rural areas in coordination with other agencies engaged in rural development, wherever necessary. KVIC is under the administrative control of the Ministry of Micro, Small & Medium Enterprises (MSME). KVIC has three main objectives, which guide its functioning i.e. (i) the social objective - providing employment in rural areas; (ii) the economic objective - providing saleable articles; and (iii) the wider objective - creating self-reliance amongst people and building up a strong rural community spirit.

As per the KVIC Act, Khadi Certificate which is mandatory for producing or selling khadi product by any individual/firm is issued by the Central Certification Committee constituted by KVIC as per Regulation[3] 24 of KVIC Regulations 1958 (revised in 2007). The Certificate is issued for a period of five years. The Committee is empowered to renew/cancel Khadi Certificates.

KVIC receives funding in the form of grants from the Ministry of MSME for the various schemes (Plan) implemented by it as well as for its establishment and administrative expenses (Non-Plan) on the basis of budgets allocated by the Ministry. The performance in terms of utilisation of funds received from the Ministry during the period 2017-18 to 2020-21 is shown in Table 1.1.

Table 1.1: Performance in terms of utilisation of funds by KVIC

(Figures in ₹ crore)

Year	Grants received from Ministry			Utilisation of Grants			Utilisation of Grant (*per cent*)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2017-18	1,886.07	244.49	2,130.56	1,737.34	283.30	2,020.64	92.11	115.87	94.84
2018-19	2,812.73	387.92	3,200.65	2,897.53	367.31	3,264.84	103.01	94.69	102.01
2019-20	3,078.78	375.00	3,453.78	2,524.58	323.24	2,847.82	82.00	86.20	82.46
2020-21	2,145.46	305.73	2,451.19	2,665.30	387.05	3,052.35	124.23	126.60	124.53
Total	**9,923.04**	**1,313.14**	**11,236.18**	**9,824.75**	**1,360.90**	**11,185.65**	**99.01**	**103.34**	**99.55**

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1 *"Khadi" means any cloth woven on handlooms in India from cotton, silk or woollen yarn handspun in India or from a mixture of any two or all of such yarns.*

2 *'Village Industry' means – (i) any industry located in a rural area, which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed ₹1 lakh.*

3 *As per Regulation 24 of the KVIC Regulations 1958 as revised in 2007, KVIC shall appoint one or more Certification Committees which shall grant certificates to producers of, or dealers in khadi or the products of any village industry, in accordance with certification rules for issuance, renewal and validity of khadi certificate and such instructions as the Commission may issue from time to time for Khadi or the products of any village industry with the prior approval of the Government.*

It can be observed that during the period 2017-18 to 2020-21, KVIC was able to utilise almost the entire funds provided to it for carrying out various schemes in the Khadi and Village Industries sector. The trading activities of KVIC are managed through Departmental Trading Units.

1.1 Departmental Trading Units

The Departmental Trading Units (DTUs) were established by KVIC for carrying out the production and sales of Khadi and Village Industries products[4]. KVIC had established 92 Departmental Trading Units ***(Annexure-I)*** over the years which included seven Central Sliver Plants (CSPs), 18 Departmental Sales Outlets named as Khadi Gramodyog Bhavans (KGBs) and 67 other trading units involved in trading of Khadi and Village Industries products. Of these, 73 Departmental Trading Units became defunct up to 2016 and one Departmental Trading Unit was closed in 2019. As on 31 March 2021 only 18 Departmental Trading Units were functional.

The 18 functional units include:

i. Five Central Sliver Plants[5] which are engaged in the production of sliver[6] and roving[7] by procuring cotton primarily from Cotton Corporation of India with an objective to ensure uninterrupted supply of quality sliver and roving to registered Khadi Institutions[8] to cater to the needs of the Charkha Programme[9], thereby to improve the quality of khadi fabric. These five Central Sliver Plants meet around one third of raw material requirements in khadi sector. The Central Sliver Plants are managed by Plant Managers and function under the supervision of Directorate of Khadi Raw Material.

ii. Seven functional[10] Khadi Gramodyog Bhavans located at urban areas play an important role in creating a network between rural artisans producing Khadi and Village Industries products and the consumers living in urban areas, in a regular way by managing the availability of the exclusive items for customers belonging to all age groups under one roof. Four Khadi Gramodyog Bhavans[11] are also engaged in processing of khadi into

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[4] ***Khadi and Village industries products include khadi yarn, fabric, garments and accessories, cotton sliver and roving, honey, spices and condiments, beauty products, handicrafts, agarbatti, processed foods etc.***

[5] ***Five functional Central Sliver Plants – (i) Sehore, (ii) Raebareli, (iii) Chitradurga, (iv) Hajipur, and (v) Kuttur.***

[6] ***A sliver is a long bundle of fibre that is generally used to spin yarn.***

[7] ***When sliver is drawn further and given a slight twist, it becomes roving.***

[8] ***Institutions such as co-operative societies, charitable trusts, local self-government bodies, State Government organisations and Boards, Departmental Trading Units etc., who have obtained khadi certification from KVIC.***

[9] ***Charkha programme of the Government of India was initiated in 1956 for providing subsidy and support to certified khadi institutions in production of handloom cotton yarn and fabric. Subsequent charkha programmes include the New Model Charkha programme and the recently introduced Solar Charkha programme.***

[10] ***Seven operational Departmental Sales Outlets – (i) New Delhi, (ii) Kolkata, (iii) Goa, (iv) Bhopal, (v) Ernakulam, (vi) Patna and (vii) Mumbai.***

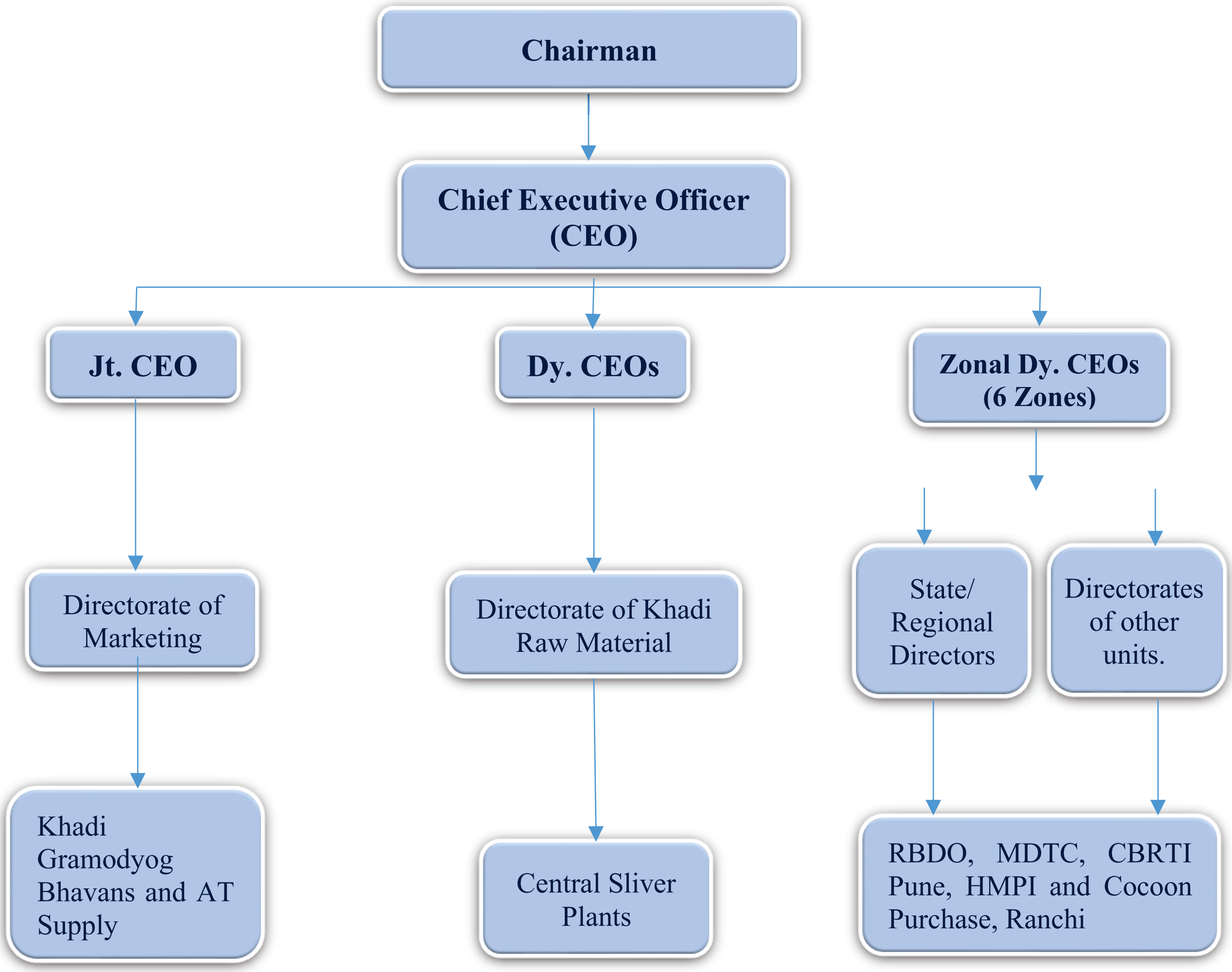
[11] ***KGBs at Delhi, Ernakulam, Mumbai and Bhopal.***

readymade garments. Khadi Gramodyog Bhavans are run by Bhavan Managers and they are under the administrative control of the Directorate of Marketing.

iii. Six other[12] Departmental Trading Units are engaged in production and supply of specific Khadi and Village Industries products. Of these six Departmental Trading Units, one Departmental Trading Unit functions under the Directorate of Marketing and five other Departmental Trading Units report to the Directors concerned.

The Departmental Trading Units function under overall supervision of the Chief Executive Officer, KVIC who is assisted by respective Directorates. The organogram depicting functioning of Departmental Trading Units is illustrated in Figure 1.1 below:

Fig: 1.1. KVIC Organogram



[12] *(i) Regional Border Development Office (RBDO), Barmer, Rajasthan, (ii) Multi-Disciplinary Training Centre (MDTC), Dahanu, Maharashtra, (iii) Accepted Tender (AT) Supply, Mumbai, Maharashtra, (iv) Cocoon Purchase, Ranchi, Jharkahnd (v) Hand Made Paper Industry (HMPI), Mumbai, Maharashtra, and (vi) Central Bee Research and Training Institute (CBRTI), Pune, Maharashtra.*

The Departmental Trading Units run on commercial lines and the books of accounts etc., are maintained on the same lines i.e., as in the case of any commercial concern.

Details of budgets allocated and actual expenditure incurred on schemes related to Departmental Trading Units and marketing of Khadi and Village Industries products are given in Table 1.2 below:

Table 1.2 Budget allocation and actual expenditure incurred on schemes related to Departmental Trading Units and Marketing of Khadi and Village Industries products

(Figures in ₹ crore)

Scheme	2017-18		2018-19		2019-20		2020-21	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Khadi								
Modified Market Development Assistance	308.31	172.58	151.31	303.81	291.20	255.35	224.04	197.34
Publicity	10.00	7.82	4.00	5.65	0	0	7.94	4.76
Marketing	10.00	6.70	8.69	11.30	30.00	11.33	29.73	2.42
Quality Assurance	0	0	0	0	5.00	0	5.00	3.07
Setting up of Design House	0	0	0	0	15.00	0	15.00	4.96
Strengthening of marketing infrastructure	6.26	7.91	9.54	8.96	12.39	4.68	10.96	10.59
Promotional Grant	0	0.29	9.39	0.40	4.00	6.10*	8.19	5.62
Village Industries								
Village Industries Grant	83.78	75.07	63.00	58.18	82.92	83.09*	93.42	80.97
KRDP[13]	481.00	226.65	146.03	60.70	0	46.49*	0	19.78*
Total	**899.35**	**497.02**	**391.96**	**449.00**	**440.51**	**407.04**	**394.28**	**329.51**
***Includes expenditure on funds received against budgets in previous years.**								

The major share of the total expenditure incurred during the period 2017-18 to 2020-21 was on Modified Market Development Assistance[14] (55.37 *per cent*).

KVIC also incurred substantial expenditure under the Khadi Reform and Development Programme (KRDP) (21.08 *per cent*) which was launched with the financial assistance from Asian Development Bank amounting to US$150 million and support from the Government of India with the objective of fully realising the significant growth potential of Khadi and Village Industry sector in terms of employment generation, enhancing earnings of artisans and ensuring positioning of khadi in consonance with the current market needs. The loan amount, was, however, reduced to US$105 million (₹666 crore) in November 2016. KRDP had nine components[15] out of which two components namely marketing reforms (US$825,000/ ₹5 crore) and production efficiency (US$8,787,000/ ₹42 crore) were related to Departmental Trading Units.

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[13] *Khadi Reform and Development Programme is a comprehensive programme implemented by KVIC with financial support from the Asian Development Bank*

[14] *The Modified Market Development Assistance is production subsidy given by Government of India through KVIC to artisans and Khadi Institutions engaged in the production and sale of khadi.*

[15] *Khadi Reform andDirect Reform Assistance, Khadi Mark, Marketing Reforms, Production Efficiency, Financial Management, Institutional Capacity Building, IT- MIS and E-Gov, Khadi NewVentures and Village Industries Program*

Chapter II
Audit Mandate, Scope and Methodology

Chapter II

Audit Mandate, Scope and Methodology

This report of the Comptroller and Auditor General of India has been prepared for submission to the President of India under Article 151 of the Constitution of India for being laid before the Parliament. The report has been prepared in accordance with the Compliance Auditing Guidelines, 2016 and Regulation on Audit and Accounts, 2007 (amended in 2020) of the Comptroller and Auditor General of India.

2.1 Scope of Audit and objectives

The Compliance Audit evaluated the operation of 18 functional Departmental Trading Units and Supply Chain Management during the period from 2017-18 to 2020-21. Audit also conducted general scrutiny of 25 defunct Departmental Trading Units to ascertain reasons and impact of closure.

The objectives of the Compliance Audit were to assess:

i) the reasons and impact of closure of Departmental Trading Units for lessons to be learnt for future;

ii) whether the procurement of goods from Khadi Institutions and Village Industries and also the procurement of cotton and production of sliver was done as per prescribed procedure and the supply chain management was maintained economically, efficiently and effectively;

iii) whether marketing and sales of the Khadi and Village Industries products and sliver was done efficiently and effectively; and

iv) whether adequate financial management, internal control and monitoring mechanism were in place to ensure the functioning of the Departmental Trading Units as per the rules, regulations and procedures.

2.2 Audit criteria

The criteria for audit were drawn from the policies/ guidelines/ norms adopted by KVIC:

- KVIC Act, Government/ KVIC Rules and Regulations, KVIC's Policies, Guidelines for procurement and sales.
- General Financial Rules and CVC guidelines regarding procurement.
- Sanction letters from Ministry regarding allotment of funds, Budget Estimates and allocation by KVIC against the sanction.
- Minutes of Meetings, Delegation of Powers, Internal Audit Reports etc.

- Sanctioned manpower allotted to all Departmental Trading Units and Ministry directives/ guidelines on manpower.
- Guidelines for fixation of prices and credit sales policy.

2.3 Audit Methodology

Audit commenced with an Entry Conference with the Management of KVIC, held on 16 November 2021, in which the scope, criteria and methodology were explained to the top management of KVIC and their inputs obtained. The methodology adopted for the Compliance Audit included, *inter alia,* issue of audit requisitions and questionnaires, review of records at KVIC Head Office, Directorates concerned and the Departmental Trading Units (both functional and non-functional), discussions with the management, collection of visual evidence, site inspections along with management team, issue of queries and obtaining replies on audit queries. The draft Compliance Audit Report was issued to KVIC on 31 May 2022 and their reply on the same was received on 5 July 2022. An Exit Conference was held on 29 July 2022 with the Management of KVIC and KVIC furnished additional reply on 5 August 2022. The draft report was issued to the Ministry of Micro Small and Medium Enterprises on 12 August 2022 and the Ministry endorsed KVIC's reply on 31 August 2022. The replies furnished are suitably incorporated in this report.

2.4 Sampling

All the 18 functional Departmental Trading Units were covered in Audit. Of the 74 defunct Departmental Trading Units, 25 defunct units (34 *per cent*) were covered in Audit in such a manner that at least 25 *per cent* of units from each of the six zones of KVIC were selected on stratified random sampling basis.

2.5 Acknowledgement

Audit acknowledges the cooperation extended by the Management and staff of KVIC for smooth conduct of the audit.

Chapter III
Defunct Departmental Trading Units

Chapter III

Defunct Departmental Trading Units

KVIC had established 92 Departmental Trading Units (DTUs) during the period 1956-57 to 2020-21 which included 18 Departmental Sales Outlets named as Khadi Gramodyog Bhavans (KGBs), seven Central Sliver Plants (CSPs) and 67 other trading units involved in production, marketing and training activities relating to Khadi and Village Industries products. Of these, only 18 Departmental Trading Units were functional as on 31 March 2021 and 74 Departmental Trading Units became defunct over the years as tabulated below in Table 3.1.

Table 3.1: Closure of Departmental Trading Units over the years

Period of closure	No. of Departmental Trading Units closed
1962-1994	10
1995-2005	29
2005-2014	26
2015-2021	4
Year of closure not available	5
Total	**74**

Audit test checked 25 defunct units for analysing the reasons for the units becoming defunct and to assess the impact of their closure on KVIC's objective of creating network between rural artisans producing Khadi and Village Industry products and the consumers living in urban areas and also to examine whether their assets were safeguarded after being declared as defunct. Of these, 12 units were engaged in marketing of Khadi and Village Industry products and nine units were involved in production of the same while the remaining four units were established for specific purpose such as providing funds to village industries units in Bihar, installation of biogas plant, supply of cocoons to sericulture units and supply of charkhas and weaving equipment to Khadi Institutions. The list of 25 defunct Departmental Trading Units test checked is given in ***Annexure I*** and the important audit observations are discussed in the succeeding paragraphs.

3.1 Reasons and impact of closure of Departmental Trading Units

There was nothing on record to show that KVIC had analysed the reasons for the units becoming defunct and assessed the impact thereof on the stakeholders such as Khadi Institutions, Village Industries, rural artisans, consumers etc. In 12 out of 25 units test checked, authority for closure was not made available to Audit by KVIC.

Further, the reasons for closure of 11 Units[16] were not made available to Audit by KVIC nor could be ascertained from the records provided to Audit. The cases, where reasons for closure could be identified, are discussed below:

[16] ***Non-edible Oil Soap Unit, Dimapur, Lime Unit, Siliguri, Village Industries Trading/ Marketing Unit, Siliguri, PolyVastra Spinning Centre, 24 Parganas, KGB Bhubaneswar, Cocoon Purchase, Bhopal, Marketing unit, Rishikesh, KGB, Barmer, Director, Soap, Nasik, Director of Instrumentation, Mumbai, Directorate of Non-Conventional Energy, Mumbai***

3.2 Closure of Departmental Trading Units

Audit observed that closure of three Departmental Trading Units was avoidable, had KVIC taken timely action for keeping them functional as discussed below:

3.2.1 Central Sliver Plant, Etah

Central Sliver Plant at Etah in Uttar Pradesh was set up (1997) to supply medium count roving to the Khadi Institutions of northern States. The Unit was provided electricity connection (1996) with sanctioned load of 250 KVA by Uttar Pradesh State Electricity Board and deposited ₹16.13 lakh as security deposit. The Unit requested (1999) for disconnection of the said connection due to frequent outage of supply and the disconnection was done. Attempts by the unit for refund of the security deposit of ₹16.13 lakh after disconnection were also not fruitful.

The Plant was running on 100 *per cent* diesel generator power supply since then incurring ₹35-₹40 per unit fuel charges leading to higher production cost (diesel accounting for 41 *per cent*) making the unit unviable. Considering the high cost of diesel, the restoration of electricity connection was taken up (2009) by KVIC with Uttar Pradesh Power Corporation Limited (UPPCL) for reconnection of power supply by evaluating the proposals for independent line of 11 KV from Industrial area with an estimated cost of ₹41 lakh. The Commission approved (March 2009) a grant of ₹50 lakhs for an independent line for reconnection. Later on, UPPCL communicated that cost of new electric line was wrongly worked out and the new cost of electric supply line would be ₹95 lakh. However, CSP Etah could not obtain the connection as it did not pay the escalated cost of ₹95 lakh.

In view of the high power cost, KVIC decided to wind up the unit (February 2019) and refund to the Ministry of MSME, the funds allotted (₹7.27 crore) under the Khadi Reform and Development Program (KRDP) for refurbishment of the unit. KVIC also did not entertain the proposals received (2020) from four[17] Khadi Institutions for reviving the Plant which could have benefitted the Khadi Institutions in Haryana and Western Uttar Pradesh region.

Audit observed that a proposal submitted (May 2015) by the Unit following a consultation with the Ministry of New and Renewable Energy for setting up a solar plant of 0.50 megawatt capacity at an estimated cost of ₹3.30 crore was not followed up by KVIC. Had the solar plant been set up, the unit could have obtained its power requirement @ ₹5.50 per unit as against ₹35-₹40 per unit incurred on diesel power. It was further observed that KVIC could have utilised the funds available under KRDP for setting up the solar plant.

[17] ***Four Khadi Institutions – 1. Khadi Gramodyog Vikas Mandal, Budhanpur, 2. Brij Khadi Gramodyog Sewa Niketan, Etah, 3. Sushila Gramodyog Sansthan, Ghaziabad, and 4. Avadh Yuva Kalyan Gramodyog Sansthan, Moradabad***

Thus, CSP Etah became defunct due to higher cost of utilities and not because it was operationally unviable. The fact that four Khadi Institutions were willing to take over the infrastructure shows that need for the unit existed and operations could be viable.

KVIC/ Ministry stated (July 2022/ August 2022) that it had taken several steps to obtain the electricity connection and as they were not fruitful, the Unit had to be closed down. KVIC also informed that the deposit made to U.P Electricity Board was not refundable. Regarding setting up of solar plant KVIC stated that the proposed plant would not have provided sufficient load for running the plant. The reply may be viewed in light of the fact that KVIC had not been able to obtain regular electricity connection even after 20 years from setting up the Unit. Further, as the proposal of the unit for setting up of solar plant was made after consultation with the Ministry of New and Renewable Energy, the reply that the solar plant would not be able to provide sufficient load was not supported by any technical study. As the estimated requirement of power load was only 0.33 Megawatt, the proposed solar power plant of 0.50 Megawatt capacity should have been sufficient to operate the plant.

3.2.2 Khadi Gramodyog Bhavan, Agartala

KGB Agartala was functioning in a building owned by the Tripura Khadi and Village Industries Board (State Board). The sales activities at KGB Agartala were stopped in 2012 for renovation of building rented from the State Board Tripura. After renovation, the State Board allotted space in the building to KGB Agartala and demanded ₹5 lakh as its share for expenses incurred on renovation. The Unit requested (May 2014) KVIC for sanctioning the funds but it was not approved and the Unit could not resume its sales activity.

KVIC/ Ministry (July 2022/ August 2022) stated that the proposal submitted by the State Board, Tripura in July 2014 for renovation of the Khadi Gramodyog Bhavan was rejected (January 2016) and the decision to close the Unit was taken by KVIC in May 2019. The reply of KVIC did not indicate the reasons for non-payment of the share of ₹5 lakh. Further, KGB Agartala was one of the KVIC Departmental Trading Units selected for renovation under the "Strengthening Marketing Infrastructure" scheme launched in 2009 and funds up to ₹25 lakh per Khadi Gramodyog Bhavan were available as per the scheme. Moreover, the approval by KVIC in May 2019 was only for closure of the accounts of all the defunct units (72)[18] and not for the closure of KGB Agartala.

3.2.3 Rural Textile Center, Kanimangalam

The Rural Textile Center, Kanimangalam was established in 1973. The weaving unit of Rural Textile Center, Kanimangalam was closed (February 1996) due to non-availability of weavers and spinning unit was also closed (July 1999) due to dropping out of spinners

[18] ***The accounts of two defunct units are yet to be closed.***

for reasons such as retirement, opting to work from home etc. KVIC did not take timely action to provide manpower to the Unit and it had to be closed down (1999).

KVIC/ Ministry did not furnish reply to the observation.

3.3 Closure due to losses

Six Departmental Trading Units[19] were closed/ lying defunct as they continued to incur losses. These Departmental Trading Units had incurred losses of ₹1.16 crore as on date of closure of their accounts.

It was further seen that whereas the Directorate of Trading Activities, Kolkata was lying defunct since 1962, private Units (87 Units) in the State of West Bengal, which were issued legal notices for infringing the registered trademarks of KVIC[20], had earned total sales[21] revenue of ₹716.70 crore[22] during the period 2017-18 to 2020-21.

Similarly, in case of KGB Barmer, though the Departmental Trading Unit was lying defunct since 2001 and its activities were taken over by another Departmental Trading Unit i.e., Regional Border Development Organisation Barmer, 11 private units in the State of Rajasthan, selling products using the brand name "Khadi" without authorisation from KVIC, earned sales revenue of ₹309.07 crore[23] during the year 2017-18 to 2018-19

These two cases indicated that there was scope for sale of Khadi products by these Departmental Trading Units. Had KVIC done any analysis of potential for revenue generation of these defunct Departmental Trading Units, it could have generated revenue from them.

3.4 Post closure issues

Audit noticed in some of the closed units that KVIC was not prompt in disposal of the assets and recovery of debts post closure as illustrated by the following cases:

3.4.1 Disposal of Assets

In case of closure of a trading unit, it would be financially prudent to transfer the assets such as plant and machinery to other units as per their requirement or to dispose of the same promptly so as to fetch maximum salvage value.

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[19] ***KGB Bangalore (₹0.25 crore),Ambar Saranjan, Ahmedabad (₹0.75 crore),Pilot Agarbatti, Ahmedabad (₹0.01 crore), KGB Radhanpur (₹0.02 crore),Directorate of Trading Activity, Kolkata (₹0.12 crore), and Jamnalal Bajaj Central Research Institute , Wardha (₹0.01 crore)***

[20] ***Khadi (word mark), two different pictures of Khadi India Logo, Sarvodaya (wordmark), Khadi Mark logo, and Khadi as a Well-Known Mark.***

[21] ***Separate details as to quantum of sales comprising Khadi and Village Industries products was not available***

[22] ***Source-Goods & Services Tax (GST) returns of firms concerned.***

[23] ***Separate details as to quantum of sales comprising Khadi and Village Industries products was not available***

In five out of 25 defunct units test checked, it was observed that fixed assets with gross value of ₹82.34 lakh were not disposed of after closure of the units. In case of 12 units, there were no fixed assets and information regarding eight units was not furnished. In case of CSP, Etah which was closed in February 2019, the plant and machinery worth ₹79 lakh of the closed plant is yet (August 2022) to be disposed off. Further, KVIC has incurred ₹69 lakh during the above period for safeguarding the assets of CSP Etah.

Regarding CSP Etah, KVIC/ Ministry stated (July 2022/ August 2022) that the staff had to be retained in the defunct unit for safeguarding the assets and therefore the establishment expenditure of ₹25 lakh per annum was required. As regards disposal of the equipment, it was replied that some of it would be transferred to other Central Sliver Plants and the rest would be auctioned off. The reply may be viewed in light of the fact that though the Unit was closed in January 2019, KVIC has not been able to dispose of the assets or re-deploy the staff even after three years and is incurring avoidable establishment expenses.

In respect of the other defunct units, KVIC/ Ministry (August 2022) stated that the stock and the fixed assets physically available with these defunct Departmental Trading Units were transferred to the custody of the State/ Divisional Directors concerned. The reply may be viewed in light of the fact that though interim action was taken, disposal of assets is still pending in respect of five defunct Departmental Trading Units.

3.4.2 Realisation of Debts

In 17 out of 25 defunct Departmental Trading Units, Audit observed that an amount of ₹6.81 crore[24] was pending recovery for years after closure of units. In case of seven other units information regarding receivables was not made available while one unit did not have any external receivable.

KVIC/ Ministry, in case of CSP Etah, stated (August 2022) that an amount of ₹3.13 crore has been recovered subsequently. It was also stated that unrealised receivables were set off against the unpaid liabilities and no losses were booked.

The reply may be viewed in light of the fact that netting of assets and liabilities is an accounting exercise and does not address the issue of non-realisation of dues and disposal of assets. Further, KVIC has not clarified whether the netting of assets and liabilities has discharged the liability of the Departmental Trading Units towards their creditors.No reply was furnished in respect of other Units.

3.4.3 Re-deployment of staff

There was delay in re-deployment of staff in four defunct units. Three employees of Ambar Saranjan, Ahmedabad which became defunct in 2001 were redeployed only in 2012. One employee of KGB Agartala, which stopped activities in 2012 was re-deployed only in

[24] ***Net of KVIC's departmental debtors.***

2017. Three employees of CSP Etah, which became defunct in 2019 are yet to be redeployed (March 2022). In Marketing Unit Rishikesh, which became defunct in 2007, five employees were retained for 10 years after closure of the unit. In case of staff of remaining 21 units details as to when the staff were re-deployed were not provided.

KVIC/ Ministry did not furnish reply to the observation.

Recommendation No. 1:

Reasons for Departmental Trading Units becoming defunct may be analysed in depth and action may be taken on the lessons learnt to ensure that the remaining functional Departmental Trading Units especially those engaged in marketing activities are managed efficiently to achieve their objectives. The assets/ liabilities of defunct units may be disposed off / settled promptly.

Chapter IV
Procurement and Production by Departmental Trading Units

Chapter IV

Procurement and Production by Departmental Trading Units

Procurement of Khadi and Village Industries products by Khadi Gramodyog Bhavans (KGB) is regulated by instructions issued by the Directorate of Marketing, Khadi and Village Industries Commission (KVIC) and procurement in Central Sliver Plants (CSPs) by instructions issued by the Directorate of Khadi Raw Material. In case of Departmental Trading Units (DTUs) other than Khadi Gramodyog Bhavans and Central Sliver Plants, the procurement is governed by the guidelines issued by the Directorate/ Controlling offices concerned.

During the period 2017-18 to 2020-21, 18 functional Departmental Trading Units had made procurement of trading products/ raw material to the tune of ₹768.08 crore. Audit test checked the procurements made by the Departmental Trading Units and the findings are discussed below:

4.1 Procurement and Supply Chain Management in Khadi Gramodyog Bhavans

Khadi Gramodyog Bhavans procure Khadi and Village Industries products from Khadi Institutions (2,816 institutions as at 31 March 2021) registered[25] with KVIC, Village Industries units, units set up under the Prime Minister's Employment Guarantee Programme (PMEGP) and the Rural Employment Guarantee Programme (REGP)[26].

As per General Financial Rules, 2017 (GFR) vide Rule 158 regarding purchase of goods, it is mandated to procure goods by obtaining bids through Advertised Tender Enquiry, Limited Tender Enquiry, Two-Stage Bidding, Single Tender Enquiry and Electronic Reverse Auctions depending on the amount and other circumstances.

Directorate of Marketing prescribed (March 2004) detailed guidelines for procurement of goods by Khadi Gramodyog Bhavans which were modified in June 2006 and March 2018.

As per circular (June 2006) on procurement of Khadi and Village Industries products, the goods were to be procured on consignment basis[27]. Each Khadi Gramodyog Bhavan was to constitute a Procurement Committee headed by the State Director, KVIC and the Manager, Accountant and the Godown Incharge of the Khadi Gramodyog Bhavan as members. The committee was to meet quarterly and review the procurement. The minutes of the meeting of the Procurement Committee were to be sent to the Director Marketing. The Khadi Gramodyog Bhavan Managers were to prepare annual procurement plan keeping in view market demand and product on one hand and analysis of sales trend item-

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[25] ***Firms which have registered themselves with KVIC and obtained Khadi Certificate.***

[26] ***PMEGP and REGP are schemes being administered by the Ministry of MSME and implemented by KVIC for generation of employment opportunities through establishment of micro enterprises in non-farm sector for rural as well as urban areas.***

[27] ***Under consignment sale, the payment to supplying institutions is made only after sale of products.***

wise and quantum-wise on the other hand. The annual procurement plan, as agreed by the Procurement Committee specifying the products, specification, quantity, cost range etc., was to be published on the KVIC website to enable the producing institutions to offer their products as per requirement. The offers received from interested suppliers were to be examined by the Procurement Committee and decision for procurement was to be taken after considering the following:-

a. Valid Khadi/ REGP registration certificate

b. Saleability of the product as per previous three years' data

c. Quality specification matching the requirement projected

d. Having adequate production targets/ capacity to meet the requirements

e. Cost offered

f. Supply of processed/ finished products (obviating the need for further processing)

The above guidelines were modified (March 2018) and as per the revised guidelines, procurement of goods on consignment basis was discontinued to comply with the GST regime since under second and third proviso to Section 16(2) of the Central Goods & Services Tax (CGST) Act, 2017, payment for all purchases has to be made within six months from the date of invoice and in the absence of vendor's payment, input credit for GST would be reversed automatically. In addition to the procurement process outlined in the earlier guidelines, it was also stipulated that a list of existing approved suppliers should be prepared and agreements executed with selected suppliers. In addition to publishing annual procurement plan on KVIC website, it was also stipulated in the new guidelines that the same should be sent to State/ Divisional Directors[28] of KVIC with a copy to Zonal Deputy Chief Executive officer. As per the new guidelines, the procurement committee was to be headed by the Manager of the Khadi Gramodyog Bhavan with the Assistant Director, State Office, Senior Executive/ Executive, the Godown Incharge and the Sales Incharge of the Khadi Gramodyog Bhavan as members.

Audit test checked the procurement of Khadi and Village Industries products by the Khadi Gramodyog Bhavans during the period 2017-18 to 2020-21. The status of compliance of the Khadi Gramodyog Bhavans with guidelines issued by KVIC are summarised in Table 4.1 below:

[28] ***KVIC has six zonal offices viz, North, North East, Central, East, West, South and 39 State/ Regional offices.***

Table 4.1: Non-adherence to stipulated procurement guidelines

Procurement Guidelines	Khadi Gramodyog Bhavan						
	Mumbai	Goa	Delhi	Ernakulum	Patna	Kolkata	Bhopal
Constitution of procurement committee	Yes[29]	Yes	Yes	Yes	Yes	Yes	Yes
Meetings (as against 16 required) held by the procurement committee during four years (2017-18 to 2020-21)	5 (31.25%)	2 (12.5%)	4 (25 %)	3 (18.75 %)	1 (6.25%)	8 (50 %)	10 (62.50 %)
Forwarding of minutes of meeting of procurement committee to Directorate of Marketing	No	No	Yes	No	Yes	Minutes of only four meetings were forwarded to Directorate of Marketing.	Minutes of only five meetings were forwarded to Directorate of Marketing
Preparation of annual procurement plans	No	No	Yes, but the same was unrealistic without scrutiny	No	Only for 2017-18	Yes, but not in complete form as they were without analysis of market demand and sales (100 %)	No
Approval for annual procurement plan by the procurement committee	No	No	Yes	No	No	Yes	No
Publicising annual procurement plan on KVIC website	No	No	Yes	No	No	No	No
Selection of suppliers from the list of registered suppliers maintained by KVIC following prescribed procedure	No	No	No	No	No	No	No
Agreements with suppliers	No	No	No	No	No	No	No
Return of Unsold goods within 180 days of purchase	No	No	No	No	No	No	No
Adherence to prescribed procedure for purchase of readymade garments	No	No	No	No	No	No	No

[29] ***The committee was involved only in purchase of capital items, services etc. The Committee did not discuss or formulate annual procurement plans and also did not deliberate on procurement of products for trading in the Khadi Gramodyog Bhavan.***

In this regard, Audit observed the following:-

4.1.1 Objectivity in selection of suppliers

The guidelines issued by KVIC for regulating procurement of goods for trading by Khadi Gramodyog Bhavans stipulated that the suppliers have to be identified from the data available with State/ Divisional Directors of KVIC who were to collect and categorise all institutions according to product range, production capacity, production targets, productivity and time taken in each production cycle. Further, Khadi Gramodyog Bhavans have to maintain a list of suppliers along with the price list. The list has to be updated regularly and agreements have to be entered into with the suppliers. The offers received by the Khadi Gramodyog Bhavans from registered institutions for purchase were to be placed before the Procurement Committees and final decision for procurement taken keeping in view the laid down parameters such as salability of the products, quality etc.

The purchase orders with proper justification have to be placed in the order of preference (i) Departmental Production Centers of KVIC (ii) Directly Aided Institutions/ Units of KVIC[30] (preferably A & B category[31]) (iii) Departmental Units of State Khadi and Village Industries Boards[32] and (iv) Units assisted by State Khadi and Village Industries Boards.

Audit observed that none of the Khadi Gramodyog Bhavans had complied with the above requirements. No new suppliers were approved during the period 2017-18 to 2020-21. Procurement made from suppliers selected in prior periods was not through competitive bidding but by nomination and without executing agreements with suppliers as pointed out in subsequent paragraphs.

Audit analysed the data[33] in respect of sales[34] made by the Khadi Gramodyog Bhavans during 2020-21 and 2021-22 and observed that due to non-adherence to prescribed procedure of procurement, a few suppliers were dominating the market as depicted in Table 4.2 below.

Table 4.2 Supplier-wise sales by Khadi Gramodyog Bhavans

Amount of sales per supplier	Number of suppliers	Amount (*₹ in crore*)	Percentage to total	
			Number	Amount
			(figures in per cent)	
>₹1 crore	8	12.39	1.06	20.54
>₹50 lakh <₹1 crore	14	10.09	1.86	16.72
>₹25 lakh <₹50 lakh	38	13.15	5.04	21.79
>₹1 lakh <₹25 lakh	89	13.72	11.80	22.74
<₹1 lakh	605	10.99	80.24	18.21
Total	**754**	**60.34**	**100.00**	**100.00**

30 There are 2,816 Khadi Institutions registered with KVIC to whom direct assistance is provided.

31 Categorisation based on scores obtained for 16 indicators such as artisan welfare, financial performance, operational efficiency, governance etc.

32 State Khadi and Village Industries Boards are constituted by the respective State Governments and are provided assistance by Government of India through KVIC.

33 Complete data in respect of all Khadi Gramodyog Bhavans was not available for earlier years in Khadi Institutions Management Information System.

34 Supplier-wise, product-wise data in respect of procurement was not provided by KVIC. As such, sales data was used for analysis.

As can be observed from data in Table 4.2, out of 2,816 registered Khadi Institutions and around four lakh[35] PMEGP/ REGP/ Village Industries units for whom the Khadi Gramodyog Bhavans of KVIC are mandated to act as sales outlets, only 754 units were able to sell their products through KVIC outlets during the period test checked. Further, out of 754 suppliers, eight suppliers, representing 1.06 *per cent* of the total number of suppliers, sold products worth more than ₹1 crore each through the Khadi Gramodyog Bhavans representing 20.54 *per cent* of total sales. Also, remaining 605 suppliers, who formed 80 *per cent* of total in terms of number, were getting a share of only 18.21 *per cent* of the total sales.

Audit further observed that there is no transparent mode of selection of vendors from amongst the approved suppliers. For instance, KGB Kolkata allotted counters only to 35 institutions during 2017-18 to 2020-21 out of 352 institutions empanelled with State Office. Thus, only 10 *per cent* of Khadi Institutions could market their products through four outlets of KGB Kolkata.

KVIC, in its reply, stated (December 2022) that out of 2,816 registered Khadi Institutions, only limited number of institutions participate in the procurement process of KVIC since the Khadi Gramodyog Bhavans are resorting to consignment purchase system and only those institutions having the capacity to offer credit over the consignment period show interest in supplying items to Khadi Gramodyog Bhavans. KVIC further stated that efforts will be made to enrol more suppliers from all categories so that more marketing opportunities are extended to the Khadi Village Industries institutions and PMEGP units.

The reply may be viewed in light of the fact that despite discontinuance of the practice of procurement on consignment basis in March 2018, Khadi Gramodyog Bhavans are still continuing this practice, thus denying equal opportunity of marketing their products through KVIC to majority of the suppliers. Further, KVIC has also not explained the steps taken by it to ensure transparency in selection of suppliers and placing orders to Khadi Institutions as well as for ensuring timely payment to suppliers by Khadi Gramodyog Bhavans.

4.1.2 Procurement Committee and Annual Procurement Plan

Regarding the constitution of Procurement Committees in Khadi Gramodyog Bhavans and preparation of annual procurement plans, Audit observed that while Procurement Committees were constituted by all the Khadi Gramodyog Bhavans, they did not function as prescribed in the guidelines as depicted in Table 4.1 and explained below:

- The required number of meetings (four per year) were not held in any Khadi Gramodyog Bhavan. Against the norm of 16 meetings to be held during the four year period from 2017-18 to 2020-21, the number of meetings actually held ranged between

[35] ***The exact number of village industries units was not available. However, 4.08 lakh units were established under PMEGP from 2014-15 to 2020-21.***

one (KGB Patna) and 10 (KGB Kolkata). As regards forwarding of minutes of meeting to the Directorate of Marketing, only two KGBs (Delhi and Patna) had complied with the requirement.

- While four KGBs (Mumbai, Goa, Ernakulam and Bhopal) did not prepare Annual Procurement Plans as required under the guidelines, KGB Patna prepared Annual Procurement Plan for one year only but the same was not got approved by the Procurement Committee. KGBs at Delhi and Kolkata prepared Annual Procurement Plans for all the years but in case of KGB Delhi, it was observed that the purchases planned were not in tune with proposed sales. The variance was more than 100 *per cent* in case of 28.11 *per cent* of Khadi items during the period 2017-18 to 2020-21 and ranged up to 2,500 *per cent* thus indicating lack of sufficient scrutiny by the Procurement Committee, leading to unrealistic procurement plans. Similarly, in KGB Kolkata, the annual procurement plans were prepared without analysing market demand and product line *vis-à-vis* item-wise and quantum-wise analysis of sales for the last three years and only had some targets for procurement on consignment basis.

- None of the Khadi Gramodyog Bhavans had uploaded Annual Procurement Plans on the KVIC website as stipulated in the guidelines.

4.1.3 Sales analysis not done

The guidelines for procurement required analysis of sales, trade-item-wise and quantum-wise for the last three years before preparation of procurement plans to assess saleability of the merchandise procured. KVIC had introduced Khadi Institution Management Information System (KIMIS) from 2019-20 which contains a module (Marketing Information System) for uploading purchase/ sales data of Khadi Gramodyog Bhavans. Analysis of sales was neglected for long, now introduction of KIMIS has enabled KVIC to analysis sales data effectively. However, this data was not compiled into item-wise, supplier-wise information to obtain inputs on procurement plans either by the Khadi Gramodyog Bhavans or the Directorate of Marketing, KVIC.

4.1.4 Market trend analysis not done

KVIC had prescribed (May 2019) guidelines for fabrication/ sale of readymade garments through Khadi Gramodyog Bhavans that '*the design, style, size, fashion trend, finish of the readymade garments should be in consonance with the trend of lead brands marketed across the country*'. Audit observed that though KVIC has taken initiative by issuing guidelines for market trend analysis, limited efforts were made by the Khadi Gramodyog Bhavans to identify market trends as envisaged. Readymade garments were procured from suppliers with generic specifications such as kurta, pajama, shirt etc., without specifying the style, colour, design specialties etc., which were trending during the period concerned.

4.1.5 Procurement on consignment basis and purchase returns

As per circular issued by KVIC in 2006, products were to be procured from suppliers on consignment basis and payments made to them only after sales were effected. To comply with the GST regime, this practice was discontinued from July 2017 since under second and third proviso to Section 16(2) of the Central Goods & Services Tax (CGST) Act, 2017, payment for all purchases has to be made within six months from the date of invoice and in the absence of vendor's payment, input credit for GST would be reversed automatically. Subsequently, KVIC issued (March 2018) instructions that to comply with GST regime, procurement of goods on consignment basis was discontinued and all unsold goods were to be returned before expiry of 180 days of receipt.

Audit, however, observed that Khadi Gramodyog Bhavans are still continuing procurement of products on consignment basis i.e., payments to suppliers are made only after sales. Further, Khadi Gramodyog Bhavans are also not complying with the KVIC guidelines that all unsold goods should be returned within 180 days of receipt. Non-compliance with the guidelines may result in reversal of GST benefit (Input Tax Credit) for KVIC. Further, suppliers are being paid only after sales thereby limiting the smaller suppliers, the opportunity to market their products as discussed in paragraph 4.1.1.

4.1.6 Non-compliance with audit requirements

As per KVIC instructions (2017), the Khadi Institutions are required to be audited by the CAG approved/ empanelled Chartered Accountant firms. Audit observed that compliance of the KVIC instructions was not done.

Non-adherence to the procurement procedures prescribed by the Khadi Gramodyog Bhavans as brought out above defeated the intended objective of streamlining the process of procurement.

KVIC/ Ministry stated (July 2022/ August 2022) that from 2022-23, proper monitoring of procurement and supply chain management would be done to ensure transparency in procurement. KVIC/ Ministry further stated that the procurement of Khadi and Village Industries goods have been made on the basis of Standard Operative Procedure and guidelines issued by the Directorate of Marketing from time to time. It was also claimed that at present, there was no accumulation of un-saleable stock due to the prescribed purchase/ procurement procedures adopted by Khadi Gramodyog Bhavans.

The reply by KVIC/ Ministry that the procurement of Khadi and Village Industries goods have been made on the basis of Standard Operative Procedure and guidelines is not factually correct as is evident from the non-compliances reported in paragraphs 4.1.1 to 4.1.6 above. Further, claim of KVIC that there is no unsaleable stock may be viewed in light of the fact that unsaleable stock of ₹8.19 crore which is relating to periods ranging up to more than 10 years, is still lying in four Khadi Gramodyog Bhavans as on July 2022.

Recommendation No. 3:

KVIC may ensure that the Departmental Trading Units follow prescribed procedures for effective monitoring of procurement and production such as regular meeting of Procurement Committees, analysis of market trends, publication of procurement plans on website etc.

Recommendation No. 4:

The Departmental Trading Units may introduce a system of procurement of products which is based on analysis of demand in the market substantiated by past sales and anticipated demand. Further, Khadi Institution Management Information System may be revamped to ensure that the KVIC is able to extract item-wise/ supplier-wise data on procurement and sales so as to enable the Procurement Committees to identify the market trends and thus prepare realistic and effective procurement plans and also enable the Directorate of Marketing to dynamically monitor the procurement.

Recommendation No. 5:

In order to make the procurement process more efficient, KVIC should provide equal opportunity to all registered Khadi Institutions to sell their products through Khadi Gramodyog Bhavans, give opportunity to new suppliers to register with KVIC and enforce the instructions regarding entering into agreements for supply of goods. KVIC should also ensure that the directions regarding timely payment to suppliers are duly followed.

4.2 Testing of Khadi products for ensuring quality

As per the KVIC Act, 1956, the Commission is mandated to ensure genuineness and to set up standards of quality and ensure that products of Khadi and Village Industries do conform to the said standards, including issue of certificates or letters of recognition to the concerned persons. The Khadi Certificate (valid for five year) which is mandatory for registered Khadi Institutions, is issued by the Central Certification Committee constituted by KVIC as per Regulation 24 of KVIC Regulations 1958. The Committee is empowered to issue/ renew Khadi Certificates to Khadi Institutions as per the Khadi Certification Rules and also to cancel the certificate of institutions that violate the rules.

KVIC approved (August 2003) a scheme of Quality Implementation Programme with an objective to ensure minimum quality standards in Khadi and Polyvastra products with a view to enhancing marketability, building consumer confidence and imparting competitive edge. It was directed that the Quality Assurance Officer and other khadi staff authorised by the State/ Regional Director, were to draw random samples from the Khadi Gramodyog Bhavans and send the same to Textile Committee laboratory for testing. It was also directed to convey the deviation noticed, if any, to the State/ Regional Directors from where the product originated along with a copy to KVIC.

Further, as per KVIC circular (May 2018), the Managers of Khadi Gramodyog Bhavan were responsible for ensuring that no spurious Khadi was sold through sales outlets of Khadi Gramodyog Bhavans and a special team at the level of State Office and Central Office was to visit Khadi Gramodyog Bhavans from time to time and draw samples for testing.

Audit observed that even though the quantum and frequency of testing was prescribed in case of producing institutions, the same was not specified for selling institutions such as Khadi Gramodyog Bhavans. As such, Audit examined the adequacy of testing by Khadi Gramodyog Bhavans based on the testing norm[36] prescribed for producing institutions. Status of testing in Khadi Gramodyog Bhavans is given in Table 4.3.

Table 4.3: Status of testing in Khadi Gramodyog Bhavans

<table>
<tr><th>Details of tests</th><th>KGB, Mumbai</th><th>KGB, Goa</th><th>KGB, Delhi</th><th>KGB, Ernakulam</th><th>KGB, Patna</th><th>KGB, Kolkata</th><th>KGB, Bhopal</th><th>Total</th></tr>
<tr><td colspan="9">Tests required to be conducted -560 by each Khadi Gramodyog Bhavan during 2017-21</td></tr>
<tr><td colspan="9">Tests conducted</td></tr>
<tr><td>2017-18</td><td>Nil</td><td rowspan="4">Data not provided</td><td>Nil</td><td>Nil</td><td rowspan="4">Nil</td><td>2</td><td>Nil</td><td>2</td></tr>
<tr><td>2018-19</td><td>Nil</td><td>77</td><td>14</td><td>2</td><td>14</td><td>107</td></tr>
<tr><td>2019-20</td><td>12</td><td>215</td><td>6</td><td>2</td><td>Nil</td><td>235</td></tr>
<tr><td>2020-21</td><td>Nil</td><td>41</td><td>Nil</td><td>1</td><td>Nil</td><td>42</td></tr>
<tr><td>Total</td><td>12</td><td>Nil</td><td>333</td><td>20</td><td>Nil</td><td>7</td><td>14</td><td>386</td></tr>
</table>

In this regard, Audit observed the following:

4.2.1 Inadequate testing

- No testing was carried out at KGB Patna during the four year period from 2017-18 to 2020-21. A total of only 53 samples were tested at four KGBs (Mumbai, Ernakulam, Kolkata and Bhopal) during 2017-18 to 2020-21. Performance of Delhi Bhawan, though better than the rest, was still short of the norm of testing by 40 *per cent*. Thus, the frequency/ number of samples collected for testing of products for spurious Khadi was inadequate.

- In KGB Bhopal, out of 14 samples tested in 2018-19, eight were found to be spurious (non-Khadi). Despite detection of such high percentage of spurious Khadi, no tests were conducted at the KGB Bhopal in the subsequent years.

- On receipt of complaint (December 2017) from a consumer against Mumbai Khadi and Village Industries Association (MKVIA) for selling spurious khadi item, KVIC conducted the test and found it to be spurious khadi. KVIC initiated action by refusing to renew Khadi certificate of MKVIA. Audit, in this regard, observed that the action

[36] ***As per point 5.3 of Standing order no. 1626 dated 7 August 2003, mandatory samples per quarter will be 20 from major institutions, 10 from medium and five from small institutions totaling 35x4=140.***

to be taken against producing/ selling institution in the event of detection of spurious khadi was not prescribed in any of the circulars issued by KVIC regarding testing of khadi products. Further, despite receipt of complaint of spurious khadi, neither KVIC issued directions to KGB Mumbai for testing of samples nor KGB Mumbai carried out testing as stipulated as it had conducted only 12 tests during 2019-20 and no test was conducted during the other three years.

KVIC/ Ministry stated (July 2022/ August 2022) that the Directorate of Marketing has already issued strict instructions to Khadi Gramodyog Bhavan Managers for ensuring quality of khadi sold and for regular and periodical testing of khadi products. KVIC also assured that the Directorate of Khadi Raw Material would ensure optimum testing of the khadi products.

The reply may be viewed in light of the fact that even though instructions are being issued periodically for ensuring the genuineness of khadi products, the compliance thereof was not ensured. This is also evident from the fact that the KVIC, in its 683rd meeting (October 2021), had observed that the items being supplied to Khadi Gramodyog Bhavans were not being tested randomly to ensure sale of non-spurious khadi as discussed in paragraph 4.4.3.

Recommendation No. 5:

To ensure that quality of khadi products sold is in line with prescribed standards, KVIC may formulate suitable norms for testing of products by selling institutions including Khadi Gramodyog Bhavans and ensure that adequate testing is conducted accordingly. Suitable penal measures against institutions may be prescribed and enforced on detection of spurious samples.

4.3 Market Promotion and Development Assistance Scheme

Ministry of MSME approved (March 2010) Market Promotion and Development Assistance Scheme (MPDA) to provide financial assistance i.e., Market Development Assistance (MDA) @ 20 *per cent* of value of production of Khadi & Polyvastra[37] to the producing institutions in place of existing rebate scheme. The Market Development Assistance was to be apportioned among the artisans (25 *per cent*), producing institutions (30 *per cent)* and selling institutions (45 *per cent)*. The Market Development Assistance was to be claimed by the producing institutions quarterly on the basis of their production in the preceding quarter.

[37] ***Polyvastra means any cloth woven on handloom in India from yarn handspun in India from a mixture of man-made fibre with either cotton, silk or wool or with any two or all of them or from a mixture of man-made fibre yarn handspun in India with either cotton, silk or woolen yarn handspun in India or with any two or all of such yarn.***

The guidelines were revised (September 2016) with the objectives of rationalisation of financial assistance (Modified Market Development Assistance-MMDA[38]), market segmentation of Khadi and Village Industry products for effective pricing, strengthening of marketing network and opportunities in domestic and international markets, incentives to artisans & *karyakartas* and infrastructure development for setting up of Khadi Plazas. The Modified Market Development Assistance was to be calculated at 30 *per cent* of the prime cost[39] and this 30 *per cent* is distributed amongst producing institutions (40 *per* cent of MMDA i.e., 12 *per cent* of prime cost*)*, selling institutions (20 *per cent* of MMDA *i.e.,* six *per cent* of prime cost*)* and artisans (40 *per cent* of MMDA i.e., 12 *per cent* of prime cost*)*. Producing institutions were to utilise their share for technology upgradation, setting up of Common Facility Centers, appointment of design consultants, etc. Selling institutions were to utilise their entitled Modified Market Development Assistance (six *per cent* of prime cost) for renovation and computerisation of sales outlets, hiring external marketing agencies for marketing promotion, advertisement, publicity, use of alternate marketing channels such as e-commerce/ franchisee, extension of sales discount/ rebate on the special occasions, offering discount on wholesale to private parties and capacity building of marketing and sales personnel.

KVIC also circulated (December 2016) guidelines in respect of periodicity of Modified Market Development Assistance claims, settlement of claims, furnishing of utilisation certificates etc. Khadi institutions undertaking production as well as sales activity were entitled for 60 *per cent* of Modified Market Development Assistance on prime cost. However, the producing institutions, while effecting wholesale sales, were to pass on 20 *per cent* of Modified Market Development Assistance (i.e., six *per cent* of the prime cost) to selling institutions which include Khadi Gramodyog Bhavans.

The total Modified Market Development Assistance disbursed by KVIC to the Khadi Institutions during the period 2017-18 to 2020-21 and the share of Modified Market Development Assistance collected by Khadi Gramodyog Bhavans of KVIC in their role as selling institutions from the Khadi Institutions was as shown in Table 4.4.

Table 4.4 Market Promotion and Development Assistance Scheme

(Figures in ₹ crore)

Financial Year	MMDA disbursed to Khadi Institutions	MMDA collected by KGBs from Khadi Institutions
2017-18	172.60	12.83
2018-19	303.81	9.70
2019-20	255.35	5.24
2020-21	197.34	4.44
Total	**929.10**	**32.21**

In this regard, Audit observations are discussed in the subsequent paragraphs:

38 MMDA is production subsidy given by Government of India through KVIC to artisans and Khadi Institutions engaged in the production and sale of khadi.

39 Cost of raw material plus conversion charges up to grey cloth plus processing charges without margins (it does not include establishment margin, trade margin, insurance and bank interest).

4.3.1 Excess collection of Modified Market Development Assistance

Audit conducted test check of 21,446 purchase invoices valuing ₹302.57 crore (covering at least 25 *per cent* of purchase invoices) of Khadi Gramodyog Bhavans except KGB Bhopal[40] for the period from 2017-18 to 2020-21 and found that the Khadi Gramodyog Bhavans, in 8,158 instances were receiving share of Modified Market Development Assistance (MMDA) from Khadi Institutions in excess of the prescribed limits as detailed in Table 4.5.

Table 4.5: Modified Market and Development Assistance collected by Khadi Gramodyog Bhavans in excess of six *per cent*

(Figures in ₹ crore)

MMDA	Khadi Gramodyog Bhavan						
	Mumbai	**Goa**	**Delhi**	**Ernakulam**	**Patna**	**Kolkata**	**Total**
MMDA received from Khadi Institutions	0.30	0.02	10.70	2.98	0.35	1.21	15.56
MMDA to be charged[41] as per MPDA Scheme	0.12	0.01	4.04	1.30	0.15	0.56	6.18
Excess MMDA received	**0.18**	**0.01**	**6.64**	**1.68**	**0.20**	**0.65**	**9.38**

In this regard, Audit observed the following: -

The Khadi Gramodyog Bhavans had received excess Modified Market Development Assistance share from the Khadi Institutions to the tune of ₹9.38 crore. This was against the letter and spirit of the MPDA guidelines and the objectives of KVIC to promote the Khadi sector and the rural artisans. Audit also observed that in many cases the share of Modified Market Development Assistance payable to Khadi Gramodyog Bhavans was being worked out on the selling price instead of on prime cost as mandated in the Market Promotion and Development Assistance guidelines thereby adding additional burden on the Khadi Institutions on account of higher MMDA share payable to Khadi Gramodyog Bhavans.

KVIC/ Ministry stated (July 2022/August 2022) that the Modified Market Development Assistance was being collected @10 *per cent* as per guidelines of KVIC. It further stated that any excess Modified Market Development Assistance received by the Khadi Gramodyog Bhavans would be refunded on case-to-case basis after detailed review.

Though the management has accepted to refund excess collection, the reply is to be viewed in light of the fact that the revised guidelines issued in December 2016 by the Ministry of MSME, has capped Modified Market Development Assistance to be passed on to Khadi Gramodyog Bhavans at six *per cent*. Therefore, the reply of Khadi Gramodyog Bhavan that minimum 10 *per cent* of Modified Market Development Assistance is being passed on

[40] *Data was not provided in respect of KGB Bhopal.*

[41] *MMDA share payable was calculated as six per cent of actual amount paid to the Khadi Institutions since prime cost was not available.*

to Khadi Gramodyog Bhavans as per KVIC guidelines, is in violation of Ministry guidelines.

Recommendation No. 6:

KVIC may review, on a case to case basis, the share of Modified Market Development Assistance passed on to the Khadi Gramodyog Bhavans by the Khadi Institutions and refund the Modified Market Development Assistance share received in excess of prescribed limit.

4.4 Procurement and production by Central Sliver Plants

The Central Sliver Plants are engaged in production of sliver/ roving by procuring cotton from organised cotton markets and from Cotton Corporation of India. The procurement of raw material by the Central Sliver Plants is regulated by the instructions issued by the Directorate of Khadi Raw Material, KVIC.

4.4.1 Procurement of raw material by Central Sliver Plants

As per Rule 162 of General Financial Rules 2017, Limited Tender Enquiry may be adopted when estimated value of the goods to be procured is up to ₹25 lakh. KVIC issued circular (May 2013) stating that Plant Level Committees/ Cotton Purchase Committees[42] of Central Sliver Plants were to invite quotations/ rates from the three private manufacturers of Polyester Staple Fibre (PSF) i.e. (1) M/s. Indo Rama Synthetics Pvt. Ltd., (2) M/s. Bombay Dyeing & Manufacturing Company and (3) Reliance Industries Ltd., along with their authorised dealers. As per another circular (March 2018), Central Sliver Plants were authorised to purchase polyester staple fibre directly from manufactures avoiding dealer's commission after ascertaining market price of polyester staple fibre and obtaining approval from Plant Level Committees/ Cotton Purchase Committees.

CSP Kuttur purchased 94,776 Kg of polyester staple fibre from two suppliers *viz*. M/s Bombay Dyeing & Manufacturing Company Limited and M/s. Indo Rama Synthetics Pvt. Ltd., at a total cost of ₹96.30 lakh during the period 2017-18 to 2020-21. In this regard, Audit observed the following: -

i. CSP Kuttur procured 25,851 Kg of polyester staple fibre during the period from 2017-18 to 2018-19 valued at ₹29.14 lakh from M/s Bombay Dyeing & Manufacturing Company Limited on the approval of Plant Manager without inviting limited tender, without ascertaining the market price and without obtaining prior approval from Plant Level Committees/ Cotton Purchase Committees as mandated by KVIC circular and GFR.

ii. CSP Kuttur had invited (July 2018) the limited quotations for nine tonnes of polyester staple fibre from all the three manufactures and in response, two manufacturers i.e. M/s Indo Rama Synthetics Pvt. Ltd. and M/s Bombay Dyeing & Manufacturing

[42] ***Committee headed by Zonal Dy. Chief Executive Officer of KVIC with plant Managers of Central Sliver Plant and other members.***

Company quoted the same rate of ₹117.12 per Kg. Audit observed that the Central Sliver Plant awarded the contract to M/s. Indo Rama Synthetics Pvt. Ltd. for 16.11 tonnes of polyester staple fibre for an amount of ₹18.97 lakh whereas the quantity included in the limited tender was only nine tonnes and prior approval of the Plant Level Committee/ Cotton Purchase Committee was not obtained in this purchase also. As such, the Unit had not complied with the stipulated procedure and could not ensure transparency in procurement.

KVIC/ Ministry stated (July 2022/ August 2022) that the purchases were made in accordance with the approved procedure and guidelines and were also ratified by the competent authorities. It was further stated that since the basic price offered by all the three firms were the same, orders were placed on the firm that offered the highest discount on the basic price. It was also stated that KVIC had to purchase quantity higher than that was notified while inviting quotations to meet urgent requirements and also because of non-response from other sellers.

The reply is to be viewed in light of the fact that *post facto* ratification does not justify violation of approved procurement guidelines. Further, no documentary evidence was made available by KVIC in support of their claim that the basic price offered by all the three firms were the same and orders were placed on the firm that offered the highest discount.

4.4.2 Production performance by Central Sliver Plants

The Central Sliver Plants convert the cotton raw material into sliver/ roving for supplying the same to Khadi Institutions.

4.4.2.1 Achievement of production targets

The annual production targets of the Central Sliver Plants are approved by the Standing Finance Committee of KVIC as part of the annual budgets. The production targets set and achievements against them during the period 2017-18 to 2020-21 are detailed in Table 4.6.

Table-4.6 Production at Central Sliver Plants

(Figures in Metric Tonnes)

Central Sliver Plant	2017-18		2018-19		2019-20		2020-21		Total	
	Target	Achievement *(per cent)*	Target	Achievement *(per cent)*	Target	Achievement *(per cent)*	Target	Achievement *(per cent)*	Target	Achievement *(per cent)*
Kuttur	600	374.55 (62 %)	650	382.91 (59 %)	650	423.41 (65 %)	650	354.43 (55 %)	2,550	1,535.30 (60 %)
Chitradurga	900	764.57 (85 %)	900	733.89 (82 %)	900	704.87 (78 %)	900	613.78 (68 %)	3,600	2,817.11 (78 %)
Sehore	1000	709.20 (71 %)	1,000	962.03 (96 %)	1000	993.56 (99 %)	1,000	1083.71 (108 %)	4,000	3,748.50 (94 %)
Raebareli	850	387.35 (46 %)	850	645.56 (76 %)	850	869.19 (102 %)	850	901.19 (106 %)	3,400	2,803.29 (82 %)
Etah	800	473.56 (59 %)	800	394.26 (49 %)	0	0	0	0	1,600	867.82 (54 %)
Hajipur	270	173.16 (64 %)	270	231.22 (86 %)	270	189.13 (70 %)	270	151.17 (56 %)	1,080	744.68 (69 %)
Total	**4,420**	**2,882.39 (65 %)**	**4,470**	**3,349.87 (75 %)**	**3670**	**3,180.16 (87 %)**	**3,670**	**3,104.28 (85 %)**	**16,230**	**12,516.70 (77 %)**

It can be seen from above that: -

Though the achievement against targets during the period 2017-18 to 2020-21 as a whole was 77 *per cent*, however, the Central Sliver Plants were not able to achieve the production targets during any of the four years. The achievement against targets ranged from 65 *per cent* in 2017-18 to 87 *per cent* in 2019-20. In case of individual Central Sliver Plants, CSP Raebareli achieved the target in 2019-20 and 2020-21 while CSP Sehore surpassed the target in 2020-21. None of the other Central Sliver Plants achieved the annual production targets set during any of the years under review.

Review of actual production of CSP Kuttur during 2017-18 to 2020-21 against the target revealed that the achievement of production target ranged between 55 *per cent* and 65 *per cent*. It was observed that efforts were not evident on record to identify the reasons for non-achievement of the targets and review the targets fixed in a realistic manner. Circumstances such as closure of plant and office during the year 2020-21 due to the impact of pandemic and long pending vacancies in the staff and workers were not seen considered in fixing the target.

KVIC/ Ministry stated (July 2022) that, in case of CSP Kuttur, it could not achieve targeted production during the period due to natural calamities, lack of infrastructure and manpower, breakdown of machinery, old age of machines etc. The reply is to be viewed in light of the fact that the beyond control factors cited as reasons for not achieving targeted production were applicable only in 2020-21 whereas it could not achieve targets throughout the period under review. Further, other reasons mentioned for non-achievement of production targets such as breakdown of machinery, lack of manpower etc., were controllable and should have been taken into account while fixing targets.

In respect of CSP Chitradurga, KVIC/ Ministry stated (July 2022/ August 2022) that it had more or less achieved above 80 *per cent* of targeted production during all the years except 2020-21, when production was affected by the pandemic situation.The reply is to be viewed in the light of observations made in the technical audit report of the Unit (May 2019) as per which the main machines (Combers, Draw frame and Simplex) were having very low productivity and needed to be replaced with machines having higher productivity. It was also observed in the said report that the production efficiency could have been improved by timely preventive maintenance and repairs.

Regarding CSP Hajipur, KVIC/ Ministry stated (July 2022) that the machinery installed in the plant dated back to the year 1997 and due to non-availability of spares, it was unable to attend to the breakdowns in time. In case of CSP Raebareli, it was stated that during the years 2017-18 to 2020-21, the plant did not achieve the target due to reduction in production in view of high quantity of opening stock and pandemic respectively. The replies regarding CSP Hajipur and CSP Raebareli may be viewed in light of the fact that KVIC should have taken corrective action on the reasons furnished by the units for non-achievement of production targets. Further, closing stock should have been taken into account while fixing production targets and the pandemic significantly affected the country only from March 2020.

Though the Central Sliver Plants are achieving 65 *per cent* to 87 *per cent* of the target, they need to take timely remedial action for full achievement of the production targets.

4.4.2.2 Refurbishment of Central Sliver Plants

Considering the need for bringing out production efficiency, KVIC envisaged (February-2015) refurbishment of the existing old Machineries at Central Sliver Plants. Based on technical feasibility study[43] KVIC proposed (August 2015) to the Ministry of MSME to take up refurbishment at six Central Sliver Plants with an estimated cost of ₹24.10 crore, later revised to ₹35.16 crore (July 2016) and then to ₹40 crore[44] in March 2018 utilising Khadi Reform and Development Program (KRDP) funds. Ministry of MSME approved (September 2018) release of ₹40.97 crore for refurbishment of six Central Sliver Plants under Khadi Reform and Development Program funds.

Though Ministry approved release of funds in September 2018, KVIC could publish a Request for Proposal on its website and Government Procurement Portal for supply and commissioning of textile machinery at five[45] Central Sliver Plants in July 2020 only. A pre-bid meeting was conducted (July 2020) which was attended by three prospective bidders. However, only one bid was received in response to the Request for Proposal. As such, the last date for submission of bids was extended twice. In absence of other bids the only bid received from M/s Laxmi Machine Works @ ₹23.46 crore was approved by KVIC and work order was issued (November 2020).

In this regard, Audit observed the following:

i. Over stringent pre-qualification criteria

Three firms attended the pre-bid meeting held on 23 July 2020. Based on suggestions received in pre-bid meeting, KVIC uploaded a corrigendum (28 July 2020) to Request for Proposal. The changes[46] suggested by M/s Voltas, who was sole distributor to M/s Laxmi Machine Works, were considered. The request of M/s ATE Enterprises, another prospective bidder, for reduction in minimum turnover from ₹100 crore to ₹50 crore was not considered in the corrigendum.

As per KVIC Circular (March 2012) and Central Vigilance Commission (CVC) directions[47] the average turnover during the last three years should be at least 30 *per cent*

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[43] ***Technical feasibility study was conducted by North India Textile Research Association, Ghaziabad.***
[44] ***₹25 crore for machinery and ₹15 crore for civil and electrical works.***
[45] ***CSP Etah which was closed down in February 2019 was excluded while finalising the Request for Proposal.***
[46] ***Changes in technical parameters of the equipment such as track length of blow room, delivery mode of Breaker draw frame, delivery speed of lap preparatory machines etc.***
[47] ***CVC OM No. 12-02-1-CTE-6 dated 17 December 2002.***

of the estimated cost in case of award of civil/ electrical works. Audit observed that the clause stipulating the minimum turnover of ₹100 crore was on the higher side i.e., 400 *per cent* of the estimated cost of ₹25 crore.

Thus, fixing high pre-qualification criterion for financial eligibility resulted in lack of competition and vitiated the mechanism of floating open tender.

KVIC replied that the points raised by M/s ATE Enterprises pertained to financial issue whereas the suggestions given by M/s Voltas were related to machineries and genuine in nature, therefore, the same were accepted and corrigendum was issued accordingly. Further, KVIC mentioned that the CVC circular does not pertain to procurement of textile machineries.

The reply may be seen in light of the fact that, fixing an unreasonably high threshold for financial eligibility without adequate justification would have the undesirable effect of elimination of competition. Also, the CVC circular was adopted and made applicable to all works/ procurement by KVIC in 2012.

ii. Finalisation of tender and commencement of work

Audit observed that there was inordinate delay in finalisation of tenders for the supply of machinery and civil/ electrical work resulting in production losses as detailed below in the subsequent paragraphs.

a. The Ministry of MSME approved (September 2018) release of funds amounting to ₹40.97 crore from Khadi Reform and Development Program and the funds were released (February 2019) but KVIC could finalise the tenders only in November 2020. As per the timeline finalised (November 2019), the refurbishment of all five Central Sliver Plants was to be completed by November 2021. Even after finalisation of tender and award of work in December 2020, the execution of refurbishment works is yet to commence (March 2022). Thus, the intended objectives could not be achieved even after lapse of more than three years from release of funds by the Ministry of MSME.

KVIC/ Ministry stated (July 2022/ August 2022) that the procedure for finalising Request for Proposal took much time due to pandemic. The reply may be viewed in light of the fact that the funds were released in February 2019, itself, a year before the outbreak of the pandemic in March 2020 and the refurbishment works are yet to be commenced. Therefore, the period of delay of 18 months[48] in finalising the Request for Proposal from September 2018 to July 2020 had not been explained by KVIC.

[48] ***Excluding the pandemic affected period from March-2020 to July 2020.***

b. Though the tender was finalised (November 2020) and the agreement was entered (December 2020) for supply of machinery, no concurrent action was taken up to complete the civil works in synchronisation with refurbishment of machinery. As per the timelines drawn in Khadi Reform & Development Program, the civil, electrical and safety works were envisaged to be taken up prior to erection of machinery. KVIC decided (December 2020) to execute the work in three phases selecting two[49] Central Sliver Plants in the first phase and entered into Memorandum of Understanding (MoU) for civil works only in December 2021 for CSP Chitradurga and in January 2022 for CSP Kuttur. However, the works related to civil/ electrical requirement of the CSPs Kuttur and Chitradurga have not yet completed (October 2022). It is pertinent to mention that the validity of the contract for supply of machinery is till November 2022. If the civil/ electrical works are not completed by then, the validity of the contract for supply of machinery will lapse and may lead to further complications, cost escalation, production loss and non-achievement of intended objective.

Fig: 4.1 Refurbishment of CSP Chitradurga

KVIC/Ministry did not furnish reply to the audit observation.

c. The production activities of CSPs Kuttur and Chitradurga were stopped in July 2021 and September 2021 respectively, in anticipation of taking up refurbishment activities. Since, even the estimates for civil works are yet to be approved, premature stoppage of production has resulted in production loss of ₹14.20 crore[50] up to March 2022. The production loss will continue as long as there is delay in completion of civil works and commissioning of machinery. Also, premature closure and delay in relocation of workers to other Central Sliver Plants has resulted in payment of idle wages of ₹89 lakh[51] during the period up to March 2022.

KVIC/ Ministry stated (July 2022/ August 2022) that the stock available at CSP Hajipur was utilised for supply to the institutions catered to by the closed Central Sliver Plants and whenever such modernisation is undertaken, production activities need to be stopped completely. It was further stated that the workers were not kept idle after the plants at CSPs Chitradurga and Kuttur were closed down prior to initiation of refurbishment work but were allotted specific works or were redeployed in other KVIC units.

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[49] ***CSPs at Chitradurga and Kuttur.***

[50] ***CSP Kuttur-average monthly production @ ₹72.40 lakh for nine months and CSP Chitradurga-average monthly production @ ₹109.73 lakh for seven months***

[51] ***CSP Kuttur-average monthly salaries @ ₹5.46 lakh for nine months and CSP Chitradurga-average monthly salaries @ ₹5.68 lakh for seven months***

The reply may be viewed in light of the fact that there was lack of planning and synchronisation between civil works and installation of machinery, leading to premature shutdown and consequent production loss. Though the production stopped in July 2021/ September 2021, the civil works were yet to be completed (October 2022). Further, in the absence of specific details, the reply regarding re-deployment of manpower could not be verified.

Fig: 4.2 Civil work at CSP Kuttur

iii. Disposal of old plant and machinery

Old plant and machinery to be replaced at CSPs Kuttur and Chitradurga were valued (December 2020) at ₹1.23 crore (Kuttur: ₹83.34 lakh and Chitradurga: ₹39.55 lakh). The realisable value of the same was assessed at ₹1.07 crore. Audit observed that KVIC had (March 2022) disposed of only equipment worth ₹16.97 lakh from CSP Kuttur. The delay in disposal of the balance equipment would erode their realisable value.

Fig: 4.3 Old Plant and machinery at CSP Chitradurga

KVIC replied (July 2022) that the remaining machinery at CSP Kuttur will be retained after completion of refurbishment and there was a fire accident at CSP Chitradurga and they are in the process of revaluation and will start the auctioning at the earliest.

The fact, however, remains that delay in disposal of old plant and machineries would erode their realisable value. Further, the reply that the unsold machinery at CSP Kuttur would be retained is to be viewed in light of the fact that the existing machinery was recommended to be replaced as they were very old and inefficient, and as such, retaining the machinery is not justified.

iv. Grant of mobilisation advance

KVIC issued (November 2020) purchase order to M/s Laxmi Machine Works (contractor) for Supply, Installation, Testing and Commissioning of production machinery in five Central Sliver Plants at a total cost of ₹23.46 crore including GST, freight, insurance etc. As per the purchase order, the contract was to remain valid up to November 2022 and 10 *per cent* of the basic price was to be given as advance against bank guarantee of 110 *per cent* of the advance. Accordingly, KVIC released (January 2021) an advance of ₹1.88 crore being 10 *per cent* of total tender amount. As per the minutes of the meeting held (December 2020) with the technical consultant (National Textile Corporation) and the contractor for refurbishment project, it was decided to purchase machineries only for two Central Sliver Plants in the first phase to avoid total stoppage of production.

Audit observed that the estimated cost of the machinery required at the two Central Sliver Plants selected for refurbishment in the initial phase was ₹6.93 crore and 10 *per cent* advance amounted to ₹69 lakh. Despite taking a decision (December 2020) to go ahead with only two Central Sliver Plants in the first phase, release of advance (January 2021) of ₹1.88 crore resulted in excess release of ₹1.19 crore. Though the advance for supply of machinery was released in January 2021 itself, none of the Central Sliver Plants was supplied with machinery (March 2022). Thus, undue financial advantage was granted to the supplier due to deficient planning and non-synchronisation of civil works as the specific delivery period for individual Central Sliver Plants was not specified either in the purchase order or in the contract agreement and only the period of validity of the contract was mentioned.

Further, as per KVIC Circular (2012), if mobilisation advance is to be given, the rate of interest should be expressly stated and the advance payment may be released in stages depending upon the progress of the work and mobilisation of required equipment etc. KVIC failed to incorporate appropriate conditions in the agreement to safeguard the financial interests for sanctioning advance as stipulated by itself. Non-inclusion of interest clause in agreement resulted in loss of ₹10.75 lakh (@ 4.9 *per cent* per annum[52] for 14 months (March 2022).

KVIC/ Ministry stated (July 2022/ August 2022) that making 10 *per cent* advance (as per agreement) of total cost of machinery was essential to get it delivered in the stipulated time period at the same price quoted in bid.

The reply may be viewed in light of the fact that giving interest free advance is in violation of KVIC guidelines which should have been considered while drawing up the agreement. Further, as the work order was issued for two years, contractor cannot change the agreed terms by increasing the price. The fact remains that the installation of machinery did not happen even after lapse of more than 18 months (July 2022) of signing of agreement.

v. Loss of intended increase in production

It was envisaged that the refurbishment would result in a minimum increase of 20 *per cent* in production by the Central Sliver Plants. The proposals were initiated in 2015. Had there been timely approvals from the Ministry of MSME and timely completion of the project by KVIC, the Central Sliver Plants could have achieved higher production as estimated. As such, the delay in implementation of the refurbishment project has resulted in loss of

[52] ***SBI rate of interest on term deposit w.e.f. September 2020.***

opportunity to raise the production of Central Sliver Plants by a minimum of ₹11.15 crore[53] per annum as envisaged in the year 2018.

KVIC/Ministry stated (July/August 2022) that the process of estimation of technical specification of the machinery required for refurbishment was initiated only after receipt of funds in February 2019. It was also stated that other tasks such as tendering, civil and electrical work and auctioning of old machinery caused delay. The reply may be viewed in light of the fact that the initial proposal was submitted in 2015 but the even the preliminary work such as preparation of technical estimates was taken up only in February 2019. Further, KVIC had not adhered to the timeline set by itself for implementing the project.

Recommendation No. 7:

The refurbishment project needs to be implemented at the earliest to arrest the cost escalations and production losses.

4.4.2.3 Production efficiency

In view of complaints received from Khadi Institutions regarding low quality and over-pricing of roving /sliver produced by Central Sliver Plants, KVIC had issued (September 2017) a Standard Operating Procedure (SOP) to be followed by Central Sliver Plants in order to improve production efficiency and functioning. The SOP prescribed detailed procedures for the functioning of the Central Sliver Plants including, *inter alia*, preparation of monthly checklists for regular and preventive maintenance of machinery, conduct of energy audit to assess the diesel consumption and also to prevent loss of fuel in handling/ consumption/ pilferage, installation of solar panels etc.

In this regard, Audit observed the following: -

i. Maintenance of equipment

Central Sliver Plants at Hajipur and Raebareli had not carried out either the regular or preventive maintenance of the machinery. Though Central Sliver Plants at Sehore, Chitradurga and Kuttur had carried out regular maintenance, however, the preventive maintenance was not done as stipulated in Standard Operating Procedure.

KVIC/ Ministry stated (July 2022/ August 2022) that in CSP Sehore preventive maintenance was being carried out along with regular maintenance but was not documented separately. The reply may be viewed in light of the fact that the technical audit (May 2019) had pointed out the lack of preventive maintenance at CSP Sehore. No reply was furnished in respect of other Central Sliver Plants.

[53] ***20 per cent of average annual production of five Central Sliver Plants (i.e., ₹55.73 crore) during 2017-18 to 2020-21.***

ii. Energy Audit

The Standard Operating Procedure stipulated that energy audit should be conducted in all Central Sliver Plants to assess the diesel consumption and to prevent loss of fuel through pilferage etc. Audit observed that energy audits were carried out by only two CSPs *viz.* Kuttur and Raebareli. In respect of CSP Raebareli, energy audit was done (March 2018) and various recommendations such as reduction in contract demand from 200 KVA to 150 KVA, installation of high voltage capacitor bank, replacement of air compressors and various other parts/ equipment etc., were made. However, CSP Raebareli did not give effect to these recommendations. The implementation of recommendations could have led to reduction of expenditure in electricity by an amount of ₹7.48 lakh per year against the estimated investments of ₹1.12 lakh. Thus, the implementation of energy audit recommendations could have saved ₹22.44 lakh[54].

KVIC/ Ministry did not furnish reply to the audit observation.

iii. Payment of power charges

CSP Hajipur was sanctioned (March 1998) High Tension electricity connection by Bihar State Electricity Board (BSEB) with connected load of 260 Kilo Volt Ampere (KVA). As per BSEB regulations, the Central Sliver Plant was to install, at its own cost, a power transformer with maximum capacity of 150 *per cent* of the sanctioned load. The Central Sliver Plant, however, installed transformer with capacity of 500 KVA and consequently BSEB increased the sanctioned load to 334 KVA. Since the consumption of power by the Central Sliver Plant was far less than the sanctioned load, it had to pay minimum guarantee charges including penalty and interest amounting to ₹45.97 lakh for the period 2000-01 to 2004-05. In 2004, the Central Sliver Plant reduced the sanctioned load to 180 KVA after installing a new transformer having capacity of 200 KVA. The required load was reassessed (August 2008) as 134 KVA. The Central Sliver Plant requested (August 2008) BSEB to reduce the load to 134 KVA but the same is yet (December 2021) to be carried out. The excess expenditure incurred due to non-reduction of load worked out to ₹15.20 lakh for the period August 2008 to December 2021.

Audit observed that the Central Sliver Plant incurred avoidable expenditure of ₹61.17 lakh due to installation of transformer with higher than required capacity and injudicious estimation of power load during the period from 2001-02 to 2020-21.

KVIC/ Ministry stated (July 2022/ August 2022) that it was required to maintain the contract demand at the existing level till the proposed refurbishment was completed. The reply may be viewed in light of the fact that it is silent about the installation of power transformer with higher capacity and incorrect estimation of power load requirement.

[54] ***Three years - 2018-19 to 2020-21***

Further, the proposal for reduction in load was mooted in August 2008 whereas the refurbishment project was approved only in September 2018.

iv. Solar panels

As per Standard Operating Procedure issued in September 2017, all plant managers have to ensure installation of solar energy panels to save energy as early as possible. Audit observed that none of the Central Sliver Plants have installed solar panels. Though CSP Raebareli had sent the proposal (December 2016) for installation of solar energy panels, no further progress was noticed.

KVIC/ Ministry stated (July 2022/ August 2022) that proposals are being sent to the Directorate of Khadi Raw Material for installation of solar panels.

The fact remains that the directions in the Standard Operating Procedure regarding installation of solar panels have not been complied with by the Central Sliver Plants even after five years.

Recommendation No. 8:

The Central Sliver Plants may ensure implementing the KVIC instructions to improve production efficiency such as conducting regular and preventive maintenance, implementing the recommendations brought out in energy audits, installing solar panels etc.

4.4.3 Utilisation of testing labs at Central Sliver Plants

The fabrics sent by Khadi Institutions and Khadi Gramodyog Bhavans are tested[55] in Central Sliver Plant labs to check the originality of khadi (cotton, wool, silk, poly or blend). The roving and sliver manufactured at the Central Sliver Plant are also tested at the labs. As per the Standard Operating Procedure (September 2017), it was decided to utilise the testing labs of Central Sliver Plants to the fullest and all Khadi Institutions supplying products to KVIC were instructed to get their fabric tested at Central Sliver Plants. Further, Khadi Gramodyog Bhavans were instructed (September 2017) to accept the fabric from Khadi Institutions only when accompanied with Central Sliver Plant's test report. The shortfall in testing of samples of khadi products has been commented in paragraph 4.2.

In this regard, Audit observed the following:

i. CSPs at Hajipur and Kuttur had not conducted any test and CSP Raebareli has conducted only one test during the period 2017-18 to 2020-21 at their labs.

[55] ***All Khadi Institutions are required to obtain Khadi Mark to deal in Khadi products. As per the Khadi Mark Regulations 2013, samples of khadi products can be tested at any laboratory registered with the Central or State Governments.***

ii. CSP Sehore was having an operational testing lab for testing fabric, roving and sliver which had the capacity to conduct three tests in a day i.e., 831 fabrics[56] can be tested in a year. Audit observed that actual annual testing ranged between 29 and 183 tests during 2017-18 to 2020-21 i.e., only up to 22 *per cent*[57] of capacity.

iii. In CSP, Chitradurga actual annual testing ranged between 5 and 85 tests during 2017-18 to 2020-21 i.e., up to 10 *per cent* of capacity.

The reasons for under-utilisation of the testing labs at Central Sliver Plants were not furnished by the Management.

KVIC/ Ministry stated (July 2022/ August 2022) that the State/ Divisional Directors were being addressed to send samples from more Khadi Institutions to the Central Sliver Plants for testing. Notwithstanding these directions, the fact remains that the KVIC management failed to ensure that the Khadi Institutions get their products tested at the Central Sliver Plant so as to fully utilise the installed capacity.

KVIC/ Ministry further stated (August 2022) that testing at Central Sliver Plant labs was not mandatory for khadi products being sold by Khadi Institutions to buyers other than KVIC. The reply may be viewed in light of the fact that the audit observation is on under-utilisation of labs and it was not ensured that the Khadi Institutions supplying products to Khadi Gramodyog Bhavans/ Government Departments obtained test certificates from Central Sliver Plant labs as required by the Standard Operating Procedure / Circular. It is also to be noted that Khadi Gramodyog Bhavans are not ensuring the quality of khadi products by not testing adequately as detailed in paragraph 4.2.

Recommendation No. 9:

KVIC may ensure that Khadi Institutions supplying khadi products to KVIC get test certificates from the Central Sliver Plants as per the norms prescribed so as to ensure quality as well as to utilise the testing capacity available.

Recommendation No. 10:

KVIC may devise a procedure for sample testing of khadi products also sold in Private Sector to ensure the quality of the products.

4.4.4 Utilisation of surplus land

Standard Operating Procedure for Central Sliver Plants issued in September 2017 stipulated that the surplus land available at CSPs Chitradurga and Sehore should be utilised for generating additional income. It was instructed that the surplus land would be used for

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[56] *Three test per day for 277 working days after considering 26 working days in a month and 35 holidays/leaves in a year (26 days in a month x12 month - 35 days).*

[57] *22 per cent =183/831 x100*

Honey Mission[58] by growing Tulsi and Murunga (Drumsticks) plants in the premises and installing bee boxes with bee colonies with qualified agriculture scientists preparing blue prints to create flora-fauna in the premises to produce high quality honey and other bee products. In this regard, Audit observed that in CSPs at Chitradurga and Sehore, additional income as envisaged could not be generated as even after a lapse of five years, the bee boxes with bee colonies were not supplied and honey production did not commence.

KVIC/ Ministry stated (December 2021/ August 2022) that the matter will be taken up with the Directorate of Forest Based Industries, Central Office, Mumbai for providing bee boxes with bee colonies for implementation of Honey Mission programme. The reply may be viewed in light of the fact that no reasons were furnished by KVIC for non-implementation of the scheme.

4.4.5 Maintenance expenditure and non-receipt of rent

KVIC purchased (1992) a piece of land including buildings at a cost of ₹2.40 crore to establish a Central Sliver Plant to provide sliver/roving to New Model Charkhas deployed in the Saharsa district of Bihar to implement special employment programme. However, in August 1999, KVIC decided to keep on hold the idea of establishing a Central Sliver Plant at Saharsa and made efforts for outright sale of the said land. Since KVIC was unable to sell off the land and building, the same were rented out (December 2008) for five years by the District Collector to Industrial Training Institute, Saharsa at rental value of ₹1.47 lakh per month with yearly increment on rent at the rate of five *per cent* every year.

In this regard, Audit observed the following:

- Execution of lease agreement is still pending (August 2022).
- No rental amount was paid by ITI, Saharsa to KVIC due to which the pending amount payable by ITI, Saharsa was ₹3.46 crore till July 2022.
- The expenses of ₹2.40 crore incurred to set up CSP Saharsa did not serve the purpose of special employment programme.
- Expenditure on security, insurance and other expenses for the period 2007-08 to 2020-21 of ₹32.20 lakh made by CSP Hajipur (administrative controller of Saharsa) is not justifiable as these properties were let out.

KVIC/ Ministry stated (July 2022/ August 2022) that the matter related to rent was in process with the Appellate authority, Saharsa.

[58] ***A programme launched by KVIC to promote bee keeping activities and provide self-sustaining employment opportunities by providing bee boxes, live bee colonies, tool kits and training to beneficiaries.***

The reply does not explain the diversion of land and building meant for special employment programme, non-receipt of rent and avoidable expenditure towards maintenance expenses.

4.5 Procurement and production by Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants

During the period 2017-18 to 2020-21, six[59] Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants made total procurement of trading products and raw material to the tune of ₹55.18 crore. Audit findings in respect of procurement made by these units are discussed below.

4.5.1 Regional Border Development Office (RBDO), Barmer

The Unit was established to enhance production and consequent employment generation and earning of artisans in border districts of Rajasthan.

In this regard, Audit observed that:

i. The Unit had neither prepared annual procurement plan and maintained list of Khadi producing institutions nor did it execute agreements with the suppliers. Further, it was also noticed that the Procurement Committee had not been constituted and khadi products were procured without written orders. Lump sum payments to the tune of ₹1.27 crore were made on regular basis to 13 suppliers instead of invoice-wise payments.

KVIC/ Ministry stated (July 2022/ August 2022) that procurements were made as per decisions of Procurement Committees constituted from time to time. It was also stated that the Unit is maintaining supplier-wise accounts and payments are made on the basis of outstanding amounts.

The reply could not be verified as KVIC could not produce any documents relating to the minutes of meetings of Procurement Committee and payment details. Further, any approval by Procurement Committee can not absolve the Unit from the responsibility of complying with approved rules and procedures.

ii. Review of purchase register revealed that substantial purchases amounting to ₹1.27 crore were made from 13 Khadi Institutions during 2017-18 to 2020-21. Institutions located in Bikaner district supplied goods valuing ₹1.05 crore, constituting 82.70 *per cent* of total procurement from Khadi Institutions in Rajasthan during 2017-21, which also included one supplier who supplied 30.31 *per cent* (₹38.20 lakh) of total procurement. No purchase was made from any Khadi Institutions of Barmer District and amongst its adjoining districts (Jaisalmer, Jodhpur and Jalore) except a lone case of purchase of ₹0.47

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[59] ***Six Departmental Trading Units viz. Regional Border Development Office (RBDO), Barmer, Cocoon Purchase, Ranchi, Central Bee Research & Training Institute (CBRTI), Pune, Handmade Paper Institute (HMPI), Mumbai & Multi-Disciplinary Training Centre (MDTC), Dahanu, and Accepted Tender Supply, Mumbai.***

lakh. Though no list of registered suppliers was found, however, from the list of creditors, it appears that more than 40 Khadi Institutions have supplied goods to RBDO over the years. This fact needs to be seen in the context of rationale for setting up of RBDO Barmer i.e., providing gainful employment in Khadi Institution sector to inhabitants of border districts to improve their economic conditions by khadi production.

Procurement of significant quantity of goods from limited number of suppliers located in a specific district would have no direct bearing on employment opportunities and improvement in economic conditions of residents of Barmer and other adjoining districts.

KVIC/ Ministry stated (July 2022/ August 2022) that due to lack of production by Khadi Institutions located in Barmer and nearby districts, purchases were made from Khadi Institutions in other districts.

The fact, however, remains that procurements were concentrated in a specific area and with limited number of suppliers. Further, reply is silent about efforts made for increasing production/ procurement in Barmer district.

iii. RBDO Barmer has consistently failed to achieve the targets set for production. Achievement of targets was in range of 9.61 *per cent* to 19.13 *per cent* during 2017-18 to 2020-21. Out of 16 production centres under RBDO Barmer, only two centres *viz.* Shatri Gram (Barmer) and Vaikunth Gram (Jaisalmer) were functional as of January 2022 with one Multi-Tasking Staff to look after the need of these centers.

KVIC/Ministry stated (January 2022) that New Model Charkha distributed for enhancing production has led to increase in production to ₹19.13 lakh in 2018-19, ₹12.02 lakh in 2019-20 and ₹21.42 lakh in 2020-21 from ₹6.82 lakh in 2017-18. Multi-Disciplinary Training Centre was established in February 2019, spinners and weavers were being trained and associated with production process. KVIC has been requested to provide additional manpower in April 2019 and August 2020.

The reply may be viewed in the light of the fact that though production has increased in the last three years, it was nowhere near the target of ₹1.25 crore and comprehensive revival steps as envisaged have not yet been taken.

4.5.2 Cocoon Purchase, Ranchi

The unit procures silk cocoons and supplies them to sericulture[60] units. KVIC approved (April 2013) the methodology of purchase of cotton, wool and silk raw material in supersession of all previous circulars on procurement policy of raw material. The procurements made by the Unit during 2017-18 to 2020-21 was to the tune of ₹35 lakh.

[60] ***Sericulture is the cultivation of silkworms to produce silk.***

Audit observed that though KVIC's methodology of silk procurement required preference to be given to government agencies, Khadi Institutions purchased cocoons only from open market[61]. The Purchase Committee was not constituted. The system of proper stock entry of goods/ bales purchased and proper transit and adequate stock insurance followed by Khadi Institutions on the procurement of cocoons could not be ensured by KVIC's State Office at Ranchi.

KVIC/ Ministry stated (July 2022/ August 2022) that purchase committee was constituted and purchases were made from private suppliers only when the cocoons of required specification were not available. The reply may be viewed in light of the fact that KVIC had not produced any documentary evidence for non-availability of silk cocoons of the required specification with government agencies. Further, as per records furnished to Audit, Purchase Committee was not constituted and documentation for administrative approval was not in proper format. The approval process consisted of affixing signatures on invoices without recording the name and designation of the approving official and hence lacked validity.

4.5.3 Central Bee Research & Training Institute, Pune

The Unit was established for processing raw honey procured from beekeepers and selling bottled honey. The Unit is also providing training and testing facilities in respect of honey production. In this regard, Audit observed the following:

4.5.3.1 Quality Assurance

Since the Unit had not sent the minutes of meetings of Procurement Committee to KVIC for approval during the last two years, KVIC constituted (August 2018) a Procurement Committee (August 2018) for procurement of honey on consignment basis. To ensure quality assurance/ testing of honey, the committee decided that while procuring the consignment, sample of bottled honey should be taken from each consignment for testing purpose. However, it was observed that in violation of decision taken by the Procurement Committee, the Unit did not conduct even a single test on honey procured from different Khadi Institutions during 2017-18 to 2020-21 in spite of having its own testing laboratory. Further, the test reports of honey provided by the suppliers were not reliable as the testing lab clearly mentioned that the sample was not drawn by it which was also needed to be done. Thus, the Unit had not ensured that the samples were taken from the same lot as were supplied to it.

KVIC/ Ministry stated (July2022/ August 2022) that samples were not tested at chemistry lab due to unavailability of technical manpower. The reply may be viewed in light of the fact that it was the responsibility of KVIC to ensure the quality of the products sold through its outlets after providing the infrastructure required for testing.

[61] ***Farmers/ Agents in Agricultural produce Market Committee.***

4.5.3.2 Honey Processing Plant

The Honey Processing Plant converts raw honey into a marketable product by reducing the water content and maintaining other prescribed parameters. Till 2011, the Unit was collecting raw honey from the beekeepers and selling the processed and bottled honey through the show room attached to its compound. From 2011, Unit had stopped production/ processing activities and was engaged only in consignment sales. The trading activity was limited to providing space in its show room for external firms to sell their honey products after charging a commission (average 40 *per cent*) from suppliers. In February 2017, the Unit purchased a new Plant from M/s Tiwana Bee Farm, Ludhiana with the funds sanctioned under the "Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)[62]". The total budget sanctioned for the plant under the ASPIRE scheme was ₹29 lakh. The Unit had utilised only ₹15.77 lakh since the bottling unit was not procured. Tests were conducted in April 2017 to assess whether the plant could achieve the prescribed parameters in respect of moisture reduction and increase in HMF[63]. The Plant failed to achieve the benchmarks in the test and also in later tests conducted in July and August 2018. Despite the Honey Processing Plant not being able to perform in accordance with required specifications, the supplier was paid the entire amount (₹15.77 lakh) for the plant (March 2019). Audit observed that the Plant was utilised for processing 3,000 kg of raw honey (including the trials) up to July 2019 and has been lying idle from August 2019.Further, the reasons for not purchasing the bottling plant which was required if the Unit wanted to resume selling honey processed and bottled by it despite funds being available under the scheme were not on record.

It has been confirmed by the Unit that it has not undertaken any periodical maintenance activity during the idling period of the plant. Non-utilisation of the Plant for such long periods without periodical maintenance may have adverse effect on the machinery. Thus, the entire expenditure amounting to ₹15.77 lakh incurred on the Plant was rendered infructuous as the Unit had not effectively utilised the plant.

KVIC / Ministry stated (July 2022/ August 2022) that the Plant was being used for training purpose only since despite advertisements being placed repeatedly, local beekeepers from the State do not come forward to avail the facility of processing honey due to reasons such as the cost of transportation of raw honey from remote places to Pune, testing cost, high labour cost at Pune for loading unloading, bottling, packing etc. It was also assured that the Unit would ensure full utilisation of the Plant. The reply needs to be viewed in light of the fact that the remoteness of the location, non- availability of producers etc., should have been considered before establishing the Plant.

[62] ***The ASPIRE scheme launched in March 2015 had the objectives of setting up incubation centres to accelerate entrepreneurship and to promote startups for innovation and entrepreneurship in agro industry.***

[63] ***HMF (Hydroxymethylfurfural) is used as an indicator of heat and storage changes in honey. HMF is formed by the breakdown of fructose in the presence of an acid. Heat increases the speed of this reaction.***

Recommendation No. 11:

KVIC may utilise the honey processing plant for the intended objectives by exploring alternatives such as re-locating the plant to another suitable location/ensuring supply of raw honey to present site by tying up with bee keepers and arranging transportation etc. KVIC may also ensure quality of the honey products sold through its outlet by following prescribed testing procedures.

4.5.4 Multi-Disciplinary Training Centre, Dahanu

The unit provides training to the artisans in various disciplines such as spinning, weaving etc., and also carries out production and trading activities. The Rural Engineering Industry division of the unit assembles New Model Charkhas for sale and the Palm Gur Industry division is engaged in the production and sale of Palm Gur[64] and Neera. However, during the period 2017-18 to 2020-21, Palm Gur Industry division did not produce Palm Gur or process Neera. Their activity was limited to packing and sale of Neera bought from external agencies.

As part of the "SAHYOG[65] Scheme" of KVIC, Multi-Disciplinary Training Centre, Dahanu supplied 100 nos. of "8 spindle New Model Charkhas" costing ₹28.52 lakh including looms, packing etc., to State office, KVIC, Jammu. It was reported by the State Director (Jammu & Kashmir), KVIC that New Model Charkhas were not properly fitted with cradle and apron and the middle top roll which was fitted with apron was rubber coated (instead of metal or Teflon) without groove for smooth running. The technicians sent by Multi-Disciplinary Training Centre, Dahanu to rectify the defects disagreed with the State Director of KVIC and did not comply with the instructions. Further, the technicians left without completing the installation work as instructed. Audit observed that Multi-Disciplinary Training Centre, Dahanu sent technical staff for installation and training at Leh on four occasions[66] and incurred total expenditure of ₹2.49 lakh on technical visits. However, the expenditure incurred on supply of New Model Charkhas and looms to artisans in Ladakh region remained infructuous as the equipment are still lying idle (August 2022).

KVIC/ Ministry stated (July 2022/ August 2022) that the work assigned by State Director, Jammu regarding changing and fitting of necessary parts such as the cradle, apron and middle top roll of metal apron was completed as per directions.

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[64] ***Palm Gur is jaggery made from palm sap.***

[65] ***KVIC introduced "SAHYOG Scheme" (2017) under Corporate Social Responsibility (CSR) mode to provide employment opportunities through Khadi and it covered additional unemployed men and women under this campaign who will be provided training and free 8-spindle NMC charkha for spinning Khadi and have gainful employment. These individuals will be linked to nearby Khadi institutions or interested NGOs for providing backward linkage in terms of training, raw material, marketing support etc.***

[66] ***May 2019, July 2021, August 2021, and September 2021***

Reply was not supported with documents and was also silent on the status of Charkhas which were lying idle due to installation and training related issues. The fact remains that the expenditure incurred on the equipment remained unfruitful.

Chapter V

Marketing and Sales by Departmental Trading Units

Chapter V

Marketing and Sales by Departmental Trading Units

The marketing and sales of Khadi and Village Industry products[67] by the Departmental Trading Units are monitored by the Directorate of Marketing in case of Khadi Gramodyog Bhavans and Government supply, by the Directorate of Khadi Raw Material in case of Central Sliver Plants (CSPs) and by the respective directorates in case of other Departmental Trading Units.

5.1 Marketing Initiatives by Khadi and Village Industries Commission

The Directorate of Marketing, KVIC implements projects and schemes aimed at enhancing the sales of Khadi and Village Industries products as per Annual Action Plan drawn and approved by Standing Finance Committee (SFC[68]). During the period 2017-18 to 2020-21, the Directorate attempted to implement a number of marketing initiatives which included:

a) e-commerce, market surveys, development of product catalogue and swatch book under Khadi Reform Development Program (KRDP).

b) hiring of marketing consultants, implementation of franchisee scheme and creation of Khadi Korners, construction of Khadi Plazas and renovation of sales outlets under Market Promotion Development Assistance (MPDA).

c) other initiatives such as incentives for employees for sales promotion, efforts for widening of online sales through Flipkart and Amazon and registration of Khadi Trademarks.

An amount of ₹19.30 crore from Khadi Reform Development Programme (KRDP) funds was allocated (July 2019) for establishment of e-commerce platform for Khadi and Village Industries products, Product Catalogue, Export Window, Virtual Market etc.

5.1.1 Development of E-Commerce Platform

KVIC floated (June 2019) a Request for Proposal (RFP) for development and operation of an e-commerce platform for online marketing of Khadi and Village Industries products on Public Private Participation (PPP) basis adopting Design, Build, Finance, Operate and Transfer (DBFOT) model with a concession period of 10 years extendable by additional 10 years at the option of the concessionaire. The concessionaire would pay a percentage of the sales revenue as royalty to KVIC. The revenue streams identified were online sales and

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[67] ***Khadi yarn, fabric and garments, cotton roving and sliver, polyvastra and Village Industries products such as Honey, processed food products, spices and condiments, Herbal beauty products etc.***

[68] ***SFC of KVIC is constituted under section 19A of the KVIC Act-1956 from among the members of the commission and with the CEO and Financial Advisor of KVIC as ex-officio members. The SFC approves annual budget and annual action plans etc., involving financial expenditure.***

advertisement/ promotion rights from the e-commerce website. As per the terms of the Request for Proposal, the winning bidder would be creating a special entity having the exclusive rights to sell Khadi and Village Industries products online under the Khadi India brand name. The consortium led by M/s Samman Ventures Ltd. was awarded the contract with a concession fee of 7.5 *per cent*. KVIC entered (January 2020) into Concession Agreement with the Special Purpose Company (SPC) by the name KVIO Ventures Private Limited. The beta version of the e-commerce platform named as *ekhadiindia.com* was made operational (October 2020) and the portal was officially launched on 1 January 2021. The portal has a range of around 2,800 products with 138 registered selling units and the total sales achieved during the period up to February 2022 was ₹1.13 crore.

In this regard, Audit observations in planning of the project as well as in award and implementation of the contract are discussed below:-

5.1.1.1 Planning of Project and award of Contract

i. Compliance to the guidelines on Information Technology Public Private Partnership Projects

As required in the Guidance Note for Information Technology Public Private Partnership projects, issued by the Ministry of Electronics and Information Technology (MeitY), Indicative Implementation Plan for project identification was required to be prepared. The MeitY guidance note also requires that the PPP sponsor should conduct research and analysis to determine financial and economic feasibility. Audit observed that KVIC had not prepared Indicative Implementation Plan determining the initial output specifications, value for money assessment, preliminary risk assessment, bankability assessment, legal viability specification etc. Further, there was no evidence to indicate that KVIC had conducted any research and analysis to determine financial and economic feasibility before developing and issuing the Request for Proposal for the project.

ii. Fixation of concession period

The concession period in a PPP project is determined by the time required by the concessionaire to recoup their investment and reasonable return on investment. This would depend on the actual investment made and the expected cash flows from the project. In the present case, KVIC is unaware of the actual cost of development and operation of the e-commerce portal and has not estimated the cash flows for the project. As per Article 1.1 of the Concession Agreement, KVIC fixed a concession period of 10 years extendable by another 10 years. It is pertinent to mention that the standard payback period in case of commercial and Information and Communication Technology/ e-governance project is only three years[69]. Thus, fixation of longer concession period was not in the financial interest of KVIC.

[69] ***Guidance Note for Information Technology PPP projects issued (2017) by the Ministry of Electronics & Information Technology (MeitY)-Paragraph 4.2.2.***

iii. Clause enabling verification of other revenue of concessionaire

As per Article 3.2.4 of the Concession Agreement, the concession fee shall also be applicable to any other income/ revenue being generated by the Concessionaire from any business model being adopted/ operated. Audit observed that there was no clause in the agreement to verify other revenue earnings of the Concessionaire from the e-commerce website/ mobile application.

iv. Modification of terms of contract post award of work

As per MeitY guidelines[70], KVIC had to prepare and issue a draft contract agreement as a part of the bidding documents. The draft Concession Agreement would define the terms of the PPP arrangement and could not be altered after award of the contract. Draft Concession agreement is required to ensure that the terms of engagement as per the Request for Proposal are not changed after the letter of award. Any change in terms has to be made before the final date for submission of bids and has to be communicated to all prospective bidders.

Audit observed that draft Concession Agreement was not prepared by KVIC. Further, in the Concession Agreement executed, terms that were not specified in the Request for Proposal were incorporated favoring the Concessionaire. One such term was providing access to rebate, trade benefits, subsidies etc., available to KVIC for its stakeholder community as per prevailing norms. For instance, the concessionaire was entitled for six *per cent* Modified Market Development Assistance to be passed on to selling institution by producing Khadi institution as per the concession agreement. As per the agreement the concessionaire was also given the right to introduce sub brand/ child brands in different categories under the umbrella of "Khadi India" brand even though such a clause was not included in the Request for Proposal. Further, as per the agreement, KVIC would support the concessionaire in popularising and re-invigorating Khadi and Village Industries products by collaboration with designers, conducting fashion shows, onboarding brand ambassadors and organising promotional events. This was not included in the Request for Proposal. Inclusion of terms and conditions not included/ specified in the Request for Proposal document subsequent to award of the contract was not transparent as the inclusion of such favourable terms in Request for Proposal might have attracted more bidders resulting in more favourable bids. Thus, undue financial advantage was granted to the Concessionaire, post award of contract.

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[70] ***As per Paragraph 9.2 of Meity guidelines "Draft contract agreement which forms part of the bidding documents is updated if changes are made in Request for Proposal and sent to all bidders".***

5.1.1.2 Implementation of the project

i. Submission of sales data by concessionaire

As per Article 8.1 (a) of the Concession Agreement, concession fee payable by the Concessionaire was set as 7.5 *per cent* of sales less freight, insurance and trade discounts, if any. The Concessionaire shall maintain all the records pertaining to procurement, logistics, sale and delivery of goods and submit periodic reports to KVIC on regular intervals. Further, the Concessionaire has to furnish a quarterly sales report and provide a dashboard to access the sales data. Audit observed that the Concessionaire was not submitting quarterly sales report except for some sporadic e-mails containing sales data. Though the dashboard was stated to have been developed by the Concessionaire, the same was not working (June 2021).

ii. Utilisation of available funds for market promotion

An amount of ₹15 crore was earmarked (July 2019) from Khadi Reform Development Programme funds for e-commerce. Since, the e-commerce portal was outsourced through PPP route, the funds remained unutilised and KVIC could not decide on any project to utilise the same. Since the ADB loan was closed in 2018-19, keeping the funds idle was not justified.

As such, there were deficiencies in formulation and implementation of the project.

KVIC/ Ministry stated (August 2022) that KVIC had not sustained any loss through the e-commerce operations and was getting a fixed percentage as royalty charges for 'Khadi India' brand name. It also stated that it will take some time to get popular and to capture the market subject to availability and capacity of production and supply.

The reply may be viewed in light of the fact that KVIC had not undertaken substantial efforts to promote the e-commerce platform despite having earmarked funds for the same.

Recommendation No. 12:

KVIC may comprehensively review the cost, revenue and deliverables of the contract to assess whether value for money is being derived from the e-commerce platform and enforce the mutual contractual obligations in respect of information/ action regarding revenue, quality etc.

5.1.2 Market surveys conducted by KVIC

One of the components of Khadi Reform Development Programme (KRDP) was development of a marketing organisation with private partnership to bring the modern concepts and reforms in marketing. This marketing organisation was to conduct a product specific market survey through a specialist firm. However, KVIC could not establish the marketing organisation as above, one of the key components of KRDP. As such, KVIC conducted three market surveys during the period 2011-2017. Of these, two surveys covered the domestic market and one was related to the international (export) market. The important findings reported in the surveys and the recommendations made are shown in Table 5.1 below.

Table-5.1 Market Surveys conducted by KVIC: Findings and Recommendations

Market Survey (2011)	Pan India Market Survey (2017)	International Market Survey (2017)
Survey Recommendations		
• Reducing shelf life and managing inventories • Product development, pricing in line with consumer expectations and competitive landscape and available opportunities. • Exploration of youth and teenage product lines • Extensive Research & Development with leading textile institutes of national and international repute for product innovation • Improvement of retail presence especially in high profile areas like Malls. • Retail tie-ups with multi-brand outlets, key supermarkets and leading retailers supplemented with e-commerce and social media. • Need for consistency of effort and quick and effective decision making. • Running an extensive programme to upgrade the skill sets of existing professionals in the setup.	• Increase visibility and availability of products • increase retail reach • Presence in online retail platforms, • Increase variety of designs, price segmentation of products, targeting youth.	• Promote Khadi products in international online platforms • Explore potential tie-ups with established and international apparel majors through conducting more Business to Business fairs with focus on Indian Khadi. • Increasing awareness and capacity building towards exports. • Enhancing export growth through facilitation of upstream value chain activities and supporting effective promotion and brand building activities for Khadi and Village Industry products in international markets.

Audit observed the following in respect of conduct of the surveys and implementation of the recommendations made in the survey report.

5.1.2.1 Domestic Surveys

KVIC conducted (2011) a domestic marketing survey through an external strategic marketing firm (M/s GroupM India) using KRDP funds at a cost of ₹32.49 lakh. The purpose of the survey was to access awareness and understanding of khadi amongst consumers and retailers and also to get an understanding about habits and practices across consumers. The survey made vital recommendations such as requirement of quick and effective decision making, extensive training programme to upgrade the skill sets, product mix to overcome khadi's weakness in terms of limited colors and availability etc.

As per the revised KRDP guidelines 2016, KVIC was supposed to conduct two market surveys, one pan India market survey to assess the domestic market and another survey to assess the international market for Khadi and Village Industries products. Pan India market survey was conducted (by M/s Aranca) in 2017 at a cost of ₹29.75 lakh to ascertain several parameters such as pricing, market positioning, understanding the trade terms, payment terms, sales promotion techniques, discounts, margins, publicity, consumer purchasing behavior, market potential across products etc. This survey also brought out several recommendations in line with the earlier survey conducted in the year 2011. The survey identified certain products such as fabric, honey, health cosmetics and agro-based products having high demand.

In this regard, Audit observed that:

- The two domestic market surveys, which were conducted six years apart, identified almost similar issues related to pricing, availability, designs, variety, visibility etc., indicating that KVIC had not made significant progress in addressing the issues pointed out in the first survey.

- KVIC has not made any significant effort to prioritise its product line in tune with the survey findings even in case of its own Departmental Trading Units. Purchase Committees had not analysed previous sales data, market demand etc., before finalising procurement plans. There was no evidence to show that KVIC had conducted any analysis of market trends, consumer preferences etc., and communicated the same to the Departmental Trading Units.

- Even though KVIC had made an attempt to introduce new designs developed by a professional designer, the products were not successfully marketed. Opportunities were denied to new suppliers to market their products through the Departmental Trading Units resulting in limited range of available products (Paragraph 4.1.2). Projects to increase availability by establishing Khadi plazas etc., were not implemented (Paragraph 5.1.7). Despite funds being available, the Khadi Gramodyog Bhavans were not renovated to improve ambience and retail sales experience by consumers (Paragraph 5.1.8).

- New products introduced on limited level such as vichar vastra (designer wear), denim khadi, khadi Tshirts etc., did not achieve significant sales primarily due to weak marketing.

- Reform Implementation Division of KVIC brought out that the Khadi Reform Development Programme consultant (M/s PriceWaterhouseCoopers)[71] found (May 2017) major gaps in the pan-India market survey conducted by M/s Aranca such as non-provision of complete set of raw data, contaminated sample of bulk purchasers due to inclusion of Khadi Institutions, non-coverage of premium products such as silk and muslin, generalisation of response of individual respondents, feedback regarding Khadi Mark covered bulk purchasers only, weak analysis of trends and products for exports, non-availability of adequate inputs required for preparation of marketing strategies, lack of clarity in strategies proposed for branding and value addition and findings not being supported by adequate secondary research further leading to non-alignment of findings with on-ground trends in Khadi and Village Industries products etc. There were no records to show that KVIC had communicated the defects noticed and got them rectified. However, full payment (₹29.75 lakh) was released in September 2017.

KVIC/ Ministry stated (July 2022/ August 2022) that professional marketing inputs had been used for aggressive advertising and social media visibility to build up a brand 'KHADI INDIA' successfully. It was also claimed that KVIC had made efforts to ensure its retail presence in high profile areas like shopping malls, airports, retail tie-ups with multi-brand outlets, key supermarkets and leading retailers, e-commerce, institutional partnerships with key export houses, association with corporate sector such as Raymond, Aditya Birla, Arvind Mills etc. KVIC also pointed out establishment of Khadi India lounges at various places, airport outlets at Lucknow, Ahmedabad and Visakhapatnam and putting up the world's biggest stainless-steel charkha at Indira Gandhi International Airport, New Delhi as best examples of it having implemented the recommendations in the market survey reports. It was also stated that it was having a system to analyse the product line with the item-wise sales over a period in respect of individual Khadi Gramodyog Bhavans and analysis of data on fast-moving goods from Khadi Institution Management Information System which was capable of generating such information. KVIC also claimed that the Procurement Committees of Khadi Gramodyog Bhavans were depending on previous sales data as the measure of market demand for finalising procurement plans.

The claim that KVIC had achieved visibility in social media using professional marketing inputs may be viewed in light of the fact that presence[72] of KVIC in the Khadi and Village Industries sector on social media platforms is very less in comparison to its competitors. Further, most of the initiatives highlighted in the reply such as retail presence in shopping malls, tie-ups with corporate firms like Raymond etc., did not take off as discussed in Paragraph 5.1.5. As mentioned in Paragraph 4.1.3, the Khadi Gramodyog Bhavans had not analysed sales data relating to previous periods before procuring goods and only two Khadi Gramodyog Bhavans had actually prepared procurement plans that too without

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[71] ***M/s PriceWaterhouseCoopers* Private Limited *is a Technical Agency appointed by Asian Development Bank for Khadi Reform Development Programme***

[72] ***Number of followers as on May 2022 of KVIC on popular social media platforms was only 92,280 whereas number of followers of its competitors on the same platform was 11.46 lakh (May 2022).***

considering market trends. Though Khadi Institution Management Information System was introduced from 2019-20, the Directorate of Information Technology did not provide item-wise sales data from the system as support to management claim that the system is capable of furnishing such data.

5.1.2.2 International market survey

Under Khadi Reform Development Programme mandate, KVIC conducted (November 2017) an international market survey at a cost of ₹22.66 lakh. The survey made several recommendations which included effort to increase export awareness, setting up of dedicated wing, facilitation of upstream value chain activities, leveraging e-market players, brand building activities in international markets etc., for improving the export performance of the khadi brand. KVIC had been granted deemed Export Promotion Council[73] status by Ministry of Commerce & Industry in December 2006.

With regard to above, Audit observed that KVIC's role was limited to participating in international exhibitions. There was nothing on record to show that KVIC had utilised the information gathered by the international market survey, in any manner, by itself or shared it with those Khadi/Village Industries registered with it. Also, it was not evident that KVIC had taken up adequate export promotion measures such as maintaining exporters data base, comprehensive list of country wise and product specific prospective importers abroad, facilitating tie-ups to Indian exporters, regular buyer-seller meets etc.

Audit further observed that the total value of export of Khadi and Village Industries products from the country has consistently declined during the period 2017-18 to 2020-21 as shown in Table 5.2.

Table 5.2: Export of Khadi and Village Industries products

(Figures in ₹ crore)

Year	Khadi	Handmade paper & products	Papad	Honey	Handicrafts	Others	Total
2017-18	0.78	38.58	61.84	131.50	18.39	19.26	**270.35**
2018-19	6.00	43.62	49.77	120.69	16.20	30.31	**266.59**
2019-20	0.47	7.59	37.23	144.27	16.68	32.26	**238.50**
2020-21	0.00	0.00	52.41	133.93	19.00	3.94	**209.28**

Source: Annual reports of KVIC

KVIC had, thus, not been able to fulfil the Khadi Reform Development Programme requirement based on the outcome of the surveys as is evident from the above data in Table

[73] ***Export Promotion Council (EPC) are set up by the Ministry of Commerce to provide advice and assistance to exporters in specific sectors. EPCs receive funding from Government to promote exports through various external and internal promotional activities including organising/ participating in international trade fairs, buyer/seller meets etc. EPCs also help exporters in availing benefits of incentive schemes of Government in the export sector.***

5.2. Further, even though KVIC is reporting total export figure of Khadi and Village Industries product in its annual reports, it does not have any direct export activity and the Khadi and Village Industries units depend on private export houses for exporting their products.

KVIC/ Ministry stated (July 2022/ August 2022) that the export of Khadi and Village Industries products had been increasing regularly up to the period 2019-20 and pandemic reduced export activities from 2020-21 and 2021-22 and now the exports were picking up to a normal mode.

The reply may be viewed in light of the fact that the exports of khadi items were showing a declining trend. The reply was silent on non-implementation of the recommendations made in the survey report regarding international marketing of Khadi and Village Industries products.

Recommendation No. 13:

KVIC may review the findings/ recommendations of the market surveys keeping in view the changes in the market ecosystem in the period following the surveys and initiate appropriate actions to implement the recommendations especially in areas such as introducing variety and innovation in design, pricing, visibility and availability etc. Efforts may be made to increase KVIC's footprint in the export sector by effectively utilising the deemed Export Promotion Council status.

5.1.3 Development of product catalogue and swatch book

An amount of ₹2 crore from Khadi Reform and Development Programme funds was sanctioned (November 2018) to prepare zone-wise product catalogue. The product catalogue was to be developed for the products made by the artisans under KVIC along with a fabric swatch[74] book to showcase the khadi fabric products made by the artisans in each zone of KVIC. The Product Catalogue and Swatch Book were intended to give strength to the rural artisans by increasing product awareness and generate further opportunities of employment in the rural households.

Request for Proposal (December 2019) for 'Appointment of Agency to Conceptualise, Design, Develop and Publish Product Catalogue of KVIC products and Fabric Swatch Book' was developed by M/s KPMG, the consultants employed by KVIC. Bids were invited and the work was carried out till the technical evaluation stage. However, it was decided (September 2020) that before the work for preparation of Product Catalogue and Khadi Swatch Book was entrusted to any agency, the preparation on the part of KVIC for providing sufficient information for catalogue items with their quality and specifications at Zonal and State Office level should be done. Subsequently, it was decided (November 2020) that field operations on preparation of product catalogue and Khadi Swatch Book

[74] ***Small sample taken from fabric.***

were not feasible at present due to spreading of COVID 19 pandemic in various states. Hence, further operations were kept aside for the time being, until situation stabilised. It was also decided to refund the Earnest Money Deposit to the bidders.

In this regard, Audit observed that:

i. Though the development of the product catalogue was one of the restructured tranche conditions of KRDP and should have been completed by February 2017, KVIC is yet (August 2022) to develop Product Catalogue and Khadi Swatch Book. Thus, the intended objective could not be achieved.

ii. Earlier, National Institute of Fashion Technology (NIFT), Mumbai had submitted (June 2017) a project proposal for Physical and Web Based Catalogue of Products at an estimated cost of ₹18.29 lakh. The proposal covered study of existing 100 khadi textile products and prepare a physical catalogue with code, a web-based catalogue of around 100 khadi products with code as per list, a catalogue of swatches of khadi fabrics with code, physical catalogue of around 100 village industry products with code, web-based catalogue of around 100 village industry products with code etc. However, KVIC did not approve the proposal.

iii. A link to E-catalogue of only one vendor was provided on KVIC website. It was reported by M/s PricewaterhouseCoopers Private Limited (PwC)[75] that with active participation from institutions, KVIC has developed a digital product catalogue showcasing some of the niche products made by Khadi and Village Industries institutions and the catalogue is available on the KVIC website where buyers can view products and place orders directly to the supplying institution. The assertion was not completely correct as only 117 products were listed in the catalogue, with a picture, a brief description and a barcode. This catalogue did not satisfy key conditions (as mentioned in the Request for Proposal issued by KVIC) such as zonal grouping of products, introduction to artisans, placing of orders directly to the supply institutions etc. Thus, the final report on development of product catalogue and swatch book submitted to the Ministry of MSME contained inadequate information.

KVIC did not utilise the funds made available to it to promote the sale of Khadi and Village Industry products. Thus, the envisaged objective to attract and engage prospective customers as well as potential exporters through proposed catalogue and swatch book remained defeated.

KVIC/ Ministry stated (April 2022/ July 2022/ August 2022) that the work order was not issued to NIFT as the cost was on higher side and it was decided to float Request for Proposal for which also responses were limited and were not up to the satisfaction of the

[75] ***M/s PricewaterhouseCoopers Private Limited (PwC) was the Technical Agency appointed by Asian Development Bank for assisting KVIC in implementing the KRDP. As part of their contractual requirement with ADB, M/s PwC was required to submit review reports on the progress achieved in the project.***

selection committee. It was also stated that since KVIC's e-commerce platform was about to be launched and cataloguing would be available under the platform, the development of separate product catalogue was shelved. It was further stated that the Khadi Gramodyog Bhavans were also having their own product catalogue and swatch books and at apex level, e-catalogue and e-swatch book were more appropriate. Further due to the pandemic situation, many items were unavailable and hence the information required for the catalogue could not be collected.

The reply may be viewed in light of the fact that the Request for Proposal was scrapped because field operations on preparation of product catalogue and Khadi swatch book were not taken up. Though the funds were made available in 2018-19 itself, no concrete action was taken. Further, even though the scope of work in respect of the e-commerce platform included preparation and updation of product catalogue, it would only include the items put on sale by the e-commerce operator and cannot be a substitute for the product catalogue as per KRDP which was intended to showcase all available products in the Khadi/Village Industry sector.

During Exit Meeting (July 2022), KVIC informed that they would develop the product catalogue and swatch book.

5.1.4 Engagement of Marketing Consultant

To face the challenges of marketing and to cope up with the requirements for aggressive marketing of Khadi and Village Industries products, it was decided (September 2017) that KVIC may engage a professional marketing consultancy firm/marketing consultant for domestic and international marketing, as the present Directorate of Marketing had acute shortage of trained manpower and did not possess adequate officials with marketing background. The draft Request for Proposal for inviting Expression of Interest (EoI) for marketing consultant was drafted by another consultant (M/s Price Waterhouse Coopers). In response to the advertisement, six[76] firms submitted their responses. It was noted by KVIC that as no good and reputed marketing consultants had applied, consultants could be invited for marketing/ management from National Informatics Centre Services Inc. (NICSI), a Government Platform under Ministry of Electronics and Information Technology. Accordingly, Ernst & Young Inc. (M/s. E & Y), who had been empanelled with NICSI, was selected for Management Consultancy. The contract value of ₹1.22 crore was paid for the consultancy charges to NICSI.

In this regard, Audit observed the following:

[76] ***Six firms- 1. Goldmine Advertising Limited, 2. Goodwill Consulting, 3. Ernst & Young LLP, 4. Ferry Wharf Communications LLP, 5. McCann Credentials, and 6. Kruti Promotions and Events Pvt. Ltd.***

5.1.4.1 Selection of Consultant

i. Six firms had responded to the advertisement issued by KVIC calling for Expression of Interest for marketing consultancy. KVIC had noted that *"no good and reputed marketing consultants have applied in the Expression of Interest"* and proposed to call all the firms for a presentation. The basis for such decision was not documented and no further information regarding the proposed meeting of respondents to the Expression of Interest was available on record. However, KVIC organised another meeting with the consultants empanelled by NICSI and selected M/s. E & Y as the marketing consultant. The KVIC assessment is to be seen in the context that ultimately a firm that had submitted its response to the Expression of Interest advertisement (M/s E&Y) had been selected by KVIC as they were also included in the empanelled list of consultants of NICSI.

ii. NICSI's mandate is to provide total IT solutions and services to the Central and State Government departments and organisations. As such, the rationale behind KVIC's choice to select a marketing consultant from consultancy firms empanelled by NICSI was not immediately apparent.

iii. As per the Standard Operating Procedure (SOP) of NICSI, for assignment of work to empanelled consulting agencies, in case the user department does not indicate any particular agency, the work would be awarded based on the recommendations of a committee to be set up by the user department after inviting presentations from the empanelled agencies. It was noted that the finalisation and selection of management consultancy firm empanelled with NICSI was made in a meeting held with KVIC. However, the objective evaluation statement or the road maps, etc., which were required were not presented by the empanelled agencies.

iv. As per the Manual for Procurement of Consultancy and other Services 2017 issued by the Government of India, in case of consulting services, well-defined scope of work/ terms of reference (ToR-description of services) and the time frame for which services are to be availed of, should be determined consistent with the overall objectives of the procuring entity. The Manual further stipulates that Consultancy Monitoring Committee (CMC) should be set up and procedure for review and approval of work of the consultant after the award of contract should also be declared and adhered to. KVIC had not complied with the above stipulations. No contract agreement was signed with either NICSI or the consultant firm. No milestones/deliverables were prescribed before making advance payments on the basis of proforma invoices submitted by NICSI. Further, even though as per the proforma invoice, monthly performance reports in respect of each individual consultant were to be sent to NICSI, no such report was found on record.

v. NICSI had charged a commission of seven *per cent* (₹6.75 lakh) on the contract fee which was avoidable as the firm which participated in Expression of Interest only was finally selected.

5.1.4.2 Performance of the Consultant

i. Before appointing the consultants, KVIC had not formulated specific tasks and milestones to be assigned to them. Audit observed that tasks were assigned to the consultants in an unorganised manner. As far as the key scope areas of the consultancy are concerned, most of them were not defined and implementation was not tracked as given in Table 5.3.

Table 5.3: Marketing Consultant - Progress on Key scope area

Area	Activity	Key scope area	Remarks
Khadi	Study Value Chain, Market Study, CSPs, Pricing	Khadi Scheme	Not defined and implementation not documented
		Value Chain Intervention	Not defined and implementation not documented
		Central Design Centre	Not implemented
		CSP Restructuring Plan	Not prepared
		Producer Company Models	Not defined and implementation not documented
Marketing and Exports	Market Position, Departmental Sales Outlet Restructuring, Marketing Strategy, Export Plan, Branding	High level Marketing Plan	Not defined and implementation not documented
		Coffee Table book/Calendar RFP	Not defined and implementation not documented
		15 August Execution	Not defined and implementation not documented
		Franchise Policy	Not documented as having been prepared by consultant
		DSO Delhi Revamp	Not defined and implementation not documented
		Online/ e-Commerce	Development of e-commerce platform outsourced through PPP mode by Directorate of IT for which RFP etc., was prepared by another consultant.
Advertising and Publicity	Strategy Review, Advertising Channels, Storylines and Content	Creative Agency RFP	Not defined and implementation not documented
		Advertising and Publicity Strategy	Not defined and implementation not documented
		Brand Ambassadors	Not defined and implementation not documented
		Feedback Capturing Mechanism	Not defined and implementation not documented

ii. The Consultants had reported that they had completed 21 deliverables as detailed in ***Annexure II***. The tasks, other than the 21 deliverables mentioned in the paragraph, were not specific in nature e.g., study for turnaround of Central Sliver Plants, study of khadi sector, mapping value change, identifying grey areas, development of marketing action plan, vision document, visual merchandising in KGB New Delhi etc. As per the records except for the vision document, none of the above tasks were completed. The vision document is said to have been delivered in November 2018 but was not available in the records. Detailed remarks against each deliverable are offered in ***Annexure II***.

iii. KVIC itself concluded (February 2019) that *"most of the works said to have been attended by M/s Ernst & Young (E&Y) were very simple and were being attended to by KVIC even when E&Y was not there. E&Y does not have knowledge of KVIC official system of working and that most of the proposals were outcome of information from web searches and cut-paste of information, without original or professional inputs; they had failed to give any action plan on marketing for KVIC and the charges paid to them were not justified."*

iv. It was observed that various marketing initiatives taken up by KVIC during the period 2017-18 to 2020-21 met with varying degrees of success as detailed in Table 5.4:

Table 5.4: Status of marketing initiatives attempted by KVIC

Sl. No.	Marketing initiative	Status
1	Franchise scheme	Out of 180 franchises proposed to be established, 12 franchises were set up and only eight are still working.
2	Khadi Korners	All the units were loss making and none is functional now.
3	Opening of outlets at railway stations and post offices	Not implemented even though proposals were mooted and initial discussions done with Railways and Postal department.
4	Tie ups with e-commerce platforms	Not implemented as the acceptable terms with M/s Flipkart and Amazon India could not be negotiated.
5	Development of e-commerce platform and mobile application	Implemented through PPP mode but not very successful in terms of sales volume and market penetration.
6	Opening of outlets at airports	Limited implementation (only at three airports)
7	Incentive scheme for DSO staff	Not implemented even though approved by KVIC**.**
8	Tie up with PSUs for discounted coupon sales	Implemented in four PSUs but not continued from 2021-22.
9	Market surveys	Surveys done but recommendations not implemented.
10	Engagement of professional designers for developing innovative product line	One designer (Ms. Ritu Beri) engaged with limited success as indicated by sales data. The product line has since been discontinued

v. Between June 2018 and March 2019, KVIC had paid ₹4.32 crore to NICSI for engagement of consultants against four invoices out of which details of payment of only ₹1.22 crore was furnished to Audit.

In view of the above, it is evident that KVIC had not been adequately benefitted from the expenses incurred for engaging the marketing consultant due to not defining the specific tasks to be executed by the consultant and also failing to monitor the deliverables subsequently.

KVIC/ Ministry stated (July 2022/ August 2022) that NICSI provided the option to terminate the services of the agency selected through it, any time, in case of non-delivery of services. Further, in case of direct selection, KVIC would have had to pay a higher fee. KVIC further claimed that it had benefitted proportionately from the expenses incurred for hiring the consultant and also stated that they were engaged with specific tasks market research, market forecasting etc. KVIC further stated that when it was found that the consultant had not delivered the expected outcome, their services were terminated.

The reply may be viewed in light of the fact that all contracts generally include a standard contract termination clause in the event of non-performance by any of the parties to the contract. Though KVIC has contended that in case of direct selection though bidding, higher fee would have been paid in comparison to what was paid through NICSI, the same has not been supported with facts and figures.

Recommendation No. 14:

While engaging external consultants, the directions contained in Manual for Procurement of Consultancy & other Services 2017, issued by the Government of India may be strictly adhered to viz, preparing well defined scope of work/ Terms of Reference, setting up consultancy monitoring committee etc.

5.1.5 Franchisee Schemes

In order to ensure better growth and to improve marketing of Khadi and Village industry products, KVIC implemented (2017) the franchisee scheme through which firms/ individuals were granted permission to sell Khadi and Village Industry products using the "Khadi India" trademark on payment of royalty to KVIC.

5.1.5.1 Bulk Franchise Scheme

KVIC entered into Khadi Mark Registration Agreements with M/s Raymond (December 2016) and Aditya Birla Fashion and Retail Ltd (ABFRL) (March 2017) entitling the firms to use Khadi Mark on khadi and khadi products sold through their retail outlets and dealer network. As per the agreement, ₹10 lakh each was to be deposited by the firms with KVIC towards interest free security amount and another onetime fee of ₹10 lakh was to be paid towards inspection and other expenses. The firms guaranteed minimum procurement of khadi and khadi products of ₹2.50 crore in the first year of operation with incremental growth of 10 *per cent* every year. The gestation period for this was four months and after that any shortfall from the minimum guaranteed amount would be invoiced against the security amount. They were also required to furnish monthly sales report of khadi and khadi products to KVIC.

In this regard, Audit observed that

i. The details of security deposit of ₹10 lakh and onetime fee of ₹10 lakh to be paid by the two firms were not on record.

ii. The firms were mandated to procure products worth ₹23.20 crore during the period 2017-18 to 2020-21 and pay royalty of ₹1.16 crore (five *per cent*). However, the actual procurement was only ₹6.34 crore (royalty due on this was ₹32 lakh) and that too by only one firm (Raymond) which resulted in non-realisation of ₹1.06 crore[77] on account of royalty committed under guaranteed minimum procurement.

iii. It was further observed that neither M/s Raymond nor M/s ABFRL had furnished monthly sales report of khadi and khadi products as required by the Agreement to KVIC.

While accepting the audit observations, KVIC/ Ministry stated (July 2022/ August 2022) that Raymond had not procured khadi fabric during the pandemic period, but had started procurement subsequently. KVIC also admitted that ABFRL had not procured khadi fabric at all. KVIC also accepted that though royalty amounting to ₹32 lakh was due from M/s. Raymond for actual purchases made, they had paid only ₹9 lakh. However, the reply was silent on the minimum guaranteed purchase and the royalty due thereon. It is also to be noted that the major part of the agreement period was before the pandemic.

5.1.5.2 Retail Franchisee Scheme

The salient features of the Retail Franchisee scheme are as follows:

- Initially the franchise would be for a period of five years and could be further extended for a period on such terms and conditions as decided by the franchisor.
- Franchisee shall be free to procure khadi items from the product manufacturing institutions having valid Khadi Mark certificate and village industries products from Prime Minister's Employment Generation Programme/ Rural Employment Generation Programme (PMEGP/ REGP) Units/ Institutions on the payment terms and conditions mutually decided.
- Khadi India franchisee will have the uniform design and pattern of signage approved by KVIC and display 'KHADI INDIA' logo prominently.
- Franchisee should have at least minimum average sales target of ₹1.5 crore per annum.

In this regard, Audit observed the following:

i. While placing the advertisement in respect of franchisees, the target fixed (October 2017) by KVIC for number of franchisees was 180. However, the actual achievement was 12 and out of which, only eight are functional (August 2022).

ii. The sales target to be achieved by the franchisees as per the agreement terms was ₹1.5 crore per annum. However, the actual achievement was only ₹2.86 crore (7.94 *per cent*) during the three years from 2018-19 to 2020-21, which was well short of the sales target applicable for the eight working franchises i.e., ₹36 crore.

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[77] ***₹1.06 crore =₹1.16 crore (total receivable) -₹9.92 lakh (actually received from M/s Raymond Limited).***

iii. One of the conditions stipulated in the Franchisee Agreement was that the franchisees should provide periodic returns to KVIC indicating stock and sales. Audit observed that none of the franchisees had complied with this condition and, as such, KVIC had no information on the actual sales achieved by the franchisees and had to rely on unverified information furnished by them after repeated requests. In fact, out of the eight franchisees that are still functional, only two had furnished the information on sales made by them for all the years. Other than the above, KVIC had not included any requirement for provision of sales data in the Franchise Agreement, and had not made any arrangement for obtaining and verifying the sales data of the franchisees and hence is accepting the sales figures reported by the franchisees over phone, social media, etc.

iv. The royalty payable by the franchisees to KVIC was five *per cent* of gross sales. As on date, out of ₹14.32 lakh[78] receivable on this account, KVIC has received only ₹16,204 and that too from a single franchisee for one year till March 2022.

v. KVIC has not made any efforts to ensure the quality of the products sold by the franchisee. Since the arrangement permits the franchisees to procure any product from Khadi Institutions, Village Industries and PMEGP units, KVIC should have established suitable procedure to ensure that the products sold by its franchisees under the 'Khadi India' brand name conformed to the quality standard prescribed.

vi. As per the terms of the Agreement, KVIC also has to extend support providing advertisement material and the sales promotion and publicity activities worked out jointly, on cost sharing basis. It was observed that so far, no such advertising/ marketing support activity was undertaken.

vii. The franchisees were denied permission to market their merchandise through online e-commerce platforms, which was not justified as there was no clause in the franchise agreement that prohibited online sales. Permitting online sales may have benefited both the franchisees with higher sales and KVIC with more royalty. It was provided in the Agreement that the franchisee shall store, in the showroom, products of such types and in such quantity as may from time to time be decided mutually by the franchisor and the franchisee depending on the market requirements. It was also provided that the franchisee shall have procurement plan on monthly basis in preceding month, quarterly basis in last month of previous quarter and annual basis in January of previous financial year to be intimated to the franchisor. None of the above was actually implemented. KVIC has not done such an exercise even for its own departmental sales outlets.

Thus, as a well-intentioned marketing initiative aimed at increasing the sales of Khadi and Village Industries products, the franchisee scheme has not been effective in achieving its objective. There was nothing on record to show that KVIC had effectively nurtured the franchisees and monitored their performance. As far as the royalty is concerned, the actual

[78] ***Five per cent of ₹2.86 crore (sales achieved).***

royalty received by KVIC from its franchisees did not even cover the initial expenses incurred by the KVIC for soliciting prospective franchisees.

KVIC/ Ministry stated (July 2022/ August 2022) that the franchisee scheme was implemented on an experimental basis and based on the lessons learnt, the terms and conditions were revised and the scheme has been relaunched in 2022-23. KVIC admitted that the franchisees were not in a position to remit the royalty due. While accepting that no customised advertisements were made for franchisees, KVIC stated that they were getting the benefit of all Khadi India – pan India advertisements issued by KVIC. KVIC also claimed that the franchisees were not denied permission to sell their merchandise in e-commerce platforms. KVIC further stated that franchise operations were made through an entrepreneurial mode, by making necessary market study by both the applicant and KVIC and when the franchise scheme became operational, the pandemic restrictions started and the promoters were forced to close down the same for longer durations resulting in severe loss to the them.

The reply may be viewed in light of the fact that KVIC had not fulfilled some of its obligations as per the Franchisee Agreement. KVIC had not permitted franchisees for online selling of Khadi and Village Industries products through various e-commerce platforms to maintain uniformity in supply chain as recorded in the meeting held on 13 June 2019. The revisions in the franchisee scheme's terms and conditions would not be enough to make it succeed if KVIC does not extend adequate support to the franchisees. Further, the pandemic had affected the country only from March 2020 whereas the franchisee scheme was launched in 2015.

Recommendation No. 15:

KVIC may conduct thorough market study to identify the opportunities and threats before implementing schemes such as opening franchisee outlets and also extend marketing support and guidance to the entrepreneurs. Periodic monitoring by the management is also required for the success of such schemes.

5.1.6 Establishment of Khadi Korners

Following a meeting held (November 2017) with the representatives of big retail chains like -Globus, D-mart, Shoppers Stop, Raymond etc., KVIC envisaged establishing "Khadi Korners" at branded retail outlets across the country. It was proposed to undertake the design fabrications for the Khadi Korners all over the country. KVIC tied up with two retail chains M/s Globus Stores Pvt. Ltd. (Globus) and M/s Hastkala for establishing Khadi Korners in the premises of their retail outlets.

5.1.6.1 Khadi Korners at Globus showrooms

KVIC entered into an agreement (January 2018) with Globus for providing rent free space in its showrooms. The Khadi Korner would be set up initially in Globus's showroom at

Noida, UP and to be duplicated across the country in a phased manner. The Khadi Korners would be run by the Khadi Gramodyog Bhavans. The sales target shall be fixed by the Khadi Gramodyog Bhavans through mutual discussion with Globus and product-wise trade commission of 20 *per cent* on Khadi and 30 *per cent* on village industries products was to be provided to Globus by Khadi Gramodyog Bhavans for providing free accommodation to run the Khadi Korner. The Khadi Korners at Globus stores at Noida, Ahmedabad and Chennai started functioning from January 2018 onwards. However, Globus vacated their showroom at Ahmedabad in October 2018 and the Khadi Korner was closed. The Khadi Korners at Noida and T Nagar (Chennai) were also closed down (November 2018) due to low sales and consequently commission earned by Globus being minimal and not meeting their expectations. As per the demand made by Globus after closure of the Khadi Korners, the total sales made by the three outlets was only ₹20.17 lakh and the commission payable to Globus was ₹5.86 lakh. The Khadi Korner opened in Noida outlet incurred a net loss of ₹22.76 lakh.

Audit observed that there was lack of effective monitoring of the operation of the stores by KVIC. The information that the Khadi Korner at Globus, Noida had incurred a loss of ₹22.76 lakh during the period January 2018 to September 2018 was conveyed to KVIC by the Manager, KGB New Delhi only in November 2018 by which time Globus had already decided to end its association with KVIC. In case of Chennai also, KVIC management had blamed the Khadi Gramodyog Bhavan staff for not running the outlet efficiently.

5.1.6.2 Khadi Korner at Hastkala showroom

KVIC entered (March 20l8) into an agreement with M/s Hastkala for providing retail space in their outlets for a consideration of 30 *per cent* commission on Village Industry and 20 *per cent* on Khadi products. M/s Hastkala agreed to provide floor space in its Thane outlet initially and to provide space in other outlets later. Initially, M/s Hastkala deposited ₹10 lakh for which products worth ₹8 lakh would be supplied to them. The firm had deposited ₹10 lakh in March 2018 but had been provided with products worth ₹2 lakh only. Even though the inauguration of the Khadi Korner at the Hastkala outlet in Thane was scheduled by them in June 2018, it was not clear from the records whether the shop was opened. No further details as to the sales achieved, current status etc., were forthcoming from the records except M/s Hastkala demanding (September 2018) refund of ₹5 lakh from their deposit with KVIC.

KVIC/ Ministry stated (July 2022/ August 2022) that marketing experiments such as Khadi Korners was initiated with the right objectives but failed due to reasons beyond control.

The reply is to be viewed in light of the fact that KVIC itself had identified the lack of monitoring by the Khadi Gramodyog Bhavan staff as one of the reasons for failure of the Chennai Khadi Korner. Further, even after the initiative failed to take off, KVIC had not reviewed the “experiment” to identify the reasons for the failure.

5.1.7 Establishment of Khadi Plazas

The infrastructure component of Market Promotion and Development Assistance Scheme (MPDA) guidelines envisaged establishment of Marketing Complexes/ Plazas with an outlay of ₹60 crore and maximum assistance per project limited to ₹10 crore. The quantum of assistance would be 100 *per cent* in case the land is owned by KVIC, 75 *per cent* for State Governments/ Khadi Village Industry Boards and 25 *per cent* for Khadi Institutions. During the period 2016-17 to 2021-22, proposals for establishing 12 Khadi Plazas at an aggregate estimated cost of ₹102.26 crore were submitted to KVIC by various agencies including State Khadi Village Industry Boards, Khadi Institutions and State Offices of KVIC.

Audit observed that 11 out of the 12 proposals were submitted under the present scheme and one earlier proposal of year 2009 (Khadi Plaza at Dimapur, Nagaland which was sanctioned in the year 2010) was subsumed into the current scheme. Though these 11 proposals were received since January[79] 2017, so far only one proposal was approved by KVIC which is yet (August 2022) to be forwarded to the Ministry of MSME for sanction.

Audit further observed that:

i. Government of Nagaland proposed (March 2009) Khadi Plaza having provision for 150 shops at Dimapur at an estimated cost of ₹10.42 crore. KVIC accorded (January 2010) *in-principle* sanction with a budget of ₹10.20 crore. The plaza was to be constructed in three phases. The work was awarded (July 2010) at a cost of ₹5.14 crore for Phase I consisting of 50 shops with stipulated date of completion being January 2012. Though KVIC sanctioned (January 2010) ₹3.40 crore, funds were not transferred to Nagaland Khadi & Village Industry Board in the absence of approval from the Ministry and subsequently the contractor stopped the work after completing work of ₹3.29 crore. Nagaland Khadi & Village Industry Board resubmitted the proposal during 2013-14 with total cost of ₹6.18 crore (KVIC share @ 90 *per cent* of the total cost) for Phase 1 and finally KVIC released (March 2016) ₹5.56 crore to Nagaland Khadi and Village Industry Board. However, additional amount of ₹3.82 crore was required for completing the works of Phase-1, due to cost overrun. After issue (September 2016) of Market Promotion and Development Assistance guidelines, additional funds of ₹3.44 crore were sought (August 2017) for finishing of work and starting operations of Phase I at Ground Floor. However, no funds were released. Nagaland Khadi and Village Industry Board forwarded (December 2020) a detailed estimate amounting to ₹6.23 crore for the completion of Khadi Plaza first floor (Phase II) and informed that completion of the first floor was essential for making the Khadi Plaza operational and indicated that without completion of the same, the plaza activities could not be started even partially. KVIC decided (March 2022) to form a

[79] ***One proposal in 2016-17, four proposals in 2017-18, three proposals in 2018-19, two proposals in 2019-20 and one proposal in 2020-21.***

committee for preparing a status report on the project and submit it to the Ministry for further action.

As such, the entire amount of ₹7.60 crore [80] expended on the project remained unfruitful, even after lapse of more than 11 years from awarding the work. As assessed by KVIC, the reasons for the project remaining unfulfilled were improper planning/ design and delay in release of funds. Even though the Member, KVIC, NER was the Chairperson of the Project Implementation Committee and the State Director, KVIC was one of the members, the project could not be implemented till date (March 2022).

ii. In respect of Khadi Plaza at Aizawl, the proposal was submitted to KVIC in August 2016 with an estimated cost of ₹10.90 crore. Though the proposal was considered by KVIC and it requested Ministry of MSME for release of ₹8.89 crore being KVIC's share, the administrative approval for the proposal is yet (August 2022) to be accorded by KVIC. It was observed that though Techno Economic Feasibility Report (TEFR) was prepared and considered by KVIC, it again sought opinion of their consultants, M/s KPMG, on the viability of the proposal. KPMG opined (March 2020) that more details had to be obtained to ascertain the viability and requested for separate work order to assess the same. No further progress was made in the project.

iii. The proposals received between 2016-17 to 2021-22 for establishment of Khadi Plazas at Raipur, Lucknow, Varanasi, Kottayam, Guwahati, Hyderabad, Muzaffarnagar, Bengaluru, Jaipur and Itanagar are still at the stage of assessing feasibility/viability of the proposed plazas by KVIC (August 2022).

Audit observed that there was delay on the part of KVIC in assessing and approving the proposals. The delay in finalising the proposals is resulting in increase in estimated cost of the project. For instance, there was increase in estimated cost to the tune of ₹2.01 crore in Raipur proposal. With regard to Lucknow proposal, KVIC is asking (February 2022) for the benefits receivable by it from the project though such benefits to KVIC were never contemplated in the guidelines. It was also observed that in case of proposals for Khadi Plazas at Dimapur, Aizawl and Chhattisgarh, KVIC had insisted on space being provided to its State offices in the proposed plazas. There was no provision in the MPDA guidelines mandating that KVIC should be allotted space in the Khadi Plaza projects and as such, forcing the State KVIBs to incorporate such a condition in their proposals was not justified.

As such, not even a single project could be implemented under the Khadi Plaza scheme even though proposals for 12 projects with a total estimated cost of ₹102.26 crore were received by KVIC.

KVIC/ Ministry stated (July 2022/ August 2022) that the partial funding of Nagaland Khadi Plaza and the delay in execution of the works by the Nagaland Khadi Board had forced it to have a rethink on funding of the project at the Commission level and also to conduct

[80] ***KVIC share - ₹5.56 crore and State Government share ₹2.04 crore***

proper market-study on the desired outcomes and sustainability of various proposals received from Aizawl, Raipur, Lucknow etc. It was also stated that the reply furnished to KVIC's queries by the Mizoram State Board was not convincing. Further, KVIC informed that the proposals received were appropriately taken up as per the Market Promotion and Development Assistance guidelines and KVIC was bound to ensure the optimum use of project premises and the safety of the government funds to be utilised for the cause of the project. It was also stated by KVIC that objections from local bodies had caused delays.

However, the fact remains that no Khadi Plaza could be opened. As per the guidelines of the scheme, KVIC has primary responsibility for implementing the scheme, including scrutiny of plans and monitoring of the progress. Considering the State agency as cause for delay in case of Nagaland Khadi Plaza may be viewed in the light of the fact that KVIC officials were part of the Project Implementation Committee, and the construction plan was approved by KVIC. Further, KVIC had not taken any action to ascertain the marketability of the Plaza and the continuing delay in taking a decision on the future of the project would cause further increase in cost.

As per the guidelines issued by the Ministry, a Concept Paper with Techno Economic Feasibility Study Report from any reputed Institution/ Agency was one of the documents to be submitted along with the proposal. In case of Mizoram Khadi Plaza, KVIC's reply may be viewed against the fact that the State Board had submitted a Techno Economic Feasibility Study Report prepared by IIT, Guwahati and the proposal was "found to be in order" by KVIC and it, in turn, had recommended for sanction of the same to the Ministry in January 2018. Subsequently, the Techno Economic Feasibility Study Report was also vetted by a third-party consultant whose queries were communicated to the State Board. However, nothing happened after that.

Further, there was delay in obtaining permission from local body in case of only one plaza (Varanasi) which was mainly due to delay on the part of KVIC to sanction funds to its own State Unit.

KVIC's assertion that it was bound to ensure the optimum use of project premises and the safety of the Government funds though acceptable but is to be viewed in the context that under the scheme, it is also KVIC's responsibility to vet the proposals and provide guidance to the institutions. The fact remains that not even a single khadi plaza has been established under the scheme so far.

Recommendation No. 16:

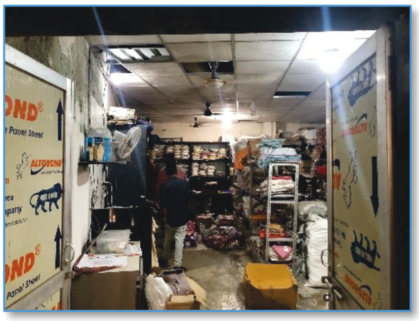
KVIC may consider revamping the Khadi Plaza Scheme after thorough review in view of the fact that not even a single project could be implemented under it. KVIC may also develop a system to provide technical guidance to the State Khadi Boards etc., for preparing viable proposals for utilising the funds available under the Khadi Plaza Scheme for creating marketing infrastructure in the Khadi and Village Industries sector.

5.1.8 Strengthening of Infrastructure of existing weak Khadi Institutions and assistance for marketing infrastructure

One of the objectives of the scheme 'Strengthening of Infrastructure of existing weak Khadi Institutions and assistance for marketing infrastructure' was renovation of sales outlets. Under the scheme, four outlets namely Khadi Gramodyog Bhavan at Mumbai, Goa, Bhopal and Agartala (defunct) were selected in August 2009 for renovation. In this regard, Audit observed the following:

5.1.8.1 Renovation of Khadi Gramodyog Bhavan, Mumbai

Fig:5.1 Godown of Khadi Gramodyog Bhavan Mumbai



Though renovation was proposed since 2009-10 at KGB Mumbai, the allotment of funds was not made. Budget outlay was restricted to ₹25 lakh per Khadi Gramodyog Bhavan, an amount set in the year 2009, against the budget of ₹2.50 crore sought in the year 2018. The delay in renovation, other than reducing the attractiveness of the outlet to prospective consumers, led to loss of ₹2.01 crore to KVIC on account of damage caused by leakage of rainwater to merchandise stored in the godown at KGB Mumbai, which KVIC has found to be unrealisable. It was also observed that KVIC constructed (2016) an additional showroom in the premises of Central Office at a cost of ₹32 lakh without obtaining the required approvals from the local body. The showroom has been functioning in the KVIC premises for the last six years and KVIC has not made any attempt to regularise the same.

5.1.8.2 Renovation of showroom and godown at Khadi Gramodyog Bhavan, Goa

The Khadi Gramodyog Bhavan, Goa is having two showrooms (Panaji and Madgaon) and one godown (Madgaon). Audit observed that:

a) As per recommendation (February 2018) of Director Marketing, KVIC, the godown at Madgaon required urgent renovation/ repairs. However, no repairs were undertaken.

b) The showroom at Madgaon was renovated (2018) at a cost of ₹30.13 lakh. On physical inspection conducted by Audit (November 2021), it was observed that the ceiling of the shop was cracked and damaged. It was informed by the staff of the Khadi Gramodyog Bhavan that water had seeped through the cracks damaging costly merchandise. Even though the contractor had repaired the cracks once, it again occurred and more widely this time. No action has been taken to rectify the damage and prevent further occurrence. Also, the assessment of damage has not been done. As such, the very purpose of the renovation was defeated.

KVIC/Ministry (July 2022/ August 2022) accepted the audit observation and stated that the renovation would be taken up on urgent basis.

Recommendation No. 17:

KVIC may speed up the process for implementing the scheme for strengthening the marketing infrastructure using funds available under the Market Promotion and Development Assistance Scheme for renovation of sales outlets and godowns.

5.1.9 Implementation of incentive scheme for Khadi Gramodyog Bhavans

An incentive scheme was approved (August 2017), *in principle*, by the Commission for motivating and rewarding the sales personnel of Khadi Gramodyog Bhavans by setting targets product-wise for retail counters, right up to salesperson level. On achievement of the target, an incentive calculated at rates depending on how far the target was surpassed, was to be paid to the concerned salesperson and other personnel of Khadi Gramodyog Bhavans. Though draft proposal was prepared (September 2017), the scheme has so far (August 2022) not been implemented. Implementation of the scheme would have incentivised sales according to product prioritisation.

KVIC/ Ministry stated (July 2022/ August 2022) that the scheme could not be implemented due to high sundry debtors and creditors and also because the profit made by the Khadi Gramodyog Bhavans was negligible.

The reply has to be seen in light of the fact that the very purpose of introducing incentive scheme was to motivate the personnel to achieve higher sales and profit. Besides, the incentive was to be paid out of the margin obtained from increased sales surpassing targets.

5.1.10 Infringement of registered trademarks of KVIC by private parties

KVIC is the registered owner and proprietor of various trademarks – Khadi (word mark), two different pictures of Khadi India Logo, Sarvodaya (wordmark), Khadi Mark logo, and Khadi as a Well-Known Mark. As per the Trademark Act 1999, infringement of trademark is punishable with imprisonment for a term which shall not be less than six months but which may extend to three years and with fine which shall not be less than ₹50,000 but which may extend to ₹2 lakh.

Fig:5.2 Khadi India Logo

Fig:5.3 Khadi Mark

Audit observed that the Commission had identified 1,694 firms which had infringed the trademarks registered by KVIC. Court cases were filed against seven firms and legal notices issued to 1,687 firms. In case of 1,687 firms, further action such as filing court cases against infringement and filing complaints with the law and order authorities etc., was not taken. Audit ascertained that the total business turnover of 174 firms out of 1,687 firms was ₹4,034.91 crore[81] during 2017-18 to 2020-21, though the quantum of sales carried out using unauthorised Khadi trademarks was not readily ascertainable.

Audit examined the information available in the public domain in respect of 69 firms and it was observed that these firms, to whom legal notices were served by KVIC were still actively selling their products online using the registered trademarks of KVIC. The sales achieved by these firms amounted to ₹2,297.52 crore during the period 2017-18 to 2020-21. Though, Audit was unable to ascertain whether the above sales by the firms consisted of Khadi and Village Industries products for which KVIC has registered trademark, the fact remains that KVIC has not verified whether the firms to whom it has issued legal notices were continuing the trademark infringements or not.

KVIC/ Ministry stated (July 2022/ August 2022) that as court fee is required to be paid on the basis of the amount of compensation claimed, it may not be financially viable to file Suits against small time traders/ entities. It was also informed that out of the total entities to whom legal notices were issued, 444 entities have tendered unconditional apology, 83 entities had furnished undertakings to the effect of non-use of unauthorised Khadi trade marks in future and 397 entities had stopped using the word, Khadi. As a result of taking steps for removing the online links, 1,809 links have been removed from e-commerce platforms and 1,411 links from social media, which covers mostly the entities to whom legal notices were issued. Apart from the above, KVIC is also filing domain complaints against the registration of domain name containing the words 'KHADI' and also filing opposition against the application for registration of Trade Marks by third parties which contains the word 'KHADI'.

KVIC/ Ministry further stated (August 2022) that the number of legal notices issued against infringement of trade marks at present were more than 2,100 and the number of entities against whom court cases were filed was 10 and in most of the cases, it had succeeded in obtaining injunction order against infringement.

The reply is to be viewed in light of the fact that huge sales are still being generated by the firms who infringed KVIC's registered trademarks.

Recommendation No: 18

KVIC may take more stringent actions such as filing court cases against infringement and filing complaints with the law and order authorities in case of infringement of trademarks.

[81] *Source: GST returns filed by the firms.*

5.2 Sales of Khadi and Village Industries products

While the Khadi Gramodyog Bhavans function as sales outlets for Khadi Institutions and Village Industries products, the Central Sliver Plants are engaged in sale of sliver/ roving produced by them to Khadi Institutions. Other Departmental Trading Units sell specific products such as Honey, Neera, Handmade Paper etc.

5.2.1 Sales by Khadi Gramodyog Bhavans

As per the existing approved procedure in KVIC, the annual budget proposals of Khadi Gramodyog Bhavans are forwarded to the Directorate of Marketing and the consolidated budgets are submitted by the Directorate of Marketing to the Standing Finance Committee (SFC) of KVIC with whose approval, the same is submitted to the Commission for its approval. The approved annual sales targets, expenditure etc., are then communicated to the individual Khadi Gramodyog Bhavans by the Directorate of Marketing. The Khadi Gramodyog Bhavans are engaged in both retail sales to individual consumers and also wholesale/ bulk sales to Government Departments such as Indian Railways, Central Armed Police Forces etc. Audit test checked the budget formulation and sales performance of the Khadi Gramodyog Bhavans during the period 2017-18 to 2020-21 and the findings are discussed in the succeeding paragraphs.

5.2.1.1 Retail Sales

i) Achievement of sales targets

A summary of achievement against the targeted retail sales during the period 2017-18 to 2020-21 in respect of the seven Khadi Gramodyog Bhavans is shown in Table 5.5.

Table 5.5: Retail Sales

(Figures in ₹ crore and achievement in per cent)

KGBs	2017-18		2018-19		2019-20		2020-21		Total	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Mumbai	11.16	3.18 (29%)	11.16	3.81 (34%)	4.77	3.16 (66%)	5.41	1.28 (24%)	32.50	11.43 (35%)
Goa	1.65	0.28 (17%)	1.65	0.43 (26%)	0.92	0.37 (40%)	1.60	0.24 (15%)	5.82	1.32 (23%)
Kolkata	9.22	5.71 (62%)	9.22	9.27 (101%)	11.59	5.85 (50%)	7.91	2.32 (29%)	37.94	23.15 (61%)
Patna	2.60	1.04 (40%)	2.60	1.91 (73%)	2.34	1.22 (52%)	2.80	0.64 (23%)	10.34	4.81 (46%)
Delhi	127.82	96.23 (75%)	127.82	101.22 (79%)	82.63	90.11 (109%)	87.45	48.30 (55%)	425.72	335.86 (79%)
Bhopal	2.92	2.91 (100%)	2.92	3.89 (133%)	3.64	1.59 (44%)	4.81	0.90 (19%)	14.29	9.29 (65%)

KGBs	2017-18		2018-19		2019-20		2020-21		Total	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Ernakulam	7.86	5.79 (74%)	7.86	6.17 (79%)	7.82	5.46 (70%)	9.37	2.04 (22%)	32.91	19.46 (59%)
Total	**163.23**	**115.14 (71%)**	**163.23**	**126.70 (78%)**	**113.71**	**107.76 (95%)**	**119.35**	**55.72 (47%)**	**559.52**	**405.32 (72%)**

In this regard, Audit observed the following:

- The Khadi Gramodyog Bhavans, as a whole, did not achieve the total sales targets during any of the years under review. The achievement against sales targets set in the budgets ranged from 47 *per cent* (2020-21) to 95 *per cent* (2019-20). The achievement against sales targets by individual Khadi Gramodyog Bhavans during the period ranged from 23 *per cent* (KGB Goa) to 79 *per cent* (KGB Delhi). The lowest achievement during any of the years was by KGB Goa (15 *per cent* in 2020-21) and the highest in any year by KGB Bhopal (133 *per cent* in 2018-19).

- The overall achievement against the target was 71 *per cent* and 78 *per cent* in 2017-18 and 2018-19. Though the targets set by KVIC for Khadi Gramodyog Bhavans had been reduced in the year 2019-20 by 30 *per cent* compared to previous year, the same were not achieved. During 2019-20, the Khadi Gramodyog Bhavans could not achieve even the actual sales during 2018-19. There was drastic reduction in sales during 2020-21 and the reason was primarily attributable to the COVID pandemic.

KVIC/ Ministry stated (July 2022) that sales were low in case of KGB Mumbai due to the pandemic. The reply is to be viewed in light of the fact that the Khadi Gramodyog Bhavan was not able to achieve targets in any of the years under review, not just the year affected by pandemic. KVIC did not furnish reply for the shortfalls in respect of other Khadi Gramodyog Bhavans.

ii) Setting targets and preparing sales budgets

KVIC has framed detailed guidelines and Standard Operating procedure for processing Annual Action Plan (Budget) in respect of directly aided/ board aided institutions and departmental units of KVIC/ State Khadi and Village Industries Board. KVIC directed (2018-19) institutions to prepare five year Action plan with year-wise target and achievement in consonance with the Khadi Vision 2022. However, Standard Operating Procedure is silent on modalities to be followed by Departmental Trading Units while preparing and implementing their budgets. It was also observed that the annual budgets of the Khadi Gramodyog Bhavans were approved after inordinate delay; either after the larger part of the financial year to which the budgets related was over (2018-19, 2019-20, 2020-21) or even during the subsequent financial year (2017-18), which rendered the whole budgeting process meaningless. Details in respect of approval of annual budgets of Khadi Gramodyog Bhavans by KVIC is shown in Table 5.6 below.

Table 5.6: Approval of Annual Budgets of Khadi Gramodyog Bhavans

Year	2017-18	2018-19	2019-20	2020-21
Date of approval of Budget	20.04.2018	03.10.2018	24.10.2020	14.12.2020

The delayed approval of budgets not only indicated lapses in budgeting and financial planning on part of KVIC, it also impacted the efficiency of Khadi Gramodyog Bhavans.

Audit also observed that the sale targets were being fixed by generally adding 20-25 *per cent* hike to previous years' achievements without any analysis of market demand, production capacities etc. Khadi Gramodyog Bhavan- wise analysis was not carried out by KVIC periodically to identify the reasons for sluggishness in some places and mid-course corrections needed to improve functioning of Khadi Gramodyog Bhavans.

KVIC/ Ministry did not furnish replies to the audit observation.

Recommendation No. 19:

KVIC may prepare annual budget for Khadi Gramodyog Bhavans well in advance of the financial year concerned and sales targets may be drawn up after considering all relevant factors such as previous periods' sales, anticipated demand, market trends etc. Mid-term/ period review of achievements against targets may be conducted and corrective action taken timely.

5.2.1.2 Sales to Government Departments and wholesale sales

Up to 2019-20, the sales of khadi products to Government Departments such as Indian Railways (government supply) was being done by the individual Khadi Gramodyog Bhavans through rate contracts awarded by the Directorate General of Supplies and Disposals (DGS&D) under the Ministry of Commerce and Industry and also by participating in tenders floated by the departments. From 2019-20, government supply was centralised and managed by the Departmental Trading Units *viz.* Accepted Tender Supply, Mumbai which secured the orders for supply of khadi products to Government Departments by participating in tenders floated in the Government e-Market Place (GeM) portal and the Indian Railways E-Procurement System. As such, the individual Khadi Gramodyog Bhavans were not being assigned annual targets for government supplies from 2019-20 except for KGBs Delhi and Kolkata. A summary of achievement against the targeted wholesale sales during the period 2017-18 to 2020-21 in respect of the seven Khadi Gramodyog Bhavans and Accepted Tender Supply Mumbai is given in Table 5.7.

Table 5.7: Sales to Government Departments and Wholesale sales

(Figures in ₹ crore & achievement in per cent)

Khadi Gramodyog Bhavans	2017-18		2018-19		2019-20		2020-21		Total	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
KGB Mumbai	21.43	14.07 (66%)	22.51	15.30 (68%)	0.00	12.26	0.00	0.19	**43.94**	**41.82 (95%)**
KGB Goa	0.04	0.00 (0%)	0.04	0.00 (0%)	0.00	0.00	0.00	0.00	**0.08**	**0.00 (0%)**
KGB Kolkata	21.93	22.30 (102%)	30.32	22.21 (73%)	0.00	12.12	1.09	3.31 (304%)	**53.34**	**59.94 (112%)**
KGB Patna	7.40	2.07 (28%)	7.40	4.70 (64%)	0.00	2.03	0.00	0.42	**14.80**	**9.22 (62%)**
KGB Delhi	84.08	3.89 (5%)	89.51	2.03 (2%)	0.00	3.07	3.00	2.45 (82%)	**176.59**	**11.44 (6%)**
KGB Bhopal	7.39	3.68 (50%)	7.39	2.91 (39%)	0.00	1.92	0.00	0.81	**14.78**	**9.32 (63%)**
KGB Ernakulam	13.54	10.20 (75%)	13.56	10.77 (79%)	0.00	3.83	0.00	1.93	**27.10**	**26.73 (99%)**
Accepted Tender Supply, Mumbai	NA	NA	NA	NA	53.95	4.93 (9%)	40.00	37.34 (93%)	**93.95**	**42.27 (45%)**
Total	**155.81**	**56.21 (36%)**	**170.73**	**57.92 (34%)**	**53.95**	**40.16 (74%)**	**44.09**	**46.45 (105%)**	**424.58**	**200.74 (47%)**

In this regard, Audit observed the following:-

i) Achievement of sales targets

The Khadi Gramodyog Bhavans and Accepted Tender Supply, as a whole, could achieve the total whole sales targets only during one year (2020-21) with substantialy truncated targets. The overall targets were reduced from ₹170.73 crore in 2018-19 to ₹53.95 crore in 2019-20 and to ₹44.09 crore in 2020-21. The achievement against sales targets ranged from 34 *per cent* (2018-19) to 104 *per cent* (2020-21). The achievement against sales targets by individual Khadi Gramodyog Bhavans during the period ranged from zero *per cent* (KGB Goa) to 112 *per cent* (KGB, Kolkata). The lowest achievement during any of the years was by KGB Goa (zero *per cent* in 2017-18 and 2018-19) and the highest in any year by KGB Kolkata (304 *per cent* in 2020-21).

KVIC/ Ministry did not furnish replies to the audit observation.

ii) Fulfilment of commitment made to Indian Railways

KVIC had committed to the Indian Railways, who are the major buyer in the wholesale/ Government supply segment, to supply khadi items such as bed sheets, pillow covers etc., worth ₹225 crore per annum. However, as assessed by KVIC in October 2019, the actual capacity of KVIC for the above items was only ₹134 crore per annum, the reason being that out of 144 Khadi Institutions enlisted for production of the items required by Railways, 49 (34 *per cent*) were not active. Even though KVIC proposed (October 2019) to enhance the capacity of existing suppliers and induct more suppliers, no effective action was taken and the value of total wholesale supplies made in 2020-21 was only ₹46.45 crore.

KVIC/Ministry did not furnish replies to the audit observation.

iii) Utilisation of sales prospects offered by Central Armed Police Forces

The Central Armed Police Forces in a meeting (August 2020) held with KVIC, informed that they desired to purchase Khadi and Village Industries items such as, blankets, bedsheets/ pillow covers and other 17 clothing items from KVIC. In case of items such as blankets and bed sheets/ pillow covers, no progress was achieved. In case of 17 clothing items, though specifications were provided by the Central Armed Police Forces and KVIC was requested to get its sample products tested by Northern India Textile Research Association against the specifications, KVIC has not complied with the same.

KVIC/ Ministry stated (July 2022/ August 2022) that orders for the items were awaited.

The fact remains that KVIC has not been able to fulfil the demand in wholesale/ Government sector.

Recommendation No. 20:

KVIC may take effective action to augment the capacity of existing suppliers and induct more suppliers to increase the capacity to cater to the demand in Government sector.

5.2.1.3 Disposal of shop soiled/ damaged stock

Directorate of Marketing instructed (July 2016) all Khadi Gramodyog Bhavans to constitute a local committee for examining the proposal of all shop-soiled stock and recommend discount/ prices reduction for the disposal of the stock which was reiterated in December 2017. The compliance of the seven Khadi Gramodyog Bhavans with the above is given in Table 5.8.

Table 5.8: Shop-soiled/ damaged goods

Procurement Guidelines	Khadi Gramodyog Bhavans							
	Mumbai	Goa	Delhi	Ernakulum	Patna	Kolkata	Bhopal	Total
Whether local committee for disposal of shop-soiled stock constituted	No	Yes	Yes	No	Yes	Yes	No	N.A

Procurement Guidelines	Khadi Gramodyog Bhavans							
	Mumbai	Goa	Delhi	Ernakulum	Patna	Kolkata	Bhopal	Total
Value of shop-soiled stock pending disposal as on 31 March 2021 *(₹ in crore)*	2.01	0.03	0.95	Nil	0.02	0.05	0.32	3.38

In this regard, Audit observed that:

i. Accumulation of shop-soiled stock

During the period 2017-2021, four Khadi Gramodyog Bhavans had constituted local committees for disposal of shop-soiled stock. While KGB Bhopal had not constituted the committee, KGB Mumbai constituted a committee in April 2021 only. KGB Ernakulam had not constituted the committee as it was not having any such stock. As at 31 March 2021, six Khadi Gramodyog Bhavans were having unsaleable stock with book value of ₹3.38 crore. This stock accumulated over the past 10 years due to lack of timely action for disposal.

ii. Disposal of shop-soiled stock

a) KGB Mumbai had disposed of scrap/ damaged stock worth ₹96 lakh, in 2016-17, realising only a meagre amount of ₹18,337 from its disposal. The Khadi Gramodyog Bhavan had not conducted physical verification of stock during the period 2017-18 to 2020-21. When physical verification was conducted in April 2021, it was found that stock kept in the godown had been damaged by seepage of rain water due to dilapidated condition of the storage room. The stock of ready-made garments, khadi and silk cloth and Village Industries products found in damaged condition was valued at ₹2.01 crore. Even though the Khadi Gramodyog Bhavan made attempts to make the products saleable by washing, repacking etc., and holding special sale campaigns, they were not fruitful and the material was assessed as unsaleable. Audit observed that timely renovation of the godown could have protected the stock from damage caused by water seepage and the Khadi Gramodyog Bhavan could have realised at least a portion of the value. Lack of physical verification also contributed to the huge loss caused by the stock becoming damaged/ unsalable.

Fig: 5.4 Damaged Stock due to seepage of rain

KVIC/ Ministry stated (March 2022/ August 2022) that it had done the physical verification of stock in KGB Mumbai during the year 2020-21. During the previous year

2019-2020, physical verification could not be conducted due to Covid pandemic. It was also informed that a proposal has been submitted for approval to dispose of the old/ damaged stock, approval for which was awaited.

The reply is to be viewed against the fact that the damaged stock has been piling up for more than five years and the Khadi Gramodyog Bhavan had not taken adequate action to prevent the erosion in its value. Further, the reply is silent on the avoidable loss caused due to inadequate protection during storage of material.

Fig: 5.5 Damaged Stock at Goa

b) In KGB Goa, the Director Marketing had inspected the Khadi Gramodyog Bhavan in January 2018 and found that the godown of the Khadi Gramodyog Bhavan was having damaged stock worth ₹20 lakh. Though the Khadi Gramodyog Bhavan was directed to dispose of the same by giving additional discount and conducting special campaigns, it did not do so and it was observed during the physical inspection of the godown in Madgaon conducted (November 2021) by Audit that numerous items of stock kept in the godown are damaged/ unsaleable but the Khadi Gramodyog Bhavan has neither classified them as damaged nor taken any action to dispose of the same.

c) Further, Audit observed that KGB Delhi transferred stock worth ₹55.98 lakh during 2017-18 and 2018-19 to KGB Goa, for which no purchase order/ requisition was found on record. Khadi Gramodyog Bhavan, Goa could sell only stock worth ₹25 lakh till August 2022. Stock worth ₹31 lakh was lying unsold since 2018, in respect of which Khadi Gramodyog Bhavan informed that most of the items included in the above stock are not saleable in Goa. It was observed during physical inspection conducted (November 2021) by Audit of the shops and godown of KGB Goa that many items included in the above stock are damaged and thus unsaleable. The Khadi Gramodyog Bhavan has not conducted any exercise to identify and dispose of the damaged stock.

KGB Goa, in their reply (May 2022), stated that the stock could not be sold due to the high price and it had so far returned ₹5 lakh of stock and was in the process of returning the remaining stock to KGB Delhi.

The reply needs to be viewed against the fact that major portion of the stock found unsuitable for Goa is yet to be returned (August 2022) and the delay of more than three years and poor storage conditions would have adversely affected its saleability.

In case of KGB Delhi and KGB Kolkata, KVIC/ Ministry stated (July 2022/ August 2022) that its attempts to dispose of shop soiled/ damaged stock could not succeed. Similarly, attempts of KGB Kolkata too did not succeed and stock worth ₹92 lakh was being sent to

KNHPI[82], Jaipur as raw material. Khadi Gramodyog Bhavan, Kolkata stated that the old stock would be sold off by offering discounts.

Above responses indicate that the Khadi Gramodyog Bhavans were not able to dispose of the unsaleable stock in time and incurred avoidable losses.

Recommendation No. 21:

KVIC may take urgent action to dispose of the unsaleable stock as per prescribed procedure to arrest further deterioration of the same and the consequent diminution in its value. KVIC may also institute a system for identification and disposal of unsaleable stock at periodic intervals.

5.2.1.4 Compliance to the provisions of circulars pertaining to rebate/ discount

Audit test checked seven Khadi Gramodyog Bhavans and in respect of KGB Ernakulam, it was observed that the Khadi Gramodyog Bhavan has not passed on 20 *per cent* discount (₹22.82 lakh) to customers on Khadi, Poly-Vastra, Wool, Silk, Readymade garments, Solar-Vastra and Village Industries products during various festival seasons, as per directions from KVIC. Also, as per the circulars issued by KVIB[83], Khadi Gramodyog Bhavan has also not passed on 10 *per cent* special rebate (₹0.55 lakh) on cotton, silk, spun silk, Poly-Vastra and wool during the rebate period specified in respective circulars. Such non-compliance to KVIC direction pertaining to rebate/ discount needs to be justified by the concerned Khadi Gramodyog Bhavans.

KVIC/Ministry did not furnish replies to the audit observation.

5.2.2 Marketing and sale of sliver by Central Sliver Plants

The sales of sliver by Central Sliver Plants to khadi producing institutions and others is regulated by the instructions, including the credit, costing and supply policy, etc., issued by the Directorate of Khadi Raw Material (DKRM) from time to time. Directorate of Khadi Raw Material also prepares annual budgets of the Central Sliver Plants, which is approved by the Standing Finance Committee (SFC). In case of Central Sliver Plants, it was noticed that sales targets were not achieved as detailed in Table 5.9.

[82] ***Kumarappa National Handmade Paper Institute***
[83] ***Kerala State Khadi and Village Industries Board.***

Table 5.9: Sales at Central Sliver Plants

Figures in ₹ crore & achievement in per cent

CSP	2017-18		2018-19		2019-20		2020-21	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Kuttur	13.63	7.94 (58%)	14.14	8.05 (57%)	15.47	9.44 (61%)	17.01	6.48 (38%)
Chitradurga	14.17	11.95 (84%)	15.81	12.53 (79%)	17.27	11.03 (64%)	17.50	12.85 (73%)
Sehore	13.75	11.34 (82%)	17.24	15.03 (87%)	19.75	19.58 (99%)	19.21	22.99 (120%)
Raebareli	14.67	9.03 (62%)	15.75	9.78 (62%)	15.57	18.49 (119%)	15.79	17.25 (109%)
Etah	12.19	8.54 (70%)	13.65	6.91 (51%)	0[84]	0	0	0
Hajipur	6.01	3.95 (66%)	6.30	4.34 (69%)	6.82	4.37 (64%)	6.76	2.76 (41%)
Total	**74.42**	**52.75 (71%)**	**82.89**	**56.64 (68%)**	**74.88**	**62.91 (84%)**	**76.27**	**62.33 (82%)**

5.2.2.1 Achievement of sales targets

The Central Sliver Plants, as a whole, were not able to achieve the sales targets during any of the years. The achievement against targets ranged from 68 *per cent* (2018-19) to 84 *per cent* (2019-20). In case of individual Central Sliver Plants, CSP Raebareli was able to surpass the target in 2019-20 and 2020-21 while CSP Sehore achieved the target in 2020-21. The lowest achievement was by CSP Kuttur in 2020-21 (38 *per cent*). Audit observed that the fixation of targets was unrealistic as evidenced by the wide variation in degree of achievement of the same across Central Sliver Plants.

KVIC/ Ministry stated (July 2022/ August 2022) that CSP Kuttur's sales were affected by natural calamities and the pandemic. In case of CSP, Hajipur, it was replied that the demand for its product was low.

The reply needs to be viewed in light of the fact that the achievement against sales target by CSP Kuttur was around 61 *per cent* only throughout the audit period. In case of CSP Hajipur, the reply is not convincing as production/ sales targets should have been based on anticipated demand.

[84] *CSP Etah became defunct in February 2019.*

5.2.3 Marketing and Sales by Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants

5.2.3.1 Regional Border Development Organisation (RBDO), Barmer

Audit observed that no sales targets were set for retail sales in the years 2017-18 and 2018-19. Against the target of ₹27 lakh set during the years 2019-20 and 2020-21, the achievement was only 43.50 *per cent* and 43 *per cent* respectively. Similarly, in case of wholesale, the RBDO could not achieve its target, except in case of woollen khadi during 2018-19 and 2019-20. The achievement was in range of 26.84 *per cent* to 74 *per cent* during 2017-18 to 2020-21. Unusable stock worth ₹38.68 lakh identified in 2018 is pending for disposal (August 2022), for want of any formal approval from Headquarters.

As per new guidelines for procurement of Khadi and Village Industries products which were effective since 1 April 2018, all products would have to be backed by the Challan and Tax invoices. During scrutiny of bills related to purchase of khadi items, it was noticed that in 47 cases with total bill value of ₹93.95 lakh for the year 2017-18 to 2020-21, GST was not charged.

KVIC/ Ministry stated (July 2022/ August) that it was not having any sales outlet attached to it during 2017-18 to 2018-19 and hence no sales targets were set. It was also stated that sales during 2019-20 and 2020-21 was affected by the pandemic. With respect to non-charging of GST, the Unit stated that GST was being collected and remitted wherever the supplier had included GST.

The reply needs to be viewed in light of the fact that the pandemic had fully affected the country only during 2020-21. There was no justification for the delay in disposal of the unsaleable stock. Further, the non-collection of GST was not in accordance with the provisions of the GST Act[85] under which RBDO was required to collect the GST from the buyers and remit it to the authorities under the reverse charge mechanism.

5.2.3.2 Hand Made Paper Industry, Mumbai

It was noticed that at the point of sales, the trading unit was adding 20 *per cent* margin on the landed cost in case of government supply and 30 *per cent* on landed cost in case of retail sales. Considering the fact that a market study conducted by KVIC through an external agency in 2017 had concluded, in respect of handmade paper products, that "*This is almost a dead category as there are cheaper substitutes available*", a study is necessary to see what should be the optimal margin to be set for maximising sales of handmade paper products and what impact it would have on volume and value of sales. No such study was conducted. It was also observed that the retail sales achieved by the unit during the period

[85] ***Section 9 (4) of GST Act stipulates that the tax in respect of the supply of taxable goods or services or both by a supplier, who is not registered, to a registered person, shall be paid by such person on reverse charge basis as the recipient and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.***

under review was ₹14.40 lakh which did not even cover the establishment expenses (₹18.57 lakh) incurred during the same period.

It was further observed that the e-commerce platform developed by KVIC *ekhadiIndia.com* is not providing sufficient support for marketing handmade paper products. Furthermore, no action was taken by the unit to utilise the allotted space in the newly constructed Khadi Lounge in KVIC Central Office premises to display handmade paper products.

KVIC/ Ministry stated (July 2022/ August 2022) that the margin was levied as per policy. It was also stated that products were being identified for inclusion in online sale and since the sales unit had been brought under KGB Mumbai, suitable showcasing for products was being done.

The reply did not address the audit observations on the pricing policy and non-utilisation of allotted space in the Khadi lounge.

5.2.3.3 Central Bee Research and Training Institute Pune

In Central Bee Research and Training Institute Pune, the balance shown under closing stock (₹1.57 lakh) since 2017-18 represented old and fully damaged processed/ raw honey, honey testing kits, Agmark labels etc. It was observed that out of the above, goods worth ₹1.27 lakh have been kept in stock for more than five years and the Unit had not initiated any action to dispose off the same which may result in total erosion of value.

KVIC/Ministry replied (July/August 2022) that the stock was being proposed for write off. The reply may be viewed in light of the fact that delay in disposal had resulted in total loss of the stock.

Chapter VI
Financial Management and Internal Control in Departmental Trading Units

Chapter VI

Financial Management and Internal Control in Departmental Trading Units

6.1 Financial Management

Since the Departmental Trading Units are functioning as commercial undertakings, sound financial management is essential to ensure that financial resources are utilised efficiently and effectively. Audit reviewed the financial performance and position of the Departmental Trading Units and observations are discussed in the subsequent paragraphs.

6.1.1 Financial Performance

The main source of income for the Departmental Trading Units is the revenue generated from sale of Khadi and Village Industries products by Khadi Gramodyog Bhavans (and other Departmental Trading Units) and sale of cotton sliver/ roving by Central Sliver Plants.

6.1.1.1 Gross (Trading) Profit and Net Profit

The overall Gross profit and Net profit earned by the 18 Departmental Trading Units during the period from 2017-18 to 2020-21 was ₹114.66 crore and ₹23.45 crore respectively as given in Table 6.1.

Table 6.1: Gross/ Net Profit and Ratio

Year	Total Sales	Gross Profit (₹ in crore)	Gross Profit/ Sales Ratio (in *per cent*)	Net Profit (₹ in crore)	Profit/ Sales Ratio (in *per cent*)
2017-18	204.17	24.61	12.05	1.24	0.61
2018-19	237.75	36.38	15.30	10.06	4.23
2019-20	215.04	29.31	13.63	6.00	2.79
2020-21	171.41	24.36	14.21	6.15	3.59
Total	**828.37**	**114.66**	**13.84**	**23.45**	**2.83**

The details of Departmental Trading Unit-wise and year-wise net profit earned and profit/ sales ratio in respect of 18 Departmental Trading Units during the period from 2017-18 to 2020-21 is given in ***Annexure III***.

Overall, during the four-year period, 14 Departmental Trading Units earned profits while four Departmental Trading Units (KGBs at Kolkata, Goa and Ernakulam and CSP at Hajipur) incurred losses. KGB Goa incurred net losses during all the four years. Seven units (KGBs at Delhi, Mumbai and Patna and CSPs at Sehore and Chitradurga, Accepted Tender Supply at Mumbai & Multi-Disciplinary Training Centre at Dahanu) earned profits during all the four years.

Audit observed that even though the Departmental Trading Units earned overall trading profit to the tune of ₹114.66 crore (13.84 *per cent of turnover),* the overall net profit was only ₹23.45 crore (2.83 *per cent of turnover)* indicating high establishment cost and other expenditure.

6.1.1.2 Financial Position

The financial position of all Departmental Trading Units for the four years up to 2020-21 is given in Table 6.2.

Table 6.2: Financial Position of Departmental Trading Units

Figures in ₹ crore

Sl. No	Particulars	2017-18	2018-19	2019-20	2020-21
1	No. of Departmental Trading Units	72	23	22[86]	18
2	Capital investment in Departmental Trading Units at the end of the year	89.24	101.75	104.73	110.27
3	Loan advanced during the year	0.00	1.00	6.00	1.00
4	Grants given by KVIC to Departmental Trading Units during the year	1.37	2.33	2.43	14.11

The total capital invested in the Departmental Trading Units as of 31 March 2021 was ₹110.27 crore. KVIC had given ₹20.24 crore as grants and ₹8 crore as loans to the Departmental Trading Units during 2017-18 to 2020-21.

It was observed that the performance of Khadi Gramodyog Bhavans, which are the primary units for sale of Khadi and Village Industries products, is not encouraging. Directorate of Marketing, KVIC had analysed (September 2020) the profitability of the Khadi Gramodyog Bhavans and concluded that KGBs at Goa, Bhopal and Kolkata are very much on the downward side and KGB Ernakulam was moving without much impact. It was also noted that the salary expenses of KGB Patna were being met by the State Office of KVIC. Keeping this in view, KVIC proposed (March 2021) for handing over all the Khadi Gramodyog Bhavans other than the one at Delhi to private parties under Public Private Partnership mode. The proposal is yet to be finalised (August 2022).

6.1.2 Management of receivables by Departmental Trading Units

Timely realisation of receivables is critical in financial management as it enables smooth flow of working capital. As per the existing instructions, Departmental Trading Units have to obtain periodic confirmation of debts from the debtors and classify the sundry debtors into good, doubtful and bad immediately after the close of the financial year. Further, the Commission had also directed that payments in respect of any sale on credit should not remain outstanding beyond a period of 90 days from the date of sale.

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[86] ***Out of the 22 Units, four units viz., Directorate of Cotton (KRM) & Central Sliver Plants Bhubaneshwar, Saharsa and Etah are defunct, but included in the list as their accounts are not closed.***

6.1.2.1 Average Accounts Receivable to Sales Ratio

The Accounts Receivable to Sales Ratio is a business liquidity ratio that measures how much of a firm's sales occur on credit. A high ratio coupled with delay in realisation of receivables would cause issues in working capital management and liquidity.

The Average Accounts Receivable (AAR) to Sales Ratio of the functional Departmental Trading Units of KVIC during the period 2017-18 to 2020-21, is tabulated in Table 6.3 below.

Table 6.3: Average Accounts Receivable to Sales Ratio in Departmental Trading Units

(Figures in ₹ crore)

Year	AAR	Sales	AAR to Sales Ratio (%)
2017-18	177.86	204.17	87.11
2018-19	171.02	237.75	71.93
2019-20	150.15	215.04	69.82
2020-21	156.52	171.41	91.31

As can be observed from Table 6.3, the Average Accounts Receivable to Sales Ratio of the Departmental Trading Units ranged from 69.82 *per cent* to 91.31 *per cent* during the period under review. This would indicate that the Departmental Trading Units did not fully comply with the instructions regarding credit sales that payments should not remain outstanding beyond a period of 90 days and periodic confirmation should be obtained from debtors. Audit findings in respect of management of receivables by the Departmental Trading Units are discussed in the following paragraphs.

6.1.2.2 Management of debtors by Khadi Gramodyog Bhavans

The position of sundry debtors in the seven Khadi Gramodyog Bhavans aged more than three years as at 31 March 2021 is shown in Table 6.4.

Table 6.4: Debtors in Khadi Gramodyog Bhavans

(₹ in crore)

Name of Unit	Sundry Debtors	
	More than three years	Total Dues
Khadi Gramodyog Bhavan, Delhi	8.65	36.22
Khadi Gramodyog Bhavan, Kolkata	3.50	5.30
Khadi Gramodyog Bhavan, Goa	0.01	0.08
Khadi Gramodyog Bhavan, Bhopal	0.43	1.82
Khadi Gramodyog Bhavan, Ernakulam	0.09	1.64
Khadi Gramodyog Bhavan, Mumbai	2.31	7.87
Khadi Gramodyog Bhavan, Patna	3.93	4.08
Total	**18.92**	**57.01**

In this regard, Audit observed that:

- Since none of the Khadi Gramodyog Bhavans had obtained periodic confirmation from the debtors[87], chances of recovery of unconfirmed debts more than three year old are remote.

- KGB Mumbai could not furnish any details other than the name of the debtors and amount due in case of eight debtors with total dues of ₹1.55 crore. Also, the Sundry Creditors account head had a book balance of ₹5.67 crore as on 31 March 2021. Since the procurement is on consignment basis, quantum of Khadi Institution creditors is directly linked with the inability of the Unit to realise its dues in time and to pay back to its suppliers in turn.

- In KGB Patna, an amount of ₹20.42 lakh was unrecovered against 47 institutions for more than 15 years.

- KGB Ernakulam has not pursued realisation of khadi rebate from State Board and, as a result, was unable to pass on the outstanding amount of ₹1.47 crore to suppliers.

KVIC/ Ministry stated (July 2022/ August 2022) that efforts were being made by the Directorate as well as Khadi Gramodyog Bhavans for confirming dues and realisation of receivables. The fact, however, remains that in the absence of the confirmation of sundry debtors, no assurance could be derived about their existence and recoverability.

No details of specific efforts initiated for realisation of old pending dues were furnished.

6.1.2.3 Management of debtors by Central Sliver Plants

As per the credit policy of the Commission, Central Sliver Plants supply raw materials on credit basis to the Khadi Institutions against specific recommendations of the State/ Divisional Directors. The supplies are made after receiving 20 *per cent* upfront payment, 30 *per cent* by way of post-dated cheques and balance 50 *per cent* being adjusted towards Modified Market Development Assistance (MMDA) claims. Since higher percentage of post-dated cheques were getting dishonoured and recoveries in case of bounced cheques was becoming difficult, KVIC issued (October 2017) circular for immediate withdrawal of the credit facility to Khadi Institutions for two years in the event of dishonouring of cheque by the bank due to any reason and to give all future supplies to such Khadi Institution only on 100 *per cent* advance payment basis. The immediate withdrawal of such credit facility was also re-iterated in the revised supply and Credit Policy for Central Sliver Plants dated 13 May 2020. The Circular also prescribed a certain annual minimum upliftment of sliver/ roving for a Khadi Institution to take benefit of KVIC's Credit Policy. Audit observed the following compliance status in wake of the above instructions:-

[87] ***Debtors comprised Departmental Units of KVIC, State Khadi Boards, Khadi institutions, Village industries units, Government Departments/undertakings and individuals etc.,***

Table 6.5: Non-adherence to laid down credit policy procedures at Central Sliver Plants

Credit Policy	CSP, Kuttur	CSP, Hajipur	CSP, Raebareli	CSP, Sehore	CSP, Chitradurga
Obtaining 100 *per cent* advance payment from Khadi Institutions whose post-dated cheques were dishonoured	No	No	No	Yes	No
Extending benefits only to those Khadi Institutions having annual minimum upliftment	No	Yes	No	No	Yes
Recovery of dues from MMDA claims of Khadi Institutions.	Yes	Yes	No.	Yes	No

It can be seen from the above that none of the Central Sliver Pants except CSP Sehore obtained 100 *per cent* advance payment from Khadi Institutions whose post-dated cheques were dishonoured. Further, three CSPs namely Kuttur, Raebareli and Sehore extended credit benefits to Khadi Institutions which did not fulfil the annual minimum upliftment requirement. CSPs at Raebareli and Chitradurga failed to recover amounts due while making payments towards MMDA claims from khadi institutions.

Non-compliance with instructions issued by KVIC regarding credit policy and lack of speedy action for timely recovery of debts from the roving/ sliver purchasing Khadi Institutions resulted in substantial dues pending realisation. Dues pending realisation for more than three years as at 31 March 2021 is given in Table 6.6.

Table 6.6: Debtors at Central Sliver Plants

(₹ in crore)

Name of Central Sliver Plant	Sundry Debtors	
	More than three years	Total dues
Chitradurga	1.29	11.19
Sehore	3.93	25.12
Raebareli	2.58	22.94
Hajipur	0.82	2.79
Kuttur	0.16	4.09
Total	**8.78**	**66.13**

In this regard, Audit observed that:

- None of the Central Sliver Plants had obtained periodic confirmation from the debtors. Dues more than three years old amounted to ₹8.78 crore. As such, chances of recovery of unconfirmed debts which were more than three year old are remote.

- In case of CSPs Sehore and Raebareli, due to huge pendency of recoverables, there was shortage of working capital and the Central Sliver Plants had to take temporary loan of ₹2 crore and ₹4 crore respectively.

- In CSP Hajipur, it was noticed that an amount of ₹44.45 lakh was due for more than 10 years from 13 Khadi Institutions who are not traceable.

KVIC/ Ministry stated (July 2022/ August 2022) that efforts were being made for confirming dues and realisation of receivables by pursuing the debtors and recovering from future payments to them.

6.1.2.4 Management of receivables by Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants

The position of Sundry Debtors in respect of Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants is given in Table 6.7.

Table 6.7 Debtors in Departmental Trading Units other than Khadi Gramodyog Bhavans and Central Sliver Plants

(Figures in ₹ crore)

Name of Unit	Sundry Debtors	
	More than three years	Total Dues
RBDO Barmer	1.54	2.45
CBRTI Pune	0.05	0.05
HMPI Mumbai	0.23	0.23
MDTC Dahanu	0.10	0.51
Cocoon Purchase Ranchi	1.11	1.11
AT Supply Mumbai	5.63	18.14
Total	**8.66**	**22.49**

In this regard, Audit observed that:

- None of the Departmental Trading Units had obtained periodic confirmation from the Debtors. Dues more than three years old amounted to ₹8.66 crore. As such, chances of recovery of unconfirmed debts which were more than three year old are remote.

- In Cocoon Purchase, Ranchi, 16 Khadi Institutions have not paid any amount since last four years (₹78.06 lakh) and six Khadi Institutions are untraceable (₹24.88 lakh).

Cocoon Purchase, Ranchi stated (July 2022) that efforts were being made to recover the dues from the Modified Market Development Assistance payable to the defaulting institutions.

- In case of Accepted Tender Supply, Mumbai, debts to the tune of ₹5.44 crore were pending for more than five years and were unlikely to be realised, especially since the Unit does not even have any details of these debtors.

KVIC/ Ministry stated (July/ August 2022) that in respect of Cocoon Purchase Ranchi one more debtor firm had become defunct and regarding other 15 debtors, the dues would be recovered from the MMDA claims or recovery action would be taken against them. The reply is to be viewed in light of the fact that no recovery has been made in the last four years. No reply was furnished in respect of the other Departmental Trading Units.

Recommendation No. 22:

KVIC may ensure compliance with the instruction in force regarding credit sales and realisation of debtors. Urgent action may be taken to realise the long pending debts on a case to case basis and the reasons for non-recovery may be investigated.

6.2 Internal Controls

Internal control is an important management tool and comprises methods and procedures adopted by an organisation to assist in achieving its objective of ensuring orderly and efficient conduct of its business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error. The deficiencies noticed in internal control in Departmental Trading Units are discussed in the subsequent paragraphs.

6.2.1 Internal controls in Khadi Gramodyog Bhavans

6.2.1.1 Physical Verification of stocks

Though KVIC issued directions (February 2017) for conducting annual physical verification of stock, none of the Khadi Gramodyog Bhavans are conducting physical verification of assets as per the directions. As such, neither the accuracy of the store accounts nor physical existence of stock was verifiable.

6.2.1.2 Hiring of temporary (daily wage) workers

KVIC had issued Standing Orders in respect of the procedure to be followed for hiring temporary (daily wage) workers. Audit observed that during the period 2017-18 to 2020-21, KGB Goa paid an amount of ₹7.51 lakh in cash without ensuring social security cover[88] to daily wages workers and in KGB Mumbai, daily wage workers were hired (₹74.46 lakh) without inviting tenders in violation of the financial rules.

No reply was furnished by KVIC/ Ministry.

6.2.1.3 Reconciliation of balances in various accounts

Timely reconciliation of balances in various bank accounts is vital for sound financial management and timely detection of fraud and errors.

[88] *Such as subscription to Employees Provident fund and Employee State Insurance etc.*

In this regard, Audit observed that:

- In KGB Bhopal, Bank accounts were pending for reconciliation for more than four years till 2019-20, however, the unit reconciled one bank account in 2020-21 and reconciliation of two bank accounts is pending till date (August 2022).
- Scrutiny of the accounts and Bank Reconciliation Statements at KGB Delhi revealed that 54 cheques amounting to ₹25.26 lakh had become time barred without any specific reason being recorded for persistent time barring of cheques. Further, according to the annual details of bank accounts as on 31 March 2021, there were four non-operative bank accounts which were having balances of ₹4.5 lakh during 2017-18 and 2018-19 and three non-operative bank accounts with ₹2.8 lakh during to 2019-20 and 2020-21. In addition, in two bank accounts though closed, the balance amounts of ₹0.32 lakh and ₹0.23 lakh were so far not realised.
- During the period from 2017-18 to 2020-21, Khadi Gramodyog Bhavan, Ernakulam held eight savings bank accounts with cash balances of ₹43.38 lakh as on 31 March 2018, ₹51.86 lakh as on 31 March 2019, ₹81.21 lakh as on 31 March 2020 and ₹44.93 lakh as on 31 March 2021. Bank Reconciliation Statement was not prepared in respect of two bank accounts.
- Short remittance of sales proceeds amounting to ₹1.50 lakh was found in KGB Mumbai during 2018-19. However, the unit is yet to fix responsibility and recover the amount from the official concerned.

KVIC/ Ministry, while accepting the observation, stated (July 2022/ August 2022) that the reconciliation would be done and that the non-operative accounts would be closed in 2022-23.

Recommendation No. 23:

Since Bank reconciliation is an essential internal control tool necessary in preventing and detecting fraud, KVIC needs to urgently reconcile the balances for all bank accounts operated by various Departmental Trading Units.

6.2.2 Internal controls in Central Sliver Plants

KVICs circular (September 2017) stipulates that all Central Sliver Plants are required to be audited in every six months by a Chartered Accountant till the IFMS (Integrated Financial Management System) is made fully operational for assessing the internal working and financial health of each plant. The Chartered Accountant will submit its audit report to the Financial Advisor, Chief Executive Officer and Chairman for remedial action, if any, for smooth functioning of the plant. However, such audit was not conducted in CSP, Hajipur.

KVIC/ Ministry stated (July 2022/ August 2022) that the internal audit was being conducted by the Internal Audit wing of KVIC.

The reply is to be viewed in light of the fact that the requirement of audit by independent Chartered Accountant as per Circular was not complied with.

6.2.3 Shortage of staff

The overall staff position in KVIC (April 2022) is as detailed in Table 6.8.

Table 6.8 Overall Staff position as on April 2022

Particulars	Sanctioned Posts	Men in position	Vacant Posts
KVIC as a whole	2,168	1,402	766
Departmental Trading Units	731	247	484

Audit observed that against 731 sanctioned posts in 19 Departmental Trading Units including one defunct unit (CSP Etah), actual men –in- position in all Departmental Trading Units were 247 and 484 posts were vacant. In fact, more than 60 *per cent* of the vacant position in KVIC are pertaining to Departmental Trading Units. As a result, not only trading activities but also internal control activities were likely to get affected as also pointed out in internal audit reports.

KVIC/ Ministry stated (July 2022/ August 2022) that the shortage of manpower has been informed to Directorate of Administration/Human Resource which takes appropriate action considering the merit of the situation.

6.3 Internal Audit

6.3.1 Internal Audit of Departmental Trading Units

Internal Audit or trading Audit of the Departmental Trading Units is carried out by the Directorate of Audit. KVIC had issued (1977) comprehensive guidelines prescribing the quantum, methodology and criteria for the conduct of the trading audit. The trading audit of all Departmental Trading Units up to the year 2020-21 has been completed by the Directorate of Audit. However, it was observed that:

- Apart from a few general observations on sales/ production performance, debtors/ creditors, amounts to be refunded to KVIC, comparison of budgets with actuals etc., the trading audit teams are not reporting on matters such as compliance with prescribed guidelines and procedures in respect of procurement of services/ products, sales, production, human resources management, monitoring by the respective Directorates, etc.

- Departmental Trading Units are not prompt in furnishing replies or taking corrective action in respect of the observations included in the trading audit reports. Out of 66 trading audit reports issued in respect of 18 functioning Departmental Trading Units and four defunct Departmental Trading Units during the period 2017-18 to 2019-20, replies were not furnished to for 51 reports by the Departmental Trading Units. 10 Departmental Trading Units had not furnished replies to the trading audit reports for any of the three years from 2017-18 to 2019-20. Out of these, seven were working units and three were defunct units.

- Trading audit reports are not being submitted to the top management but only up to the level of Financial Advisor of KVIC, which reduces their effectiveness.
- It was observed that the Guidelines for Internal audit were issued by KVIC in 1977 and the same are still being followed without any modification with respect to new auditing procedures.

KVIC/ Ministry stated (July 2022/ August 2022) that the Internal Audit team of KVIC, while conducting Annual Trading Audit of Departmental Trading Units, apart from conducting thorough analysis and interpretation of the Annual Financial Statements of Trading Units, also did detailed verification and effective reporting of trading operations including procurement, formation of purchase committee, human resources management etc. It was further stated that the failure of Trading Units to furnish replies to the audit observations of Internal Audit would be taken up with the directorates concerned. It was also informed that the trading audit reports processed were being submitted up to the level of Financial Advisor. KVIC also stated that audit guidelines for each type of audit were being revised.

The reply may be viewed against the fact that issues regarding non-compliance by Departmental Trading Units with norms issued in respect of procurement, production, testing etc., as commented in Chapter 4 of this report were never found included in the Trading Audit reports and the reports were focused more on the financial statements of the Departmental Trading Units. Further, the fact remains that the Internal Audit Reports are not being submitted to the CEO or Commission and replies were not furnished by the auditee units in respect of 77 *per cent*[89] of the audit reports.

6.3.2 Internal Audit of Khadi Institutions

KVIC issued (November 2017) standing order for entrusting Financial Audit including audit of Utilisation Certificates of Khadi Institutions by Comptroller and Auditor General of India (CAG) empaneled Audit firms and decentralisation of processing of Financial Audit report of Khadi Institutions having production/ sales up to ₹1 crore. The said standing order stipulated that all the Khadi Institutions, after completion of financial year, shall ensure financial audit to be completed and reported in the prescribed format latest by 30th June of every year to the concerned State/ Divisional office.

Audit observed that the Khadi Gramodyog Bhavans are not enforcing the stipulated directions on Khadi Institutions. In case of two KGBs (Patna and Bhopal) Khadi Institutions were not being audited by CAG empanelled audit firms while details of audit were not available with the other five Khadi Gramodyog Bhavans test checked in audit.

[89] ***Replies were furnished only to 51 internal audit reports out of total 66 issued.***

KVIC/ Ministry stated (December 2021/ August 2022) that the present system of conducting the audits of Khadi Institutions through CAG empanelled firms will be reviewed and it will be replaced once in-house audit manpower of KVIC is improved on completion of ongoing recruitment process.

Recommendation No. 24:

Internal control system of Departmental Trading Units may be strengthened and guidelines for internal audit may be updated, considering the latest principles and practices in this regard, for expanding scope and improving methodology.

Recommendation No. 25:

Chief Executive Officer of KVIC may review the Internal Audit Reports along with the remarks of the Financial Advisor and take necessary steps to increase the effectiveness and efficiency of KVIC based on the Internal Audit Reports.

Recommendation No. 26:

Mechanism may be developed for ensuring completion of internal audit plan, timely reporting of observations and for monitoring action taken on audit observations.

New Delhi
Dated: 31 March 2023

(R G Viswanathan)
Deputy Comptroller and Auditor General
(Commercial) and Chairman, Audit Board

Countersigned

New Delhi
Dated: 31 March 2023

(Girish Chandra Murmu)
Comptroller and Auditor General of India

Annexures

Annexure-I
(referred to in Para 1.1 & Para 3)

Departmental Trading Units established by Khadi and Village Industries Commission

Sl. No	Departmental Trading Units	Zone	Whether selected for audit	Year of closure
Functional Departmental Trading Units				
1	Khadi Gramodyog Bhavan, New Delhi	North	Yes	Functional Units
2	Khadi Gramodyog Bhavan, Kolkata	East	Yes	
3	Khadi Gramodyog Bhavan, Goa	West	Yes	
4	Khadi Gramodyog Bhavan, Bhopal	North	Yes	
5	Khadi Gramodyog Bhavan, Ernakulam	South	Yes	
6	Khadi Gramodyog Bhavan, Mumbai	West	Yes	
7	Khadi Gramodyog Bhavan, Patna	East	Yes	
8	Central Sliver Plant, Kuttur	South	Yes	
9	Central Sliver Plant, Raibareli	North	Yes	
10	Central Sliver Plant, Sehore	Central	Yes	
11	Central Sliver Plant, Chitradurga	South	Yes	
12	Central Sliver Plant, Hazipur	East	Yes	
13	Accepted Tender Supply, Mumbai	West	Yes	
14	Cocoon Purchase, Ranchi	East	Yes	
15	Regional Border Development Office, Barmer	North	Yes	
16	Multi-Disciplinary Training Centre, Dahanu	West	Yes	
17	Hand Made Paper Industry, Mumbai	West	Yes	
18	Central Bee Research and Training Institute, Pune	West	Yes	
Defunct Departmental Trading Units				
Central Zone				
1	Cocoon Purchase, Bhopal	Central	Yes	2001
2	Marketing Unit, Rishikesh	Central	Yes	2007
3	Khadi Trading, Regional Office, Jagadalpur	Central	Yes	1997
4	Haridwari Kambal Purchase	Central	No	2011
5	Charmashilpa, Meerut	Central	No	1999
6	Bhartiya Charmodyog Common Facility Centre, Agra	Central	No	2006
7	Povastra, Bhopal	Central	No	1996
8	Hill and Border Area Unit, Regional Office, Rishikesh	Central	No	2005
9	Splint and Veeners, Kashipur	Central	No	1991
10	Khadi Gramodyog Bhavan, Lucknow	Central	No	2001
11	Charmshilpa, Lucknow	Central	No	2001
12	Special Programme, Regional Office, Jagadalpur	Central	No	1997
13	Village Industries Programme, Jagdalpur	Central	No	1997
East Zone				
14	Village Industries Marketing Regional Office, Siliguri	East	Yes	2006
15	Directorate of Trading Activities, Kolkata	East	Yes	1962
16	Village Industries Trading (Lime Unit), Siliguri	East	Yes	1985
17	Polyvastra, Kolkata	East	Yes	2006
18	Khadi Gramodyog Bhavan, Bhubaneswar	East	Yes	2006

Sl. No	Departmental Trading Units	Zone	Whether selected for audit	Year of closure
19	Central Vastragar, Guwahati	East	No	2003
20	New Model Charkha Production Unit, Regional Office, Siliguri	East	No	2007
21	Muslin Sliver Godown, Kolkata	East	No	2006
22	Six Spindle Centre, Kolkata	East	No	2006
23	Hill and Border Area Marketing Unit, Siliguri	East	No	2006
24	Trading Operation, Andaman	East	No	NA
25	Central Vastragar, Bhubaneswar	East	No	2009
26	Processing of Cereal and Pulses Industry, Bhubaneswar	East	No	1974
27	Charmashilpa, Bhubaneswar	East	No	1994
28	Village Oil Industry Stocking Loan, Patna	East	Yes	2009
29	Muslin Sliver Godown, Patna	East	No	2004
30	Central Sliver Plant, Bhubaneshwar	East	No	1995
31	Central Sliver Plant, Saharsa	East	No	2009
North-East Zone				
32	Marketing, Regional Office, Agartala, Tripura	North East	Yes	2012
33	Khadi Gramodyog Bhavan, Aizwal	North East	Yes	2006
34	Non Edible Oil Soap, Dimapur	North East	Yes	1988
35	Hill and Border Area Unit, Agartala	North East	No	2010
36	Charmshilpa, Aizwal	North East	No	2006
37	Khadi Trading, Kohima	North East	No	2002
38	Trading Operation (Marketing), Imphal	North East	No	2003
39	Hill and Border Area Unit, Imphal	North East	No	2002
40	Khadi Gramodyog Bhavan, Itanagar	North East	No	2003
41	Khadi Gramodyog Bhavan, Shillong	North East	No	2005
North Zone				
42	Khadi Gramodyog Bhavan, Barmer	North	Yes	2001
43	NOIDA Project	North	Yes	1993
44	Central Sliver Plant, Etah	North	Yes	2019
45	Bhartiya Charmodyog Common Facility Centre, Ambala	North	No	2006
46	Beekeeping, Chandigarh	North	No	1996
47	Trading Operation, Srinagar	North	No	2012
48	Irwin Road Building	North	No	NA
49	Training cum Production Centre, New Delhi	North	No	2007
50	Trading Operation, Shimla	North	No	1988
51	Charmshilpa, New Delhi	North	No	NA
South Zone				
52	Khadi Gramodyog Bhavan, Bangalore	South	Yes	2010
53	Central Village Pottery Institute, Khanapur	South	Yes	2004
54	Rural Textile Centre, Kanimangalam	South	Yes	1999
55	Khadi Gramodyog Bhavan, Visakhapatanam	South	No	2001
56	Central Palm Gur and Palm Products Institute, Madhavaram	South	No	2016

Sl. No	Departmental Trading Units	Zone	Whether selected for audit	Year of closure
57	Khadi Gramodyog Bhavan, Hyderabad	South	No	2001
58	Central Sliver Plant, Dausa	South	No	2001
59	Honey Marketing Depot, Ernakulam	South	No	2009
West Zone				
60	Jamnalal Bajaj Central Research Institute, Wardha	West	Yes	1995
61	Director, Non-Conventional Energy, Mumbai	West	Yes	1992
62	Directorate of Instrumentation	West	Yes	2002
63	Director, Soap, Mumbai	West	Yes	2016
64	Khadi Gram Bhandar, Radhanpur	West	Yes	2002
65	Ambar Saranjan, Ahmedabad	West	Yes	2000
66	Pilot Agarbati, Ahmedabad	West	Yes	2002
67	Directorate of Wool	West	No	NA
68	Director, Leather, Mumbai	West	No	2001
69	Director, Cottage Match Industry, Mumbai	West	No	1988
70	Sunderban Development Centre	West	No	2006
71	Khadi Gramodyog Bhavan, Silvasa	West	No	NA
72	Regional Office, Palanpur	West	No	2015
73	Central Vastragar, Ahmedabad	West	No	2009
74	Directorate of Cotton	West	No	1998

Annexure-II

(*referred to in para 5.1.4 2 (ii)*)

Marketing Consultant Deliverables

Sl. No	Deliverable
1	Solar Charkha presentation for ADB
2	Franchise agreement - Comments
3	Video presentation for 15th August celebration at Indian Missions abroad
4	NIFT Interns budget and job descriptions
5	Lakme Fashion Week – Support for KVIC show
6	RFP – Hiring agency for physical verification of KIs
7	Textile Committee presentation
8	Market potential study for 6 countries
9	RFP – Creative agency for Khadi film (s)
10	Activity plan for 2nd October – Indian Missions
11	Closure report
12	Review of Draft MoU – KVIC and Amazon
13	Delhi DSO revamp plan
14	Marketing and Sales plan
15	Support for 2nd October – Display at Indian Missions
16	KGB Mumbai DSO revamp plan
17	Review KGB – Ashoka hotel
18	CSP Review report – First draft
19	World Khadi Congress – Concept note and budget
20	Corporate gifting – draft letters to PSUs
21	Action plan for export sales

Annexure III

(referred to in para 6.1.1.1)

Net profit and Net profit to Sales ratio of Departmental Trading Units during 2017-2021

Name of Unit	Net Profit				Total Net Profit	Profit/ Sales ratio				Aggregate Profit to Sales Ratio
	2017-18	2018-19	2019-20	2020-21		2017-18	2018-19	2019-20	2020-21	
	(Figures ₹ in lakh)					Figures in *per cent*				
KGB, New Delhi	221.04	609.32	221.1	116.51	**1167.97**	2.21	5.9	2.37	2.3	**3.36**
KGB, Kolkata	-72.89	-5.34	27.2	-54.6	**-105.63**	-2.6	-0.17	1.51	-9.7	**-1.27**
KGB Goa	-17.97	-10.76	-13.3	-12.74	**-54.77**	-64.18	-25.02	-35.95	-55.39	**-41.49**
KGB Bhopal	0.57	7.97	-6.24	5.98	**8.28**	0.09	1.17	-1.78	3.42	**0.44**
KGB Ernakulam	12.1	24.04	1.61	-59.21	**-21.46**	0.76	1.42	0.17	-14.91	**-0.46**
KGB Mumbai	72.34	88.66	72.68	29.23	**262.91**	4.19	4.8	4.71	20.01	**6.83**
KGB Patna	13.92	25.61	11.94	15.27	**66.74**	4.49	3.87	3.67	14.54	**3.36**
Total for KGBs	**229.11**	**739.5**	**314.99**	**40.44**	**1324.04**	**-55.04**	**-8.03**	**-25.3**	**-39.73**	**2.39**
CSP Kuttur	-18.78	14.29	15.99	17.87	**29.37**	-2.1	1.76	1.66	2.73	**0.86**
CSP Raibareli	-184.04	14.18	38.15	195.77	**64.06**	-18.35	1.45	1.84	9.15	**1.00**
CSP Sehore	4.76	152.59	93.18	200.12	**450.65**	0.39	10.03	4.79	8.86	**6.70**
CSP Chitradurga	53.72	20.65	22.88	69.69	**166.94**	3.72	1.52	2.04	5.39	**3.98**
CSP Hazipur	-40.1	8.5	5.97	12.39	**-13.24**	-9.57	1.96	1.36	4.02	**-1.12**
Total for CSPs	**-184.44**	**210.21**	**176.17**	**495.84**	**697.78**	**-25.91**	**16.72**	**11.69**	**30.15**	**3.18**
AT Supply Mumbai	28.78	31.71	99.55	60.31	**220.35**	0	0	20.27	1.62	**5.17**
Cocoon Purchase Ranchi	0.64	-0.11	-0.06	-0.05	**0.42**	1.83	0	0	0	**2.80**
RBDO Barmer	25.23	-1.54	0.12	4.24	**28.05**	168.2	-1.9	0.14	3.21	**9.38**
MDTC Dahanu	8.27	11.18	0.21	7.28	**26.94**	2.38	8.87	0.7	8.88	**4.60**
HMPI Mumbai	8.95	13.27	1.82	-0.63	**23.41**	33.15	51.04	7.58	-7.88	**32.97**
CBRTI, Pune	7.7	1.97	7.04	7.51	**24.22**	14.26	5.47	16.76	18.78	**14.08**
Total for Other DTUs	**79.57**	**56.48**	**108.68**	**78.66**	**323.39**	**16.61**	**21**	**16.15**	**1.97**	**5.97**
Grand Total	**124.24**	**1006.19**	**599.84**	**614.93**	**2345.2**	**0.59**	**4.23**	**2.79**	**3.59**	**2.83**